



## **Slavery and Human Trafficking Statement of AUDI HUNGARIA Zrt. (Fiscal year 2019)**

**This Statement was drawn up in accordance with § 54 of the United Kingdom Modern Slavery Act 2015. It represents all implemented measures of AUDI HUNGARIA 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, Audi Hungaria produces several models (currently Audi A3, TT, Q3). The Audi Hungaria is a company under Hungarian law and is a 100-percent subsidiary of AUDI AG.

AUDI AG is a company under German law with its headquarters in Ingolstadt, Germany. It is the parent company of the Audi Group. In addition to AUDI AG, the Audi Group includes every significant company and entity, over which AUDI AG directly or indirectly exercises a controlling influence. The Audi Group is organized on a decentralized basis, with each entity bearing responsibility for their own business activity. Additionally, the group-wide monitoring and management of guiding principles, reporting channels and committees is ensured. The business activities of AUDI AG in particular include the development, production and distribution of automobiles, as well as the management of the Audi Group.

With its headquarters in Ingolstadt, the Audi Group is present in more than 100 markets worldwide, manufacturing at more than 16 locations in 11 countries. Moreover, the brands Ducati and Lamborghini are also part of the Audi Group. Extensive information about the affiliated companies can be found on the list of shareholdings as per §§ 285 and 313 of the German Commercial Code (HGB) at: [www.audi.com/subsidiaries](http://www.audi.com/subsidiaries).

Furthermore, AUDI AG is part of the Volkswagen Group. Volkswagen AG is the majority shareholder of AUDI AG, holding around 99.64% of share capital.

Through its presence in the important markets, the global procurement organization of the Volkswagen Group ensures that production material, tangible assets and services are purchased across the world in accordance with the expected quality standards and best conditions.

The procurement of the Audi Group is active in 152 countries and it is an interface between the Audi AG and its more than 16.000 suppliers. For the sake of best synergies, the choice of suppliers is made with coordination of the Volkswagen group procurement. Besides the independent actions of the Audi Group, the measures and actions taken by the VW Group in order to support sustainability, protect and respect human rights in the company and in the supply chain all contribute to the achievement of these goals in the Audi Group as well.

## Internal measures

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

The Audi Hungaria has updated its Code of Conduct in 2017, in line with AUDI AG and the Volkswagen Group. As a result, the content of the Code of Conduct is identical across all brands and companies.

The Code of Conduct is permanently available on the intranet to every colleague and accessible on the public website to third parties. It is constantly communicated in digital form as well as at company events.

The Code of Conduct of Audi Hungaria applies to all employees and its basis are common values centered on 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,

<sup>1</sup> <https://audi.hu/en/profile/compliance/>

support and advice. The rejection of modern slavery and human trafficking of any form is also a central tenet of the Code of Conduct of the Audi Hungaria. Furthermore, 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).

### **The Audi Group's Declaration of Principle to the Respect of and Compliance with Human Rights**

In order to confirm the acknowledgement of the Audi Group to the respect of and compliance with universal human rights and the condemnation of forced labor in particular, the Audi Group's Board of Management signed a [Declaration of Principle to the Respect of and Compliance with Human Rights](#) in 2017.

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

The Audi Investigation Office of the Whistleblower System is responsible for serious regulatory and legal breaches. It is a key element of good corporate governance. Effective December 17, 2018, a new company policy came into force introducing the whistleblower system at the Audi Hungaria. 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. These include an online reporting channel, phone hotline, e-mail address and the opportunity for personally contacting the Audi Investigation Office, as well as the ombudspersons. The specially protected online reporting channel and the appointed ombudspersons ensure that hints can be submitted to the Audi Investigative Office in anonymized form. Hints may be submitted in all major languages used in the corporation, and are kept confidential. In accordance

with procedural principles and guarantees, the protection of the whistleblower as well as the persons affected is kept in focus. 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.

An example of a serious breach is the violation of human rights.

### **Risk analysis**

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

In addition, a working group of the VW Group Compliance developed a concept in 2019 to assess risk exposures for controlled companies along the correlation of country specific risks and business model risks in the topic of "Business & Human Rights". On this basis measures are defined for the entities of the Audi Group as well. These measures are integrated into the general measures of classic compliance topics, e.g. anticorruption, anti-money laundering, and they are to be implemented till the end of 2021.

<sup>2</sup> <https://audi.hu/hu/online/compliance>

## 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 communication and training activities in this reporting year concentrated on the topics Code of Conduct, anticorruption and the Whistleblower System. The Code of Conduct training includes basic information about human rights.

The Code of Conduct is made accessible to employees at Audi Hungaria via various channels, such as the intranet or online. All new employees take part in mandatory compliance training, and receive a hard copy of the Code of Conduct.

In addition, Audi Hungaria executed the corporation-wide mandatory Code of Conduct training program in 2019.

In the upcoming months a deep-dive training on business and human rights is to be implemented. In addition to this, the topic will be integrated into the content of already existing training materials.

Since our procurement staff constitute a vital interface to our business partners and thereby to our supply chain, all of its new employees of it will be additionally sensitized on sustainability topics. In doing so, 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 human rights violations,

we sensitize targeted employee groups in specially designed formats. The protection of human rights is emphasized in the Code of Conduct Trainings as well.

## 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 – Code of Conduct for Business Partners<sup>3</sup>

The Code of Conduct for Business Partners is core element of the responsible supply chain management. It contains our expectations for business partners in the topics of social, integrity and environmental standards. These expectations are based amongst others on the OECD directives for multinational companies, the UN Guiding Principles on Business and Human Rights, and the respective conventions of the International Labour Organization (ILO).

The Code of Conduct for Business Partners was fundamentally updated in 2019.

<sup>3</sup>  
[https://www.audi.com/content/dam/gbp2/company/sustainability/downloads/documents-and-policies/corporate-](https://www.audi.com/content/dam/gbp2/company/sustainability/downloads/documents-and-policies/corporate-guidelines/Volkswagen_Code_of_Conduct_for_Business_Partners-2019-DE-EN.pdf)

[guidelines/Volkswagen\\_Code\\_of\\_Conduct\\_for\\_Business\\_Partners-2019-DE-EN.pdf](https://www.audi.com/content/dam/gbp2/company/sustainability/downloads/documents-and-policies/corporate-guidelines/Volkswagen_Code_of_Conduct_for_Business_Partners-2019-DE-EN.pdf)

The extended expectation for suppliers specific on the topic of modern slavery goes like this:

“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 is to risk-based increase sustainability and responsibility based on the defined expectations together with our suppliers in a fair partnership.

#### **Systematic determination of sustainability risks**

Therefore, the Audi Group established sustainability ratings (S- Rating) as early as 2017, to determine and eliminate risks before the award of a contract. Since 1 July 2019, S-Rating has been obligatory within the Volkswagen Group. Through/via S- Rating, sustainability became a mandatory award criterion for contracts with suppliers, who deliver materials for production and for relevant suppliers of the general procurement. In the tendering process, it is on the same level as the criteria regarding cost, quality, technological competence and logistics. The S-Rating is based on self- declaration (SAQ), and is supplemented from a risk-based view by an on-site assessment as well as a compliance check, if necessary.

The self- assessment questionnaire (SAQ) standardized for the automobile industry provides Audi with information about potential risks in the social sector, environmental and business ethics of the respective suppliers. We explicitly request our suppliers for their own company policies, as well as other company policies deeper within the supply chain, which include a ban on modern slavery

and human trafficking. Likewise, appropriate management systems are to be documented. In 2019, altogether 12.646 suppliers of the Volkswagen Group have provided information on this. When necessary, for example the Group examines the compliance risks in case of questionable integrity.

#### **Effective risk management**

If the SAQ is not sufficient in consideration of a country specific risk, an independent sustainability assessor examines the company on-site in regard to modern slavery and other aspects, e.g. considerate usage of resources in production and work safety. In the VW Group there were 1331 on-site checks in 2019. Discrepancies were summoned in a measure set called Corrective Action Plan and they are to be corrected. Finally the sustainability assessor checks if the mistakes are in fact corrected. At the end of the S-Rating process a supplier can be awarded or not. The cooperation of S-Rating also aims that suppliers, who are not yet able to give a sufficient performance, later be enabled to.

Only this way can a positive impact be reached on people and the environment. As a basic rule every supplier has the opportunity to undergo a new assessment after implementing improvement measures.

Besides the self-assessed risks, the Audi Group receives hints about potential violations (so-called Ad-hoc cases). These are ad-hoc suspicious facts or hints about potential violations of our sustainability requirements in the Code of Conduct for Business Partners. The corresponding process was further developed and systematized in the reporting year, and is recorded in an internal company policy. The processing of “hints about potential violations” takes place inside the Group by a “Team of experts” appointed from different business units. The responsible Team of experts of the respective brand or region takes over the

coordination of the implementation of a measure set after a plausibility check by the Group, while being supported by the Team of experts of the Group.

To assess the inadequate execution of sustainability requirements by a supplier or sub-supplier in such a case, Audi requires its suppliers to issue a written statement based on a standardized report. During the reporting period 27 Ad-hoc cases were processed in the Volkswagen Group. Based on the activities of the procurement and revision units altogether with 17 suppliers were the collaboration ended or new allocations blocked.

#### **Training and monitoring of suppliers**

An important instrument for the improvement of social and environmental standards in our supply chain is the S-Rating. In this, the continuing education of our employees and business partners is a central element of our strategy. Therefore Audi have prepared its employees and business partners for this rating with information in organizations and workshops. The web based training about S-Rating was completed in the reporting period by 99,9% of all Audi procurers. The focus was on the integration of S-Rating into the standard processes of procurement and it makes clear that the compliance of sustainability requirements is to be taken into account in new allocations.

We expect from our business partners in the sustainability self-assessment amongst others, that they have policies and management systems that regulate their business praxis. In order to appropriately enable our business partners, Audi organized „Sustainability Talks“ in the reporting period for companies with at least 50 and maximum 500 employees. In the workshops extern specialists showed the employees best practices that help to develop appropriate sustainability policies. 55% of the trained suppliers did better in the S-Rating after taking part in the Sustainability Talks.

Furthermore in the year of 2019 there was a web based training about the content of Code of Conduct for Business Partners developed which sensitizes business partners to protect and respect human rights and to not tolerate modern slavery or human trafficking. The training was activated first for importers at the end of the year and the rollout will be continued in 2020.

## Progress report

As announced in Slavery and Human Trafficking Statement of the Audi Hungaria for the 2018 fiscal year, various measures were implemented in 2019 to raise awareness of forms of modern slavery and human trafficking.

In the course of the responsible supply chain management - in addition to the update of the Code of Conduct for Business Partners - the S-Rating was adapted as a binding contracting criteria for the whole VW Group. Furthermore were suppliers of relevant product categories in the general procurement integrated. 12.646 suppliers shared their sustainability self-disclosure with the VW Group.

The „Sustainability-Talks“ for suppliers was established as a successful training module and it is going to be continued and where applicable extended in 2020 as well.

**AUDI HUNGARIA Zrt., June 2020**



Alfons Dintner

Chairman of the Board of Management  
of Audi Hungaria Zrt.



Axel Schifferer

Member of the Board of Management for Finance, IT,  
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