

# VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

## **Slavery and Human Trafficking Statement by Volkswagen Financial Services (Fiscal year 2021)**

This statement has been prepared pursuant to section 54 of the United Kingdom Modern Slavery Act 2015. In particular, it details the measures implemented throughout Volkswagen Financial Services to prevent 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 under this link<sup>1</sup> since the United Nations’ International Human Rights Day 2019 (10 December 2019). We have extended and affirmed this understanding and our commitment to the internationally recognised agreements and conventions in the new “Declaration by the Volkswagen Group on Social Rights, Industrial Relations and Business and Human Rights” (Social Charta). This declaration was signed jointly by the Volkswagen AG Group Executive Board and the European and Global Group Works Council on 27<sup>th</sup> of November 2020.<sup>2</sup>

### **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 as the financial services companies in the USA and Canada that belong directly or indirectly to Volkswagen

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<sup>1</sup> <https://www.volkswagenag.com/en/group/compliance-and-risk-management/business-and-human-rights.html>

<sup>2</sup> [https://www.volkswagenag.com/presence/nachhaltigkeit/documents/policy-intern/201209-sozialcharta\\_en.pdf](https://www.volkswagenag.com/presence/nachhaltigkeit/documents/policy-intern/201209-sozialcharta_en.pdf)

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, Volkswagen Financial Services AG provides the international lending business outside of the EU. 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, Austria, Belgium, Brazil, Canada, Chile, China, Czech Republic, Denmark, France, Greece, India, Italy, Ireland, Japan, Luxembourg, Mexico, The Netherlands, Norway, Poland, Portugal, Russia, Sweden, Switzerland, Spain, South Africa, South Korea, Taiwan, Turkey and the United Kingdom.

Volkswagen Bank GmbH Group operates in Germany, France, Greece, Italy, The Netherlands, Poland, Portugal, Slovakia, Spain and the United Kingdom.

The companies are collectively referred to below as Volkswagen Financial Services.

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, 2021.

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

With its presence in key markets, the Group's global procurement organisation ensures that production materials, assets and services are sourced worldwide in the required quality, in accordance with sustainability standards and at the best possible terms. The competitive advantages of the various procurement markets are utilised by the whole Group as a result of the brands' networking of the various procurement organisations. We currently purchase products, services and parts from approx. 100 countries worldwide.

For the Volkswagen Group, global compliance with sustainability standards in areas such as human rights, occupational health and safety, environmental protection and combating corruption is a basic prerequisite for successful business with the Volkswagen Group suppliers. Only together with our business partners at over 50,000 locations is it possible to ensure compliance with sustainability standards and contribute to the implementation of the UN Sustainable Development Goals (SDGs). To achieve this objective, we implemented the "Sustainability in Supplier Relations" concept as early as 2006 and are continuing to develop it. This concept anchors sustainability in our procurement processes and procurement organisations. In this way, by 2025 we intend to effectively prevent environmental, social and corporate governance risks, including human rights risks, and to ensure that 85% of our direct business partners receive an A- rating in our "Sustainability Rating". The Volkswagen Group has a globally positioned and growing network of sustainability officers in the Procurement departments of the

respective brands and regions. This network currently consists of more than 50 experts and assists the Group in gaining a better understanding of local conditions.

## **Internal measures**

### *General*

In January 2019, the Group Board of Management – specifically Hiltrud D. Werner from Integrity and Legal Affairs, and Gunnar Kilian from Human Resources – appointed a Business & Human Rights coordinator, who is part of Group Compliance. Combating modern slavery in our value and supply chain is one of the focal areas of our activities in Business & Human Rights – embodied, for example in the key points of our “Salient Issues in 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 coordination within our Group itself, in 2021 we continued at group level to prioritise collaboration with external stakeholders. We support the German Federal government’s National Action Plan (NAP) “Business & Human Rights”. Specifically, in 2020 the Volkswagen Group actively participated in the “Business & Human Rights” dialogue of the automotive industry under the aegis of the German Federal Ministry of Labour and Social Affairs (BMAS). Volkswagen Group will continue this dialogue in 2022. Combating modern slavery also plays an important role here. In addition, since 2019, as the Volkswagen Group, we have been an active member of the Global Business Initiative for Human Rights<sup>3</sup>, and are the only car manufacturer to take part. The purpose of this corporate network is to discuss issues and participate in peer learning. We also proactively seek communication with other stakeholders, as for example in the Volkswagen Group Sustainability Stakeholder Dialogue in February 2020. Here the Volkswagen Group has presented and discussed its business and human rights measures with bodies such as NGOs and human rights organizations. On this basis, we have been able to develop our engagement in order to even better meet our corporate responsibility for human rights.

Only suppliers that accept the Volkswagen Group sustainability requirements and commit to fulfilling them may enter into a business relationship with the Volkswagen Group. Suppliers that enter into a business relationship with the Volkswagen Group shall then pass on these sustainability requirements to their business partners along the supply chain. Together with our direct suppliers we oppose any kind of forced labour and discrimination at Volkswagen Group and Volkswagen Financial Services. The Volkswagen Group takes its corporate responsibility and worldwide due diligence in the field of human rights very seriously – i.e. in China. The work with Volkswagen Group’s factories, sales companies and suppliers is based on the Volkswagen Group’s principles, such as respect for minorities, employee representation, social and labour standards. We expect the same of our Business Partners worldwide.

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<sup>3</sup> [https://gbibr.org/?\\_sm\\_au\\_=iVVRpsZLWTN5KkZF8CTHLKQJQ6v4c](https://gbibr.org/?_sm_au_=iVVRpsZLWTN5KkZF8CTHLKQJQ6v4c)

#### *Volkswagen Financial Services Code of Conduct* <sup>4</sup>

Volkswagen Financial Services updated its Code of Conduct in 2021. The content of the Code of Conduct is the same in all brands and companies. It embodies the ethical principles of the Volkswagen Group and is based on common values, with a focus on honesty, integrity, compliance and ethical behaviour as well as on the subject of responsibility. The Code of Conduct helps employees observe existing company rules at their workplace, as business partners and as members of society, providing them with practical guidance, assistance and advice. The rejection of all forms of modern slavery and human trafficking is an integral part of the Volkswagen Group Code of Conduct. In addition, we base our actions on the principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the requirements of the International Labour Organisation (ILO), as set out in our Social Charta.

Volkswagen Financial Services rejects forced labour and all forms of modern slavery including human trafficking. This includes, in particular, work carried out involuntarily by people due to intimidation, penalty or threat of being disadvantaged (e.g. debt slavery or involuntary prison labour). Employment relationships are based on voluntary participation and can be terminated at any time by the employees of their own free will and within a reasonable period of notice.

The Code of Conduct is available at all times to all employees on the Intranet and also to third parties on the Internet, and is continuously communicated in digital and print media as well as at internal company events. Regular training on the Code of Conduct is mandatory for all employees, regardless of hierarchical level. Additionally, members of the senior management confirm their knowledge and responsibility with regard to the Code of Conduct each year following a risk based approach.

The Volkswagen Group has also specially formulated the Code of Conduct for Business Partners. This details the Group's expectations regarding the attitude and conduct of business partners in their corporate activities, particularly with regard to suppliers and sales partners. The requirements are regarded as the basis for successfully shaping the business relationship between the Volkswagen Group and its partners. They include observance of human rights, such as the prohibition of child labour, human trafficking and slavery, as well as ensuring environmental protection and preventing corruption. The requirements for business partner are going to be updated in 2022.

#### *Volkswagen Group Whistleblower System* <sup>5</sup>

The Whistleblower System is used for reporting Serious Regulatory Violations. The violation of human rights is an example of an issue that involves in principle a Serious Regulatory Violation. It enables not only employees, but also business partners and customers around the world to report misconduct by employees any day of the year: written information can be submitted in any language using a specially protected online reporting channel. An international 24-hour telephone hotline is available for reporting

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<sup>4</sup> <https://www.vwfs.com/en/corporate-responsibility.html>

<sup>5</sup> <https://www.vwfs.com/en/corporate-responsibility/whistleblower-system.html>

information in a total of 15 languages. Information can also be submitted via commissioned external lawyers (ombudspersons). The reports can be made anonymously on all channels, if desired. Strict confidentiality and secrecy are maintained throughout the entire process. The Whistleblower System guarantees the highest possible protection for whistleblowers and all persons who contribute to an investigation and the termination of misconduct and Regulatory Violations. Their retaliation constitutes in principle a Serious Regulatory Violation and will not be tolerated. At the same time, the Whistleblower System preserves the interests of persons Implicated. For them, the presumption of innocence applies as long as a violation is not proven.

### *Risk analysis*

Within the framework of the established Risk Management processes, represented by elements, such as the Quarterly Risk Process and the Internal Control System (ICS), risk assessments on the subject of human rights can be recorded by the main Group divisions and companies as a specific category. Within the Quarterly Risk Process, essential business risks are regularly recorded and evaluated, and the necessary countermeasures are tracked. As part of the annual standard ICS process, control activities are carried out and tested for effectiveness in the Volkswagen Group's essential core processes in order to reduce process risks. This is done on the basis of a standardized risk catalog including clearly defined control objectives. The correct drafting of contracts – including requirements for human rights – in the supply chain, as well as the compliance with legal and internal requirements on human rights are verified in the standard ICS process. Reporting to the Brand Board of Management of the brands, the Group Board of Management and the Audit Committee is carried out quarterly, annually and on an event-related basis and may contain – if the materiality thresholds are reached – risks or significant weaknesses in the topic of human rights.

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. These measures were communicated to the entities in the reporting period and will become a mandatory component of the internal compliance risk management process at the end of 2021. For non-controlled companies respective compliance risks are assessed individually in close cooperation with our social partners. We rely on the cooperation of these partners. The Volkswagen Group integrates business and human rights into the Group's existing Compliance Management System in accordance with the UN human rights due diligence guidelines. The Business & Human Rights Centre of Competence advises other business units on human rights issues, ad hoc cases and implementation of legal requirements, especially those related to compliance. This advisory function has been established in the Volkswagen Group since 2020.

### *Qualification of employees*

By taking preventive measures, we promote compliance with regulations in our organisation and raise the awareness levels of our employees. Target group-oriented communication and training measures for employees at all hierarchical levels play a key role in this. In the reporting period, specific communication and training activities continued to focus primarily on the Code of Conduct, the Whistleblower System and the prevention of corruption.

New 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.

In addition, the Volkswagen Group also trains its business partners in procurement and sales on key aspects of compliance and anti-corruption. In the financial year 2021, dedicated employee training measures were held on various subjects on Group level, for example basic and advanced courses on human rights. The contents can be flexibly integrated into wider compliance training but can also be used as intensive courses to provide a separate and comprehensive introduction to the topic. For example: The group wide Code of Conduct training, which has been updated in 2021, now contains deep dive for the topic human rights. The Volkswagen Group also continues to pursue the communication strategy it developed the previous year in order to increase the transparency in human rights.

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

#### *Sustainability requirements for our suppliers (Code of Conduct for business partners)<sup>6</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. In procurement, we pursue a three-pronged approach. The basic prerequisite for these steps is transparency in supplier relationships that go beyond the first level (Tier 1):

- **Prevent:** sustainability requirements are anchored in contracts and specifications, particularly the Code of Conduct for Business Partners; suppliers are fully trained and qualified.

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<sup>6</sup> [https://www.volkswagenag.com/presence/konzern/compliance-und-risikomanagement/compliance/Code\\_of\\_Conduct\\_Business\\_Partners.pdf](https://www.volkswagenag.com/presence/konzern/compliance-und-risikomanagement/compliance/Code_of_Conduct_Business_Partners.pdf)

- **Detect:** sustainability risks in the supply chain are systematically identified and prioritised. Sustainability is anchored across the Group in all important contract award decisions and a sustainability performance rating of potential suppliers (“S-Rating”) is used. This is based on self-disclosures and risk-based checks on site.
- **React:** various measures are provided in order to respond to the identified risks and effects. These include a standardised process for dealing with violations by individual suppliers and action plans from on-site inspections.

#### *Clear specifications 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. It is applicable for all suppliers of the Volkswagen Group. Our expectations as regards our business partners’ conduct with respect to core environmental, social and compliance standards are set out contractually there. The requirements are based among others on the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the relevant conventions of the International Labour Organisation (ILO). However, the Code of Conduct is not only based on international standards, but also on the Volkswagen Group’s objectives, rules and directives.

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 conscious use of forced or compulsory labour as well as all forms of modern slavery and human trafficking. There is no bonded labour or involuntary prison labour. Employment relationships are entered into on a voluntary basis and may be terminated by employees at their own discretion and within a reasonable notice period.”

In order to raise awareness for sustainability aspects among suppliers, we adjusted the information and qualification programs and conducted trainings mostly online in order to meet global COVID-19 travel restrictions. Volkswagen Group also developed a new online training concept. The offer still includes the information available on the *ONE. Group Business Platform*, workshops with suppliers and training courses with the Drive Sustainability Initiative. Volkswagen Group will continue these measures in 2022.

#### *Systematic determination of sustainability risks (Detect)*

Our aim is to be aware of the sustainability risks in our supply chain at all times and effectively address them. A key measure introduced in 2019 is the sustainability rating (S-Rating), which was fully integrated by the end of 2021. The S-Rating indicates relevant<sup>7</sup> suppliers’ sustainability performance and opportunities for continuous improvement. It evaluates the ecological performance of suppliers as well

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<sup>7</sup> The relevance of a business partner for the S-Rating comes from factors such as company size or risk exposure, which is derived from the type of service.

as their social sustainability and integrity. The S-Rating is of direct relevance to our direct suppliers in terms of contract awards. If a supplier does not meet our requirements for compliance with sustainability standards, they will generally not be awarded contracts. This is a direct incentive for suppliers to improve their sustainability performance.

The audits for the S-Rating are carried out using a multi-stage, risk-based process. The company's sustainability performance is analysed using a standardised self-assessment questionnaire (SAQ) that was developed together with other European original equipment manufacturers (OEMs). The information and documents in the SAQ are checked and validated by a service provider. If a supplier states that it has specific processes and policies in place, it must provide the documents to prove this. 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 be able to react to risks identified in the supply chain and to specific violations by suppliers, and therefore to actively effect improvements.

An important part of sustainable supply chain management is our grievance mechanism "Supply Chain Grievance Mechanism", with which we respond to suspected violations of our sustainability requirements that suddenly arise. The mechanism is accessible via our website, an email postbox and an anonymized contact channel and is open to all stakeholders and potentially affected persons such as employees of suppliers, social organizations or representatives of communities in the immediate vicinity of our production sites. The cases are handled according to a binding policy, managed by the Group and processed together with the Volkswagen Group brands and regions. If violations are identified, measures are initiated immediately. If there are particularly serious violations, the business relationship may even be terminated.

Employees and external parties can also report potential violations by our suppliers to the Volkswagen Group works council or trade unions, or use the Volkswagen Group Whistleblower System or contact [sustainability@vwgroupsupply.com](mailto:sustainability@vwgroupsupply.com). This concerns possible violations by our direct suppliers as well as by subcontractors in the supply chain. External ombudspersons are another point of contact.

In the reporting period, the Procurement division dealt with 111 cases. These were suppliers where conduct in violation of regulations or contracts had been identified as a result information received or



through audits. In total, collaboration with 4 suppliers was terminated or they were excluded from new contract awards following the activities of the Procurement division.

#### *Special due diligence for human rights in the supply chain*

As part of our sustainable supplier management, we are especially committed to protecting those groups along our supply chains who face a high risk of potential human rights violations. In order to meet the international framework agreements and requirements, in 2021 we implemented our human rights due diligence management system on Group level in relevant regions, which we use to systematically analyse, prioritise and minimise human rights risks in our supply chain. In 2021 a total number of 575 supplier employees in 15 high-risk countries have been trained on human rights due diligence within this management system.

We cooperate closely with our direct suppliers to exercise human rights due diligence, and in suspected cases demand disclosure of the origin of materials linked to potential breaches of human rights such as child labour, forced labour or any form of modern slavery and human trafficking. We always take a risk-based approach.

If on-site visits indicate breaches of human rights, we agree a mandatory plan of measures with the supplier to eliminate the deficits. If this is not effective, sanctions are imposed. Our complaints process is crucial for violations that are reported to us or are identified by us. In this case, we enter a dialogue with the supplier on an individual basis with the aim of achieving an improvement. If there is no improvement in the event of serious violations, this can lead to exclusion from the supply chain.

#### *Digital innovations for greater transparency and safety in the supply chain*

To increase transparency in upstream supply chains the Volkswagen Group asks direct suppliers to disclose the supply chains, and also uses second-party supply chain mapping audits. These risks include forms of modern slavery, for example.

Another approach that has been pursued since 2020 is the use of a service provider that comprehensively audits suppliers using artificial intelligence. Constant monitoring of freely available internet sources including social media allows information on possible violations by suppliers to be reported in real time.

### *Commitment to international initiatives*

In addition to working more closely with our direct suppliers and sub-suppliers, the Volkswagen Group is engaged in international cross-industry initiatives and on-site projects to address human rights risks in the upstream supply chain and beyond our contractual relationships.

Volkswagen Groups' involvement in the industry initiative DRIVE Sustainability under the umbrella of CSR Europe is still central. The development of the common questionnaire standard for checking sustainability aspects at suppliers was a milestone in this respect, as was the further training approach pursued jointly with other OEMs of suppliers via training events in selected countries.

### *Sustainability training for employees and partners*

The systematic training of our employees and suppliers is a central component of our strategy and is essential for improving sustainability in the supply chain. Volkswagen Group currently uses two different formats for this purpose. First, live online training courses, as face-to-face training is still not possible due to the pandemic. Secondly, there are web-based trainings that can be accessed and carried out online at any time.

Sustainability is an integral part of the competency profile for all procurement employees. In total, over 1,900 persons worldwide received a specific training in 2021. Volkswagen Group continues to direct the qualification measures to specific target groups. For example, in-depth human rights training has been available since 2020 and was carried out again in 2021 on Group level.

To allow continuous supplier development, Volkswagen Group conducts sustainability training courses and workshops with our suppliers at selected sites. In the reporting period, this was only possible to a very limited extent. Volkswagen Group has therefore developed an online training course to train the suppliers in shorter sessions on its requirements and its implementation. Over 1,000 supplier employees took advantage of this offer in the reporting period. As part of the DRIVE Sustainability initiative, online sessions with 85 participants were also held for suppliers in India, Argentina, France and Russia.

In addition to the training, Volkswagen Group provides current suppliers with an e-learning module on sustainability in nine languages of specific high-risk countries. By the end of the reporting year, more than 18,000 suppliers had completed the e-learning, representing 36% coverage of the turnover of the suppliers in 2021 procurement volume of Volkswagen Group.

### **Supply chain progress report**

As described in the last statement by the Volkswagen Group for the financial year 2020, various measures for preventing modern slavery and human trafficking were implemented in 2021. For example,

Volkswagen Group rolled out the sustainability rating (S-rating) to the full extend, which also includes human rights risks. The S-Rating has been integrated in the contract award processes for the relevant procurement organisation globally.

By the end of the reporting period, over 15,000 active suppliers had submitted a sustainability questionnaire (SAQ). In the year under review, measures took place at 6,353 suppliers to improve sustainability performance.

In 2021, 654 risk-based on-site checks were carried out worldwide (in 2020 there were 790) by the Volkswagen Group. On average, five violations against our sustainability requirements were identified. There are clear differences depending on the region.

In the coming year, we will continue to expand our activities to implement sustainability in our supply chains. To this end, we are taking steps to streamline our supply chains even better. Our aim is not only to identify risks in the future, but also to continuously minimise them using various instruments such as auditing, certification and qualification. To this end, we are taking steps to structure our processes relating to human rights due diligence even more systematically. The objective is to identify, prioritise and then prevent or mitigate our sustainability risks comprehensively. This aim fundamentally applies to the entire supply chain. We report on our objectives and activities and the progress of the management system in an annual report that the Volkswagen Group publishes on its website.

Braunschweig, June 2022



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