

# “Slavery and Human Trafficking Statement”

## by Volkswagen Gebrauchtfahrzeughandels und Service GmbH

(Fiscal year 2019)

This statement has been prepared pursuant to section 54 of the United Kingdom Modern Slavery Act 2015. In particular, it details the measures implemented throughout the Volkswagen Gebrauchtfahrzeughandels und Service GmbH to prevent 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, we recognise our global responsibility which includes the protection of human rights. For us, this responsibility does not end at our factory gates, but goes beyond them.

### Organisation and supply chain

Volkswagen Gebrauchtfahrzeughandels und Service GmbH (hereinafter referred to as VGSG) is a limited-liability company (GmbH), incorporated according to German law, with its main headquarters in Langenhagen, Germany. Within the Volkswagen Group, VGSG is a 100% subsidiary of Porsche Siebte Vermögensverwaltung GmbH. The main business areas of VGSG are establishing and running used-vehicle centres, in particular for buying and selling as well as rental of vehicles and the accompanying service provision to large clients, dealers and importers. VGSG employs 247 employees. The VGSG has a balance-sheet total of €209.4m and an operative result of €30.0m (as of 31/12/2019).

### *Volkswagen Group*

Volkswagen AG is the parent company of the Volkswagen Group. It primarily develops vehicles and components for the Group brands and, secondly, produces and distributes in particular passenger cars and light commercial vehicles of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands. In its function as parent company, Volkswagen AG directly or indirectly holds investments in AUDI AG, SEAT S.A., SKODA AUTO a.s., Dr. Ing. h.c. F. Porsche AG, Scania AB, MAN SE, Volkswagen Financial Services AG, Volkswagen Bank GmbH as well as numerous other companies in Germany and other countries. Detailed information can be found in the list of shareholdings pursuant to sections 285 and 313 of the German Commercial Code (HGB), which can be accessed [here](#) and is part of the annual financial statements.

The production network of the Volkswagen Group comprises 122 locations which produce passenger cars, commercial vehicles and motorcycles as well as powertrains and components. With 71 locations, Europe remains our most important production region for the manufacture of vehicles and components. There are 28 sites in Germany alone. We operate 33

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. We currently purchase products, services and parts from approx. 110 countries worldwide.

For us, 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 approximately 40,000 business partners 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, we implemented the "Sustainability in Supplier Relations" concept back in 2006 and continue to develop it further. This concept anchors sustainability in our procurement processes and procurement organisations. 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**

VGSG is part of the Volkswagen Group and fully integrated into Volkswagen AG's compliance programme. Consequently, the Group's Code of Conduct is obligatory for all employees of VGSG. The integration into the Volkswagen Group additionally enables VGSG employees to access the whistleblower system and the qualification programme to support compliance prevention purposes. These measures sensitize employees and business partners of VGSG to comply with the applicable rules within the Volkswagen Group.

### *General*

In January of the reporting period, the Group Board of Management appointed two coordinators – specifically Hiltrud D. Werner, Integrity and Legal Affairs, and Gunnar Kilian, Human Resources – for “Business & Human Rights”, which is located within 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 “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 the coordination within our Group itself, we have prioritised a focal area in the collaboration with external stakeholders. We support the German Federal government's National Action Plan (NAP) “Business & Human Rights”. Specifically, we will actively participate in the

automotive industry's sector dialogue "Business & Human Rights" under the aegis of the German Federal Ministry of Labour and Social Affairs (BMAS). Combating modern slavery also plays an important role here. In addition, the Volkswagen Group was the first automotive manufacturer to be included in the Global Business Initiative (GBI) "Business & Human Rights" in 2019. The purpose of this corporate network is to discuss issues and participate in peer learning. We also actively seek direct dialogue with stakeholders, e.g. as part of the stakeholder dialogue of Volkswagen Sustainability or in the course of a public podium discussion with the human rights NGO, Amnesty International (AI), on 10 December 2019 in Frankfurt am Main on the debate concerning a German supply chain law.

#### *Volkswagen Group Code of Conduct<sup>1</sup>*

The Volkswagen Group updated its Code of Conduct in 2017. As already reported, it was launched and became mandatory for all the brands of the Volkswagen Group by the end of 2017. The content of the Code of Conduct is thus identical for all the brands and companies. It is readily available 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. The Code of Conduct is based on shared values, with a focus on honesty, integrity, compliance and ethical behaviour as well as the subject 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 deal with existing company rules and offers them orientation, help and advice. The rejection of all forms of modern slavery and human trafficking is also an integral part of the Volkswagen Group Code of Conduct. In addition, we base our actions on the principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the requirements of the International Labour Organization (ILO).

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

The Whistleblower System is used to report serious 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, e-mail, 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 of reporting information in all the major Group 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 will not be tolerated.

#### *Risk analysis*

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<sup>1</sup> [https://www.volkswagen-nutzfahrzeuge.de/idhub/content/dam/onehub\\_nfz/importers/de/download/unternehmen/Code-of-Conduct-2020-04-VW-Commercial-Vehicles-English.pdf](https://www.volkswagen-nutzfahrzeuge.de/idhub/content/dam/onehub_nfz/importers/de/download/unternehmen/Code-of-Conduct-2020-04-VW-Commercial-Vehicles-English.pdf)

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

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. Quarterly, annual and ad-hoc reports are submitted to the brand Volkswagen Commercial Vehicles by VGSG.

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, the topic of “Business & Human Rights” has been formally integrated in the relevant compliance concept since 2019. The “Business & Human Rights” compliance team advises other business units in this regard in urgent cases. It is envisaged that this advisory function will be further structured and expanded in 2020.

#### *Qualification of employees*

Preventive measures promote compliance at VGSG 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 and the Whistleblower System.

In fiscal year 2019, individual, dedicated training measures of varying scope took place for employees on this topic. For the future, a basic training course has been designed, which will be able to be variously integrated in wider compliance training courses. A comprehensive, stand-alone intensive training course that introduces the topic is also planned. Furthermore, communication on this topic has been increased with, for instance, a communication strategy having been developed.

#### **Measures in the supply chain**

The VGSG accordingly procures to the rules of the Volkswagen Group. With its demands for sustainability in supplier relationships, the Group sets a standard that VGSG has anchored in its procurement process. The procurement process stipulates that, separated according to procurement volume, the processes are conducted through the Group procurement division or the Volkswagen Commercial Vehicles brand’s division. For procurement with a volume of <

€100,000, business partners of the Volkswagen Group will be used where possible, as they already fulfil the Group's requirements relating to supplier relations.

### *Sustainability requirements of our suppliers (Code of Conduct for business partners)<sup>3</sup>*

We aim to meet our responsibility in our business relationships at the global level. We follow a three-pronged approach in Procurement to establish sustainable supply chains with a key focus on human rights and responsible sourcing of raw materials, decarbonisation and combating corruption. The basic prerequisites of these steps is transparency via 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 qualified and made aware of issues by means of training courses and communication materials.
- **Detect:** sustainability risks in the supply chain are systematically determined and prioritised. Besides the price, sustainability aspects are taken into account as a criterion in contract award decisions for new suppliers (Sustainability Rating). This is based on self disclosures and risk-based checks on site.
- **React:** a systematic response is initiated for risks and effects determined. The primary objective is to remedy and prevent violations as well as actively and effectively improve suppliers' sustainability performance.

### *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. This was thoroughly updated in 2019. Since then, these requirements also apply to our distribution partners (where Volkswagen distribution partners are included in the higher-level human rights risk analysis described above). Our expectations as regards our business partners' conduct with respect to core social, compliance and environmental standards are set out there. The requirements are, among other things, based 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 expanded requirements for suppliers specific to the topic of modern slavery are as follows:

"No slavery and no human trafficking –

business partners reject all deliberate use of forced or compulsory labour as well as all forms of modern slavery and human trafficking. There is no use of debt-servitude or non-voluntary prison labour. Employment relationships are voluntary and employees can give notice of their own volition in observance of a reasonable notice period."

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<sup>3</sup> <https://www.volkswagenag.com/presence/nachhaltigkeit/documents/policy-intern/2016%20Code%20of%20Conduct%20for%20Business%20Partners%20DE-EN.pdf>

In order to raise awareness among suppliers, we expanded the information and qualification opportunities in 2019. This includes the information on the ONE. Group business platform, workshops with suppliers and training courses with the Drive Sustainability Initiative. We will continue these measures in 2020.

#### *Systematic determination of sustainability risks (Detect)*

Our objective is to be aware of and effectively address the sustainability risks in our supply chain at all times. As a core measure, a Sustainability Rating (S-Rating) was introduced in mid-2019 and has been rolled out throughout the Group since then. The S-Rating has immediate relevance for our direct suppliers: if a supplier does not meet our requirements regarding compliance with sustainability standards, they will generally not be awarded a contract. This is a direct incentive for suppliers to improve their sustainability performance.

The checks forming part of the 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 react to risks determined in the supply chain and specific violations by suppliers as well as to actively effect improvements. An important component of sustainable supply chain management in this context are the so-called ad-hoc cases, meaning suspected violations of the sustainability requirements arising suddenly. The process of ad-hoc case management was revised and systematised in 2019.

Violations resulting in the opening of an ad-hoc case can, for example, be detected by information from third parties or employees in supplier companies. In such a case, the responsible ad-hoc team of experts from the respective brand or region is responsible for coordinating the implementation of a catalogue of measures and is supported by the Group ad-hoc team of experts.

During the reporting period, 27 ad-hoc cases were processed, one of which related to modern slavery. In serious cases or if measures are refused, we reserve the right to terminate the current business relationship. In 2019, the

collaboration with 17 suppliers was terminated or these suppliers were blacklisted for new contract awards due to activities in procurement and internal audit.

### *Special due diligence for human rights*

As part of our sustainable supplier management, we are in particular committed to the protection of those groups along our supply chains that face a high risk of potential negative effects on human rights. In this context, when implementing processes, our actions are informed by our due diligence to uphold human rights as required pursuant to the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. In accordance with the requirements of a risk-based approach, we focus our measures on supply chains in which, according to our analyses, particularly high risks for negative effects are inherent.

These in particular include our raw material supply chains. The actions we take for the responsible procurement of 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. These include guidelines on management approaches, risk identification and prevention, checking smelters as well as communication and reporting instruments.

With respect to raw materials extracted in conflict regions – tin, tantalum, tungsten and gold – we for instance require our suppliers to exclude, by means of their management systems, the use of minerals from smelters that are not certified according to international standards. We check this by means of our reporting process which uses the internationally recognised Conflict Mineral Reporting Template of the Responsible Minerals Initiative on all smelters in our upstream supply chain. We then evaluate the results. If we identify non-certified smelters in our supply chain, we make efforts to ensure that these smelters become certified.

We also apply our due diligence with regards to human rights to other raw material supply chains. For this purpose, we operate closely with our direct suppliers and, for a selection of high-risk raw materials, require that our suppliers disclose their supply chains and in particular the material origin. This allows us to identify the risks we are actually exposed to in terms of potential human rights violations such as child labour or forced labour or any form of modern slavery. We use these activities to initiate improvement measures with our suppliers and, in addition, engage in industry initiatives such as the Responsible Minerals Initiative in order to drive industry-wide standards forward. Among other things, this includes working conditions in the extraction of raw materials such as cobalt, mica, steel, lithium or natural rubber. As these processes are highly elaborate due to the complexity of the supply chains and can comprise up to eight steps, we take a risk-based approach, as explained previously.

### *Blockchain promotes transparency and security in supply chains*

In order to increase transparency in the supply chain and to prevent risks in the procurement of raw materials, the Volkswagen Group is currently piloting the use of blockchain technology in global supply chains.

To this end, the Volkswagen Group joined the Responsible Sourcing Blockchain Network (RSBN) for the responsible purchasing of strategic minerals using blockchain technology in 2019. This collaboration will provide us with better insight into the origin of cobalt which is used in lithium-ion batteries for electric vehicles. The origin of other minerals used in vehicle production can also be traced in this way.

#### *Commitment to international initiatives*

Working in the deeper parts of the supply chain and beyond contractual relationships requires us to make further efforts. We will only be able to succeed in these 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 our commitments, we seek close cooperation with international organisations. In our supplier management, we therefore implement the OECD guidelines for the responsible procurement of raw materials and the standardised reporting templates issued by the Responsible Minerals Initiative (RMI). As a member of the Global Battery Alliance (GBA), our aim is to act as a catalyst and accelerate measures towards a socially responsible, ecologically sustainable and innovative battery value chain.

#### *Training for employees and partners*

The systematic further education and training of our employees and suppliers is a core building block of our strategy and essential for improving sustainability in the supply chain. This topic is a firm component of the competence profile for all employees in Procurement. In total, more than 3,000 buyers globally were trained in this area in 2019. We also focus our training measures on certain target groups. An intensive, specially structured training course was thus carried out for buyers of components with higher sustainability risks. We have been training our buyers on the specific challenges in battery supply chains since 2017.

In addition to e-learning, we conduct subject-specific sustainability training courses and workshops with our suppliers at selected locations. During the reporting period, training events took place in Argentina, Brazil, Germany, Mexico, Poland, Sweden and South Africa. These training events raised awareness among a total of 1,500 employees from more than 1,100 of our suppliers on the topic of sustainability. In addition, we also work with industry initiatives and in cooperation with other companies to promote better sustainability management at our suppliers.

#### *Supply chain progress report*

VGSG will continue to align to the guidelines and standards of the Volkswagen Group. The sustainable ongoing development of business-partner relationships will accordingly be an elementary feature of VGSG.

As announced in the last statement by the Volkswagen Group for fiscal year 2018, various measures for the prevention of forms of modern slavery and human trafficking were designed and implemented in fiscal year 2019: in addition to updating the Code of Conduct for Business Partners, we implemented a new and expanded Sustainability Rating that also takes into account human rights risks and has been integrated in contract awards as well as contract award processes for the global procurement organisation. In the context of the S-Rating system presented in the section “Systematic determination of sustainability risks (Detect)”, more than 12,000 suppliers submitted a questionnaire in 2019. During the reporting year, an improvement in sustainability performance was achieved by more than 5,900 suppliers as a result of taking relevant measures.

In 2019, on-site checks were carried out globally. On average, three violations against our sustainability requirements were identified.

<b>Geographic region</b>	<b>Average violations per region</b>
Africa	3.7
Asia*	4.7
Europe	1.9
Latin America	2.2
North America	5.2
*Russia and Turkey belong geographically to Asia	

Together with OEMs and suppliers, we are currently working on a common standard for on-site checks for preventing duplications and for a wider coverage of suppliers by means of on-site checks in a specific VDA working group. 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.

Our current area of action relates to raw materials for batteries, in particular cobalt. 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 we 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, we will continue to expand our activities to implement sustainability in our supply chains. To this end, we are taking steps to streamline our supply chains even better and focus the activities we have started on additional raw materials. Our aim is not only to identify risks in the future, but also to continuously minimise them by means of various instruments such as auditing, certification and qualification. To this end, we are taking steps to structure our processes relating to due diligence under human rights law 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. In recognition of their importance, we are currently working on creating an OECD-compliant management system for high-risk raw materials that will transparently communicate our objectives and activities externally.

**Volkswagen Gebrauchtfahrzeughandels und Service GmbH**

Langenhagen, June 2020



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**Gerrit Starke**  
Managing Director of VGSG



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**Michael Nordmann**  
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