

# VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

## Slavery and Human Trafficking Statement by the Volkswagen Financial Services

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

### Preamble

Against the backdrop of advancing globalization and the increased relocation of manufacturing to the relevant sales markets, we are aware of our global responsibility to respect human rights. For us, this responsibility does not stop at the doors to our factories but continues far beyond.

### Organisation and supply chain

The Volkswagen Group is a stock corporation under German law, with headquarters in Wolfsburg, Germany. It is made up of two segments: automotive and financial services. The Financial Services division is concerned with dealer and customer finance, leasing, banking and insurance business, fleet management and mobility services.

Volkswagen Financial Services initiated a corporate restructuring in September 2017. The Volkswagen Financial Services Germany has been separated to Volkswagen Financial Services AG with its domestic and non-domestic associated companies and Volkswagen Bank GmbH with its subsidiaries and branches within the EU. Part of the Volkswagen Financial are, as well, the financial services companies in the USA, Canada, and Spain that belong directly or indirectly to Volkswagen AG – with the exception of the financial services of the Scania and Porsche brands and Porsche Holding Salzburg.

Volkswagen Financial Services AG, with headquarters in Braunschweig, provides leasing, banking and insurance business, fleet management and mobility services. Additionally, the international lending business outside of the EU is provided by the Volkswagen Financial Services AG. The European lending and deposits business is provided by the Volkswagen Bank GmbH and its subsidiaries and branches within the EU.

The Volkswagen Financial Services AG provides its businesses in following countries: Germany, Argentina, Australia, Belgium, Brazil, Canada, Chile, China, Italy, Poland, Austria, Denmark, Korea, Mexico, Czech Republic, Switzerland, Netherlands, United Kingdom, France, India, Ireland, Japan, Norway, Portugal, Russia Spain, South Africa, Taiwan, Luxembourg and Turkey.

The Volkswagen Bank GmbH Group operates in the France, Germany, Greece, Great Britain, Ireland, Italy, Netherlands, Poland, Portugal, Sweden, Slovakia and Spain.

In respect of section 54 of the United Kingdom Modern Slavery Act Volkswagen Financial Services AG and Volkswagen Bank GmbH – including associated companies, subsidiaries and branches – are obligated companies as per 31<sup>st</sup> of December, 2018.

The Volkswagen Financial Services are present in all relevant automotive markets around the world. Currently, the main markets include Western Europe as well as China, Brazil and Mexico.

With its presence in its main markets, the Volkswagen Group procurement structures ensure that production materials, capex and also services are sourced globally in the required quality and on the best possible terms. Competitive advantages offered by the individual sourcing markets are utilised by networking the brands' procurement structures on a Group-wide basis. We currently purchase products, services and parts from around 110 countries around the world.

For us, global observance of sustainability standards in such areas as human rights, occupational health and safety, environmental protection and anti-corruption forms the basis for successful business with our suppliers. Only by working with our roughly 40,000 business partners are we able to make sure that sustainability standards are observed and make a contribution towards implementing the United Nations Sustainable Development Goals (SDGs). To achieve these goals, we implemented the "Sustainability in Contractor Relations" model as early as in 2006 and are developing it continuously. This model entrenches sustainability in our procurement processes and organisations and also has a growing, global network of sustainability officers for procurement activities for the individual brands and in the individual regions. This network currently consists of more than 40 experts and helps the Group to better understand local conditions.

## **Internal measures**

### *Volkswagen Financial Services Code of Conduct<sup>1</sup>*

The Volkswagen Financial Services updated its Code of Conduct in 2017. It was launched and became mandatory for all the brands and companies by the end of 2017. The content of the Code of Conduct is thus identical for all the brands and companies. It is available to all employees on the intranet and to third parties on the Internet at any time, 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 honest conduct, integrity, compliance with all rules and regulations and responsibility. The Code of Conduct seeks to help employees observe the Group's rules at their workplace, as business partners and as members of society, providing them with guidance, assistance and advice. The rejection of all forms of modern slavery and human trafficking likewise forms part of the Volkswagen Group's Code of Conduct. In addition, our activities are guided by the principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the principles of the International Labour Organisation (ILO).

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

The Whistleblower System is responsible for receiving and processing reports of serious regulatory violations. In August 2018, a revised Group Policy was adopted, which further developed the Whistleblower System, in particular through enhanced communication options. Our employees, business partners and other third parties may use various channels in the Whistleblower System to report possible serious regulatory violations of group employees. These channels include the online reporting channel, telephone hotline, email inbox and personal contact with the Investigation Office, as well as contact via ombudspersons. The specially protected online reporting channel and the appointed ombudspersons ensure that all reports can be forwarded anonymously to the Investigation Office. Information on possible serious regulatory violations can generally be submitted in the group languages as well as via telephone hotline in the most important national languages. They will be treated confidentially in any case. The main procedural principles and safeguards are the protection of both the whistleblower and the person implicated. Any retaliatory action against whistleblowers

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<sup>1</sup> <https://www.vwfsag.de/de/home/Nachhaltigkeit/Verhaltensgrundsaeetze.html>

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

constitutes a serious regulatory violation and will not be tolerated. The persons concerned are presumed innocent as long as no violation of a rule is proved.

### *Risk analysis*

The regular risk management process includes a quarterly risk process and the annual standard Governance-Risk-Compliance (GRC) process. Risk assessments pertaining to human rights are conducted and the countermeasures taken in response are reported by the main Group divisions and companies. The annual regular GRC process supports the recording process of potential risks by means of a list of focus areas, which also includes potential risks arising from the violation of human rights. Quarterly, annual and ad-hoc reports are submitted to the Brand and Group Board of Management as well as the Audit Committee.

### *Employee qualification*

By taking preventive measures, we promote compliance with regulations in our organisation and raise the awareness levels of our employees. Therefore, target group-oriented communication and training measures for employees at all hierarchical levels play a crucial role within our compliance work. New employees at Volkswagen Financial Services are required to complete the online learning program on the Code of Conduct. In addition, in 2018, specific information was provided about the Volkswagen Group principles. Volkswagen Financial Services makes the Code of Conduct available to employees via various internal communication channels. It has been published on the Intranet and the Internet, while all new employees have received their own digital copy.

As our procurement staff provide an essential interface to our business partners and thus to our supply chain, all new purchasers are briefed and trained on sustainability matters and potential risks. We ensure that our employees are familiar with the internal systems and processes as well as the sustainability requirements towards our business partners so that they can report any violations of our sustainability requirements to the responsible units.

## **Measures in the supply chain**

### *Sustainability requirements for our suppliers*

Volkswagen Financial Services does not act as a manufacturer or producer of material goods and has no supply chains in this regard.

Volkswagen Financial Services uses general due diligence by a central procurement. Before entering into a business relationship, we examine the potential risks and integrity of our business partners (Business Partner Check).

The “Sustainability in Supplier Relations” concept is based on the Volkswagen Group requirements regarding sustainability in its relationships with business partners (Code of Conduct for Business Partners). These set out the Volkswagen Financial Services’ expectations of our business partners’ conduct with respect to core environmental, social and compliance standards, including internationally acknowledged human rights. In 2018, a process started to revise these requirements in order to address, e.g., current circumstances and new challenges in the supply chain. Publication is planned for 2019. By integrating the sustainability requirements in our procurement process at the contractual level, we seek to ensure that our sustainability standards are observed along the entire supply chain worldwide. Our requirements are based on international standards such as the principles of the UN Global Compact, the ICC Business Charter for Sustainable Development and the conventions of the International Labour Organisation. On the basis of the three pillars – requirements, monitoring and development of the “Sustainability in Supplier Relations” concept – we review and develop our suppliers’ sustainability performance on an ongoing basis. This involves various instruments such as

the SAQ self-assessment questionnaire developed by the Initiative DRIVE Sustainability, sustainability as part of quality audits and focused sustainability audits of suppliers.

## Sustainability in Supplier Relations (SiSR) in Volkswagen Group

### Requirements

Contractually binding



- Environmental protection
- Employee rights
- Transparent business relationships
- Fair market behavior
- Duty of care for the promotion of responsible and transparent supply chains

### Monitoring

Review of compliance with Requirements



- Self-Assessment Questionnaire Sustainability
- Supplier audits

### Qualification

Sensitization and further qualification of buyers and suppliers



- eLearning for suppliers and buyer
- Face-to-face training sessions for suppliers and buy

### Further development

- Collaboration and exchange with global procurement network
- Engagement in cross-sectoral sustainability initiatives
- Engagement in working groups with other automotive manufacturers on the subject sustainability

### Risk analysis

The Volkswagen Group uses a country-specific risk analysis, self-assessment questionnaires and local sustainability audits to identify social or ecological risks or risks related to human rights at the respective supplier locations even before negotiations with potential suppliers begin. The risk analysis incorporates data from third parties as well as in-house empirical data. In developing suppliers, we particularly focus on countries in which we have identified heightened risks. In order to identify the latest developments as well as long-term structural challenges in the respective countries, we encourage continuous dialogue between our brands and regions through regular meetings and videoconferences within the sustainability procurement network. Prior to entering into business relations, we additionally perform a risk-oriented review of the integrity of our business partners (Business Partner Check).

### Training and monitoring of suppliers

In this reporting period, we again significantly extended the monitoring of our suppliers' sustainability performance. An external service provider conducted sustainability audits of 947 suppliers. In 551 cases, the audit results led to an action plan, whose implementation is monitored.

In addition to on-site audits of our suppliers, more than 28,000 supplier sites within the Volkswagen Group had submitted self-assessment questionnaires on sustainability matters by the end of 2018. The self-assessment questionnaire includes a free text field regarding information on modern slavery and human trafficking efforts. The self-assessment questionnaires allow Volkswagen AG to evaluate

suppliers on the basis of the most relevant topics and developments. Appropriate measures were taken in more than 2,100 cases to measurably improve suppliers' sustainability performance in 2018.

Any information that we receive on any violations of our sustainability requirements by our business partners are taken very seriously and investigated immediately and rigorously. Specifically, we immediately contact the supplier and ask for a statement on the reported suspicion. If the suspicion is confirmed, the supplier is asked to submit an action plan to address the problem. We thoroughly track and monitor the implementation of this action plan, e.g. via on-site visits. Potential violations of our sustainability requirements can, for example, be reported via our central mailbox at [sustainability@vwgroupsupply.com](mailto:sustainability@vwgroupsupply.com).

In addition to audits of our suppliers' sustainability performance, our activities focus on continuous dialogue with and further development of our suppliers. This ensures that our business partners understand our requirements and are aware of new challenges. In the course of the business relationship with all suppliers, we provide an e-learning module on sustainability to permit continuous supplier development on group level. As of the end of 2018, around 31,000 supplier sites had made use of our online qualification offerings. In addition to e-learning, we also conduct sustainability training and workshops on specific aspects at selected locations together with our suppliers. Furthermore, in South America, Asia and Europe, we have briefed more than 900 employees from approx. 550 suppliers in face-to-face trainings on sustainability matters and specific regional challenges.

## **Progress report**

As announced in the Volkswagen Group "Slavery and Human Trafficking Statement" issued in fiscal year 2017, to prevent forms of modern slavery and human trafficking were conceptualized and implemented in the fiscal year 2018.

Among other things, we developed a new and expanded sustainability rating, which also takes human rights risks into account and which will be integrated into the awarding process of the global procurement organization. For Volkswagen Group, implementation will begin in 2019. In future, only suppliers with a positive sustainability rating will be eligible for contract awards.

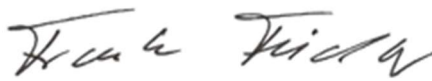
We also remain in regular contact with NGOs, researchers and politicians in the form of stakeholder dialogues to incorporate further knowledge and the expertise of independent third parties in the area of human rights in our business strategy. Looking forward, we as a corporate citizen will continue to reject any violation of human rights, which we see as a dynamic risk. Consequently, we will be adjusting our monitoring activities in the light of new developments and continue to work on heightening awareness of any forms of modern slavery and human trafficking both inside and outside our Company.

The revised Whistleblower System at Volkswagen AG and its integration in the company will again be reinforced in 2019 by means of employee communications. In this connection, different channels – such as digital and face-to-face – will be used to specifically address the relevant target groups.

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