Preamble

We recognize our responsibility to protect human rights at our sites and along our complex value and supply chains. For us, this responsibility does not end at our factory gates, but goes beyond them.
Organization and supply chain

AUDI AG is a stock corporation under German law with its headquarters in Ingolstadt, Germany. In addition to AUDI AG, the Audi Group comprises all the key companies and units in which AUDI AG has a direct or indirect controlling interest. The Audi Group is organized in a decentralized manner, with individual subsidiaries bearing responsibility for their own business operations. Guidelines, reporting channels and committees are put in place to ensure appropriate Group steering and monitoring. Our business activities include the development, production and sale of cars as well as management of the Audi Group.

The Audi Group is present in more than 100 markets worldwide. It manufactures at 16 locations in 11 countries. The Ducati and Lamborghini brands are also part of the Audi Group. Extensive information about the Group companies can be found in the statement of interests pursuant to Sections 285 and 313 of the German Commercial Code (HGB) at www.audi.com/subsidiaries.

AUDI AG is also a part of the Volkswagen Group. On December 31, 2019, Volkswagen AG held about 99.64 percent of the voting rights in AUDI AG.

With its presence in the most important markets, Audi’s global procurement organization ensures that materials and services in particular are procured and provided in the required quality and on the best possible terms. Procurement is active in 152 countries around the world and is a central interface between AUDI AG and more than 16,000 suppliers. In order to maximize the benefit of synergy potential, we select suppliers in close consultation with Volkswagen Group Procurement.

In addition to the independent activities undertaken there, all actions taken and efforts made by the Volkswagen Group in promoting sustainability as well as in protecting and respecting human rights along the supply chain thus contribute to the attainment of these objectives in the Audi Group as well.

Internal measures

General

In January of last year, Hiltrud D. Werner, Member of the Board of Management of Volkswagen AG for Integrity and Legal Affairs, and Gunnar Kilian, Member of the Board of Management of Volkswagen AG for Human Resources, appointed a coordinator for the subject of “Business and Human Rights” in the area of Group Compliance. Integration into the existing Compliance Management System as well as the central coordination of responsibilities in other divisions on the topic of “Business and Human Rights” likewise falls under the remit of Compliance at Audi.

Combating modern slavery along our value and supply chain is one of the focal points of our activities in the area of “Business and Human Rights” and one of our Group-wide salient business and human rights issues. For us, child labor and forced labor in particular are serious violations of human rights and are therefore prohibited.

In 2019, we intensified the dialog with external stakeholders on the subject. For example, Audi supports the German Federal government’s National Action Plan “Business and Human Rights”. Specifically, in 2019, in collaboration with representatives of trade unions, NGOs, science, politics and the economy, the groundwork was laid for active participation. In the future, the automotive industry’s sector dialog “Business and Human Rights” will take place under the aegis of the German Federal Ministry of Labour and Social Affairs. Potential solutions to combat modern slavery also play an important role here.
We also actively seek direct dialog with stakeholders, e.g. as part of stakeholder dialogs or within the scope of the DICO working group on CSR/human rights. In addition, the Volkswagen Group was the first automotive manufacturer to be included in the Global Business Initiative (GBI) “Business and Human Rights” in 2019. The purpose of this corporate network is to discuss issues and participate in peer learning.

**Audi Group Code of Conduct**

The Audi Group updated its Code of Conduct in 2017 in line with the Volkswagen Group. It was adopted as a binding policy by all Audi Group brands by the end of 2017. The content of the Code of Conduct is thus identical for all the brands and companies. It is permanently available to all employees on the intranet and also for third parties over the Internet and is continuously communicated in digital format and in print media as well as at internal company events. The Code of Conduct is based on shared values centered around compliant, honest and morally correct conduct and the topic of responsibility.

Regardless of whether at the workplace, as a business associate or as a member of society, the Code of Conduct makes it easier for employees to abide by existing company rules and offers them orientation, help and advice. The rejection of all forms of modern slavery and human trafficking is also a central tenet of the Audi Group Code of Conduct. We also act in accordance with the values set out in the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the declarations of the International Labour Organisation (ILO).

**AUDI AG Statement of Principles concerning Respect for and Observance of Human Rights**

In order to affirm AUDI AG’s commitment to respecting and upholding human rights in general and condemning forced labor and human trafficking specifically, AUDI AG’s Board of Management signed a “Statement of Principles concerning Respect for and Observance of Human Rights” in 2017.

**The Audi Group Whistleblower System**

The Whistleblower System is the point of contact for reporting rule violations. The violation of human rights is an example of an issue that involves a serious regulatory violation. Our employees and external persons can report regulatory violations via the notification channels of telephone, email, mail and Internet tool, verbal notification and to ombudsmen, also anonymously, on request. The ombudsmen are two external lawyers mandated by the company. Information regarding potential regulatory violations can also be provided via a 24/7 telephone hotline, which has been in operation since 2018. Employees and business partners as well as customers throughout the world have the opportunity to report information in various languages 365 days a year, 24 hours a day. Strict confidentiality and secrecy are maintained throughout the entire process. The Whistleblower System guarantees the highest possible protection for whistleblowers and affected persons. Discrimination against whistleblowers is a serious regulatory violation and is not tolerated.

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Risk analysis

Within the framework of the established risk management processes, represented by elements including the quarterly risk process and the annual regular GRC process (Governance, Risk & Compliance), risk assessments on the subject of human rights are also carried out by the main Group divisions and companies and the countermeasures taken are reported on. Within the annual regular GRC process, the identification of potential risks is supported by a list of risk-related focal areas, which also includes potential risks from human rights violations. The Boards of Management of AUDI AG and Volkswagen AG as well as the Audit Committee of AUDI AG receive reports both quarterly and annually as well as whenever required.

In addition, a cross-departmental working group in Group Compliance of the Volkswagen Group developed a concept in 2019 for assessing risk exposures for controlled participations. This is the result of a correlation of country risks and business model risks in the area of “Business and Human Rights.” Based on this, measures are also defined for the controlled participations of the Audi Group. These measures are integrated in the general measures for traditional compliance topics, such as the prevention of corruption and money laundering, and are scheduled for implementation by the end of 2021.4

Qualification of employees

By taking preventive measures, we promote compliance with rules and regulations within our organization and raise the compliance awareness of our employees. Target group-oriented communication and training measures for employees at all hierarchical levels play a key role in this. In this reporting year, the communication and training activities primarily focused on the Code of Conduct, anti-corruption and the Whistleblower System. The Code of Conduct training also involves disseminating basic information on the topic of human rights.

In the 2019 fiscal year, the topic of “Business and Human Rights” was integrated into the classroom-based training course “Compliance Awareness,” which contains basic information on compliance focal issues (including human rights) and potential incidents in day-to-day business and was available for sign-up to all employees. Since January 2020, this training has been available to all employees as a web-based training program. In 2020, in-depth training is to be rolled out specifically on the topic of “Business and Human Rights,” which should likewise be accessible to all employees via the training portal. The possibility is also being examined of integrating basic information on the topic into existing training courses.

4 Further information on risk identification and risk management within the scope of responsible supply chain management can be found starting on page 5.
Measures along the supply chain

As a Group, we together with our more than 16,000 suppliers worldwide have a great impact on the environment and society. At the same time, we assume responsibility along the value chain for fair and humane working conditions and integrate our partners in our activities so we can meet this responsibility together. The development and implementation of responsible supply chain management is an integral component of our procurement processes.

Sustainability requirements for our suppliers:

Code of Conduct for Business Partners

The "Volkswagen Group requirements regarding sustainability in its relationships with business partners" – the Code of Conduct for Business Partners – is the core element of responsible supply chain management. These requirements also apply within the Audi Group and describe our expectations of our business partners' conduct with respect to key social, integrity and environmental standards. These requirements are based, among other things, on the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the relevant conventions of the International Labour Organization (ILO).

The Code of Conduct for Business Partners received a major update in 2019. Since then, these requirements have also applied to our distribution partners (where Volkswagen distribution partners are included in the higher-level human rights risk analysis described above).

The expanded requirements for suppliers specific to the topic of modern slavery are as follows:

“No slavery and no human trafficking –
Business partners reject all conscious use of forced and compulsory labor as well as all forms of modern slavery and human trafficking. There is no bonded labor or involuntary prison labor. Employment relationships are entered into on a voluntary basis and may be terminated by employees at their own discretion and within a reasonable notice period.”

Our goal, on the basis of the defined requirements, is to lay the foundation for enhanced sustainability and responsibility according to a risk-based approach and in a spirit of partnership together with our suppliers.

Systematic determination of sustainability risks

Audi introduced a sustainability rating (S-Rating) back in 2017 to identify and avert potential risks before contracts are even awarded. This S-Rating has been mandatory throughout the Volkswagen Group since July 1, 2019 and is therefore a mandatory criterion for awarding contracts to suppliers of production materials as well as for relevant suppliers in General Procurement. Within the contract awarding process, the S-Rating is on a par with other important criteria such as cost, quality, technological expertise and logistics. It is based on a self-assessment questionnaire and is supplemented on the basis of risk by on-site checks and, if necessary, by a compliance check.

The self-assessment questionnaire (the “SAQ” of the Drive Sustainability Initiative), which is standardized for the automotive industry, gives Audi information about possible risks with regard to social and environmental aspects and corporate ethics at the respective suppliers. We inquire with our suppliers explicitly about guidelines for their own company

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6 Ibid., page 16.
as well as for their broader supply chain, which also encompass the prohibition of modern slavery and human trafficking. The corresponding management systems must likewise be documented. In 2019, a total of 12,646 suppliers provided the Volkswagen Group with information in this way. If necessary, the Volkswagen Group additionally conducts an additional check on compliance risks.

Managing risks effectively

If the self-assessment questionnaire proves unsatisfactory, also in consideration of a country-specific risk, an independent sustainability assessor performs an on-site check of the company – not only in respect of modern slavery, but also in terms of other aspects such as eco-friendly production and occupational health and safety. A total of 1,331 on-site checks were conducted for the Volkswagen Group in 2019. Deviations are recorded in a Corrective Action Plan and measures initiated to correct them. Monitoring is subsequently conducted to ascertain whether the deficiencies identified by the sustainability assessor are actually being rectified. At the end of an S-Rating process, a supplier is either capable of being awarded a contract or not. Within the context of a partnership of cooperation, another objective of the S-Rating is to provide suppliers who have not yet been able to demonstrate satisfactory performance with the information and tools they need to do this. This is the only way in which to achieve a positive impact on people and the environment. Every supplier has the option in principle of undergoing a repeat evaluation after they have completed the necessary improvement measures.

In addition to self-identified risks, AUDI AG also receives hints about potential violations (so-called ad hoc cases). These are suspicions or hints that arise suddenly indicating a potential violation of our sustainability requirements outlined in the Code of Conduct for Business Partners. The related process was further overhauled and systematized in the year under review and is specified in an internal Corporate Policy.

Hints of potential violations are processed within the Group via a dedicated expert team composed of members from several divisions. The responsible expert team of the relevant brand or region coordinates implementation of a catalog of measures with the support of the Group expert team, once a plausibility check has been performed by the Volkswagen Group. If it is determined that suppliers or sub-suppliers are failing to meet sustainability requirements in such a case, the company asks suppliers to provide a written statement based on a standardized report. 27 ad hoc cases were processed by the Volkswagen Group during the period under review. Collaboration was ended or suppliers were blocked for new awards of contracts in the case of a total of 17 suppliers due to the activities of Procurement and Internal Audit.

Focus on raw material supply chains

Each Audi car contains approximately 1,600 kilograms of various raw materials. Our goal is to only use raw materials that have been mined under humane and sustainable conditions. This poses a considerable challenge – not least when it comes to respecting human rights along the supply chain.

Audi adopts a risk-based approach in this regard. This means that we identify supply chains with a major risk of negative repercussions for rights holders – so-called hotspots. We are stepping up our measures for these supply chains.

With respect to the so-called conflict raw materials of tin, tantalum, tungsten and gold, suppliers of the Volkswagen Group must provide information on smelting in the upstream supply chain via the internationally recognized Conflict Mineral Reporting Template of the Responsible Minerals Initiative.
Another area of focus in the Volkswagen Group are the raw materials used in batteries, especially cobalt. In close collaboration with the battery cell suppliers, the Volkswagen Group is pursuing the objective of creating complete supply chain transparency from mining the raw materials to manufacturing the finished product. The way the company organizes the responsible sourcing of raw materials takes consideration of the requirements of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. This contains guidelines for management approaches, for risk identification and prevention, for checking smelters, and for communication and reporting instruments. The work in the deeper tiers of the supply chain and beyond contractual relations requires further effort from Audi, for example concerning the use of new technologies or through involvement in industry-wide initiatives.

Commitment to international initiatives

Audi has been an active member of the Global Battery Alliance since 2017. This organization advocates the protection of human rights and social standards when mining the raw materials used in batteries, and develops solutions for recycling lithium-ion batteries. In the medium term, it is additionally planned to examine the sustainability performance of mines along the supply chain. With that in mind, at the beginning of 2019 Volkswagen joined the CERA project (Certification of Raw Materials), which is committed to developing such a standard and will test this with regard to selected raw materials. Audi has also been involved with the Aluminium Stewardship Initiative (ASI) since 2013. The ASI has developed a global sustainability standard for the handling of aluminum, which lays down environment-related and social criteria along the value chain.

Training for employees and business partners

To improve social and environmental standards in our supply chain we use the S-Rating in particular, for which we train our employees and business partners accordingly in events and workshops. 99.9 percent of all Audi procurers completed the web-based training on the S-Rating in the year under review. The focus was on integrating the S-Rating into the standard procurement processes.

As part of the sustainability self-assessment process, we require our business partners to implement guidelines and management systems that regulate their business practices. To empower our business partners to do this, Audi began in the year under review to offer Sustainability Talks for companies employing between 50 and a maximum of up to 500 people. These involved workshops in which external specialists demonstrated best practice approaches, helping participants to draw up appropriate sustainability guidelines. 55 percent of the suppliers who received training were able to improve their S-Rating following participation in the Sustainability Talks.

Furthermore, a Group-wide web-based training program was set up in 2019 dealing with the content of the Code of Conduct for Business Partners, which strengthens business partners’ awareness of the importance of respecting and protecting human rights and rejecting all forms of slavery and human trafficking. The first step to introducing this training for importers was taken at the end of the year; rollout is scheduled to be continued in 2020, e.g. for suppliers, too.
Progress report

As announced in the last statement by AUDI AG for the 2018 fiscal year, various measures were designed and implemented in the 2019 fiscal year to improve sustainability and to prevent forms of modern slavery and human trafficking in the company and along the supply chain.

Alongside the activities and processes that have been in place for several years, for example in the areas of procurement or sustainability, a coordinating function was created in Compliance in the year under review. In addition, the compliance focal issues contained in the corresponding Corporate Policy “Compliance & Integrity” of AUDI AG have been supplemented with the topic “Business and Human Rights” and its implementation into the Compliance Management System prepared.

Within the scope of responsible supply chain management, in addition to updating the Code of Conduct for Business Partners, the S-Rating has been incorporated as a binding criterion governing the awarding of contracts for the entire Volkswagen Group. Moreover, it has been possible to integrate suppliers from the relevant product groups in General Procurement. 12,646 suppliers have shared their sustainability self-assessments with the Volkswagen Group. The Sustainability Talks for suppliers have become established as a successful training module and are due to be continued – and expanded if necessary – in 2020. Furthermore, in the 2020 fiscal year, binding minimum requirements will be defined and communicated based on the revised Code of Conduct for Business Partners.

1,331 on-site inspections were carried out at suppliers worldwide in 2019. Audi is currently working on a shared standard for on-site checks to eliminate redundancies and ensure broader coverage of the supply chain together with original equipment manufacturers (OEMs) and suppliers as part of a working group of the German Association of the Automotive Industry (VDA). Going forward it is planned that suppliers will only have to undergo an audit on a one-time basis. The results can then be shared with all participating business partners via a central platform.

To meet the special challenges along our raw material supply chains, further steps were taken within the Volkswagen Group in 2019 to systematize raw materials management, focusing on the development of a Group-wide, OECD-compliant management system for high-risk raw materials which is scheduled to be completed by the end of 2020.
AUDI AG
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