

# Supply Chain and Human Rights

## Protecting Human Rights Effectively

The Volkswagen Group pursues the vision of enabling sustainable mobility for generations to come. This includes living up to our legal, social and environmental responsibility not just in our own Group but also in our supply chains. In 2023, the Volkswagen Group once again defined the focus topic of "Supply chains and human rights" as a key topic.

## Responsibility in Our Group

Respect for human rights is of paramount importance to the Volkswagen Group. We are convinced that sustainable economic activity is only possible by acting ethically and with integrity. Within the framework of our entrepreneurial activities we are fully committed to our responsibility regarding human rights.

Volkswagen AG created the independent function of a Human Rights Officer (HRO) in August 2022. This position serves as the first point of contact for all human rights-related issues from authorities, NGOs and the public.

We confirm our commitment to major international agreements and declarations, which determine important cornerstones for our actions. These include in particular:

- The UN Universal Declaration of Human Rights, which is codified in the International Covenant on Civil and Political Rights and in the International Covenant on Economic, Social and Cultural Rights
- The Core Labor Standards of the International Labour Organization (ILO)
- The UN Guiding Principles on Business and Human Rights
- The OECD Guidelines for Multinational Enterprises
- The principles of the UN Global Compact

The above international frameworks are a focus for Volkswagen. The salient business and human rights issues refer to:

### Labor rights

- Freedom of association and the right to collective bargaining
- No forced labor
- No child labor
- Good working conditions

### Safety

- No involvement in any unlawful activities
- Guarantee of people's safety


### Tolerance

- Tolerance towards different ideological and religious opinions and respectful expression of them
- No discrimination
- Diversity and protection of disadvantaged, especially indigenous groups

Expectations of employees and the Group-wide understanding of the observance of universal human rights are set out in our Code of Conduct: We respect, protect and promote the regulations on protecting human rights worldwide as fundamental and universally valid requirements. We reject all use of child, forced or compulsory labor and any form of modern slavery or human trafficking.

 → [www.volkswagen-group.com](http://www.volkswagen-group.com) > Code of Conduct

Group management and the Group European Works Council and Global Group Works Council have also signed the Volkswagen Group's joint declaration on social rights, industrial relations and business and human rights – known as the Declaration on Social Rights.

 → People in the Transformation

 → [www.volkswagen-group.com](http://www.volkswagen-group.com) > Declaration on Social Rights

In our view, continuous dialog between those involved about principles and implementation issues is needed in differentiating between the state's duty to protect human rights and corporate human rights responsibility. For businesses, it is often challenging to obtain concrete and objective information enabling a comprehensive assessment of human rights situations. In order to achieve further progress, we also seek cooperation with international organizations. For example, we are in written and personal dialog with our stakeholders here.

 → Stakeholder Management

Institutional investors and investment banks also seek dialog with us on the topic of the supply chain and human rights. One of the places we publish our standpoint, including on controversial aspects, is the Volkswagen Group's investor relations website.

 → [www.volkswagen-group.com](http://www.volkswagen-group.com) > ESG Controversies

The Volkswagen Group stands firmly against forced and child labor in connection with its business activities. The company takes its responsibility for human rights very seriously in all regions of the world, adhering closely to the UN Guiding Principles on Business and Human Rights. These principles form part of the company's Code of Conduct. We maintain these values throughout our supply chain and have zero tolerance for any exceptions to this policy.

## The Protection of Human Rights at Volkswagen

As a global business, we are aware of our responsibility to respect human rights and comply with our due diligence obligations as regards to human rights and the environment. This is the benchmark for our corporate conduct in our controlled companies and production sites and along our supply chain and value chain.

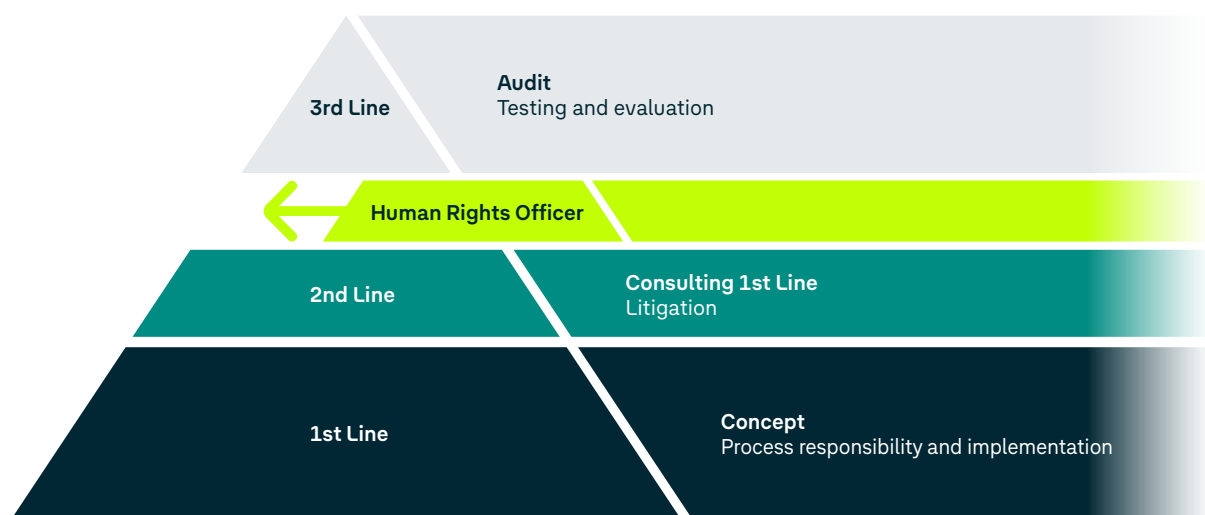
For the first year in which the German Supply Chain Due Diligence Act (*Lieferkettensorgfaltspflichtengesetz - LkSG*) becomes valid, the Volkswagen Group's strategic objective concerning human rights is to ensure the obligations imposed by the act are met completely and in the best possible manner. For the 2023 financial year, it is first of all our ambition to implement the legal requirements in a timely and complete manner. This will be challenging given the global operational expansion of our business activities and the high complexity of our supply chain and value chains.

In the coming years, we will continuously review and improve our initial risk management system in terms of defending protected legal positions under human rights and environmental laws, and to broaden it to include further strategic goals and objects of legal protection, including beyond the scope of the LkSG.

### Anchoring in the Group

At Volkswagen, clear responsibilities are established throughout the Group as part of the "three-line of defense model" as a regulatory framework for a holistic governance, risk and compliance management system for managing corporate risks, including the risk to protected legal positions under the LkSG.

## Three Line Model for a Holistic Governance, Risk and Compliance Management System



The first line consists of specialist and functional departments responsible for day-to-day operational business. In their operational activities they mitigate risks, including protected legal positions under the LkSG, which they detect at an early stage, analyze and actively manage by means of suitable preventive measures. Relevant divisions for ensuring the fulfilment of human rights and environmental due diligence obligations as defined in the LkSG primarily include, in Volkswagen AG's own business area, the Human Resources, Group Occupational Health and Safety and Group Security divisions, as well as Group Procurement for suppliers.

The second line of defense consists of the advisory departments; with regard to objects of legal protection under the LkSG at Group level, primarily Group Legal and Group Compliance, HR Compliance, Group Environment and Group Occupational Health and Safety. These advisory departments are responsible mainly for ensuring compliance processes and for advising and supporting the operational divisions in their risk management activities.

The third line of defense is the Internal Audit department as an all-encompassing, independent auditing body.

In the three line of defense model, the independent and exclusive function of the Human Rights Officer at Volkswagen is positioned between the second and third lines of defense as a continuously accompanying controlling, monitoring and consulting function. It therefore completes the holistic system for managing corporate risks as defined in the LkSG.

The HRO's business area is represented by an organizational structure, who have regionally focused and strategic cross-functional roles. The HRO's area focuses on monitoring, auditing and consulting in accordance with section 4 (3) of the LkSG on behalf of the Group Board of Management. In addition, the Group Board of Management has delegated to the HRO various responsibilities which includes internal and external communication, the reporting in connection with the LkSG, as well as coordinating the fulfilment of obligations for reporting and preparing a policy statement across the Group (sections 10 and 6 of the LkSG).

The HRO reports directly to the member of the Group Board of Management for Finance/COO at Volkswagen AG, whose area of responsibility does not include the first and second lines of defense – to be monitored by the HRO.

The HRO was appointed by resolution of the Group Board of Management on 24 June 2022 as Human Rights Officer as defined in section 4 (3) of the LkSG for the whole of Volkswagen AG's own business area as described in section 2 (6) LkSG, including the currently 13 other Group companies at that are subject to mandatory reporting alongside Volkswagen AG. In the same resolution, it was decided that the companies of the Volkswagen Group that are subject to mandatory reporting shall be at liberty to appoint their own human rights officers as defined in section 4 (3) of the LkSG, in addition to the HRO. The decision was then embedded in a Group Policy governing the division of responsibilities.

In 2022 and 2023, the companies AUDI AG and Volkswagen Financial Services AG, which are both subject to mandatory reporting, each appointed to the role of human rights officer one person in addition to the HRO, in accordance with section 4 (3) of the LkSG. In 2023, the companies Dr. Ing. h.c. F. Porsche AG and TRATON SE, which are both subject to mandatory reporting, each set up committees to perform monitoring, auditing and consulting tasks on behalf of the two companies and their subsidiaries in addition to the HRO, in accordance with section 4 (3) of the LkSG. Irrespective of this, the HRO also monitors the aforementioned companies and performs the remit assigned by the Group Board of Management in coordination with the functionaries of AUDI AG, Volkswagen Financial Services AG, Dr. Ing. h.c. F. Porsche AG and TRATON SE within the framework of a cooperation model.

### **Risk Analysis Procedure in Volkswagen AG's Own Business Area and at Suppliers**

In order to avoid both human rights and environmental risks, the LkSG specifies several obligations concerning due diligence that companies must adhere to. These obligations include, among others, the implementation of risk analyses, the establishment of preventive measures, the adoption of remedial actions once legal violations have been identified as well as the establishment of a whistleblower system. The effectiveness of measures needs to be checked and documented continuously.

These due diligence duties apply both to the Volkswagen Group's own business area and to its supply chain. The content and activities regarding the supply chain are explained in detail in the next but one section (see the "Transparency and Responsibility in the Supply Chain" section, p. 121).

In the 2023 reporting year, the departments responsible for the core tasks of the German Supply Chain Due Diligence Act conducted a risk analysis on the basis of questionnaire-based surveys in the Group companies of the Group's own business area. The risk analyses comprised abstract and concrete risk analyses. In addition, further risk analyses were carried out on an ad hoc basis, for example as part of mergers and acquisitions transactions.

**Abstract Risk Analyses**

The Group companies relevant for the German Supply Chain Due Diligence Act in the Volkswagen Group's own business area were assessed using defined criteria regarding possible abstract human rights or environmental risks.

The results of the abstract risk analyses were used for the Group-wide management and prioritization of further, more detailed steps in concrete risk analyses.

**Concrete Risk Analyses**

*Human Resources and Occupational Health and Safety*

Risks to be prioritized include unequal treatment in the employment relationship and disregard of the occupational health and safety obligations applicable to the place of employment. Due to the fact that Volkswagen AG also operates in regions and markets where there is no legal right to freedom of association or the right is restricted, this risk too has been weighted as a priority. We monitor these regions and markets.

Group Occupational Health and Safety has expanded the rules and regulations on occupational health and safety that apply throughout the Group to include requirements and measures intended to counteract, in particular, the risks pursuant to section 2 (2) (5) of the German Supply Chain Due Diligence Act.

HR Compliance has revised the Group policy on HR compliance, introduced basic measures to prevent human rights violations against employees and expanded measures that have already been introduced to include a focus on protecting human rights. This is currently being implemented in the Group.

*Group Security*

Group Security's risk analysis is conducted through an annual self-assessment in the compliance reporting tool (CoRT).

Group Security has expanded Group policy 13 Security to include rules that counteract, in particular, the risks pursuant to section 2 (2) (11) of the German Supply Chain Due Diligence Act. This integrates previously missing requirements into the contracts with security service providers or in the future award of contracts for security services.

*Environment*


In 2023, Group Environment expanded the Environment Compliance Management System (ECMS) to include the risks relevant for the German Supply Chain Due Diligence Act and further advanced the implementation of the ECMS across the Group.

As part of the ECMS, annual risk analyses relating to the German Supply Chain Due Diligence Act are conducted and suitable prevention and remedial measures are defined and implemented. The companies continuously review the effectiveness of these measures. The findings obtained are used to further develop the ECMS's ongoing improvement programs.

 → Environmental Compliance Management

**The Grievance Mechanism**

Potential violations of human rights as well as environmental risks in own business as well as by direct and indirect suppliers and other business partners can be reported to the Investigation Office at all times. This is also relevant for any other hints that may require immediate action. The Investigation Office will inform the responsible departments who will process the issue accordingly. This includes in particular taking the necessary measures to minimize or end violations and/or risks in case of confirmed initial suspicions.

 → Integrity and Compliance

## Transparency and Responsibility in the Supply Chain

Due to the diversity of its products, the Volkswagen Group's supply chain is extremely complex, globally distributed and subject to constant change. It includes more than 63,000 supplier sites in more than 96 countries around the world. Our activities may have negative effects on our environment and on people in our supply chain. At the same time, our size and position in the market also mean there are opportunities to achieve environmental and social improvements in our suppliers' countries and sites.

Our aim is to design supply chains responsibly and to reduce risks as far as possible. The Group Procurement Sustainability department is responsible for the operational management of sustainability topics in our supply chains. Dialog between our brands and regions through the Sustainability Procurement Network, in which more than 110 experts from five continents continuously work together, plays an important role here. The network's activities mean we can better identify current developments and long-term challenges in the individual countries and develop solutions together.

### Sustainability as Part of the Procurement Strategy

In the area of procurement, we launched a comprehensive strategy program in 2022 whose aims include strengthening sustainability. It focuses on the topics of "circular economy and climate neutrality," "fairness and equality" and "global management." The first focus topic covers initiatives and projects relating to the topics of decarbonization, the circular economy, resource efficiency and biodiversity. In the "fairness and equality" topic, we address, among other things, human rights due diligence, responsible procurement of raw materials, and diversity and inclusion in our supply chains.

In addition, our activities are anchored as a focus topic for sustainability in the NEW AUTO Group strategy and Group initiative 6, which was derived from it. In the reporting year, a significant focus of the work was integrating the requirements of the German Supply Chain Due Diligence Act (LkSG) and other legal requirements into our global procurement processes. Additional work focuses included implementing projects and partnerships in the area of the circular economy and reducing CO<sub>2</sub> emissions in the supply chain.

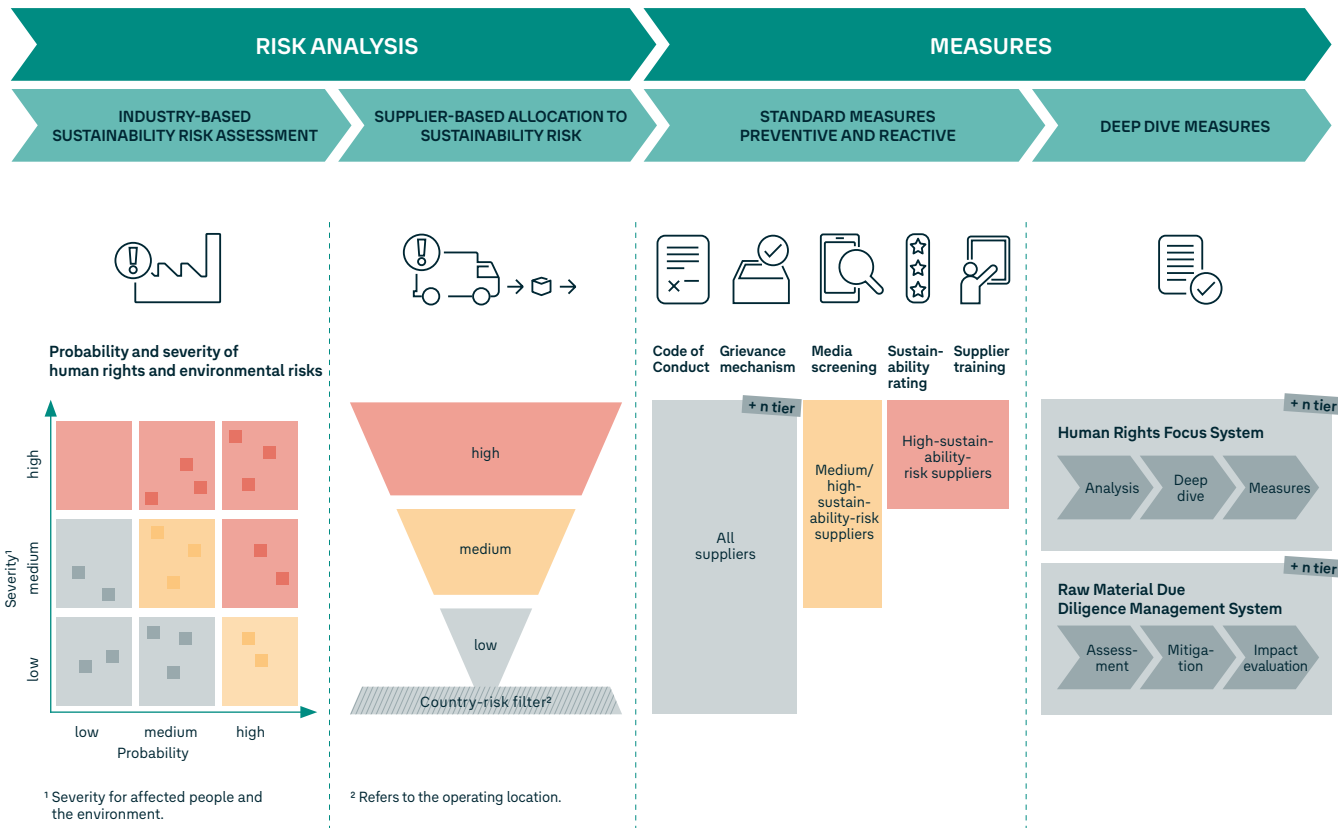
### Our Management Approach: Responsible Supply Chain System (ReSC System)

On January 1, 2023, the German Supply Chain Due Diligence Act entered into force. In preparation for this, we had already adapted our management approach in procurement and introduced extensive measures in 2022. The aim of the new approach is to avoid and minimize human-rights, social or environmental risks along the Volkswagen Group's supply chain based on a systematic risk analysis. It should also help to end breaches and continuously improve suppliers' sustainability performance. The ReSC system includes the following elements, which build on each other:

- Risk analysis:** A regular risk analysis serves to identify risks in the Volkswagen Group's supply chain in advance. The analysis is made on the basis of the suppliers' business models and takes account of internal and external data on human rights and environmental risks. Based on the assessment of the risks, each supplier is allocated a low, medium or high sustainability risk. For suppliers with a low sustainability risk, a country risk score is additionally applied. If the supplier has an increased country risk, it is upgraded to the medium risk category. The risk analysis is updated once a year and/or on an ad hoc basis by Group Procurement Sustainability in consultation with relevant parent companies of the Volkswagen Group.
- Standard measures:** These proactive and reactive measures include the Code of Conduct for Business Partners, the supply chain grievance mechanism, media screening, the sustainability rating and training suppliers and employees.
- Deep dive measures:** These encompass the human rights focus system in the supply chain, the raw materials due diligence management system and collaboration with external partners to develop the concept of sustainability in the supply chain.

Implementation of the management approach is mandatory and is enshrined in corresponding policies for the Group's brands and controlled companies. The Volkswagen Group identifies the sustainability risks that may arise as a result of its business relationships. The processes for analyzing risk represent the first step of our ReSC system. Based on the risks identified, a package of measures for preventing and mitigating risks is assigned to the suppliers in the respective business models and countries.

## Responsible Supply Chain System (ReSC system)



## Standard Measures: Foundation of Our ReSC System


### Code of Conduct for Business Partners

We have set out our expectations for the conduct of business partners with respect to key human-rights, environmental, social and compliance standards in the “Volkswagen requirements for sustainability in relations with business partners” – the Code of Conduct for Business Partners. It is a core element of our supplier management. The requirements are based, among other things, on the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the relevant International Labour Organization (ILO) conventions. The Code of Conduct is, however, not just based on international standards, but also objectives, rules and policies of the Volkswagen Group.

Before submitting a quote, our suppliers must confirm that they accept our sustainability requirements in the Code of Conduct for Business Partners. They must consent to this

again after 12 months if they wish to submit new quotes. We also call on our tier 1 suppliers to pass our requirements set out in the Code of Conduct for Business Partners down along the supply chain. The revised Code of Conduct for Business Partners was published in 2023.

In addition to the Code of Conduct for Business Partners, there are additional product-specific requirements for suppliers. These are set out in the specifications and stipulate the way in which certain products must be manufactured. The requirements include, for example, achieving the fullest possible disclosure of the cobalt, nickel, lithium and natural graphite supply chains for battery cells. For new vehicle projects, the Volkswagen Group intends to make CO<sub>2</sub> emissions a technical feature for relevant components in the future. This means that suppliers are given binding CO<sub>2</sub> targets, compliance with which must be proved on request. More information can be found in the Decarbonization chapter.

 → Decarbonization

### Supply Chain Grievance Mechanism

The supply chain grievance mechanism is used to process information on breaches of the Code of Conduct for Business Partners by the Volkswagen Group's direct or indirect suppliers. The mechanism is accessible via the channels of the Volkswagen Group's whistleblower system and is open to all potentially affected stakeholders – e.g., employees of suppliers, civil society players or representatives of communities in the immediate vicinity of our production locations. The processing of cases is uniformly described in a binding manual and is managed by the Group. Cases are processed together with the brands and regions of the Volkswagen Group. Breaches identified are categorized by their severity in accordance with the process. Depending on the categorization of the breach, appropriate measures are then introduced. If risks or breaches are identified at indirect suppliers, measures are also introduced, for instance, an audit. This requires the assistance of the direct supplier with whom a contractual relationship exists. If there are serious breaches, it is possible to temporarily block suppliers from eligibility for the award of new contracts or to terminate the business relationship with them. In the reporting period, 219 reports of breaches were dealt with. In total, three suppliers were blocked from eligibility for the award of new contracts due to serious breaches.

### Media Screening

Group Procurement Sustainability carries out continuous and risk-based media screening of relevant suppliers<sup>1</sup> using an IT tool. If the tool identifies indications of possible breaches of our Code of Conduct for Business Partners, these are reviewed and, if necessary, processed in the supply chain grievance mechanism. In 2023, more than 33,000 suppliers were part of the continuous media screenings. Their share of the total procurement volume in the reporting year was 89%.

### Sustainability Rating

We introduced a sustainability rating (S rating) for all relevant companies and suppliers with a high sustainability risk in 2019. We use it to audit the sustainability performance of relevant suppliers<sup>2</sup> and reveal opportunities for continuous improvement. The S rating assesses the environmental performance of suppliers and their social sustainability and integrity. It is directly relevant to awarding contracts. The result of the S rating is divided into three rating categories: Suppliers with an A or B rating meet our requirements to a sufficient degree and are thus eligible for the award of contracts. If a supplier does not meet our requirements for compliance with sustainability standards (C rating), it is fundamentally not eligible for the

award of contracts. There is thus a direct incentive for suppliers to improve their sustainability performance.

→ The **S rating** is a Group-wide tool used to assess the sustainability performance of relevant suppliers<sup>2</sup> in the fields of the environment, social aspects and integrity and to mitigate risks. It is directly relevant to awarding contracts.

The check for the S rating takes place via a multistage process. In an initial step, the risk exposure is identified from a combination of country risk and the supplier's corporate processes and policies. In addition, the companies' sustainability performance is checked in risk-based audits.

We use data from a specialist service provider for the identification of the country risk. We check whether suppliers' corporate processes and guidelines meet our requirements by means of a standardized self-assessment questionnaire. We developed the self-assessment questionnaire (SAQ) in a joint project with other automotive corporations involved in the DRIVE Sustainability Working Group organized by CSR Europe. In the reporting period, all suppliers subject to the S rating were required to switch to the 2022 extended SAQ. The new SAQ version (5.0) thus provides the new basis for the S rating assessment. SAQs based on the previous set of questions (4.0) are no longer accepted. The information and documents in the SAQ are checked and validated by a service provider via a central platform. If a supplier states that it has appropriate processes and policies, it must prove this with documents. This allows transparency to be created about the supplier's processes, management systems and policies – for example, on the topic of occupational safety. Every supplier that the S rating applies to must meet the requirements enshrined in the questionnaire in the areas of corporate governance, the environment, occupational safety, social issues, human rights, compliance and supplier management. Since 2022, selected questions in the SAQ have been considered mandatory as minimum requirements for all supplier sites with ten or more employees. A supplier is not eligible for the award of contracts unless it meets the minimum requirements. In the reporting period, we extended these minimum requirements to include, for example, the topic of disruption and asset management. By the end of the reporting period, a total of more than 14,953 direct suppliers had

<sup>1</sup> The relevance of a supplier for media screening results from factors including the procurement volume or the risk exposure derived from the type of product or service.


<sup>2</sup> The relevance of a supplier for the S rating results from factors including the size of the company or the risk exposure derived from the type of product or service.

completed an SAQ in connection with the S rating. In the reporting period, 9,357 suppliers improved their sustainability performance through taking appropriate steps. In accordance with the Code of Conduct for Business Partners, a certified and/or validated environmental management system is mandatory for all suppliers with a production site and a site size of 100 employees or more. Since 2022, proof of this has been required for the S rating. Based on sales revenues, more than 80% of our suppliers in the scope have met this requirement.

In addition, the suppliers' sustainability performance is assessed on a risk basis by means of audits. If suppliers pass this audit with less than 100%, they are given improvement measures. If the rating achieved is below 80%, these measures are recorded in an action plan. The implementation of the plan is agreed with the supplier and monitored. Depending on the measure, the supplier has to implement the plan within six months at the latest. If the supplier receives an audit rating of less than 60%, another audit is conducted after the action plan is implemented. The audit findings impact the S rating category and, as a consequence, may lead to a C rating. Suppliers with a C rating cease to be eligible for the award of contracts. A total of 89 audits were conducted worldwide in connection with the S rating in 2023. On average, seven breaches of our sustainability requirements were identified per audit.<sup>3</sup> More than two-thirds of all breaches were identified in the categories of "working hours and overtime," "fire safety and emergency evacuation" and "occupational health and safety."

There are differences by region: In the Asia-Pacific region, most breaches are seen in the "working hours and overtime" category. In Africa and Europe, the "fire safety and emergency evacuation" category is the most frequently affected. In North America, the field of "occupational health and safety" has the most breaches. No audits were conducted in South America in the reporting year, so no breaches were identified.

We are also continuously working together with other companies on standardizing the tools we use – for example, the audits of supplier sites. To this end, four major Volkswagen Group companies founded the Responsible Supply Chain Initiative e.V. (RSCI) together with 11 additional partners in 2021. A consistent approach and the initiative-wide recognition of the audit findings should enable broader coverage of the supply chain and also keep the operating expense for suppliers low.

 → [Responsible Supply Chain Initiative e.V. \(RSCI\)](#)

By the end of the reporting year, we had 10,912 S ratings for suppliers. Of these suppliers, 4,639 have an A rating. 38 suppliers were rated C and are thus not currently eligible for the award of contracts. Suppliers who do not meet our requirements for compliance with our sustainability standards are also not eligible for the award of contracts. Direct suppliers with a positive S rating (A or B rating) represent 79% of the total procurement volume.

→ **4,639**  
suppliers have an A rating.

In addition, suppliers who we have identified as having an increased corruption risk due to their business and region are also subjected to a more in-depth corruption risk audit. This process is called the business partner due diligence (BPDD) process and is carried out before any decision to award a contract. In addition, all relevant business partners will then also be continuously checked for any change in general conditions through risk and news screening. 316 BPDD reviews were carried out in the reporting year.

**Sustainability Training for Employees and Suppliers**

Systematic training of our employees and suppliers is a central component of our strategy and essential for the improvement of sustainability in the supply chain. For all Procurement employees, the topic of sustainability is an established part of the skills profile. The training course on sustainability for procurement was taken more than 3,700 times in total worldwide in 2023.

→ In 2023  
**7,791**  
suppliers were trained on sustainability globally.

In order to facilitate continuous supplier development, we usually conduct issue-specific sustainability training courses and workshops with our suppliers at selected locations or online and offer web-based training. 7,791 suppliers received such training in the reporting period.<sup>4</sup> This includes 87 suppliers who used the DRIVE Sustainability initiative's online training and e-learning options. Voluntary, in-depth human

<sup>3</sup> MAN Energy Solutions SE has conducted its own risk analysis of suppliers using its own methodology.

<sup>4</sup> Change in methodology: reduction of the scope – all suppliers that were present for at least 51% of the training time are counted.



rights training for suppliers has been available since 2020. The training includes the legally required aspects, such as training on child labor, forced labor or discrimination. In the reporting year, we began systematically rolling out the training to suppliers with a high sustainability risk.

In addition to the trainings, we make an e-learning module on sustainability available to current suppliers in eight languages.

## Deep Dive Measures: Further Elements of Our ReSC System

### Human Rights Focus System

In our sustainable supplier management, we are also involved in protecting groups of people who may be subject to a high risk of potential human rights violations at any point in our supply chain. In order to achieve more impact here, we introduced the human rights focus system (HRFS) in 2022. We want to use it to identify and address issues associated with human rights and environmental risks that require a more in-depth analysis. An in-depth social standard audit has been developed in collaboration with a service provider. The results of the audit are used in the analysis. The aim is to implement suitable prevention and remedial measures that take account of the diverse and often structural causes of human rights violations.

To identify the relevant issues, we assess aggregate internal data from the supply chain grievance mechanism and the audits together with external data from studies and NGOs in an annual analysis. In the reporting period, we identified three focus topics in this way: forced labor, living wages and supplier management. The topics are addressed in collaboration with the Audi, MAN, Porsche and Scania brands.

In the next step, the root causes of the respective issues are investigated in a structured way in order to develop and implement suitable measures. A toolbox of measures for systematically addressing the focus topics has been defined. A human rights risk can have diverse causes. The toolbox can be used to identify generically suitable measures for specific causes. These can then be worked out on a case-by-case basis when dealing with the focus topic in question. The basic approach for dealing with focus topics always starts with a structured investigation of the causes in order to develop and then implement measures based on the findings.

The individual topics are dealt with as follows:


- **Forced labor:** In this area, after a general cause-and-effect analysis, a topic-specific analysis was carried out to identify the greatest risks of forced labor for our supply chains. This made it possible to identify countries, industries and topic-specific focuses – for example, through analyzing reports or discussions with experts. These are to be addressed in more detail in the future. Targeted measures need to be derived according to the cause of the risk. One measure that has already been initiated is communication through multi-stakeholder initiatives. In addition, internal and external indications of possible risks are continuously monitored.
- **Living wage:** In the focus topic, the working group analyzes the topic of wages in the supply chain using studies, reports, interviews and internal and external data. The Code of Conduct for Business Partners requires suppliers to pay their employees an appropriate wage. This should be a living wage. The working group for the focus topic is currently developing a method for calculating living wages. Which causes specific to the sector or the award of contracts stand in the way of a living wage will also be analyzed. The findings from the analysis will be used to derive suitable measures.
- **Supplier management:** Dealing with the topic of supplier management includes ensuring that our direct suppliers pass on our extensive sustainability requirements to the upstream supply chain. The working group analyzes which supplier groups in particular should be supported by measures and which challenges our suppliers face when passing on our sustainability requirements. For the purposes of this analysis, we selected suppliers who are supported by the DRIVE Sustainability initiative's supply chain sustainability e-learning options. The aim is for all our suppliers to be empowered to bring our sustainability requirements to the deeper supply chain more effectively and comprehensively.

### Raw Materials Due Diligence Management System

With regard to the responsible sourcing of raw materials, the Volkswagen Group implements the five steps of the OECD Due Diligence Guidance for Responsible Business Conduct and the requirements of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. In 2020, we implemented an OECD-oriented raw materials due diligence management system. It serves to identify, assess and avoid actual and potential human rights risks in our upstream raw material supply chains. In the reporting period, a new audit and assessment was conducted of the 16 raw materials identified as particularly risky. These include the battery raw materials cobalt, lithium, nickel and graphite, the conflict minerals tin, tungsten, tantalum and gold (3TG), and aluminum, copper, leather, mica, steel, natural rubber, platinum group metals and rare earths.<sup>5</sup> Wool and magnesium have newly been added.

With this risk-based approach, we prioritize our activities on the basis of the severity and probability of breaches of the law and on the basis of the Group's influence. We also systematically use our Group structure for developing and implementing specific prevention and mitigation measures, whose effectiveness we audit. New report structures and toolkits have been developed, and existing tools, such as the supply chain grievance mechanism, have been integrated in the management system. Depending on the results of the due diligence process, the measures are adapted and improved on an ongoing basis.

Since 2021, the Volkswagen Group has also reported on the observation of its human rights due diligence obligations in the raw material supply chain – including reporting on the status, progress and goals of the raw materials due diligence management system – in an annual Responsible Raw Materials Report. The Group's specific activities and measures regarding the 18 particularly risky raw materials are also set out there.

 → [www.volkswagen-group.com](http://www.volkswagen-group.com) > [Responsible Raw Materials Report](#)

Increasing supply chain transparency is an important prerequisite for identifying, avoiding and mitigating human rights risks in the upstream supply chain. To this end, the Volkswagen Group works closely with its direct suppliers and business partners in the context of the raw materials due diligence management system.

We cooperate with, among others, service providers who, for example, enable suppliers to be comprehensively audited using artificial intelligence and media screenings. Here, permanent monitoring of freely available internet sources, including social media, provides us with indications of possible breaches by suppliers.

Because the human-rights-related risks are often highest at the start of the supply chain and these can be countered most effectively here, direct collaboration with mine operators on the certification of mines is an additional part of our strategy. In this way, we intend to audit, assess and improve the sustainability performance of the mines in our supply chain in the medium term.

### Collaboration with External Partners and Involvement in International Initiatives

We want to address human rights risks in the upstream supply chain and beyond our contractual relationships. To this end, we get involved in various initiatives and local projects – both on a cross-industry and a raw-material-specific basis. We present details on this in our Responsible Raw Materials Report. Together with our partners in the automotive industry and along the value chain, we pursue the following objectives: knowledge transfer, the development of standardized tools for risk assessment and the introduction of standards for responsible raw material supply chains with respect to human rights, the environment and compliance.

<sup>5</sup> The risk scope of the management system goes beyond Annex 2 of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

For the battery raw materials cobalt, lithium, nickel and natural graphite, our aim is supply chain transparency from mining the raw materials to manufacturing the finished product. We have been passing the requirement for full transparency on to our direct battery suppliers in our contracts since 2020. Volkswagen has the data received audited and verified, including via partner companies through second-party supply chain mapping audits.

In the Cobalt for Development project in the Democratic Republic of the Congo, we work together with project partners for improved working and living conditions for small-scale cobalt miners and their communities. The pilot project aims to strengthen compliance with laws and improve health and safety conditions and social well-being for people locally. Additional information is available on the project website.

 → [Cobalt for Development \(C4D\)](#)

In the case of the battery raw material lithium, the Volkswagen Group, together with other partners, has created the Responsible Lithium Partnership initiative, which works towards responsible use of resources and sustainable lithium production in Salar de Atacama in Chile. This is to be achieved through a multi-stakeholder platform comprising all the relevant players in the Salar watershed – from civil society groups, including indigenous communities, through government institutions to local mining companies.

Beyond raw material activities, our involvement in the industry-led initiative DRIVE Sustainability under the umbrella of CSR Europe remains key. The development of the common questionnaire standard for auditing sustainability aspects of suppliers was a milestone in this respect, as was the training approach for suppliers pursued jointly with other OEMs via training events in selected countries.

 → [DRIVE Sustainability](#)

Supply Chain and Human Rights KPIs	Unit	2023	2022	Notes and comments
Direct suppliers	number	> 63,000	> 59,000	
Countries in which Volkswagen has direct suppliers	number	> 95	> 90	
Experts in the Sustainability Procurement Network globally	number	>110	> 70	
<b>Supply chain grievance mechanism</b>				
Reports from supply chain grievance mechanism	number	219	145	
Temporary blocking of suppliers	number	3	4	
<b>Reports from supply chain grievance mechanism: number by region</b>				Because a report may include several suppliers, the sum of this KPI may be higher than the number of reports.
Europe	number	135	100	
Asia <sup>1</sup> -Pacific	number	38	28	
Africa	number	1	5	
North America	number	53	18	
South America	number	15	4	
No classification possible	number	27	11	
<b>Reports from supply chain grievance mechanism: number by context</b>				
Social	number	95	36	
Compliance	number	52	34	
Environment	number	10	10	
Cross-topic	number	30	14	
Other	number	32	51	Plausibility of reports not yet checked
<b>Reports from supply chain grievance mechanism: direct supplier</b>				
Yes	number	151	98	
No	number	11	47	
<b>Media screening</b>				
Direct suppliers in the media screening <sup>2</sup>	number	> 33,000		- Recorded in the Sustainability Report for the first time in the 2023 reporting year
Revenue percentage of direct suppliers in the media screening in total procurement volume	in %	89		- Recorded in the Sustainability Report for the first time in the 2023 reporting year

<sup>1</sup> Scope: In terms of geographical distribution, Russia and Türkiye are allocated to Asia.

<sup>2</sup> According to ReSC system.

Supply Chain and Human Rights KPIs	Unit	2023	2022	Notes and comments
<b>S rating   GRI 308-2, 414-2</b>				
Existing direct supplier S ratings	number	10,912	12,660 <sup>3</sup>	
of which direct suppliers with an A rating	number	4,639	6,618 <sup>3</sup>	
of which direct suppliers with a C rating	number	38	65	
Revenue percentage of direct suppliers with a positive S rating (A or B rating) in total procurement volume	in %	79	75	
Business partner due diligence reviews	number	316	487	Of suppliers
<b>Audits (on site)</b>				
Number of on-site audits carried out in connection with the S Rating	number	89	252	
Number of on-site audits carried out in connection with the S rating and average number of breaches per audit broken down by region				Audits for the S rating – most relevant breaches of our sustainability requirements
Africa	number/average number of breaches	3/5	-/4	
Asia <sup>1</sup> -Pacific	number/average number of breaches	54/8	-/10	
Europe	number/average number of breaches	25/3	-/4	
North America	number/average number of breaches	7/9	-/6	
South America	number/average number of breaches	0/0	-/9	
Number of audits carried out in connection with the human rights focus system	number	17	-	Recorded in the Sustainability Report for the first time in the 2023 reporting year
Number of audits carried out in connection with the supply chain grievance mechanism	number	6	-	Recorded in the Sustainability Report for the first time in the 2023 reporting year
Total number of all audits carried out	number	112	-	Comprises audits in connection with the S rating, the human rights focus system and the supply chain grievance mechanism. Recorded in the Sustainability Report for the first time in the 2023 reporting year.
of which audits where substantial negative environmental and/or social impact was identified	number	64	-	Findings that are systemic in nature according to the assessment logic are considered substantial. Recorded in the Sustainability Report for the first time in the 2023 reporting year.

<sup>3</sup> Change in methodology: reduction of the scope. Previous year's figure not adjusted.

Supply Chain and Human Rights KPIs	Unit	2023	2022	Notes and comments
<b>Training and certification</b>				
Revenue-based direct suppliers in scope with certified environmental management system pursuant to ISO 14001 or EMAS validation	in %	80	85	
Procurement staff participation in training on the topic of sustainability	number	> 3,700	> 2,000	
Direct suppliers who have received training on the topic of sustainability <sup>4</sup>	number	7,791	> 2,900	
<b>Self-assessment questionnaire (SAQ)   GRI 308-1, 308-2, 414-1, 414-2</b>				
Direct suppliers with completed SAQ	number	14,953	16,029	
Proportion of new suppliers who have been assessed using social and environmental criteria	in %	26	12	Direct suppliers who were assessed for the first time in the reporting year
Improvements in direct suppliers, based on the SAQ	number	9,357	6,748	

<sup>4</sup> Change in methodology: reduction of the scope - all suppliers that were present for at least 51% of the training time are counted.