

# 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

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. The broad understanding of Volkswagen Group of the topic "Business & Human Rights" has been published since the United Nations' International Human Rights Day 2019 (10 December 2019).

### 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. 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 Financial Services Division of Volkswagen AG are , as well the financial services companies in the USA and Canada 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 Volkswagen Financial Services AG. The European lending and deposits business is provided by Volkswagen Bank GmbH and its subsidiaries and branches within the EU.

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, The Netherlands, United Kingdom, France, India, Ireland, Japan, Norway, Portugal, Russia, Spain, South Africa, Sweden, Taiwan, Luxembourg and Turkey.

Volkswagen Bank GmbH Group operates in Germany, France, Greece, Great Britain, Italy, Ireland, The Netherlands, Poland, Portugal, 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, 2019.

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**

### *General*

In January of the reporting period, the Group Board of Management - specifically Hiltrud D. Werner, Integrity and Legal Affairs, and Gunnar Kilian, Human Resources – appointed a coordinator 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 as Volkswagen Group 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 Financial Services Code of Conduct<sup>1</sup>*

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 also to third parties on the Internet at any time, and is continuously communicated in digital and print media

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

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 used to report serious regulatory violations. The violation of human rights is an example of an issue that involves a serious regulatory violation. 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. The ombudspersons 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. 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 365 days a year, 24 hours a day. 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 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.

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.

### *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

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

employees at Volkswagen Financial Services are required to complete the online learning program on the Code of Conduct. 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

In the fiscal year 2019, individual, dedicated training measures of varying scope took place for employees on this topic. For the future, a basic training course will be 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 on Volkswagen Group level with, for instance, a communication strategy, which was enhanced..

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

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

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).

In addition, we are implementing the Volkswagen Group measures for sustainable business relationships in order to live up to our responsibility in our business relationships at a global level. We follow a trinomial approach in Procurement to establish sustainable supply chains with a key focus on human rights 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

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<sup>3</sup> [https://www.volkswagenag.com/presence/nachhaltigkeit/documents/policy-intern/2019\\_Code\\_of\\_Conduct\\_for\\_Business\\_Partners-DE-EN.pdf](https://www.volkswagenag.com/presence/nachhaltigkeit/documents/policy-intern/2019_Code_of_Conduct_for_Business_Partners-DE-EN.pdf)

(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.”

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.

### *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.

## **Progress report**

As announced in the Volkswagen Group “Slavery and Human Trafficking Statement” issued in fiscal year 2018, different prevention formats against 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 by the Group globally. On average, three violations against our sustainability requirements were identified.

Together with OEMs and suppliers, the Volkswagen Group is 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.

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.

Braunschweig, June 2020



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