

VOLKSWAGEN

AKTIENGESELLSCHAFT

Volkswagen AG Progress Report

Reporting period 2013–2014

on the Leadership Declaration

of the ‘Biodiversity in Good Company’ Initiative

Leadership Declaration:

All signatory companies acknowledge and support the three objectives of the international “Convention on Biological Diversity”:

- Conservation of biological diversity
- Sustainable use of its components
- Fair and equitable sharing of the benefits that arise out of the utilization of genetic resources.

and commit themselves to:

1. Analyzing corporate activities with regard to their impacts on biological diversity;
2. Including the protection of biological diversity within their environmental management system;
3. Appointing a responsible individual within the company to steer all activities in the biodiversity sector and report to the Management Board;
4. Defining realistic, measurable objectives that are monitored and adjusted every two to three years;
5. Publishing activities and achievements in the biodiversity sector in the company’s annual, environmental, and/or corporate social responsibility report;
6. Informing suppliers about the company’s biodiversity objectives and integrating suppliers accordingly and step by step;
7. Exploring the potential for cooperation with scientific institutions, non-governmental organizations (NGOs) and/or governmental institutions with the aim of deepening dialogue and continuously improving the corporate management system vis-à-vis the biodiversity domain.

To demonstrate ongoing commitment, member companies will provide the Initiative with a progress report every two years

Fundamentals

Biological diversity is nothing less than the source of our livelihood, of human life. Biodiversity – meaning the variety of species, the genetic variety within these species and the variety in ecosystems – ensures healthy food, clean water, fertile soil and a moderate climate for us.

In addition to – and linked to – climate change, one of the five biggest threats to biodiversity, the dramatic loss of biological variety ranks among the greatest challenges of our age. For this reason, the United Nations has declared the present decade as “United Nations Decade on Biodiversity”.

Directly or indirectly, the value creation of every business depends on the services of nature. And every business has an effect, whether beneficial or destructive, on nature and ecosystems. The quality of the services natural ecosystems provide to us for free suffers from the loss of biodiversity.

Challenges facing the automotive industry

The effects of one’s own business activities on biodiversity and the dependence on the services of the ecosystems are not immediately obvious for most companies.

Ecosystem services on which the automotive industry depends include renewable resources such as natural fibres, which are also used at Volkswagen as a material in the car manufacturing process, as well as the biomass needed for the production of fuel. In addition of course, nature’s services include provision and regulation as in water supply for production processes and the capacity of forests, moors, marshes and oceans as CO₂ sink for car traffic emissions.

Businesses in manufacturing industries in particular, including the automotive sector, have largely indirect influences on biodiversity. The evaluation of one’s own exposure therefore requires the detailed analysis of the entire value creation chain, from raw material extraction to the production, the use of products and their disposal. The most important areas of activity are, however, not difficult to identify.

These areas of activity include the mining of minerals such as rare earths, which – at least in countries with abundant species in their ecosystems and low protection standards – frequently has a seriously detrimental impact on nature and the landscape.

Another challenge facing the automotive industry is the use of natural resources. Industrial cattle raising, which supplies leather for steering wheels and seats, reduces biodiversity just as does the use of large areas for rubber tree plantations, which often go hand-in-hand with the degradation of forest ecosystems.

Climate change is considered to be one of the most important causes for the extinction of species. The reduction of CO₂ emissions related to the production and especially the use of vehicles is, therefore, certainly one of the longest levers which the automotive industry can move to conserve biological diversity.

Finally, road construction and traffic infrastructure disturb the biological variety by contributing substantially to the bisecting of habitats and restrict the genetic diversity necessary especially for migratory species.

Motivation and commitment at Volkswagen Group

Volkswagen has set itself the goal of becoming the leading car manufacturer not only economically but also ecologically by 2018. Therefore, the company made an early vow to reduce the emissions of its European fleet to a maximum of 95 g CO₂/km by 2020. Furthermore, every generation of vehicle models shall 10 to 15 percent more efficient than the previous one.

By 2018, Volkswagen intends to reduce the environmental impact per unit produced at all factories by a quarter, relative to 2010 – this applies to the consumption of energy and water as well as CO₂, solvent emissions and waste generated. In 2013, it was already 12.5 percent for passenger cars and light commercial vehicles. Detailed numbers for 2014 can be found in the current sustainability report. By 2020, greenhouse gas emissions in the energy supply of the production in Germany shall be reduced by 40 percent compared to 2010.

The company makes further important contributions to the preservation of natural capital in the form of traditional environmental management by setting high standards at production sites for the protection of soil and water – those elements which form the essential substrate for biological diversity.

Volkswagen has reported comprehensively in its sustainability report on its goals and managerial approaches as well as specific measures and projects in the area of environmental activities. (<http://sustainabilityreport2014.volkswagenag.com/environment>).

The conservation of biological diversity also has been declared a company goal since 2007. The Volkswagen Group's mission statement on "Protecting biological diversity" declares,

“As an industrial company active all over the world with a role model function for other members of society, Volkswagen accepts its responsibility in the field of species protection. We aim to demonstrate how a company can succeed in combining the requirements of material production with the protection of biodiversity to ensure sustainable development.”

Further: “As a global company, Volkswagen implements measures to support species protection equally at all its sites throughout the world. We recognize the benefits afforded by protected biotopes. Designated nature conservation areas and national parks must not be used for economic purposes.”

The mission statement also includes a declaration for cooperation with external partners: “Volkswagen has built up long-term cooperation relationships and partnerships with corporate groups, in particular NGOs, with experience and expertise in the field of conservation and species protection.”

Finally, the willingness to implement voluntary projects was included in the company’s principles. The mission statement declares, “The initiatives we are involved in around the Volkswagen sites include:

- measures for the direct protection of endangered species
- innovative support of biotopes as part of compensatory measures
- programmes for environmental education and training
- support for research projects.”¹

Furthermore, as a founding member of the international initiative ‘Biodiversity in Good Company’, Volkswagen committed itself in signing the Leadership Declaration to the application of important managerial principles. Volkswagen concretised the seven points of this Leadership Declaration for the Group as follows:

1. Volkswagen will create ecological assessments to document the status quo of the endangered species in the vicinity of the production sites, along with the emission values of the plant.
2. Volkswagen recognizes the performance indicators in the Global Reporting Initiative (GRI) for biodiversity as a norm for the creation of our own sustainability reports. The development of a relevant Volkswagen-specific key-data system continues.

¹ http://www.volkswagen.de/content/medialib/vwd4/de/Volkswagen/Nachhaltigkeit/service/download/artenschutz/mission_statementbiodiv/_jcr_content/renditions/rendition.file/artenschutz_par_0001_file.pdf

3. The responsibility for activities in the field of biodiversity is transferred to the company environmental management representative.
4. Volkswagen will integrate the protection of species in the environmental action plan at the sites as part of the environmental management system. Conservation-related goals and measures are defined during regular international regional conferences in the environmental action plans of the locations.
5. Volkswagen will extensively report on the activities and successes in the field of biological diversity.
6. Volkswagen will incorporate and communicate with partner companies regarding the biodiversity policy of the company via the B2B supplier platform.
7. Volkswagen will expand its know-how in matters relating to biodiversity in consultation with competent partners and further develop joint projects in the field of conservation and species protection.

As a matter of course, with a company operating on more than one hundred manufacturing sites around the world and in highly complex supply chains, these commitments can only be integrated step by step into the management practices.

In the following, Volkswagen reports in detail on the progress the company has made in implementing the Leadership Declaration:

1. Analysis of the effects of the company's activities on biodiversity

First, in order to determine and where required eliminate the risks to biodiversity at its own production sites, the company has partners in science and insurance industry delivering expert opinions. Emissions risks (exhaust air, waste water and waste) are analysed and evaluated in regard to potential damage to bodies of water, soil and biodiversity.

Since 2008, a total of 32 European factory sites of Volkswagen, Audi, SEAT, Škoda and Porsche have been examined for ecological risks. In comparison to the previous reporting period, the number of sites examined has doubled. Contracts to update the documents have already been awarded and this time, the production sites of MAN will also be included.

Beyond the voluntary commitments of 1), examinations of compatibility with biodiversity are made whenever a decision is to be taken on the establishment of a new production site. The guideline to prefer developing areas already used for industrial purposes when expanding existing factories to reduce the extent of sealed soil to as little as possible also helps to conserve natural capital.

2. Inclusion of conservation of biodiversity and the sustainable use in the environmental management system

In its sustainability reporting, Volkswagen follows the requirements of the Global Reporting Initiative (GRI) and reports either in parts or comprehensively in accordance with the two core and four additional indicators defined therein.

GRI Content Index

Since 2013 the reporting of indicators relevant to biodiversity has been comprehensive:

| GRI indicator | Explanation | 2013 |
|---------------|---|--------------------------|
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. | comprehensively reported |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | comprehensively reported |
| EN13 | Habitats protected or restored. | comprehensively reported |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. | comprehensively reported |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. | comprehensively reported |
| EN26 | Initiatives to mitigate environmental impacts of products and | comprehensively |

services, and extent of impact mitigation.

reported

The sustainability report 2014 takes account of the fourth edition (G4) of the reporting guidelines of the Global Reporting Initiative (GRI) in line with the “Comprehensive” option. Biodiversity is addressed in indicators EN11-14. The following table lists the references for the printed report and the microsite.

| GRI indicator | Explanation | 2014 |
|---------------|--|-------------------------------|
| EN11 | Operational sites in protected areas | p. 133 |
| EN12 | Impacts on protected areas or areas of high biodiversity value | pp. 106-107, Microsite No. 53 |
| EN13 | Habitats protected and restored | pp. 106-107, Microsite No. 53 |
| EN14 | Affected endangered animal and plant species | Microsite No. 53 |

Volkswagen promotes the development of employable management tools also by supporting expert discussions and scientific studies. For example, we participate actively in the Working Group on Management Indicators for Biodiversity, which is supported collectively by the business initiative ‘Biodiversity in Good Company e.V.’ and ‘econsense’, the forum for sustainable development of German business.

Volkswagen also participates in the steering committee of the research project ‘Assessment of the Biodiversity Impact of Product Systems’ which is directed by the Fraunhofer Institute for Building Physics and supported by the Federal Agency for Nature Conservation (BfN), the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) and the German Federal Environmental Agency (UBA).

The networking and exchange of knowledge with other players represent the central goal of these activities. A system of key figures especially for Volkswagen will be developed on the basis of knowledge gained through these projects.

3. Establishment of a responsible authority within the company to direct all activities within the area of biodiversity and report to the management

Now as in the past, the Environment Safety Manager of the Volkswagen Group, who is also the Head of Group Environmental Research, is responsible for all activities within the area of biodiversity. The departments 'Environment, Product' and 'Environment, Production' also continue to bear responsibility for biodiversity.

4. Definition of measurable and realistic aims to improve the conservation of biodiversity and the sustainable usage thereof; these aims are re-examined and modified accordingly every two to three years

Due to the decentralised organisational structure of the Group and the relative autonomy of the brands and regions, it is a continuing task to make sure that the conservation of species is integrated into the plans for environmental action at the numerous sites. In 2014, a flagship project for the integration of brands and regions in global biodiversity management was prepared at the initiative of the Group Officer for Environment, Energy and New Areas of Business. In the next step, the plan will be discussed in the Group Steering Committee for Environment and Energy, which monitors all activities for the implementation of the environmental strategy throughout the Group.

Regional conferences around the world have been replaced by the combined certification of production sites. The consideration of biodiversity aspects has been integrated into the certification process.

5. Publishing of information on all activities and successes within the area of biodiversity in an annual report, environmental report or sustainability report

Volkswagen has made itself publicly accountable for its activities in conserving biodiversity both in the Annual Report and the Sustainability Report; an entire chapter was devoted to this issue in both reports in 2013^{2,3}.

Again, the company has also published its activities for the conservation of biodiversity on the internet— on its own platforms (www.mobil-für-mensch-und-natur.de, www.volkswagenag.com) as well as external platforms (e. g. umweltdialog.de). And again,

² 2013 Annual Report: <http://annualreport2013.volkswagenag.com/group-management-report/sustainable-value-enhancement/environmental-management/biodiversity.html>; 2013 Sustainability Report: <http://sustainabilityreport2013.volkswagenag.com/environment/production>.

³ 2014 Annual Report: <http://annualreport2014.volkswagenag.com/group-management-report/sustainable-value-enhancement/environmental-management/biodiversity.html>; 2014 Sustainability Report: <http://sustainabilityreport2014.volkswagenag.com/environment/production>.

the Intranet served to inform all employees of the company's activities or to invite them to participate (e.g. collecting old cell phones for the renaturation of the Havel River).

Finally, Volkswagen also publicised its activities and successes in the area of biodiversity by means of press releases, articles in specialist magazines and lectures and exhibitions at conferences, trade fairs and other events.

6. Information of suppliers about their goals for biodiversity and gradual integration

The Volkswagen Group continues to inform suppliers of the company's biodiversity policy and its expectations regarding its partners (to have compatible policies) via the internet Business-to-Business platform www.vwgroupsupply.com.

Volkswagen also fulfilled its obligation to inform suppliers by inviting those operating in Germany to a conference exclusively for businesses held by the initiative Biodiversity in Good Company e.V. The invitation was issued via the online supplier platform and was received by the suppliers with substantial interest. In fact, numerous Volkswagen partners attended the conference in Hamburg on 17 November 2014.

7. Sound out cooperative ventures with potential partners such as nature conservation organisations and scientific or public institutions in order to expand specialist knowledge via dialogue and further develop the management system

To increase its own and society's knowledge of biodiversity and its management, Volkswagen maintains discussions with expert partners and promotes the networking of politics, business, science, public authorities and associations. In 2014, the most prominent partners in dialogues were the Center for Environmental Education and Communication in China, die German Society for International Cooperation (GIZ) and the University of Puebla in Mexico as well as the Wilderness Foundation in South Africa, and in Germany, for example, the Fraunhofer Society, die TU Munich and the Federal Agency for Nature Conservation (BfN) as well as the German Federal Environmental Agency (UBA).

Furthermore, Volkswagen is the only automotive manufacturer involved in the initiative Biodiversity in Good Company e.V., which works closely with the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB). Moreover, the initiative coordinates, in the name of the ministry, the association platform Operation Biodiversity 2020, in which the German Association of the Automotive Industry (VDA) also participates. In 2014, Volkswagen was represented on the board of directors of the initiative

Biodiversity in Good Company e.V. and actively participated in the management of its diverse activities at national, European (EU Business and Biodiversity (B@B) Platform) and international levels (CBD Global Partnership for Business and Biodiversity). As a member of Biodiversity in Good Company e.V., Volkswagen was represented at the Conference of the Parties to the Convention on Biological Diversity, in October 2014 in Pyeongchang, South Korea. Likewise, Volkswagen has been participating in the new VDA subcommittee for biodiversity since 2014.

The most important NGO partner was again the Nature Conservation Association of Germany (NABU), which constantly advises Volkswagen on all important issues concerning not only environmental protection and resource conservation, but also the conservation of biodiversity. In addition, NABU was again the most important partner in diverse programmes for the conservation of nature and species in Germany.

Voluntary projects for the conservation of biodiversity

A large number of voluntary projects for the conservation of biological variety or the assurance of ecosystem services supplement the involvement of Volkswagen. Generally, these projects and programmes are conducted in the vicinity of factory sites and in partnership with technical agencies, research institutes and non-governmental organisations.

The preferred areas of activity are the promotion of research in biodiversity, nature conservation, the conservation of species, especially the conservation of moors and marshes, reforestation or – more innovative – forest transformation and the promotion and linking of biotopes ('Volkswagen links habitats').

Whenever possible, these projects are combined with environmental education for school children and young people, as for example Volkswagen do Brasil and the Volkswagen Group in China have been doing for a long time.

In particular, the reforesting and ecological restoration projects contribute regularly not only to the conservation of biological diversity and the conservation of ecosystem services (e.g. flood prevention, erosion prevention, groundwater formation) but likewise very much to climate protection (ecosystem-based climate protection).

Research support

Volkswagen de México is involved on behalf of research in biodiversity under the label 'Por amor al planeta' by awarding valuable cash prizes annually, also in 2014. The awards are presented to environmental scientists and projects in biodiversity which are located in nature

reserves. 'Por amor al planeta' is the largest private programme for the support of research in biodiversity in the country.

A new initiative was started at the Urumqi site in the Chinese province of Xinjiang. Since 2014, Volkswagen, in cooperation with several universities, has been sponsoring biodiversity research all around the Tarim River. The river is the only source of water in the arid region. Summer floods transform the adjacent riparian forest to a wetland biotope which provides a habitat for some especially valuable plant species.

In October 2014, Volkswagen sponsored a conference on the monitoring of wolf carcass findings held by the Leibniz Institute for Zoo and Wildlife Research – an event intended to underscore our commitment to the wolves having returned to Germany.

Volkswagen is participating in the research project of the Fraunhofer Institute on the topic of biodiversity in life-cycle assessments and is actively involved in the work process.

Ensuring the services of ecosystem services

In Puebla, Mexico, Volkswagen has been compensating for the factory's water consumption for many years with extensive reforestation in the nearby Iztaccíhuatl-Popocatepetl national park. As part of the project in which suppliers of Volkswagen participated along with the national nature conservation agency, about one-half million alpine firs have been planted on 750 hectares since 2008. This slows down the far-advanced soil erosion and, most importantly, replenishes the regional ground water reserves. South of the Sierra de Lobos, Volkswagen do México has also managed to make a sustainable contribution to the natural water supply; nearly 160,000 trees were planted in the Silao region. For the same reasons, in cooperation with the state of Puebla, Audi México recently had 100,000 trees planted on about 100 hectares in the area around San José Chiapa. In addition, a water reservoir with a capacity of 175,000 cubic metres will be created on the factory grounds developed there.

Volkswagen, Audi and Škoda brands have carried out additional reforestation projects in Germany, the Czech Republic, Spain, the USA, Brazil and India. A total of more than one million trees have been planted since 2006.

Conservation of nature and species, linking biotopes

"Think Blue. Nature.", a project for the conservation of nature and species, started in April 2014. The project is located on the four million hectare CESMO biodiversity corridor (Corredor Ecológico Sierra Madre Oriental) in the eastern Sierra Madre in Mexico, which is home to about 650 threatened species. Volkswagen has invested 260,000 EUR, making it the largest private sponsor. One hundred thousand trees will be planted, and about 100 kilometres of rivers will be cleaned. Furthermore, in cooperation with the Mexican Ministry for Environmental Protection and the German Society for International Cooperation (GIZ), 300

young people will be trained as environmental ambassadors who will then promote awareness for the needs of the environment and nature among a further 10,000 young people.

Volkswagen supports the Forever Wild Rhino Protection Initiative of the Wilderness Foundation in Africa through the loan of trucks. Six Volkswagen Amarok are presently being used in the effort to confine poaching in several reserves in Eastern Cape and other parts of South Africa.

In Germany, Volkswagen is involved in a variety of ways, especially in the restoration of moors. With the help of the German Moor Conservation Fund created by NABU and endowed by Volkswagen Financial Services with 1.6 million EUR until 2016, thirteen rehydration projects between Mecklenburg-Western Pomerania and Bavaria have been started, three of which were added in 2014. In the same year, the collective efforts to conserve the moors were awarded the title 'Official Project of the United Nations Decade on Biological Diversity'. In addition, Volkswagen commissioned a feasibility study to analyse the opportunities for moor conservation outside of Germany. With support from Volkswagen, NABU held a large conference on moor conservation in June 2014 in Berlin. Participants in the initiative 'Volkswagen Pro Ehrenamt' (Volkswagen Volunteers) hiked into the Great Moor near Gifhorn, close to Wolfsburg, five times in 2014 to clear unwanted growth and to plant cotton grass.

As sponsoring partner in nature conservation, Volkswagen supported NABU in the restoration of the Lower Havel River as well. More than a thousand species of plants and animals in the largest and most important wetlands in the landlocked region of central Europe are threatened with extinction. Old cell phones were collected for the benefit of the Havel River project in other Volkswagen factories in the western part of Germany.

Volkswagen promotes the linking of habitats in the Aller Valley in cooperation with the Federal Agency for Nature Conservation (BfN) and the Otter Centre in Hankensbuettel (project started in the second half of 2012; contribution of 35,000 EUR per year for six years).

Various projects for the conservation of species were implemented at the site in Wolfsburg during the winter of 2014-2015. The measures are intended to help peregrine falcons, storks, kingfishers, bee eaters and sand martins raise their young on the factory grounds. A colony of more than one hundred house martins on the Ehra testing ground and another large colony at the site in Wolfsburg were protected permanently.

The company promotes the establishment of landscape corridors for wildcats by providing a vehicle to Friends of the Earth Germany (BUND), who are carrying out the project. The vehicle was sold to the BUND in 2014 for a special price.

In 2014, Volkswagen also cooperated with NABU in their joint initiative “Welcome, Wolf!”, which monitors the return of the wild animal to Germany, where it had been exterminated, and works to increase its acceptance. Volkswagen makes its contribution in manifold ways – for example, in the joint planning of events, the production of information materials and the provision of project vehicles.

A population of *pis mellifica*, an endangered species of bee, has been settled on the grounds of the Volkswagen site in Emden. The bee population grew from 5,000 to 40,000 in a brief period. To provide the animals with sufficient food, 1,000 fruit trees are still to be planted.

The Volkswagen Environmental Prize for kindergartens and schools was awarded for the first time. A total of 5,000 EUR was distributed to various projects related to biodiversity and energy. Volkswagen contributed the proceeds from the sale of a collection of old shoes in the Wolfsburg factory to local nature conservation projects.

Environmental foundations

The Audi Environmental Foundation, founded in 2009, has sponsored the ‘Nature Classroom’ at the Environmental Centre at Breitengüßbach. An area formerly used by the military was transformed over four years (2012–2015) into an innovative project for the conservation of species and environmental education. It aims to explain how to safeguard a species-rich environment within a cultural landscape marked by humans without excluding humans in the process. In addition, the foundation made a significant contribution to the establishment of the Steigerwald Information Centre which opened in September 2014. Visitors to it can learn everything about forest habitats at interactive stations located on more than 1,000 square metres. The Audi Foundation has committed itself to support the centre until 2017, initially with 100,000 EUR. The Audi Environmental Foundation started an additional project for the conservation of species in December 2014 which has the goal of converting worn-out electricity transformer buildings into ‘biodiversity best practices’.

Substitution and compensation measures

Substitution and compensation measures are not voluntary projects, but legal obligations. However, it is possible to combine several measures to achieve an additional effect. Following the restoration of a section of the Aller River and the start of a project for the creation of pasture land in Ilkerbruch, Volkswagen has carried out a third large restoration project in Wolfsburg, the improvement in living conditions for plants and animals in the valley of the Nordsteimke Creek. Another project for the creation of pasture land was continued at the Porsche site in Leipzig as a compensation measure. Twenty wild horses and seventy-five aurochs will keep the area open and secure its great value to nature conservation in the long-term. The monitoring of the project determined that the year-round extensive repasturing attained or even exceeded the nature conservation goals, also in regard to ensuring the existence of the target species.

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