

TICKER: VLKAY

GICS SUB-INDUSTRY: Automobile Manufacturers

COUNTRY: DE

LAST UPDATE: Sep 28, 2016

MEDIA REVIEW: Conducted weekly; no new updates since date of Last Update*

LOWEST SCORE

LOWEST FLAG

0/10



PERFORMANCE DASHBOARD

Significant Controversies by Indicator

	Flag	Score
Environment	R	0
Toxic Emissions & Waste	R	0
Social	O	1
Customers	O	1
Anticompetitive Practices	Y	4
Marketing & Advertising	O	1
Human Rights & Community	G	5
The company is involved in moderate and minor controversies.		
Labor Rights & Supply Chain	Y	3
Child Labor	Y	4
Collective Bargaining & Union	Y	3
Governance	R	0
Bribery & Fraud	R	0

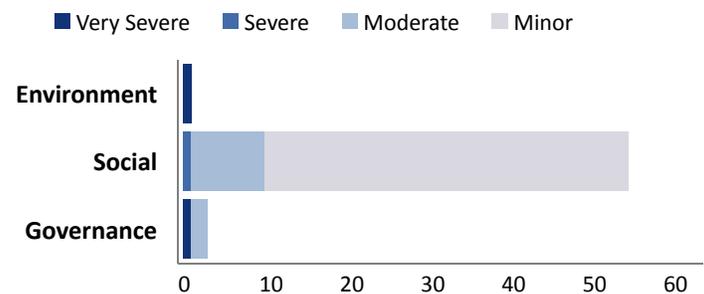
Summary

VOLKSWAGEN AKTIENGESELLSCHAFT is involved in controversies related to its Customers, Labor Rights, Human Rights, Governance and Environment impacts. It faces significant concerns related to Marketing & Advertising, Collective Bargaining & Union, Bribery & Fraud, and Toxic Emissions & Waste in relation to a high-profile scandal in which it is charged with using an emissions testing 'defeat device' in as many as 11 million diesel vehicles worldwide over a period of more than six years. The 'defeat device'--embedded in the vehicle's controlling software--reportedly allowed emissions of nitrogen oxides (NOx) at 10 to 40 times more than the approved levels. Vehicles from several of VW's divisions made use of the software device, suggesting that the knowledge of the use of the device was widespread within the firm. The company faces criminal investigations and potential penalties from regulators globally, costs to fix the problem in its cars, and lawsuits from car owners. VW's CEO, Martin Winterkorn, stepped down and is now being investigated. Other high-level executives subsequently departed in light of the allegations and a board management restructuring is underway.

In June 2016, Volkswagen AG and related parties agreed to settle allegations of manipulating emissions tests and deceiving customers by spending up to USD 14.7 billion in settlement and compensation, of which USD 10.3 billion will be used to compensate consumers through a buyback and lease termination program that will cover diesel vehicles leased or sold in the US. USD 4.7 billion will be allocated for pollution mitigation from these vehicles and to invest in green technology.

Global Compact Compliance: Fail

of Controversy Cases by ESG Pillar (59 in total)



*For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

MOST RECENT UPDATES (past 12 months)

Controversy Headline	Type of Update	Assessment	Indicator	Last Reviewed
Recall of Unspecified Number of Audi Q7 Crossovers to Replace Steering Rack; No Injuries Reported		Minor	Product Safety & Quality	September 2016
Investigation on Deliberate Evasion of Emission Tests	New Information	Very Severe	Bribery & Fraud	September 2016
Admission of Efforts to Skirt Emissions Rules for Diesel Engine Vehicles Worldwide		Very Severe	Toxic Emissions & Waste	September 2016
Tennessee: UAW Lawsuit Filed with the NLRB Over Alleged Refusal to Create Workers' Bargaining Unit		Moderate	Collective Bargaining & Union	September 2016
Lawsuits Over Misleading Claims in Car Diesel Engine Emissions		Severe	Marketing & Advertising	August 2016

MOST SIGNIFICANT CONTROVERSIES

Controversy Headline	Assessment	Indicator
Investigation on Deliberate Evasion of Emission Tests	Very Severe	Bribery & Fraud
Admission of Efforts to Skirt Emissions Rules for Diesel Engine Vehicles Worldwide	Very Severe	Toxic Emissions & Waste
Lawsuits Over Misleading Claims in Car Diesel Engine Emissions	Severe	Marketing & Advertising

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Environment

Controversies

R 0

ENVIRONMENT CONTROVERSIES **R** 0

Indicators	Flag	Score	Assessment
Biodiversity & Land Use	G	10	No Controversies
Energy & Climate Change	G	10	No Controversies
Operational Waste (Non-Hazardous)	G	10	No Controversies
Other (Environment)	G	10	No Controversies
Supply Chain Management	G	10	No Controversies
Toxic Emissions & Waste	R	0	Very Severe
Water Stress	G	10	No Controversies

Toxic Emissions & Waste	Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	1	0	0	0	R	0	Structural

Very Severe Cases:

Last Reviewed:	September 2016
Date Initiated:	September 2015
Assessment:	Very Severe
Type:	Structural
Status:	Ongoing
Flag: R	Score: 0
Global Compact Compliance:	Fail

Admission of Efforts to Skirt Emissions Rules for Diesel Engine Vehicles Worldwide

Impact & Basis of Assessment

Scale of Impact: Extremely Widespread
Nature of Harm: Medium
Exacerbating Circumstance: Yes

Assessment Change Rationale: Although the company has taken steps to settle actions by the US Environmental Protection Agency (EPA) the California Air Resources Board (CARB) and claims by customers, a large number of investigations remain ongoing and it faces lawsuits and other penalties in countries such as Brazil, China, and Mexico. The company has implemented some programs to prevent recurrence of this kind of problem and to address environmental impacts from its emissions test evasion. In Germany, recalls of affected vehicles have already begun, but may still take some time since Volkswagen needs to first obtain authorization from the country's Federal Motor Transport (KBA) prior to the rollout of fixes per vehicle model. These fixes could later be used as the template for the rest of the affected vehicles in Europe. The programs to prevent recurrence are relatively new however, and we would like to see a longer record of success. Similarly, it is not yet clear how the funds set aside for environmental remediation will be employed.

Volkswagen AG was accused of violating the federal Clean Air Act by the US Department of Justice (DoJ) and Environmental Protection Agency (EPA). According to the agencies, the company admitted that it knowingly manufactured and sold vehicles with software allegedly designed to dodge emission tests. The software, installed in approximately half a million diesel cars sold in the U.S. since 2008, could detect if an emissions test was ongoing and would activate the vehicles' full emissions control systems. The same software turned off the controls when cars were in normal use, resulting in nitrogen oxide emissions 10 to 40 times more than permitted under the Clean Air Act. The company subsequently disclosed that the software problem affected approximately 11 million vehicles globally.

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Volkswagen's admission of efforts to violate the law involves a period of several years and occurred across large segments of the company's passenger diesel fleet. The "defeat device" software was in place as early as 2008 and employed in vehicles produced by multiple divisions such as Volkswagen Passenger, Audi, SEAT, Skoda, and others. The controversy has touched executives at the highest levels of Volkswagen's corporate structure and across multiple divisions. Volkswagen's CEO Martin Winterkorn resigned from his role, though he remained as CEO of Volkswagen's majority owner, Porsche Automobil Holding SE. Other Volkswagen executives also stepped down in the wake of the admission.

Volkswagen had reportedly told EPA and California Air Resources Board (CARB) officials that discrepancies between state-mandated emissions test results and higher actual on-the-road results were attributable to technical issues. Only after regulators threatened to withhold approval certificates for the company's 2016 Volkswagen and Audi diesel passenger vehicles did the company admit to having manipulated the results.

Nitrogen oxides are a group of pollutants that include NO₂, which can cause or aggravate disease respiratory and cardiac diseases. NO₂ reacts in the atmosphere with other chemicals to form ozone, which at the ground level can cause respiratory inflammation. Both pollutants can result in hospitalizations and premature death, especially in more vulnerable populations such as children or the elderly.

According to an article in the Guardian, the affected Volkswagen vehicles emitted an estimated 10,392 to 41,571 tons of nitrogen oxides annually in the US, but by regulation should have emitted only 1,039 tons. Figures for the 11 million vehicles globally came to 237,000 to 948,000 tons of nitrogen oxides annually.

A subsequent article published in the New York Times projects that an estimated 106 deaths could be expected from the 46,000 tons of emissions from Volkswagen cars since 2008.

The agency announced that Volkswagen could face criminal charges and could also face civil penalties of up to USD 37,500 per vehicle for the affected US fleet, or potentially up to a total of more than USD 18 billion.

In June 2016, Volkswagen AG and related parties agreed to settle allegations of manipulating emissions tests and deceiving customers by spending up to USD 14.7 billion in settlement and compensation. Of this amount, the parties will spend USD 4.7 billion to mitigate the pollution from vehicles with defeat devices and to invest in green technology. This settlement does not yet resolve the company's other legal matters in the US, such as civil penalties and potential state environmental claims sought by the EPA, as well as other civil and criminal investigations by the DOJ, FTC, and the DOJ. This was granted preliminary court approval in July 2016.

UPDATES:

09 Sep 2016: Volkswagen Engineer Pleads Guilty for His Role in Conspiracy to Cheat U.S. Emissions Tests. (US Department of Justice)

James Robert Liang, a Volkswagen engineer, pleaded guilty to involvement in the company's almost 10-year conspiracy to defraud state regulators as well as customers in the US. In his plea, he admitted that he and some co-conspirators designed a new "EA 189" diesel engine sold in the US equipped with defeat devices to cheat emissions test when they realized that they could not design a similar diesel engine that would meet stricter emissions standards in the US. The engineer also admitted that his co-conspirators misrepresented the VW diesel vehicles and hid the existence of the software when meeting with US regulators.

Liang pleaded guilty to one count of conspiracy to violate the Clean Air Act, to defraud the US, and to commit wire fraud.

26 Jul 2016: Volkswagen announces preliminary approval of 2.0L TDI settlement program in the United States. (Volkswagen AG Press Release)

In the US, the settlement agreement previously announced on June 28 was granted preliminary approval.

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28 Jun 2016: Volkswagen to Spend up to \$14.7 Billion to Settle Allegations of Cheating Emissions Tests and Deceiving Customers on 2.0 Liter Diesel Vehicles. (US Federal Trade Commission)

In the US, Volkswagen AG and related parties agreed to settle allegations of manipulating emissions tests and deceiving customers by spending up to USD 14.7 billion in settlement and compensation. Of this amount, the parties will spend USD 4.7 billion to mitigate the pollution from vehicles with defeat devices and to invest in green technology. This settlement, however, does not yet resolve other legal matters faced by the company, such as civil penalties and potential state environmental claims sought by the EPA, as well as other civil and criminal investigations by the DOJ, FTC, and the DOJ.

28 Apr 2016: Volkswagen to create a new 'sustainability board' after diesel emissions scandal. (Responsible Investor)

In its annual general meeting, the company announced that it will create a 'sustainability board' to assist its current CEO Matthias Müller. The board, which will consist of 7-9 international expert members, will be a step to improve Volkswagen's risk management and internal compliance. It will also provide the management with advise on sustainability and climate protection issues.

21 Apr 2016: VW begins SEAT and Audi recall in Germany as Passat recall remains on hold. (IHS GLOBAL INSIGHT)

In Germany, Volkswagen has already begun recalling Audi and SEAT vehicle models fitted with the defeat device, while the VW Passat recalls are still on hold pending authorization from the country's Federal Motor Transport (KBA). The company has completed the recall of 8,500 Amarok pick-ups in the beginning of 2016. The recalls in Germany will be the template for Volkswagen's plans to fix the diesel emissions affair in the rest of Europe.

15 Feb 2016: Mexico: Profepa issues MXN 168mn fine against VW over emissions. (EL FINANCIERO)

Profepa, Mexico's environmental protection regulator, imposed an MXN 168.09 million (USD 8.89 million) penalty on Volkswagen Mexico over its sale of 45,494 vehicles without the noise and emissions certificates required by the local regulator.

15 Dec 2015: Environmental group sues VW for emission cheating. (ChinaDaily - BizChina)

China Biodiversity Conservation and Green Development Foundation, a Beijing-based NGO, announced that it filed a public-interest lawsuit against Volkswagen over the automaker's cheating on emissions tests and the resulting pollution from its vehicles. The lawsuit was filed at the No 2 Intermediate People's Court of Tianjin.

16 Nov 2015: Washington State Takes Enforcement Action Against Volkswagen. (TARGETED NEWS SERVICE)

The Washington Department of Ecology issued a formal notice to Volkswagen AG and its US subsidiaries informing the group of its violation of the Washington Clean Air Act. 46 other states are investigating the group which could result in further penalties.

16 Nov 2015: Procon multa Volkswagen em R\$ 8 mi por fraude em motores e pede recall [Procon fines Volkswagen BRL 8 million in vehicle fraud and orders recall] (Folha de Sao Paulo)

The Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) imposed a penalty amounting to BRL 50 million (USD 13 million) on Volkswagen over its vehicles' emissions.

31 Oct 2015: Washington: VW Emissions Scandal May Cost 60 U.S. Lives, Study Claims. (US OFFICIAL NEWS)

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An analysis carried out by researchers at the Massachusetts Institute of Technology (MIT) and Harvard University revealed that an estimated 60 individuals in the US could potentially die prematurely within 10 to 20 years due to emissions from affected Volkswagen vehicles. The analysis also contended that about 130 more premature deaths could be prevented if the company recalls all affected vehicles by the end of 2016. The company, however, opposed these claims, adding that it has not yet received any confirmed reports of health problems directly linked with its vehicles' emissions.

The study was published in the journal Environmental Research Letters on October 28, 2015.

29 Sep 2015: On the Environment: How Many Deaths Did Volkswagen's 's Deception Cause in the U.S.?. (The New York Times)

According to this New York Times article, an estimated 106 deaths could be expected from the 46,000 tons of emissions from Volkswagen cars since 2008. The projection was run by the Energy Policy Institute at the University of Chicago.

23 Sep 2015: VW scandal caused nearly 1m tonnes of extra pollution, analysis shows. (The Guardian)

According to an article in the Guardian, the affected Volkswagen vehicles emitted an estimated 10,392 to 41,571 tons of nitrogen oxides annually in the US, but by regulation should have emitted only 1,039 tons. Figures for the 11 million vehicles globally came to 237,000 to 948,000 tons of nitrogen oxides annually.

20 Sep 2015: Volkswagen to Stop Sales of Diesel Cars Involved in Recall. (The New York Times)

In line with the ongoing investigation, the company announced that it will stop selling 2015 and 2016 Volkswagen and Audi models equipped with turbo diesel engines, as well as used cars fitted with the same engine. It also announced that it would fully cooperate and would launch its own independent investigation regarding the matter.

18 Sep 2015: EPA Alleges Volkswagen Dodged Emissions Rules. (The Wall Street Journal)

The Environmental Protection Agency (EPA) accused the company of willfully circumventing current air pollution regulations by installing software that detects government emission tests in the vehicles it sold in the US since 2008. Volkswagen could be penalized USD 37,500 per vehicle, or approximately USD 18 billion for almost half a million vehicles affected. The EPA is investigating the issue along with the Department of Justice and the California Air Resources Board.

Company Response: Acknowledged or settled controversy.

In June 2016, Volkswagen announced on its website that it had reached settlement agreements with the US Department of Justice (DOJ) and the State of California, as well as the US Federal Trade Commission (FTC) and private plaintiffs in the US over the company's emissions scandal. VW stated that it established a fund of USD 10.033 billion for buybacks or lease terminations of the 475,000 2.0L affected diesel vehicles sold to customers in the US. The company will allocate USD 2.7 billion for an environmental remediation fund over a period of three years, while another USD 2 billion will be invested over ten years to promote the use of zero emissions vehicles in the US. The settlement program will start as soon as the Court grants its final approval which is expected in the fall of 2016.

In April 2016, the company announced during its AGM that it will create a 'sustainability board' to assist its current CEO Matthias Müller. The board, which will consist of 7-9 international expert members, will be a step to improve Volkswagen's risk management and internal compliance. It will also provide the management with advice on sustainability and climate protection issues.

Volkswagen, through its CEO, issued an apology on its website and announced that the violations will not be tolerated. The company also stated that it will fully cooperate with the authorities regarding the investigation and will launch its own independent probe regarding the allegations.

Upgrade Conditions/Company Engagement Points:

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This controversy will be considered for upgrade when most or all of the following conditions are fulfilled:

- Implement a fix to bring affected vehicles into compliance with local regulations
- Put in place effective internal controls to ensure its vehicles are compliant with all emissions rules
- Establish effective internal oversight to address the culture and ethics implications of the case
- Settle or resolve the majority of penalties and lawsuits relating to elevated emissions from the affected vehicles
- Avoid similar controversies for at least one full calendar year

Source: 09 Sep 2016_US Department of Justice

Environment Management

The company's performance on the Environmental pillar is above median compared to its industry peers on the MSCI World Index.

Environment Pillar Score: **7.1**
 Percentile: **85th**

To provide context for the company's controversy involvement, we reference here our evaluation of the company's capacity to manage its environmental challenges as assessed by MSCI ESG Research's ESG Ratings Analysis. This assessment focuses on strategy and governance, initiatives, and performance. For details on the company's environmental management performance, please refer to the MSCI ESG Ratings profile of the company.

Management Metrics

Sustainably managing natural resources and raw materials use:	N/A
Reports carbon emissions to the Carbon Disclosure Project (CDP):	Yes
Evidence of Using Alternative Water Sources:	Yes
Environmental Management System (EMS)	ISO 14001 or equivalent
Has programs or taken actions to improve the energy efficiency of its operations:	N/A

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Social

Controversies

0 1

CUSTOMERS CONTROVERSIES 0 1

Indicators	Flag	Score	Assessment
Anticompetitive Practices	Y	4	Moderate
Customer Relations	G	5	Moderate
Marketing & Advertising	O	1	Severe
Other (Customers)	G	10	No Controversies
Privacy & Data Security	G	10	No Controversies
Product Safety & Quality	G	5	Moderate

Anticompetitive Practices	Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	0	0	1	2	Y	4	Structural

Moderate Cases:

Last Reviewed:	July 2016
Date Initiated:	June 2016
Assessment:	Moderate
Type:	Structural
Status:	Ongoing
Flag: Y	Score: 4
Global Compact Compliance:	Pass

Germany: Federal Cartel Office Investigation on Six Companies Over Alleged Steel Price-Fixing

Impact & Basis of Assessment

Scale of Impact: Extensive
Nature of Harm: Minimal

The Federal Cartel Office, Germany's antitrust regulator, launched an investigation on Volkswagen AG, Daimler, BMW and three other companies over their alleged collusion to fix prices for steel purchases. In June 2016, investigators searched the offices of the companies to secure evidence as part of the ongoing probe.

UPDATES:

06 Jul 2016: German Watchdog Searches Car Makers' Offices in Steel-Price Probe. (The Wall Street Journal)

Source: 06 Jul 2016_The Wall Street Journal

Minor Cases:

Last Reviewed	Score	Status	Headline	Source
July 2016	8	Concluded	European Commission Imposed EUR 2.9 Billion Fine Over Truck Makers Price Fixing from 1997-2011: Subsidiary Involved Given Immunity for Revealing Cartel	19 Jul 2016_The New York Times
June 2015	9	Concluded	Czech Republic: Skoda Penalized CZK 49.1 Million by State Regulator in Price Fixing Violation	01 Jun 2015_IHS GLOBAL INSIGHT

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Customer Relations	Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	0	0	1				

Moderate Cases:

Last Reviewed:	June 2016
Date Initiated:	June 2016
Assessment:	Moderate
Type:	Non-Structural
Status:	Ongoing
Flag: G	Score: 5
Global Compact Compliance:	Pass

Australia: ACCC Investigation on Car Retail Industry Over High Number of Consumer Complaints

Impact & Basis of Assessment

Scale of Impact: Extensive
Nature of Harm: Medium

The Australian Competition and Consumer Commission (ACCC) launched an investigation into Volkswagen AG, Fiat Chrysler, and other auto makers following an increased number of consumer complaints on vehicle defects, guarantee rights and warranties, as well as false claims and deceptive practices related to emissions, fuel consumption, fuel efficiency, and performance.

UPDATES:

17 Jun 2016: FED:ACCC to probe new car retail industry. (AAP NEWSFEED)

Source: 17 Jun 2016_AAP NEWSFEED

Marketing & Advertising	Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	0	1	0				

Severe Cases:

Last Reviewed:	August 2016
Date Initiated:	September 2015
Assessment:	Severe
Type:	Structural
Status:	Ongoing
Flag: 0	Score: 1
Global Compact Compliance:	Pass

Lawsuits Over Misleading Claims in Car Diesel Engine Emissions

Impact & Basis of Assessment

Scale of Impact: Extremely Widespread
Nature of Harm: Medium

Volkswagen AG has been the subject of a regulatory inquiry over misleading claims on "clean diesel" engines. U.S. Environmental Protection Agency (EPA) through the U.S. Department of Justice (DOJ) accused the company of installing software that allegedly manipulates emission test results. In addition, the DoJ launched a criminal investigation of the company. The software was installed in approximately 480,000 diesel cars sold since 2008 in the United States and a total of approximately 11 million globally, according to the company.

The US government ordered the company to recall the vehicles to fix the issue, however the company has not yet developed a solution. Any fix is likely to negatively affect either the performance or the fuel efficiency of the cars. The company is expected to face numerous lawsuits by customers.

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The "defeat device" as the software was known, could detect if emissions testing was taking place and would activate the vehicles' full emissions control systems. However, the same software turns off the controls when the cars are not being tested, resulting in nitrogen oxide emissions that are as much as 40 times more than permitted under the Clean Air Act.

Investigations by the EPA, the Department of Justice, and the California Air Resources Board are currently ongoing. Volkswagen also hired a third party investigator to look into the allegations.

In June 2016, Volkswagen AG and related parties agreed to settle allegations of manipulating emissions tests and deceiving customers by spending up to USD 14.7 billion in settlement and compensation. Of this amount, USD 10.3 billion will be allocated to compensate consumers through a buyback and lease termination program meant to cover approximately 500,000 model year 2009-2015 2.0 liter diesel vehicles that were leased or sold in the country. The settlement, however, does not yet resolve other outstanding civil claims from private plaintiffs represented by the Public Service Commission in connection with the 3.0L TDI vehicles as well as other putative class action claims. This was granted preliminary court approval in July 2016.

According to Consumer Reports, Volkswagen halted the sale of any diesel vehicle models in its dealerships until a fix has been approved. The anticipated roll-out for recalls will be sometime in the fall of 2016, pending the judge's approval. Payments, modifications, as well as buybacks for US customers should be completed by June 30, 2019.

UPDATES:

31 Aug 2016: ACCC takes action against Volkswagen over diesel emission claims. (Australia- Australian Competition and Consumer Commission)

Australia's Competition and Consumer Commission (ACCC) initiated federal court legal proceedings against Volkswagen AG and its local unit Volkswagen Group Australia over the companies' alleged deceptive conduct and misleading representation in its diesel vehicle emission claims. The regulator is seeking costs, pecuniary penalties, and corrective advertising, among others.

30 Aug 2016: US vehicle owners' registrations to settle over VW diesel emissions issue reach 210,000 report. (IHS GLOBAL INSIGHT)

In the US, an estimated 210,000 owners of Volkswagen vehicles installed with defeat device have registered to settle with the company. Only 275 owners opted not to participate in the settlement, while 110 objected. Volkswagen vehicle owners have until 16 September to opt out of the settlement program but until September 2018 to decide whether they prefer a buyback or a vehicle fix.

09 Aug 2016: VOLKSWAGEN GROUP: Golf 1.4 TSI Owners File Class Action in Seoul. (CLASS ACTION REPORTER)

At least 26 customers filed a collective lawsuit in Seoul, Korea against Volkswagen and its local unit over the companies' sale of Golf 1.4 TSI gasoline-powered vehicles with deceptive emissions data. The automaker sold 1,567 units of the said model since March 2015.

08 Aug 2016: Italy's anti-trust agency fines VW over diesel emissions. (Reuters)

Italy's anti-trust agency announced that it imposed a EUR 5 million (approximately USD 5.54 million) penalty on Volkswagen over allegedly misleading its customers regarding diesel emissions results. The company said it would challenge the penalty in court.

26 Jul 2016: Volkswagen announces preliminary approval of 2.0L TDI settlement program in the United States. (Volkswagen AG Press Release)

In the US, the settlement agreement previously announced on June 28 was granted preliminary approval.

28 Jun 2016: Volkswagen to Spend up to \$14.7 Billion to Settle Allegations of Cheating Emissions Tests and Deceiving Customers on 2.0 Liter Diesel Vehicles. (US Federal Trade Commission)

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Volkswagen AG and related parties agreed to settle allegations of manipulating emissions tests and deceiving customers by spending up to USD 14.7 billion in settlement and compensation, of which USD 10.3 billion will be used to compensate consumers through a buyback and lease termination program that will cover an estimated 500,000 model year 2009-2015 2.0 liter diesel vehicles leased or sold in the US.

21 Jun 2016: Korea to fine Volkswagen W80b: report. (THE KOREA HERALD)

South Korea's Fair Trade Commission will penalize Volkswagen with an estimated KRW 80 billion (USD 68.9 million) for false advertisement claims, citing the company's advertisements that ran from 2009 to 2015 and labeling its vehicles had "clean diesel" with low emissions that are environment-friendly-claims that were later found to be false.

25 May 2016: Audi Volkswagen Taiwan fined for false advertising on emissions. (TAIWAN NEWS)

The country's Fair Trade Commission imposed a TWD 5 million (USD 153,236) penalty on Audi Volkswagen Taiwan over the company's false advertisements, claiming that two of its vehicle models met EU5 and EU6 emission standards.

29 Mar 2016: FTC Charges Volkswagen Deceived Consumers with Its "Clean Diesel" Campaign. (US Federal Trade Commission)

The FTC filed a complaint against Volkswagen and Porsche over its deception of American consumers. It is seeking a court order that would compensate buyers of affected VW vehicles between 2008 and 2015.

15 Mar 2016: Investors sue VW in Germany for more than 3 bn euros. (AGENCE FRANCE PRESSE -- ENGLISH)

In Brunswick, Germany, a group of 278 institutional investors have filed a EUR 3 billion (USD 3.3 billion) lawsuit against Volkswagen and Porsche over the emissions-cheating scandal.

22 Jan 2016: S. Korean watchdog probing Volkswagen over advertising. (Yonhap News Agency)

South Korea's Fair Trade Commission (FTC) launched a formal probe against Volkswagen AG for allegedly sending out misleading and false advertisements to consumers, claiming that its diesel vehicles have all passed EU and US Euro 5 standard emissions tests. The antitrust watchdog added that if found guilty, Volkswagen could be penalized with up to 2% of its sales.

08 Dec 2015: Over 3,000 Koreans join class-action suit against Volkswagen. (Yonhap News Agency)

An estimated 3,200 South Koreans have now joined the class action against Volkswagen, demanding to get a full refund and to have their purchases cancelled.

27 Nov 2015: South Korea Fines VW and Orders Recall Over Emissions Scandal. (THE NEW YORK TIMES)

South Korea's Environment Ministry ordered Volkswagen to recall 125,000 cars fitted with defeat devices and to pay USD 12.3 million in penalties.

16 Nov 2015: Procon multa Volkswagen em R\$ 8 mi por fraude em motores e pede recall [Procon fines Volkswagen BRL 8 million in vehicle fraud and orders recall] (Folha de Sao Paulo)

The Consumer Protection Agency (Procon) in Sao Paulo imposed a BRL 8.3 million (USD 2.2 million) penalty on Volkswagen Brasil over its use of defeat devices in 17,057 Amarok pick-ups. The company was also ordered to issue a recall of all affected vehicles.

08 Nov 2015: VOLKSWAGEN TO RECALL 100,000 CARS IN INDIA. (PAKISTAN AND GULF ECONOMIST)

Volkswagen in India is set to recall 100,000 diesel engine cars in the country affected by the emissions scandal.

29 Oct 2015: Switzerland: 600 criminal complaints filed in VW scandal. (ASSOCIATED PRESS ONLINE)

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In Switzerland, federal prosecutors have now received an estimated 600 criminal complaints in relation to the emissions scandal.

22 Oct 2015: Volkswagen recall extends to 17,057 Brazil trucks. (AGENCE FRANCE PRESSE -- ENGLISH)

Volkswagen will extend its recall to include 17,057 Amarok trucks sold in Brazil and fitted with the software.

21 Oct 2015: UOKiK Starts Probe on VW Emission Scandal. (POLISH NEWS BULLETIN)

In Poland, the Office for Competition and Consumer Protection (UOKiK) announced that an investigation is underway to check whether Volkswagen violated consumer rights with the sale of approximately 140,000 tampered vehicles.

19 Oct 2015: VW to recall 12,000 diesel vehicles in Taiwan. (IHS GLOBAL INSIGHT)

Volkswagen in Taiwan announced that 12,000 diesel vehicles affected by the emissions scandal will be recalled.

16 Oct 2015: Volkswagen to Recall 8.5 Million Vehicles in Europe. (The New York Times)

The German government ordered Volkswagen to recall 2.4 million vehicles in the country, or 8.5 million diesel vehicles across Europe, beginning 2016.

13 Oct 2015: S. Koreans to sue Volkswagen in U.S. over emissions scam. (Yonhap News Agency)

Approximately 50 Passat vehicles owners are planning to file a lawsuit against Volkswagen in both the US and South Korea over the company's deceitful claims. Since the company's admission, the total number of individuals who filed lawsuits with the Seoul Central District Court against Volkswagen AG and Audi Volkswagen Korea reached 266.

12 Oct 2015: Volkswagen to Recall 1,950 Diesel Vehicles in China. (NEWS TONIGHT)

Volkswagen announced that 1,950 diesel vehicles will be recalled in China to correct the defeat device software installed in them.

03 Oct 2015: Race is on for suits against VW; More than 200 consolidated cases could land in one Los Angeles courtroom.. (LOS ANGELES TIMES)

There are an estimated 230 federal class-action lawsuits filed against Volkswagen by deceived customers in various courts in the US. The number of complaints is expected to increase in the coming weeks.

30 Sep 2015: Two S. Korean drivers sue Volkswagen over emissions scam. (The Korea Herald)

Two South Korean Volkswagen car owners filed a lawsuit against the company and local dealers over its recent deceitful practice and urged the defendants to annul their contracts, to return their money in full, and to pay them for damages.

22 Sep 2015: VW Emissions Scandal Spreads. (The Wall Street Journal)

A lawsuit seeking class action status was filed in a federal court in California on allegations of Volkswagen's violation of consumer rights, fraudulent concealment, and false advertising by making customers pay premiums for clean-diesel engine cars that are now part of an ongoing EPA probe.

18 Sep 2015: VW Is Said to Cheat on Diesel Emissions; U.S. Orders Big Recall. (The New York Times)

The US EPA, the CARB, and the Department of Justice announced that an investigation on Volkswagen's alleged violation of federal emission laws is ongoing. The US government ordered the company to recall approximately 482,000 affected vehicles sold in the country since 2009.

Company Response: Acknowledged or settled controversy.

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

In June 2016, Volkswagen announced on its website that it has reached settlement agreements with the US Department of Justice (DOJ) and the State of California, as well as the US Federal Trade Commission (FTC) and private plaintiffs in the US over the company's emissions scandal that broke out last year. VW stated that it established USD 10.033 billion for buybacks or lease terminations of the 475,000 2.0L affected diesel vehicles sold to customers in the US. USD 2.7 billion will be allocated by Volkswagen as part of its environmental remediation fund over a period of three years, while another USD 2 billion over ten years will be invested in programs to promote the use of zero emissions vehicles in the US. The settlement program will start as soon as the Court grants its final approval which is expected to occur in the fall of 2016.

Volkswagen, through its current CEO, issued an apology posted on the company's website and announced that the violations will not be tolerated. It also stated that it will fully cooperate with the authorities regarding the investigation and will launch its own independent probe regarding the allegations.

Source: 31 Aug 2016_Australia- Australian Competition and Consumer Commission

Minor Cases:

Last Reviewed	Score	Status	Headline	Source
June 2016	8	Ongoing	Italy: Class Action Lawsuit Filed By Consumer Group Altroconsumo Over False Advertising On Fuel Efficiency	20 Jun 2016_IHS GLOBAL INSIGHT; 15 Jan 2016_IHS GLOBAL INSIGHT

Product Safety & Quality	Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	0	0	1				

Moderate Cases:

Last Reviewed:	June 2016
Date Initiated:	August 2015
Assessment:	Moderate
Type:	Non-Structural
Status:	Ongoing
Flag: G	Score: 5
Global Compact Compliance:	Pass

[US: Lawsuit Against 10 Auto Makers Over Alleged Non-Disclosure of Poisoning Risk in Keyless Ignition Vehicles](#)

Impact & Basis of Assessment

Scale of Impact: Extensive
Nature of Harm: Minimal

28 plaintiffs filed a proposed class action lawsuit against 10 major auto makers, including Volkswagen, in August 2015 over the companies' alleged non-disclosure of potential carbon monoxide poisoning in vehicles with keyless ignitions. The plaintiffs claimed that the gas could injure and even be fatal for some individuals who might inhale it, especially those who leave their vehicles in house garages. Aside from claiming damages, plaintiffs sought a court injunction to require auto makers to install added shut-off features to turn off unattended engines automatically. The members of the suit allege that there were 13 deaths linked with carbon monoxide poisoning, as well as other unspecified injuries.

UPDATES:

01 Jun 2016: No new information available.

*For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

27 Aug 2015: World's biggest car makers sued over 'deadly' keyless ignitions. (The Guardian)

Source: 27 Aug 2015_The Guardian

Minor Cases:

Last Reviewed	Score	Status	Headline	Source
September 2016	9	Concluded	Recall of Unspecified Number of Audi Q7 Crossovers to Replace Steering Rack; No Injuries Reported	23 Sep 2016_AUTO BUSINESS NEWS
August 2016	9	Concluded	South Korea: Recall of One Bentley Continental Spur Over Sunroof Potentially Falling Out; No Injuries Reported	29 Aug 2016_THE KOREA HERALD
August 2016	9	Concluded	South Korea: Recall of 1,500 Audi A8 Cars Due to Coolant Leak; No Injuries Reported	24 Aug 2016_The Korea Herald
August 2016	9	Concluded	Recall of 14,535 Audi SUVs Over Software Issue in Air Bag Control Modules; No Injuries Reported	01 Aug 2016_Law360
July 2016	9	Concluded	US: Recall of 5,600 VW CC, e-Golf, Golf R, and Tiguan Vehicles Over Defective Door Locks; No Injuries Reported	27 Jul 2016_AUTO BUSINESS NEWS
July 2016	9	Concluded	Recall of 5,900 VW Touran EcoFuel Vehicles for Front Gas Bottles Replacement; No Injuries Reported	09 Jul 2016_JUST-AUTO GLOBAL NEWS
June 2016	9	Concluded	US: Recall of 11 VW Golf R Vehicles Due to Federal Certification Label With Incorrect Rear Axle Weight Limit; No Injuries Reported	29 Jun 2016_IHS GLOBAL INSIGHT
June 2016	9	Concluded	South Korea: Recall of 2,425 VW Passat 2.0 Sedans Over Engine Oil Pump Issue; No Injuries Reported	24 Jun 2016_THE KOREA HERALD
June 2016	9	Concluded	China: Recall of 5,462 VW Vehicles Over Defective Sunroofs; No Injuries Reported	23 Jun 2016_AUTO BUSINESS NEWS
June 2016	9	Concluded	Russia: Recall of 368 VW Golf and 138 Audi A3 Hatchbacks Over Potential Fuel System Issue; No Injuries Reported	16 Jun 2016_ITAR-TASS
June 2016	9	Concluded	US: Recall of 217,000 Audi A4 and A6 Vehicles Over Potential Air Bag Inflator Rupture; No Injuries Reported	04 Jun 2016_JUST-AUTO GLOBAL NEWS
June 2016	8	Ongoing	NHTSA Inquiry on Takata Air Bags and Potential Recall	01 Jun 2016_Reuters; 29 Sep 2015_THE DETROIT NEWS (MICHIGAN)
June 2016	8	Ongoing	NHTSA Launches Investigation on Rupture of Takata Airbag in 2015 Tiguan Vehicle	17 Aug 2015_Reuters
May 2016	9	Concluded	China: Recall of 486 Magotan Vehicles Over Sunroof Design Defects; No Injuries Reported	20 May 2016_China Daily
May 2016	9	Concluded	Canada: Recall of 15,039 Audi A4 Cabriolet Vehicles Over Faulty Driver Frontal Airbag Inflator; No Injuries Reported	03 May 2016_CLASS ACTION REPORTER
April 2016	9	Concluded	India: Recall of 3,877 VW Vento Sedans Over Excessive Carbon Monoxide Emissions	01 Apr 2016_IHS GLOBAL INSIGHT
April 2016	9	Concluded	US: Recall of 91,000 VW Passat Sedans Over Cable Insulation Issue; No Injuries Reported	01 Apr 2016_Reuters
March 2016	9	Concluded	South Korea: Recall of 1,146 Passat 1.8 Sedans Over Fuel Injectors and Brake Vacuum Pumps Defect; No Injuries Reported	31 Mar 2016_IHS GLOBAL INSIGHT
March 2016	9	Concluded	US: Recall of 5,600 e-Golf Electric Vehicles Over Battery Issue That Could Lead to Stalling; No Injuries Reported	28 Mar 2016_Reuters
March 2016	9	Concluded	Recall of 800,000 VW Touareg and Porsche Cayenne SUVs Over Pedal Issues; No Injuries Reported	24 Mar 2016_The Guardian
March 2016	9	Concluded	Sweden: Recall of 13,700 VW Passat Vehicles Over Potential Electrical Problem Affecting Engine Operation While Driving; No Injuries Reported	23 Mar 2016_NORDISK INDUSTRI

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

Last Reviewed	Score	Status	Headline	Source
March 2016	9	Concluded	Canada: Recall of 239 Audi A3 2015 Vehicles Over Faulty Seat Cover Stitching that Could Affect Side Impact Airbag Deployment; No Injuries Reported	15 Mar 2016_CLASS ACTION REPORTER
February 2016	9	Concluded	US: Recall of 680,000 VW Vehicles Due to Defective Takata Airbags; No Injuries Reported	10 Feb 2016_The New York Times
February 2016	9	Concluded	Recall of 734 VW Tiguan and Audi Q5 Vehicles Over Installed Takata Airbags; One Injury Reported	08 Feb 2016_AUTO BUSINESS NEWS
January 2016	9	Concluded	Recall of 67,000 VW Caddy Vans Over Defective Main Power Supply Unit Bolting; No Injuries Reported	27 Jan 2016_BUSINESS WORLD (DIGEST)
January 2016	9	Concluded	China: Recall of 78,000 Volkswagen Tiguan, Magotan, and Golf Vehicles Over Steering Column Electric Module's Design Defects; No Injuries Reported	21 Jan 2016_IHS GLOBAL INSIGHT
January 2016	9	Concluded	Russia: Recall of 614 Skoda Superb III Vehicles Over Potential T2a Connector Issues; No Injuries Reported	18 Jan 2016_TASS News Agency
January 2016	9	Concluded	China: Recall of 58 Units of 2015 Volkswagen Beetle Due to Fuel Pump Issue; No Injuries Reported	11 Jan 2016_CHINA DAILY
January 2016	9	Concluded	US: Recall of 21,074 Audi A6 and A7 Vehicles Over Potential Issue With Passenger Occupant Detection System; No Injuries Reported	04 Jan 2016_AUTO BUSINESS NEWS
January 2016	9	Concluded	US: Recall of 904 Audi A3 Cabriolet Units to Repair Airbag Issue; No Injuries Reported	04 Jan 2016_AUTO BUSINESS NEWS
December 2015	9	Concluded	Russia: Recall of 2,166 VW Caddy Vehicles Over Wiring Assembly Defect; No Injuries Report	30 Dec 2015_ITAR-TASS
December 2015	9	Concluded	Russia: Recall of 103 Units of Audi A6, A7, and A8 Cars Over Potential Power Steering Software Issue; No Injuries Reported	11 Dec 2015_ITAR-TASS
November 2015	9	Concluded	Russia: Recall of 4,429 Volkswagen Touareg Cars Due to Potential Defect on Automatic Transmission Fluid Tube; No Injuries Reported	27 Nov 2015_ITAR-TASS
November 2015	9	Concluded	Russia: Recall of 1,906 Jetta, Golf, and Beetle Vehicles Over Potential Defect in Valve Timing Controller; No Injuries Reported	19 Nov 2015_ITAR-TASS
November 2015	9	Concluded	Brazil: Recall of 2,414 Jetta and Beetle Vehicles Over Potential Defect in Engine Camshaft Axis; No Injuries Reported	18 Nov 2015_Correio Braziliense
November 2015	9	Concluded	South Korea: Recall of 27,811 Vehicles Over Defective Clock Springs Connected to Vehicle Horns Potentially Causing Air Bag Warning Lights to Light Up; No Injuries Reported	11 Nov 2015_The Korea Herald
November 2015	9	Concluded	US: Recall of 91,800 Vehicles Over Potential Issue With Rear Camshaft Lobe; No Injuries Reported	04 Nov 2015_TARGETED NEWS SERVICE
October 2015	9	Concluded	Recall of 27,640 Bentley Continental and Flying Spur Vehicles Due to Potentially Defective Battery Cable Connections; No Injuries Reported	27 Oct 2015_TELEGRAPH.CO.UK
October 2015	9	Concluded	Recall of 993 Jetta, Golf, and E-Golf Vehicles Over Insulation Defect in Electromagnetic Coil Inside Occupant Classification System; No Injuries Reported	19 Oct 2015_AUTO BUSINESS NEWS
October 2015	9	Concluded	India: Recall of 389 Volkswagen Polo Cars Over Defective Handbrake; No Injuries Reported	09 Oct 2015_FREE PRESS JOURNAL (INDIA)
September 2015	9	Concluded	China: Recall of 78,000 Vehicles Due to Defective Airbag on Driver Side; No Injuries Reported	15 Sep 2015_IHS GLOBAL INSIGHT

HUMAN RIGHTS & COMMUNITY CONTROVERSIES G 5

Indicators	Flag	Score	Assessment
Civil Liberties	G	10	No Controversies
Human Rights Concerns	G	5	Moderate
Impact on Local Communities	G	10	No Controversies
Other (Human Rights & Community)	G	10	No Controversies

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

Human Rights Concerns	Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	0	0	1				
					G	5	Non-Structural	Moderate

Moderate Cases:

Last Reviewed:	May 2016
Date Initiated:	January 1972
Assessment:	Moderate
Type:	Non-Structural
Status:	Ongoing
Flag: G	Score: 5
Global Compact Compliance:	Pass

Alleged Involvement in Human Rights Abuses During Brazil's Military Dictatorship

Impact & Basis of Assessment
Scale of Impact: Limited
Nature of Harm: Very Serious
Extenuating Circumstance: Yes

A report on human rights abuses during Brazil's 21-year military regime published by the National Truth Commission alleged that German companies, including Volkswagen do Brasil, provided information and cooperated with the regime in repressing suspected opponents. In 1972, 20 metal workers, mostly from Volkswagen, were arrested and some were allegedly tortured. The company, along with other corporations, was allegedly involved in financing Operacao Bandeirante, a military agency that fought the dictatorship's opponents.

In September 2015, former employees and activists filed a civil lawsuit against Volkswagen seeking collective damages for 12 former workers who were tortured during the military dictatorship.

UPDATES:

30 May 2016: Corporate Communication

04 Nov 2015: Brasil: Volkswagen estuda possibilidade de memorial & pedido de desculpas oficial por suposta colaboração com ditadura militar no país. [Brazil: Volkswagen may develop memorial for abuses during country's dictatorship after being accused of complicity] (Business & Human Rights Resource Centre (Main))

Volkswagen is negotiating with justice officials in Brazil over the company's alleged involvement in the torture of former employees during the military dictatorship. Details of the settlement and talks of creating a memorial for the victims are still ongoing.

23 Sep 2015: VW says probing alleged abuses under Brazil military. (AGENCE FRANCE PRESSE -- ENGLISH)

A civil lawsuit was filed in behalf of 12 former workers who were tortured at Volkswagen's plant during the military regime.

13 Dec 2014: Brazil's National Truth Commission alleges torture at Volkswagen do Brasil. (Deutsche Welle)

Company Response: Other.

In May 2016, Volkswagen informed MSCI ESG Research that earlier that year it had sent a team to Brazil to investigate the issue. The company also stated that it was taking this issue very seriously. VW also mentioned that it had been in contact with those affected by the military dictatorship and has been in talks on building a memorial. Manfred Grieger, head of the company's historical communications, will also be part of "Corporations and Authoritarian Regimes in Latin America" along with the Institute for Economic and Social History of the Georg-August University in Göttingen, an international symposium to be held on 12-13 September 2016 that aims to provide in-depth information regarding the subject.

*For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

VW announced that a probe is underway to check if some of its former employees charged in the lawsuit were liable.

Source: 30 May 2016_Corporate Communication; 04 Nov 2015_Business & Human Rights Resource Centre (Main)

LABOR RIGHTS & SUPPLY CHAIN CONTROVERSIES Y 3

Indicators	Flag	Score	Assessment
Child Labor	Y	4	Moderate
Collective Bargaining & Union	Y	3	Moderate
Discrimination & Workforce Diversity	G	8	Minor
Health & Safety	G	5	Moderate
Labor Management Relations	G	10	No Controversies
Other (Labor Rights & Supply Chain)	G	10	No Controversies
Supply Chain Labor Standards	G	10	No Controversies

Child Labor	Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	0	0	1	0	Y	4	Structural

Moderate Cases:

Last Reviewed:	May 2016
Date Initiated:	January 2010
Assessment:	Moderate
Type:	Structural
Status:	Ongoing
Flag: Y	Score: 4
Global Compact Compliance:	Pass

Congo: Amnesty International and African Resources Watch Allege Child Labor in the Supply Chain

Impact & Basis of Assessment
Scale of Impact: Limited
Nature of Harm: Serious

In January 2016, Amnesty International and African Resources Watch (Afrewatch) released a report alleging that one of Volkswagen's cobalt suppliers, Congo Dongfang Mining International (CDM), failed to monitor their supplies, which may come from mines that use child labor, as well as expose adult workers to hazardous working conditions. The report stated that local mining owners employed child workers at the cobalt mine-pit in Tilwezembe since 2010. Amnesty and Afrewatch alleged that automakers Volkswagen and Daimler, as well as technology firms Samsung, LG, Sony, Apple, ZTE, and Lenovo failed to oversee the cobalt supply from mines in Congo to smelters/refineries and on to battery manufacturers. The supplier in question, CDM, is a subsidiary of the Chinese mineral company Zhejiang Huayou Cobalt Ltd.

UPDATES:

30 May 2016: Corporate Communication

22 Jan 2016: Tech companies use materials mined illegally by children in Africa. (China Labor Watch)

Company Response: Denied allegations.

*For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

According to a corporate communication sent by Volkswagen, its purchasing department investigated this issue and did not find any cobalt from the named mine in VW's Chinese joint venture. VW also reiterated that it has a strict policy on child labor and that it is currently tightening its policy on conflict minerals. The company further stated that it has a "Sustainability in Supplier Relationships" requirement integrated in contracts with its suppliers and subcontractors, to which they are expected to be compliant.

Source: 30 May 2016_Corporate Communication; 22 Jan 2016_China Labor Watch

Collective Bargaining & Union

	Very Severe	Severe	Moderate	Minor
# of Cases:	0	0	3	0

Flag  Score* 3 Type Structural Assessment Moderate

Moderate Cases:

Last Reviewed: September 2016
Date Initiated: December 2015

Assessment: **Moderate**
Type: Structural
Status: Ongoing
Flag:  Score: 4
Global Compact Compliance: Pass

Tennessee: UAW Lawsuit Filed with the NLRB Over Alleged Refusal to Create Workers' Bargaining Unit

Impact & Basis of Assessment

Scale of Impact: Extensive
Nature of Harm: Medium

The United Auto Workers (UAW) filed a lawsuit in Tennessee with the National Labor Relations Board (NLRB) following Volkswagen's alleged refusal to recognize and bargain with the union despite the UAW's favorable election by the federal labor panel.

UPDATES:

05 Sep 2016: Volkswagen appeals federal labor board decision supporting UAW. (LEGAL MONITOR WORLDWIDE)

21 Jun 2016: UAW says Volkswagen reneged on deal to recognize union. (ASSOCIATED PRESS FINANCIAL WIRE)

09 Jun 2016: No Progress for VW, Auto Workers' Union in Resolving U.S. Labor Dispute. (The Wall Street Journal)

30 May 2016: Corporate Communication

25 Apr 2016: Volkswagen to Appeal NLRB Ruling on Tennessee Union Election. (Bloomberg)

Volkswagen announced that it intends to file a court appeal against the NLRB's decision to reject the company's appeal of a December 2015 election, in which its Chattanooga plant maintenance workers voted 108-44 in favor of labor representation.

21 Dec 2015: UAW brings charges against Volkswagen for refusal to bargain. (ASSOCIATED PRESS FINANCIAL WIRE)

Company Response: Other.

*For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

According to a corporate communication sent by Volkswagen to MSCI, only a very small group of employees (maintenance workers) participated in the election. VW declined to accept the election because the number of voters was too small and it asked the NLRB to check on this. The company also believes that unions should represent the majority of its employees and not small groups. VW stated that it is usually union-friendly and likewise claimed that the NLRB has made a decision in favor of the UAW.

Source: 05 Sep 2016_LEGAL MONITOR WORLDWIDE

Brazil: Workers On 12-Day Strike at Taubate Manufacturing Plant; Operation Resumed Following Agreement

Impact & Basis of Assessment

Scale of Impact: Extensive
Nature of Harm: Medium

Employees at Volkswagen do Brasil Ltda's manufacturing plant in Taubate City held a 12-day strike in response to the dismissal of 43 co-workers last August due to the company's cost cutting measures. The employees returned to work after reaching an agreement with Volkswagen's management to rehire the previously dismissed workers.

UPDATES:

07 Oct 2015: VOLKSWAGEN: Workers at Plant in Brazil End Strike. (TROUBLED COMPANY REPORTER -- LATIN AMERICA)

Source: 07 Oct 2015_TROUBLED COMPANY REPORTER -- LATIN AMERICA

Germany: 26,000 Workers Walk Out and Protest in Hanover and Wolfsburg Over Wage Increase Negotiations

Impact & Basis of Assessment

Scale of Impact: Extremely Widespread
Nature of Harm: Medium

In February 2015, Volkswagen's 26,000 workers (approximately 6,000 in Hanover and 20,000 in Wolfsburg) walked out of their jobs in protest of the current stalemate in the negotiations for better wages and benefits between the company and IG Metall, the labor union representing the workers. As of the latest negotiations, Volkswagen proposed a wage increase of 2.2% and pledged to train 1,400 employees annually in 2015 and 2016. The union, however, has requested a 5.5% increase in wages for its members.

UPDATES:

5 Mar 2015: Volkswagen and IG Metall successfully conclude pay negotiations. (Volkswagen Press Release)

Volkswagen and IG Metall finally concluded employee wage negotiations, with the company adding a 3.4% base pay increase for its workers effective June 2015.

17 Feb 2015: Volkswagen workers in Hanover, Wolfsburg demonstrate on Tuesday. (SENEWS GERMANY)

Volkswagen's 6,000 workers in Hanover and 20,000 in Wolfsburg walked out of their jobs in protest of the current stalemate in negotiations for better wages and benefits.

Last Reviewed:	October 2015
Date Initiated:	October 2015
Assessment:	Moderate
Type:	Non-Structural
Status:	Concluded
Flag:	Score: 6
Global Compact Compliance:	Pass

Last Reviewed:	March 2015
Date Initiated:	February 2015
Assessment:	Moderate
Type:	Non-Structural
Status:	Concluded
Flag:	Score: 6
Global Compact Compliance:	Pass

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

Company Response: Other.

Volkswagen and IG Metall finally concluded employee wage negotiations, with the company adding a 3.4% base pay increase for its workers effective June 2015.

Source: 17 Feb 2015_SEENEWS GERMANY

Discrimination & Workforce Diversity		Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	0	0	0	1	G	8	Non-Structural	Minor

Minor Cases:

Last Reviewed	Score	Status	Headline	Source
July 2016	8	Ongoing	Spain: Allegations of Work Access Discrimination Against Labor Union Members and Female Employees in Volkswagen Navarra	<i>19 Jul 2016_Business & Human Rights Resource Centre (Main)</i>

Health & Safety		Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	0	0	1	0	G	5	Non-Structural	Moderate

Moderate Cases:

Last Reviewed:	June 2016
Date Initiated:	July 2015
Assessment:	Moderate
Type:	Non-Structural
Status:	Ongoing
Flag: G	Score: 5
Global Compact Compliance:	Pass

Germany: Worker Killed While Assembling Robot for New Production Line

Impact & Basis of Assessment

Scale of Impact: Low
Nature of Harm: Very Serious

A worker who was setting up a robot for a new electric motor production line at Volkswagen's Hesse factory was killed in July 2015 after the machine started up, grabbed him, and threw him against a metal slab. He sustained severe injuries in the chest area and later died in the hospital. Volkswagen clarified that the worker was not from the company but from a machine-manufacturing firm and that the robot had not yet been turned over to Volkswagen. Local authorities were still investigating the incident.

UPDATES:

01 Jun 2016: No new information available.

01 Jul 2015: Assembly robot crushes worker at Volkswagen. (The Local (Germany))

Source: 01 Jul 2015_The Local (Germany)

*For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

Social Management

The company's performance on the Social pillar is below median compared to its industry peers on the MSCI World Index.

Social Pillar Score: **2.3**
 Percentile: **13th**

To provide context for the company's controversy involvement, we reference here our evaluation of the company's capacity to manage its social challenges as assessed by MSCI ESG Research's ESG Ratings Analysis. This assessment focuses on strategy and governance, initiatives, and performance. For details on the company's social management performance, please refer to the MSCI ESG Ratings profile of the company.

Management Metrics

Company has policy to address sourcing of controversial raw materials:	N/A
Health & Safety policy is group wide:	Yes
CSR/Sustainability Committee/H&S task force or risk officer is responsible for Health & Safety strategy:	Yes
Percentage of total (not just domestic) workforce covered by collective agreements:	N/A
Code of Conduct covers the following:	
• Child Labor:	N/A
• Working Hours:	N/A
• Anti-Discrimination:	N/A
• Health & Safety:	N/A
Certifies own operations with a widely accepted product safety/quality standard (e.g.HACCP; ISO 9001; ISO/TS 16949; ISO 13485):	N/A

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

Governance

Controversies

R 0

GOVERNANCE CONTROVERSIES **R** 0

Indicators	Flag	Score	Assessment
Bribery & Fraud	R	0	Very Severe
Controversial Investments	G	10	No Controversies
Governance Structures	G	10	No Controversies
Other (Governance)	G	10	No Controversies

Bribery & Fraud	Very Severe	Severe	Moderate	Minor	Flag	Score*	Type	Assessment
	# of Cases:	1	0	2	0	R	0	Structural

Very Severe Cases:

Last Reviewed:	September 2016
Date Initiated:	September 2015
Assessment:	Very Severe
Type:	Structural
Status:	Ongoing
Flag: R	Score: 0
Global Compact Compliance:	Pass

Investigation on Deliberate Evasion of Emission Tests

Impact & Basis of Assessment

Scale of Impact: Extremely Widespread
Nature of Harm: Serious
Exacerbating Circumstance: Yes

Assessment Change Rationale: In June 2016, Volkswagen agreed to settle the majority of the claims with concerned US government agencies and private plaintiffs, subject to a court approval expected to be granted in the fall of 2016. Despite this initial settlement, the company is still in the process of ensuring that its diesel engine vehicles are compliant with existing emissions regulations not just in the US but in Europe and other jurisdictions worldwide. The settlement does not yet resolve the company's other legal matters in the US such as civil claims by the DOJ, FTC, and private plaintiffs represented by the Public Service Commission in relation to 3.0L TDI vehicles, as well as criminal investigations by the DOJ and other civil penalties and potential state environmental claims sought by the EPA. There are also other ongoing investigations in the US and in Germany to pinpoint the executives and individuals who were responsible for and had knowledge of the fraud. To date, only one Volkswagen engineer pled guilty of his involvement.

The U.S. Department of Justice (DoJ), the U.S. Environmental Protection Agency (EPA), and the California Air Resources Board (CARB) launched an investigation of Volkswagen AG over allegations that the car manufacturer had, since 2008, knowingly and deliberately violated existing state and federal environmental regulations. The regulators alleged that the company violated pollution regulations by installing software in diesel engine passenger cars that provided false results during laboratory conducted emissions testing. The software activated emissions controls to lessen the vehicles' nitrogen oxides (NOx) emissions during state-required emissions testing, and turned off the controls during normal driving. Unchecked, NOx emissions from the affected vehicles could be as much as 40 times higher than permitted under the Clean Air Act. In addition, the DoJ launched a criminal investigation of the company.

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

The company is alleged to have made willful efforts to skirt the law, and the case has touched executives at the highest levels of the corporate structure and across multiple divisions. Following a meeting of the Executive Committee of the Supervisory Board, Volkswagen's chief executive Martin Winterkorn resigned. The R&D heads of Porsche and Audi and other high level executives have resigned or been dismissed in the wake of the allegations.

Volkswagen allegedly told EPA officials that the difference between state-mandated emissions test results and higher actual on-the-road emissions results were the result of technical issues. The company finally admitted to having manipulated the results when the agency pressured it, under threat of withholding approval certificates for its new 2016 Volkswagen and Audi diesel engine passenger vehicles.

Since the company admitted wrongdoing and the news of the US investigation emerged, regulators in other countries have likewise launched probes to find out if similar fraudulent acts were committed in their respective jurisdictions, as was the case in Canada, Germany, Italy, France, India, South Korea, Mexico, Taiwan, Australia, and the UK.

In the US, Volkswagen faces potential fines of up to USD 37,500 per vehicle, or potentially more than USD 18 billion for the half a million vehicles affected and sold in the US since 2009. The company has announced that an estimated 11 million diesel engine vehicles may be affected worldwide and that an estimated EUR 6.5 billion (USD 7.3 billion) would be set aside to cover the costs of emission compliance for the cars affected.

In June 2016, Volkswagen AG and related parties agreed to settle allegations of manipulating emissions tests and deceiving customers by spending up to USD 14.7 billion in settlement and compensation. Of this amount, USD 10.3 billion will be allocated to compensate consumers through a buyback and lease termination program meant to cover approximately 500,000 model year 2009-2015 2.0 liter diesel vehicles that were leased or sold in the country. The settlements also partially resolve allegations by the US State of California and US Federal Trade Commission against Volkswagen. Additionally, the parties will spend USD 4.7 billion to mitigate the pollution from these vehicles and to invest in green technology. This settlement does not yet resolve the company's other legal matters in the US, such as civil claims by the DOJ, FTC, and private plaintiffs represented by the Public Service Commission in relation to 3.0L TDI vehicles, as well as other civil penalties and potential state environmental claims sought by the EPA, and criminal investigations by the DOJ. This was granted preliminary court approval in July 2016.

UPDATES:

21 Sep 2016: Volkswagen Shareholders Seek \$9.2 Billion Over Diesel Scandal. (The New York Times)

A regional court in Braunschweig, Germany registered more than 1,400 complaints from both individual and institutional shareholders that seek an estimated EUR 8.2 billion (USD 9.2 billion) in damages over financial losses incurred. The value of Volkswagen's shares went down following its diesel emissions scandal that broke in September 2015.

09 Sep 2016: Volkswagen Engineer Pleads Guilty for His Role in Conspiracy to Cheat U.S. Emissions Tests. (US Department of Justice)

Volkswagen engineer James Robert Liang pleaded guilty in his involvement in the company's almost 10-year conspiracy to defraud state regulators as well as customers in the US. In his plea, he admitted that he and some co-conspirators designed a new "EA 189" diesel engine sold in the US equipped with defeat devices to cheat emissions test when they realized that they could not design a similar diesel engine that would meet stricter emissions standards in the US. The engineer also admitted that his co-conspirators misrepresented the VW diesel vehicles and hid the existence of the software when meeting with US regulators.

Liang pleaded guilty to one count of conspiracy to defraud the US, to commit wire fraud, and to violate the Clean Air Act.

02 Aug 2016: [VW SCANDAL] VW Korea fined W17.8b, issued with sales ban for emission rigging. (THE KOREA HERALD)

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

Korea's Ministry of Environment ordered the suspension of sale of 80 vehicle models in the country and imposed a KRW 17.8 billion (USD 16.01 million) penalty on Audi Volkswagen Korea, Volkswagen AG's local unit, over its manipulation of documents in order to skirt government-mandated emissions and noise level tests.

28 Jul 2016: Prosecutors seek arrest warrant for ex-VW Korea chief. (THE KOREA HERALD)

South Korean prosecutors filed for an arrest warrant for Audi Volkswagen Korea's former CEO Park Dong-hoon who was charged with document falsification, obstruction of justice, as well as violation of the country's Clean Air Conservation Act, as part of an ongoing probe on Volkswagen's emission rigging scandal.

26 Jul 2016: Volkswagen announces preliminary approval of 2.0L TDI settlement program in the United States. (Volkswagen AG Press Release)

In the US, the settlement agreement previously announced on June 28 was granted preliminary approval.

28 Jun 2016: Volkswagen to Spend up to \$14.7 Billion to Settle Allegations of Cheating Emissions Tests and Deceiving Customers on 2.0 Liter Diesel Vehicles. (US Federal Trade Commission)

In the US, Volkswagen AG and related parties agreed to settle allegations of manipulating emissions tests and deceiving customers by spending up to USD 14.7 billion in settlement and compensation. However, it does not yet resolve the company's other legal matters in the US, such as civil claims by the DOJ, FTC, and private plaintiffs represented by the Public Service Commission in relation to 3.0L TDI vehicles, as well as other civil penalties and potential state environmental claims sought by the EPA, and criminal investigations by the DOJ.

24 Jun 2016: South Korea Issues Arrest Warrant for VW Executive in Emissions Probe. (The New York Times)

A South Korean court issued an arrest warrant for a Volkswagen executive over five charges, including falsification of documents and infringement of the country's Air Quality Preservation Act. Two other executives are facing criminal charges, on top of the KRW 14.1 billion (USD 11.97 million) penalty imposed against VW Korea, as well as an order to recall 125,522 vehicles in the country.

20 Jun 2016: German prosecutors investigate ex-VW chief over emissions scandal. (The Guardian)

Volkswagen's former CEO Martin Winterkorn as well as another former VW executive are under investigation by German prosecutors over allegations of market manipulation and intentional delay in informing the company's shareholders of the emissions scandal and the potential financial damage that could result from it. The probe was initiated by a complaint on behalf of BaFin, the country's federal financial supervisory agency. Seventeen former VW employees are also part of an ongoing fraud investigation.

09 Jun 2016: VW Manager in Germany Is Said to Have Pushed for Removing Evidence. (The New York Times)

A Volkswagen manager allegedly ordered employees to delete documents and remove evidence in August 2015, a month before the emissions scandal broke out. In accordance with German privacy laws, prosecutors did not disclose his name or his job description.

09 Jun 2016: Prosecutors say Volkswagen sold vehicles with unauthorized exhaust pipes. (The Korea Herald)

Prosecutors in South Korea are looking into Volkswagen's alleged sale of approximately 50,000 vehicles with unauthorized exhaust pipes and the company's move to arbitrarily change auto parts without first securing an authorization from the Korean Ministry of Environment. The investigation is also trying to establish a possible link between Volkswagen's unauthorized parts and the emissions scandal.

01 Jun 2016: Prosecutors confiscate hundreds of Volkswagen vehicles. (The Korea Herald)

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

South Korean prosecutors have confiscated 950 vehicles manufactured with the new engine model over an ongoing investigation into the company's compliance of emission regulations. The vehicle models- Audi A1, A3, and Golf- have passed Euro 6 emission standards but are still suspected of emitting gases that exceed allowed levels.

13 May 2016: Audi VW accused of rigging fuel efficiency. (THE KOREA HERALD)

Prosecutors raided Audi Volkswagen Korea's headquarters office as well as two of its public relations agencies over the company's alleged rigging of its fuel-efficiency test results. A discrepancy was recently discovered between the test results sent from the company's headquarters in Germany and those sent to the Korean government in 2013 and 2014.

28 Apr 2016: Volkswagen to create a new 'sustainability board' after diesel emissions scandal. (Responsible Investor)

In its annual general meeting, the company announced that it will create a 'sustainability board' to assist its current CEO Matthias Müller. The board, which will consist of 7-9 international expert members, will be a step to improve Volkswagen's risk management and internal compliance. It will also provide the management with advise on sustainability and climate protection issues.

21 Apr 2016: VOLKSWAGEN GROUP: Deleted Emission Evidence, Ex-Employee Claims. (CLASS ACTION REPORTER)

A former technology employee filed a whistle blower lawsuit against Volkswagen, alleging that he was illegally dismissed on Dec. 6, 2015 after he expressed his refusal to participate in deleting electronic information and to report it to a supervisor. He also alleged that the company continued to delete evidence three days after the US EPA exposed the diesel emissions scandal on Sept. 18, 2015 and despite a restraining order from the US Department of Justice. On top of potentially violating the Michigan Whistle Blowers' Protection Act, the company could be facing obstruction of justice through the destruction and deletion of evidence.

13 Apr 2016: VW Cuts Bonuses Amid Diesel Emissions Scandal. (The New York Times)

Volkswagen's top managers would be getting their bonuses cut significantly as the company continues to struggle against its diesel emissions scandal. The 2015 bonus cuts would apply to Volkswagen's management board, including the CEO, and its chairman, who was the company's Chief Financial Officer last year.

19 Feb 2016: VW Korea raided over cheating scandal. (KOREA TIMES)

South Korea's Seoul Central District Prosecutors' Office raided Audi Volkswagen Korea's office and seized documents and computer files as part of an ongoing investigation into the car maker's use of defeat devices. This raid came a month after the country's Ministry of Environment filed complaints against VW Korea's executive director and Audi's head of overseas sales due to the automaker's alleged failure to provide a detailed report of the emissions fraud and how it plans to correct it.

12 Jan 2016: Sweden opens fraud investigation against Volkswagen. (AGENCE FRANCE PRESSE -- ENGLISH)

Sweden's anti-corruption prosecutor launched an "aggravated fraud" investigation against Volkswagen over the company's manipulation of emissions tests. There are about 225,000 Volkswagen cars of various models imported to the country.

04 Jan 2016: U.S. Sues Volkswagen in Diesel Emissions Scandal. (The New York Times)

The US Department of Justice filed a federal court lawsuit in Detroit against Volkswagen AG several months after the automaker admitted cheating on emissions tests in approximately 11 million vehicles sold worldwide.

17 Dec 2015: Volkswagen Loans Investigated by E.U. Anti-Fraud Office. (The New York Times)

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

The European Anti-Fraud Office launched a preliminary investigation to check whether the loans granted to Volkswagen by the European Investment Bank (EIB) had links with the automaker's production of devices and engines that manipulated emissions level testing. The EIB issued Volkswagen loans amounting to EUR 9.5 billion (approximately USD 10.4 billion) since 2000, with the intention of reducing the company's environmental impact through the production of fuel-efficient and lower-emission engines.

16 Nov 2015: Procon multa Volkswagen em R\$ 8 mi por fraude em motores e pede recall [Procon fines Volkswagen BRL 8 million in vehicle fraud and orders recall] (Folha de Sao Paulo)

In Brazil, Sao Paulo's consumer defense agency (PROCON-SP) announced that it imposed a BRL 8 million penalty (approximately USD 2.5 million) over Volkswagen's alleged fraudulent manipulation of emissions tests for its vehicles.

29 Oct 2015: Spanish court to undertake preliminary investigation into VW Group diesel engine emissions. (IHS GLOBAL INSIGHT)

A court in Spain opened a preliminary probe into Volkswagen concerning the company's use of defeat devices in diesel engine vehicles. According to a report from Dow Jones Institutional News, the court case was filed by Manos Limpias, a Spanish civil servants' union involved in filing various corruption cases.

18 Oct 2015: Police Raid Volkswagen's French Headquarters. (The Wall Street Journal)

Volkswagen AG's offices in Viller-Cotterêts and another near Paris were raided by French police and seized computer hardware as part of the ongoing emissions investigation.

15 Oct 2015: UPDATE 2-Italian prosecutors investigate local Volkswagen, Lamborghini managers. (Reuters)

Italian prosecutors conducted searches in both the Volkswagen and Lamborghini offices in Verona and were investigating some managers of both companies in connection with the emissions scandal.

08 Oct 2015: VW offices raided in emissions probe. (Deutsche Welle)

Three prosecutors and some State of Lower Saxony criminal investigators raided Volkswagen offices in Wolfsburg and other locations in line with the ongoing emissions software investigation.

25 Sep 2015: VW scandal: staff suspended as car giant appoints new CEO. (The Guardian)

Matthias Müller, head of Volkswagen AG's Porsche unit, was elected by the company's supervisory board as the new CEO after Martin Winterkorn's resignation two days earlier. A few employees working in engine development have been suspended by the company until the controversy is resolved.

23 Sep 2015: Press Release- Statement from the Executive Committee of Volkswagen AG's Supervisory Board. (Volkswagen AG)

Following a meeting of the Executive Committee of the Supervisory Board, Volkswagen announced that its CEO Martin Winterkorn has resigned and that search for new personnel is underway. It also confirmed that 1.) there would be further personnel consequences in the coming days 2.) it will voluntarily submit a complaint to the State Prosecutors' Office in Brunswick and 3.) it suggested the creation of a special committee to lead its external probe, to be decided on the Supervisory Board meeting on Friday, September 25.

23 Sep 2015: VW says scandal extends worldwide; 11 million diesel vehicles may be affected, many in core European market. (INTERNATIONAL NEW YORK TIMES)

The company announced that an estimated 11 million diesel engine vehicles may be affected worldwide and that an estimated EUR 6.5 billion (USD 7.3 billion) would be set aside to cover the costs of emission compliance for the cars affected. Volkswagen's stock market value has swiftly declined by EUR 25 billion in just two days of trading.

*For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

22 Sep 2015: VW misled U.S. officials on pollution for a year; Carmaker's stock plunges after executives admit to cheating on smog tests. (INTERNATIONAL NEW YORK TIMES)

For over a year, Volkswagen allegedly told EPA officials that the difference in state-mandated emissions test results and higher actual on-the-road emissions results were not willfully done to deceive officials but were just technical issues. The company only recently admitted to having manipulated the results when the agency pressured it, under threat of withholding approval certificates for its new 2016 Volkswagen and Audi diesel vehicles.

18 Sep 2015: EPA, CALIFORNIA NOTIFY VOLKSWAGEN OF CLEAN AIR ACT VIOLATIONS. (STATES NEWS SERVICE)

The US Environmental Protection Agency (EPA) sent a notice of violation (NOV) to Volkswagen over allegations that the car manufacturer violated the Federal Clean Air Act by deliberately installing a software in its diesel cars that provided erroneous emissions data. Separately, California's Air Resources Board sent an In-Use Compliance Letter to the company. Both agencies have launched an investigation on emissions in Volkswagen's diesel cars. Approximately 482,000 affected vehicles have been sold in the US since 2008.

Company Response: Acknowledged or settled controversy.

In June 2016, Volkswagen announced on its website that it has reached settlement agreements with the US Department of Justice (DOJ) and the State of California, as well as the US Federal Trade Commission (FTC) and private plaintiffs in the US over the company's emissions scandal that broke out last year. VW stated that it established USD 10.033 billion for buybacks or lease terminations of the 475,000 2.0L affected diesel vehicles sold to customers in the US. USD 2.7 billion will be allocated by Volkswagen as part of its environmental remediation fund over a period of three years, while another USD 2 billion over ten years will be invested in programs to promote the use of zero emissions vehicles in the US. The settlement program will start as soon as the Court grants its final approval which is expected to occur in the fall of 2016.

In April 2016, the company announced during its AGM that it will create a 'sustainability board' to assist its current CEO Matthias Müller. The board, which will consist of 7-9 international expert members, will be a step to improve Volkswagen's risk management and internal compliance. It will also provide the management with advise on sustainability and climate protection issues.

Volkswagen, through its CEO, issued an apology posted on its website and announced that the violations will not be tolerated. The company also stated that it will fully cooperate with the authorities regarding the investigation and will launch its own independent probe regarding the allegations.

Approximately a week after the scandal broke publicly, the company announced that its CEO, Martin Winterkorn had resigned. Subsequently the company dismissed several other high-level executives.

Upgrade Conditions/Company Engagement Points:

This controversy will be considered for upgrade when most or all of the following conditions are addressed:

- The company has set in place measures to ensure that all manufactured diesel engine vehicles are compliant with existing emissions regulations not just in the US but in other countries as well.
- Cooperation with investigations.
- Observed and acted on results of investigations.
- Disciplined executives with knowledge of or responsibility for fraud.
- Instituted remedial measures to address widespread ethical breach.
- The case will then be considered for an upgrade if no similar controversy occurs within a 12-month period after conclusion.

Source: 21 Sep 2016_The New York Times

*For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

Moderate Cases:

Last Reviewed:	June 2016
Date Initiated:	November 2014
Assessment:	Moderate
Type:	Non-Structural
Status:	Ongoing
Flag: G	Score: 5
Global Compact Compliance:	Pass

China: Investigation of PR Director Over Alleged Bribery and Corruption Involvement**Impact & Basis of Assessment****Scale of Impact:** Extensive**Nature of Harm:** Medium

The PR director of Volkswagen and FAW, its joint venture in China, was under investigation for allegedly receiving bribes from dealers and advertising companies. He was the sixth director at FAW-VW to be investigated over corruption accusations since 2012.

UPDATES:

01 Jun 2016: No new information available.

19 Nov 2014: FAW-VW PR director under investigation for corruption. (IHS Global Insight)

Source: 19 Nov 2014_IHS Global Insight

Last Reviewed:	June 2016
Date Initiated:	January 2003
Assessment:	Moderate
Type:	Non-Structural
Status:	Ongoing
Flag: G	Score: 5
Global Compact Compliance:	Pass

Unaoil Scandal: Alleged Involvement in Bribery**Impact & Basis of Assessment****Scale of Impact:** Extensive**Nature of Harm:** Medium

MAN Turbo, a subsidiary of Volkswagen AG and of Porsche Automobil Holding SE, is among dozens of companies connected to Unaoil, a Monaco-based consulting firm allegedly involved in widespread and routine corruption in the Middle East, Asia, and Africa, particularly in the energy sector.

In March 2016, Fairfax Media and The Huffington Post published a series of reports detailing illicit payments made by Unaoil on behalf of its clients. The Age, a Fairfax Media newspaper, examined hundreds of thousands of Unaoil emails and other files dated from 2003 to 2012, which were leaked to them by an anonymous source. The documents indicated that Unaoil executives facilitated the bribery of government officials, their close associates, and other companies. Unaoil clients were reportedly complicit to the company's practices. The controversy is considered one of history's the biggest corporate bribery scandal to date, particularly in the energy sector.

Various government agencies have since launched investigations into the matter including the U.S. Department of Justice and Federal Bureau of Investigation; Britain's UK's National Crime Agency and the Serious Fraud Office; Australia's Federal Police; Monaco's police; and Iraq's Integrity Commission; among others. While Unaoil denied the allegations of bribery, it did not challenge the veracity of the leaked documents.

According to The Age report, MAN Turbo benefited from the leaked information and corruption and that its former executive was recorded in online voice discussions leaking sensitive files and discussing illegal deals.

UPDATES:

01 Jun 2016: No new information available.

30 Mar 2016: UNAOIL: The Bribe Factory. (The Age and The Huffington Post)

Source: 30 Mar 2016_The Age and The Huffington Post

*For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

Governance Management

The company's performance on the Governance pillar is below median compared to its industry peers on the MSCI World Index.

Governance Pillar Score: **1.3**
 Percentile: **3rd**

To provide context for the company's controversy involvement, we reference here our evaluation of the company's capacity to manage its governance challenges as assessed by MSCI ESG Research's ESG Ratings Analysis. This assessment focuses on strategy and governance, initiatives, and performance. For details on the company's governance management performance, please refer to the MSCI ESG Ratings profile of the company.

Management Metrics

Employee training on ethical standards:	N/A
Bribery and Corruption Policies:	N/A

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

PERFORMANCE SUMMARY

	Flag	Score	Assessment
Environment	R	0	
Biodiversity & Land Use	G	10	No Controversies
Energy & Climate Change	G	10	No Controversies
Operational Waste (Non-Hazardous)	G	10	No Controversies
Other (Environment)	G	10	No Controversies
Supply Chain Management	G	10	No Controversies
Toxic Emissions & Waste	R	0	Very Severe
Water Stress	G	10	No Controversies
Social	O	1	
Customers	O	1	
Anticompetitive Practices	Y	4	Moderate
Customer Relations	G	5	Moderate
Marketing & Advertising	O	1	Severe
Other (Customers)	G	10	No Controversies
Privacy & Data Security	G	10	No Controversies
Product Safety & Quality	G	5	Moderate
Human Rights & Community	G	5	
Civil Liberties	G	10	No Controversies
Human Rights Concerns	G	5	Moderate
Impact on Local Communities	G	10	No Controversies
Other (Human Rights & Community)	G	10	No Controversies
Labor Rights & Supply Chain	Y	3	
Child Labor	Y	4	Moderate
Collective Bargaining & Union	Y	3	Moderate
Discrimination & Workforce Diversity	G	8	Minor
Health & Safety	G	5	Moderate
Labor Management Relations	G	10	No Controversies
Other (Labor Rights & Supply Chain)	G	10	No Controversies
Supply Chain Labor Standards	G	10	No Controversies
Governance	R	0	
Bribery & Fraud	R	0	Very Severe
Controversial Investments	G	10	No Controversies
Governance Structures	G	10	No Controversies
Other (Governance)	G	10	No Controversies

* For symbols and terms used in this report, refer to the "Glossary of Symbols and Terms" section.

GLOSSARY OF SYMBOLS & TERMS

The following are short definitions of some of the symbols and terms used in this report. Please refer to the methodology document for more information.

INDICATOR LEVEL SCORE: When there are three or more non-Minor assessed controversies, indicating a pattern, the Indicator Score is 1 point lower than the lowest assessed controversy case. If the lowest scored controversy case is 1, no additional points are deducted from the Indicator Score.

LAST UPDATE: Available on Page 1, LAST UPDATE indicates the date a substantive update was made to the company report, either to one or multiple controversy cases. MSCI ESG Research monitors the news on a regular basis (See MEDIA REVIEW PROCESS), but the date is updated on the report only when changes are made to the data.

MEDIA REVIEW PROCESS: MSCI ESG Research reviews major global news publications daily for significant controversies that concern companies in the MSCI coverage universe. In addition, on a weekly basis MSCI ESG Research reviews important regional news publications. Finally on a monthly basis, the MSCI ESG Research team reviews an additional set of important local and other general news publications, business news sources, and industry and trade periodicals, and other publications that have been identified as important sources of ESG performance information. Updates to company reports are prioritized by company size and the assessment level of existing controversies.

LAST REVIEWED: Available for each controversy case, the LAST REVIEWED date is the date of the most recent information related to the controversy.

OVERALL PERFORMANCE: SCORE AND FLAG:

Each company receives an overall score and flag based on our assessment of performance across the three pillars (E, S, and G), with the score driven by the lowest scoring indicator.

Flag	Score	Description
	0	RED: Indicates that a company has been involved in one or more recent very severe controversies
	1	ORANGE: Indicates that a company has been involved in one or more recent severe structural controversies that are ongoing
	2	YELLOW: Indicates that the company has been involved in recent moderate-to-severe level controversies
	3	
	4	
	5	GREEN: Indicates that the company is not involved in major recent controversies
	7	
	8	
	10	

GLOBAL COMPACT COMPLIANCE SIGNALS:

Fail	A Fail signal indicates that the company is implicated in one or more very severe controversy cases for the issues covered under the United Nations Global Compact framework. The Fail signal maybe applied to cases that are either ongoing or concluded within the last three years.
Watch List	A Watch List signal indicates that the company is implicated in one or more severe ongoing controversy cases for the issues covered under the United Nations Global Compact framework. The controversy in question is systemic in nature. Concluded cases are not eligible for the Watch List signal.
Pass	A Pass signal indicates that the company has not been implicated (within the last three years) in any controversy case constituting a breach or near-breach of the United Nations Global Compact framework. Any company not receiving a Fail or Watch List signal receives a Pass signal.

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¹As of September 30, 2013, as reported on January 31, 2014 by eVestment, Lipper and Bloomberg