



Decoding ESG

The way of ESG implementation at Mercedes-Benz

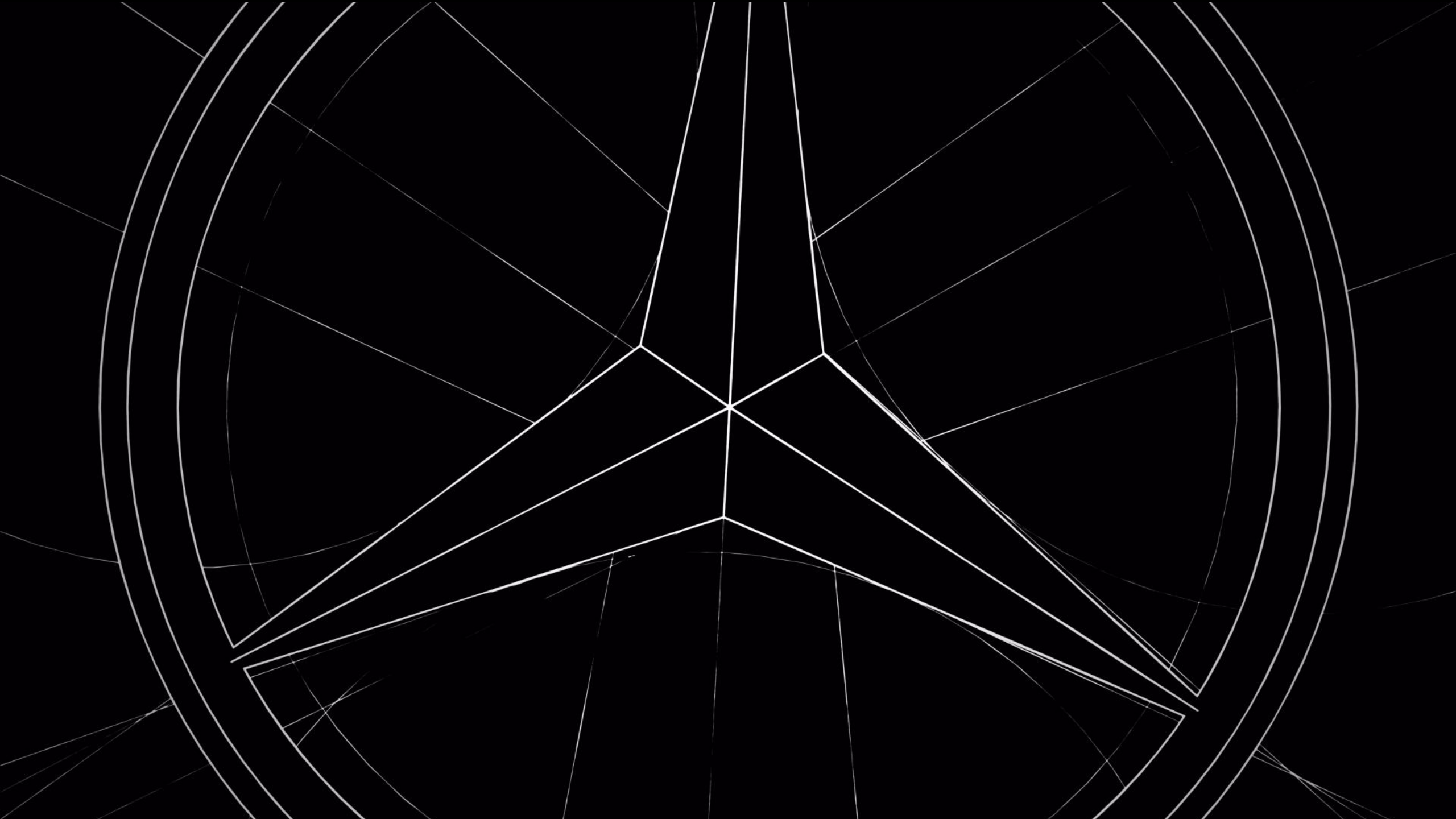
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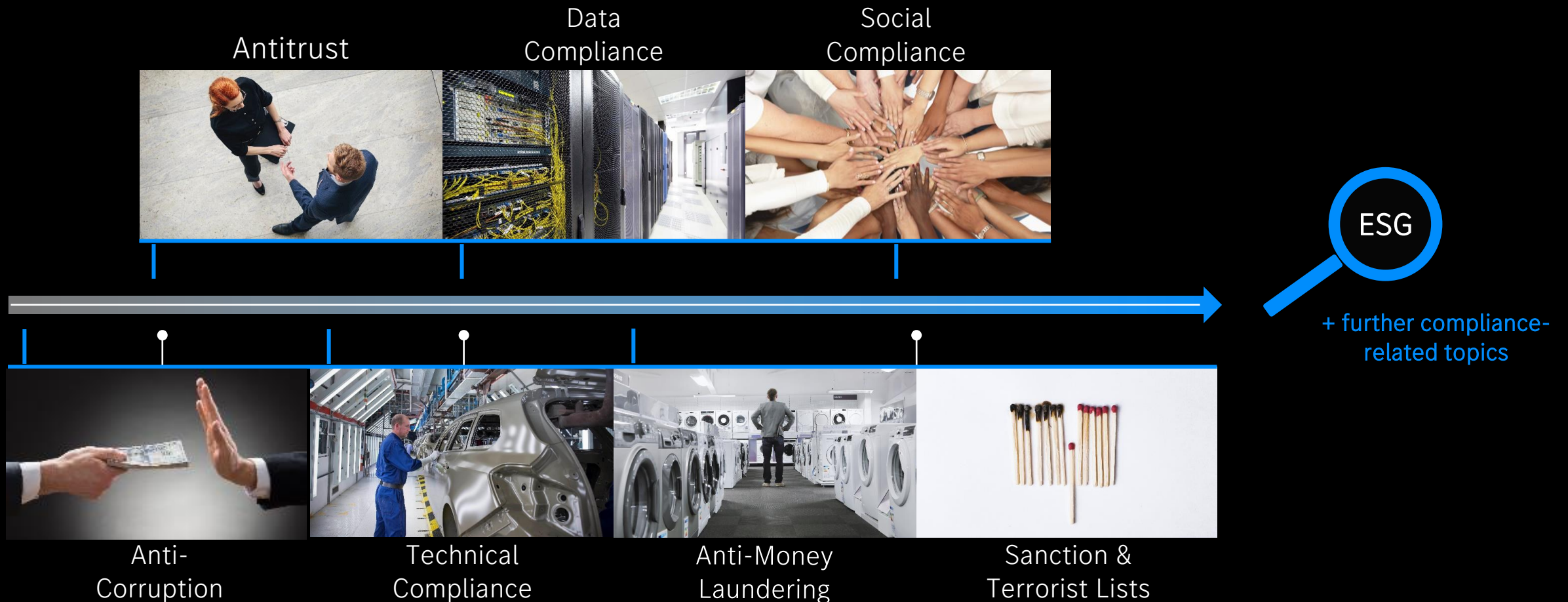
Mercedes-Benz Group AG

Mercedes-Benz





ESG is a necessary response to the growing realization that environmental, social and governance issues are fundamentally linked to corporate performance and long-term value creation.






Current dynamic in the ESG context leads to further development of the ESG steering system

Increasing pressure from regulations and capital market on ESG:



ESG topics are **strategically managed** throughout Mercedes-Benz:

-  Senior management responsibility of all divisions and functions
-  Clear processes and meeting landscape
-  Reviewed set up of committees



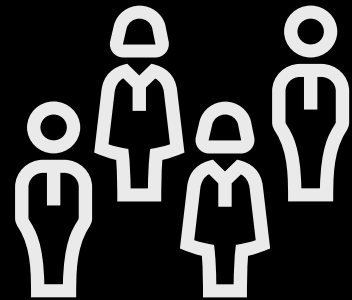
What role should Compliance play in the ESG context?

„Compliance teams are qualified to integrate ESG topics”

“ESG as a Compliance exercise or competitive advantage?”

„Compliance and ESG go hand in hand“

“Compliance and ESG as an integrated management system in companies”



With adaptive Compliance, we meet increasing regulatory challenges and manage future compliance risks

What is adaptive Compliance?

Our adaptive Compliance Management System (CMS) is continuously adapting to new compliance demands

Adaptive Compliance means:

We constantly analyze possible future risks and flexibly design appropriate structures to meet upcoming regulatory challenges

What helps us?

Mercedes-Benz Compliance Charta as solid framework to

- enable the company to fulfill its **organizational duties**
- set the focus on **high risks** ensuring a **standardized & efficient risk mitigation**
- deal systematically with new topics by **risk criteria**

3-lines model ensuring multi-level protection

- clarifies **roles and responsibilities**
- clearly distinguishes between
 - 1st-line business & risk responsibility
 - 2nd line focus on standards & monitoring
 - 3rd line Independent and objective assurance (Audit)

Example - adaptive Compliance meets environmental topics

Environmental

Reflect on existing structures for **Environmental** Topics

- ... in our **products**
- ... in our **production sites etc.**
- ... **in special cases**

→ Clarify if current model is a **future-oriented approach** for Environmental topics

Adaptive Compliance

Adaptive Compliance can drive ESG by developing a **process-focused** approach

- ... ensuring consideration of **ESG-related topics** in **company decisions**
- ... building-up of **tracking procedures** on ESG topics

Standardized risk criteria to evaluate necessity of an overarching approach for Environmental

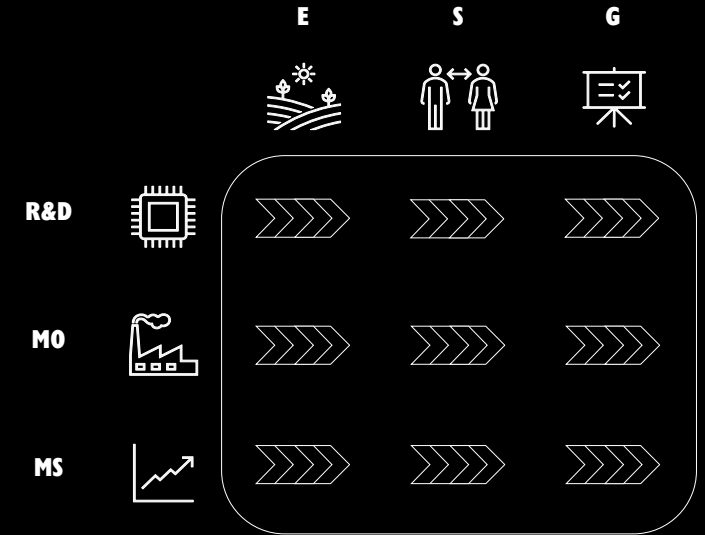
&

3-lines model to anchor responsibilities

Anchoring ESG in the core of Mercedes-Benz business processes is key for using adaptive Compliance as success factor.



Environmental **S**ocial **G**overnance



The approach of an adaptive Compliance can also enable anchoring ESG in company's core processes

Implementing ESG topics into a company by looking behind the three letters

Step 1: Collect all topics, that can be linked to E, S & G

Emissions
Corporate Governance
Climate Protection
Data Protection
Working Conditions
Human Rights
Supplier Management
Accounting
Natural resources
Finance
Product Safety

Step 2: Structure topics by building systemized clusters

E Environmental effects of our production sites
Natural resources & Resource Preservation
....

S Working Conditions
Human Rights
...

G Corporate Governance
Corporate Governance
....

Step 3: Stocktake to determine if topics are already covered

Screening of ESG shows ...

- topics are already covered
- topics are not or not fully covered (“white spots”)

Exemplary next steps:

- If topics need a **general reflection on systemic approach** e.g., environmental sphere
→ **adaptive compliance approach**
- If **topics are already covered** e.g., Human Rights
→ add missing piece of the puzzle: reporting

Example - labor related topics established already before launch of LkSG - Compliance as the proactive driver

LkSG is also addressing requirements regarding labor practices in own entities and supply chains

Before 2023

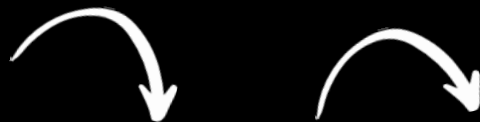
- ✓ Principles on Social Responsibility and Human Rights describe MB commitment to respect human rights (Human Rights Respect System)
- ✓ Labor rights / labor practices already integral part of central and local HR processes as well as part of related policies.
- ✓ Management of related processes in local entities in line with local law supported by respective HR headquarter functions.

Since 2023 | Launch of LkSG

- ✓ LkSG describes labor rights / labor practices as part of human rights due diligence.
- ✓ Sharpened roles & responsibilities to manage existing processes and measures (abstract & concrete risk assessment | preventive measures | reporting duties).
- ✓ Management of labor practices in own entities task of existing (HR-) organization (1st line). Compliance department with controlling and overarching steering. CCO is also Group Human Rights Officer (2nd line).



Commitment to Human Rights



New Regulatory Requirement



Sharpened internal roles & responsibilities



- Labor practices are not a new topic.
- By launching the LkSG, regulatory requirements have been specified. Existing commitments have been translated into **internal human rights due diligence policy with sharpened internal roles & responsibilities**

Steering and reporting requirements for labor practices

Focus „Steering“

- „Steering“ components of labor related topics are embedded in our Principles on Social Responsibility & Human Rights as well as corporate policies.
- Guidance through Social Compliance Measure Set to ensure a local application in our entities.
- Training formats support awareness raising for different target groups



Grundsatzklärung für soziale Verantwortung und Menschenrechte



Focus „Reporting“

- Consideration of labor related topics in course of initial BAFA report
- Coordination by CoC Social Compliance (2nd Line) in close collaboration with HR headquarter department (1st Line)



Steering & reporting processes justify a consideration of labor rights as part of human rights **in the 3 LoD model.**

The Three Lines Modell leads us in managing Compliance as well as ESG

1st Line

Operational Risk Management

- Operating business units
- Managing risk in daily business

2nd Line

Standards & Monitoring

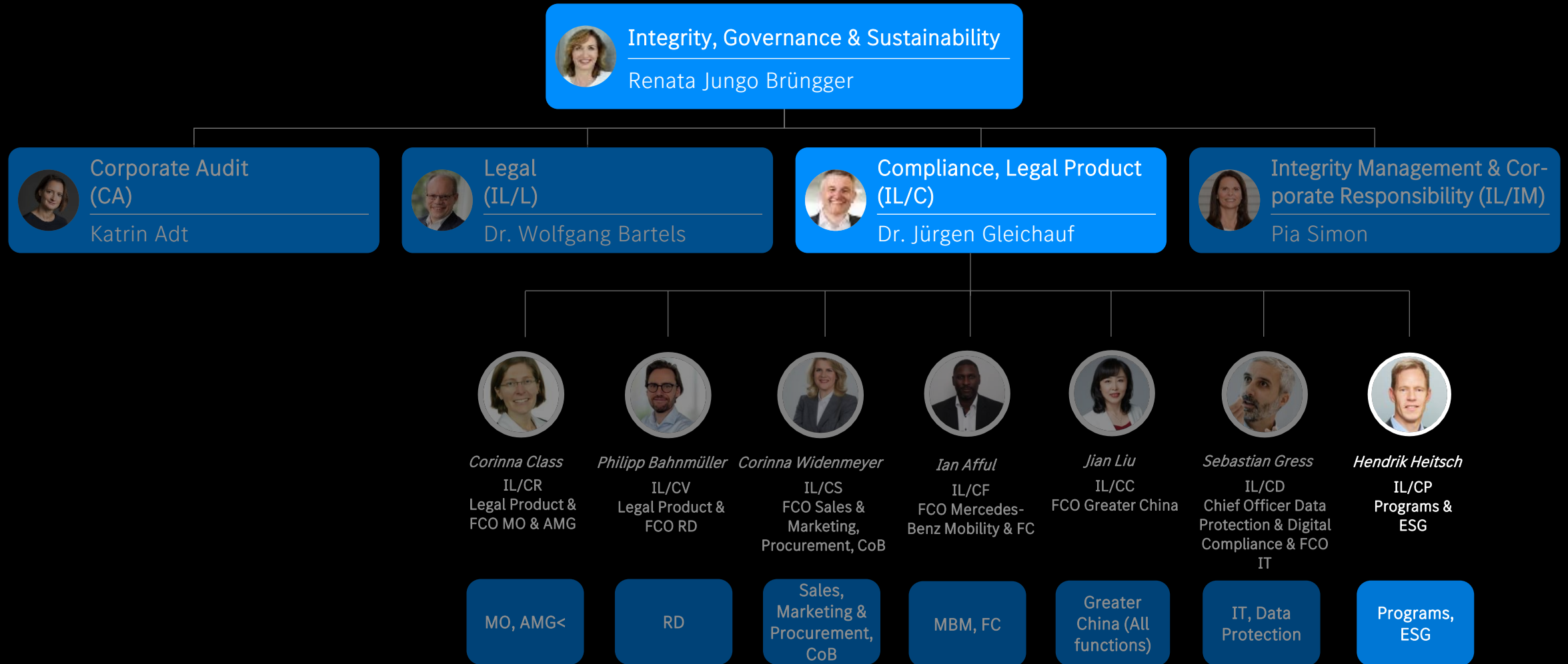
- Compliance experts and support (e.g., anti-corruption, technical Compliance, antitrust) on risk-based approach
- Monitor and advise on risk-related matters

3rd Line

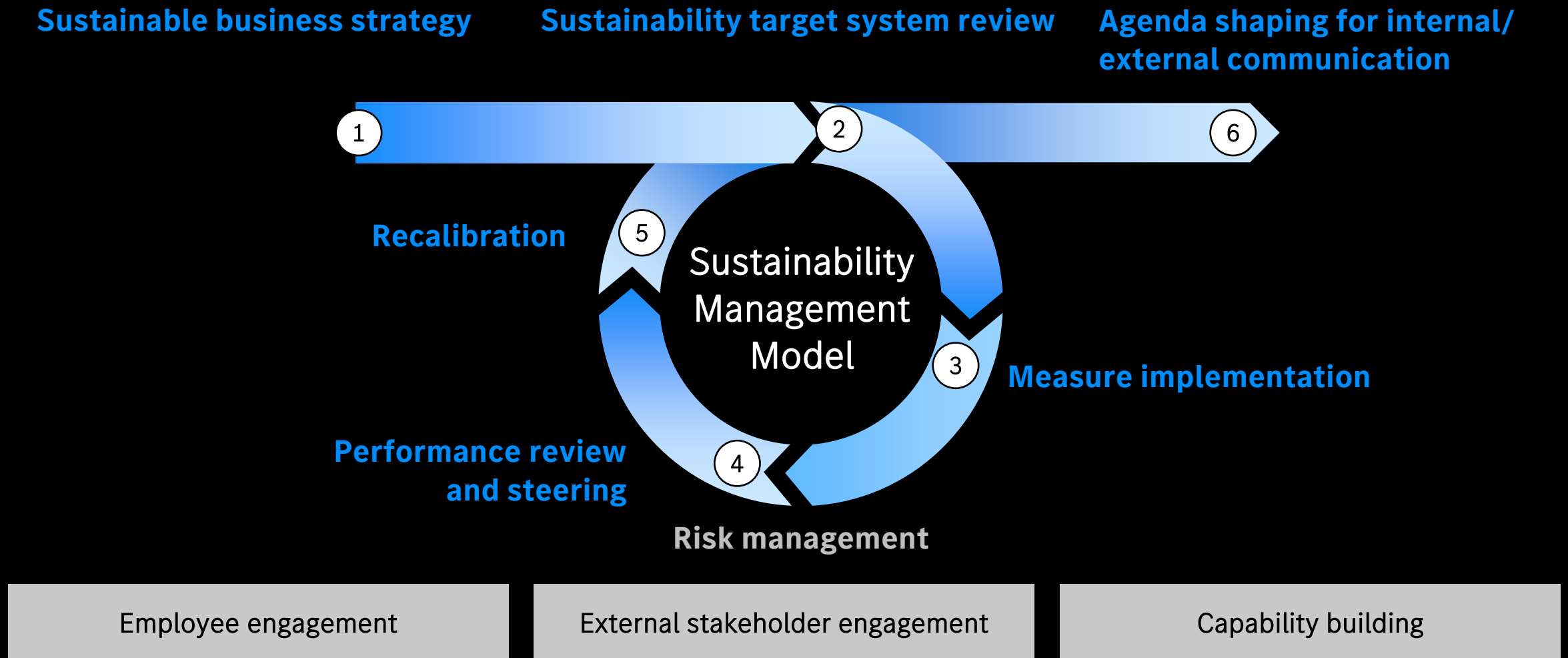
Independent Audit

- Independent and objective assurance

Integrating ESG into operational business - Mercedes has a central coordination function on board level

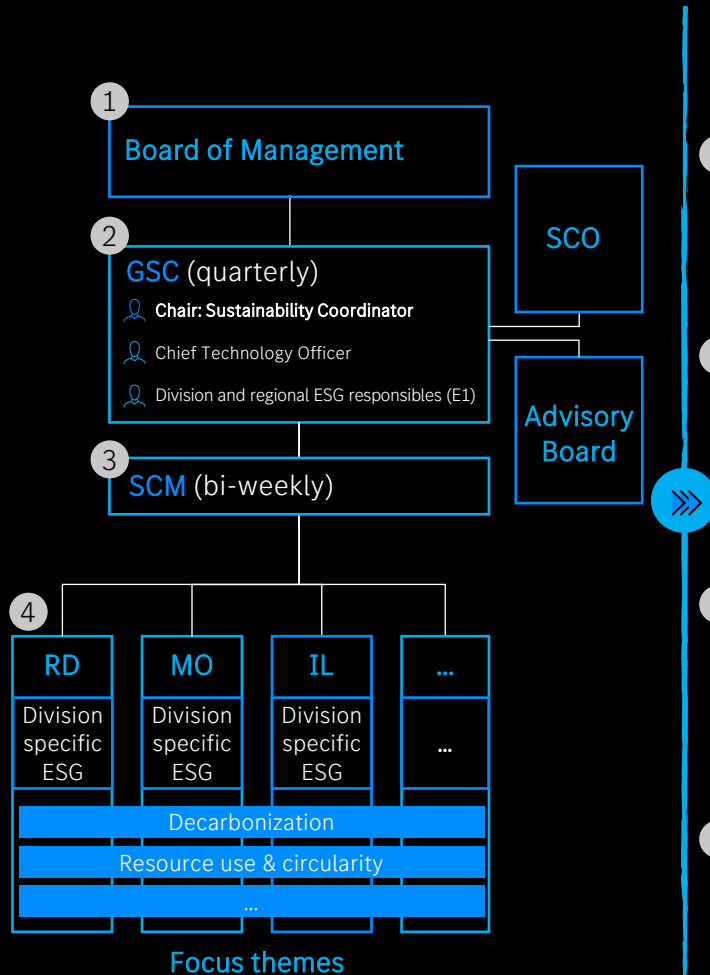


Our Sustainability Management Model ensures stringent operationalization and target oriented implementation of the sustainability strategy

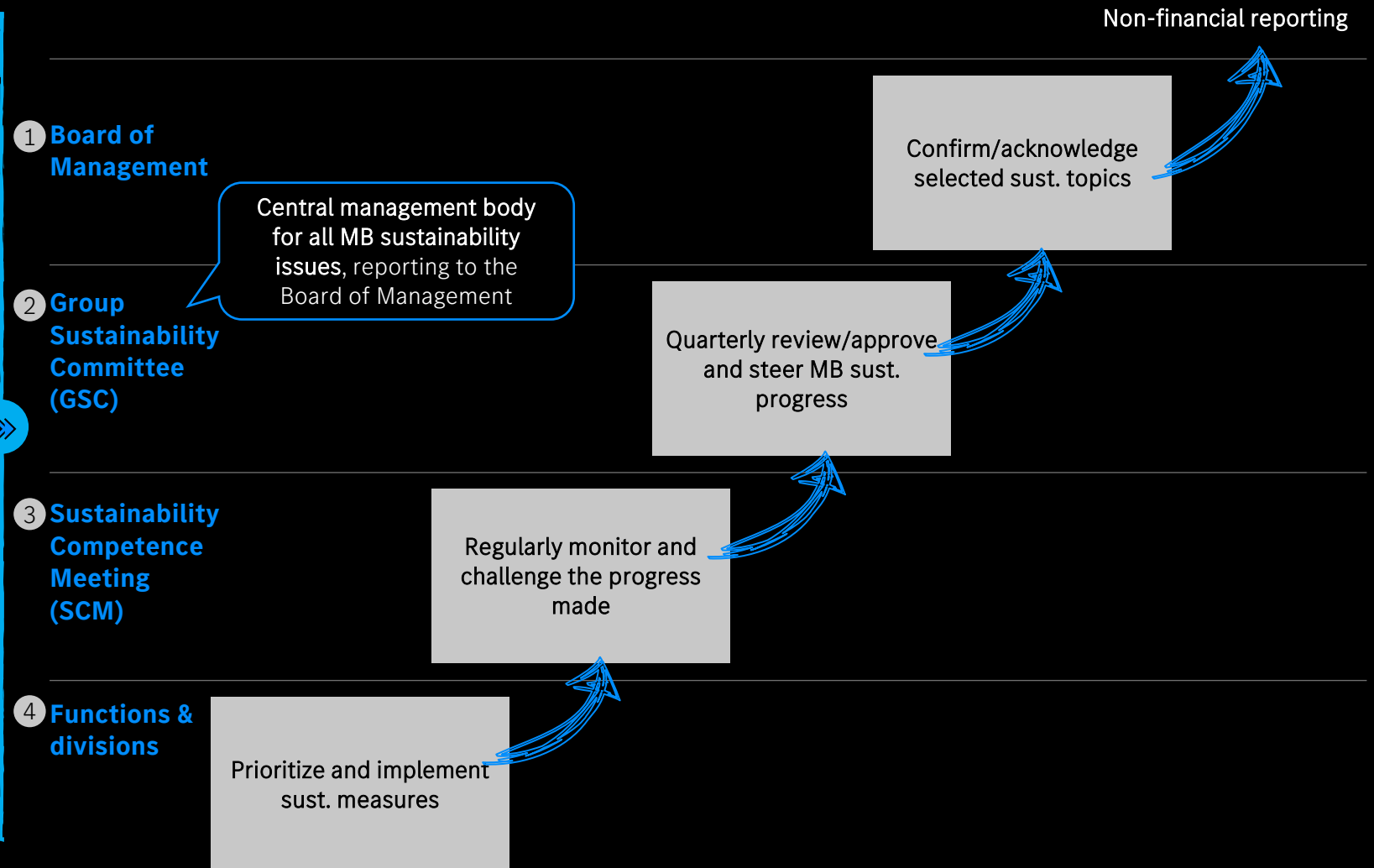


Clear sustainability steering cascade and committee structure within MB established

Sustainability committees

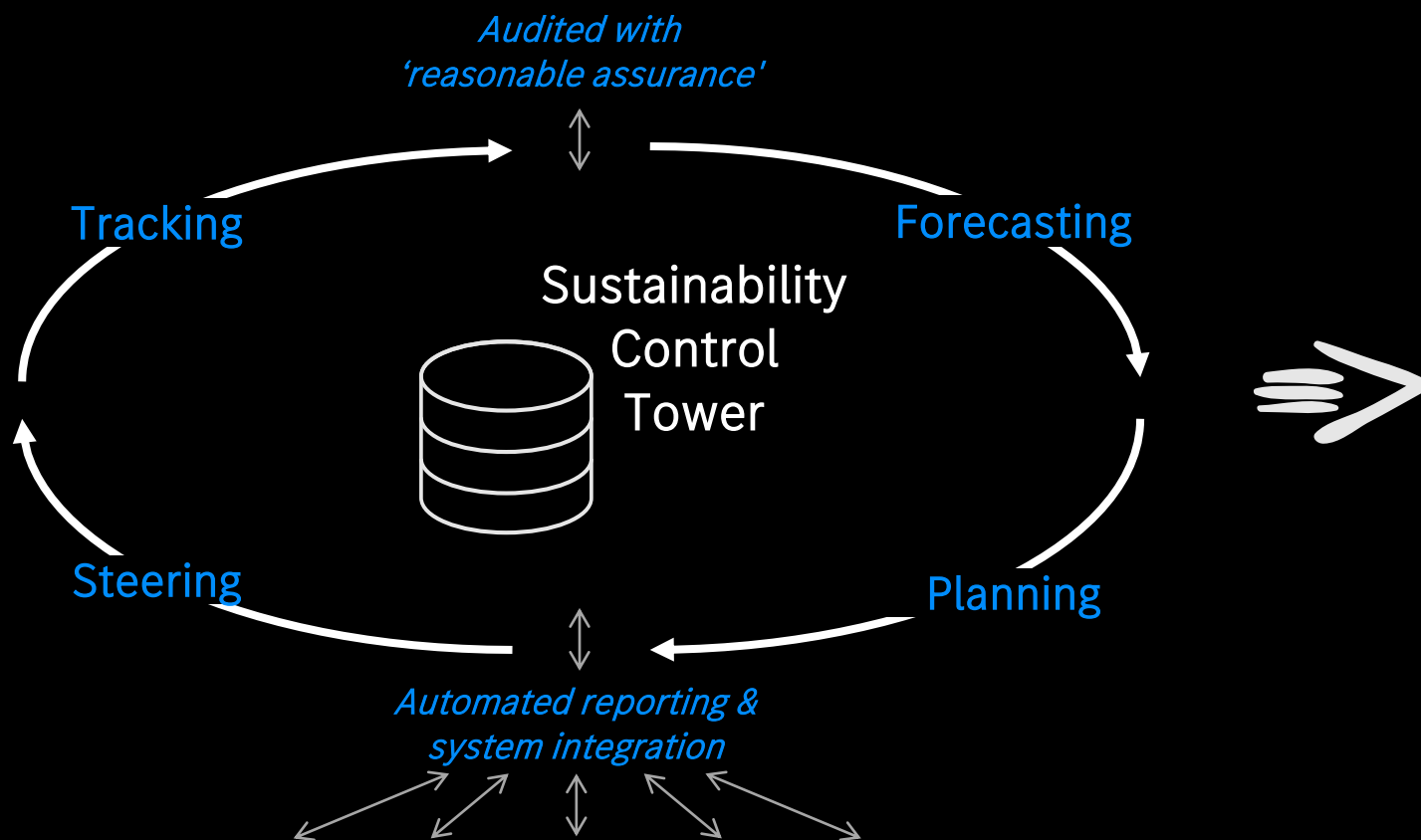


Sustainability steering cascade



The Sustainability Control Tower as the data center and single source of truth of the Sustainability Management Model

Sustainability Control Tower in the center of the Sustainability Management Model



Outputs/benefits

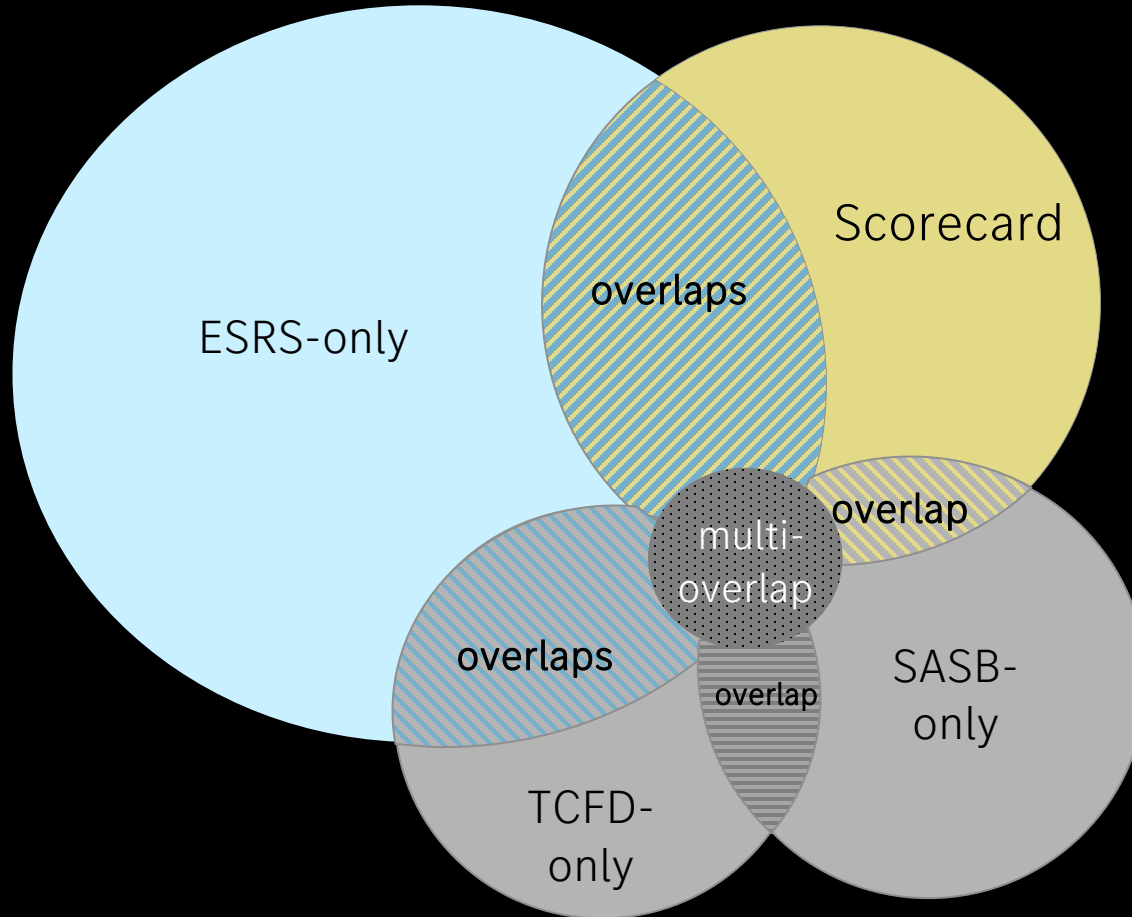
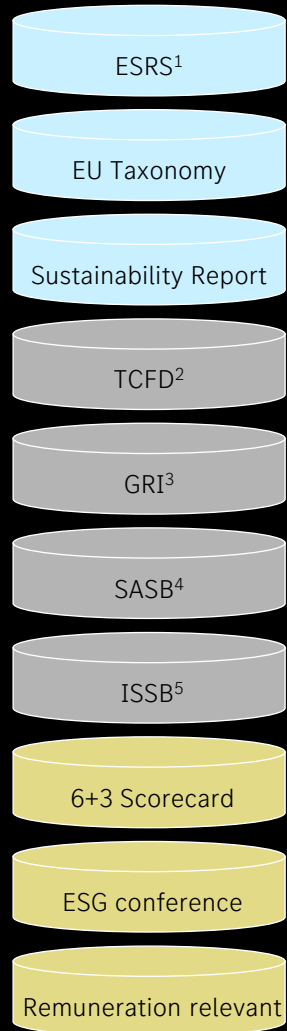
- ✓ Non-financial reporting
- ✓ ESG Steering for internal committees
- ✓ Scalability of tech and reuse
- ✓ Reduce redundant requests with single source of audited ESG data

Untangling the Web of Sustainability Standards: ESRS in Focus

>840 data points

Potential internal/ external reporting scope

ILLUSTRATIVE



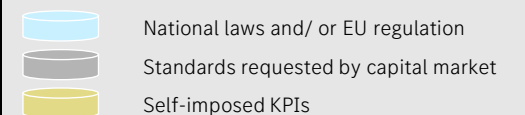
¹ESRS – European Sustainability Reporting Standards
²TCFD: Task Force on Climate Related Financial Disclosures
³GRI: Global Reporting Initiative
⁴SASB: Sustainability Accounting Standards Board
⁵ISSB: International Sustainability Standards Board (Im Kontext IFRS)

Approach and progress towards target picture

Compiled longlist of >840 data points incl. EU annual reporting requirements ✓

Reduction of KPI longlist towards necessary reporting scope for 2024 ✓

Mapped potential use cases and internal/external stakeholder needs ✓



Headlights on for our ongoing and never-ending ride
towards sustainable governance.

