



# Slavery and Human Trafficking Statement of AUDI HUNGARIA Zrt. (Fiscal year 2017)

This Statement was drawn up in accordance with § 54 of the United Kingdom Modern Slavery Act 2015. It represents all implemented measures of AUDI AG on preventing forms of modern slavery and human trafficking.

## Preamble

In view of advancing globalization and increasingly shifting value-added processes in the respective sales markets, we are cognizant that we also have a global responsibility when it comes to defending human rights. For us, this responsibility does not end at our factory gates; it extends well beyond them.

## Organization and supply chain

AUDI HUNGARIA Zrt. (“Audi Hungaria”) develops and produces engines at its site in Győr, Hungary, for AUDI AG and other Volkswagen Group companies. Furthermore, the Audi Hungaria produces the models Audi A3 Sedan, Audi A3 Cabriolet, as well as the Audi TT Coupé and the Audi TT Roadster. The Audi Hungaria is an enterprise under Hungarian law and is a 100-percent subsidiary of AUDI AG.

AUDI AG is a stock corporation under German law with its headquarters in Ingolstadt, Germany. It is part of the Volkswagen Group. Volkswagen AG is the majority shareholder of AUDI AG, holding around 99.55% of share capital. The Volkswagen Group is made up of the Automotive division and the Financial Services division. The Automotive division, in addition to Audi, comprises eleven other brands:

Volkswagen Passenger Cars, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN.

Volkswagen AG is the parent company of the Volkswagen Group, AUDI AG is the parent company of the Audi Group. The Volkswagen Group and the Audi Group are represented by their brands in all relevant markets of the world. The key sales markets of the Audi Group include the region of Western Europe and the countries of China and the USA. For the manufacture of their products, the Volkswagen Group and thus the Audi Group as well procure goods and services from all over the world.

The Volkswagen Group operates 120 manufacturing sites in 20 countries in Europe as well as 11 American, Asian and African countries. The brands Audi, Lamborghini and Ducati manufacture cars and motorcycles at locations in Germany, Belgium, Italy, Russia, Slovakia, Spain, Hungary, Mexico, Brazil, China, India and Thailand.

Global compliance with sustainability standards, including in the areas of human rights, occupational safety and health protection, environmental protection and anti-corruption is, for us, the foundation of a successful business relationship with our suppliers. Only by working together with our approximately 15,000 business partners can we ensure compliance with sustainability standards and make a contribution to implementing the United Nations Sustainable Development Goals (SDGs). To achieve these goals, back in 2006 AUDI AG implemented the concept of “Sustainability in Contractor Relations”, and continues to build on and develop these measures to this day. This concept anchors sustainability in the Group procurement processes and procurement organizations and also comprises a globally integrated network of Sustainability Officers for procurement for the respective brands and regions. This network helps the Group to better understand local practices.

## Internal measures

### Audi Group Code of Conduct<sup>1</sup>

The Audi Group has updated its [Code of Conduct](#) in line with the Volkswagen Group. The revised Code of Conduct and its implementation in the Code of Conduct of Audi Hungaria applies to all employees and is based on shared values, centered around compliant, honest and morally correct conduct and the topic of “responsibility”. Whether at the workplace, as a business partner or as a member of society, the Code of Conduct aims to make it easier for employees to deal with existing rules at the company, providing orientation, support and advice. The rejection of modern slavery and human trafficking of any form is also a

<sup>1</sup> [https://www.audi.com/content/dam/com/corporate-responsibility/nachhaltigkeit\\_pdfs/audi-code-of-conduct-english.pdf](https://www.audi.com/content/dam/com/corporate-responsibility/nachhaltigkeit_pdfs/audi-code-of-conduct-english.pdf)

central tenet of the Code of Conduct of the AUDI AG and Audi Hungaria. We 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 Organization (ILO).

### **Volkswagen Group Whistleblower System<sup>2</sup>**

The Volkswagen Group whistleblower system, which also contains the Audi Investigative Office, as an own point of contact for the Audi Group is responsible for serious regulatory and legal breaches. It is a key element of good corporate governance. Effective November 1, 2017, a new Group policy came into force which revised and restructured the processes involved in the whistleblower system at the Volkswagen Group. Our employees, business partners and other third parties can bring to light serious regulatory and legal breaches committed by employees via various channels in the whistleblower system. The violation of human rights is a defining example of such a serious breach. Within the context of a fair and transparent procedure, the whistleblower system protects the company, the persons affected and the whistleblowers. The appointed ombudspersons ensure that tip-offs can be submitted to the Audi Investigative Office in anonymized form. It is a serious breach to discriminate against whistleblowers, and such conduct will not be tolerated. The persons affected shall be presumed innocent until it can be proven that a breach has occurred. The suspicion of human rights violations can also be reported at [compliance@audi.hu](mailto:compliance@audi.hu).

### **Risk analysis**

Within the context of the established risk management processes, represented among other things by the quarterly risk process and the annual standard

<sup>2</sup> <https://www.volkswagenag.com/en/group/compliance-and-risk-management/whistleblowersystem.html>

GRC process, risk assessments are also performed on the topic of human rights by the relevant Group divisions and companies, and reports submitted on the countermeasures taken. The input of potential risks within the annual standard GRC process is supported by a catalog of risks and thematic areas, which also includes potential risks arising from human rights violations. Reporting to the Board of Management of AUDI AG and Volkswagen AG as well as to the Audit Committee is done on a quarterly or annual basis, or as and when circumstances require.

### **Statement of Principles concerning Respect for and Observance of Human Rights<sup>3</sup>**

In order to affirm AUDI AG's commitment to respecting and observing human rights in general and to condemn forced labor and human trafficking specifically, back in 2016 AUDI AG's Board of Management signed the "[Statement of Principles concerning Respect for and Observance of Human Rights](#)".

### **Employee qualification**

By taking preventive measures, we promote compliance with regulations in our organization and raise the compliance awareness of our employees. This is why information and employee training plays a key role in compliance work across all hierarchy levels.

The revised Code of Conduct is made accessible to employees at Audi Hungaria via various channels, such as the intranet. In addition, attention is drawn to the new Code of Conduct and the important role it plays in emails and newsletters, , as well as via Compliance films. All new employees who have joined the company or will be employed by it in the future have to take part in mandatory training the new Code of Conduct.

<sup>3</sup> [https://www.audi.com/content/dam/com/corporate-responsibility/society/Audi\\_Statement\\_of\\_Principles\\_Human\\_Rights\\_2017\\_final.pdf](https://www.audi.com/content/dam/com/corporate-responsibility/society/Audi_Statement_of_Principles_Human_Rights_2017_final.pdf)

Since our procurement staff constitute a vital interface to our business partners, all new employees of it will receive additional sensitivity and expert training on sustainability topics and the potential risks. As part of this process, we ensure that our employees are familiar with internal systems and processes as well as with the sustainability requirements we place on business partners so they can report observed breaches of these sustainability requirements to the responsible units. Concerning specific topics such as raw materials for electro mobility and the associated sustainability risks such as human rights violations, we train targeted employees groups together with the Volkswagen Group separately in specially designed training formats. A total of over 900 procurement employees were sensitized to sustainability risks in the delivery chain in 2017 in classroom-based events.

### Measures in the supply chain

In order to maximize the benefit of synergy potential, Audi Hungaria assigned the selection of suppliers for the serial production to the Audi and Volkswagen Group Procurement. As a result, the Audi and Volkswagen Group are able to pool procurement volumes across multiple brands and models within the entire Volkswagen Group. In addition to the independent activities undertaken there, all actions taken and efforts made by the Volkswagen Group in promoting sustainability in the supply chain and protecting and respecting human rights thus contribute to the attainment of these objectives in the Audi Group, as well.

### Sustainability requirements for our suppliers<sup>4</sup>

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<https://www.volkswagenag.com/presence/nachhaltigkeit/documents/policy-intern/2016%20Code%20of%20Conduct%20for%20Business%20Partners%20DE-EN.pdf>

The “Sustainability in supplier relations” concept is based on the “Volkswagen Group requirements regarding sustainability in its relationships with business partners” in the Audi Group, as well. These requirements formulate the Volkswagen Group's expectations for our business partners' conduct with respect to key environmental, social and compliance standards. Internationally acknowledged human rights are included in these standards. By contractually integrating the sustainability requirements into the procurement process, we strive to ensure compliance with sustainability standards throughout the entire supply chain worldwide.

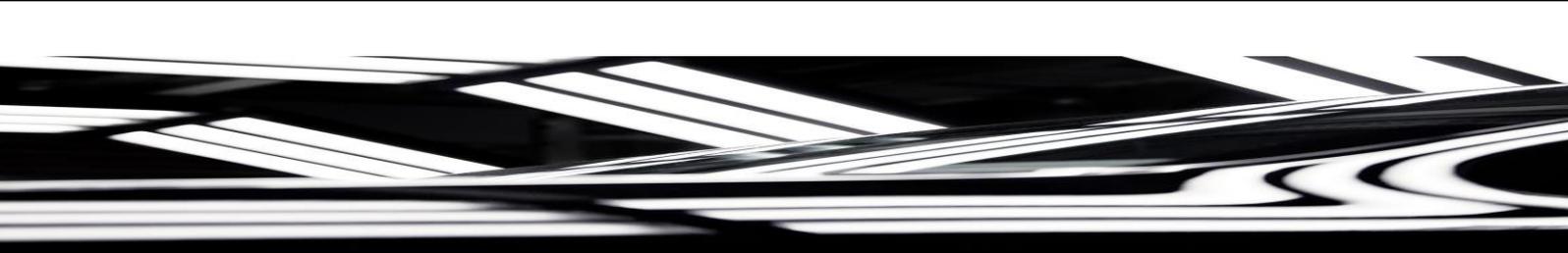
These requirements are based on the principles of the United Nations Global Compact, the International Chamber of Commerce's Business Charter for Sustainable Development, and the relevant conventions of the International Labour Organization.

We use a wide range of instruments to review and continually develop the sustainability performance of our suppliers, including a Self-Assessment Questionnaire (SAQ) as part of the DRIVE Sustainability Initiative and targeted on-site inspections of suppliers to assess their sustainability performance at the production location.

### Training and monitoring of suppliers

In the previous reporting year we stepped up our efforts to systematically assess the sustainability performance of our suppliers to a considerable degree. To this end, on-site inspections were carried out at 258 supplier production sites by an external service provider in 2017 to address targeted sustainability criteria. The findings of these on-site inspections led in 164 cases to an action plan aimed at strengthening suppliers' sustainability performance.

In addition to the on-site supplier inspections, by end-2017 over 1,100 of AUDI AG's supplier locations submitted

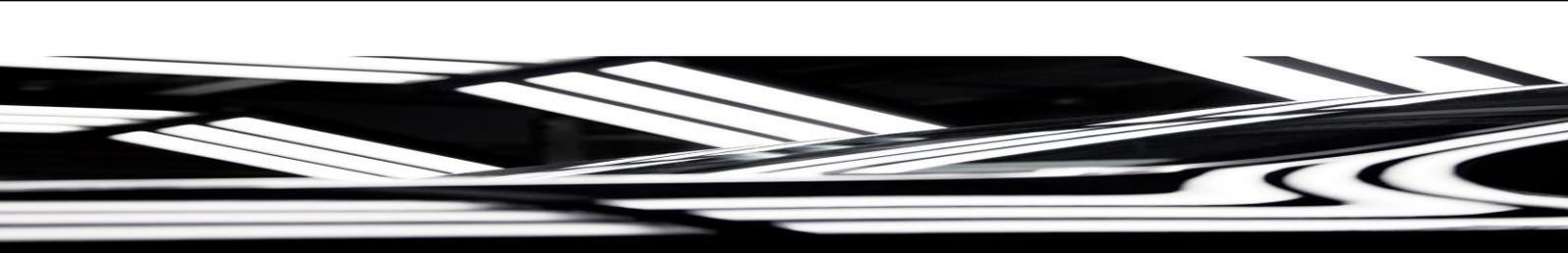


a Self-Assessment Questionnaire as part of the DRIVE Sustainability Initiative. The questions included in the self-assessment were expanded in 2016, for example through the addition of the question as to whether suppliers have a policy that rejects any form of modern slavery and human trafficking. Suppliers' sustainability performance was able to be measurably improved by means of suitable measures in 461 cases in 2017.

Alongside the systematic assessment of our suppliers' sustainability performance, we also highlight possible breaches of our sustainability requirements by business partners within the context of an established and cross-divisional ad-hoc-process. We take all evidence of violations very seriously and pursue them immediately and consistently. Specifically, in the case of a suspected breach we demand the supplier in question to provide us with a statement without delay using a standardized 6D report. If necessary, the supplier is additionally asked to present AUDI AG with an action plan to remedy the problem. We comprehensively monitor and review implementation of this action plan for example by means of on-site inspections or more in-depth 2<sup>nd</sup>-party CSR audits. Suspected breaches can for example be reported via the central P.O. Box of the AUDI AG [whistleblower-office@audi.de](mailto:whistleblower-office@audi.de).

In addition to auditing our suppliers' sustainability performance, a key focus of our activities is the ongoing dialog with and development of our suppliers. In this way, we make sure our business partners understand what we are asking of them and are sensitized to new challenges that may arise. To facilitate ongoing supplier development, in the course of our business relations we make an electronic learning (e-learning) module on sustainability available to all suppliers. By the end of the 2017 reporting year, around 29,000 supplier locations to the Volkswagen Group had completed the Volkswagen Group's online training offering. In addition to e-learning, we conduct

topic-specific sustainability training and workshops with our suppliers at selected locations. More than 700 employees from approximately 360 Group suppliers in regions such as South America, Asia and Europe attended classroom-based events in 2017 to be trained on sustainability issues and region-specific challenges.



## Progress report

As announced in Slavery and Human Trafficking Statement of the Audi Hungaria for the 2016 fiscal year, various measures were implemented in 2017 to sharpen awareness of forms of modern slavery and human trafficking. For example, 2017 saw the revision of the Code of Conduct of the Volkswagen Group – and therefore also of the Audi Group and of Audi Hungaria – to incorporate the rejection of any form of modern slavery and human trafficking.

To incorporate further insights into human rights issues and the opinions of independent external experts in our corporate strategy, we organize regular stakeholder dialogs attended by representatives from NGOs, science and politics. As we will not tolerate any human rights violations in the future either and as, in our understanding, a dynamic risk is involved, we will adjust our monitoring to current developments while at the same time working to raise awareness both inside and outside of the company regarding forms of modern slavery and human trafficking.

In addition to its activities with direct business partners, in 2017 the Volkswagen Group carried out a comprehensive risk analysis of the raw materials used in its motor vehicles in order to enable it to react in a timely and targeted

manner to potential human rights violations or negative environmental impacts associated with mining the raw materials it uses. Building on the results of the analysis, we work together in the Group procurement network to develop suitable measures, while the Volkswagen Group additionally cooperates in initiatives such as the DRIVE Sustainability Initiative. This cooperative approach is especially important since AUDI AG does not procure any of its raw materials directly. With respect to the issues the company will face in the future, the Volkswagen Group places particular focus on commodity risks in connection with electro mobility and maintains an intensive dialog not only with battery suppliers, but also with companies in the upstream supply chain right through to players in civil society. As part of the Responsible Minerals Initiative (RMI), the Volkswagen Group is for example working on a certification system for cobalt smelting to improve mining conditions and to be able to prove where the materials used in its batteries come from. In addition, in 2017 AUDI AG joined the Global Battery Alliance of the World Economic Forum. The alliance consisting of public and private-sector partners from along the entire battery supply chain strives to ensure the social and environmental sustainability of the value chain for the raw material used in batteries.



**AUDI HUNGARIA Zrt., June 2018**

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of AUDI HUNGARIA Zrt.

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