

# **Sustainability at Volkswagen: Volkswagen Green Finance Framework**

**Investor Update March 5th, 2020**



## Disclaimer

The following presentations contain forward-looking statements and information on the business development of the Volkswagen Group. These statements may be spoken or written and can be recognized by terms such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “will” or words with similar meaning. These statements are based on assumptions, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. These assumptions relate in particular to the development of the economies of individual countries and markets, the regulatory framework and the development of the automotive industry. Therefore the estimates given involve a degree of risk, and the actual developments may differ from those forecast. The Volkswagen Group currently faces additional risks and uncertainty related to pending claims and investigations of Volkswagen Group members in a number of jurisdictions in connection with findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The degree to which the Volkswagen Group may be negatively affected by these ongoing claims and investigations remains uncertain.

Consequently, a negative impact relating to ongoing claims or investigations, any unexpected fall in demand or economic stagnation in our key sales markets, such as in Western Europe (and especially Germany) or in the USA, Brazil or China, and trade disputes among major trading partners will have a corresponding impact on the development of our business. The same applies in the event of a significant shift in current exchange rates in particular relative to the US dollar, sterling, yen, Brazilian real, Chinese renminbi and Czech koruna.

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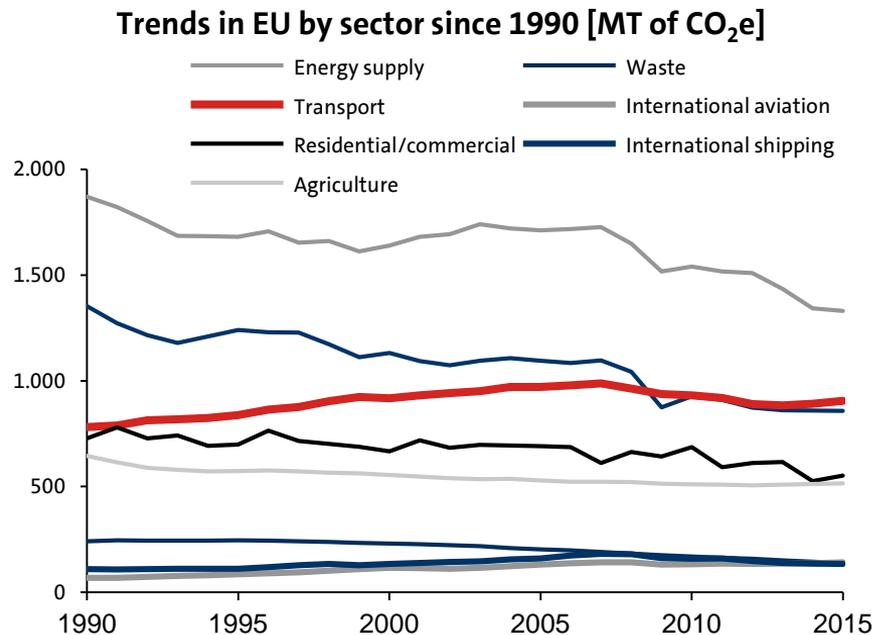
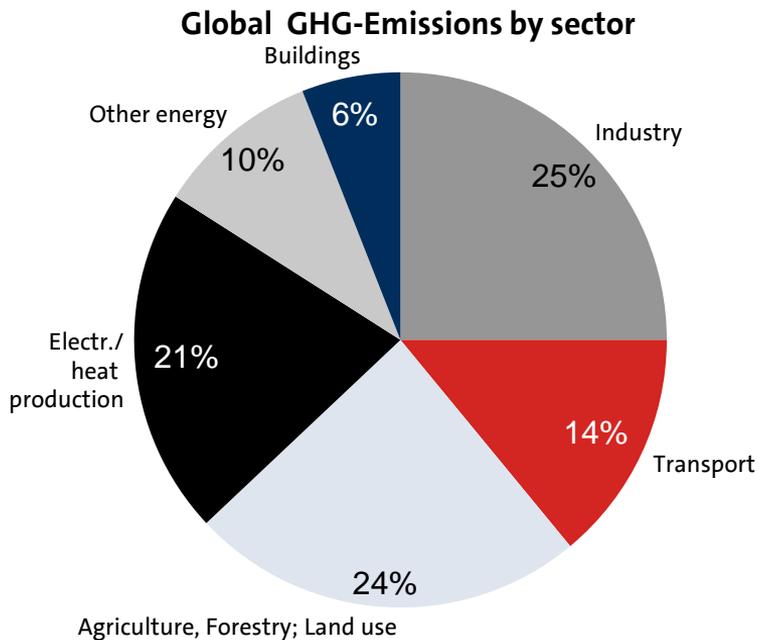
## Speakers

- ❖ Ralf Pfitzner – Head of Sustainability
- ❖ Tobias Heine – Head of Together4Integrity
- ❖ Dr. Maren Charisius – Head of Divisional Compliance Office Volkswagen, Seat, Skoda
- ❖ Barbara Lamprecht – Coordinator Business and Human Rights
- ❖ Michael Lange – Spokesperson Central Coordination Monitor
- ❖ Bjoern Baetge – Head of Global Markets

Ralf Pfitzner – Head of Sustainability

# **VOLKSWAGEN'S APPROACH TO SUSTAINABILITY AND DECARBONIZATION**

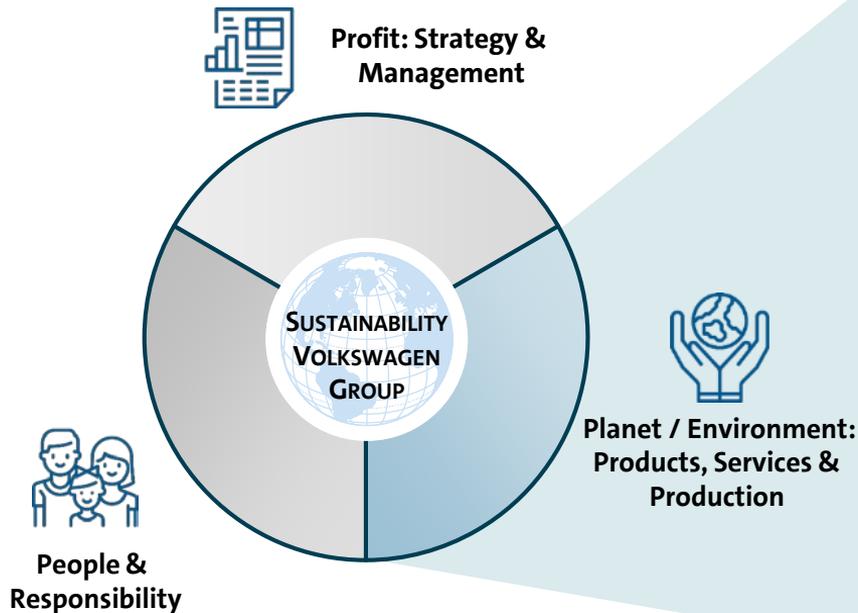
## Transport Sector accounts for 14% of global GHG Emissions In the EU, transport is the only sector with emissions increase since 1990



Source: IPCC 2014, EEA 2018

# Volkswagen will be part of the solution, our focus is on climate change mitigation and decarbonisation

## DIMENSIONS OF SUSTAINABILITY AT VOLKSWAGEN



## FOCUS AREA: DECARBONIZATION / CLIMATE CHANGE

### Why it matters to Volkswagen:

- Because of our significant influence and commitment to responsible action (1% of global CO<sub>2</sub>- emissions affected by our passenger car portfolio)
- Because of rising stakeholder expectations
- Because decarbonization delivers direct business value

# Vision and target for decarbonization are derived from Paris Agreement, i.e. to limit global warming well below 2° Celsius

## PARIS CLIMATE AGREEMENT 2015



- Global warming well below 2° Celsius
- Radically reduce CO<sub>2e</sub>-emissions by 2050
- Defines remaining global carbon budget

## PUBLIC COMMITMENT BY VOLKSWAGEN

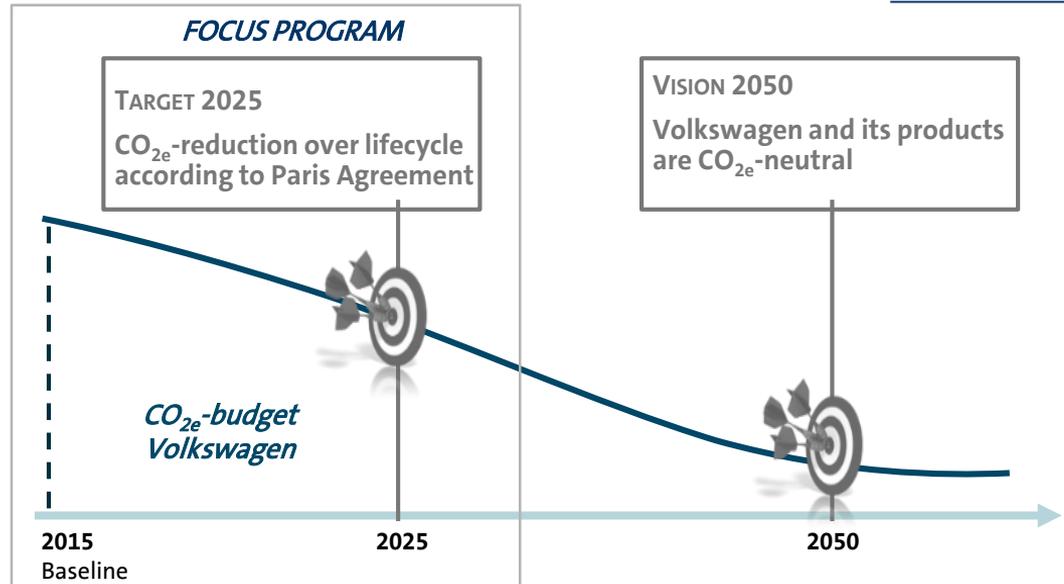


Dr. Diess

„There is something greater than meeting fleet targets: climate protection. [...] It is clear to me: We have to limit global warming to 2° Celsius.“<sup>(1)</sup>

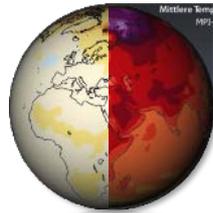
## VOLKSWAGEN GROUP DECARBONIZATION PATH UNTIL 2050

Passenger cars<sup>2)</sup>



<sup>1)</sup> Süddeutsche Zeitung 11.10.2018, <sup>2)</sup> Passenger cars including light duty vehicles

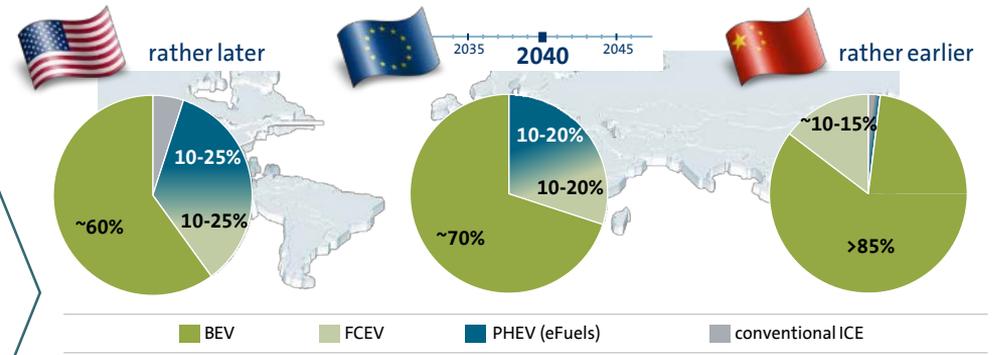
# E-mobility is the only way forward to achieve climate targets



COP21 · CMP11  
**PARIS 2015**  
UN CLIMATE CHANGE CONFERENCE



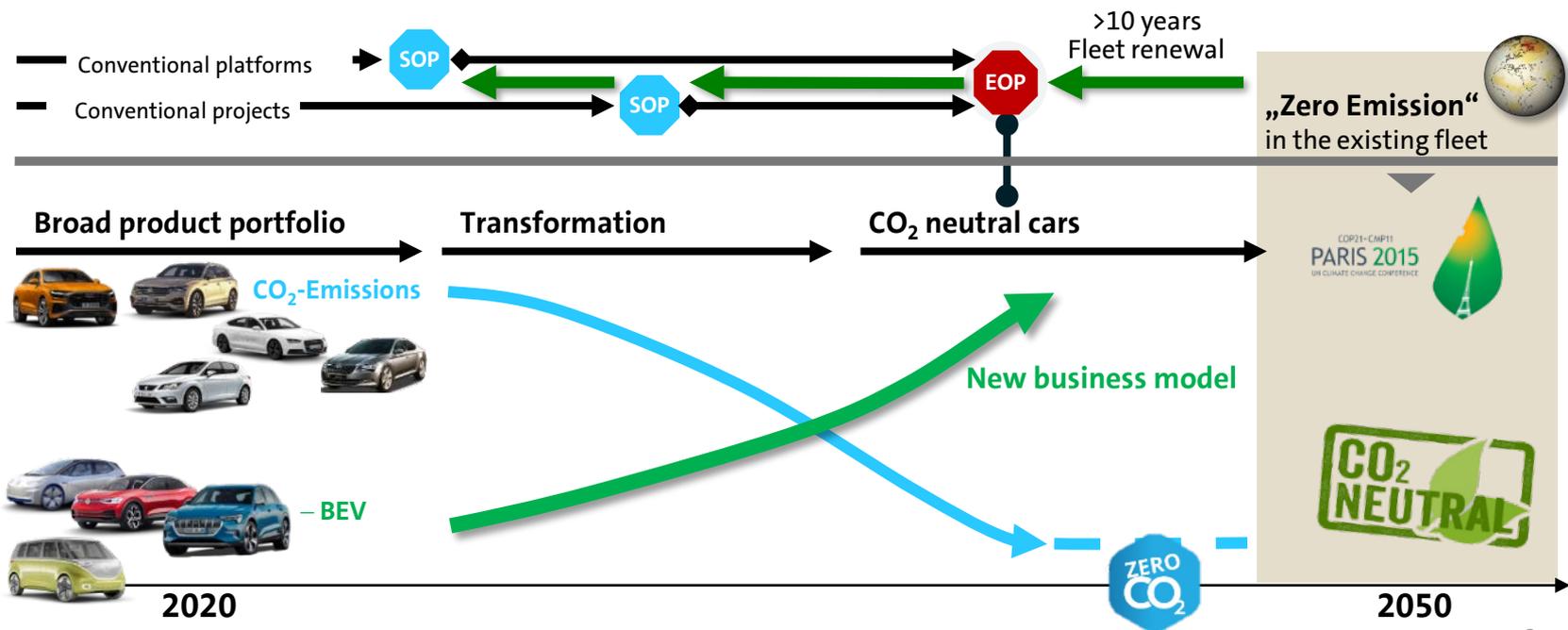
- Our Target:  
**CO<sub>2</sub> neutral fleet by 2050**



- Increase share of **future technologies** – **Focus E-Mobility**
- Implementation of further measures to become **CO<sub>2</sub> neutral**

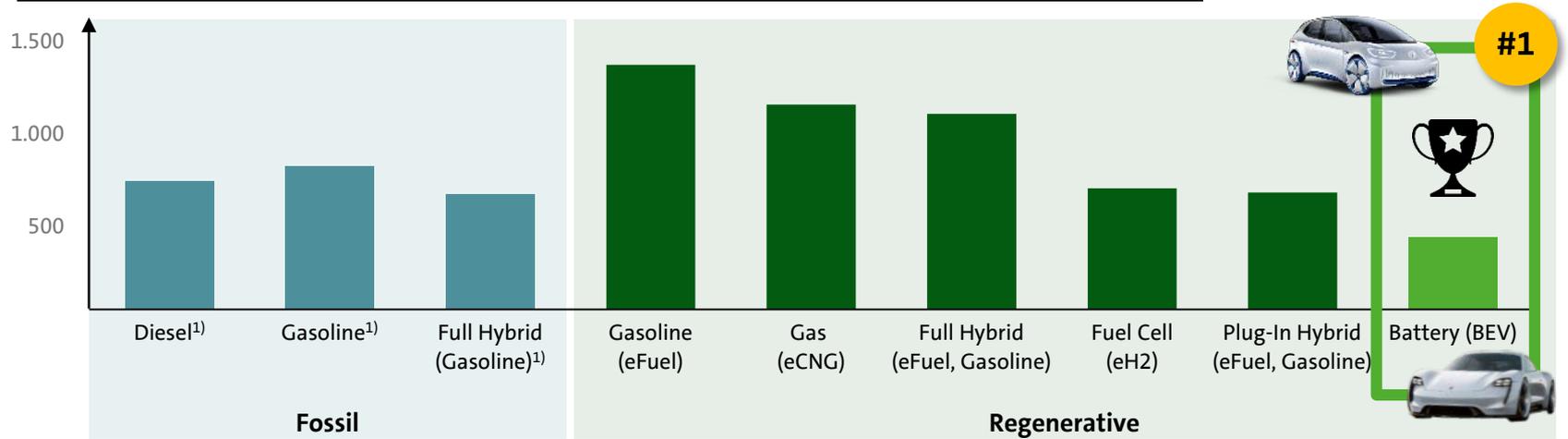
# E-mobility transformation is reflected in our corporate planning

## PARIS IMPLICATIONS AND TRANSFORMATION PATH



## Primary energy demand is lowest with BEVs

### PRIMARY ENERGY REQUIREMENT IN WH/KM FOR LIFECYCLE



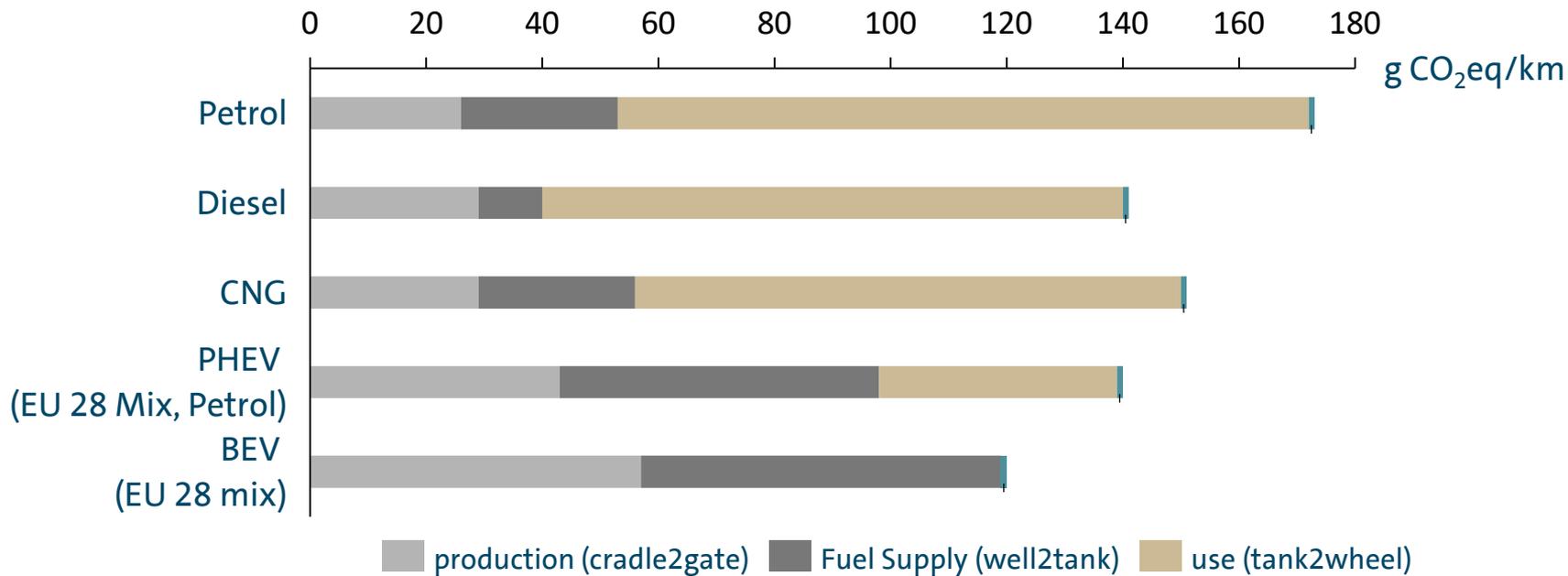
### THE MODEL OF THE ENERGY BALANCE LIFECYCLE



Example: A-Segment 200.000 km, CO<sub>2</sub> emissions & energy over lifecycle of vehicle and fuel

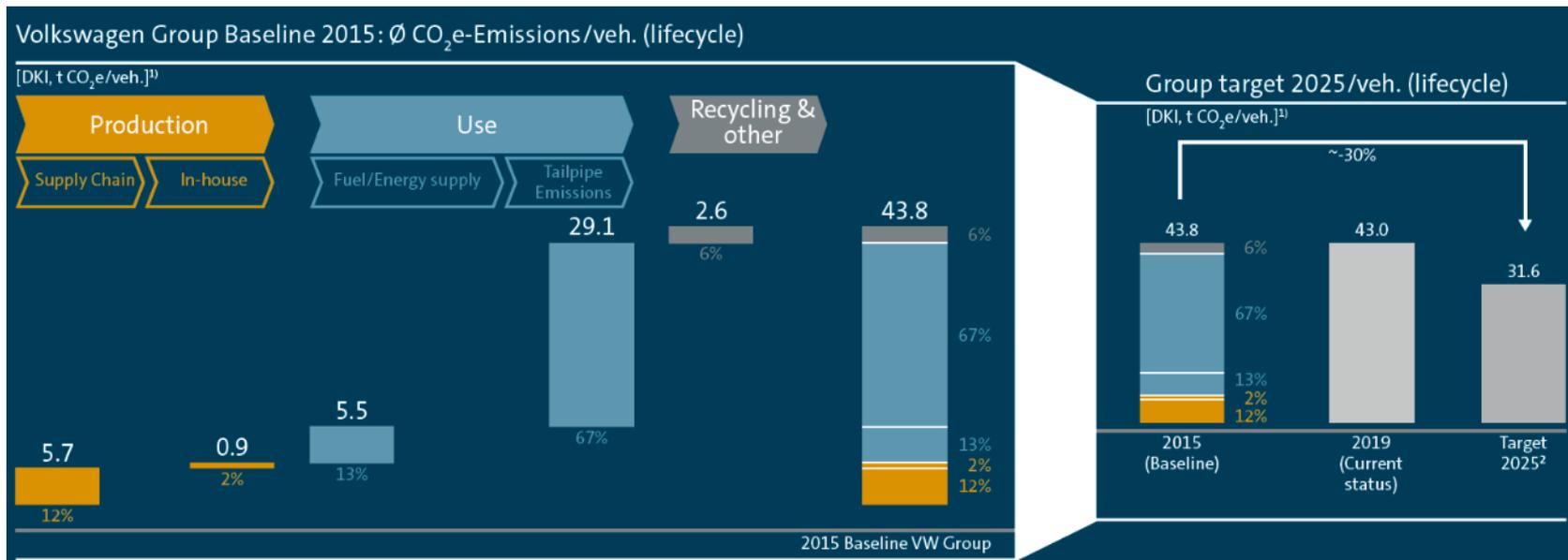
<sup>1)</sup> not fully comparable with energetic base, not CO<sub>2</sub> neutral

## BEV today already first choice in CO<sub>2</sub> over lifetime – example current Golf class car



Source: Volkswagen K-GEGU 2019, "Klimabilanz Antriebe"; Compact Car (Golf-class), LCA, use phase acc. to WLTP, 200.000 km life

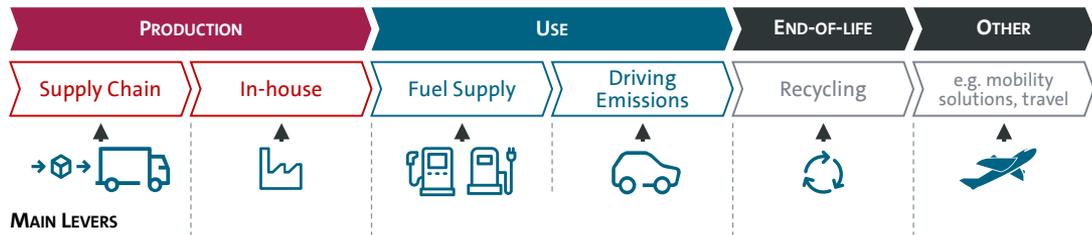
## A group wide target of 30% CO<sub>2</sub>e reduction/vehicle over lifecycle for Volkswagen Group was decided - in line with the Paris Agreement



1) Decarbonization index (DCI), up to and including 2020, European fleet legislation will be complied with on the basis of the New European Driving Cycle (NEDC). The DCI's European fleet emissions have therefore been calculated on the basis of the NEDC. From 2021, the NEDC target value will be changed into a WLTP target value through a process defined by lawmakers. When the target values change in 2021, the DCI's European fleet emissions will also be calculated in accordance with the WLTP, as a result of which fleet emissions in Europe are expected to rise by around 20%. 2) Derived using science-based target methodology on the basis of the two degree target, 3) major passenger-car manufacturing brands and light commercial vehicles in the Europe (EU-28, Norway and Iceland), China and the US regions.

# The decarbonisation programme covers measures in all areas of the life cycle. Priority is to avoid and reduce CO<sub>2</sub>. Compensation covers unavoidable emissions

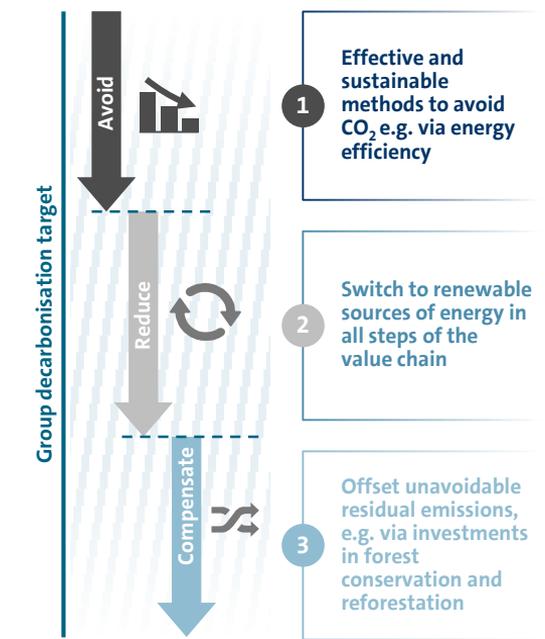
## WHERE WE ACT



## MAIN LEVERS

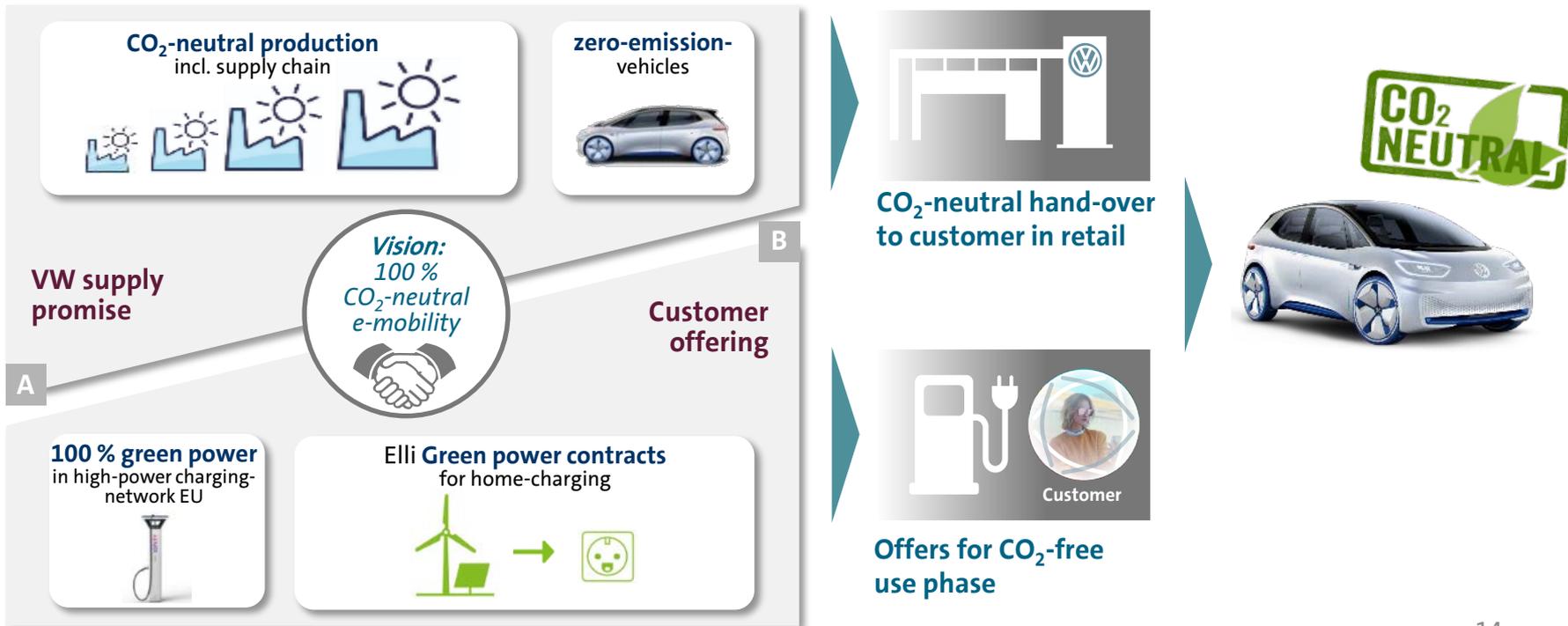


## HOW WE ACT

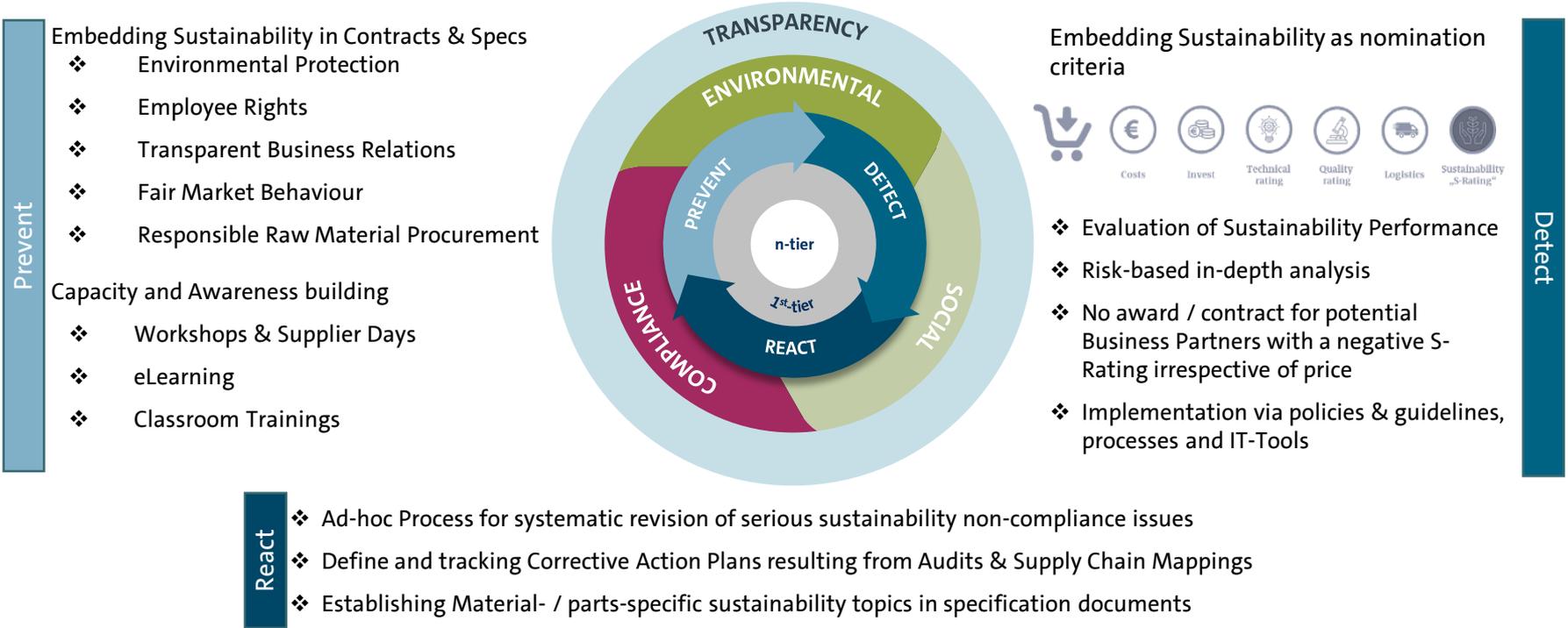


# ID.3 as first showcase for decarbonization along the value chain

## Objective



# Sustainability in the supply chain: embedded along “prevent, detect, react” cycle



- Prevent**
- Embedding Sustainability in Contracts & Specs
    - ❖ Environmental Protection
    - ❖ Employee Rights
    - ❖ Transparent Business Relations
    - ❖ Fair Market Behaviour
    - ❖ Responsible Raw Material Procurement
  - Capacity and Awareness building
    - ❖ Workshops & Supplier Days
    - ❖ eLearning
    - ❖ Classroom Trainings

- Detect**
- Embedding Sustainability as nomination criteria
- ❖ Evaluation of Sustainability Performance
  - ❖ Risk-based in-depth analysis
  - ❖ No award / contract for potential Business Partners with a negative S-Rating irrespective of price
  - ❖ Implementation via policies & guidelines, processes and IT-Tools

- React**
- ❖ Ad-hoc Process for systematic revision of serious sustainability non-compliance issues
  - ❖ Define and tracking Corrective Action Plans resulting from Audits & Supply Chain Mappings
  - ❖ Establishing Material- / parts-specific sustainability topics in specification documents

## Transformation of an Industry needs independent, critical advisory by Stakeholders: The Volkswagen Sustainability Council



### Topics

- Founded in 2016 as independent advisors to the Board of Management
- Currently 9 members: Georg Kell, Prof. Dr. Gesche Jost, Margo Oge, Prof. Dr. Otmar Edenhofer, Connie Hedegaard, Elhadj As Sy, Yves Leterme, Michael Sommer, Prof. Ye Qi

### Focus areas

- Sustainable Mobility and Environmental Protection
- Social Responsibility and Integrity
- Future of Work and Digitalization

## Summary



● — Decarbonisation is our key sustainability priority @Volkswagen Group

**Our ambitious decarbonisation program covers the entire life cycle.**

● — **Clear priorities are set: avoid & reduce CO<sub>2</sub>-emissions, compensate non avoidable emissions**

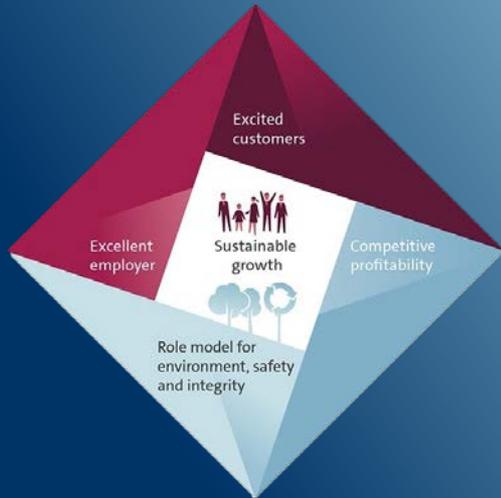
● — **Supply chain Sustainability is essential for a resilient supply chain and our reputation**

● — **Stakeholder Engagement is important in our industry's transformation**

Tobias Heine – Head of Together4Integrity

**TOGETHER4INTEGRITY**

# What does T4I stand for?



Volkswagen as role model for integrity

ECI is the foundation and T4I the enabler to **embed I&C culture in our company's DNA and achieve a long term change**



- 1 T4I bundles all compliance, integrity, risk management and culture initiatives
- 2 T4I ensures consistent transmission of relevant initiatives in our entities worldwide
- 3 T4I provides transparency on current degree of implementation and target achievement
- 4 T4I ensures a strong Tone from the top and strives for the commitment of the management
- 5 T4I focuses on empowerment of employees and cross-hierarchical and open dialogue

## Implementing Processes

**Roll-out Plan for 689** entities following uniform **Entity Journey**

Implementation of **11 Key Initiatives of Toolbox** in all relevant entities worldwide

**Tracking implementation** in worldwide tool to ensure **anchoring of Integrity** across Volkswagen

Regular **status updates in local boards and Group Board**

## Inspiring people

**Inspiring** of leaders and employees for **mindset and behavior change**

Inform, convince, and motivate to **do the right thing** through **cross-hierarchical dialogue**

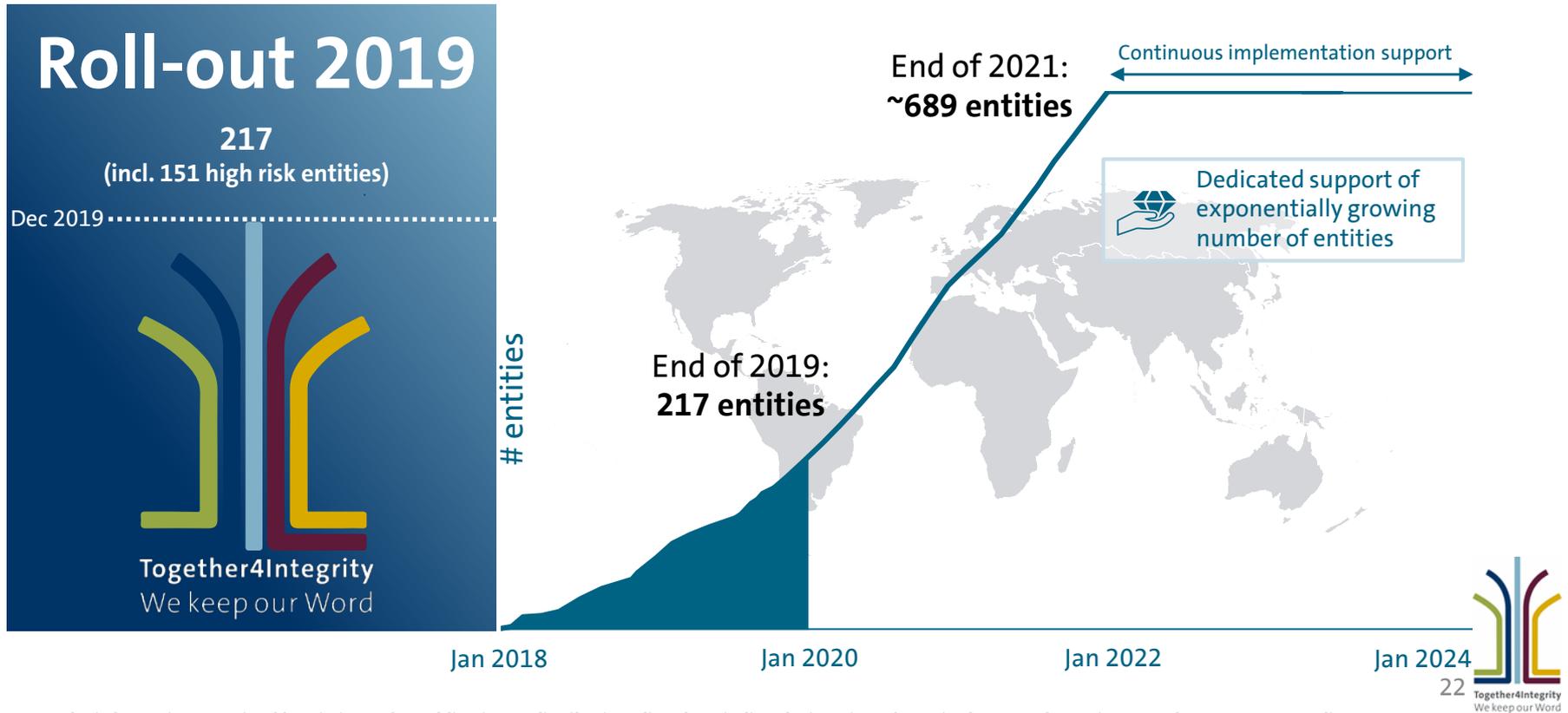
**Personal involvement** through e.g., Ramp-up Sessions, Conventions, I&C trainings, Role model Program, KulTour, Stiba Team discussions

**Measurement of progress** through **(Recurring) Perception Workshops**

## 11 Key Initiatives help to anchor Integrity and Compliance across the organization



## Sustainable implementation in all 689 Volkswagen entities until 2023



## More than 55,000 employees were personally involved in dialog formats until today



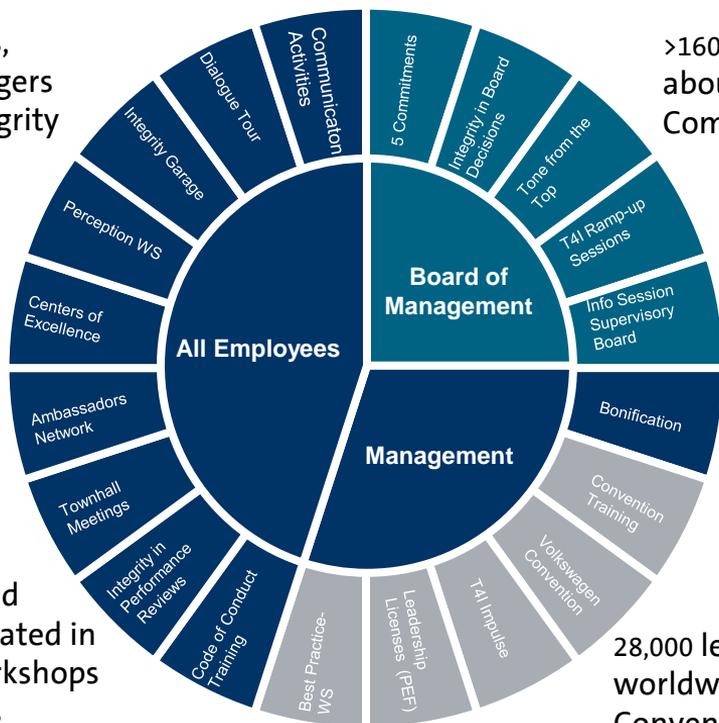
1,300 team speakers, foremen and managers reached in 109 Integrity Garage sessions



>8,000 employees were part of T4I Ramp-up Sessions in entities across 34 countries



>7,700 managers and employees participated in T4I Perception Workshops across 36 countries



>160 board speeches about Integrity and Compliance



7,600 managers at Convention Trainings about Integrity, Culture and Compliance



28,000 leaders at worldwide Volkswagen Conventions



Dr. Maren Charisius – Head of Divisional Compliance Office Volkswagen,  
Seat, Skoda

# COMPLIANCE

## Overview on Compliance Elements

	<b>Compliance objectives</b>	➤ Definition of an overarching <b>Compliance strategy</b> and identification of <b>fundamental risk areas</b>
	<b>Compliance risks</b>	➤ Group-wide assessment of significant <b>Compliance risks</b> by ICRA and definition of <b>standardized Compliance Measures Set</b> for every risk profile
	<b>BP Management</b>	➤ <b>Group-wide holistic Compliance Management for Business Partners</b> including diligent selection (BPDD), Contractual Obligations, BP Code of Conduct, BP Training, Compliance Dialogues and BP Audits
	<b>Organization</b>	➤ Staffing of an adequate, business dedicated and independent group-wide <b>Compliance Network</b> with central oversight, veto rights in Hiring, Compensation and Sanctioning of Compliance Officers
	<b>Communication &amp; training</b>	➤ <b>Training &amp; information</b> for employees and relevant external 3 <sup>rd</sup> parties on <b>core Compliance topics, roles &amp; responsibilities</b>
	<b>Monitoring &amp; improvement</b>	➤ Introduction of regular <b>reporting and status tracking</b> to quickly identify <b>improvement needs</b>
	<b>Culture &amp; values</b>	➤ Strengthening of the company's culture & values by <b>rollout of a global Code of Conduct</b> and <b>clear Tone from the Top</b> from leadership
	<b>M&amp;A Compliance</b>	➤ <b>Compliance in M&amp;A processes and post-merger integration</b> <b>Compliance Concept for non-controlled shareholdings</b> <b>Real Estate and industrialization projects</b>
	<b>Whistleblower System</b>	➤ Fair, transparent and group-wide <b>Whistleblower System</b> protects the company, the persons implicated and the whistleblowers.
	<b>Best Practice Exchange</b>	➤ <b>Benchmark discussions</b> with leading companies across industries

# The 7 Core Elements of the Compliance Management System of Volkswagen

## Compliance Monitoring & Improvement

- ▶ Adequate monitoring and review
- ▶ Management responsibility for improvement

## Compliance Communication & Training

- ▶ Employees/relevant third parties are informed on roles, responsibilities and compliance core topics
- ▶ Whistleblower Hotline, consultation process

## Compliance Organization

- ▶ Definition of roles and responsibilities (functions), structures and procedures
- ▶ Adequate resource allocation
- ▶ Reporting

## Compliance Program & Processes

- ▶ General compliance program generated from Group Compliance core topics to prevent, detect and respond to proper risks and events
- ▶ Defined by Group Compliance Focus Areas and risk-based compliance measures (Group/local)



## Compliance Culture & Values

- ▶ Fundamentals laid out in the Group-wide Code of Conduct
- ▶ Leadership behavior of (top)management („tone from the top“)
- ▶ Accountability for and sanctioning of misconduct

## Compliance Objectives

- ▶ Definition of objectives to be achieved (risk areas; TOGETHER 2025) by compliance management
- ▶ Defining relevant areas and the requirements to be achieved for compliance risk and management areas

## Compliance Risks

- ▶ Assessment of significant risks and mitigation need
- ▶ Participation in ICRA and local risk assessments (if applicable)

**Compliance key topics:** Corruption, Money laundering, Embezzlement, Fraud, Investigation of Compliance violations of employees, Human Rights

Barbara Lamprecht – Coordinator Business and Human Rights

# **BUSINESS AND HUMAN RIGHTS**

# Using the existing compliance management system for implementing business & human rights according to UN principles

## 7 Compliance Monitoring & Improvement

- KPIs
- Ongoing human rights reporting and ranking
- Continuous improvement

## 6 Compliance Communication & Training

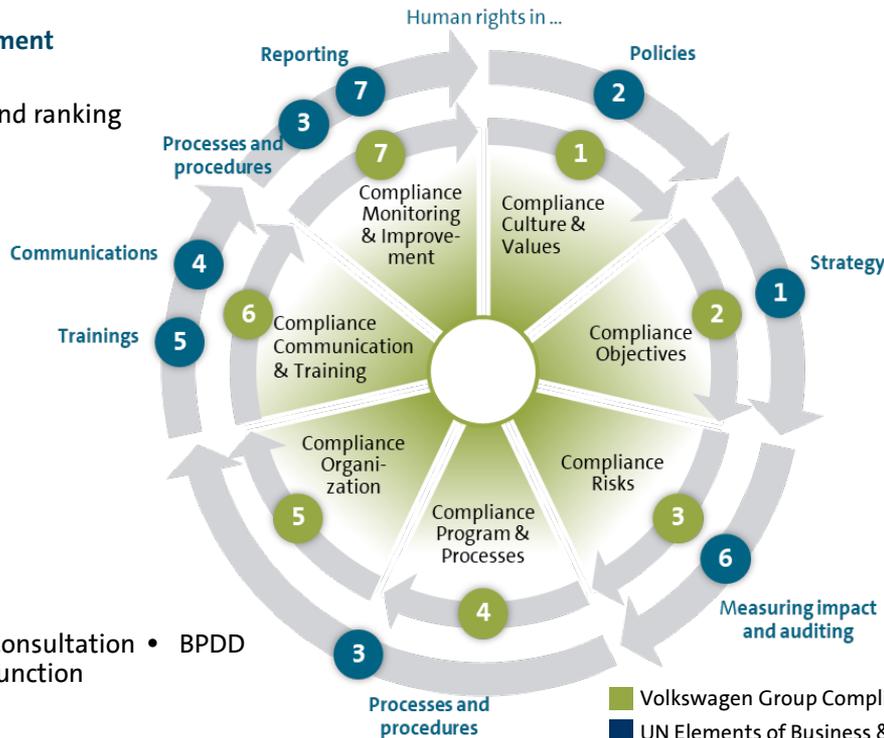
- Training concept
- Communications concept

## 5 Compliance Organization

- Defined responsibilities
- Organizational structure
- Network management

## 4 Compliance Program & Processes

- Operating model
- Grievance mechanisms
- Consultation function
- BPDD



## 1 Compliance Culture & Values

- Legal stocktaking
- Basic business & human rights document and policies

## 2 Compliance Objectives

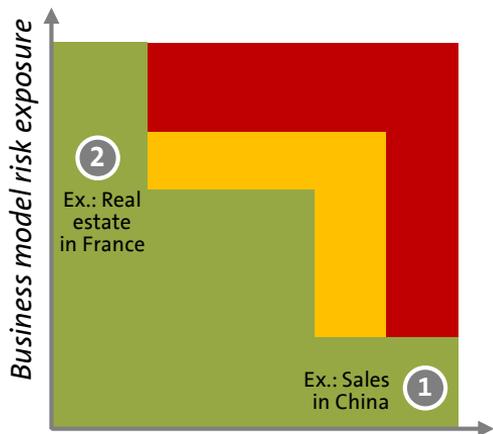
- List of salient business & human rights issues
- List of opportunities (optional)

## 3 Compliance Risks

Integration of business & human rights risk into CMS

# Starting point is a Business and Human Rights Risk Assessment, correlating both country and business model risks

## Scoring model



Country risk exposure

- = high
- = medium
- = low

① Ex.: Sales in China  
② Ex.: Real estate in France

## Business Model Risk

<p><b>High</b></p> <ul style="list-style-type: none"> <li>• Production</li> <li>• Logistics</li> <li>• Mobility</li> </ul>	<p><b>Med.</b></p> <ul style="list-style-type: none"> <li>• Engineering and technology</li> <li>• Services</li> <li>• Real estate</li> </ul>	<p><b>Low</b></p> <ul style="list-style-type: none"> <li>• Sales</li> <li>• Consulting</li> <li>• Financial services</li> <li>• Investment</li> <li>• Others</li> </ul>
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**Compliance Scope 2019: 647 Entities**

- *Status:* Compliance scope
- *Legal status:* Registered or in formation, but not in liquidation
- *Country information:* Especially business & human rights country risks
- *Business models:* Classified regarding higher human rights risk exposure, category overview:
  - *Additionally:* New entities in high risk countries increase scoring

## Country Risk on the basis of Maple Croft's meta Index



## Risk specific measures for each entity mitigates risks

### BHR Integration

<i>Low</i>	<i>Medium (additional measures)</i>	<i>High (additional measures)</i>
Integration into existing policies where applicable		Plus explicit BHR policy commitment

### BHR compliance risks

<i>Low</i>	<i>Medium (additional measures)</i>	<i>High (additional measures)</i>
BHR incident management process in place	BHR risks and mitigation measures generally identified, for example using the Group assessment (recommendation)	BHR risks and mitigation measures generally identified, for example using the Group assessment (mandatory)

### BHR monitoring & improvement

<i>Low</i>	<i>Medium (additional measures)</i>	<i>High (additional measures)</i>
Entity prepared to support selected Group activities for BHR monitoring & improvement		

Bjoern Baetge – Head of Global Markets

# **VOLKSWAGEN GREEN FINANCE FRAMEWORK**

## Summary of the framework and second party opinion



**Use of Proceeds – Clean Transportation**

- Projects related to the manufacture of electric vehicles
- Dedicated e-charging infrastructure



**Project Evaluation and Selection**

- cross-departmental Green Finance Committee responsible for overseeing the process of selecting, evaluating and monitoring Eligible Green Projects
- look-back period of up to three preceding full fiscal years from the date of issuance



**Management of Proceeds**

- Allocation for the Eligible Green Project Portfolio which matches or exceeds the balance of net proceeds from its outstanding Green Debt Instruments
- Unallocated proceeds can be invested in cash or other liquid marketable instruments



**Reporting**

- Yearly updated reporting with limited assurance on use of proceeds
- Impact metrics such as Life Cycle Assessment

Second-Party Opinion  
**Volkswagen Green Finance Framework**



**SECOND-PARTY OPINION**

**Evaluation Summary**

Sustainalytics is of the opinion that the Volkswagen Green Finance Framework is credible and impactful and aligns with the four core components of the ICMA Green Bond Principles 2018 and LMA Green Loan Principles 2018. This assessment is based on the following:

 **USE OF PROCEEDS** The eligible category for the use of proceeds is aligned with those recognized by the Green Bond Principles and Green Loan Principles. Sustainalytics considers that Clean Transportation will lead to positive environmental impacts and advance the UN Sustainable Development Goals 9 and 11.

 **PROJECT EVALUATION / SELECTION** Volkswagen's Green Finance Committee (GFC) will evaluate and select the eligible green projects to approve whether the projects are aligned with the Framework. The GFC is comprised of cross-functional representatives from Group Treasury, Sustainability Department, Group Accounting, Group Controlling, Group Legal and business units developing eligible projects. This process is in line with market practice.

 **MANAGEMENT OF PROCEEDS** Volkswagen will allocate the proceeds to an Eligible Green Project Portfolio. Volkswagen will track expenditure and development costs using internal reporting systems. Pending full allocation or reallocation, the unallocated proceeds will be invested in cash or other liquid marketable instruments. This process is in line with market practice.

 **REPORTING** Volkswagen intends to annually publish allocation and impact reporting of proceeds on the Volkswagen Group's website until full allocation. Allocation reporting will include the balance of allocated and unallocated proceeds as well as the number of new and existing projects. In addition, impact reporting will disclose data of CO2 emissions avoided in the use and production phases, along with the description of the green projects and results of Life Cycle Assessment. Sustainalytics views Volkswagen's allocation and impact reporting plans to be aligned with market practice.

Evaluation date	March 2020
Issuer Location	Wolfsburg, Germany
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## Key Messages



● — **Decarbonization is our key sustainability priority at Volkswagen Group**

● — **Volkswagen is fully committed to its corporate responsibility**

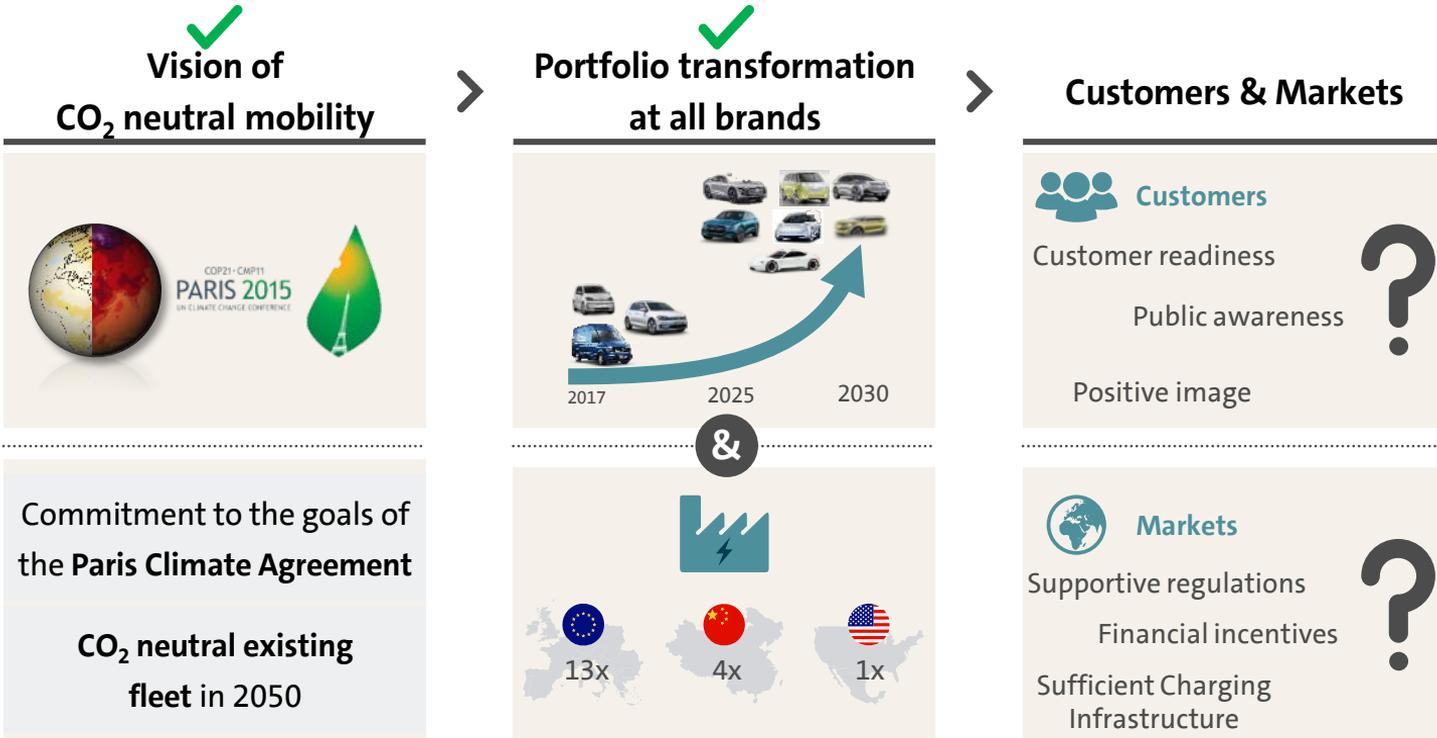
● — **Incorporate Green Debt Instruments to the funding strategy to align it with our mission of becoming CO<sub>2</sub>-neutral by 2050**

**Appendix**  
**Sustainability at Volkswagen:**  
**Volkswagen Green Finance Framework**  
**Investor Update March 5th, 2020**

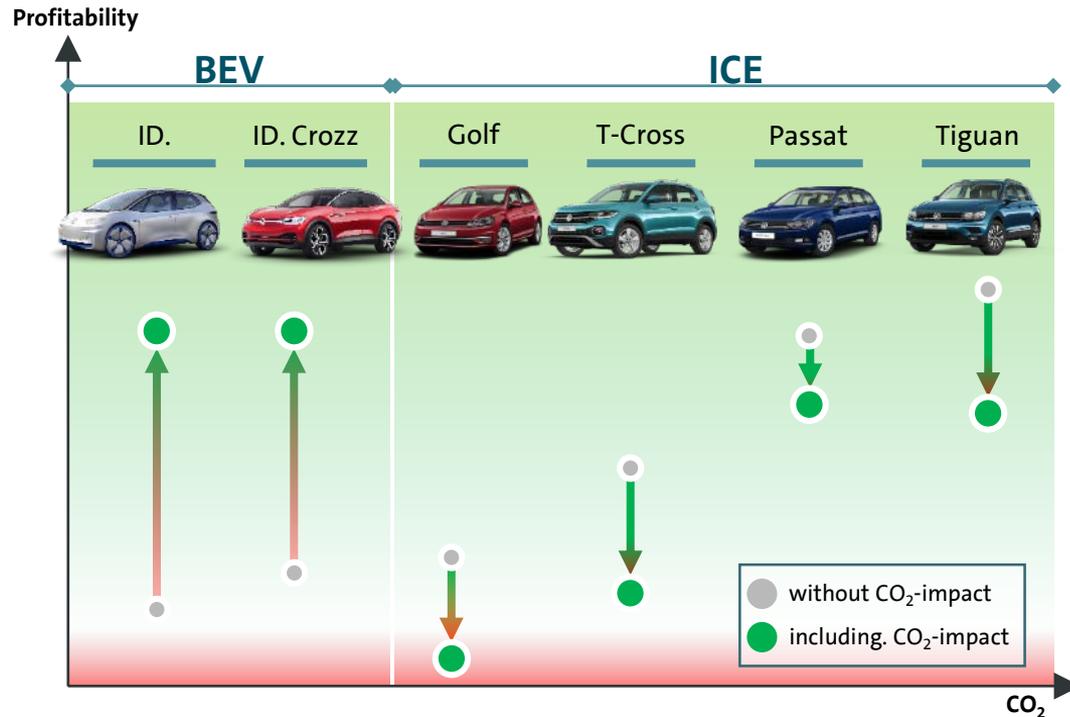


# VOLKSWAGEN'S APPROACH TO SUSTAINABILITY AND DECARBONIZATION

## Customers and markets must still be prepared for e-mobility



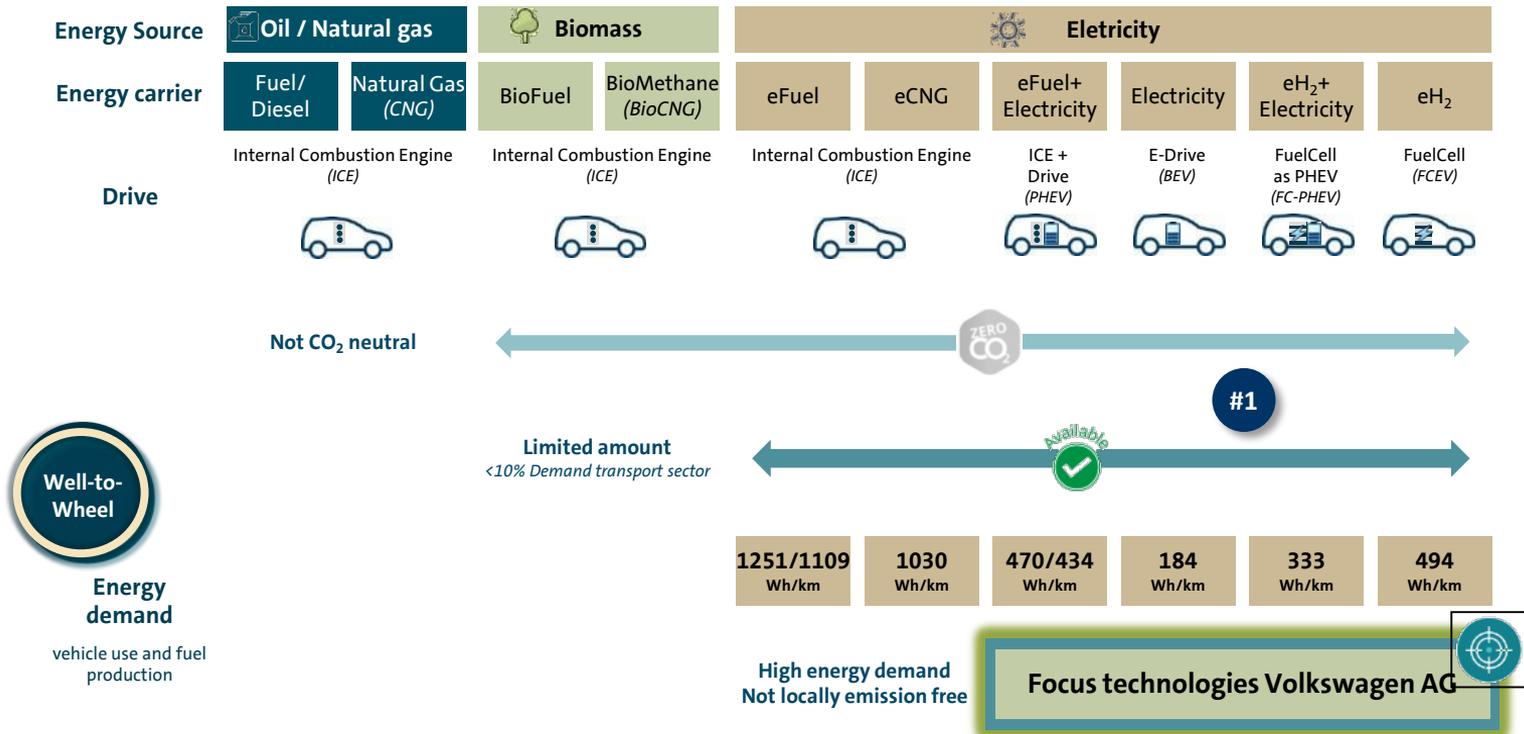
## CO<sub>2</sub> fleet targets have changed product profitability



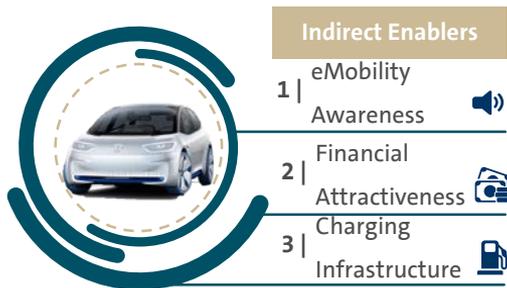
### IMPACT ON PRODUCT DECISIONS:

- TRANSITION PERIOD: ICES STILL MORE PROFITABLE
- RISING COSTS OF CO<sub>2</sub> COMPLIANCE NEGATIVELY IMPACT ICE PROFITABILITY
- BEVS NECESSARY FOR CO<sub>2</sub> COMPLIANCE
- INCREASING VOLUME OF BEVS DRIVES PROFITABILITY

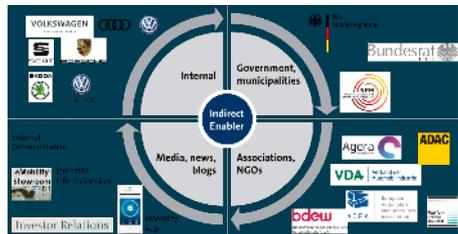
# To handle the complexity of transformation a focused drive strategy is necessary



# The target of Roadmap E Enabler is to prepare the markets for e-mobility with focus on three main categories



## Approach



## Blue Print

Examples

2018	2019
Stakeholder map	Retail charging
Company car tax	Awareness

## Market involvement

Roll out in Top 12 EU Markets

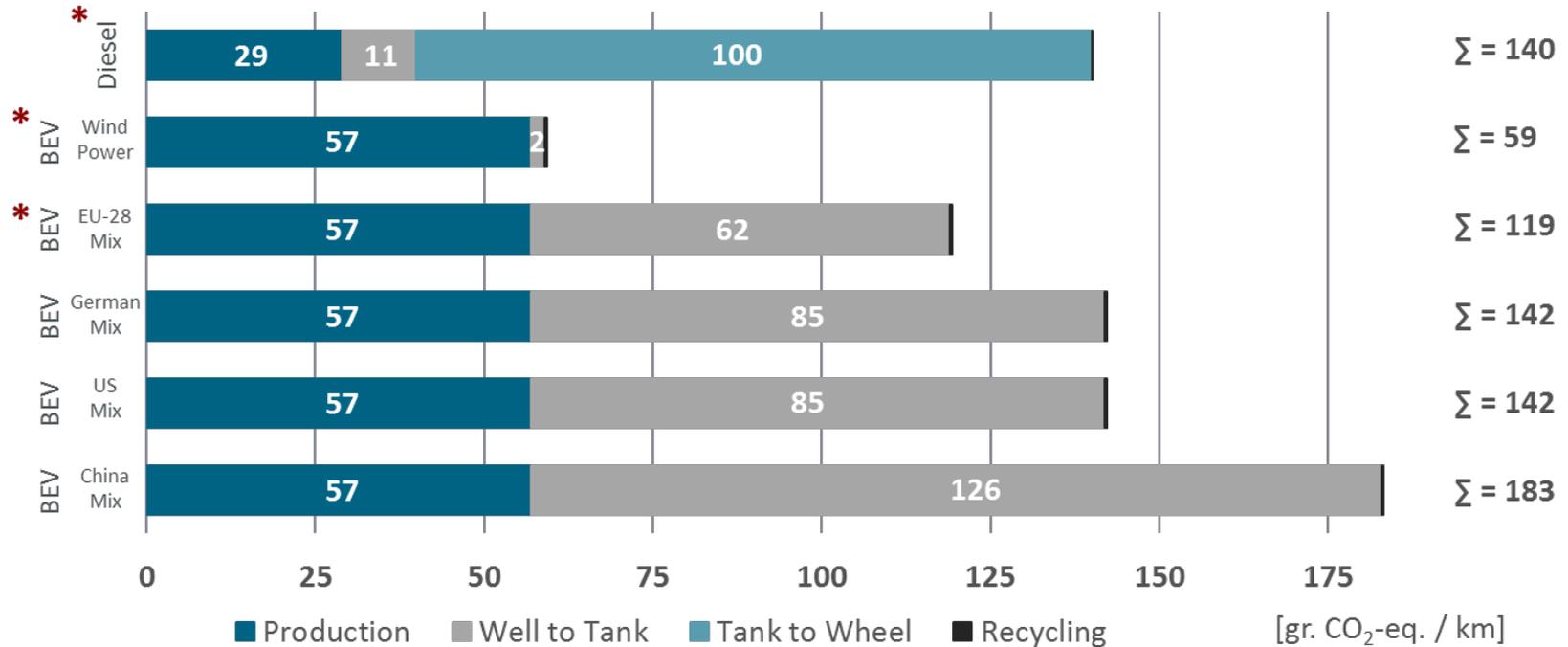
- 1 - 2 workshops in each market with local Group and brand mgmt.
- Central collection of market information and tracking of status
- Active collaboration on specific market strategies and measures

Market Report  
Roadmap E Strategy

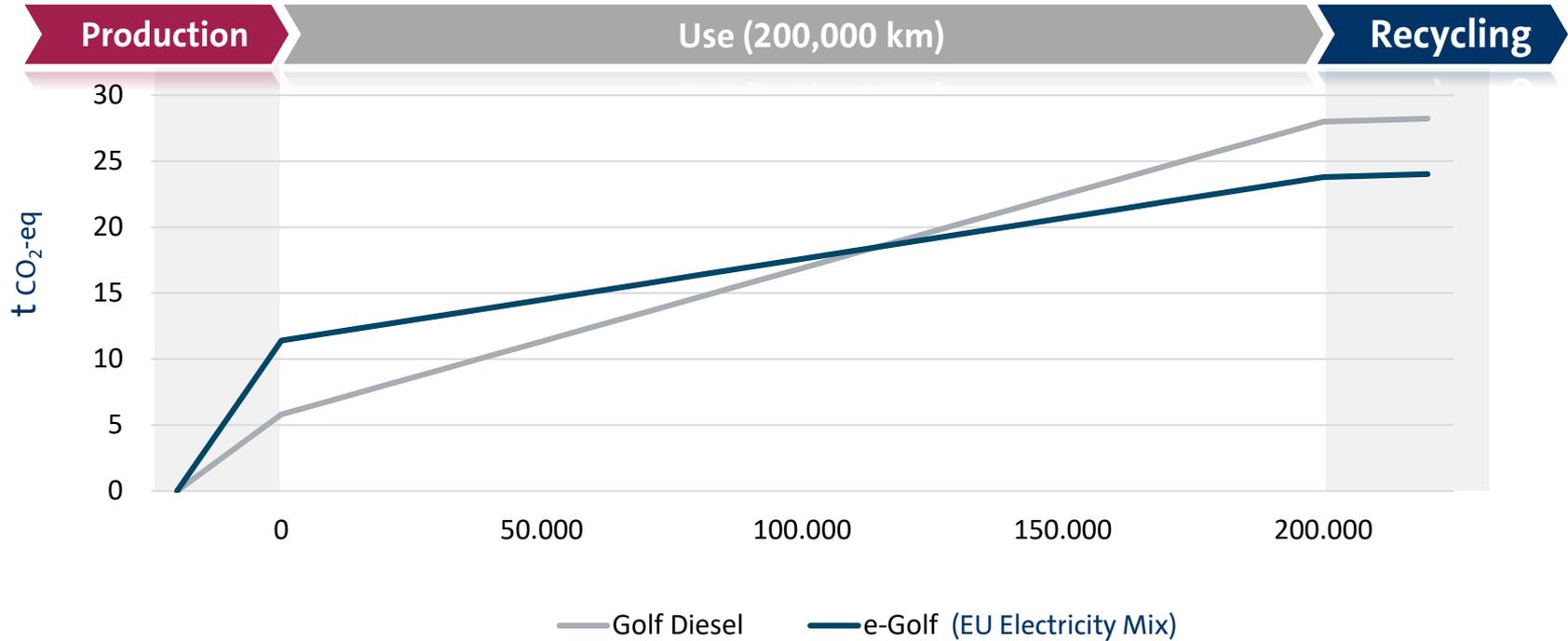
Source: Roadmap E Enabler Project Team

## Influence of energy mix on CO<sub>2</sub> Profile of electric vehicles

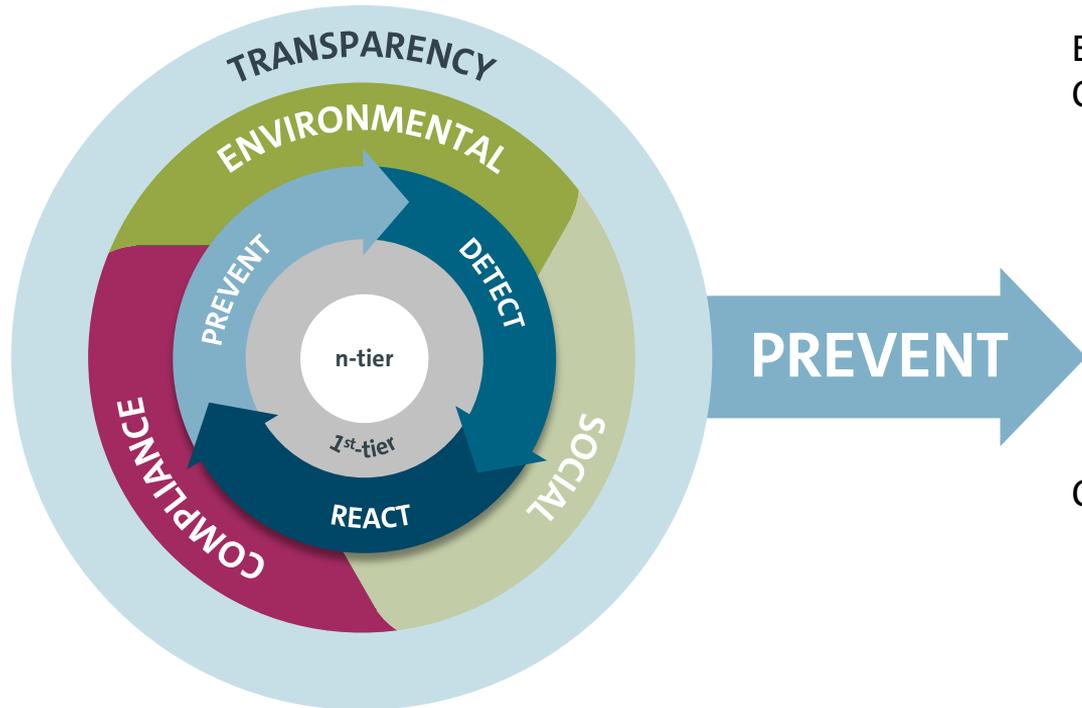
Situation as of 2017



## Carbon Footprint of E-Golf vs. Golf Diesel



## Sustainability at Volkswagen – Our Approach at Strategy Group Procurement



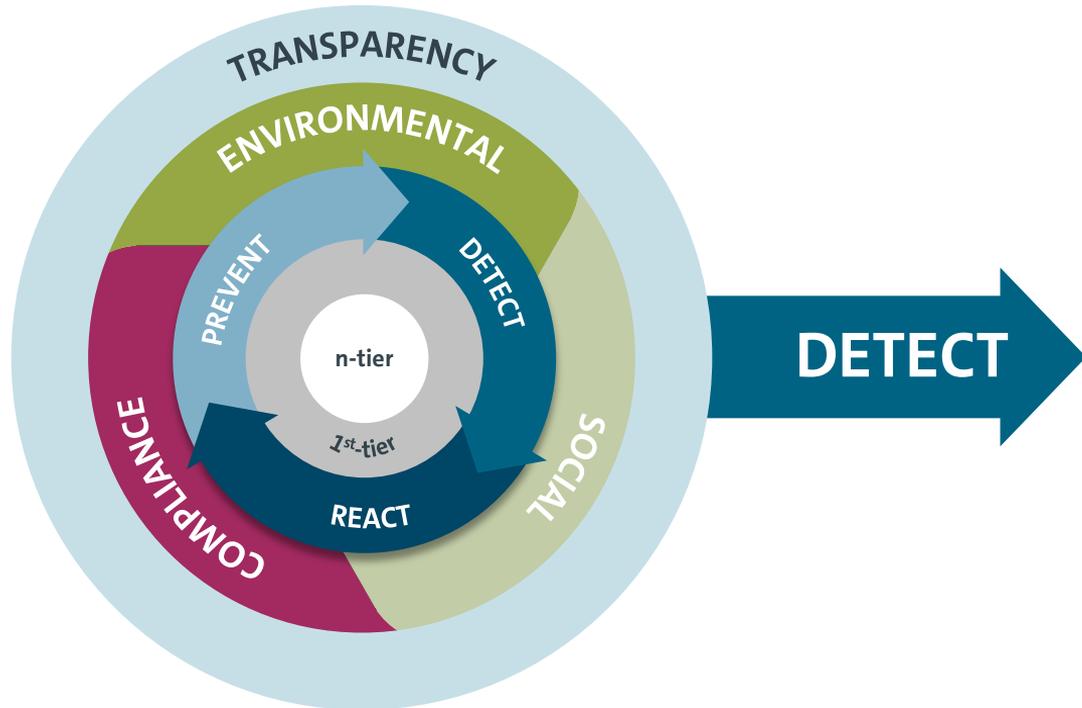
### Embedding Sustainability Expectations in Contracts & Specifications

- ❖ Environmental Protection
- ❖ Employee Rights
- ❖ Transparent Business Relations
- ❖ Fair Market Behaviour
- ❖ Responsible Raw Material Procurement

### Capacity and Awareness building

- ❖ Workshops & Supplier Days
- ❖ eLearning
- ❖ Classroom Trainings

## Sustainability at Volkswagen – Our Approach at Strategy Group Procurement



Embedded Sustainability as a nomination criteria



- ❖ Groupwide Process
- ❖ Evaluation of Sustainability Performance
- ❖ Risk-based in-depth analysis
- ❖ No award / contract for potential Business Partners with a negative S-Rating, irrespective of price
- ❖ Implementation via internal policies & guidelines, processes and IT-Tools

## Embedding Sustainability in Sourcing Award Decision Process

New Request



S-Rating from Database



Assessment



Rating for Nomination

A	Nomination Possible
B	Nomination Possible with Additional Measures
C	Nomination not Possible



Costs



Invest



Technical rating



Quality rating



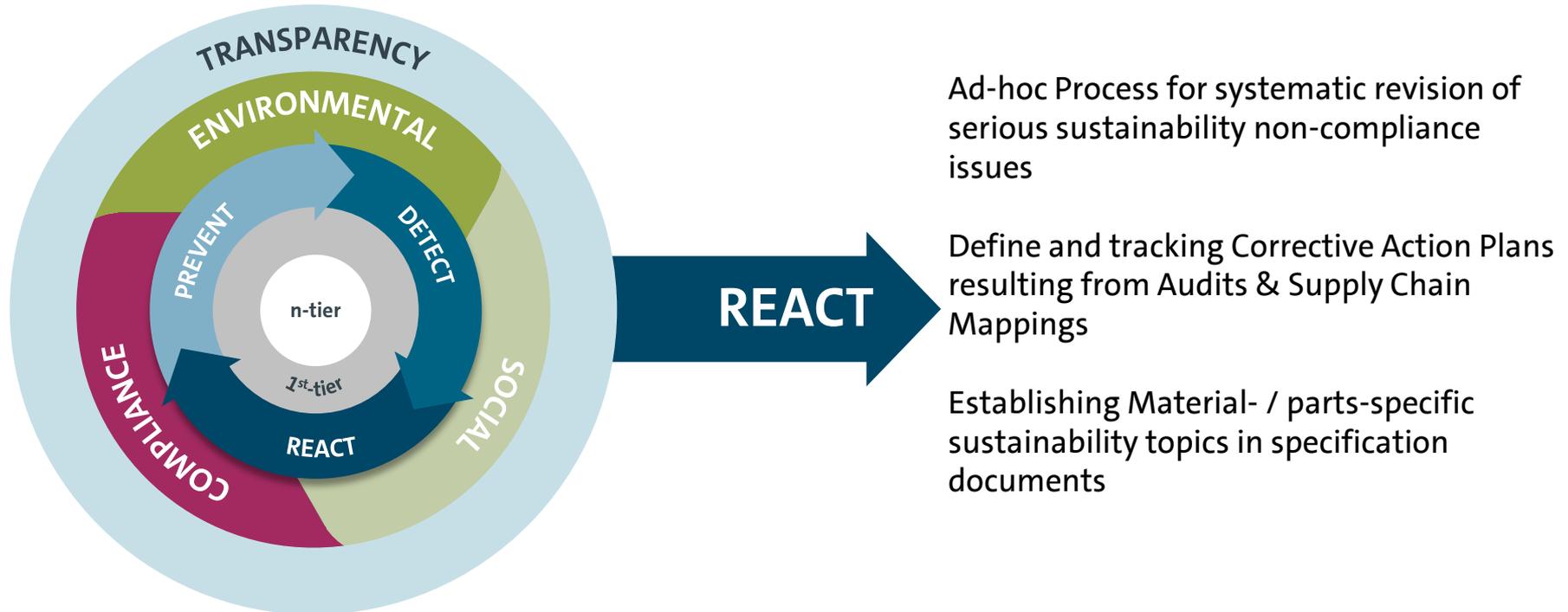
Logistics



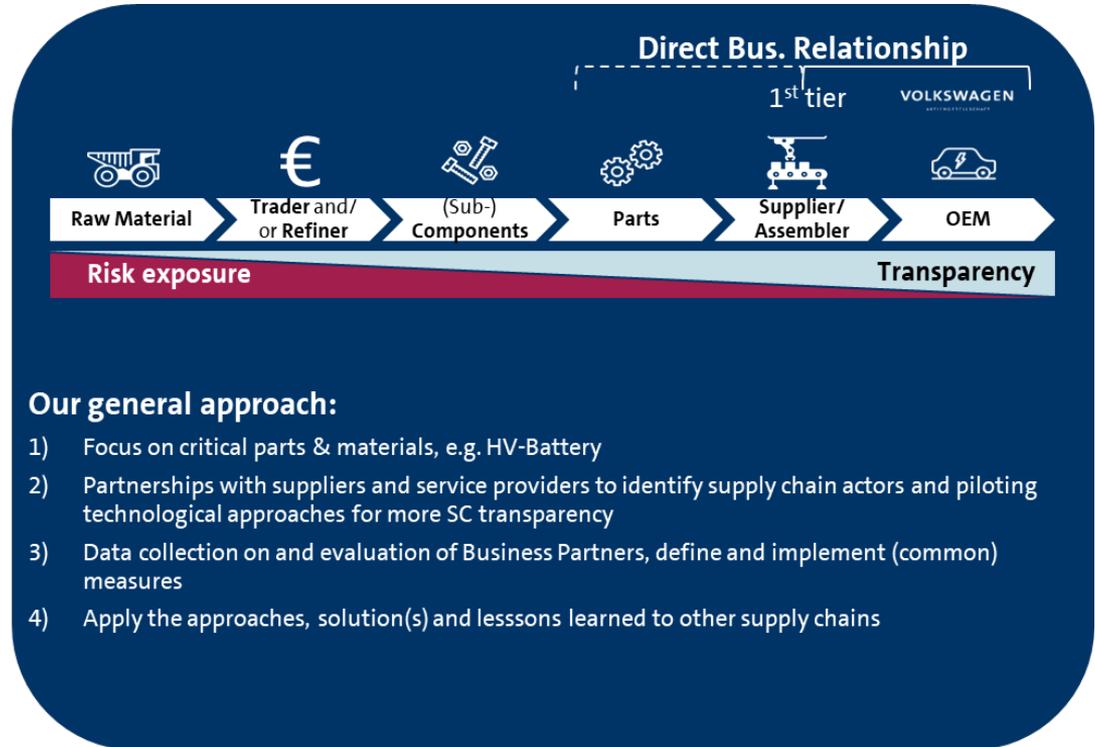
Sustainability „S-Rating“

- ❖ Self-Assessment
- ❖ On-site evaluation / Audits
- ❖ Consideration of Further Risk Factors (country, industry, negative press, etc.)
- ❖ Topics include general company management, Working Conditions and Human Rights, business ethics, Environment, supplier management, Responsible Sourcing of raw material

## Sustainability at Volkswagen – Our Approach at Strategy Group Procurement



## Sustainability at Volkswagen Procurement – The Challenge of Transparency

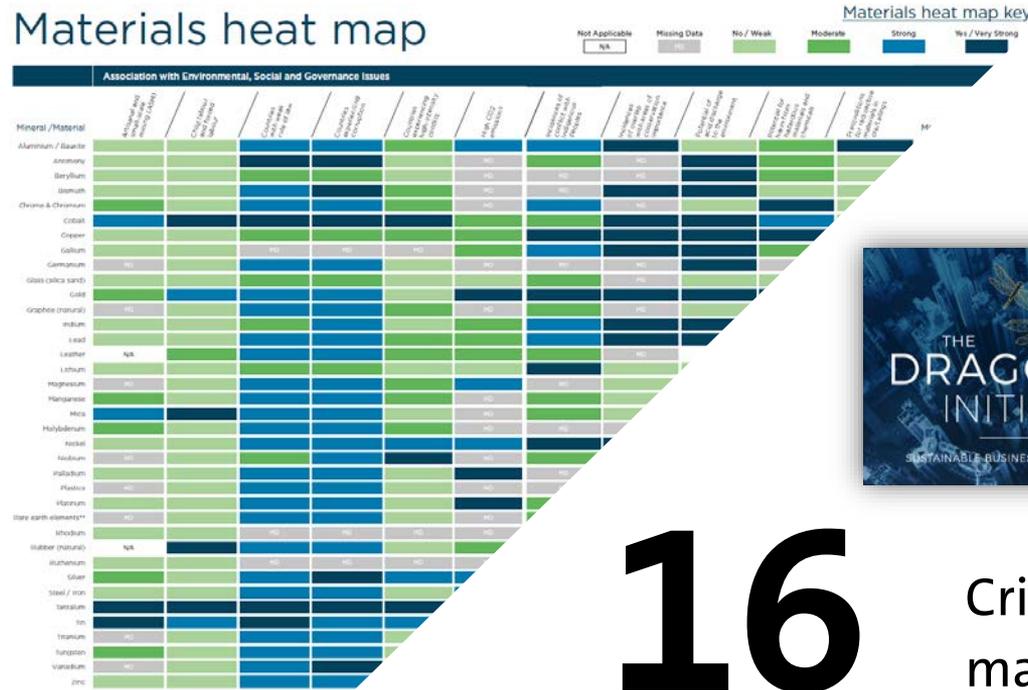


## Responsible raw material sourcing – Our approach



# Responsible raw material sourcing – Our Focus

## Materials heat map



# 16

## Critical raw materials

High risk materials	
„Conflict-Minerals“ 3TG	
1	Tin
2	Tantalum
3	Tungsten
4	Gold
E-Raw Materials	
5	Cobalt
6	Graphite
7	Lithium
8	Rare Earth Elements
Further Materials	
9	Leather
10	Aluminium
11	Copper
12	Rubber
13	Nickel
14	Steel
15	PGM
16	Mica

Figure 6  
\*\*Missing Iron, Cobalt, Bismuth, Gallium, Niobium, Germanium, Terbium, Yttrium  
The "hotspots" in this heat map show a potential issue associated with the production of a material.