

DAIMLER

# Sustainable supply chain management

## SUSTAINABLE CORPORATE GOVERNANCE

# Sustainability strategically integrated

## Sustainable supply chain management

GRI 102-9/-10

Daimler's sustainable business strategy applies to our value chain and thus also to the purchase of production materials and the procurement of services. Our vehicles generally contain several thousand parts and components. Accordingly, our supply chain is complex. It comprises approximately 60,000 direct suppliers, especially from the regions Europe, North America, and Asia. And with every innovation and every market development, it dynamically evolves – as has happened during the reporting period. We use a variety of measures and concepts for the sustainable management of our supply chain. That includes the screening of our suppliers, risk-based due diligence analyses, and sustainability training courses for suppliers. Through these measures we aim to enforce compliance with social standards and environmental requirements and to achieve greater transparency in the supply chain.

Sustainable supply chain management offers us many opportunities. It enables us to reinforce our stakeholders' trust in Daimler as a partner and helps us to establish good business practices in markets all over the world. This benefits the sustainable development of society and the conservation of valuable natural resources.

## How we manage sustainability in our supply chain

GRI 308-1

Our three procurement units – Mercedes-Benz Cars Procurement and Supplier Quality, Global Procurement Trucks and Buses, and International Procurement Services – have been jointly responsible for the Group-wide Daimler Supplier Network cooperation model since 2009. These units work together to ensure responsible procurement of materials and services and the implementation of the Daimler Supplier Sustainability Standards in the supply chain. Our Supplier Sustainability Standards define our requirements for working conditions, upholding human rights, environmental protection, safety, business ethics, and compliance. They also serve as the guidelines for our sustainable supply chain management system. We demand that our direct suppliers commit themselves to observing our sustainability standards, communicating them to their employees and to their upstream value chains, and then checking to ensure that the standards are complied with. For this process, Mercedes-Benz Cars has developed a blockchain prototype that transparently represents the transmission of this information along the entire supply chain and makes it possible to trace it. This prototype is being followed by a further blockchain pilot project in 2020. We support our suppliers' implementation of information and qualification measures. Our service providers also explicitly recognize these standards as a contractual component of their supplier agreements.

Compliance with the standards is systematically reviewed. For example, the procurement units of Mercedes-Benz Cars and Daimler Trucks & Buses examine new production material suppliers in the course of their on-site assessments, also with regard to sustainability issues. Such examinations are even more thorough in high-risk countries. If there are any doubts regarding the sustainability performance of a new supplier, the responsible team initiates a deeper review. In critical cases we discuss the results of the analyses in management committees and take them into account in decisions on whether to award a contract.

Along with the assessment of new suppliers, we also examine sustainability risks at our existing direct suppliers as part of our regular risk assessments. Among other things, we conduct annual database research to identify any violations of our sustainability and compliance rules by our current suppliers. This is part of our supplier screening process. Mercedes-Benz Cars also conducts corporate social responsibility (CSR) audits and potential analysis of new suppliers. In 2019 Daimler conducted 1,127 on-site audits and assessments.

We systematically follow up reports of violations. In case of anomalies discovered for example during audits or database research, we conduct further reviews and supplier surveys. Mercedes-Benz Cars does this by means of an online questionnaire. These surveys require suppliers to provide information about their sustainability management system and the measures they take to ensure that their own suppliers comply with sustainability standards. If the results of such surveys indicate insufficient sustainability performance, we instruct the supplier in question to improve the relevant processes.

### [Compliance management: Complying with laws and regulations](#)

In order to ensure an effective and sustainable supplier management system, we assign high priority to the comparability of the survey results. For this reason, we work with standardized instruments such as the industry-wide sustainability Self-Assessment Questionnaire developed by the European initiative "Drive Sustainability".

### **Supplier development within a partnership**

Our company's success depends in large part on our close and trust-based cooperation with our suppliers all over the world. We not only define our requirements and conduct targeted reviews but also actively support our suppliers' implementation of our sustainability standards.

### **Dialog and qualification measures**

A shared understanding of sustainability and comprehensive know-how regarding implementation are basic requirements for successful sustainability management in the supply chain. For this reason, we have been organizing supplier training courses

in cooperation with other vehicle manufacturers for many years now.

In 2019 we held training courses for suppliers in the focus countries Brazil, Malaysia, and South Africa in cooperation with “Drive Sustainability”. A total of 208 suppliers benefited from the group training courses. In addition, we assisted the “econsense – Forum Nachhaltige Entwicklung der Deutschen Wirtschaft e. V.” sustainability network by supporting the establishment of a platform for further sustainability workshops for suppliers. Suppliers from the focus countries can use this platform to select and book the appropriate workshops from an array that is openly accessible.

Our Daimler Supplier Portal offers existing and potential suppliers a free e-learning program on compliance awareness that enables suppliers to obtain detailed information at any time on sustainability standards and their implementation.

#### **Involvement in associations and sustainability initiatives**

We have been involved for a long time in various sector and industrial associations, such as the German Association of the Automotive Industry (VDA) and econsense – German Business Forum for Sustainable Development. These memberships help us to improve sustainability in complex supply chains by jointly implementing the necessary measures.

In addition, we work together with many organizations that aim to promote the sustainable development of supply chains in a targeted manner. These include the European sector initiative of the automotive industry, “Drive Sustainability,” in which we are a lead partner. Through Drive Sustainability, we support the Global Platform for Sustainable Natural Rubber initiative.

The “Automotive Industry Guiding Principles to Enhance Sustainability Performance in the Supply Chain” play an important role here. These principles establish globally recognized minimum social and environmental standards for automotive companies and suppliers.

Furthermore, we are promoting the practical implementation of a sustainable supply chain for raw materials. In this connection we are active in the Responsible Minerals Initiative, the Responsible Steel Initiative, and the Aluminium Stewardship Initiative. These initiatives act as platforms that enable cooperation with relevant stakeholders and make available sophisticated instruments for certifying the safe origin of materials such as cobalt, steel, and aluminum.

You can find specific information about our activities regarding social concerns related to the supply chain in the chapter on

[Human rights.](#)

Details about the management of environmental aspects in the supply chain can be found in the chapters

[Resource conservation](#) and [Climate protection & air quality](#) in the Daimler Sustainability Report 2019.

## CLIMATE PROTECTION &amp; AIR QUALITY

# Climate protection in the supply chain

Our commitment to climate protection does not end at our plant gates. In order to become climate-neutral, we also focus on the supply chain. We want to reduce and offset the CO<sub>2</sub> emissions that are associated with the procurement of components, raw materials, and non-production materials, as well as with logistics.

## Global cooperation

GRI 103-1

The consequences of climate change can only be limited if a variety of players pull together all over the world. That is why we also include our supply chain in our climate and environmental protection measures, and why we work in partnership with our suppliers in order to cut emissions. We are thus also creating the preconditions for achieving the EU's absolute CO<sub>2</sub> reduction targets for the transportation sector. These targets can only be attained if there is a reduction of the emissions that are associated with the entire supply chain, including components, raw materials, non-production materials, and logistics.

The supplier network contributes considerably to value added and is thus extremely important for the achievement of the decarbonization targets. This is one of the reasons why it's important that we strive to reduce not only the emissions of our production operations but also the emissions of our suppliers.

## How we are reducing CO<sub>2</sub> and air emissions in the supply chain

GRI 103-2 GRI 308-1

In our sustainable business strategy we set the course for sustainable mobility. In order to achieve our long-term goal of becoming climate-neutral, we are not only systematically electrifying our vehicles but also addressing our supply chain.

We expect our suppliers of production materials to operate with an environmental management system that is certified according to ISO 14001, EMAS or other comparable standards. On a risk basis the same also applies to suppliers of non-production materials. Our direct suppliers are required to comply with these sustainability standards, communicating them to their employees and to their upstream value chains, and then checking to ensure that the standards are complied with. We support them in these activities by providing them with targeted information and qualification measures.

In 2019, for example, we held workshops in our passenger car segment with suppliers of steel, aluminum, and battery cells. These inputs account for about 80 percent of the CO<sub>2</sub> emissions within the supply chain of an electric vehicle. Steel and aluminum alone account for approximately 60 percent of the CO<sub>2</sub>

emissions in our entire supply chain. The aim of the workshop was to identify effective CO<sub>2</sub> reduction measures. In order to assess the environmental impact of our supply chain and make it more transparent, we are also working together with organizations such as [CDP](#).

In our supply chain, we apply policies and processes similar to those used in our own plants. For example, beginning in 2022 our European plants will get electricity exclusively from renewable energy sources. We also aim to achieve the same goal for our Mercedes-Benz cars supply chain.

[On the road to CO<sub>2</sub> neutral production](#)

## Targets and measures for a more climate-friendly supply chain

GRI 103-2

We pursue the goal of our components and parts from CO<sub>2</sub>-neutral sources step by step. Mercedes-Benz Cars & Vans, for example, plans to develop concrete CO<sub>2</sub> measures with suppliers as well as measures for inbound logistics. We also want to reduce CO<sub>2</sub> emissions in the supply chain for the procurement of non-production materials.

Around 16 percent of our CO<sub>2</sub> emissions [\(Scope 1, 2, and 3\)](#) at Mercedes-Benz Cars come from the supply chain. That is why we also have to help make our suppliers and partners climate-neutral. To do this, we first have to find out at which contractors and stages of our supply chain CO<sub>2</sub> emissions and pollutants are generated. Only on the basis of this information can we define the necessary climate protection measures. In order to make the environmental impact of our supply chains more transparent, we are working with organizations such as CDP. In 2019, for example, we took part in the CDP Supply Chain Program for the first time. As part of this program, we encourage our suppliers to report their environmental impact. CDP provides tools for recording, assessing, and communicating environmental data. We involved our main suppliers, who account for over 70 percent of the annual procurement volume of Mercedes-Benz Cars & Vans, in this program. Almost 80 percent of these suppliers took part in the survey. CDP supplied us with the results in January 2020.

In 2019 we also held workshops with suppliers of Mercedes-Benz Cars & Vans so that we could work together to develop effective CO<sub>2</sub> reduction measures. We concentrated on especially CO<sub>2</sub>-intensive suppliers, such as those in the body-shell area, and discussed with them the current state and goals of climate protection measures. More workshops will be held next year as part of our order placement process.

We have decided to make CO<sub>2</sub> targets an important criterion for decisions regarding the choice of suppliers and the supply contracts of Mercedes-Benz Cars & Vans. In 2019 we began to conduct talks and procurement negotiations at a variety of levels for the purchase of more low-carbon products. We did this primarily with our direct suppliers. We also underscored the importance of CO<sub>2</sub> reductions in our supply chain by means of the Daimler Supplier Sustainability Award 2019. This is how we rewarded suppliers, among others, who have implemented exceptional CO<sub>2</sub> reduction projects.

### CO<sub>2</sub>-neutrally produced battery cells

With its extensive orders for battery cells up to the year 2030, the company has reached yet another important milestone with regard to the electrification of vehicles to be marketed under the product and technology brand EQ in the future.

In this way, we and our supplier partners plan to use state-of-the-art technologies to safeguard the supply of materials to the global [battery production network](#) today and in the future. These suppliers already manufacture battery cells in Asia and Europe and are continuing to expand their operations in Europe and the United States.

In September 2019 we concluded a sustainability partnership with the battery-cell supplier Farasis Energy (Ganzhou) Co., Ltd., a Chinese developer and supplier of lithium-ion battery technologies. In addition to compliance with human rights in the supply chain and the topic of recycling, this partnership also focuses on the procurement of battery cells from CO<sub>2</sub>-neutral production. In the first proof point, some of the battery cells for the next generation of vehicles for our product and technology brand EQ will be produced using only electricity from renewable energy sources. As a result, future vehicle models of the product and technology brand EQ will have batteries whose total CO<sub>2</sub> footprint will be reduced by considerably more than 30 percent. To achieve this goal, the supplier will produce the battery cells with electricity from renewable sources such as hydroelectric power, wind power, and solar energy.

📖 [Human rights: Recognizing risks, taking targeted action](#)

📖 [Designing raw material supply chains sustainably](#)

## How we assess the effectiveness of our management approach

GRI 103-3

📖 [Sustainable supply chain management](#)

## RESOURCE CONSERVATION

# Designing raw material supply chains sustainably

Our suppliers play an important role in our efforts to conserve resources. During our training sessions, we cooperate with our suppliers to develop strategies for reducing emissions and discuss the use of secondary materials. As a member of various raw material initiatives, we are also contributing to improving the environmental footprint of important raw material industries.

## Conserving valuable raw materials

GRI 103-1

Much of the environmental impact of vehicle manufacturing comes not from our own facilities but from our upstream supply chains. The extraction and treatment of metallic raw materials in particular can have negative environmental consequences. Besides, metallic raw materials account for a very large share of a vehicle's total weight. That is why we also demand that our suppliers comply with environmental regulations, and we provide them with the necessary know-how in this area. In this way we are contributing to the conservation of valuable resources and to a secure long-term supply of raw materials for our production processes.

## How we promote resource conservation in the supply chain

GRI 103-2 GRI 308-1

Our procurement units are jointly responsible for the Daimler Supplier Network cooperation model, and they strive to ensure that the materials we need are procured responsibly.

Our Supplier Sustainability Standards define our requirements for working conditions, human rights and business ethics, and environmental protection. For example, they call for the use and further development of technologies that conserve water and energy, the implementation of strategies for reducing emissions, and the reuse and recovery of resources. These standards also regulate our handling of hazardous substances. Chemicals and other materials that could pose a threat if they are released into the environment must be identified. A hazardous materials management system must be set up in order to safely handle, transport, store, recover or reuse, and dispose of such materials.

We also expect our suppliers of production materials to operate with an environmental management system that is certified according to [ISO 14001](#), EMAS (Eco-Management and Audit Scheme) or other comparable standards. The same also applies to suppliers of non-production materials, depending on their risks. As part of our risk analysis process we check whether suppliers have environmental certificates. If this process shows that a supplier does not have a certified environmental management

system, the supplier is given two years to set up such a system and have it certified.

### [Sustainable supply chain management](#)

We receive internal and external complaints about possible violations of environmental regulations in our supply chain through our BPO whistleblower system.

### [The whistleblower system BPO](#)

## Measures for conserving resources

GRI 103-2

As part of our sustainability business strategy, we have set ourselves the goal of decoupling our resource consumption from our growth. To this end, we are working with a large number of contractors along our supply chain. For example, we conduct training courses for our suppliers and actively participate in various raw material initiatives.

### Dialog and qualification measures at Mercedes-Benz Cars & Vans

We offer our suppliers comprehensive training courses on topics related to sustainability. Environmental topics also play a central role in these courses, especially the use of currently available environmental management systems.

In addition to general topics, in our training courses we also address current developments. In the course of a risk analysis, we have identified steel and aluminum as especially important materials within the context of climate protection and resource conservation. We need large volumes of these materials in order to produce vehicles; at the same time, their extraction and processing consume large amounts of energy. However, both of these materials can be successfully recycled, and at the end of their respective life cycles they can be reintegrated into the overall manufacturing process. In 2019 we talked to our suppliers about CO<sub>2</sub> emissions and the use of secondary materials and discussed potential measures and goals. We mainly talked with suppliers to our body-in-white production areas. In addition, we defined polymers and batteries as focal areas at Mercedes-Benz Cars.

### [Climate protection in the supply chain](#)

### **Commitment to raw material initiatives at Mercedes-Benz Cars & Vans**

As part of our commitment to the sustainable procurement of raw materials, we participate in a variety of raw material initiatives. In addition to the area of human rights, these initiatives deal with environmental issues, with a particular focus on aluminum and steel resources.

#### **Responsible Steel Initiative**

Steel accounts for the largest proportion of material used in automobile construction. It is also the world's biggest raw materials industry. The production of steel is very energy-intensive, and as a result it is responsible for a large proportion of the CO<sub>2</sub> emissions generated during the production phase. The Responsible Steel Initiative is increasing transparency in the supply chain by developing a certification system. This system defines requirements for the responsible use of resources such as water and energy and calls for the smallest possible environmental impact of wastewater, airborne emissions, and waste in the steel production process. The requirements in the certification system have been defined cooperatively by a number of stakeholders including Mercedes-Benz Cars.

#### **Aluminium Stewardship Initiative**

The Aluminium Stewardship Initiative was developed in order to define worldwide standards along the entire value chain of aluminum and to promote the conservative use of resources. The "Responsible Aluminium Standard" combines ethical, environmental, and social aspects. Its focal areas are greenhouse gas emissions, airborne emissions, wastewater, and waste, as well as water and biodiversity. In some bidding procedures we require the suppliers to already be certified according to this standard.

### **How we assess the effectiveness of our management approach**

GRI 103-3

 [Sustainable supply chain management](#)

## HUMAN RIGHTS

## Recognizing risks, taking targeted action

For Daimler, respect for human rights is a fundamental component of responsible corporate governance. We are committed to ensuring that human rights are respected and upheld in all of our Group companies and by our suppliers.

### Focusing on human rights

#### GRI 103-1

Public interest in compliance with human rights in the automotive industry is increasing. One important reason for this development involves the new challenges associated with the expansion of electric mobility. More specifically, there are concerns that the raw materials needed to manufacture electric vehicles might possibly be obtained under conditions that are critical in terms of human rights. We at Daimler have noticed a continuing interest in human rights on the part of investors, which indicates to us that corporate activities related to human rights are having an increasing influence on investment decisions. Legislation related to compliance with human rights is also being expanded. It is conceivable that new laws governing human rights due diligence obligations could be adopted in Germany after the federal government's National Action Plan on Business and Human Rights comes to an end in 2020. At the EU level, it is possible that corresponding legislative initiatives on human rights could be advanced when Germany assumes the Presidency of the European Council.

Respect for human rights is a key component of our sustainable business strategy and our understanding of integrity and ethical behavior. The nature of critical human rights issues varies among regions and suppliers and also depends on the raw materials, services, and supply chains in question. For this reason, when implementing our approach to respecting and upholding human rights, we not only take into account our own plants and facilities but also include risk-based analyses of the entire supply chain.

### How we respect and uphold human rights

#### GRI 103-2

The lead responsibility for the controlling of human rights issues lies with the Integrity and Legal Affairs executive division of Daimler AG. The member of the Board of Management responsible for Integrity and Legal Affairs works with the procurement units on ensuring human rights compliance and also receives regular information and the corresponding reports on human rights activities from the Chief Compliance Officer and from specialist units in the Social Compliance and Corporate Responsibility Management departments. Relevant procurement units also provide information on their respective human rights compliance measures to the Procurement Council and the Board of Management members directly responsible for the units in question. This is supplemented by regular reports submitted jointly

to the entire Board of Management and the Group Sustainability Board by all of the participating specialist units. Cross-functional teams work together closely on the development and implementation of suitable preventive activities and countermeasures. The teams consist of human rights and compliance experts, as well as staff from the operational procurement units and, if necessary, from other specialist units as well. The relevant specialist units are responsible for implementing and monitoring the measures developed in each case.

#### Guidelines and international frame of reference

The following standards and guidelines in particular serve as the key frame of reference for our human rights regulations and our conduct in this regard:

- The [UN Global Compact](#)
- The UN Guiding Principles on Business and Human Rights
- The International Bill of Human Rights, including the relevant provisions from the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights
- Germany's National Action Plan on Business and Human Rights
- The Core Labor Standards of the International Labour Organization

The human rights issues we focus on and which have been derived from these frames of reference to enable us to fulfill our due diligence obligations are contained in our [Integrity Code](#) and the [Daimler Supplier Sustainability Standards](#).

The Daimler Supplier Sustainability Standards define our requirements with regard to working conditions, human rights, environmental protection, safety, business ethics, and compliance, and are also part of our general terms and conditions. We demand that our direct suppliers commit themselves to observing our sustainability standards, communicating them to their employees and to their upstream value chains, and then checking to ensure that the standards are complied with. The Supplier Sustainability Standards identify the following human rights aspects as focal topics:

- Free choice of employment
- Condemnation of child labor
- Equal opportunity and a ban on discrimination
- Freedom of association and the right to engage in collective bargaining

- Health management and occupational safety
- Fair remuneration, working times, and social benefits

The Supplier Sustainability Standards also refer to all the other valid and internationally recognized human rights.

**Systematically addressing human rights risks**

To ensure that human rights are respected and protected, Daimler has developed a due diligence approach called the Daimler Human Rights Respect System (HRRS). It aims to protect the human rights of our own employees and to ensure that human rights are respected at our direct suppliers (Tier 1) and at risk-relevant points of the supply chain beyond Tier 1. Through our systematic approach to ensuring respect and protection for human rights, we aim to be the benchmark for the automotive and mobility services sectors.

The HRRS, which orients itself to our Group-wide Compliance Management System (CMS), utilizes a risk-based approach in its focus on Group companies including our production locations and our supply chain. In the spring of 2019, we established a new Social Compliance department. This department is responsible for leading the implementation of our HRRS and to this end utilizes tried-and-tested methods and processes from our Compliance Management System. Plans call for the HRRS at Daimler AG Group companies to be gradually integrated into the Group-wide CMS. Within the framework of the HRRS, we are also developing a separate due diligence approach for ensuring compliance with human rights in the supply chain. This approach is based on a foundation of proven compliance management systems.

As a proactive risk management system, the HRRS is designed to identify and avoid systemic risks and possible negative effects of our business activities on human rights early on. The HRRS thus primarily protects third parties, i.e. rights-holders, and is aimed at exerting its effect along our supply chain as well.

As a result, the HRRS also involves consultation and discussions with rights-holders, for example our employees and their representatives, and external third parties such as civic organizations or local residents. The HRRS consists of four steps that are to be applied to Group companies including our production locations and the supply chain.

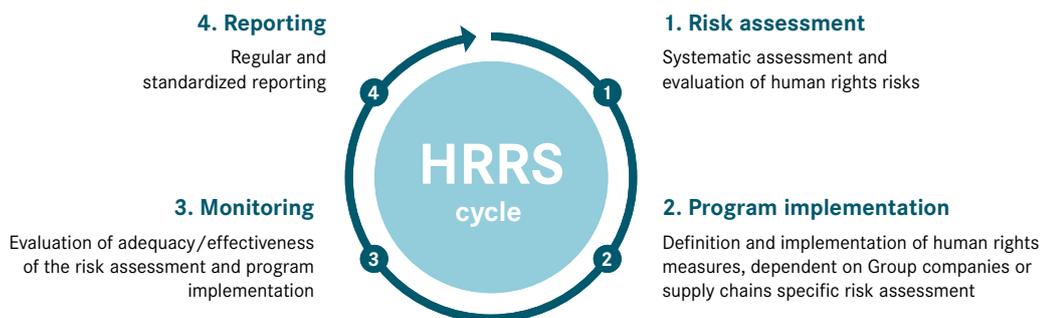
External stakeholders are regularly involved as we continue to enhance the HRRS step by step. Among other things, we hold talks with international NGOs concerning the human rights risks arising from the extraction of certain raw materials and we also organize the annual “Daimler Sustainability Dialogue”.

[Daimler Sustainability Dialogue](#)

**Comprehensive risk analyses**

Within the framework of the Upfront Risk Assessment, which is part of the separate due diligence approach for our supply chains, we have identified 24 raw materials and 27 services whose extraction and further processing/provision (services) pose potential risks to human rights. Various international reference documents serve as the basis for these risk assessments. With regard to raw materials, we use the “Child and Forced Labor List” from the US Department of Labor, for example. Extraction and mining methods, and the countries where raw materials are located, all play an important role in our analyses. With regard to services, we make use of the Corruption Perception Index published by Transparency International. This list is compiled on the basis of an assumption that countries which display a high risk of corruption are also more likely to pose a risk in terms of human rights. To discover possible risks at our Group companies, we also classify them systematically in accordance with their business models and the human rights situation in their countries.

**6.1 The Human Rights Respect System**



## Identification of human rights risks at Group companies

GRI 412-1

With regard to Group companies, the risk assessment in the course of their integration into the Daimler CMS envisages the regular classification of the Group companies, initially on the basis of predefined criteria such as the risks associated with specific countries and specific business operations. Here we take into account fundamental human rights standards such as those defined in the Universal Declaration of Human Rights and those formulated by the International Labour Organization (ILO). We plan to use the reviews as a basis for performing a more detailed annual analysis with the help of a human rights survey conducted by the Group. To this end, we launched a pilot project in 2019 that initially includes seven Group companies. We want to use the knowledge gained from the project to expand our systematic risk analysis, which will then be performed at all remaining Group companies. We use this analysis to define risk-specific sets of measures, which we offer to the respective Group companies.

## Consistent complaint management

GRI 407-1 GRI 408-1 GRI 409-1

Employees and external third parties can use various channels to report suspected human rights violations and obtain “access to remedy” as defined by the third pillar of the UN Guiding Principles on Business and Human Rights. These channels include our whistleblower system BPO (Business Practices Office) and the World Employee Committee.

The complaint management process also enables individuals to draw attention to possible human rights violations at suppliers. In this context, we work together closely with the World Employee Committee. If we become aware of a suspected violation, we bring together all the available information and request the suppliers to respond to the allegations. We then assess the facts of the case and take the necessary measures. This can cause us to terminate the business relationship. Depending on the situation, it can make sense to work together with the supplier in order to improve the situation on site.

According to our analyses, there were no concrete suspicious cases of child labor, forced labor, or violations against the right to collective bargaining or freedom of association within the Daimler Group in 2019. The Group systematically investigates individual notifications and suspected violations in the supply chain, including the use of child labor for the extraction of raw materials. In cases where we have identified a need for action, we implement the necessary measures – also in cooperation with our partners.

In order to be able to identify problems, we also investigate concrete cases that NGOs have directly communicated to us.

## Measures for the protection of human rights

GRI 103-2

Creating transparency, raising awareness, investigation: We implement a variety of measures worldwide in order to ensure that human rights are respected and upheld as correctly as possible. It is clear that we can't solve human rights challenges on our own, but only in cooperation with employees, suppliers, business partners, and governments.

## Human rights training and workshops

GRI 410-1 GRI 412-2

Our [Integrity Code](#) provides our employees with information about human rights and raises their awareness of the corresponding risks. The rules contained in the Code are binding for all employees at Daimler AG and for all employees at the Group companies controlled by Daimler. Depending on the area of work, the onboarding process for new employees may include mandatory training courses containing corresponding information. During the reporting year, we have, among other things, held a training course that raises awareness of human rights among the regional heads of the Group's global security organization.

## Raising awareness among suppliers and sales partners

During the reporting period we developed the “Supplier Compliance Awareness Module” on the basis of the sustainability standards for the suppliers and our Integrity Code. This module helps suppliers address possible integrity- and compliance-related risks. In addition, it clearly stipulates what we expect of the suppliers when it comes to integrity and provides information about legal requirements and ethical standards. The module is provided to all suppliers via the Daimler Supplier Portal, where they can use it at any time. Suppliers can also forward this module to their business partners in the supply chain.

This module also contains provisions similar to those that can be found in the general “Compliance Awareness Module” for sales partners, which was introduced in 2016 and is designed to draw their attention to current compliance requirements. Human rights constitutes one of the eleven compliance-related topics featured in this module.

You can find specific information about the qualification of our suppliers in the chapter [Sustainable supply chain management](#).

## Open and constructive communication with suppliers

In the services sector, we conduct awareness-raising measures for human rights. To do so, a cross-functional team from the procurement unit meets with suppliers in “Good Practice Sharing Workshops”. This format employs an open and constructive sharing of experiences between the suppliers as well as the clear communication of our expectations towards them.

In 2019 we held a “Good Practice Workshop” with seven suppliers of International Procurement Services. These suppliers came from a variety of business areas. In the run-up to the workshop, all of the suppliers received a questionnaire that enabled them to evaluate their status with regard to human rights. The results served as the basis for the joint discussions. At the workshop, the suppliers also raised the topic of possibilities for improvement and defined appropriate measures.

### Social standards for contracts for work and services

The awarding and performance of contracts for work and services are subject to standards that extend beyond existing legislation in many areas. These standards define our requirements with regard to occupational health and safety, accommodation, remuneration, use of temporary workers, commissioning of sub-contractors, and the prevention of illegal false self-employment. These social principles are relevant to all orders that exceed a period of two months and are actually carried out on the business premises of Daimler AG in Germany. All relevant contractors or service providers must sign a declaration that they comply with these standards. Only if they fulfill this prerequisite can they receive purchase orders. An auditing team from Procurement determines whether the standards are being complied with in Germany.

### Membership in automotive associations and initiatives

Daimler is active in a variety of associations and initiatives that address the issue of human rights. They include the following:

- UN Global Compact: Daimler is a member of the LEAD group and takes part in two action platforms (Decent Work in Global Supply Chains and Reporting)
- German Global Compact Network: Daimler is the sponsor for human rights issues and a member of the steering committee
- econsense – Forum for sustainable development: Daimler is the sponsor for human rights issues and a member of the Supply Chains working group

In addition, Daimler initiated the “Human Rights Roundtable of the Automotive Industry”, which it has also hosted on several occasions. This roundtable brought together representatives of the automotive industry with political representatives. It mainly addressed the challenges that the automotive industry faces in the implementation of its human rights due diligence obligations. Their goal is the joint development and implementation of standards.

### Raw material initiatives as important platforms

Daimler pursues a risk-based approach. This means that we endeavor to create as much transparency as possible about the upstream value-added stages of raw material supply chains that have a high risk of human rights violations. In this way we want to identify areas that are critical to human rights and to define and implement targeted measures.

In addition to our own measures, we are also active in raw materials initiatives that complement the impact of our activities to promote the responsible procurement of raw materials and can amplify them. The focus of these initiatives is the responsible use of cobalt, steel, and aluminum. With these goals in mind, we are active in the Responsible Minerals Initiative, the Responsible Steel Initiative, the Aluminium Stewardship Initiative, and other organizations. Through targeted cooperation with relevant stakeholders in raw material supply chains, we want to contribute to improving working conditions and preventing human rights violations in raw material mining operations. These initiatives serve as important platforms that also make available sophisticated instruments to enable the traceability of the origin of materials such as cobalt, steel, and aluminum.

### [Involvement in associations and sustainability initiatives](#)

## Monitoring selected raw material chains

### GRI 414-1

In order to produce vehicles, we need certain raw materials that can, in some circumstances, be mined or processed under conditions that could be critical from a human rights standpoint. That is why the supervision of these supply chains has a high priority for us. Within the framework of the HRRS, we are therefore striving to recognize and prevent such risks and negative effects early on. By the end of 2020, therefore, 20 percent of all high-risk raw materials are to be reviewed, and by 2025 it should be 70 percent.

### Cobalt

Cobalt is a special area of focus for our sustainability management activities because of the potential human rights risks associated with its supply chain. Demand for cobalt will initially continue to increase due to the expanding electrification of vehicle fleets. Following a pilot project launched in 2018, we commissioned an external auditing firm in 2019 for a three-year program. The company’s task is to audit the cobalt supply chains of the battery cell suppliers of Mercedes-Benz AG at the time the commission was issued. These audits will be conducted to determine if the supply chains meet the [OECD](#) standards. In the first year of the program, the aim is to gradually audit the cobalt supply chains of our battery cell suppliers. The audits cover both downstream suppliers (from the battery manufacturers to the refineries) and upstream suppliers (from the refineries to the mines). We employ such [audits](#) in order to evaluate suppliers and identify high-risk areas and the potential for improvement.

A large proportion of the downstream suppliers were already audited in 2019. However, some audits still need to be performed at cathode manufacturers, additional refineries, and, above all, smelters and mines. Initial results from the evaluations show that the audited companies still have problems establishing due diligence systems in accordance with OECD standards. These systems help to ensure that human rights are duly respected.

The audited companies perform much better with regard to material control. If an audit discovered a need for improvement, specific Corrective Action Plans were developed together with the supplier, i.e. a list of corrective measures that the supplier in question has to implement. The supplier has a certain amount of time to do this, which varies depending on the severity of the discovered deficiencies. We continuously monitor implementation of these measures. Among other things, they help to improve the due diligence process. Several suppliers were already working on the implementation of such improvement plans during the reporting year, while we are currently coordinating such plans with other suppliers. If a supplier does not accept the improvement plan, we will contact the company that is the next highest in the supply chain in order to have the plan accepted and implemented. Since there is no direct contractual relationship in this case, we have no legal basis for enforcing the plan.

Over the long-term, we focus on [capacity building](#) measures for suppliers. Our aim here is to support suppliers enhance their ability to prevent human rights violations.

#### [Overview of smelters and refiners in our current supply chains](#)

#### Mica

The supply chain of mica, which is used in vehicle paints and is therefore not directly obtained by Daimler, has been identified as a critical material by the HRRS. That is because the mining of mica has repeatedly been connected with child labor in India. For this reason we reviewed the complete supply chain for mica in 2018 – from the mine to the painting of Mercedes-Benz vehicles in manufacturing plants. A team of quality engineers and human rights experts for example audited three mines and three mica processors in India in order to determine whether these facilities comply with standards for protecting human rights. The overall objective of the project was to create transparency across the entire mica and paint supply chain in order to identify problems that might exist and then define corrective measures. In the course of the audits, we have worked towards the exclusion of a sub-supplier of our direct supplier from the paint supply chain.

We remain in contact with the mica supplier with whom the audits were carried out in 2018. Among other things, we discuss the implementation of the measures that were initiated as a result of the audit and also confer about the ongoing audit of the mine by a local partner organization of the supplier. During the reporting year, we repeatedly examined the implementation and progress of the measures.

#### Natural rubber

The HRRS has defined natural rubber as one of the focus materials subject to a supply chain analysis. Because natural rubber is used mainly in tires, we not only conduct our own supplier surveys and inquiries but also concentrate in particular on our cooperation with associations and initiatives as well as with our partners in the tire industry. In 2019 we held talks with our key tire manufacturers in order to identify risks in the supply chain and use this as a basis for deriving appropriate measures.

As a leading member of the sector's "Drive Sustainability" initiative, we also support the "Global Platform for Sustainable Natural Rubber."

#### Further social auditing of suppliers in procurement

##### GRI 414-1

The evaluation of new suppliers according to social standards is firmly embedded in the processes of our three procurement units. For example, International Procurement Services, which is responsible for the procurement of non-production material, evaluates all of the new suppliers in high-risk countries and socially critical procurement segments. Mercedes-Benz Cars Procurement and Supplier Quality conducts a potential analysis of all new suppliers. This analysis also addresses working times, remuneration, and freedom of association. Global Procurement Trucks & Buses has procurement employees conduct on-site assessments of all new suppliers to also see how they comply with social standards. We use regular database research and other measures to discover any violations of our sustainability and compliance rules by our current suppliers. We systematically follow up all reports of violations.

#### How we assess the effectiveness of our management approach

##### GRI 103-3

During the reporting period, the regular assessment of our measures has caused us to adjust our management approach in a variety of ways. In 2019 we created the Social Compliance department in order to further systematize existing measures and improve their integration into the business processes. This department is part of the executive division Integrity and Legal Affairs. It is now responsible for controlling implementation of the HRRS.

Plans call for the HRRS for Daimler AG Group companies to be fully integrated into the Group-wide Compliance Management System. The department is also enhancing the separate due diligence approach for human rights in the supply chain. In doing so, it is first reviewing the previous measures.

Due to its importance, we made human rights one of the key focal topics of our sustainable business strategy during the reporting year. To this end, we provided measurable targets and key figures for our human rights approach. We regularly review how the approach is progressing and report the results to the Group Sustainability Board and the Board of Management.

During the further development of our management approach to human rights, we also incorporated the feedback from our stakeholders at the human rights working group of the "Daimler Sustainability Dialogue." At this annual event, we discuss and evaluate our progress as well as the challenges that arise during the implementation of our management approach.

#### [Daimler Sustainability Dialogue Plenary Reports](#)