

# SUSTAINABILITY REPORT 2019

# INTRODUCTION

At Magna International Inc. (“Magna”), we recognize the reality of climate change and its impact on our planet. As a result, we are focused on doing the right things today so that our corporate interests do not come at the expense of the viability of life for the generations that follow.

Our approach to sustainable value creation involves:

- designing, engineering, manufacturing and delivering innovative product solutions for our customers, which achieve shared goals of reduced weight, lower fuel consumption and reduced carbon emissions;
- optimizing and innovating our manufacturing processes for resource and input efficiency, as well as product quality;
- enhancing the energy efficiency of our plants to reduce greenhouse gas emissions;
- exploring opportunities to transition to renewable energy;
- treating our employees fairly; and
- serving as a good community partner, particularly in the communities in which our employees live and work.

This Sustainability Report aims to provide our stakeholders with a better understanding of how we approach the creation of sustainable, long-term value and our management of sustainability-related risks. The report has been structured to align with the Task Force on Climate-related Financial Disclosures (“TCFD”) framework, as well as the Sustainability Accounting Standards Board’s (“SASB”) Auto Parts accounting standard, where possible. We recognize that the report may not currently provide stakeholders with all of the information sought through such frameworks; however, we intend to evolve and enhance our disclosure as our collection and validation of the applicable data improves.

Although the TCFD and SASB Auto Parts frameworks primarily address climate-related factors, this Sustainability Report aims to go beyond such items to give stakeholders a better understanding of the broad range of initiatives that define our approach to sustainable value creation.

## 1. SUSTAINABILITY GOVERNANCE AT MAGNA

### 1.1 BOARD OVERSIGHT

Magna’s Board of Directors (the “Board”) is the company’s highest decision-making body, except to the extent certain rights have been reserved for shareholders under applicable law or Magna’s articles of incorporation or by-laws. As such, the Board is responsible for the overall stewardship of the company by: supervising the management of the business and affairs of Magna in accordance with the legal requirements set out in applicable company law (*Business Corporations Act* (Ontario)), as well as other applicable law; and, jointly with Management, seeking to create long-term shareholder value. The Board operates under a written Board Charter, in addition to applicable law, our articles of incorporation and by-laws. The Board Charter has been filed on SEDAR and is available in the Leadership & Governance section of Magna’s website ([www.magna.com](http://www.magna.com)).

The Board carries out its duties in part through standing committees composed solely of independent directors. One such committee, the Corporate Governance, Compensation and Nominating Committee (“CGCNC”), supports the Board’s oversight of the company’s approach to sustainability, including by assessing Magna’s overall approach, environmental compliance, occupational health and safety, as well as Magna’s actions to identify, monitor and mitigate any material risk exposures relating to such areas.

#### 1.1.1 CGCNC Role

Like the Board, the CGCNC maintains a written charter which outlines its specific roles and responsibilities. The CGCNC Charter has been filed on SEDAR and is available in the Leadership & Governance section of Magna’s website ([www.magna.com](http://www.magna.com)). Specific matters under the CGCNC’s responsibility include: corporate governance, sustainability, talent management and other matters. The scope of the CGCNC’s oversight role with respect to sustainability includes climate-related issues generally, as well as related elements such as environmental management and compliance. As Magna defines “sustainability” in a broad and inclusive manner to include areas that go beyond climate-related issues, the CGCNC’s role also extends to matters such as occupational health and safety, diversity and inclusion, as well as corporate social responsibility. The CGCNC periodically reviews Magna’s policies, practices and public disclosures relating to sustainability topics, including this Sustainability Report.

#### 1.1.2 Other Board Committees

In addition to the CGCNC, the Board maintains two other standing committees – the Audit Committee and the Technology Committee. While neither of these committees have specific sustainability responsibilities, each may have a role with respect to sustainability risks and opportunities that arise indirectly out of the committee’s primary role and responsibilities.

Magna’s Audit Committee supports the Board through its oversight of financial and audit-related matters, including financial risks and disclosures. To the extent that climate-related or other sustainability risks are or could be financially material, the Audit Committee would be involved through its consideration of the financial statement or other disclosure of the nature and scale of the risk.

The Technology Committee supports the Board by advising it on technology trends, related opportunities and risks, R&D and innovation, as well as the alignment between the company's technology and its strategic priorities. As such, the scope of the Technology Committee's role would include products and processes that seek to realize opportunities created by climate-related challenges.

## 1.2 MANAGEMENT

Magna's Chief Executive Officer acts as Magna's highest management "champion" for sustainability issues, periodically receives updates on the company's sustainability program and personally provides guidance on the scope and direction of the company's sustainability initiatives.

Day-to-day management of Magna's climate-related sustainability program is handled by cross-functional teams from across the company. Strategic direction is managed by a steering committee consisting of representatives from Executive Management together with the company's Operational Improvement, Environmental, Corporate Secretarial, Finance, Human Resources, and Communications functions. Representatives from other functional areas such as Investor Relations, Global Risk Management, Enterprise Risk Management, Treasury, Legal, Compliance and Purchasing are involved as needed on applicable topics.

Within the broader context of the company's overall sustainability framework, representatives from our Operating Groups and Divisions are responsible for identifying, prioritizing and implementing energy, water and waste management reduction initiatives. Support for these energy management initiatives is provided by a global Energy Team which works with energy management champions within Divisions to identify and implement high-priority projects, as well as to share case studies and best practices across the company. Operating Group management is also responsible for development of product strategies to address megatrends, industry trends, business opportunities and risks, including those which arise due to climate-related challenges.

Aspects of sustainability beyond climate-change concerns are typically managed through a matrix structure in which corporate-wide functions support initiatives implemented or managed by Operating Groups and Divisions. Examples of functional areas managed in this manner include: environmental management and compliance; occupational health and safety; quality and operational improvement; talent management, including diversity and inclusion; cybersecurity; data privacy; as well as supply chain.

## 2. CLIMATE-RELATED RISKS

In order to fully understand the risks set out below, you should also carefully consider the risk factors set out in "Section 5 – Risk Factors" in our Annual Information Form dated March 27, 2020 (the "AIF"), which is incorporated by reference into this Sustainability Report.

### 2.1 TRANSITION RISKS

#### 2.1.1 Policy Actions

Applicable near-term policy actions related to climate change generally fall into one of the following categories, both of which may have an indirect effect on Magna:

- **Average Fleet Emissions or Fuel Efficiency Regulations:** governments in key auto producing regions are tightening average vehicle fleet emissions or fuel efficiency targets. Examples include strict CO<sub>2</sub> emissions targets for new vehicles, such as in the E.U., as well as CO<sub>2</sub> and particulate emissions regulations in China. While the U.S. maintains corporate average fuel efficiency requirements for new vehicles, the current U.S. administration has taken steps which would rollback higher fuel efficiency standards set under the prior administration, and eliminate the right of states like California to set more stringent requirements than the federal standard.

E.U. regulations generally require OEMs to achieve E.U. fleet-wide average emissions of 95g CO<sub>2</sub>/km by 2021, which corresponds to 4.1 litres/100 km of gas or 3.6 litres/100 km of diesel. Vehicle manufacturers with an average fleet economy in excess of the target must pay an excess emissions penalty for each vehicle registered within the E.U. commencing in 2021. The penalties which will be levied on non-compliant OEMs will likely be passed on to vehicle-buying consumers, which could impact demand for such vehicles and thus demand for Magna products supplied for such programs. To the extent that our selling price for such products includes a piece-price recovery for design, engineering, tooling or other pre-production costs, there is a risk that we fail to recover all such costs incurred, or to recover them within the time frame we expect.

Additionally, E.U. regulations contain incentives aimed at promoting the development of zero and low emissions vehicles ("ZLEVs"). The CO<sub>2</sub> emissions targets applying to any particular OEM will be relaxed if its share of ZLEVs registered within the E.U. in any year exceeds 15% from 2025 onwards, and 35% from 2030 onwards.

In China, the implementation of the stringent China VI emissions regulations commencing July 1, 2020, has affected consumer demand for vehicles, or powertrain options for vehicles, which will not meet the new emissions standard. For example, in 2019, one of our equity-accounted joint ventures in China experienced a significant drop in demand for one transmission model supplied to a Chinese OEM. One of the factors underlying the drop in demand was the fact that the transmission would not have met the China VI standard, had it been in effect. The deterioration in the business of the joint venture as a result of the reduced demand was one of the factors which led to the impairment charges recorded against the company's investment in the joint venture in 2019.

The tightening emissions standards in the European Union and China are intended to promote the transition to ZLEVs. OEMs have been spending significant sums in R&D in order to meet the higher regulatory standards. Although production of ZLEVs is accelerating due to regulatory requirements, consumer acceptance of such vehicles remains uncertain. To the extent that ZLEVs do not sell at the levels expected, production volumes may need to be cut. Lower than forecast production poses a risk to our ability to recover pre-production expenses amortized in the piece-price of our product, as discussed above.

- **Vehicle Restrictions in Congested Urban Centres:** municipal governments in a number of cities around the world have introduced restrictions on personal-use vehicles in congested urban centres, in an effort to reduce CO<sub>2</sub> emissions and improve urban air quality. Examples of the types of restrictions include: car-free zones; toll charges; and use restrictions by license plate. Continued expansion of such initiatives could reduce the demand for personal-use vehicles, which could affect our profitability.

We attempt to mitigate applicable policy risks relating to climate change-related regulation in a number of ways, including:

- monitoring and evaluating global regulatory developments;
- early-stage interaction with our OEM customers to understand their product priorities and regulatory compliance requirements;
- in-house R&D, combined with private equity and venture capital investment strategies in technological start-ups; and
- strategic planning processes at both Operating Group and Corporate levels, including Board oversight of strategic plans.

In terms of direct policy actions affecting our operations, we anticipate continued strengthening of environmental regulations related to discharge of pollutants to air, water and ground. We currently face strict environmental regulations in the countries where we operate and have developed a global environmental management program in order to comply with or exceed regulatory standards. Our environmental management program is regularly updated to address changing environmental laws and regulations. Refer to “Section 4.1 – Environmental Responsibility & Stewardship” in this Sustainability Report for a description of the program.

In considering the potential impact of the above or other climate-related policy actions, readers are encouraged to review the following risk factors in “Section 5 – Risk Factors” in our AIF:

- Regional Volume Declines
- Consumer Take Rate Shifts
- Impairments
- Changes in Laws
- Market Shifts
- Customer Purchase Orders
- Customer Pricing Pressure
- Environmental Compliance

Over the medium- to long-term, carbon pricing initiatives may present a risk to our profitability. According to the World Bank, in 2019 there were 58 carbon pricing initiatives implemented or scheduled for implementation in 46 countries and 31 sub-national jurisdictions, which would cover emissions representing 20.1% of global GHG emissions. We are pursuing energy reduction measures and exploring carbon neutrality strategies for our manufacturing facilities to minimize our emissions and our carbon footprint. However, over the medium- to long-term, carbon pricing initiatives could affect our profitability to the extent we are unable to implement cost-saving or energy reduction measures within a timeframe and/or at a cost which enables us to offset or avoid the cost of carbon pricing initiatives.

### 2.1.2 Climate-Related Litigation

We do not currently believe that climate-change related litigation represents a significant legal risk for us. However, if OEMs are adversely impacted by climate-change litigation, there is a possibility that Tier 1 automotive suppliers like Magna could face additional pricing pressure. Readers are encouraged to review the “Customer Pricing Pressure” risk factor in “Section 5 – Risk Factors” in our AIF.

### 2.1.3 Technology

Investments in automotive technologies that support the transition to ZLEVs can be significant, particularly in product areas such as battery systems for hybrid and electric vehicles. While our product strategy does not currently include battery systems or other components which generate or store energy for ZLEVs, we currently offer a range of transmission products, including manual transmissions (“MTs”), automatic dual-clutch transmissions (“DCTs”), hybrid dual-clutch transmissions (“HDTs”), dedicated hybrid transmissions (“DHTs”), as well as electric-drive (“e-Drive”) systems. Our R&D spending for electrified powertrain solutions has been significant over the last few years and could continue to be in coming years as automotive powertrain technologies continue to evolve. Additionally, our OEM customers are making significant investments in the development of ZLEVs, which is impacting their profitability and could lead to increased pricing pressure on us.

As ZLEVs increase their proportion of the overall vehicle market over the medium- to long-term, we expect our sales of MTs and traditional DCTs to decline, and sales of HDTs, DHTs and e-Drive systems to increase. We experienced a more rapid than expected deterioration in sales of MTs by equity accounted joint ventures in Europe and China, which was one of the factors that led to the impairment charges recorded against the company’s investment in such joint ventures in 2019. While we do not foresee a decline in demand for traditional DCTs in the near-term, we do expect a continued transition away from MTs in such timeframe.

We are one of the leading suppliers of mechanical all-wheel drive (“AWD”) and four-wheel drive systems (“4WD”). The increasing adoption of electrified powertrain solutions could adversely impact our AWD business over the medium- to long-term, since it is possible to achieve AWD through the use of electric motors in hybrid or fully-electrified drivetrains. We seek to offset displacement of mechanical systems through increased sales of electrified product offerings such as e-Drive systems.

Overall, we believe that the range of powertrain products we offer our OEM customers provides us with a competitive advantage and an effective hedge against the market uncertainties associated with the transition to ZLEVs. Additionally, we view the know-how gained from our mechanical powertrain expertise as being critical to our ability to deliver innovative electrified solutions that meet our customers' needs. In addition to continuing to offer a range of mechanical and electrified powertrain products, we aim to mitigate technology transition risks through:

- early-stage interaction with our OEM customers to understand their product priorities and regulatory compliance requirements;
- in-house R&D, combined with private equity and venture capital investment strategies in technological start-ups; and
- strategic planning processes at both Operating Group and Corporate levels, including Board oversight of strategic plans.

We do not currently foresee any adverse impact from technology transition towards electrified products for our other Operating Groups, since the products made by them are neutral as to the vehicle's energy source.

In considering the potential impact of the above or other climate-related policy actions, readers are encouraged to review the following risk factors in "Section 5 – Risk Factors" in our AIF:

- Intense Competition
- Consumer "Take Rate" Shifts
- Customer Purchase Orders
- Restructuring Costs
- Technology and Innovation
- Changes in Laws
- Market Shifts
- Dependence on Outsourcing
- Impairments
- Customer Pricing Pressure
- Private Equity Investments in Technology Companies

#### 2.1.4 Market

Some of the risks impacting the market for our products in the transition to a lower carbon economy are described above under "Section 2.1.1 – Policy Actions" and "Section 2.1.3 – Technology". Additionally, there are potential risks to the demand for personal mobility vehicles, and thus for our products, from technology-driven shared mobility solutions such as ride hailing and ride sharing. To date, such shared mobility solutions have not had a material impact on the demand for new vehicles and no such adverse effect is expected in the near- to medium-term. While, the longer-term impact is difficult to assess, we aim to mitigate the risk to our business from shared mobility solutions and new mobility market entrants through our own product and investment strategies aimed at the "mobility-as-a-service" market, as discussed under "Section 4 – Our Business & Strategy" in our AIF.

Additionally, in order to enhance our understanding of potential shifts in consumer behavior, we conduct our own analysis of various factors that are expected to drive future personal and shared mobility trends, including through:

- monitoring and analysis of social, digital, demographic, regulatory, industry and other trends which may create demand for and drive development of new automotive and mobility technologies;
- review of academic research;
- collection and screening of ideas submitted through innovation programs; and
- early-stage interaction with our OEM customers and new mobility market entrants to understand their product priorities.

We do not currently anticipate supply constraints on commodities required by us in our business, including steel, aluminum or resin. In the near- and medium-term, the increasing production of ZLEVs may strain supplies of the rare earth minerals required for vehicle battery systems, which we do not supply. However, such supply constraints could help spur the development of alternative battery technologies and/or promote technological breakthroughs that could facilitate wide-scale market penetration of hydrogen fuel cell technology. We intend to continue developing and offering solutions such as e-Drive systems which are neutral as to electric power source (battery or hydrogen fuel cell stack) in order to mitigate potential risks related to supply constraints of rare earth minerals or other commodities needed for current ZLEV power source technologies.

In considering the potential impact of market risks, readers are encouraged to review the following risk factors in "Section 5 – Risk Factors" in our AIF:

- Intense Competition
- Consumer "Take Rate" Shifts
- Quote/Pricing Assumptions
- Technology and Innovation
- Market Shifts
- Dependence on Outsourcing
- Customer Pricing Pressure
- Private Equity Investments in Technology Companies

#### 2.1.5 Reputation

While passenger vehicles are contributors to climate change, we do not believe that the automotive industry as a whole carries a negative reputation. OEMs and Tier 1 Suppliers have been proactively adapting to climate change and transitioning to a lower carbon economy, as evidenced by the significant spending on R&D and technological innovation to reduce CO<sub>2</sub> emissions, particularly through electrification and powertrain efficiency. At the same time, particular OEMs may be viewed as more or less sustainable based on their sustainability strategies

and commitment to transitioning to a lower-carbon economy. Equally, particular vehicle models or even entire vehicle segments may be perceived to be more or less sustainable. As a supplier of a broad range of systems to the major North American and European OEMs, as well as a number of the Chinese OEMs, we do not anticipate any consequences to our reputation by virtue of the fact that we may supply to any particular OEM, vehicle or vehicle segment. In any event, we believe that our R&D and technological innovation, which is focused on lightweighting, improved fuel economy and lower emissions, together with our sustainability strategy serve to mitigate potential reputational risks.

## 2.2 PHYSICAL RISKS

### 2.2.1 Acute

Climate change is associated with increased frequency and severity of extreme weather events. Such events could, from time to time, cause significant or even catastrophic damage to our or our sub-suppliers' facilities. While the potential for property damage and business interruption would be a concern in such an acute climate event, our primary concern would be for the safety and well-being of our employees.

We maintain a global property risk control program to support our efforts to mitigate risks to our employees' safety, physical property risks and potential for business interruption due to extreme weather events, including hurricanes, tornadoes, flooding and earthquakes. The program, which includes risk engineering with support from a third party property risk engineering consulting firm, includes the following elements to promote the physical resiliency of our facilities and minimize the risk of disruption to our operations: pre-screening of facility site selection; acquisition risk assessments; periodic facility inspections; facility construction design review and recommendations; and training and education. In addition, the program extends the risk assessment to our direct suppliers by identifying and evaluating potential exposures to our direct supply chain (including natural hazards) which could disrupt business operations. Where such supply chain exposures are identified, a more detailed assessment may be performed to better understand the supply chain risk, including further on-site assessment, where practicable.

In considering the potential impact of market risks, readers are encouraged to review the following risk factors in "Section 5 – Risk Factors" in our AIF:

- Supply Disruptions
- Legal and Regulatory Proceedings
- Climate Change Risks

An extreme weather event that damages any of our manufacturing Divisions and results in injuries or fatalities among employees at such Division could have a material adverse effect on our reputation and could result in legal claims being brought against us.

Climate change considerations may impact the availability of and premiums for insurance coverage in general, and in particular, for properties in high-risk locations. Additionally, we may need to self-insure a higher level of risk, which could result in a material adverse effect on profitability in the event of an extreme weather event which causes significant or catastrophic damage to one or more of our facilities.

### 2.2.2 Chronic

As part of our property risk control program, we have retained an advisor to map our global footprint against identified earthquake zones, wind exposed/hurricane zones and flood exposed zones in order to assist us with footprint planning, as well as our understanding of, and efforts to address, potential risks associated with such types of natural catastrophes. This footprint mapping exercise provides the following conclusions:

- **Property Risk Concentrations:** There are nine geographic regions (in Austria, Canada, Germany, Mexico and the U.S.) in which we have concentrations of property/asset risk, meaning multiple locations within a 35 km radius, and comprising 46.3% of the total insured value ("TIV") under our property risk program. All of the regions of concentrated property/asset value are considered to be "Low" seismic hazard zones and are not exposed to tropical cyclones.
- **Seismic Zones:** We have operations in Turkey, Taiwan, Japan, Italy, U.S., Romania, China and Mexico comprising 3.1% of the TIV under our property risk program, which are located in regions of "Moderately High" or greater seismic hazard. None of our operations are in regions where the seismic hazard is considered "Extreme".

- **Tropical Cyclone Zones:** Operations in certain parts of Mexico, Taiwan, Japan, China, India and Korea comprising 6.6% of the TIV under our property risk program are located in hurricane risk Zone 1 to Zone 5, as per Munich Re's Natural Hazards Assessment Network (NATHAN) categorization. TIV by Tropical Cyclone Zones are as follows:

Munich Re (NATHAN) Tropical Cyclone Zone	Proportion of TIV (%)
Zone 5: > 300 km/h	0.01%
Zone 4: 252-300 km/h	<0.01%
Zone 3: 213-251 km/h	0.51%
Zone 2: 185-212 km/h	1.30%
Zone 1: 142-184 km/h	4.80%
Zone 0: 76-141 km/h	12.95%
No hazard	80.43%

- **Flood Zones:** Flood risk is typically categorized as 50-year, 100-year, 200-year and 500-year flood risks. Definitions of these categories and the proportion by TIV of our facilities that fall within a five kilometer radius for each category are as follows:

Category	Flood Probability	Proportion of TIV within 5 km Radius
50 year	1 in 50 (2%) chance of occurring in a year	0.13%
100 year	1 in 100 (1%) chance of occurring in a year	<0.01%
200 year	1 in 200 (0.5%) chance of occurring in a year	0.04%
500 year	1 in 500 (0.2%) chance of occurring in a year	0.16%

Climate change is associated with a rise in sea levels, which places properties located within a five kilometer radius of the current coastline at risk of coastal flooding. A total of 12 of our Divisions are located five kilometers or closer to a coastline and thus may be at higher risk from the effects of climate-change related sea rise:

No. of Divisions	Location(s)	Body of Water
3	Michigan, U.S.	Lake Michigan
1	Ohio, U.S.	Lake Erie
1	Ontario, Canada	Lake Ontario
2	Liverpool, U.K.	River Mersey
1	Bordeaux, France	Garonne River
1	Livorno, Italy	Ligurian Sea
1	Bari, Italy	Adriatic Sea
1	Hangzhou, China	East China Sea
1	Taizhou, China	East China Sea

In considering the potential impact of market risks, readers are encouraged to review the following risk factors in “Section 5 – Risk Factors” in our AIF:

- Supply Disruptions
- Climate Change Risks

Water scarcity is a chronic condition in a number of regions of the world, and it is expected to be amplified due to the effects of climate change. Some of our manufacturing Divisions are located in water scarce regions, primarily in Mexico. Although such operations are not significant water users, we seek to mitigate the impact of water scarcity through water reduction and re-use activities, including the use of treated wastewater for irrigation of green areas on site.

### 3. CLIMATE-RELATED OPPORTUNITIES

#### 3.1 RESOURCE EFFICIENCY

##### 3.1.1 Energy

Our aggregate global energy spend in 2019 amounted to approximately \$450 million, the vast majority of which was for electricity and, to a lesser extent, natural gas. As part of our sustainability and operational efficiency efforts, we are focused on optimizing energy use, which may result in savings in overall energy costs. However, as we continue to forecast growth in Sales and number of facilities over the medium-term, we anticipate that our aggregate energy consumption may increase. Accordingly, we are focused on becoming more energy efficient (measured by energy consumption relative to Sales, employee count or square footage of facility space) so that, at minimum, our rate of



increase in energy consumption slows. In connection with our efforts to promote energy efficiency, we are developing energy reduction targets for each of our Operating Groups.

Approximately 65% of our Divisions have active energy teams pursuing energy efficiency measures in their respective Divisions. These teams are supported at the corporate level by a Global Energy Management Team which helps identify and promote energy reduction initiatives, including through: training courses designed to promote strategies for reduced energy use; regional benchmarking sessions; regular communication through newsletters; an internal energy savings collaboration site; and best practice sharing.

Some of the incremental changes made by our Divisions to their facilities and processes to reduce our energy consumption and improve energy efficiency include:

- Installation of LED lighting;
- Equipment start-up/shut-down/idling procedures to achieve energy-savings during production downtimes;
- Compressed air leak identification and repair initiatives;
- Use of ceiling fans to blend air temperatures evenly within our operations;
- Computer-controlled utility and HVAC systems to allow for improved performance and energy reduction;
- Installation of energy monitoring systems;
- Door upgrades to reduce heat loss;
- High efficiency chiller and compressor upgrades;
- Integration of air economizers and heat recovery units into HVAC systems;
- Software-managed and occupancy-sensor-controlled lighting and energy efficient lighting retrofits;
- Use of solar panels at certain facilities;
- Recovery of waste heat from certain processes for use in other areas;
- Installation of variable frequency drives on motors and pumps; and
- Participation in energy savings and incentives programs offered by utilities providers in some jurisdictions in which we operate.

Our efforts to reduce energy consumption and operate facilities on a more energy efficient basis forms part of our formal MAFACT system – the primary operational assessment audit tool used to support our World Class Manufacturing initiative. The MAFACT system establishes World Class standards for achieving operational efficiencies, identifies benchmarks and promotes best practice sharing among Divisions in Magna. The integration of energy management elements into a core operational assessment tool such as MAFACT is intended to reinforce the importance of energy management throughout the organization and help realize potential cost savings.

### **3.1.2 Water & Waste**

We have implemented a 1.5% per year water reduction target, with the aim of reducing water use 15% by 2030, in each case referencing 2019 as the baseline year. While we are not a significant water user, achievement of water reductions would be expected to result in cost savings, potentially by offsetting (in whole or in part) any increase in the rates charged by applicable water utilities. Overall, we do not anticipate that any savings will be material.

In addition to the water reduction target, we have implemented a zero waste to landfill (“ZWTL”) target, with the aim of eliminating landfill-bound waste by 2022. Waste sent to landfill bears both an economic cost borne by us and an environmental cost borne by society as a whole. Although achievement of our ZWTL target will help reduce or eliminate the economic cost, we do not anticipate any such savings will be material.

### **3.1.3 Reducing CO<sub>2</sub> through Lean Logistics Management**

Magna has implemented a lean approach to materials management and logistics which aims to achieve synergies and efficiencies that reduce both costs and our environmental impact, including CO<sub>2</sub> emissions, energy use, water consumption and waste. As part of such approach, we conduct analyses at our facilities and those of certain sub-suppliers to determine complete processing times from the initial supplier stage to the final customer delivery stage. Weekly deliveries, internal warehouse procedures, interim transporting, external warehousing and monthly deliveries to customers are areas of particular focus. These analyses allow us to simplify our logistics processes and determine ways to reduce our CO<sub>2</sub> emissions.

## **3.2 ENERGY SOURCE**

Although we are exploring CO<sub>2</sub>-neutral/renewable energy sources, it is premature to determine whether we can achieve cost savings from implementation of such strategies. As the supply of renewable energy increases, utility rates for such energy may decline. At the same time, the significant investments being made in renewable energy capacity need to be recovered through utility rates and thus it may not be realistic to expect rates to decrease in the near-term unless supply exceeds demand. Similarly, self-generation of renewable energy through solar or wind generation at any of our facilities may not result in operating cost savings until the capital cost of the generating infrastructure has been recovered.



### 3.3 PRODUCTS AND SERVICES

Our product strategy, which is discussed in “Section 4 – Our Business & Strategy – Our Business Strategy” of our AIF, includes as a core element the supply of product solutions which support our customers’ objectives of increased fuel efficiency and reduced vehicle CO<sub>2</sub> emissions. Some of the elements of this strategy include:

- Lightweight products and materials;
- Efficient transmissions;
- Active aerodynamics;
- Powertrain electrification;
- Electric vehicles;
- MaaS; and
- Energy-efficient vehicle lighting.

### 3.4 MARKETS

The transition to a lower-carbon economy has provided, and is expected to continue to provide, opportunities to enter new product and service markets, in the categories discussed above under “3.3 Products and Services”, as well as “Section 4 – Our Business & Strategy – Our Business Strategy” of our AIF. The primary automotive production markets are China, Europe and North America, and the transition to a lower carbon economy is not expected to alter the primary markets in which we operate.

### 3.5 RESILIENCE

The automotive industry as a whole is investing in innovations aimed at adapting mobility products and service solutions to a lower carbon economy. The risk mitigation factors above in “Section 2 – Climate-Related Risks” and initiatives to realize opportunities discussed in this Section of the Sustainability Report, together with factors addressed in “Section 4 – Our Business & Strategy – Our Business Strategy” of our AIF, are expected to promote our ability to adapt and succeed through and in a lower carbon economy.

## 4. SUSTAINABILITY RISK MANAGEMENT

Magna maintains both top-down and bottom-up processes for identifying and assessing sustainability-related risks within the governance structure described in “Section 1 – Sustainability Governance at Magna” of this Sustainability Report. Risk management activities relating specifically to climate-change risks are described in “Section 2 – Climate-Related Risks” of this Sustainability Report. Risk management activities relating to the broader range of sustainability topics follow below.

### 4.1 ENVIRONMENTAL RESPONSIBILITY & STEWARDSHIP

**250+**

**FACILITIES ISO 14001  
CERTIFIED**

**37**

**FACILITIES ISO 50001  
CERTIFIED**

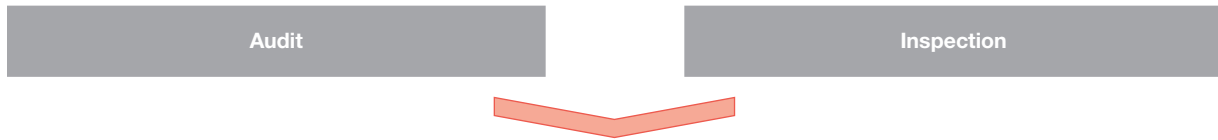
Magna strives to be an industry leader in health, safety and environmental practices in all operations through technological innovation and process efficiencies to minimize the impact of our operations on the environment and to provide safe and healthful working conditions. In furtherance of this objective, Magna’s Health, Safety and Environmental Policy (“HSE Policy”) commits to, among other things:

- complying with, and exceeding where reasonably possible, all applicable health, safety and environmental laws, regulations and conforming with our internal standards based on generally accepted environmental practices and industry codes of practice;
  - regularly evaluating and monitoring past and present business activities impacting on health, safety and environmental matters;
  - improving the efficient use of natural resources, including energy and water;
  - minimizing waste streams and emissions;
  - implementing effective recycling in manufacturing operations, in each case, through the use of locally set continuous improvement targets;
  - utilizing innovative design and engineering to reduce the environmental impact of our products during vehicle operation and at end of life;
- ensuring that a systematic review program is implemented and monitored at all times for each of our operations, with a goal of continuous improvement in health, safety and environmental matters; and
  - reporting to the Board at least annually.

The full text of the HSE Policy is located on Magna’s website ([www.magna.com](http://www.magna.com)).

#### 4.1.1 Environmental Compliance

Magna is subject to a wide range of environmental laws and regulations relating to emissions, soil and ground water quality, wastewater discharge, waste management and storage of hazardous substances. Magna maintains a global environmental program which consists of both internal and third party audits and inspections of our facilities for compliance with local regulations, internal corporate environmental requirements and industry best practices as detailed below:



#### Risk Assessment & Action Plan

- Each action item identified in an audit or inspection is assigned a risk score, with the risk scores of all action items combined to establish an overall environmental performance rating for the Division
- The Division is provided a report containing recommendations which are prioritized based on the level of risk identified in the risk assessment
- The Division is required to develop a corrective action plan to address the identified risk



#### Oversight, Performance Tracking & Reporting

- Magna's Environmental Department provides ongoing assistance to Division personnel in resolving action plan items, including by reviewing and approving action items that have been submitted to close-out indentified risks
- Audit/Inspection findings are also communicated to our Operating Group management to enhance oversight and commitment to resolving action items
- A performance review takes place quarterly with Operating Group management
- An escalation process is in place to deal with action items that are not being resolved on a timely basis, with additional environmental risk awareness training provided to the relevant Division, where necessary
- Magna's Environmental Department presents periodic environmental compliance updates to the CGCNC.

General environmental awareness training is provided to employees by Division management as well as the Corporate Environmental Department as part of ISO 14001 certification compliance. In addition, the Corporate Environmental Department holds regular conferences for representatives of our manufacturing facilities in order to:

- reinforce Magna's commitment to environmental responsibility;
- communicate changes in local and regional regulations; and
- share best practices with respect to environmental protection, compliance and sustainability initiatives.

#### 4.1.2 Hazardous Waste and Industrial Emissions

We operate a number of manufacturing facilities that use environmentally-sensitive processes and hazardous materials. We believe that all of these operations meet, in all material respects, applicable governmental standards for management of hazardous waste and industrial emissions. Occasionally our operations may receive a notice of violation or similar communication from local regulators during routine reviews. We have in the past and will continue in the future to address any such notices promptly.

## 4.2 FAIRNESS AND CONCERN FOR EMPLOYEES



### 4.2.1 Our Commitment to Magna Employees

We are committed to an operating philosophy based on fairness and concern for people. This philosophy is part of our “Fair Enterprise” culture in which employees and management share the responsibility to help ensure our success. Our Employee’s Charter, a foundational document in our business, sets out this philosophy through the following principles:

- Job Security – Being competitive by making a better product for a better price is the best way to enhance job security. We are committed to working together with our employees to help protect their job security, including through job counselling, training and employee assistance programs;
- A Safe and Healthful Workplace – We strive to provide our employees with a working environment that is safe and healthful;
- Fair Treatment – We offer equal opportunities based on an individual’s qualifications and performance, free from discrimination or favouritism;
- Competitive Wages and Benefits – We provide our employees with information which enables them to compare their total compensation, including wages and benefits, with those earned by employees of direct competitors and local companies with which an employee’s Division competes for labour. If total compensation is not competitive, it will be adjusted;
- Employee Equity and Profit Participation – We believe that our employees should share in the financial success of the company. Accordingly, a portion of profits are shared among participating employees in eligible divisions in the form of cash and/or Magna equity, helping to create an ‘owner’s mindset’ among employees and aligning them with shareholders;
- Communication and Information – Through regular monthly meetings between management and employees, continuous improvement meetings and through various publications and videos, we keep our employees informed about company and industry developments. We also conduct regular employee opinion surveys to help facilitate employee engagement and to

receive valuable feedback from employees to help drive continuous improvement; and

- Magna Hotline – Should any of our employees have a problem, or feel the foregoing principles are not being met, we encourage them to contact our confidential and anonymous employee hotline to register their complaint (“Magna Hotline”). We are committed to investigating and resolving all concerns or complaints received through the Magna Hotline and must report the outcome of all HR-related submissions to our Global Human Resources Department. As part of the Magna Hotline, we also maintain a confidential and anonymous whistle-blower hotline for employees and other stakeholders that is overseen by our Audit Committee. See Section 4.5 – “Corporate Ethics and Compliance” below for further details.

We maintain a Global Labour Standards Policy, which codifies our existing practices consistent with our Fair Enterprise culture and provides a framework for our commitment to fundamental human rights and international standards that help support positive labour relations. In particular, the Global Labour Standards Policy sets out key commitments with regard to:

- maintaining respectful work environments where our employees feel safe and welcome, with opportunities for personal and professional growth;
- promoting the importance of diversity, inclusion and respect for one another, regardless of personal differences;
- not tolerating harassment of any kind, including physical, sexual, psychological or verbal abuse;
- ensuring employees do not face discrimination in accordance with the protections afforded by applicable law, including discrimination based on race, nationality or social origin, colour, sex, religion, gender identity, disability or sexual orientation;
- condemning child labour;
- rejecting forced or compulsory labour;
- maintaining safe and healthy workplaces; and
- providing employees with appropriate rest and leisure time.

We publish a Slavery and Human Trafficking Statement setting out the steps Magna has taken to address the risk of slavery and human trafficking in our operations and supply chain. The statement can be found in the Financial Reports & Public Filings section of our website, at [www.magna.com](http://www.magna.com).

### 4.2.2 Collective Rights

We are committed to providing workplace environments that promote the dignified, ethical and respectful treatment of our employees, as reflected in the standards contained in our Global Labour Standards Policy and our Code of Conduct and Ethics (“Code”).

Our Global Labour Standards Policy articulates our respect for employees' right to associate freely and to choose for themselves whether or not they wish to be represented by a third party in accordance with local laws. Employees at: four of our Canadian Divisions are covered by collective agreements between Magna and Unifor; seven of our Divisions in the United States are represented by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW); a number of our Divisions in Mexico, China and the United Kingdom are currently covered by collective bargaining agreements with various unions in these jurisdictions; and employees in a number of our Divisions across continental Europe are covered by national industry-wide tariff agreements relating to compensation and employment conditions and are also members of in-house employee associations, works councils and/or trade unions.

#### **4.2.3 Fairness Committees and Employee Advocates**

As a further example of our Employee's Charter principle of fair treatment, we maintain Fairness Committees in many of our North American and European manufacturing facilities, as well as at various manufacturing facilities in India and China. These Fairness Committees enable employees at such facilities to have many of their concerns resolved by a peer review committee comprised of both management and fellow employees. Most of our North American manufacturing facilities also have an Employee Advocate who works with our employees and management to help ensure that any concerns that arise in the workplace are addressed quickly and in accordance with our Employee's Charter, Global Labour Standards Policy and Operational Principles.

#### **4.2.4 Leadership Development Program**

We have implemented, and continue to enhance, our Leadership Development System to help identify, train and develop future leaders with the skills and expertise needed to manage a complex, global business. See "Section 4 – Our Business & Strategy – Our Business Strategy – Talent" of our AIF for a more detailed discussion of our talent management priorities.

### **4.3 DIVERSITY AND INCLUSION IN OUR WORKPLACES**

#### **4.3.1 Inclusive Workplaces**

At Magna, our employees are critical stakeholders in our business. We believe the principle of Fair Treatment, outlined in our Employee's Charter – one which we reinforce through employee meetings, training and communications – has been a key element in fostering an inclusive workplace at Magna. Any employee who feels that we are not living up to the principles of the Charter can seek redress through the Magna Hotline.

We seek to abide by all applicable labour and employment laws, including those prohibiting discrimination and harassment and those providing for the reasonable accommodation of differences. We are committed to providing equal employment and career advancement opportunities, without discrimination based on sex, race, ethnic background, religion, disability or any other personal characteristic protected by law. This is addressed in our Code documentation and training, which all Magna employees must complete.

Our Executive Management has reinforced the importance of an inclusive and diverse organization, identified strategic pillars for success in this regard, established a governance structure through our Global Diversity and Inclusion Council (GDIC), and set strategy, goals, and guidance to our management teams.

#### **4.3.2 Promoting Diversity and Inclusion**

We promote and embed diversity through our talent attraction and management processes. Additionally, by working with diversity and inclusion thought leaders, associations and non-profit organizations dedicated to mentoring and advancing career development and inclusiveness for women, we continue to build our capabilities in this area. Recognizing the importance of improving gender diversity within key technical career streams and to support the development of the next generation of the talent in science, technology, engineering and mathematics (STEM), we have formed strategic partnerships with a number of organizations that promote gender diversity in technical career streams. Our current strategic partnerships include: Build a Dream; Centre for Automotive Diversity, Inclusion & Advancement (CADIA); Catalyst; Engineers Canada; FIRST Robotics – Girls in STEM; Gartner, Inc.; her Career; Institute of Electrical and Electronic Engineers (IEEE); Inforum; KnowledgeStart; Ontario Society of Professional Engineers; Society of Automotive Engineers (SAE) International; The Art of Leadership for Women; The Knowledge Society; Women in Automotive; Women in Manufacturing; and Women's Executive Network (WXN).

We are continuing to progress our agenda to increase the number of women in Magna. On a global basis, approximately 26% of the employees in our wholly-owned operations are women. A total of approximately 3,600 employees in our wholly-owned operations occupy key positions with around 550 of such employees, or 15%, being women. Underrepresentation of women in our workforce is most pronounced in engineering, IT, operations and product engineering career streams, which is a consistent trend throughout the automotive industry. We recognize that there are improvements to be made and we are evaluating how to accelerate the progression of women, in director and managerial level roles, and in our most critical operational and technical roles, where there is the greatest level of underrepresentation.

In addition, the Board as a whole continues to advocate for improved gender representation and encourages Executive Management to take actions to improve gender representation in leadership positions, technical/engineering career streams and other key roles within the

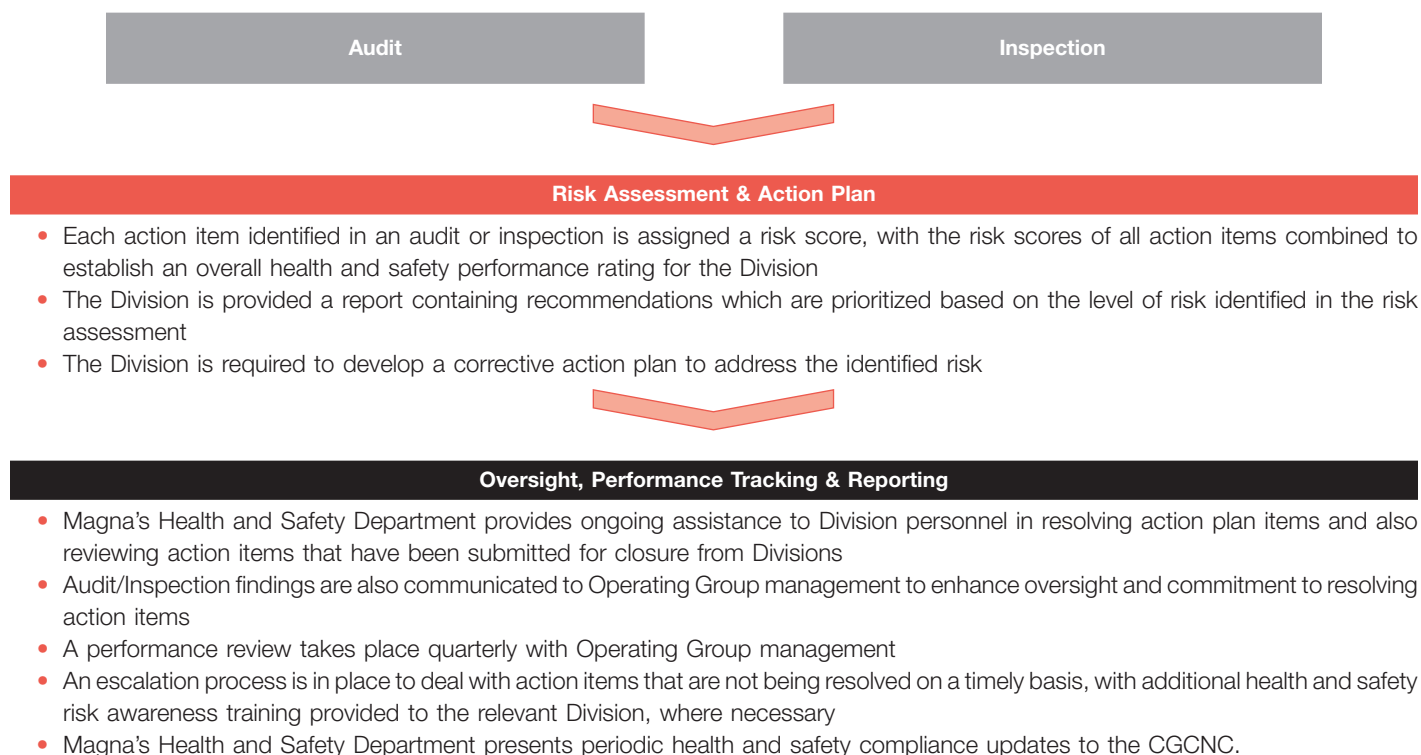
company's workforce. The female directors of the Board, representing one third of our Board of Directors, have also sought opportunities to mentor and share their experiences with the company's high-performing female employees.

## 4.4 OCCUPATIONAL HEALTH AND SAFETY

### 4.4.1 Health and Safety Standards and Compliance

Our commitment to providing a safe and healthful work environment is fulfilled through a regular program of health and safety audits and inspections of our global facilities, covering health, safety, industrial-hygiene, industrial ergonomics and emergency preparedness policies and action plans. Audits are designed to address documentation requirements, while inspections assess physical hazards. Audits and inspections are conducted on-site and followed with a report requiring the facility to develop an action plan to address deficiencies or best practices which is reviewed by senior Operating Group management quarterly.

The compliance program incorporates international and regional standards, including: ISO 45001, Canadian Standards Association (CSA), American National Standards Institute (ANSI), Conformité Européenne (CE), as well as country-specific standards. Audits and inspections are conducted by specialists with knowledge of Magna's standards and country-specific requirements. Legislative changes, accident trends and changes to industry standards are incorporated into the program as part of the annual review of the program and updates of audit requirements are conducted every three years. The key elements of the program are detailed below:



Our Health and Safety Department holds regular conferences with representatives of our Divisions to reinforce our commitment to providing a safe and healthful work environment, as well as to share best practices with respect to occupational health and safety. An employee who believes we have not fulfilled our promise to provide a safe and healthful working environment can seek redress through the Magna Hotline.

### 4.4.2 Ergonomics Program

A key program for supporting employee well-being is our ergonomics program which aims to reduce the risk of musculoskeletal injuries. Managed by each Division's ergonomic committee and with the support and guidance of corporate ergonomists, the program regularly evaluates Division performance against a set of established criteria.

## 4.5 CORPORATE ETHICS AND COMPLIANCE

### 4.5.1 Code of Conduct and Ethics

We are committed to conducting business in a legal and ethical manner globally. Our Code, which applies equally to all of our directors, executive officers and employees, that articulates our compliance-oriented values and expectations. The principles of the Code have been and continue to be reinforced by our Chief Executive Officer, Executive Management, Operating Group management and the Board.

The Code addresses standards of conduct in a number of specific areas, including:

- respect for human rights, diversity and inclusion;
- conducting business with integrity, fairness and respect;
- giving and receiving gifts and entertainment;
- complying with all laws and regulations, including anti-corruption/bribery and antitrust/competition laws;
- lobbying and political contributions;
- full, accurate and timely public disclosures, including financial reporting;
- prohibiting insider trading;
- environmental responsibility;
- occupational health and safety;
- managing conflicts of interest;
- careful communication, and protecting confidential and personal information;
- compliance with related corporate policies; and
- reporting suspected violations, and prohibiting retaliation against employees who report such violations in good faith.

The Code, which is disclosed on the corporate governance section of our website ([www.magna.com](http://www.magna.com)) and posted on our employee intranet in 25 different languages, is reviewed regularly with all amendments approved by the Board. We have also supplemented the requirements of the Code through the adoption of policies covering specific topics, including: bribery and improper payments, tooling practices, gifts and entertainment, anti-retaliation, careful communication, conflicts of interest, sanctions and trade embargoes and antitrust and competition (all of which are available on our website ([www.magna.com](http://www.magna.com))).

#### **4.5.2 Ethics and Legal Compliance Program**

In order to help our employees understand the values, standards and principles underlying our Code, we have implemented an ethics and legal compliance program (“ELC Program”) overseen by the Audit Committee, which includes both live and online training. We have also developed specialized compliance training modules which target specific functional audiences and high-risk regions. In addition to providing training on legal compliance and ethics topics generally, these specialized programs are designed to be interactive and incorporate real-life scenarios and exercises, which we believe amplify our compliance expectations and resonate more powerfully with participants.

The global implementation of the program is supervised by the Magna Compliance Council (“Compliance Council”), a body that includes key corporate officers representing our finance, legal, human resources, operations, internal audit, sales and marketing and ethics & compliance functions. The Compliance Council is tasked with, among other things, providing overall direction for our compliance program, approving key initiatives and ensuring that the required elements of our compliance program are being carried out globally by our cross-functional Operating Group Compliance Committees. These Operating Group Compliance Committees are supported by cross-functional regional Compliance Committees.

#### **4.5.3 Magna Hotline**

The Magna Hotline is a confidential and anonymous whistle-blower hotline which is overseen by our Audit Committee. The Hotline is available for employees and other stakeholders such as customers and suppliers to make submissions by phone or online at any time in 25 languages. Submissions are received and tracked by an independent third party service provider. Non-HR submissions to the Magna Hotline are reviewed by our Internal Audit Department and, when appropriate, an investigation is conducted. Investigations are conducted by Magna’s Internal Audit Department, Corporate Security Department, In-House Legal Department or external counsel (where applicable). We maintain an Investigations Oversight Committee, a sub-committee of the Compliance Council, which reviews such investigations on a quarterly basis to ensure consistency of discipline. The Audit Committee receives quarterly presentations from the Vice-President, Internal Audit regarding Magna Hotline activity and details of fraud, financial reporting and other non-HR-related reports.

### **4.6 DATA AND CYBERSECURITY/PRIVACY**

#### **4.6.1 Enterprise Cybersecurity**

Our enterprise cybersecurity strategy was developed by our Information Security, Risk and Compliance Department (“ISRC”) which ultimately reports to our Chief Financial Officer. The strategy has been designed using guiding principles from our Code as well as enterprise risk considerations and aligns with industry standards including the National Institute of Standards and Technology, relevant ISO standards, and applicable customer requirements. Our Board has risk oversight responsibility for Magna’s enterprise IT/information security systems and cybersecurity program and receives reports regarding the program at periodic meetings.

Our cybersecurity initiatives are driven by five key considerations:

Identify – develop an organizational understanding of cybersecurity risk to systems, people, assets, data, and capabilities.

Protect – develop and implement appropriate safeguards to ensure against cybersecurity risk and continue to deliver critical services.

Detect – internal and external 24 × 7 monitoring of all information traffic for cyber-attacks, including ransomware and other malware;



Respond – our Security Operations Centre has appropriate incident response plans/processes and the necessary resources and expertise to respond to detected threats.

Recover – our Security Operations Centre works with IT operations to recover as quickly as possible by rebuilding affected systems and restoring data back-ups.

We are committed to working with our customers and other stakeholders to ensure that appropriate cybersecurity standards and requirements are continually monitored and implemented as required. In addition, we ensure that we comply with all governmental rules and regulations regarding cybersecurity or privacy regulations (such as GDPR as detailed below), which directly affect cybersecurity requirements. Our selection process for third party (e.g. Cloud-based) services includes a due diligence approach that ensures that such services are evaluated using industry standard security assurance reports to assess and address the risks associated with third party technology services and aligns with our overall approach to cybersecurity.

We regularly evaluate and adjust our information security management strategy based on risk assessments, continuous monitoring and periodic independent cybersecurity maturity evaluations. This enables the ISRC to identify and prioritize responses to residual risk arising from changes to our business or the ever-changing threat landscape. Magna has developed and implemented centralized enterprise cybersecurity policies, compliance measures, as well as training and awareness programs designed to ensure that our cybersecurity strategy is executed to minimize our exposure.

Governance of cybersecurity over our shared global telecommunications and computer infrastructure is centralized under the ISRC. The ISRC has an understanding of the critical IT systems across the entire IT platform which facilitates identification of our risk exposures and the implementation of appropriate security controls. We have processes in place to ensure that our IT systems receive appropriate upgrades, including patching and other required remediation, in a timely manner.

#### **4.6.2 Product-Embedded and Solution Software Cybersecurity**

In addition to the above centralized initiatives, our decentralized operating model assigns cybersecurity accountability to our Divisions and Operating Groups with respect to manufacturing facility IT systems and risk/security issues inherent in production operations and products. However, the ISRC provides our Divisions and Operating Groups with a toolkit to help them assess product cybersecurity risk and maturity. From this assessment, our Divisions and Operating Groups are then able to determine the solutions and cybersecurity software that may be required. Our Technology Committee supports the Board through the committee's risk oversight responsibility for Magna's product-embedded or solution software cybersecurity.

#### **4.6.3 Privacy**

Magna is committed to preserving the privacy of our stakeholders in accordance with applicable law. Our Code articulates our approach to the privacy of our employees and protection of their personal information. We only collect, use and disclose personal information for legitimate business or employment purposes, as required by law, or with an individual's consent. In addition, like any other asset, confidential information, which includes trade secrets and proprietary information is a valuable part of our business and we aim to safeguard it.

In addition to our general privacy and confidentiality commitments, a couple of region specific policies and practices apply including our European Data Privacy Policy (the "EU Privacy Policy"), which contributes to ensuring compliance with the EU General Data Protection Regulation ("GDPR"), and our California Consumer Privacy Act Policy and Disclosures addressing the corresponding law.

For instance, the EU Privacy Policy sets out data protection principles, responsibilities of data controllers and processors, circumstances under which personal data can be transferred, rights of data subjects and actions that must be taken in case of data breach. Furthermore, a training program has been implemented to address data privacy awareness to all EU employees and those employees outside of the EU who are handling personal data of EU residents. Finally, those employees across our organization responsible for handling privacy requests by EU data subjects or for addressing data breaches have been provided with the tailored training and resources to carry out such responsibilities. The EU Privacy Policy is accompanied by a variety of formal and comprehensive procedures, developed and overseen by our Compliance Council.

A similar set of Policies and Measures for the newly adopted Brazilian Data Protection Regulation is underway. Furthermore, Magna keeps a close view on the fast changing data privacy landscape in other regions with Magna operations.

### **4.7 SUPPLY CHAIN RESPONSIBILITY**

#### **4.7.1 Supplier Code of Conduct**

We have introduced a Supplier Code of Conduct and Ethics ("Supplier Code") which outlines the principles we apply internally at Magna through our Code, as well as expectations we have for every company that supplies goods or services to Magna, relating to, among other things:

- ethical business conduct, such as compliance with antitrust/competition, anti-corruption/bribery and export controls laws; conflict minerals reporting; avoidance and reporting of conflicts of interest; and protection of Magna intellectual property and confidential information;

- employee rights, including those rights set out in our Employee's Charter, Global Working Conditions and Global Labour Standards Policy; and
- environmental responsibility and compliance.

The Supplier Code forms an integral part of our overall contractual relationship with our suppliers. We expect the standards set out in the Supplier Code to be met by our suppliers, even in jurisdictions where meeting such standards may not be considered part of the usual business culture and a failure to do so can result in the termination by Magna of the supply relationship. The full text of our Supplier Code is available on our website ([www.magna.com](http://www.magna.com)).

We continue to support and participate in industry efforts to develop common standards relating to business ethics, environmental standards, working conditions and employee rights. We will continue to engage with our suppliers to raise awareness of the importance of sustainability in our supply chain.

#### **4.7.2 Global Working Conditions in our Supply Chain**

We expect that our supply chain will adhere to our Global Working Conditions and our Supplier Code, which prohibit the use of child, underage, slave or forced labour. Our Global Working Conditions are an integral part of our supplier package that emphasize the importance of maintaining global working conditions and standards that result in dignified and respectful treatment of all employees within all our global operating locations, as well as those of our supply chain. A failure by any of our suppliers to comply with its terms can result in the termination by Magna of the supply relationship.

#### **4.7.3 Supply Chain Management**

##### **4.7.3.1 General**

Magna's supply chain management group focuses on a number of elements that we believe are integral to world class supply chain management, such as: common global key performance indicators (KPIs); specific roles and responsibilities; processes and standards; global training; and risk management.

The global KPIs we use are focused on purchasing savings, supplier ratings, supplier quality measurements and supplier diversity. All four of these KPIs are standardized globally. We use cross-functional sourcing teams to help ensure compliance with our internal standards when we place new business within our supply base. In order to promote awareness of the key elements of our supply chain risk management program, including the requirements in our Supplier Code, we provide a global training program on an ongoing basis to internal purchasing employees.

We continue to increase digitization of our supply chain management, including focusing on spend analytics and online transportation risk tracking, as well as electronic tagging and tracing of certain assets.

##### **4.7.3.2 Supplier Reviews**

We review production suppliers in order to assess their overall quality, performance and financial health. During operational assessments, we also consider the presence and effectiveness of any internal policies and programs that suppliers have in place to address issues concerning the environment, health and safety, human rights, social responsibility, business ethics and compliance. Furthermore, we use a scorecard to provide ongoing monitoring and assessment of suppliers, which tracks (among other things) whether suppliers have certain industry-recognized environmental and health and safety certifications, such as ISO 14001 and ISO 18001. No suppliers were terminated in 2019 as a result of a violation of working conditions or human rights.

##### **4.7.3.3 Phytosanitation Program**

We maintain a phytosanitation program aimed at preventing the introduction and spread of plant diseases (i.e., pests and mold) through the cross-border import/export process. Our phytosanitation policy which applies to suppliers and shippers aligns with the International Plant Protection Convention (IPPC) standard for treatment of wood packaging material (e.g., wooden pallets), and includes the requirements of ISPM-15 (International Standards for Phytosanitary Measures). Our phytosanitation program includes training sessions for internal employees and suppliers, as well as reviews aimed at confirming compliance with our policy.

##### **4.7.3.4 Supplier Diversity**

To support the supplier diversity efforts which form part of our supply chain management program, we participate as a corporate member of several industry-recognized supplier diversity organizations, including the Michigan Minority Supplier Development Council (MMSDC), Great Lakes Women's Business Council (GL-WBC), the Canadian Aboriginal and Minority Supplier Council (CAMSC), National Veteran Business Development Council (NVBDC), Women Business Enterprises Canada Council (WBE Canada) and WEConnect International. We are also involved with a number of supplier diversity advocacy events, conferences, and procurement fairs, including many organized by our OEM customers, such as GM Supplier Connections, FCA MatchMaker, BMW Supplier Diversity Conference, Toyota Opportunity Exchange and Honda Network Partnership. We are proud to have received awards for our supplier diversity efforts from two of our customers, GM and Toyota in past years.

#### 4.7.3.5 Conflict Minerals Reporting

Consistent with the approach taken by our customers, suppliers and other fellow members of the Automotive Industry Action Group with respect to “conflict minerals”, we are engaged in an annual process of determining whether any products which we make or buy contain such “conflict minerals”. Our latest conflict minerals report is available on our website [www.magna.com](http://www.magna.com) and on the SEC’s EDGAR website ([www.sec.gov/edgar](http://www.sec.gov/edgar)). We continue to engage with our suppliers to increase awareness, and accuracy, of “conflict minerals” reporting requirements and, through our membership in the Responsible Minerals Initiative (RMI), support continuing cross-industry efforts to identify and validate conflict-free smelters and refiners.

### 4.8 CONTRIBUTING TO COMMUNITIES IN WHICH WE OPERATE

#### 4.8.1 Commitment to Communities and Society

Magna recognizes the importance of giving back to society. We have a long history of supporting many global social and charitable causes, primarily in the communities around the world in which our employees live and work. In 2019, our Corporate, Operating Groups and Divisions made close to 1,000 charitable donations and sponsorships around the world. While much of our corporate giving is to general philanthropic causes, we have identified seven United Nations Sustainable Development Goals that most directly relate to our business, as follows:



In addition, Magna’s Employee Disaster Relief Fund provides financial assistance to eligible employees and their families in the event they are victims of a disaster. In 2019, the program helped 26 employees in China, Czech Republic, Mexico, Poland, Serbia, India, Russia, Germany, Canada and the United States.

#### 4.8.2 Support for Employee-Led Efforts

We encourage and support our employees who devote their time, energy and passion to making a positive contribution to their workplace and communities through direct giving, special events, fundraising and volunteer work.

In order to further support and enhance employee fundraising efforts, we maintain a Magna Matching Program, which matches donations by Magna employees to qualified, non-profit initiatives, up to specified amounts. Since the beginning of the program in 2017, Magna has matched the funds raised by Magna employees in more than 200 projects globally. In 2019, Magna’s CEO challenged Magna employees to reach \$2,000,000 in charitable matches by 2021. Magna employees have responded and are well on their way to achieving this ambitious goal.

Since 2017, Magna employees around the world have participated with World Vision’s *Global 6K for Water* to help set up new clean water sources in Africa, India and Haiti. In 2019, more than 6,000 of our employees from 13 different countries supported this one-day, worldwide event that unites thousands of people who run and walk to help bring clean water to those in need. Since 2017, our employees have raised more than \$1,000,000 as part of the *Global 6K for Water* event.

We are also a leading sponsor and supporter of FIRST, an international organization which supports students with an interest in engineering and technology fields. FIRST organizes mentor-based programs that help participants build science, engineering and technology skills while also fostering self-confidence, communication skills and leadership. For more than a decade, Magna has volunteered with, provided mentorship to and led various FIRST teams and programs, including its robotics competition, that have engaged thousands of students globally.

## 5. SUSTAINABILITY METRICS

This Sustainability Report marks the first time that Magna has reported to the SASB framework. SASB establishes and maintains industry-specific standards that assist companies in disclosing sustainability information to investors. SASB metrics indicated below are identified by the relevant SASB Auto Parts Sustainability Accounting Standard code. We caution readers that our processes to collect and validate the energy, emissions and water data shown below are not as mature as those related to financial data, but we are committed to enhancing both the data collection/validation processes and thus the quality of the data, in the coming years.

### 5.1 ENERGY MANAGEMENT AND EMISSIONS

#### 5.1.1 Energy

Energy management data is set out below.

SASB Accounting Metric (TR-AP-130a.1)	2019 <sup>(1)</sup>	2018	2017
Aggregate amount of energy consumed by Magna	23,020,389 GJ	22,604,666 GJ	22,295,658 GJ
Percentage of energy consumed by Magna that was supplied from grid electricity	55%	56%	58%

(1) Preliminary Data.

In connection with our efforts to promote energy efficiency, we are developing energy reduction targets for each of our Operating Groups. We do not currently collect data on the proportion of energy consumed which is renewable, but we are implementing processes to collect and validate such data for future disclosure.

#### 5.1.2 Emissions

Energy consumed can be converted to CO<sub>2</sub> emissions based on regional conversion factors. In order to help us and our stakeholders better assess trends related to the emissions we generate, we track emissions “intensity” on the basis of total sales, employee headcount and aggregate square footage of our facilities and offices. These intensity metrics assist us in determining whether we are becoming more efficient by normalizing emissions on a per dollar of sales, per employee and per square footage basis. The raw data for Scope 1 & 2 emissions, together with intensity metrics are set out below.

	2019	2018	2017	2016
Scope 1 & 2 emissions (metric tons)	2,126,678 <sup>(1)</sup>	2,120,298	2,135,881	2,051,031
Sales (USD, millions)	39,431	40,827	38,946	36,445
Employees	165,000	174,000	168,000	155,000
Square Footage (million sq. ft.)	86.6	86.5	76.3	72.7

(1) Preliminary data.

Using 2016 as the baseline, the foregoing data demonstrates the following the trends for the three full years 2017 to 2019:

- Sales grew at a compound growth rate of 8.2% vs. emissions growth of 3.7%
- Employee count grew 6.5% vs. emissions growth of 3.7%
- Square footage grew 19.1% vs. emissions growth of 3.7%

Converting the emissions data into intensity relative to Sales, employee headcount and square footage generates the following metrics:

	2019	2018	2017	2016
Sales Intensity (CO <sub>2</sub> metric tons/\$ Sales)	0.0000539	0.0000519	0.0000548	0.0000563
Employee Intensity (metric tons/employee)	12.89	12.19	12.71	13.23
Square Footage Intensity (metric tons/sq. ft.)	0.0246	0.0245	0.0280	0.0282

The intensity metrics demonstrate a positive trend of decreasing carbon intensity, as follows:

- Sales intensity: –4.3%
- Employee intensity: –2.6%
- Square footage intensity: –12.8%

## 5.2 WATER AND WASTE MANAGEMENT

### 5.2.1 Water

Water use data is set out below:

Description	2019 <sup>(1)</sup> (ML)	2018 (ML)	2017 (ML)
Water withdrawals	7,621	8,101	7,870

(1) Preliminary Data.

We have implemented a 1.5% per year water reduction target, with the aim of reducing water use 15% by 2030, in each case referencing 2019 as the baseline year.

### 5.2.2 Waste

Waste reduction and scrap elimination are important considerations in our manufacturing activities, including as part of our efforts to achieve World Class Manufacturing objectives in our facilities globally. We have begun the process of collecting and validating waste data and expect to be able to report our 2020 data in our 2021 Sustainability Report. We have implemented a zero waste to landfill target, with the aim of eliminating landfill-bound waste by 2022.

## 5.3 ENVIRONMENTAL REMEDIATION

The aggregate costs incurred in complying with environmental laws and regulations, including the costs of clean-up and remediation, have not had a material adverse effect on Magna to date and are set out below.

Description	2019	2018
Annual remediation expenses	<\$ 1.0m	\$ 1.1m
Aggregate remediation balance for known events	\$ 13.4m	\$ 14.3m

## 5.4 PRODUCT SAFETY

Magna is at risk for product warranty costs, which include product liability and recall costs, and is currently experiencing increased customer pressure to assume greater warranty responsibility. For most types of products, we only account for existing or probable product warranty claims. However, for certain complete vehicle assembly, powertrain systems and electronics contracts, Magna records an estimate of future warranty-related costs based on the terms of the specific customer agreements and/or Magna's warranty experience. Product liability and recall provisions are established based on Magna's best estimate of the amounts necessary to settle existing claims, which typically take into account: the number of units that may be returned; the cost of the product being replaced; labour to remove and replace the defective part; and the customer's administrative costs relating to the recall. Where applicable, such provisions are booked net of recoveries from sub-suppliers and along with related insurance recoveries. Due to the uncertain nature of the net costs, actual product liability costs could be materially different from our best estimates of future costs.

In 2019, our warranty accrual increased by \$44 million compared to 2018. See Note 16 of our consolidated financial statements for the year ended December 31, 2019, which have been filed on SEDAR and are on Magna's website ([www.magna.com](http://www.magna.com)).

## 5.5 FUEL EFFICIENCY

Our product strategy, which is discussed in "Section 4 – Our Business & Strategy – Our Business Strategy" of our AIF, includes as a core element the supply of product solutions which support our customers' objectives of increased fuel efficiency and reduced vehicle CO<sub>2</sub> emissions. We do not currently track total revenue from products designed to increase fuel efficiency and/or reduce emissions.

## 5.6 MATERIALS SOURCING

We address strategic risks regarding critical materials with more limited supply in a number of ways, including: diversification of suppliers; carrying excess inventory, where appropriate; and, designing and engineering our products to minimize the use of scarce/limited materials, where not constrained by customer specifications.

With respect to reputational risk related to critical materials, we maintain a conflict minerals program, including an annual process of determining whether any of our products contain conflict minerals, and through our membership in the responsible mineral initiative (RMI) supporting continuing cross-industry efforts to identify conflict-free smelters and refiners.

## 5.7 COMPETITIVE BEHAVIOUR

Magna's policy is to comply with all applicable laws, including antitrust and competition laws. Our Corporate Ethics and Compliance Program is described in Section 4.5 "Corporate Ethics and Compliance" of this Sustainability Report.

We previously completed a global review focused on antitrust risk and do not currently anticipate any material liabilities in connection with the review. See "Section 10 – Legal Proceedings" of our AIF with respect to our anti-trust investigation being conducted by the Brazilian Federal Competition Authority.

SASB Accounting Metric (TR-AP-520a.1)	2019	2018
Total amount of monetary losses incurred as a result of legal proceedings associated with anti-competitive behavior regulations	NIL	NIL

## 5.8 HEALTH & SAFETY

We are committed to providing a safe and healthful workplace for our employees. This commitment is fulfilled through a regular program of health and safety audits and inspections of our global facilities. In connection with our health and safety program we track the frequency and severity of workplace accidents.

Description	2019	2018
Accident Frequency Rate <sup>(1)(3)</sup>	1.04	1.01
Accident Severity Rate <sup>(2)(3)</sup>	12.35	11.57

(1) Frequency 1.0 translates to 1 injury or illness per 5,000 employees working 1,000,000 hours.

(2) Severity 10.0 translates to 50 lost work days over the course of 1,000,000 hours.

(3) Global production facilities and certain engineering locations.

The occurrence of injuries and fatalities is a matter of significant concern for both management and the Board. The CGCNC reviews the circumstances related to significant injuries and all fatalities of employees or third parties on Magna properties and reports same to the Board. There were no employee fatalities at Magna's facilities during 2019 or 2018.

## 5.9 DIVERSITY

Diversity within our employee population is important to us and we strive to create an inclusive work environment throughout our company. As part of our efforts to promote an inclusive workplace, we track metrics relating to gender diversity in our workforce.

Description	2019
Percentage of global employees who are women (wholly-owned operations)	26%
Women in key positions	15% <sup>(1)</sup>
Women on the Board of Magna	36%

(1) 550 women in key positions out of 3600.

## 5.10 REPORTING

In addition to this Sustainability Report, we participate in CDP (formerly Carbon Disclosure Project), a not-for-profit project designed to provide investors with information relating to corporate GHG emissions, water use and perceived corporate risk due to climate change. We also file a conflict minerals report, available on [www.sec.gov/edgar](http://www.sec.gov/edgar), in accordance with SEC requirements, and publish a slavery and human trafficking statement on our website, at [www.magna.com](http://www.magna.com). Magna also provides sustainability reporting directly to our customers. These assessments are supplier requirements and typically follow common reporting templates approved by automotive industry associations in North America (Automotive Industry Action Group) and Europe (CSR Europe/Drive Sustainability).