Sustainability in Supplier Relations at Volkswagen
Long Tradition of Sustainability and Environmental Protection

ENVIRONMENTAL PROTECTION AND THE RESPECT OF SOCIAL LAWS HAVE A LONG TRADITION AT THE VOLKSWAGEN GROUP. THEY ARE THE BASIS FOR A LONG-TERM CORPORATE POLICY.

Today, both dimensions are combined under the term of sustainable development. They are discussed as a central question of the globalisation taking economic aspects into consideration. As a part of the supplier training courses “Priorität A - Partner für Umwelt und Nachhaltigkeit”, Volkswagen has been working with its business partners since the mid-nineties to optimise environmental protection in supply chains. The dialogue with our suppliers combines several elements: It involves the exchange of environmental data, certificates and reports, seminars, workshops, symposiums and an award for green innovations in products and at plants. In the last years, solutions for new tasks like the issue of sustainability have been developed in collaboration with our partners. At the same time, environmental aspects like material recommendations or bans are incorporated in the product-related specifications for components and modules as quality standards for all parts. Furthermore, there are VW-specific and industry-specific environmental norms. Together with our partners, Volkswagen is taking another step towards sustainability with the introduction of global environmental and social standards. Using the concept “Sustainability in Supplier Relations”, the group has set the aim of improving the process of the partnership development for production and plant-related environmental and social standards further on, as an environmentally aware and socially engaged supplier is also an economically good and reliable partner. Methods for the early recognition, requirements for environmentally related and social standards as well as an intensive communication with suppliers are important elements of this sustainability concept. In the future, a team effort is expected by everyone considering the principles of sustainability without exceptions along the whole supply chain.

The production processes and working conditions at suppliers of Volkswagen should be oriented at global minimum standards. The standards which are used by Volkswagen itself also represent the measure for our suppliers.

Volkswagen orients its requirements to first-tier suppliers with whom they have direct contractual relationships. An efficient sustainability management in supplier relations of a carmaker like Volkswagen demands that the requirements of the OEM (Original Equipment Manufacturer) are passed along the whole chain.

This brochure gives some general information about Sustainability and represents a guideline for our business partners. On the following pages, you will find detailed explanations to understand what sustainability means at the Volkswagen AG, to see our activities for sustainable development as part of the supplier relations.

Yours sincerely

F. J. Garcia Sanz

G. Damme
The Volkswagen AG is made up of eight car brands, 44 production sites in 19 countries, numerous service and distribution companies as well as a financial sector. Based in Wolfsburg (Germany), Volkswagen is Europe’s largest and one of the world’s leading car manufacturer. Over 342,000 employees build over 21,500 vehicles per day or offer vehicle-related services worldwide. The production sites are located in Europe, Asia, Africa and America.

The car business of the group has been divided into two brand groups since 2002. The brand group Volkswagen comprises Volkswagen, Škoda, Bentley and Bugatti. The brand group Audi consists of Audi, SEAT and Lamborghini. Each brand has kept its own individual character and operates independently on the market. The division of Volkswagen Commercial Vehicles is responsible for the group commercial vehicle products and builds trucks, buses, transporters and campers. Financial Services combines a variety of automobile services in addition to finance, insurance and leasing products.
Purchasing Management at the Volkswagen Group

PURCHASING MANAGEMENT IS A DECISIVE PART OF ALL COMPANY OPERATIONS WITH THE AIM OF ACHIEVING MAXIMUM CUSTOMER SATISFACTION IN TERMS OF QUALITY AND PRICE.

The company’s volume of procurement is about € 60 billion in total which corresponds with a purchase quota of around 60% to 70%. The main goal of the purchasing strategy is to reach customer satisfaction by realising the best possible results for volume bundling, cost and quality, innovation as well as supplier management. This requires transparency of the market, global access to future technologies, determining the best suppliers and the use of bundled group requirements (“volume effect”). Volume effects should be created by the cross-brand and cross-region procurement of same parts, synergy parts or part families on the basis of the module and platform strategies.

As part of an integrated supply chain management (“Value Net Management”), suppliers get more involved in the purchasing process which increases the access to innovation. In some cases, the Volkswagen AG works closely together with their suppliers. At the same time, Volkswagen tries to combine their own innovation strength with suppliers to gain best results on the market. A vision for 2015 has been developed: “Together – best in class, in customer value and cost”, with which the guidelines, the essential elements and the aims for a corresponding Volkswagen AG strategy in purchasing are defined. This 2015 purchasing strategy is the basis for a common development of Volkswagen and its suppliers towards sustainability.
Globalisation – Responsibility for Companies

For Volkswagen, globalisation means more than a basic condition for sustainable economising: Globalisation is the international networking of the economic, ecological and social activities of companies. We are convinced that international work sharing, combined with free access to markets, supports growth and wealth in industrial countries, threshold countries and developing countries. Responsible globalisation with the challenge of securing the environment-related and social-oriented services in an increasingly global setting as well as further developing them with innovative and flexible solutions and projects represents a contribution to sustainability across the world. At the same time, it secures our long-term competitiveness.

Taking on social responsibility represents a voluntary obligation and exemplary function for sustainable development in the automotive industry on the one hand, and a source of skills as a factor for successful business on the other hand. Even though the core area of our corporate activity will remain the economic value creation process, it is important to secure the long-term success of Volkswagen in order to practice sustained economising in the company’s area of influence. That means also within supplier relations. Therefore, the Volkswagen Group is the only carmaker in the world which follows its internationalisation with the involvement of the individual regions at an early stage. No matter whether in Latin America, where we have already been producing for 50 years, in South Africa, Asia or Eastern Europe.

THE PROCESS OF GLOBALISATION, WHICH STARTED IN THE NINETIES, HAS A MAIN IMPACT ON OUR LIFE AND THUS ON THE ECONOMY.
Sustainable Development as a Corporate Model

SUSTAINABILITY IS A CORPORATE DEVELOPMENT PROCESS WITH THE AIM OF EVALUATING OUR INTERESTS AGAINST THE BACKGROUND OF ECONOMICAL, ECOLOGICAL AND SOCIAL ASPECTS.

Since the beginning of the nineties, the model of global sustainable development gains importance. According to the definition by the World Commission on Environment and Development in 1987, "sustainable development is development that meets the needs of the present generations without compromising the ability of future generations to meet their own needs." (World Commission on Environment and Development, 1987). In particular, multinational enterprises are expected to play an active role in relation to globalisation.

Three dimensions are distinguished: economical, environmental and social dimension. They cover the content shown in the following table. It also allows companies as an important player in our society to find a way for an active contribution to sustainable development. Consequently, sustainability belongs to the new political challenges of our era. As a result of the interplay between demands on state level, market requirements and the requirements of interested groups in society it follows a combination of self-responsibility, guidelines and self-obligation as well as legal guidelines. These coherences represent crash barriers concerning the operative implementation of sustainable development.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Content</th>
<th>Contribution of Enterprises</th>
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<tbody>
<tr>
<td>Economical</td>
<td>Increase in as well as long-term securing of wealth; development and apply of intelligent, long-sighted forms of economy.</td>
<td>Creators of social wealth and supporters of technological progress.</td>
</tr>
<tr>
<td>Environmental</td>
<td>Protection/securing of the natural basis for life, i.e. careful use of natural resources.</td>
<td>Efficient use of natural resources and protection of the biosphere.</td>
</tr>
<tr>
<td>Social</td>
<td>Development of lifestyles with a safe future, fair distribution systems, specification of democratic structures.</td>
<td>Creation/safeguarding of jobs for social security and the possibility of individual personal development.</td>
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Sustainability at the Volkswagen Group

SUSTAINABILITY HAS A LONG TRADITION AT THE VOLKSWAGEN GROUP AND ITS COMPANIES RECOGNISED IN PUBLIC SINCE YEARS.

Volkswagen’s model for sustainable development formulated back in 2002 for the world summit for sustainable development in South Africa links our tradition with the future. It is to be considered as a measure of a long-term oriented corporate policy with three central elements:

- lasting balance of economic, ecological and social systems and the aim for a long-term balance of divergent interests,
- responsibility for own actions at the regional, national and global level,
- transparent communication and fair cooperation.

### Volkswagen’s Model of Sustainable Development

- At Volkswagen, our model of sustainable development is the benchmark for a long-term corporate policy which squares up not only to economic challenges but ecological and social ones as well.
- Together, commercial success, far-sighted environmental protection and social competence enhance the global competitiveness of the Volkswagen Group.
- The Volkswagen Group develops, manufactures and markets automobiles and services throughout the world in order to provide its customers with attractive solutions for their personal mobility.
- It is Volkswagen’s goal to make advanced technologies available across the globe while taking account of environmental protection and social acceptability considerations.
- Along with economic success, the primary objectives of Volkswagen’s corporate policy include the continuous improvement of the environmental acceptability of its products and the reduction of its consumption of natural resources.
- Volkswagen is a company with German roots, European values and global responsibility. The rights, personal development, the social security and the economic participation of its employees are core elements of corporate policy.

- A spirit of cooperation and partnership forms the basis of successful collaboration between management and employee representatives in Germany, in Europe and around the world.
- For Volkswagen, globalisation is a decisive factor in securing international competitiveness and safeguarding the future of the company. Shaping globalisation to be environmentally and socially compatible is the task of a modern and responsible corporate policy. The same policy serves the long-term interests of Volkswagens’ customers, stakeholders, employees and partners. Globalisation must not be based on exploitation.
- Volkswagen also actively promotes an environmentally and socially compatible approach to business among its suppliers.
- Wherever it operates, Volkswagen considers itself a partner to society and the political sphere.
Volkswagen has identified essential activities for the implementation of sustainability:
- resource saving/optimised resource usage,
- water management,
- renewable energies,
- education and development as well as
- the behaviour of suppliers.

Sustainability has also been one of our group values since 2003. As one of these seven core values, sustainability prescribes that we take "the agreed, long-term aims of the company into consideration in our daily work". We are responsible for the "long-term success in the balancing of economic, ecological and social goals" and consider "securing the future in all aspects" as a core task. The following sustainability organisation was set up to implement the task in the whole group.
International guidelines, codes and initiatives represent a strong orientation for companies like Volkswagen. Therefore Volkswagen supports the UN Global Compact. It was initiated by UN General Secretary Kofi Annan in 1999 to spread human rights, social rights, environmental protection and anti-corruption measures across the world (www.unglobalcompact.org). The OECD Guidelines for Multinational Enterprises also form an orientation framework for global activities of Volkswagen (www.oecd.org). Volkswagen has been supporting the Business Charter for Sustainable Development of the International Chamber of Commerce (www.icc.org).

In external forums of sustainability, Volkswagen is involved in the World Business Council for Sustainable Development (WBCSD, www.wbcsd.org) as a charter member. On the European level Volkswagen is committed in the Initiative "Corporate Social Responsibility Europe" (CSR, www.csreurope.org) and in the "European Alliance for Corporate Social Responsibility". Volkswagen is an active member of the Forum for Sustainable Development of the German Economy (econsense, www.econsense.de) and a member of the Mobility Forum of the UN Environment Program (UNEP). This sets the central challenge of integrating environment-related as well as social aspects in supplier relations.
Volkswagen Concept – Sustainability in Supplier Relations

On the level of product standards for suppliers, numerous environmental aspects like material recommendations or bans have already existed at Volkswagen since the nineties as part of the quality standards for purchased goods. For example, the area "Environmental Protection and Recycling" is part of the "Formel Q-konkret" quality management agreement with suppliers. Additionally, there are further Volkswagen and industry-specific environmental standards and specifications for suppliers like the VW and Audi environmental policy, the environmental goals of technical development or the environmental performance specifications.

In dialogue with our business partners a scope for the incorporation of sustainability in the purchasing management, based on the integration of environment-related and social standards, was determined for the whole Volkswagen Group. The Volkswagen Concept “Sustainability in Supplier Relations” is a result that extensively fills this area of action in order to incorporate environment-related and social requirements more in the supplier relations at Volkswagen AG. The concept consists of several modules which will be described next.
1. Supplier Requirements for Sustainability

In addition to the product-related level, the incorporation of production or site-related specifications for suppliers is important for an extensive sustainability management. The production processes and working conditions at the suppliers’ side as well as at Volkswagen should be geared to global minimum standards. Suppliers also have to ensure that their own sub-suppliers can guarantee suitable measures for company and product-related environmental protection and for social standards. Volkswagen has set up corresponding measures in its “Volkswagen Group requirements concerning sustainability in the relationships to business partners”.

The content of these supplier requirements for sustainable development is based on Volkswagen’s internal guidelines: the environmental policy, the resulting environmental objectives and environmental specifications, the occupational safety policy as well as the declaration on social rights and industrial relationships. At the same time, it is oriented to external international standards which Volkswagen has accepted as a multinational company.

From our point of view, the supplier requirements for sustainability provide an important basis for the collaboration with our suppliers towards a corporate sustainable development. The suppliers are expected to acknowledge the environmental and social aspects named in the requirements in form of a declaration. Suppliers should indicate their production plants the acknowledgement is valid to. In addition to this notice, suppliers will provide his ISO 14001 environmental management certificate or the European Eco-Management and Audit System (EMAS) as information.

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<tr>
<th>Supplier Requirements for Sustainable Development</th>
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<tr>
<td><strong>Environmental Protection</strong></td>
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<tr>
<td>1. Creation and application of environmental management systems</td>
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<td>2. Active dealing with ecological challenges</td>
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<td>3. Avoidance of environmental damage and injuries to health, products and processes with low resource consumption</td>
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<td>4. Waste and recycling</td>
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<td>5. Training employees</td>
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<td><strong>Rights of Employees</strong></td>
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<tr>
<td>1. Freedom of association</td>
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<tr>
<td>2. No discrimination</td>
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<td>3. No forced labour</td>
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<td>4. No child labour</td>
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<tr>
<td>5. Payment</td>
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<td>6. Working hours</td>
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<td>7. Health and safety</td>
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2. Early Detection to Minimise Risks
A second step is the installation of an internal and external early detection system for risks. This allows the identification and avoidance of future environment-related and social problems at the suppliers side. Volkswagen obtains both corresponding information by means of international issue-screening and also through the reporting liability of business units which are in permanent contact with the suppliers.

3. Contact Point for Sustainability
With the aid of an explanation in the form of a questionnaire, suppliers can carry out a self-check to determine their current status with regard to fulfilling sustainability requirements. Suppliers, who recognise that they currently cannot achieve the Volkswagen AG sustainability requirements, will be offered help in the form of direct coaching. A contact point for sustainability (umweltdialog@vwwgroupsupply.com) has been provided for suppliers and supports them in reaching the requirements or solving any problem. In case of a demand from the supplier side, an Ad-hoc-Expert-Team, consisting of the departments environmental protection, human resources, health and safety, purchasing as well as quality assurance, is available for assistance.
4. Monitoring and Supplier Development
The monitoring concept for environmental and social standards covers both a quality assurance plausibility check and an intensive case-related check at the supplier’s site by the Ad-hoc-Expert-Team. Individual questions on specific issues have been integrated in the regular quality process audit for the plausibility check. In the event risk or problems have been detected, case-related spot checks are made. Suppliers, who cannot meet the environmental and social requirements, are asked to initiate their own improvement and development process with the proof of the individual steps, the schedule and the respective result status. Information on the improvement process or current developments should be provided to the Ad-hoc-Expert-Team by the supplier himself as soon as possible.

5. Communication via B2B-Supplier Platform
For an appropriate provision of information on the subject of sustainability for our suppliers and business partners, Volkswagen mainly communicates via the B2B-supplier platform www.vwgroupsupply.com. Here, suppliers can find all requirements that Volkswagen has set up for its supplier relations. It is to be found in the section "Environment and Social Issues" and is available in the public and personal area. The requirements include specifications and guidelines of Volkswagen as a multinational company and detailed information on the common dialogue that we aim with our suppliers in the area of sustainability. Additionally, further information, for example the Volkswagen Group Sustainability Report, can be downloaded.
6. Supplier Programme “Priority A”

Next to the specific case-related information and support, general trainings for business partners are an important instrument for expanding our collaboration. Seminars of the training course "Priority A - Partner für Umwelt und Nachhaltigkeit" give our suppliers the opportunity to learn about environmental and sustainable topics in workshops and seminars. Volkswagen has been offering these events, which are organised by the Volkswagen Coaching GmbH, for its business partners and other interested parties since 1997.

As a part of the annual quality awards for suppliers, an environmental award is placed to innovative and exemplary suppliers. We want to strengthen the cooperation with our suppliers in order to reach a trustful relationship. Therefore, the purchasing department is supported by global experts at the company. They are also able to provide on-site process-related support and help with environmental and social issues as an additional option for our business partners.
The integration of environmental and social standards in supplier relations is a central challenge for sustainability management of enterprises. Due to the globalisation of companies and purchasing processes, the implementation of production-related environmental and social standards worldwide is becoming more and more important. The production processes and working conditions at Volkswagen suppliers should also be oriented to the global minimum standards.

Given these claims, the Volkswagen AG introduced instruments for an early recognition of risk areas and defined requirements for environmental and social standards. It built up processes for intensifying the collaboration with its suppliers and supporting them as part of a group-wide project. This allows the development of additional competitive advantages within business relations in the medium and long-term run. At the same time, important impacts for a global sustainable development can be realised worldwide.
## Definition of Terms

<table>
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>AG</td>
<td>Public limited company</td>
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<td>B2B</td>
<td>Business-to-Business</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<tr>
<td>econsense</td>
<td>Forum for Sustained Development in the German Economy</td>
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<tr>
<td>EMAS</td>
<td>Eco Management and Audit Scheme</td>
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<td>ICC</td>
<td>International Chamber of Commerce</td>
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<td>ISO</td>
<td>International Organisation for Standardization</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OEM</td>
<td>Original Equipment Manufacturer</td>
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<td>UN</td>
<td>United Nation</td>
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<td>UNEP</td>
<td>United Nations Environmental Programme</td>
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<td>WBCSD</td>
<td>World Business Council for Sustainable Development</td>
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Further Information

**Volkswagen Group Portal**
http://www.volkswagen.de

**Sustainability Portal of Volkswagen**
http://www.volkswagen-nachhaltigkeit.de

**Environmental Portal of Volkswagen**
http://www.volkswagen-umwelt.de

**B2B-Supplier Platform**
http://www.vwgroupsupply.com

**Global Compact**

**Sustainability Report**

**Overview of the Volkswagen Project "Sustainability in Supplier Relations"**