

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 and Turkey.

The Volkswagen Bank GmbH Group operates in the Czech Republic, 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 31st of December, 2017.

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, the United States, 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 120 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 systems and also has a global network of sustainability officers for procurement activities for the individual brands and in the individual regions. This network helps the Group to better understand local conditions.

Internal measures

Volkswagen Financial Services Code of Conduct¹

The Volkswagen Financial Services has updated its Code of Conduct in 2017. The revised Code of Conduct applies to all employees and is based on shared values. The focus is 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 new 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 System²

The Whistleblower System is responsible for handling reports of serious breaches of rules and legal violations. It constitutes an important element of good company management. A new Group Guideline took effect from 1 November 2017 to revise and restructure the Group Whistleblower System. Our employees, business partners and other third parties may use various channels in the Whistleblower System to report serious employee compliance breaches. A violation of human rights is an example of such a severe breach. The Whistleblower System provides a fair and transparent process that protects the Company, the persons affected and the whistle-blower. A specially protected online reporting channel and the appointment of ombudspersons ensure that all reports can be forwarded anonymously to the office responsible for clarifying the matter. Any retaliatory action against whistle-blowers constitutes a serious rule 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 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

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

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

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, employee information and training at all hierarchical levels play a crucial role within our compliance work. New employees at Volkswagen AG are required to complete the online learning program on the Code of Conduct. In 2017, the entire management of Volkswagen AG was additionally required to take part in integrity, culture and compliance training sessions. Volkswagen AG makes the revised Code of Conduct available to employees via various channels. It has been published on the Intranet and the Internet, while all employees have received their own personal copy (booklet). The new Code of Conduct and its importance have been described in information letters sent to all employees, in articles in the employee magazine and in newsletters.

As our procurement staff constitute a material link with our business partners, all new purchasers are briefed and trained on sustainability matters and potential risks. At the same time, we make sure that our employees are familiar with the internal systems and processes as well as the sustainability requirements that our business partners are expected to comply with in order to report to the responsible units any breaches of our sustainability requirements that are observed. We train certain employee groups separately on specific matters such as raw materials in electric mobility and related sustainability risks in specially adapted training formats.

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. 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

Monitoring

Review of compliance with Requirements



- Self-Assessment Questionnaire Sustainability
- App to assess sustainability performance of suppliers
- Supplier audits

Qualification

Sensitization and further qualification of buyers and suppliers



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

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 contractor locations 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

Last year, we significantly extended the monitoring of our suppliers' sustainability performance. An external service provider conducted sustainability audits of 321 suppliers. In 60 cases, the audit results led to the establishment of a plan of action to improve the suppliers' sustainability performance.

In addition to on-site audits of our suppliers, more than 25,000 supplier sites within the Volkswagen Group had submitted self-assessment questionnaires on sustainability matters by the end of 2017. The questions contained in the self-assessment questionnaire were widened in 2016, e.g. with the addition of a question to determine whether suppliers have a policy on human trafficking. The ongoing enhancement of and additions to 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 1,529 cases to measurably improve suppliers' sustainability performance in 2017.

We take very seriously any information that we receive on any failure by our business partners to comply with our sustainability requirements and investigate it immediately and systematically. Specifically, we immediately ask the supplier 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 track and monitor the implementation of this action plan, e.g. via on-site visits and/or 3rd-party CSR audits. Any suspected cases can, for example, be reported via our central mailbox at 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 2017, around 29,000 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. For example, we have briefed more than 700 employees at around 360 suppliers in face-to-face training on sustainability matters and the specific regional challenges.

Progress report

As announced in the Volkswagen Group Modern Slavery and Human Trafficking Statement issued in 2016, various measures were taken in 2017 to heighten awareness of any forms of modern slavery and human trafficking. Thus, the Volkswagen Group's Code of Conduct was revised in 2017 to include the rejection of all forms of modern slavery and human trafficking. All Group companies were required to implement the new Code of Conduct by 31 December 2017.

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.

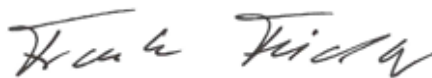
Likewise, the internal training plans on human rights will be revised on Group-level in 2018. In addition to revising the content of the training materials, we will also be broadening the target groups to be addressed. This will be supplemented with more intensive training on human rights including practical examples to aid understanding.

The revised Whistleblower System at Volkswagen AG and its integration in the company will again be reinforced in 2018 by means of employee communications. In this connection, different channels – such as digital, print and face-to-face – will be used to specifically address the relevant target groups.

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