

Volkswagen Sachsen GmbH



Slavery and Human Trafficking Statement by the Volkswagen Sachsen GmbH (Fiscal year 2020)

This statement has been issued in accordance with Section 54 of the United Kingdom Modern Slavery Act 2015. It describes all the measures taken by the Volkswagen Group and in order that by the Volkswagen Sachsen GmbH in order to avoid any forms of modern slavery and human trafficking.

Preamble

In view of the advancing globalisation and the increased complexity of our value creation and supply chain, the Group recognises its global responsibility which includes the protection of human rights. This responsibility does not end at our factory gates, but goes beyond them. Our broad understanding of the topic "Business & Human Rights" has been published under [this link](#) since the United Nations' International Human Rights Day 2019 (10 December 2019). The Group has extended and affirmed this understanding and our commitment to the internationally recognised agreements and conventions in the new Declaration by the Volkswagen Group on Social Rights, Industrial Relations and Business and Human Rights. [This](#) declaration was published on 8 December 2020.

Organization and supply chain

The Volkswagen Sachsen GmbH is a company under German law with its head office in Zwickau, Germany and a 100% subsidiary of the Volkswagen Group. The legal connection is based on a control and profit transfer agreement. The Volkswagen Sachsen GmbH is made up of the following three locations: the vehicle production plant in Zwickau, the engine plant in Chemnitz and the so called "Gläserne Manufaktur" in Dresden.

The production network of the Volkswagen Group comprises 118 locations which produce passenger cars, commercial vehicles and motorcycles as well as powertrains and components. With 66 locations, Europe remains our most important production region for the manufacture of vehicles and components. There are 24 sites in Germany alone.

The Group operates 34 sites in the Asia-Pacific region. There are five sites in North America and nine in South America. The Group operates four sites in Africa.

With its presence in key markets, the Group's global procurement organisation ensures that production materials, investments in property, plant and equipment, investment property and intangible assets, excluding capitalised development costs as well as services are procured worldwide in the required quality and at the best possible terms. The competitive advantages of the various procurement markets are exploited throughout the Group as a result of the brands' networking of the various procurement organisations. The Group currently purchases products, services and parts from approx. 100 countries worldwide.

For the Volkswagen Group, global compliance with sustainability standards in areas such as human rights, occupational health and safety, environmental protection and combating corruption is a basic prerequisite for successful business with our suppliers. Only together with our business partners at around 65,000 locations is it possible to ensure compliance with sustainability standards and contribute to the implementation of the United Nations Sustainable Development Goals (SDGs). To achieve these goals, the Group implemented the "Sustainability in Supplier Relations" concept back in 2006 and continues to develop it further. This concept anchors sustainability in our procurement processes and procurement organisations. In this way, by 2025 the Group intends to effectively prevent environmental, social and corporate governance risks, including human rights risks, and to ensure that 85% of our direct business partners receive an A- rating in our "Sustainability Rating".

The Volkswagen Group has a globally positioned and growing network of sustainability officers in the Procurement departments of the respective brands and regions. This network currently consists of more than 40 experts and assists the Group in gaining a better understanding of local conditions.

Internal measures

General

In January 2019, the Group Board of Management – specifically Hiltrud D. Werner from Integrity and Legal Affairs, and Gunnar Kilian from Human Resources – appointed a Business & Human Rights coordinator, who is part of Group Compliance. Combating modern slavery along our entire value creation and supply chain is one of the focal points of our activities in the area of “Business & Human Rights” – which is embodied, for instance, in the current prioritisation of our “Salient Issues in Business & Human Rights”. For us, child labour and forced labour are serious violations of human rights and are therefore in particular prohibited. In addition to coordination within our Group itself, in 2020 the Group continued to prioritise collaboration with external stakeholders. The Group supports the German Federal government’s National Action Plan (NAP) “Business & Human Rights”. Specifically, in 2020 they actively participated in the “Business & Human Rights” dialogue of the automotive industry under the aegis of the German Federal Ministry of Labour and Social Affairs (BMAS). The Group will continue this dialogue in 2021. Combating modern slavery also plays an important role here. In addition, since 2019, the Volkswagen Group have been an active member of the Global Business Initiative for Human Rights (GBI), and is the only car manufacturer to take part. The purpose of this corporate network is to discuss issues and participate in peer learning. The Group seeks communication with other stakeholders, as for example in the Volkswagen Group Sustainability Stakeholder Dialogue in February 2020. Here the Group presented and discussed their business and human rights measures with bodies such as NGOs and human rights organisations. On this basis, they have been able to develop their engagement in order to even better meet their corporate responsibility for human rights.

Volkswagen Group Code of Conduct

The Volkswagen Group updated its Code of Conduct in 2017 and introduced it uniformly to all its brands and companies around the world. The Code of Conduct embodies the ethical principles of the Volkswagen Group and is based on common values, with a focus on honesty, integrity, compliance and ethical behaviour as well as on the subject of responsibility. The Code of Conduct helps employees observe existing company rules at their workplace, as business partners and as members of society, providing them with practical guidance, assistance and advice. The rejection of all forms of modern slavery and human trafficking is an integral part of the Volkswagen Group Code of Conduct. In addition, they base their actions on the principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the requirements of the International Labour Organisation (ILO).

The Code of Conduct is available at all times to all employees on the Intranet and also to third parties on the Internet, and is continuously communicated in digital and print media as well as at internal company events. Regular training on the Code of Conduct is mandatory for all employees, regardless of hierarchical level. Additionally, members of the senior management confirm their knowledge and responsibility with regard to the Code of Conduct each year following a risk based approach.

The Volkswagen Group has also specially formulated the Code of Conduct for Business Partners. This details the Group’s expectations regarding the attitude and conduct of business partners in their corporate activities, particularly with regard to suppliers and sales partners. The requirements are regarded as the basis for successfully shaping the business relationship between the Volkswagen Group and its partners. They include observance of human rights, such as the prohibition of child labour, human trafficking and slavery, as well as ensuring environmental protection and preventing corruption.

Volkswagen Group Whistleblower System¹

The whistleblower system is used for reporting serious rule violations. The violation of human rights is an example of an issue that involves a serious regulatory violation. It enables not only employees, but also business partners and customers around the world to report misconduct by employees any day of the year: written information can be submitted in any language using a specially protected online reporting channel. An international 24-hour telephone hotline is available for reporting information in a total of 17 languages. Information can also be submitted via commissioned external lawyers (ombudspersons). The reports can be made anonymously on all channels, if desired. 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 will not be tolerated.

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, 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 focus areas which also includes potential risks from human rights violations. Reports are submitted to the Brand Board of Management, the Group Board of Management and the Audit Committee on a quarterly or annual basis, as well as when required. In addition, a cross-departmental working group in Group Compliance of the Volkswagen Group developed a concept in 2019 for assessing risk exposures alongside a correlation of country risks and business model risks in the area of "Business & Human Rights" for controlled entities. Based on this, measures that in particular develop viable and uniform structures for this topic are defined for the

entities. These measures are integrated in the general measures for traditional compliance topics such as the prevention of corruption and money laundering. For non-controlled companies, with the exception of the Chinese joint ventures, respective compliance risks are assessed individually in close cooperation with our social partners. The Group relies on the cooperation of these partners. The Volkswagen Group integrates business and human rights into the Group's existing Compliance Management System in accordance with the UN human rights due diligence guidelines. The Business & Human Rights Centre of Competence advises other business units on human rights issues, ad hoc cases and implementation of legal requirements, especially those related to compliance. This advisory function has been established in the Volkswagen Group since 2020.

Qualification of Employees

Preventive measures promote compliance at Volkswagen AG and raise compliance awareness among employees. Target group-oriented communication and training measures for employees at all hierarchical levels play a key role in this. In this year under review, specific communication and training activities continued to focus primarily on the Code of Conduct, the Whistleblower System and the prevention of corruption. The latter is also mandatory for employees and has been rolled out across the Group since 2019. In addition, the Volkswagen Group also trains its business partners in procurement and sales on key aspects of compliance and anti-corruption. In the financial year 2020, dedicated employee training measures were held on various subjects, for example basic and advanced courses on human rights. The contents can be flexibly integrated into wider compliance training but can also be used as intensive courses to provide a separate and comprehensive introduction to the topic. The Volkswagen Group also continues to pursue the communication strategy it developed the previous year in order to increase the transparency in human rights.

¹ <https://www.volkswagenag.com/en/group/compliance-and-risk-management/whistleblowersystem.html>

Measures in the supply chain

Sustainability requirements for our suppliers (Code of Conduct for business partners)²

The Volkswagen Group wants to fulfil our responsibility in their business relations on a global level and act proactively beyond simply meeting legal requirements. In procurement, they pursue a three-pronged approach. The basic prerequisite for these steps is transparency in supplier relationships that go beyond the first level (Tier 1):

- Prevent: sustainability requirements are anchored in contracts and specifications as a mandatory component. Suppliers are fully trained and qualified.
- Detect: sustainability risks in the supply chain are systematically identified and prioritised. Sustainability is anchored across the Group in all important contract award decisions and a sustainability performance rating of potential suppliers ("S-Rating") is used. This is based on self-disclosures and risk-based checks on site.
- React: various measures are provided in order to respond to the identified risks and effects. These include a standardised process for dealing with violations by individual suppliers and action plans from on-site inspections.

Clear specifications and awareness-raising for suppliers (Prevent):

The "Requirements of the Volkswagen Group for Sustainability in Relationships with Business Partners" – the code of conduct for business partners is a key part of our supplier management system. It is applicable for all suppliers of the Volkswagen Group. Our expectations as regards our business partners' conduct with respect to core environmental, social and compliance standards are set out contractually there. The requirements are based among others on the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the relevant conventions of the International Labour Organisation (ILO). However, the Code of Conduct is

not only based on international standards, but also on the Volkswagen Group's objectives, rules and directives.

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 or compulsory labour 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."

In order to raise awareness among suppliers, the Volkswagen Group expanded the information and qualification opportunities in 2020. This includes the information on the ONE. Group Business Platform, workshops with suppliers and training courses with the Drive Sustainability Initiative. They will continue these measures in 2021. In addition, in 2020 a raw materials due diligence management system was introduced which identifies risks for 16 selected raw materials and allows specific mitigation measures to be developed on Group level. The Group produces an annual report on the progress of the raw material management system.

Systematic determination of sustainability risks (Detect):

Our aim is to be aware of the sustainability risks in our supply chain at all times and effectively address them. A key measure introduced in 2019 is the sustainability rating (S-Rating), which will be fully integrated by the end of 2021. The S-Rating indicates relevant suppliers' sustainability performance and opportunities for continuous improvement. It evaluates the ecological performance of suppliers as well as their social sustainability and integrity. The S-Rating is of direct relevance to our direct suppliers in terms of contract awards. If a supplier does not meet our requirements for compliance with sustainability standards, they will generally not be awarded contracts. This is a direct incentive for suppliers to improve their sustainability performance. The checks forming part of the

² coc_geschaeftpartner_062019.indd (volkswagenag.com)

S-Rating are carried out with the help of a multi-stage, risk-based process. A standardised questionnaire / self-assessment questionnaire (SAQ), developed jointly with other European OEMs, is used to analyse a company's sustainability performance. The information and documents in the SAQ are checked and validated by a service provider: if a supplier states that they have specific processes and policies in place, they must prove this with documents. Specifically, a question is asked regarding a human rights policy which includes the topic of "Forced or compulsory labour and human trafficking".

Using a risk-based approach, further checks are carried out on site after an initial analysis of the supplier's details. If the results of the check show severe deficits in the implementation of our sustainability requirements, the supplier will receive a negative rating. This means that no contract can generally be awarded.

Achieving improvements together (React):

A range of measures are available in order to be able to react to risks identified in the supply chain and to specific violations by suppliers, and therefore to actively effect improvements.

An important part of sustainable supply chain management is the grievance mechanism "Supply Chain Grievance Mechanism", with which the Group responded to suspected violations of their sustainability requirements that suddenly arises. The case management process was revised and reorganised again in 2020 to become a comprehensive complaint management system. It is accessible via our website, an email address and an anonymised channel and is open to all stakeholders and potentially affected persons such as employees of suppliers, social organisations or representatives of communities in the immediate vicinity of our production sites. The cases are handled according to a binding policy, managed by the Group and processed together with the Volkswagen Group brands and regions. If violations are identified, measures are initiated immediately. If there are particularly serious violations, the business relationship may even be terminated.

Employees and external parties can also report potential violations by our suppliers to the Volkswagen Group works council or trade unions, or use the Volkswagen Group whistleblower sys-

tem or contact sustainability@vwgroupsupply.com. This concerns possible violations by our direct suppliers as well as by subcontractors in the supply chain. External ombudspersons are another point of contact.

In the reporting period, the Procurement division dealt with 34 cases and measures were agreed by Group Audit together with suppliers. These were suppliers where conduct in violation of regulations or contracts had been identified as a result information received or through audits. In total, collaboration with 17 suppliers was terminated or they were excluded from new contract awards following the activities of the Procurement and Audit divisions.

Special due diligence for human rights:

As part of our sustainable supplier management, the Group is especially committed to protecting those groups along our supply chains who face a high risk of potential human rights violations. In order to meet the international framework agreements and requirements, in 2020 they launched a human rights due diligence management system which they use to systematically analyse, prioritise and minimise human rights risks in our supply chain.

Our raw material supply chains require special attention in this respect. To effectively deal with the sometimes extensive risks in these supply chains, the Group also set up a raw material diligence management system. This details the prioritisation and processing of raw material supply chains which they classify as particularly prone to risks. Our focus is currently on 16 types of raw material. Our actions for responsibly procuring raw materials are guided by the requirements of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. This contains guidelines on management approaches, on risk identification and prevention, on inspecting smelters and on instruments for communication and reporting. Our current focus is on raw materials for batteries, in particular cobalt. In close cooperation with our battery cell suppliers, our aim is to gain transparency of the supply chain from extraction at the mine through to manufacture of the finished product. For raw materials extracted in conflict regions – tin, tantalum, tungsten and gold – the Group requires their suppliers to use their management

systems to exclude the use of minerals from smelters that are not certified according to international standards. The Group checks this by means of their reporting process which uses the internationally recognised Conflict Minerals Reporting Template of the Responsible Minerals Initiative (RMI) on all smelters in our upstream supply chain. They then evaluate the results. If they identify non-certified smelters in their supply chain, they make efforts to ensure that these smelters become certified.

The Groups management system also includes due diligence in other raw material supply chains. They therefore cooperate closely with their direct suppliers and in suspected cases demand disclosure of the origin of materials linked to potential breaches of human rights such as child labour, forced labour or any form of modern slavery and human trafficking. Among other things, this includes working conditions in the extraction of raw materials such as mica or natural rubber. Because these processes are highly elaborate due to the complexity of the supply chains with up to eight stages, the Group always takes a risk-based approach.

If on-site visits indicate breaches of human rights, they agree a mandatory plan of measures with the supplier to eliminate the deficits. If this is not effective, sanctions are imposed. Their complaints process is crucial for violations that are reported to them or are identified by them. In this case, they enter a dialogue with the supplier on an individual basis with the aim of achieving an improvement. If there is no improvement in the event of serious violations, this can lead to exclusion from the supply chain.

Digital innovations for greater transparency and safety in the supply chain:

To increase transparency in upstream supply chains and prevent risks in raw materials procurement, the Volkswagen Group asks direct suppliers to disclose the supply chains, and also uses second-party supply chain mapping audits. These risks include forms of modern slavery, for example. Another approach that has been pursued since 2020 is the use of a service provider which comprehensively audits suppliers using artificial intelligence. Constant monitoring of freely available internet sources including social media allows information on possible violations by suppliers to be reported in real time.

Commitment to international initiatives:

Activities in the earlier parts of the supply chain and outside of contractual relationships require considerable effort from the Group. They will only be able to succeed via joint, industry-wide initiatives and collaborations with suppliers as partners. It serves no-one to pursue the objective of banning as many non-conforming companies as possible from our supply chain or to exclude entire countries of origin from our supply chain. Rather, it must be our aim to work with them in a collaborative effort to improve their sustainability performance.

In the Groups commitments, they seek close cooperation with international organisations. In their supplier management, they therefore implement the OECD guidelines for the responsible procurement of raw materials and the standardised reporting templates issued by the RMI. As a member of the Global Battery Alliance (GBA), the Groups aim is to act as a catalyst and accelerate measures towards a socially responsible, ecologically sustainable and innovative battery value chain.

The commitment to CSR Europe's DRIVE Sustainability industry initiative is also central to the Group's activities. In Germany, they are committed to the federal government's NAP industry dialogue on business and human rights.

In order to make specific local changes beyond communication and dialogue formats, since 2020 the Group has also been involved in two projects in the countries of origin of cobalt and lithium, our most important battery raw materials.

Sustainability Training for employees and partners:

The systematic education and training of the Groups employees and suppliers is a core building block of their strategy and essential for improving sustainability in the supply chain. The Group currently uses three different formats to do this. First, they regularly conduct face-to-face training around the world. However, since these could only take place to a very limited extent in 2020, the Group added live online training courses. Thirdly, there are e-learning courses that can be taken online at any time.

Sustainability is an established part of the competence profile for all Procurement employees. Around the world, more than 2,000 buyers were

trained on this subject in 2020. The Group also continues to focus their training measures on specific target groups. For example, an intensive, specially structured training course was held for buyers of components with increased sustainability risks. They have been training our buyers on the specific challenges in battery supply chains since 2017. An in-depth human rights training course has been available since 2020. An e-learning system was also introduced in the reporting period. This is available to all employees in Procurement and deals in particular with the sustainability requirements of the Volkswagen Group and how they are reviewed as part of the S-Rating.

To allow continuous supplier development, the Group usually carries out sustainability training courses and workshops for their suppliers on specific subjects at selected sites. In the reporting period, this was only possible to a very limited extent. They have therefore developed an online training course with shorter sessions to teach suppliers about their requirements and how to implement them. The format was available in English, German and Spanish as of June 2020. Over 950 contractors' employees took up the offer in the reporting period. The training originally planned as part of the DRIVE Sustainability initiative for suppliers in India, Argentina, France and Russia could not be carried out and is expected to take place in 2021.

In addition to the training courses, the Group provide their current suppliers with an e-learning module on sustainability in nine languages of defined risk countries. The e-learning was completely revised in terms of content and technology in 2020. By the end of the year, more than 11,992 suppliers completed the new e-learning courses, which is equivalent to 17.4% of supplier turnover in terms of procurement volume.

Supply chain progress report:

As described in the last statement by the Volkswagen Group for the financial year 2019, various measures for preventing modern slavery and human trafficking were implemented in 2020: as well as updating the Code of Conduct for Business Partners, the Group continued rolling out the sustainability rating implemented in 2019 which also includes human rights risks and has been integrated in the contract award processes for the global procurement organisation.

By the end of the reporting period, over 13,000 active suppliers had submitted a sustainability questionnaire (SAQ). In the year under review, measures took place at 1,369 suppliers to improve sustainability performance.

In 2020, 790 risk-based on-site checks were carried out worldwide (in 2019 there were 1,331). On average, six violations against our sustainability requirements were identified. During the reporting period, an on-site check of logistics service providers was also introduced and piloted, which takes account of decentralised service provision, for example with more employee interviews. In order to avoid duplication and achieve greater coverage of suppliers with on-site checks, the Group is currently collaborating with OEMs and suppliers in a dedicated working group of the German Association of the Automotive Industry (VDA) on a common standard for on-site checks. As from 2020, suppliers will only need to be audited once. The results can then be shared with all participating business partners via a central platform.

In close cooperation with our battery cell suppliers, our aim is to gain full transparency of the supply chain from extraction at the mine through to manufacture of the finished product. This is the only way in which the Group will be able to effectively prevent negative impacts. A component of our strategy in this connection is to work directly with mining companies as the risk for violations, in particular against human rights, is the highest at the start of the supply chain and can therefore be countered most effectively at this stage. In the coming year, the Group will continue to expand their activities to implement sustainability in our supply chains. To this end, the Group is taking steps to streamline their supply chains even better and focus the activities they have started on additional raw materials. The aim is not only to identify risks in the future, but also to continuously minimise them using various instruments such as auditing, certification and qualification. To this end, the Group is taking steps to structure their processes relating to human rights due diligence even more systematically. The objective is to identify, prioritise and then prevent or mitigate our sustainability risks comprehensively. This aim fundamentally applies to the entire supply chain. Raw materials will continue to be a special focal area. Because of their importance, an OECD-compliant

management system for high-risk raw materials was developed in 2020. The Volkswagen Group reports on their objectives and activities and the progress of the management system in an annual report, which they publish on their website.

ANZAHL GEFUNDENER VERSTÖSSE WELTWEIT, JE VOR-ORT-CHECK PRO REGION UND IDENTIFIZIERTE TOP RISIKEN PRO REGION		
Geografische Region	Durchschnittliche Verstöße pro Region	Top 3 Risiken der Region
Afrika	4	Occupational Safety, Fire Safety, Managing Complaints
Asien*	6	Fire Safety, Occupational Safety, Working Hours
Europa	5	Fire Safety, Occupational Safety, Handling of Hazardous Materials
Lateinamerika	6	Fire Safety, Occupational Safety, Supply Chain Management
Nordamerika	4	Fire Safety, Occupational Safety, Environment

* Russland und die Türkei werden bei der geografischen Verteilung Asien zugewiesen.

Volkswagen Sachsen GmbH
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