

Volkswagen AG

POST-ISSUANCE VERIFICATION LETTER

Low Carbon Transportation CRITERIA OF THE CLIMATE BONDS STANDARD

Type of engagement: Assurance Engagement

Period engagement was carried out: March 2021

Approved verifier: Sustainalytics

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Scope and Objectives

In September 2020, Volkswagen AG (“VW” or the “Company”) issued green bonds aimed at financing projects that contribute to clean mobility, specifically through the development and implementation of the Modular Electric Drive Toolkit technology, which has been developed to make the manufacture of electric vehicles more efficient. In March 2021, VW engaged Sustainalytics to review the projects funded through the issued green bonds and provide an assessment as to whether the projects met the Post-Issuance Requirements (Part A, Part B and Part C) of the Climate Bonds Standard.

Green bond projects include:

- The Modular Electric Drive Toolkit (MEB);¹
- Drivetrain for the cars which will be produced on the MEB;
- Body for the ID.3 model; and
- Body for the ID.4 model

Compliance Evaluation Criteria

Post-issuance requirements under Climate Bonds Standards Version 2.1:

- Part A: General Requirements - All the requirements in Part A shall be met to be eligible for post-issuance certification.
- Part B: Eligible Projects & Assets - Part B requirements shall be met based on the projects & assets associated with the bond and the specified eligibility criteria.
- Part C: Requirements for Specific Bond Types - Part C requirements shall be met to be eligible for post-issuance certification and are used selectively, depending on the type of bond in question.

Issuing Entity's Responsibility

VW is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, total development cost of each project, and disbursed amounts.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of VW's green bond, issued to finance eligible projects, and provided an independent opinion informing VW as to the conformance of the green bond with the Post-Issuance requirements and Low Carbon Transportation criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by VW with respect to the Nominated Projects. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by VW.

¹ MEB is the platform for several Battery Electric Vehicles (BEV) and will be used across various brands.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

Verifier’s Responsibility

Sustainalytics conducted the verification in accordance with the Climate Bonds Standard Version 2.1 and with International Standard on Assurance Engagements 3000 (ISAE 3000) – Assurance Engagements other than Audits or Reviews of Historical Information.

The work undertaken as part of this engagement included conversations with relevant VW employees and review of relevant documentation to confirm the conformance of VW’s green bonds with the Programmatic Post-Issuance Requirements (Part A, Part B and Part C) of the Climate Bonds Standard Version 2.1.

Exceptions

No exceptions were identified. All projects aligned with the Post-Issuance requirements of the Climate Bonds Standard and were in conformance with the Low Carbon Transportation criteria.

Conclusion

Based on the limited assurance procedures conducted, nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the allocation of EUR 2,000mn from the VW green bonds, issued to fund eligible green projects, is not in conformance with the Post-Issuance requirements of the Climate Bonds Standard.

Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Compliance to Part A: General Requirements	Verification of four projects funded by the green bond in 2020 to determine if Part A: General Requirements were met (See Schedule 2A and 2A).	All four projects reviewed complied with the General Requirements.	
Compliance to Part B: Eligible Projects & Assets	Verification of four projects funded by the green bond in 2020 to determine if projects fall into (i) one of the investment areas of the Climate Bonds Taxonomy (ii) meet the Low Carbon Transportation technical criteria.	All four projects fall under the Low Carbon Transportation criteria and meet the Low Carbon Transportation technical requirements.	
Compliance to Part C: Requirements for Specific Bond Types	Bond Type Applicable: Use of Proceeds Bond.	The requirements of Project Holding, Settlement Period and Earmarking have been met.	

Schedule 1A: Post-Issuance General Requirements of the Climate Bonds Standard

Nominated Projects & Assets	<p>4.1 Statement on the environmental objectives of the bond</p> <p>4.2 Nominated Projects meet the Climate Bonds criteria</p> <p>4.3 Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds</p>
Use of Proceeds	<p>5.1 Net Proceeds of the bond allocated to the Nominated Projects</p> <p>5.2 Funds allocated to Nominated Projects within 24 months of issuance of the bond</p> <p>5.3 Estimate of the share of the Net Proceeds used for financing and re-financing</p> <p>5.4 Net Proceeds of the bond shall be tracked by the Issuer following a formal internal process</p> <p>5.5 Net Proceeds of the bond shall be no greater than the total investment or the total Fair Market Value of the Nominated Projects & Assets at the time of issuance</p>
Non-Contamination of Proceeds	<p>6.1 Tracking of proceeds</p> <p>6.2 Managing of unallocated proceeds</p> <p>6.3 In the case of a Force Majeure, the Issuer may apply to the Climate Bonds Standard Board for an extension to the asset allocation period</p>
Confidentiality	<p>7.1 Information about the Nominated Projects & Assets provided to the Verifier and to the Climate Bonds Standard Board</p> <p>7.2 Issuer should disclose information about the bond and the Nominated Projects & Assets to the market</p>
Reporting Post-Issuance	<p>8.1 Report containing the list of Nominated Projects & Assets to which proceeds of the bond have been allocated</p>

Schedule 1B: Conformance to the Post-Issuance Requirements of the Climate Bonds Standard

Procedure Performed	Factual Findings	Error or Exceptions Identified
Verification of Nominated Projects & Assets	<p>4.1 The objective of the bond is to primarily use proceeds to finance projects related to the manufacture of electric vehicles. This includes investments in, expenditures for and/or costs for conception, infrastructure, development and construction of the MEB itself, of electric vehicles and their production equipment and tools, supplier tools and systems and their key components, such as batteries, all related to the MEB.</p> <p>4.2 VW's management confirms that the nominated projects meet the Eligibility Criteria.</p> <p>4.3 VW's management confirms that the projects shall not be nominated to other Climate Bonds.</p>	
Verification of requirements specified under Use of Proceeds	<p>5.1 Net Proceeds of the bond have been allocated to the four Nominated Projects.</p> <p>5.2 VW's management has confirmed that funds have been allocated to Nominated Projects within one year of the issuance.</p> <p>5.3 VW's management has confirmed that all Net Proceeds of the bond were used for refinancing only.</p> <p>5.4 VW's management has confirmed that Net Proceeds of the bond shall be tracked by the Issuer following a formal internal process.</p> <p>5.5 VW's management has confirmed that the Net Proceeds of the bond shall be no greater than the total investment in the Nominated Projects or the Total Development Cost of the Nominated Projects.</p>	
Verification of requirements specified under Non-Contamination of Proceeds	<p>6.1 VW's management confirms that the proceeds have been segregated and tracked in a systematic manner and were exclusively used to finance Nominated Projects.</p> <p>6.2 VW's management confirms that pending the investment of proceeds, it maintained the funds in group treasury money market funds.</p> <p>6.3 N/A</p>	
Verification of requirements specified under Confidentiality	<p>7.1 VW's management confirms that all relevant information about the Nominated Projects has been provided to the Verifier and to the Climate Bonds Standard Board to support the assessment of conformance with the Climate Bonds Standard.</p> <p>7.2 VW's management confirms that all relevant information about the bond and the Nominated Projects has been disclosed to the market.</p>	
Verification of requirements specified under Reporting Post-Issuance	<p>8.1 VW's management has provided a report containing the list of Nominated Projects to which proceeds of the bond have been allocated.</p>	

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The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world's foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the "Largest Approved Verifier for Certified Climate Bonds" for the third consecutive year. The firm was also recognized by Environmental Finance as the "Largest External Reviewer" in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.



Named

2015: Best SRI or Green Bond Research or Rating Firm
2017, 2018, 2019: Most Impressive Second Opinion Provider

