

Sustainable supply chain management

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3. ESG Conference 01 December 2020 / BB/N

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The outbreak of COVID-19 (commonly referred to as coronavirus) has negatively impacted economic and social conditions in primary markets of Volkswagen, including China and Europe, as public, private, and government entities have implemented containment measures. The continued spread of COVID-19 has caused shortages of necessary materials and parts from suppliers directly or indirectly affected by the outbreak and has caused operational disruptions and interruptions at Volkswagen's production facilities, which led to production downtimes. The COVID-19 pandemic and the respective containment measures might continue to have a negative impact in the future.

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Our supply chain focus areas



ENVIRONMENT

Focus
Decarbonisation



SOCIAL

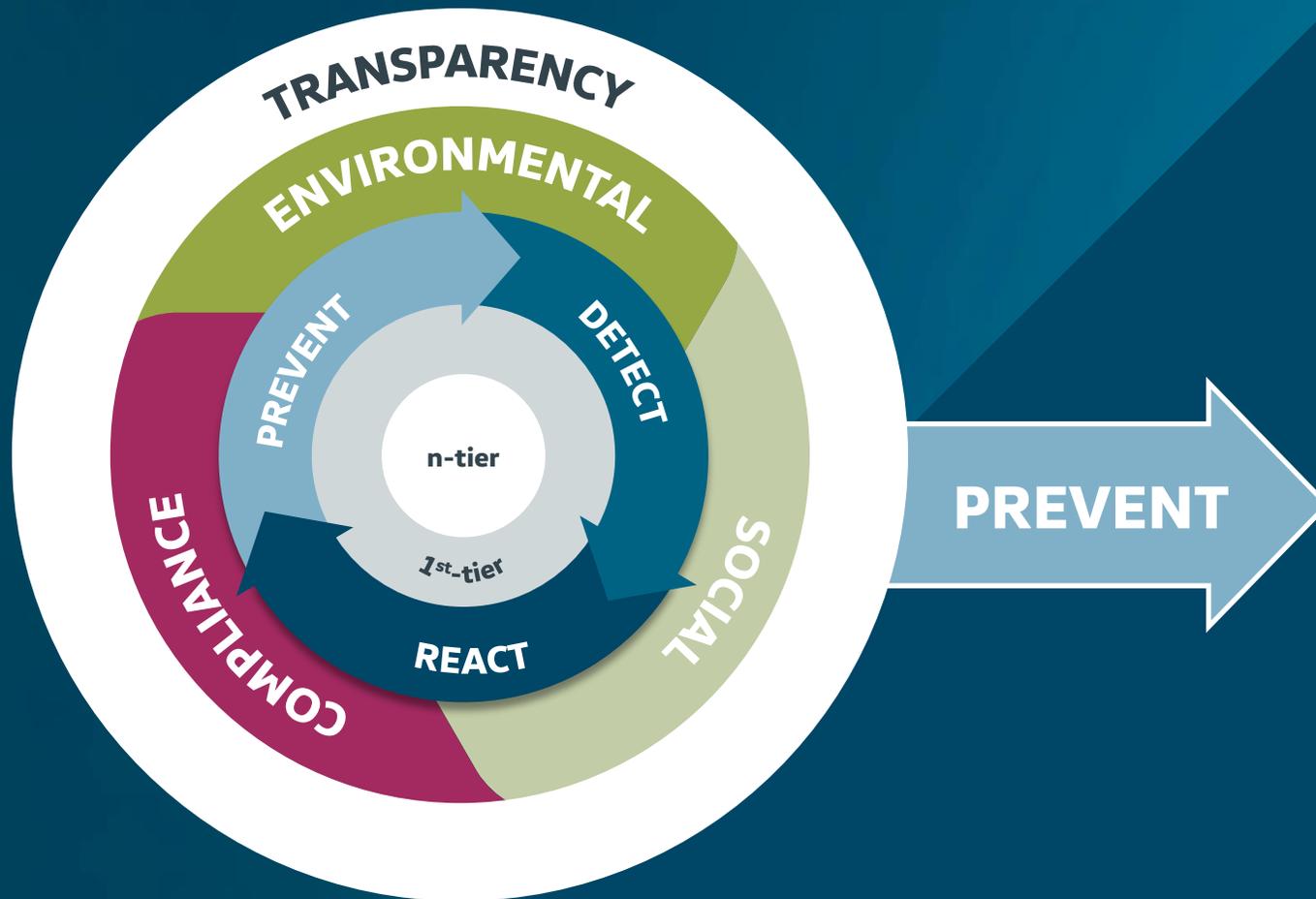
Focus
Human rights &
Responsible raw material sourcing



COMPLIANCE

Focus
Anti-Corruption

Sustainability at Volkswagen – Our Concept



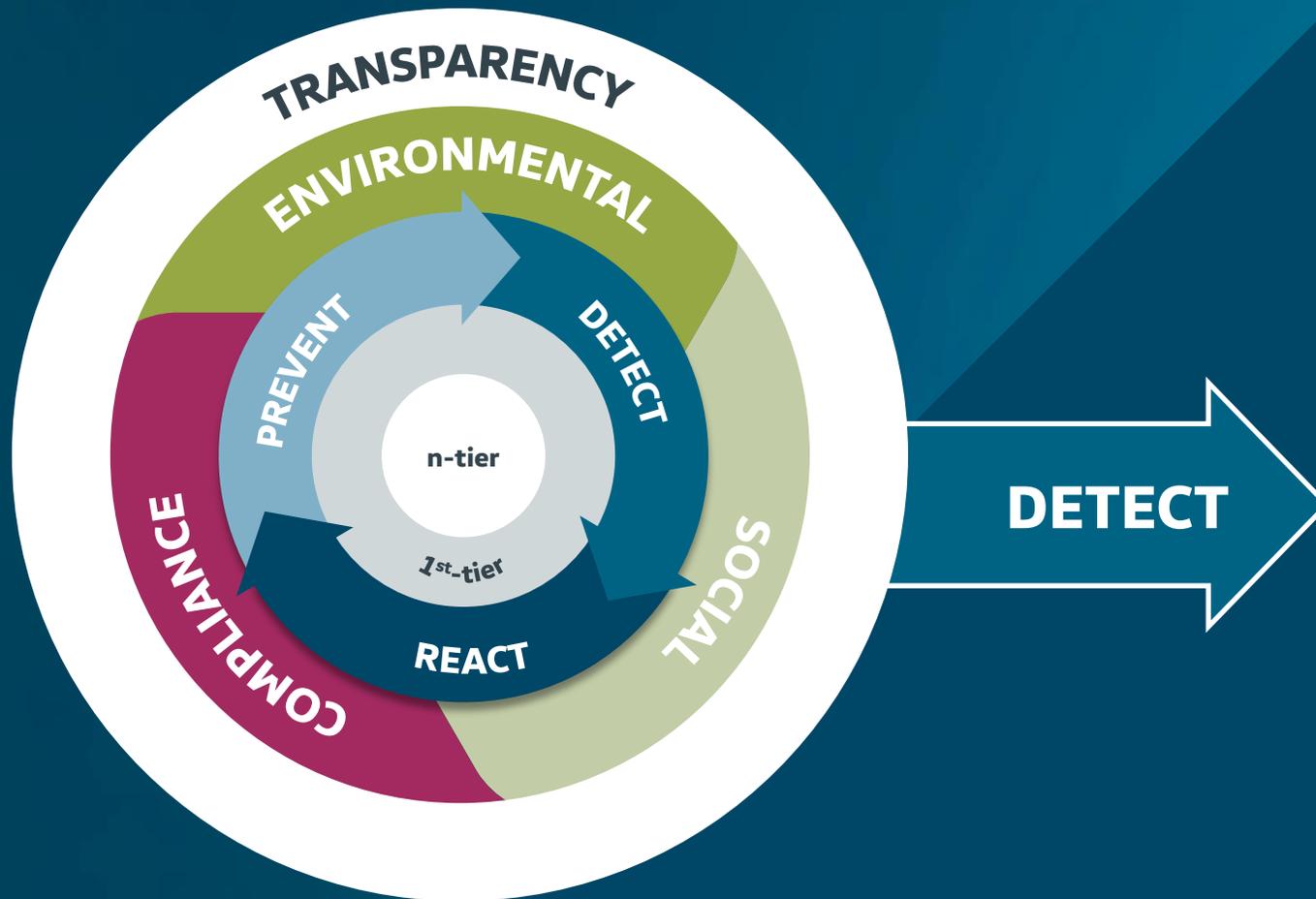
Embed sustainability requirements in contracts & specifications, e.g. our Code of Conduct for Business Partners

- ❖ Environmental requirements
- ❖ Worker rights
- ❖ Transparent business relations
- ❖ Fair market behaviour
- ❖ Responsible sourcing of raw materials

Building internal and external competencies through **training** and awareness raising

- ❖ Workshops & supplier events
- ❖ eLearning
- ❖ Face-to-Face trainings

Sustainability at Volkswagen – Our Concept



Embed sustainability in sourcing decisions



Cost



Invest



Technical
Rating



Quality
Rating



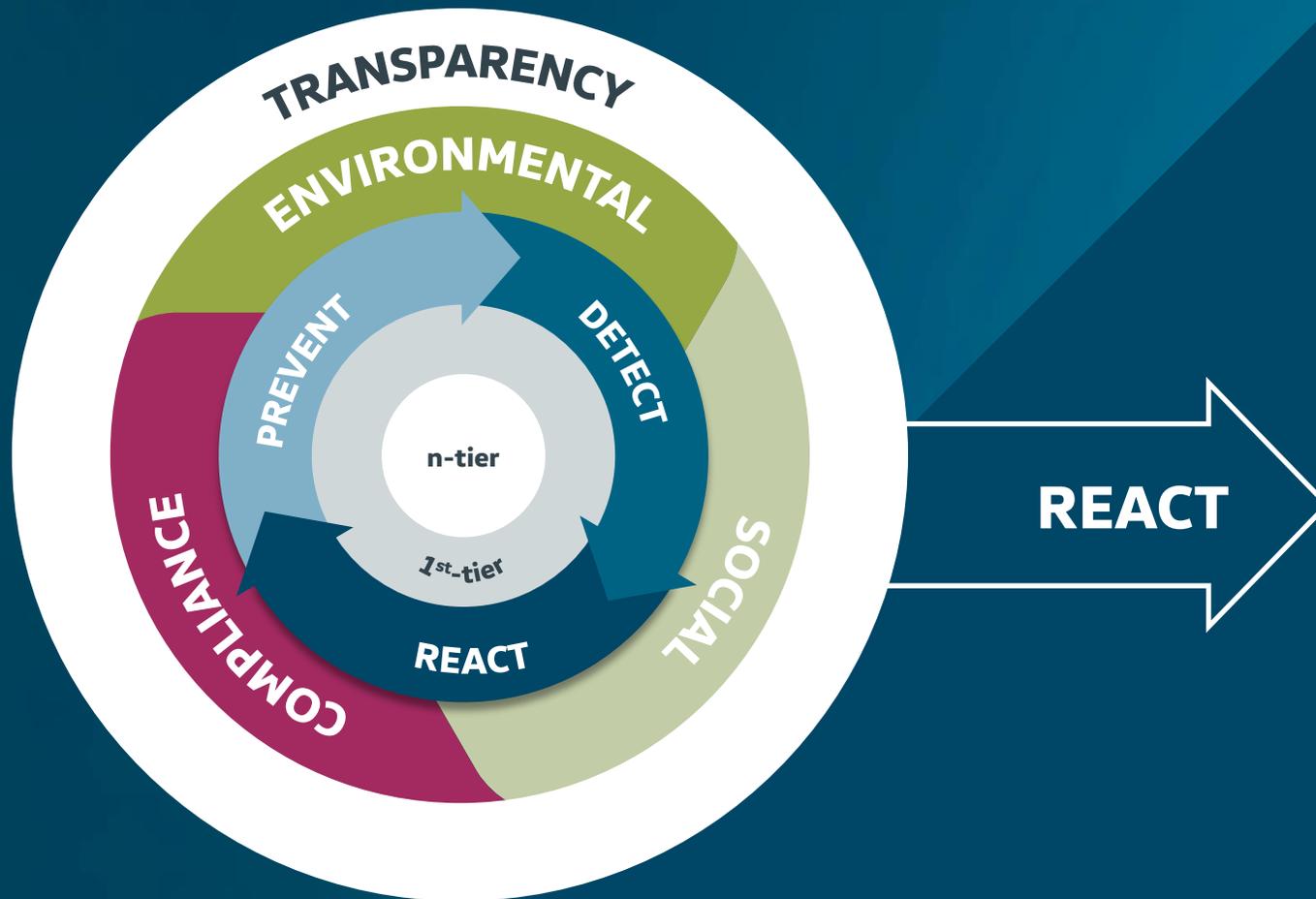
Logistics
Rating



Sustainability
Rating

- ❖ Volkswagen group-wide process
- ❖ Sustainability performance evaluation
- ❖ Risk based in-depth checks
- ❖ No contracts for potential business partners with no or negative ratings
- ❖ Implementation via internal guidelines, processes and IT-tools

Sustainability at Volkswagen – Our Concept



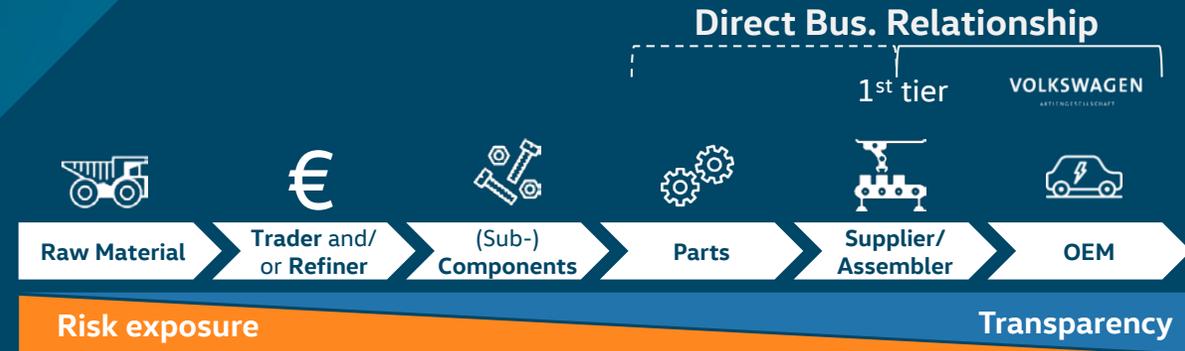
Consistent, systematic reaction to sustainability issues in supplier relations

- ❖ Ad-hoc process for systematic handling of severe sustainability violations
- ❖ Global Sustainability in Supplier Relations (SiSR) Network across Group brands and regions
- ❖ Definition and tracking of action plans derived from audits, supplier assessment and supply chain mappings
- ❖ Inclusion of **material- or part-specific requirements** into supplier specifications

Challenge of N-tier supply chains

SUPPLY CHAIN TRANSPARENCY?

- Highly complex products
- Supply chains are global, diverse & volatile (40,000+ suppliers, up to 9 tiers)
- 100% SC Transparency and traceability simply not possible at present



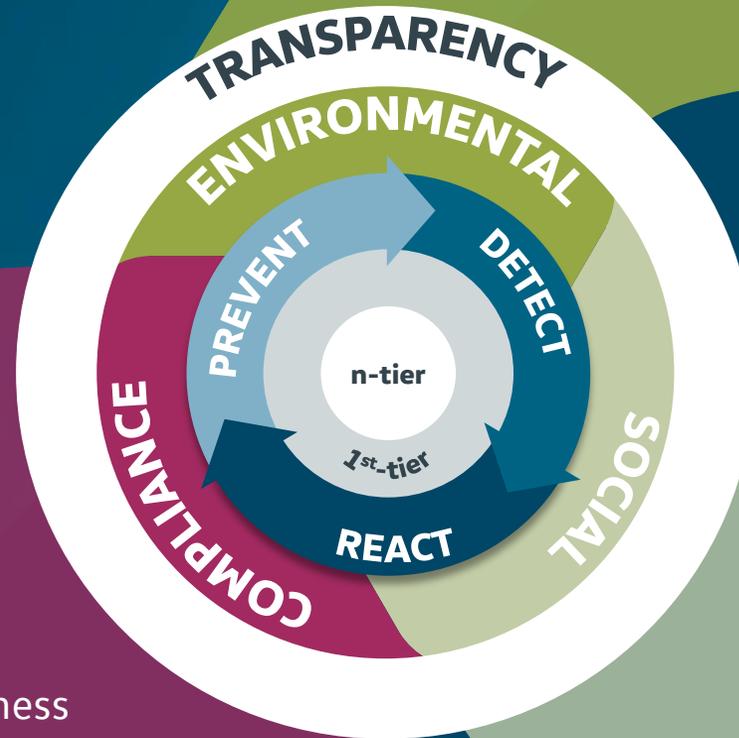
Our general approach:

- 1) **Focus on critical parts & materials**, e.g. HV-Battery
- 2) Partnerships **with suppliers** and service providers to **identify supply chain actors** and **piloting technological approaches** for more SC transparency
- 3) Data collection on and evaluation of Business Partners, **define and implement (common) measures**
- 4) Apply the approaches, solution(s) and lessons learned to other supply chains

Our Concept applied

New **Strategy 2025+** for sustainable supply chains developed in 2020

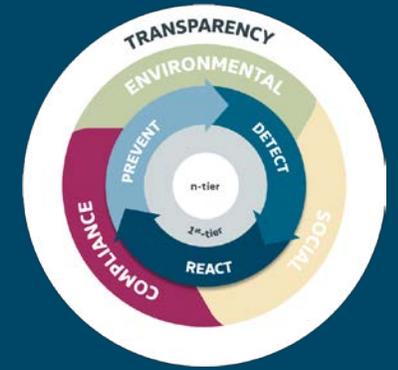
- Comprehensive supplier **sustainability requirements**
- Monitoring suppliers' sustainability performance with compulsory **S-Rating**
- **No contract awarded** for potential business partners with a **negative S-Rating**
- **Strong corruption due diligence system established**



- Clear roadmap to reduce CO₂ emissions until 2025
- integral part of technical specifications: 100 % renewable energy in battery cell production
- Lighthouse projects and start of pilot to integrate CO₂ in procurement decisions in 2020

- Strong human rights due diligence management system for raw materials established
- Supply Chain Transparency for battery materials prerequisite for new supplier contracts
- Audits along the entire cobalt supply chain incl. mine site level

Sustainability @ Volkswagen Procurement – Present & Future Outlook



“Shaping mobility – for generations to come”

VOLKSWAGEN
AKTIENGESELLSCHAFT

1

Innovation for Transparency in supply chains
(Pilot projects with IBM (RSBN*) & Minespider, sustainabill, etc.)

2

Introduction of **systematic due diligence** for human rights and environmental violations

3

Harmonisation of standards and tools – SAQ, Audits, Transparency Tools
(Pilot on various audit standards for direct automotive suppliers & a mine site standard)

4

Intra- and **cross-industry initiatives** and **cooperation** with other companies
(e.g. RMI, VDA, DRIVE Sustainability, econsense, Global Battery Alliance, RSBN etc.)

5

CO₂ as group-wide **evaluation criterion**

Backup



Our Concept in figures

- » More than **12,000** completed SAQs by suppliers (since 2014)
- » More than **2,000** On-Site Checks VW Group (since 2017)
- » More than **900** corruption risk checks VW Group (BPDD)
- » More than **3,000** buyers trained for S-Rating process (2019 & 2020)
- » More than **1,500** suppliers qualified about S-Rating (2019 & 2020)
- » More than **8,000** supplier locations with positive S-Rating
- » **140** suppliers currently C-rated
- » More than **5,900** suppliers increased sustainability performance (2019 & 2020)

Responsible Sourcing at Volkswagen – RM DDMS – Our Activities

1.

Systematic Identification of Risks and Operationalisation of Strategic VW Group Responses



2.

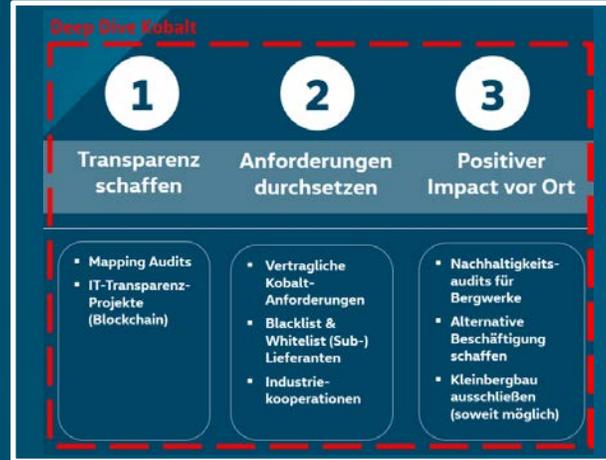
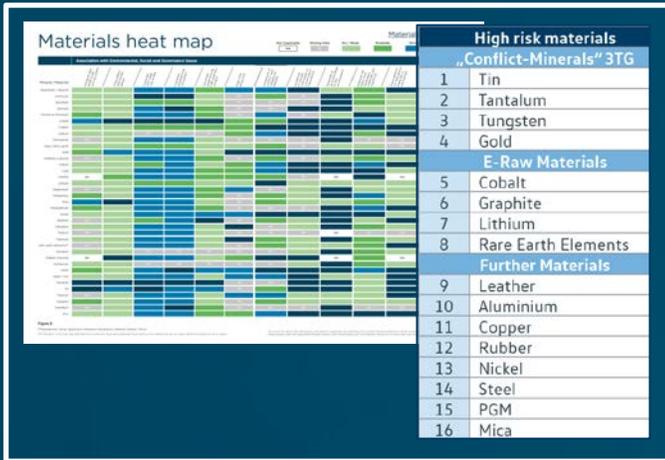
Measures as part of Roadmaps for each prioritized Raw Material



3.

Impact and Communication

Activities



Von der Mine bis zur Fabrik: Volkswagen macht mit Blockchain die Lieferkette transparent

Centre d'Expertise Cobalt for Development

VW erlässt Vorgaben für Nachhaltigkeit bei Zulieferern

Results

16

Raw Materials identified as high-risk in terms of Sustainability

1

Developed & introduced brand-overarching **raw materials human rights due diligence management system**

60

Raw material specific measures identified and partially actioned (Ongoing)

5

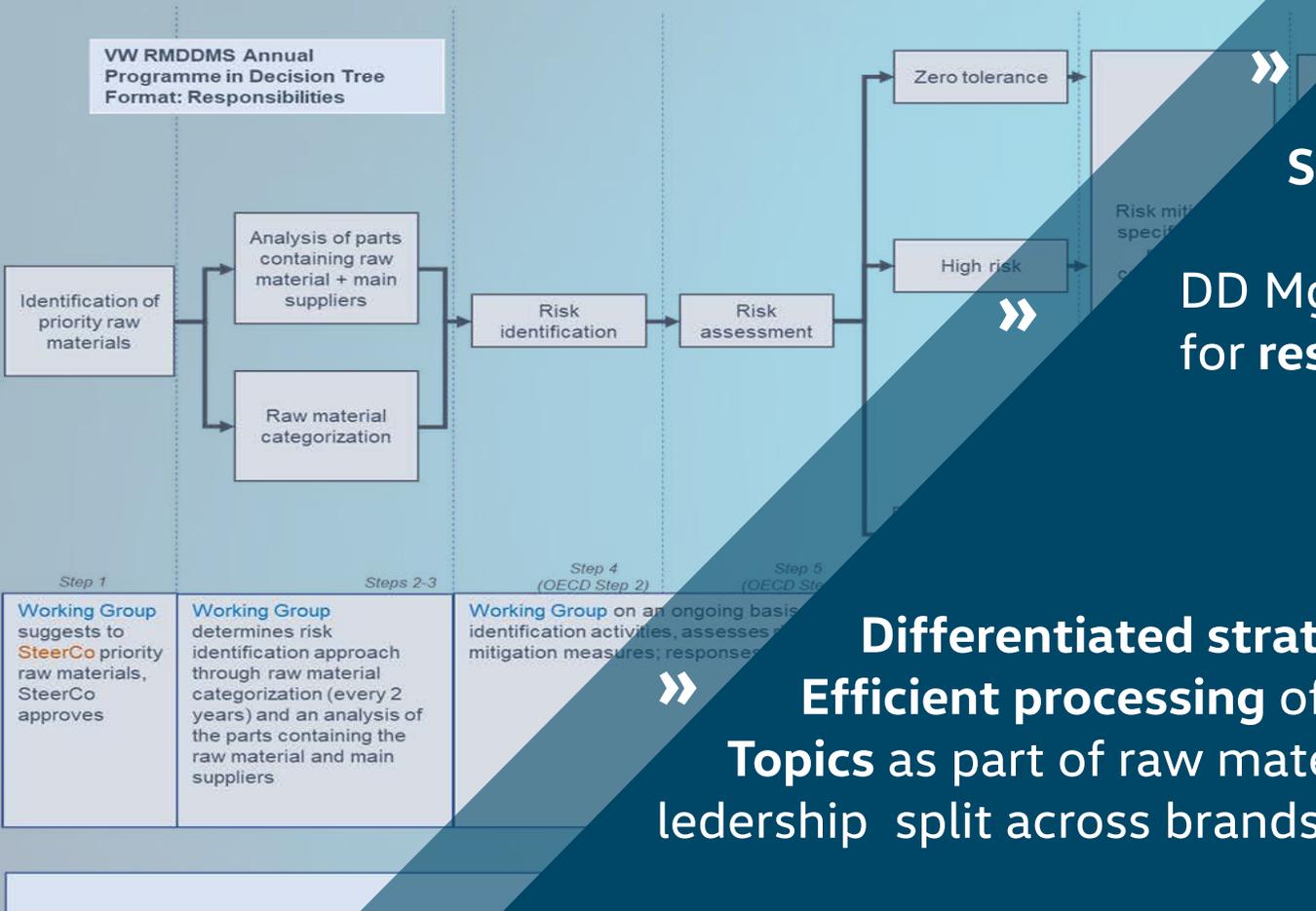
Industry and/or sector initiatives for various Raw Materials

« Externally certified responsibly sourced Supply chains (ongoing)

« 2 x Local, on-the-ground projects in Raw Material Production Regions

Raw Materials Due Diligence Management System

Figure 1: Raw Materials Supply Chain DDMS Annual Programme in Decision Tree Format



Defines Processes, Tools & Strategies for the Identification & Prioritisation of and Reaction to Sustainability risks in Raw Material Supply Chains

DD Mgmt. System follows the OECD Guidance for responsible raw materials sourcing

Differentiated strategies & Efficient processing of Raw Materials Topics as part of raw material responsibility leadership split across brands in Volkswagen Group

Battery Raw Materials			
Cobalt 	Graphite 	Lithium 	Nickel
Other Materials			
Leather 	Alu 	Copper 	Rubber
REE 	Steel 	PGMs 	Mica
Conflict Minerals			
Tin 	Tantalum 	Tungsten 	Gold