Automotive Industry Approaches to Conflict Minerals Reporting

A CASE STUDY OF AUTOMAKERS AND SUPPLIERS

AUGUST 2013
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ABOUT AIAG

Purpose Statement
Founded in 1982, AIAG is a globally recognized organization where OEMs and suppliers unite to address and resolve issues affecting the worldwide automotive supply chain. AIAG’s goals are to reduce cost and complexity through collaboration; improve product quality, health, safety, and the environment; and optimize speed to market throughout the supply chain.

AIAG Organization
AIAG is made up of a board of directors, an executive director, executives on loan from member companies, associate directors, a full-time staff, and volunteers serving on project teams. Directors, department managers, and program managers plan, direct and coordinate the association’s activities under the direction of the executive director.

Volunteer committees focus on business processes or supporting technologies and methodologies. They conduct research and develop, publish, and provide training on standards, conventions, standard business practices, white papers, and guidelines in the areas of automatic identification, CAD/CAM, EDI/electronic commerce, continuous quality improvement, health focus, materials and project management, occupational health & safety, returnable containers and packaging systems, transportation/customs and truck & heavy equipment.

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Conflict Mineral Disclaimer
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EXECUTIVE SUMMARY

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act, and 2012 rule finalized by the United States Securities and Exchange Commission (SEC), impose reporting requirements on manufacturers if their products contain metals derived from minerals defined as “conflict minerals.” These new requirements, which apply to a broad range of manufacturing companies, are intended to eliminate funding for armed conflict in the Democratic Republic of Congo (DRC) and surrounding countries, where much of the world’s supply of these minerals is mined. The rules have global implications: even companies headquartered outside of the United States, and those which do not report to the SEC, will be subjected to conflict minerals requests from any customers that do report to the SEC.

With the reporting period underway as of the start of 2013, and reports due to the SEC less than one year from now (May 31, 2014), there is a growing sense of urgency among companies in the automotive industry to establish an approach to conflict minerals compliance. Companies of all sizes have some of the same questions and challenges, so we created this overview of the approach taken by several of them—two OEMs and three Tier 1 suppliers—in the hope that it will be instructive to readers as they undertake the conflict minerals due diligence process.

Following the Introduction, we present three main sections in the case study corresponding to phases of the compliance process: Getting Started, Engaging the Supply Chain, and Looking Ahead. In each, we cover the approaches and responses of our case study participations to a range of relevant issues. Each section concludes with an abbreviated list of Challenges and Lessons Learned. Finally, the case study includes two Appendices: Resources, and a Supplier Checklist.
INTRODUCTION

The Dodd-Frank Law and SEC Rules

When the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law in July 2010, the automotive industry, and many other industries, recognized that significant changes to supply chain due diligence practices would be necessary.

Section 1502 of the Dodd-Frank law requires the SEC to impose reporting requirements on manufacturers if their products contain metals derived from minerals defined as “conflict minerals,” which currently include cassiterite (the metal ore from which tin is extracted), columbite-tantalite (which is the metal ore from which tantalum is extracted), wolframite (which is the metal ore used to produce tungsten), and gold. Other minerals may be added at the discretion of the Secretary of State. The common names of these conflict minerals—tin, tantalum, tungsten and gold—are often referred to as “3TG”.

“Congress intended to further the humanitarian goal of ending the extremely violent conflict in the Democratic Republic of Congo, which has been partially financed by the exploitation and trade of conflict minerals originating in the DRC.” – U.S Securities and Exchange Commission, Conflict Minerals Final Rule, August 22, 2012
These new requirements, which apply to a broad range of manufacturing companies, are intended to eliminate an important stream of funding for armed conflict in the Democratic Republic of Congo (DRC) and surrounding countries, where some of the world’s supply of conflict mineral is mined.

In April 2011, six manufacturers—Chrysler, Ford, General Motors, Honda, Nissan and Toyota—issued a joint letter to suppliers, informing them of the new requirements and explaining that their cooperation would be necessary to determine what products may contain conflict minerals. In that letter, the automakers reiterated their commitment to ensuring that the parts and assemblies in vehicles do not contain conflict minerals which have contributed to the armed conflict in the DRC. The letter also recommended steps that suppliers could take, starting then, in anticipation of requests for information that they would be receiving from their customers:

- “Determine which of your parts/assemblies incorporate one or more of the identified conflict minerals or their derivatives;
- Assess your supply chains associated with those parts/ assemblies.
- Engage with your suppliers to identify the smelters used in your supply chain to process the conflict minerals OR validate the origin of the conflict minerals as recycled/scrap.”

In August, 2012, the SEC finalized the rule for complying with the conflict minerals provision of the Dodd-Frank law. The final rule requires all companies subject to SEC filing rules to report to the SEC by May 31, 2014 if any of their production products, manufactured between January 1 and December 31, 2013, contain conflict minerals. The rules have global implications. Companies headquartered outside of the United States, and those which do not report to the SEC, may be subjected to conflict minerals requests from customers who do report to the SEC or are in the supply chain of such companies or their tier suppliers.
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“IT IS OUR INTENTION TO DO WHAT WE CAN TO ENSURE THAT THE PARTS AND ASSEMBLIES IN OUR VEHICLES AND PRODUCTS, REGARDLESS OF WHERE THEY ARE ASSEMBLED OR SOLD, DO NOT CONTAIN CONFLICT MINERALS WHICH HAVE CONTRIBUTED TO THE ARMED CONFLICT IN THE DRC.” - JOINT LETTER FROM CHRYSLER, FORD, GENERAL MOTORS, HONDA, NISSAN AND TOYOTA TO SUPPLIERS, APRIL 2011

**Who This Case Study is For—and About**

With the reporting period underway as of the start of this year, and reports due to the SEC less than one year from now, there is a growing sense of urgency among companies in the automotive industry to establish an approach to conflict minerals compliance. While many companies have already started the process, they recognize that they will need to adapt their approach as the industry collectively learns how to handle these new requirements. And still other companies know they need to take action, but may not be sure of how to move forward.

No matter where your company is on this spectrum, this case study is for you. We created it to show companies in the automotive industry that they’re not alone. Companies of all sizes have some of the same questions and challenges, and it is our hope that this overview of the approach taken by several of them will be instructive to readers as they undertake a similar journey.

To produce this case study, we recruited five individuals from the AIAG Conflict Minerals Working Group (CMWG)—each of whom is responsible for leading the conflict minerals compliance efforts at their respective companies—to explain the approach they are taking to this issue. To encourage these participants to share sensitive information, we agreed to keep the names of both these individuals and their companies confidential. These companies include two automakers, or original equipment manufacturers (henceforth “OEM”), and three Tier 1 suppliers (henceforth “Tier 1”).

We asked each participant to respond to a questionnaire about their conflict minerals approach, and we then conducted follow-up interviews to gather additional information. These participants, as well as the full CMWG, were also given the opportunity to review this case study and provide input prior to publication.

Finally, we want to note that this case study should not be construed as a prescriptive recommendation, an endorsement of any particular company’s approach, nor a consensus statement by the automotive industry. Rather, the content of this case study is intended as an overview of the approaches taken by participating companies, in the hopes that such information will help those who are also developing their own approach to the conflict minerals issue.
1. GETTING STARTED

Implications, Impacts and Guidance

While participants had a range of views and approaches on various aspects of the conflict minerals issues, they all shared a similar assessment that these new reporting requirements would have a significant impact on their respective companies. One OEM participant expected the impact to be “…very significant, and more than other compliance efforts,” and the other OEM participant stated “It will have a big impact. Our cross-functional team determined that it applies to our company globally. It impacts much more than production of vehicles, it also affects after-market parts.” Said one Tier 1 participant, “As a decentralized company with $15 billion in purchased production components from nearly 6,000 suppliers, this is a huge undertaking for us.” This participant also noted the heightened expectations suppliers face: “We are doubly affected by the rule, given the need to comply with it, and to supply information to facilitate completion of our OEM customers’ reports.”

Among the variety of implications cited by participants, the most commonly mentioned was the need for more resources, from the financial cost of new processes, external consultants and auditors, to the added staffing required to undertake all necessary activities. A Tier 1 participant revealed that they estimate the cost of compliance to their company to be approximately $500,000 in the first year, and $200,000 annually thereafter—all of it uncompensated. An OEM participant cited resource impacts in 10 areas, including “Making investments into data collection and management systems; increased engagement in AIAG; and providing financial contribution to the Conflict-Free Smelter program through AIAG.”

We were pleased to learn that participants have sought conflict minerals guidance primarily from AIAG. Yet they have also drawn on the expertise and recommendations of a number of other organizations, including the Electronics Industry Citizenship Coalition (EICC), the Global e-Sustainability Initiative (GeSI), the National Association of Manufacturers (NAM), and the Organization for Economic Cooperation and Development (OECD). (See Appendix A: Resources for links to these and to other resources).
Motivations and Policies

Beyond regulatory compliance, the motivations for undertaking a conflict minerals due diligence process were distinctly different between OEMs and Tier 1 suppliers. The Tier 1 participants uniformly cited requests from their OEM customers as the primary motivation, while the two OEM participants both cited adherence to their existing human rights-oriented policies.

As for policies, participants gave a range of responses when asked if they had established a conflict minerals-specific policy, or if not, whether they intended to do so. Two of the five participants, one from an OEM and the other from a Tier 1, said their company had established, or would soon complete, a policy. Both companies used the OECD guidelines for reference, yet the process each took to developing the policy differed in duration and complexity. The Tier 1 company reviewed examples of six peer companies’ conflict minerals policies, drafted a policy of its own, and got the legal and corporate communications departments to sign off. The OEM researched the approach taken by 70 other companies, and put their own policy through significant internal review—a process which will take about four months in total.

Another Tier 1 participant has decided they will develop a policy, but said “We’re intentionally taking a ‘sit back and see what others do’ approach” before moving forward. The remaining two companies, an OEM and a Tier 1, have not yet decided if they will create a conflict minerals-specific policy, but said they may do so in the future. The reason both participants cited for this stance was the feeling that the conflict minerals issue was covered by their existing company policies on human rights.
Internal Organization

All participants confirmed the importance of getting organized internally for the conflict minerals compliance process. One of the first, and perhaps most important, decisions is which department should have lead responsibility for this issue. All five companies surveyed have put the purchasing department in charge, due to the fact that the due diligence process relies heavily on supply chain communication and interaction. In each case, these companies have also involved a number of other departments in the process, with the most commonly mentioned being legal, finance, engineering, sustainability or environmental health and safety, communications, and policy/government affairs. Every participant said they had engaged these various stakeholders through an internal conflict minerals working group, which meets anywhere from twice a week to once a month. And in every case, the participants found that participation by these departments had come without much resistance. Said a Tier 1 participant, “Once they understood that it was a global requirement, and it wasn’t going away, it was pretty easy to get people involved.”

Another important decision to make early on is how to gather information from the supply chain. All participants have decided to use the iPoint Conflict Minerals Platform (iPCMP)—a web-based data management tool developed in collaboration with AIAG member companies—to gather and/or report information about conflict minerals in their companies’ supply chains. These companies are all strongly recommending to their own suppliers that they use the iPCMP for reporting. However, most companies are also offering their suppliers the option of using the EICC/GeSI template to report. It is worth noting that all participating companies are requiring suppliers to report to them using one of these two options, and that no other choice is being offered.

Getting Started: Challenges and Lessons Learned

As to starting conflict minerals compliance efforts, here are some of the lessons learned by participants when facing common challenges:

i. Secure Necessary Resources

Regardless of the size of your company, it is likely the impact on your company will be significant. To ensure that you have the necessary financial, human and other resources to do the job right, make sure to work with senior staff and other colleagues to line up the assets you will need.
**ii. Get Organized Internally**

Most participants stressed the importance of organizing and educating an internal working group on conflict minerals, with representation from a variety of departments (as described above), as a key element of their overall approach. “Take the time to educate all stakeholders regarding the legislation,” said one Tier 1 participant, “and the potential for inquiries funneling into the organization from customers at all levels.” Several participants also pointed to other important internal protocols: centralize information on supplier points of contact before reaching out to the supply chain; and give proactive, company-wide guidance to your colleagues on how they should handle customers’ and suppliers’ questions—such as identifying the internal point of contact for all incoming and outgoing conflict minerals communications.

**iii. Get Started Early**

As one OEM participant succinctly stated, “Start now. The process will take longer than you think.”

“**Start now. The process will take longer than you think.**” – OEM PARTICIPANT
2. ENGAGING THE SUPPLY CHAIN

Casting a Net: Wide or Narrow?

At press time, all participants’ companies had sent their suppliers requests for information on the presence and origin of conflict minerals in the products they produce, with responses due either to Tier 1 companies in Q3, or to OEMs in Q4, of 2013. To facilitate communication with suppliers, several participants have established a dedicated email address, such as conflictminerals@companyname.com, and identified a central point of contact for suppliers.

All participants’ companies each have thousands of suppliers, and some have tens of thousands, so the task of identifying conflict minerals in the supply chain can be a daunting one. “This is the first time that all of our suppliers have been contacted in the same way for the same thing,” said a Tier 1 participant.

One way to narrow the list is to focus only on direct material suppliers—those who supply items used in production (versus non-production items like office supplies). One participant, from a Tier 1 company, strongly advocated sending requests only to a targeted list of suppliers whose
Automotive Industry Approaches to Conflict Minerals Reporting

Products were most likely to contain conflict minerals. They arrived at this targeted list by working with materials engineering colleagues to identify those products and suppliers, based on the composition of certain production components. For example, following the process above, this participant first narrowed their list of more than 30,000 suppliers to approximately 3,000 direct materials suppliers. They were then able to eliminate 2,500 of those based on an assessment that their products don’t contain 3TG. Thus, this Tier 1 company sent requests to only about 500 suppliers.

“We’ve specifically targeted the suppliers we know will have conflict minerals in their products,” said this participant.

The other four participants decided to send requests to all of their direct material suppliers, citing the fact that it is hard to know where conflict minerals will be found. Said a Tier 1 supplier, “Who would have ever thought that conflict minerals can turn up in things like seat foam? So we’re contacting all of our suppliers.” They added, “Even an educated guess may not be that educated.” Though these four participants sent requests to all direct material suppliers, they are all assessing their suppliers to determine which are high-risk, so they can be prioritized for follow up.

Participants are employing several approaches to determine which suppliers are high-risk. These include taking the materials engineering step mentioned above, cross referencing the International Materials Data System (IMDS), and evaluating the content of the response itself—or a lack of one—from each individual supplier. Or, as one OEM described their overall approach, “We have chosen to cast a broad net, and then we will focus our follow up based on a more strategic assessment of suppliers.”
Supplier Response and Follow Up

Though participants have started to receive responses to their supplier requests, they generally felt that the response rate thus far has been low. “I think we’re going to do a lot of follow up,” said a Tier 1 participant. “More than how many respond, it’s the quality of the response I’m concerned about.” An OEM participant expects that they will get a lot of “I don’t know” or “undeterminable” responses.

Participants frequently cited “confusion among suppliers” on a range of conflict minerals issues as one of the key challenges they face in gathering information from them. As one OEM participant summarized it, “When you’re dealing with all that misperception of U.S.-based, versus global; what exactly are conflict minerals; the fact they don’t think it applies to them; they don’t think they have to respond...all of those things lead you to different ways of answering and getting the information.”

Several participants have also established protocols for escalating follow-up with suppliers who don’t respond, such as contacting management at those companies, using the leverage of their buying group, or possibly threatening to take business elsewhere. When asked if they intend to perform due diligence at the Tier 2 level and beyond, participants said they would either rely on their suppliers to do so, or they would decide case-by-case whether or not to take that step, based on a given supplier’s initial response.

Said one Tier 1 participant, summing up the supply chain engagement aspects of the issue, “We don’t know what’s to come yet in working with the suppliers who we think are high risk. We’re way ahead of our supply base in terms of knowing what we need to do and getting our requests out, and we’re eagerly anticipating what the responses will be.”

Supply Chain Engagement: Challenges and Lessons Learned

As to engaging with the supply chain, here are some of the lessons learned by participants when facing common challenges:

i. Prioritize Based on Risk Assessment

Whether you choose to cast a wide net, or narrow your requests to a sub-set of suppliers, participants are consistently prioritizing high-risk suppliers for outreach and/or follow up during the engagement process.

ii. Establish a Supplier Point of Contact

Streamline supplier communications by identifying an internal point of contact for conflict minerals and establishing a dedicated email address that can be managed jointly by several people if needed.

iii. Be Patient—But Persistent

There is widespread confusion among suppliers beyond Tier 1 about the details of the conflict minerals compliance rule, and whether it applies to them. Counteract this by proactively educating suppliers, which may take time. “It will take a couple years before everyone catches on to what they really need to do,” said a Tier 1 participant. Gaining transparency down the supply chain will also require cooperation from suppliers at multiple tiers. Use the necessary leverage, both carrot and stick, to achieve compliance from suppliers.

“As we begin to understand the scope and extent of conflict minerals in our products, we will develop plans to ensure responsible sourcing.” – OEM participant
3. LOOKING AHEAD

Sourcing Expectations

Regarding future plans and policies, we asked participants what decisions their company had made with respect to conflict minerals sourcing. One OEM participant said that this issue would be addressed by their forthcoming conflict minerals policy. The remaining four participants said they had not yet made a decision on the issue, though they would likely do so in the future.

“First, we need to understand the extent to which our products contain conflict minerals and whether the minerals in our products are contributing to conflict in the DRC region,” said one OEM participant. “As we begin to understand the scope and extent of conflict minerals in our products, we will develop plans to ensure responsible sourcing.”

Similarly, participants were asked whether they plan to require suppliers to be conflict-free, and what repercussions such a decision might have. Only one Tier 1 participant said they would require suppliers to be conflict-free, and where economically practical they would find alternative sources of supply. Yet this participant said “I don’t think that we’re going to find absolute evidence that our conflict minerals are...
supporting conflict in the Congo.” Another Tier 1 participant said they would encourage suppliers to be conflict-free, but had not decided if there would be repercussions for failing to do so. An OEM participant said they expect suppliers to comply with their human rights policy, and “as conflict-free capacity becomes available, we will expect our suppliers to source responsibly from smelters and other sources that are conflict-free.” Summing up the issues, the other OEM participant noted, “This first year is going to be a real challenge. Each year going forward, it’s going to get easier for suppliers to understand, but still difficult to get further down the supply chain if we don’t have enough conflict-free smelters.

Auditing Requirement

As stated in the SEC rule (pg. 217), a company’s conflict minerals report must include “a description of the measures taken by the [issuer] to exercise due diligence on the source and chain of custody of its conflict minerals, which measures shall include an independent private sector audit of such report,” and “a description of the products manufactured or contracted to be manufactured that are not DRC conflict free.” As to how they plan to meet this requirement, three of the participants said they would hire a third party auditor, such as the company that conducts their financial audits. One participant stated that they would document their process and methods to demonstrate due diligence. The remaining Tier 1 participant is a non-filing company, but plans to structure their process to meet audit requirements.

Looking Ahead: Challenges and Lessons Learned

As to future plans, here are some of the lessons learned by participants when facing common challenges:

i. Identify Conflict Minerals When Engineering New Products

One Tier 1 participant has established engineering procedures that will identify the presence of conflict minerals as new products are developed. This will help in the future with targeting suppliers for reporting requests, and prioritizing follow up.

ii. Recognize the Limitations of Smelter Capacity

Several participants cited the lack of sufficient conflict-free smelter capacity as a main challenge to achieving a conflict-free supply chain. Recognizing the limitations now, and staying current as capacity expands, will help keep your expectations consistent with the options your suppliers have.

APPENDIX A: RESOURCES

Contact

Tanya Bolden
Program Development Manager
Corporate Responsibility
AIAG
conflictminerals@aiag.org

AIAG Resources

• Conflict Minerals Working Group
• Executive Summary of the SEC Rule
• Frequently Asked Questions
• iPoint Conflict Minerals Platform

Other Resources

• EICC/GeSI Conflict Minerals Reporting Template
• National Association of Manufacturers
• OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas
# APPENDIX B: AIAG CONFLICT MINERALS REPORTING CHECKLIST

## AIAG Conflict Minerals Reporting Checklist

This checklist is designed to be modified for your individual company; currently this checklist is designed for SEC filers. Rows, columns can be modified accordingly.

**Major Headings are aligned with OECD (Organisation for Economic Cooperation and Development) Due Diligence Guidance**

This document is intended for the convenience of AIAG members and constituents and does not constitute legal, tax or accounting advice.

<table>
<thead>
<tr>
<th>Number</th>
<th>OECD Annex 1 Reference</th>
<th>Task Name</th>
<th>Start Date</th>
<th>Due Date</th>
<th>Next Review Date</th>
<th>Responsible</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.01</td>
<td>3B) Y</td>
<td>Determine managerial owner for conflict minerals</td>
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<td>1.02</td>
<td></td>
<td>Assess adequate staffing for supply chain compliance/conflict minerals reporting activities</td>
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<td>1.03</td>
<td></td>
<td>Participate in industry association groups (e.g. AIAG, CFSP)</td>
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<td>1.04</td>
<td>1D) Y</td>
<td>Create process for supplier questions (e.g., contact address)</td>
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<td>1.05</td>
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<td>Determine and document a scope of which products &amp; components are relevant</td>
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<td>1.06</td>
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<td>Consider obtaining conflict minerals reporting format (e.g., the OM3 or software solutions based on the OM3) or other software solutions as designated by your customers</td>
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<td>1.07</td>
<td>1D) Y</td>
<td>Develop supplier communication plan</td>
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<td>1.08</td>
<td>1A) Y</td>
<td>Develop conflict minerals reporting policy</td>
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<td>1.09</td>
<td>1A) Y</td>
<td>Place policy on company website</td>
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<td>1.10</td>
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<td>Cascade supplier training on reporting process</td>
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<td>1.11</td>
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<td>Design, document and implement a strategy to respond to identified risk</td>
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<td>1.12</td>
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<td>Develop internal communication plan</td>
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<td>1.13</td>
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<td>Add conflict minerals language to terms and conditions or equivalent</td>
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<td>1.14</td>
<td>1C) Y</td>
<td>Establish and document internal processes and standards/norms</td>
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<td>1.15</td>
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<td>Determine reporting scope for suppliers</td>
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<td>2.01</td>
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<td>Establish and annually review supplier identification process</td>
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<td>2.02</td>
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<td>Identify relevant suppliers based on criteria established</td>
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<td>2.03</td>
<td>Y</td>
<td>Conduct RGCE to determine whether the conflict minerals originated in the ORC or Covered Countries</td>
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<td>2.04</td>
<td>Y</td>
<td>Analyze the reported data for consistency/accuracy per guidance in the AIAG OM3 Assessment Process found in the OM-3</td>
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<td>2.05</td>
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<td>Conduct due diligence on the conflict minerals source using the OECD ITG Supplements and all publicly available SCM information through the CFSP and other sources</td>
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<td>2.06</td>
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<td>Respond to information requests from customers</td>
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<td>3.01</td>
<td>3A) Y</td>
<td>Report identified risks to the designated senior management</td>
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<td>3.02</td>
<td>3B) Y</td>
<td>Develop a supplier escalation procedure to address non-compliant suppliers</td>
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<td>3.03</td>
<td>3B) Y</td>
<td>Create and implement a risk mitigation plan to address identified risks in the supply chain</td>
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<td>3.04</td>
<td>3C) Y</td>
<td>Monitor and track performance of the company’s risk-mitigation efforts</td>
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<td>4.01</td>
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<td>Review smelter list against the CFSP conflict free smelter list</td>
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<td>4.02</td>
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<td>Contact any smelters not on the CFSP list to undergo a CFSP audit</td>
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<tr>
<td>5.01</td>
<td>S) Y</td>
<td>File a Conflict Minerals Report as an exhibit to Form SD describing the due diligence measures taken and post report to company website</td>
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<tr>
<td>5.02</td>
<td>Y</td>
<td>Disclose description of RCOI and results in new Form SD</td>
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<tr>
<td>5.03</td>
<td>Y</td>
<td>Meet reporting requirements per the final rules</td>
<td></td>
<td></td>
<td>May 1st of every calendar year</td>
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<tr>
<td>5.04</td>
<td>Y</td>
<td>Carry out independent 3rd party audit of supply chain when applicable</td>
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<tr>
<td>5.05</td>
<td></td>
<td>Report to all applicable customers</td>
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