



AUDI AG Progress Report on the Leadership Declaration of the 'Biodiversity in Good Company' Initiative

Report covers period from July 2017 to June 2019



Introduction

The catastrophic loss of biodiversity ranks alongside climate change as one of the greatest challenges of the 21st century. Biodiversity provides the basis for all life and economic activity. That is why the United Nations has declared the current decade the Decade on Biodiversity.

The benefits provided by nature are frequently perceived in social and economic decision-making as free and public commodities. Businesses take on a special role in this context. They profit from the innate benefits of nature provided at no cost to them, often while their activities have a negative impact on biodiversity. The costs incurred as a result are difficult or even impossible to attribute to specific companies and are not taken into account in internal decision-making processes. They end up being at the expense of the world at large; and in this case, of biodiversity. These external environmental costs caused by companies have been rising for years and are becoming a target for future legislation.

Biodiversity and the automotive industry

In the context of the automotive industry, cause and effect are not immediately visible or tangible. The ways in which different factors interact are rather more indirect than in the food industry. Aside from a few natural fibers, such as rubber for tire manufacturing or biomass for fuel production, it is the way in which nature regulates certain benefits, such as the provision of water for production purposes, on which the automotive industry depends. Although the automotive industry may not appear at first glance to be all that dependent on ecosystem services, it does have a pronounced influence on the driving forces behind the loss of biodiversity, thanks to its products and the manufacturing of those products, as well as the effects that resound throughout the entire supply chain. Examples of these include carbon dioxide and nitrogen oxide emissions or the extraction of mineral resources such as metals and rare earths, often in regions regarded as hotspots for biodiversity. Furthermore, the road networks required for the products carve up habitats and result in land being repurposed for different uses. All these factors have an enormous negative impact on biodiversity. Consequently, the automotive industry bears a significant amount of responsibility with regard to the conservation of biodiversity. AUDI AG supports the biodiversity goals of the United Nations and, as a member of the Biodiversity in Good Company initiative, has committed to the latter's Leadership Declaration.

LEADERSHIP DECLARATION



All signatory companies acknowledge and support the three objectives of the International “Convention on Biological Diversity” (CBD):

- Conservation of biological diversity
- Sustainable use of its components
- Fair and equitable sharing of the benefits that arise out of the utilization of genetic resources

and commit to:

1. Analyzing corporate activities with regard to their impacts on biological diversity;
2. Including the protection of biological diversity within their environmental management system;
3. Appointing a responsible individual within the company to steer all activities in the biodiversity sector and report to the Management Board;
4. Defining realistic, measurable objectives that are monitored and adjusted every two to three years;
5. Publishing activities and achievements in the biodiversity sector in the company's annual, environmental, and/or corporate social responsibility report;
6. Informing suppliers about the company's biodiversity objectives and integrating suppliers accordingly and step by step;
7. Exploring the potential for cooperation with scientific institutions, non-governmental organizations (NGOs) and/or governmental institutions with the aim of deepening dialogue and continuously improving the corporate management system vis-à-vis the biodiversity domain.

To demonstrate ongoing commitment, member companies will provide the Initiative with a progress report every two years.



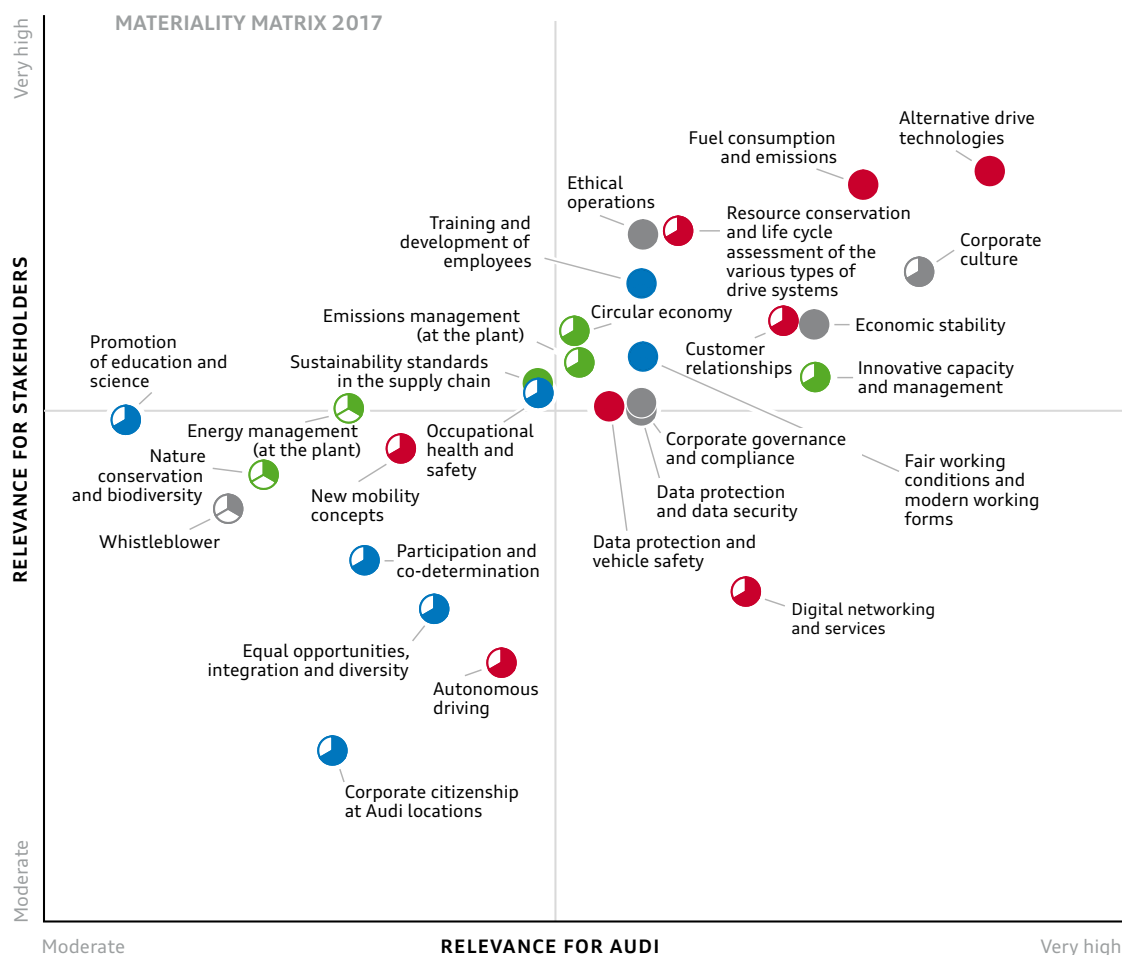
Report on progress between 2017 and 2019

The following report covers the progress that AUDI AG made in implementing the objectives set out in the Leadership Declaration at its German locations in Ingolstadt and Neckarsulm between 2017 and 2019.

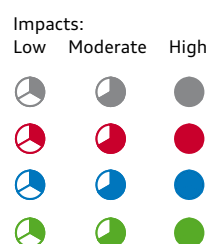
1. Analysis of the impact of corporate activities on biological diversity

AUDI AG conducted a multi-stage analysis as part of its strategic objective planning across all areas of the company in 2015. The first step involved surveying stakeholders about sustainability topics and their relevance. The essential issues and concerns that arose in discussions with stakeholders were incorporated into the materiality analysis, the results of which were then compiled in a materiality matrix. The outcome for nature conservation and biodiversity in the period under review, from 2017 to 2019, was similar to that in previous years, showing that this aspect is still not considered one of the top priorities. This reflects the fact that biodiversity itself is still perceived as less important, even though energy and emissions management at plants, the circular economy and sustainability standards in the supply chain are closely related to biodiversity.

Findings of the stakeholder analysis on the relevance of biodiversity to AUDI AG



- Legend**
- A** Operations and Integrity
 - B** Products and Services
 - C** Employees and Society
 - D** Value Creation and Production



Location-based analysis

Because company-wide biodiversity management generally begins with facility management, AUDI AG's head office in Ingolstadt was analyzed in collaboration with external partners prior to membership, which involved examining its environmental risks and, in particular, their impact on biodiversity. Biomonitoring was also carried out, focusing on paint solvent emissions and heavy metals. Audi subsequently arranged for analyses of habitats and various species during the period covered by the 2015 to 2017 report. Audi intensified these investigations in the current 2017 to 2019 reporting period.

Brownfield instead of greenfield: Having first analyzed the consequences, Audi selected a plot of land previously occupied by a refinery as a site on which to expand business operations at its Ingolstadt headquarters, to be decontaminated in stages over a number of years. In doing so, Audi is not only protecting natural capital by not building on intact green space but, in decontaminating a heavily contaminated site, is also laying the groundwork for a positive balance in terms of natural capital by revitalizing industrial wasteland and reinstating it to the economic and natural cycles. Because decontamination work will mean that areas of the 75-hectare site will lie unused for some time and the land is situated in the immediate vicinity of the highly valuable and protected Danube wetlands, AUDI AG is considering giving designated areas over to nature indefinitely for the benefit of biodiversity. Audi drew up a potential analysis for particular species for this purpose in 2019.



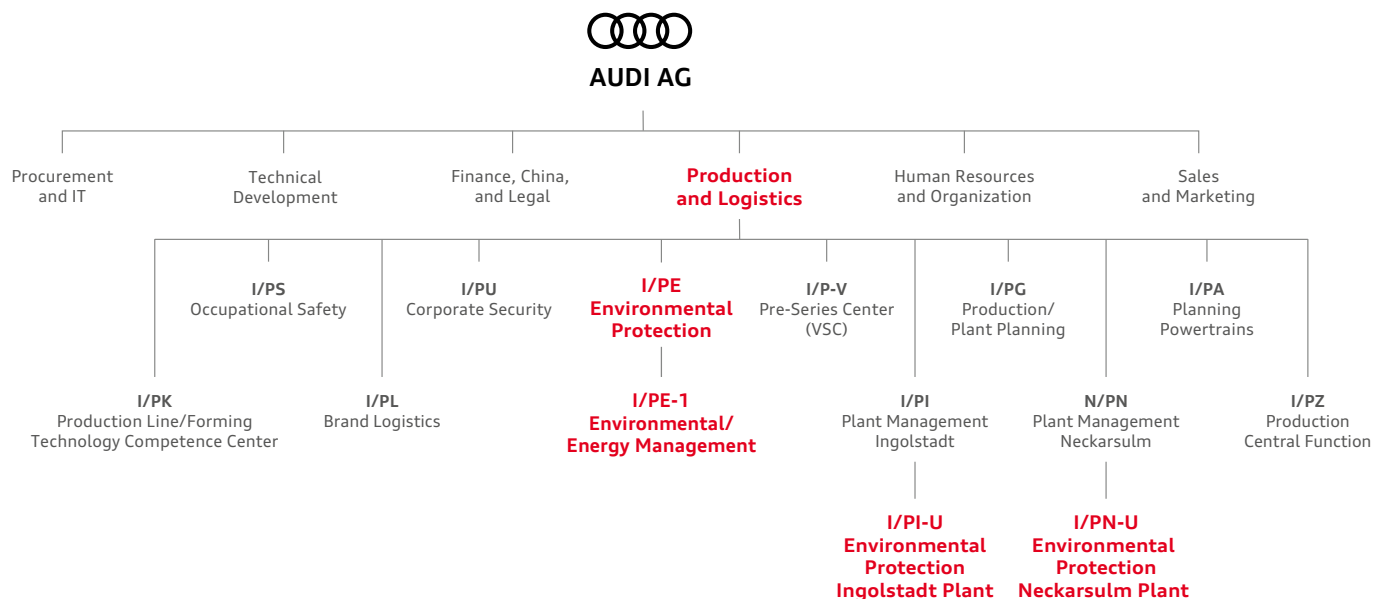
2. Integrating the protection of biological diversity and sustainable use into the environmental management system

Separate biodiversity goals are defined in the site-specific environmental programs within the environmental management system, subject to annual review and updating for each site. In addition, during the period covered by the report, Audi actively supported the development of biodiversity indices in the context of BEMPs (Best Environmental Practices) for integrating biodiversity within the EMAS certification system at the European level and the development of VDA standards.

3. Appointing a responsible individual within the company to steer all activities in the biodiversity sector and report to the management

Overall responsibility for biodiversity activities rests with the AUDI AG environmental officers, who report to the plant managers at each location. The environmental officer at the Ingolstadt site also reports directly to the Board of Management member in charge of Production. The I/PE-1 Environmental Management / Energy Management team is responsible for biodiversity (see organizational chart, Attachment 1). There are additional responsibilities for the subject area of biodiversity within the respective site-specific environmental departments, which in turn report to the environmental officers.

Audi Environmental Protection organization



4. Defining realistic and measurable objectives to improve the protection of biological diversity and its sustainable utilization, to be monitored and adjusted every two to three years

Audi stands for sustainability in its cars and services throughout the entire value chain. For Audi, acting sustainably means considering the environmental, financial, and social consequences of every decision. Only then can Audi be a good employer over the long term, remain competitive, delight its customers, protect the environment, and assure a livable future for generations to come. In pursuit of these goals, Audi advances the development of innovative drive technologies and follows the principles of a sustainable circular economy. In other words, sustainable action starts with the procurement process and extends right up to the recycling of the vehicle.

During the period under review, Audi launched its Mission:Zero environmental program at its locations worldwide. This is aimed at achieving consistently sustainable production. Mission:Zero incorporates all activities and measures for reducing the ecological footprint at the Audi sites worldwide in Production and Logistics. The focus is on Audi's key challenges of decarbonization, water use, resource efficiency, and biodiversity. One of the key objectives is to achieve CO₂-neutral production locations by 2025. To measure biodiversity at its locations, AUDI AG has worked with the VW Group to develop an evaluation tool that is currently subject to ongoing testing and optimization. Specific objectives for improving biodiversity are defined in the environmental programs of the various AUDI AG locations and are reviewed every year.

5. Publishing activities and achievements related to biological diversity in the company's annual, environmental, or sustainability report

Environmental programs are published and updated in the company's environmental declarations. Furthermore, biodiversity aspects and all other environmental issues are addressed in the sustainability report, which is based on the G4 Guidelines of the Global Reporting Initiative (GRI).

6. Informing suppliers about biodiversity objectives and integrating them step by step

The aim of AUDI AG's procurement policy is to select suppliers that meet the Company's quality requirements in all areas. In order to make optimum use of synergy potential, Audi chooses suitable business partners in cooperation with the Volkswagen Group. The entire Volkswagen Group's procurement management has been based on the concept of "sustainability in supplier relationships" since 2006. These sustainability requirements are clearly defined in the "Volkswagen Group requirements regarding sustainability in its relationships with business partners" and have been an integral part of supplier contracts since 2014. The environmental policy of the VW Group is binding in this respect. Suppliers to Volkswagen AG have also been informed via the online business-to-business platform at www.vwgroup-supply.com of the company's sustainability policy and its expectations that its partners will operate equivalent policies.

Audi began rolling out its sustainability rating to relevant first-tier suppliers in 2017 and prioritized and significantly expanded the on-site checks in the years thereafter. Starting in the third quarter of 2019, Audi introduced a sustainability rating for suppliers as a means of checking how potential suppliers implement sustainability requirements and identify areas for improvement. If need be, specific measures will be put in place in partnership with suppliers to improve sustainability performance before the company signs a supply contract. Proposals for incorporating biodiversity into the rating were developed during the period under review in the form of biodiversity criteria for raw materials. AUDI AG is also a member of the Aluminium Stewardship Initiative. The goal of this industry-led initiative is to promote sustainability throughout the entire aluminum value chain and give due attention to the conservation of biodiversity.

7. Exploring the potential for cooperation with scientific institutions, non-governmental organizations, and governmental institutions with the aim of deepening dialogue and continuously improving corporate biodiversity management

As a member of the biodiversity working group of the Bavarian Environmental Pact, a collaborative initiative by the Bavarian state government and Bavarian industry, Audi actively works with other companies to devise standards for promoting biodiversity. An important project launched in 2017 relates to the indefinite use of land for nature. The goal is to create a legal framework for promoting biodiversity on unused factory grounds. With support from the Bavarian environment ministry and following extensive preparatory work with the relevant authorities, AUDI AG and the conservation authorities signed a contract in the first quarter of 2019 for a potential extension area at its Münchsmünster plant near the headquarters in Ingolstadt. It is one of the first legally binding public contracts on the indefinite use of land for nature in Germany.

In addition, there was a great deal of contact during the 2017 to 2019 period with various conservation organizations such as LBV Bayern, a society for the protection of birds, aimed at ensuring the best possible designs for ecological compensation areas for the new IN-Campus site, for example.

Voluntary projects for protecting biodiversity



Facility management

As part of facility management, Audi made numerous efforts to promote biodiversity on its factory grounds. For example, biodiversity and maintenance strategies for selected indicator species at the various sites were drawn up along with biodiverse lists of plants. External wildlife experts conducted regular monitoring to document the progress of the development. One of the key areas for Ingolstadt and its surrounding factories was supporting wild bees. A detailed five-year monitoring project completed in 2019 showed a significant quantitative and qualitative increase in wild bee species. This included initial evidence of two species thought to be extinct in the natural environment in question.

In 2019, the Blühpakt Bayern, an initiative organized by the Bavarian environment ministry aimed at improving habitats for pollinating insects, declared the Münchsmünster site near Ingolstadt a Blühender Betrieb, a distinction awarded to companies that reach a particular standard of biodiversity on their premises. Audi had drawn up a comprehensive biodiversity strategy for the entire factory site to counter the downturn in species diversity. On the 31-hectare site, 17 hectares had been designed to be biodiverse from the location's beginnings in 2013, created a habitat for 112 plant species typical of extensive meadows and roughly 90 wild bee species.

Biodiversity found its way into the green areas plan for the Ingolstadt factory in the form of biodiversity modules and special lists of plants. During the period under review, there were plans to establish new habitats for insects across several thousand square meters. Areas were also set aside for flowering plants at the Neckarsulm factory to encourage insect activity.





Compensation areas

Audi optimizes statutory compensation areas with a view to biodiversity by developing mission statements that are then incorporated into and implemented in appropriate design concepts. Audi is thereby helping to promote special species in a natural context, with enhanced areas increasingly serving as stepping stones for biodiversity.

Raising awareness among employees

Persuading employees to act as ambassadors for biodiversity is a key element of Audi's biodiversity strategy. Numerous employee campaigns were therefore carried out for planting trees, building insect hotels, and thereby fostering enthusiasm for biodiversity. In 2019 in particular, the Ingolstadt site stepped up its efforts in internal communications on the subject of biodiversity. In addition to a branding film, a flyer illustrating the biodiversity activities at the Münchsmünster factory was created. In addition, the staff restaurants offered a range of biodiversity menus for a week, featuring information to raise awareness of the International Day for Biological Diversity on May 22.

Audi Environmental Foundation

Audi Stiftung für Umwelt GmbH – the Audi Environmental Foundation – is an active supporter of research in new technologies and scientific methods for a livable future. Its declared aim is to help protect the environment, and to create and promote opportunities for sustainable action. The foundation focuses in particular on the support and development of environmentally compatible technologies, measures for environmental education and on the protection of the natural habitat for humans, animals and plants. Set up by Audi in 2009 as a fully owned subsidiary, the foundation is a part of the company's social and environmental involvement.

We also regard our foundation as an important catalyst of awareness for environmental issues among Audi Group employees worldwide. One example of this is a Germany-wide environmental project in which disused transformer towers are gradually converted into “towers of biodiversity.” The joint project of the Audi Environmental Foundation and the Artenschutz in Franken® association for species protection in Franconia was awarded the UN Prize for Biological Diversity in 2016. This project was continued during the reporting period with wild bee walls in daycare centers. The we4bee project provides special beehives to schools, educational facilities, and individual beekeepers. These beehives are fitted with high-tech sensors based on the Smart HOBOS project. The goals in the short and medium term include identifying patterns as a basis for care instructions for beekeepers. In the long term, the aim is to use bee behavior to generate forecasts for upcoming environmental events such as storms or droughts. Beekeepers also receive support from the Audi Foundation and produce honey in Audi compensation areas. The Audi Environmental Foundation is supporting a scientific project in the municipality of Bad Schönborn that uses drones to measure and conserve meadow orchards. The new geo-technology surveys and assesses the condition of fruit-tree meadows for developing care recommendations. There are also plans to use high-resolution images to monitor tree condition. The Audi Environmental Foundation is offering dedicated employees and members of the public the opportunity to sign up for the MACH MIT! (“Get involved!”) environmental campaign. Anyone who is interested can join forces with a charity to submit an idea for an environmental project, and the Audi Environmental Program will cover 75% of the cost. The maximum amount for the sponsorship is €2,009 – a reference to the year the foundation was launched. Details of other projects can be found on the Audi Stiftung für Umwelt GmbH website at www.audi-environmental-foundation.com.

AUDI AG makes regular donations to support the Audi Environmental Foundation.

Publishing Information

CONTACTS

Would you like more information? The environmental department looks forward to hearing from you.

AUDI AG

Dr. Rüdiger Recknagel (Head of Environmental Protection)

85045 Ingolstadt

Phone: + 49 (0) 8 41/89 - 3 44 44

ruediger.recknagel@audi.de

REALIZATION

nuts communication GmbH

PICTURE CREDITS

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DATE FOR THE NEXT PROGRESS REPORT

The next progress report
will be presented in 2021.