

A futuristic landscape featuring a silver car driving on a road that leads towards a city skyline. The scene is set in a green, hilly area with wind turbines and a clear blue sky. A drone is visible in the top left corner.

Environmental, Social & Governance Report **2021**

QuantumScape®

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Unless the context otherwise requires, all references to “QuantumScape,” “we,” “us,” “our,” or the “Company” in this ESG report refer to the current QuantumScape Corporation and its subsidiaries.

This report contains certain forward-looking statements. All statements, other than statements of present or historical fact included in this report, regarding our future performance, as well as our strategy, future operations, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intends,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” “will,” “would,” the negative of such terms, and other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our management’s current expectations, assumptions, hopes, beliefs, intentions and strategies regarding future events and are based on currently available information as to the outcome and timing of future events. We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control and incident to our business and include, among others, delays in or the inability to achieve our technology development objectives; delays in delivering battery cell samples to our customers; delays in achieving high volume production of battery cells at commercial size with acceptable quality, consistency, throughput and cost for successful commercialization of our technologies; challenges with respect to recruitment and retention; supply chain disruptions; and changes in law, regulations or best practices. These risks are detailed from time to time in filings we make with the Securities and Exchange Commission, including our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K.

These forward-looking statements are based on information available as of the date of this report, and current expectations, forecasts and assumptions, and involve a number of risks and uncertainties. Accordingly, forward-looking statements in this report and in any document incorporated herein by reference should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable laws.

All data presented in this report is as of December 31st, 2021, unless otherwise stated.

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From Our CEO

Since our founding, QuantumScape's mission has been to make a tangible positive impact on the environment of the planet we all share by helping to meaningfully reduce emissions from the transportation sector. These emissions account for 37% of global greenhouse gas emissions, according to latest figures from the International Energy Agency.¹ The World Health Organization estimates that motor vehicle emissions are also a major source of dangerous air pollution that results in millions of deaths annually.² We believe one of the biggest opportunities to reduce these emissions is to electrify the transportation powertrain, enabling cars and other vehicles to run on energy from the grid, which can be much cleaner than the internal combustion engine. As the grid becomes cleaner with the increased penetration of renewable energy sources, such as solar and wind, electrified powertrains automatically become cleaner as well.

To help accelerate this transition and enable a future powered by clean electricity, we believe a step change is needed in battery technology. We have spent the last decade developing a proprietary solid-state battery platform to meet this challenge. We believe that our technology enables a new category of battery with the potential to meet the requirements for broader market adoption, including greater energy density, faster charging, and improved safety. In addition, because our approach is anode-free as manufactured, we believe it can help reduce materials consumption, waste and emissions associated with anode materials sourcing and electrode manufacturing.

Thus, the "E" in ESG has been and continues to be central to who we are at QuantumScape. In addition to this piece of the ESG puzzle, we are believers that the other key elements of the ESG framework — the "S" and "G" aspects — are not passing fads, but rather, comprise a powerful strategy to deliver returns to shareholders and succeed at our core mission of making transportation cleaner and more sustainable. Ever since the abbreviation ESG was coined in 2005, in the seminal United Nations report "Who Cares Wins," research has reinforced the conclusion that to maximize shareholder value over the long term, companies must take a more inclusive perspective on the risks and opportunities faced by their business.³ Everything from supply chain and logistics to brand awareness and goodwill hinge on a company's exposure to risks presented by governance issues, societal developments and environmental degradation.

Our bold environmental mission has allowed us to attract and retain our incredibly talented team and engage our world-class prospective customers as partners. Our teammates and customers are passionately committed to realizing the potential environmental benefits of our technology with real cars on real roads.

We are pleased to present our first annual ESG report as a public company, and we look forward to reporting on our progress in the years to come.

Jagdeep Singh
Founder & CEO



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QuantumScape at a Glance



Our Mission

At QuantumScape, we're on a mission to revolutionize energy storage to enable a sustainable future.

As of December 31, 2021, we have:



250+ U.S. and foreign patents and patent applications



\$450+ million invested in battery technology development



571 full-time employees

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Core Values



Passion for the Problem

Unrelenting pursuit of the best battery technology with the goal of making a meaningful impact to reduce global emissions.



Act Authentically

We act with good intentions, integrity and respect for each other. Our actions reflect our words and we do the right thing. Put another way, we say what we do and we do what we say.



Collaborate

Great results are achieved by teams working together with trust and active sharing of information. Innovative work requires diversity of thought and unified commitment to execution.



Prioritize the Customer

We do what it takes to ensure our customers' success. Everyone's work has a customer.



Bias to Action

We act and learn quickly and adjust and try again.



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Founded in 2010



Went public in November 2020



Headquartered in San Jose, California

Who We Are

QuantumScape was founded in 2010 to develop next-generation battery technology to accelerate the mass-market adoption of electric vehicles (EVs). Batteries are at the heart of the next transportation revolution, but we believe today's conventional lithium-ion batteries fall short of meeting the needs of the automotive sector in key areas like driving range and charging speed. Since our founding, our goal has been to build a battery that tries to minimize compromises when switching from combustion vehicles to EVs. We believe that our proprietary solid-state lithium-metal battery technology has the potential to narrow the gap between battery electric and combustion engine vehicles by offering greater energy density, faster charging and improved safety when compared to today's conventional lithium-ion batteries. By eliminating the anode as manufactured in our battery architecture, our technology is also being designed to reduce materials consumption, waste, and emissions associated with anode materials sourcing and electrode manufacturing.

To aid in the transition to a low-carbon economy, we must electrify transportation and make internal combustion engines a thing of the past. Replacing this century-old technology won't happen overnight, but with the help of our automotive partners, our dedicated team of world-class scientists, engineers and technicians is working around the clock to put our breakthrough solid-state technology, on the road as soon as possible.

QuantumScape's ESG Approach



As a leader in the development of next-generation solid-state lithium-metal batteries, our stakeholders hold us to a high standard, and we are constantly working to exceed their expectations. QuantumScape focuses on environmental, social and governance (ESG) issues that are relevant to our industry and business and serve the long-term interests of our employees, customers, partners, investors, communities and other stakeholders. With a mission to transform energy storage, we believe incorporating ESG considerations into our business strategy is essential to our success.

With the support of our board of directors, we formed a sustainability working group comprised of internal stakeholders and external advisors to evaluate the most material ESG issues for our business. This will provide the building blocks for the continued development of our ESG strategy and set the focus for purposeful and pragmatic action. Our initial process included the following steps:

- 1 Issue identification** — We examined issues important to investors, rating agencies and ESG frameworks, such as the Value Reporting Foundation's Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We also incorporated feedback from internal stakeholders on what they consider to be our most relevant issues.
- 2 Benchmarking** — We researched peer disclosures and best practices to understand the current ESG landscape.
- 3 Prioritization** — Based on our analysis, we prioritized the following ESG topics as most important to our business and stakeholders:

Environmental

Product lifecycle management
Natural resource use
Waste generation
GHG emissions

Social

Human capital management
Diversity, equity and inclusion
Occupational health and safety
Data protection and security
Product safety
Product quality

Governance

ESG governance
Board composition
Ethics and compliance
Supply chain management

As a newly public company, we are still in the process of developing and implementing our ESG programs. We recognize that our priority issues and our ESG strategy must evolve as our operations, business strategy, and stakeholder needs and interests evolve. We are committed to continually assessing and improving our management of ESG risks and opportunities, and being transparent about our progress by reporting publicly on an annual basis.

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Alignment with the UN SDGs

We have aligned our ESG framework with the United Nations Sustainable Development Goals (SDGs). The 17 SDGs are bringing together governments, companies, nonprofits and academia to develop solutions to global sustainable development challenges by 2030. We recognize the important role we can play in helping to meet the SDGs and have aligned our efforts with seven SDGs where we are positioned to have the most significant contribution.

Environmental Contributions to the Goals

We have prioritized alignment with four SDGs where QuantumScape’s environmental mission, research and solutions can make the biggest impact. Our continuous R&D efforts are focused on bringing to market a disruptive battery technology that will potentially provide widespread access to clean alternatives to fossil fuels, alternatives that are indispensable to meeting the UN’s collective net-zero emissions goal by 2050 or sooner. Through our efforts, we are helping to achieve SDG 7: Affordable and Clean Energy, SDG 9: Industry Innovation and Infrastructure, and SDG 13: Climate Action by the UN’s 2030 target. We also aim to be efficient with our use of natural resources, reduce waste, and limit environmental impacts during the product lifecycle, in alignment with SDG 12: Responsible Consumption and Production, and SDG 13.



Social Contributions to the Goals

We have aligned with three SDGs where QuantumScape’s social initiatives and practices have the greatest contribution. Our mission is strengthened by the impact we have on our stakeholders. Creating a safer EV battery is core to our product design and the value we offer our customers. To further support our corporate goals, we intend to continue to be a safe, responsible and diverse organization. We make continual progress toward reaching SDG 3: Good Health and Well-Being, SDG 8: Decent Work and Economic Growth, and SDG 10: Reduced Inequalities.



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Environmental Stewardship

Environmental sustainability is the reason we do what we do. EVs play an important role in our transition away from fossil fuels, and we were founded with the goal of driving EV adoption by creating a better battery that helps make the transition from combustion engines to EVs easier for drivers.

When designing our products and processes, managing natural resources responsibly and sustainably, and minimizing environmental impact are always front of mind — anything less would defeat the purpose. We seek to maximize our positive environmental contributions, not only in the use phase of our products, but across the product lifecycle, also meeting the demands of our environmentally conscious partners and customers.

Product Impact

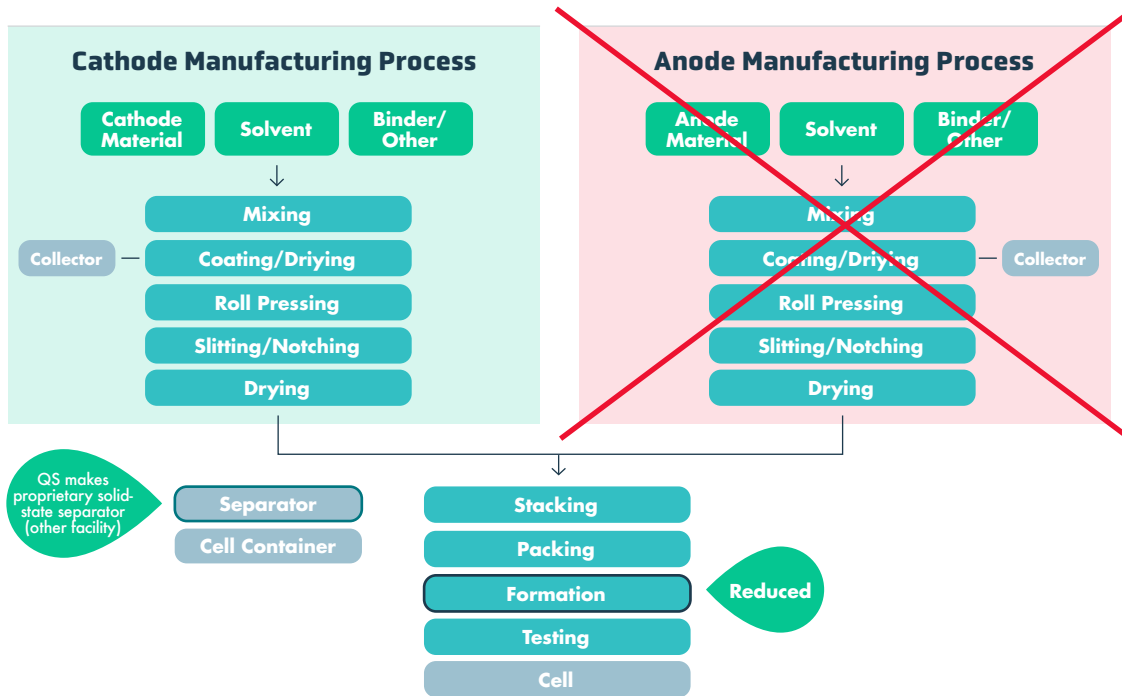
We are at the beginning of a forecasted once-in-a-century shift in automotive powertrains, from internal combustion engines to EVs. While conventional lithium-ion battery technology has been sufficient to drive limited adoption of EVs, there are fundamental constraints of this technology that we believe must be overcome to fully supplant combustion engines used for transportation.

The Challenge

In our view, major limitations of conventional lithium-ion batteries include:

- **Energy density** — Energy density is the amount of energy that can be stored per unit volume or unit mass, and determines how far a vehicle with a given volume or weight of batteries is able to drive. We believe to unlock broader market adoption, EVs must be able to, on a single charge, drive a distance comparable to combustion engines on a full tank of gas, typically between 300 and 500 miles. However, despite decades of incremental improvements, conventional lithium-ion batteries are still too heavy and bulky to easily fit long-range battery packs into typical vehicles. Higher energy density is necessary to allow automotive original equipment manufacturers (OEMs) to increase vehicle range without prohibitive increases to the size and weight of the vehicle.

Our Technology Eliminates Anode Materials and Manufacturing Costs



- Charge time** — Gasoline and diesel vehicles can be refueled very rapidly, in approximately five minutes, whereas current EV batteries often require more than 30 minutes to fully recharge. Charging faster requires switching to power cells, which have greater power capability, but this comes at the expense of energy density, or range. To narrow the gap with combustion engines, we believe EVs must be able to charge from 10% to 80% in under 15 minutes, significantly faster than what conventional batteries can deliver, without compromising energy density.
- Safety** — Conventional lithium-ion batteries have been involved in high-profile safety incidents, from burning down homes to causing hours-long fires on the highway. These safety risks exist because some materials used in conventional batteries, such as the polymer separator and liquid electrolyte, are combustible and provide energy-rich fuel in the event of a fire. One strategy to minimize fire risk is to replace as many of the flammable components in the battery as possible with nonflammable equivalents. Even if such flammable components are not completely eliminated, a reduction in the fuel content of the battery should produce safety benefits.

Speeding the transition to EVs plays an important role in achieving the goals of the Paris Agreement, but reducing the CO₂ emissions from transportation is only one of the benefits. Combustion vehicles have a significant negative impact on air quality in cities due to emissions of harmful pollutants such as NO_x and fine particulate matter (PM_{2.5}). These emissions may lead to increased rates of asthma and other respiratory diseases, as well as a host of other health burdens that are still being understood. The impacts of air pollution also tend to fall disproportionately on low-income and marginalized communities. We believe our product can have a significant role in reducing the effects of air pollution on people, the broader environment and the global ecosystem.

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Our Solution

Our solid-state lithium-metal battery technology is designed to overcome the aforementioned shortcomings of conventional batteries through our key innovation — a proprietary solid ceramic separator. This separator is designed to not only allow us to eliminate the graphite/silicon host material from the anode, but also to manufacture our cell entirely anode-free. Relative to conventional lithium ion batteries, we believe our batteries, once in the market, have the potential to deliver:

- **Better energy density** — Our batteries are designed to improve energy density by eliminating the graphite/silicon anode host material, which takes up space and has mass.
- **Faster charge time** — Conventional lithium-ion batteries are partially limited by the time it takes the lithium ions to diffuse into the anode host material. Since our batteries have no anode host material, this eliminates the lithium diffusion bottleneck, allowing us to build batteries that have demonstrated the ability to fast charge from 10% to 80% in approximately 15 minutes.
- **Improved safety** — Our solid-state separator is nonflammable and noncombustible, reducing the fuel content of the cell in the event of a safety incident. While our batteries as currently designed are not completely free of fuel because our catholyte is an organic material, our cells contain fewer organic materials than conventional batteries, and therefore carry a lower fuel load.

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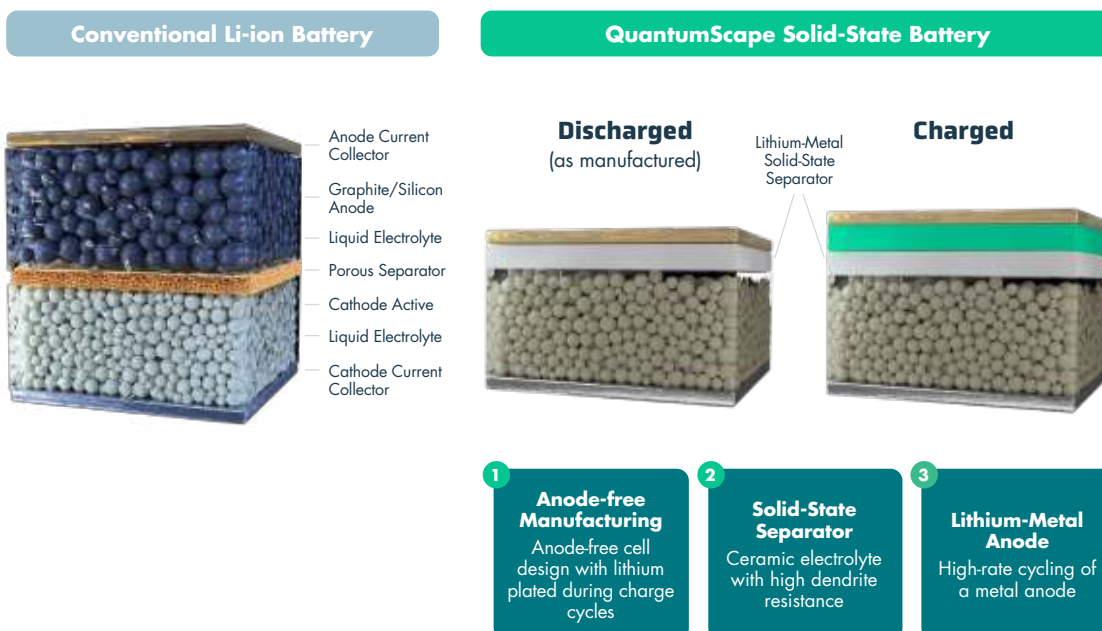
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QuantumScape Anode-free Architecture

Improved cost, energy density, safety





2021 Product Development Accomplishments

We have developed strong relationships with leading OEMs, including the Volkswagen Group, and have had successive generations of our cells tested by multiple potential automotive customers. Our prototype cells have demonstrated long cycle life at automotive-relevant rates of charge and discharge, including 15-minute fast charging over hundreds of cycles at room temperature and under modest externally applied pressure. We are not aware of public data from any competing lithium-metal or solid-state battery technology that can match this performance.

Our engineering line based at our headquarters, where we have historically conducted the bulk of our engineering and development work, will provide the basis for continued manufacturing process development. To advance our technology toward commercialization, we are currently focused on increasing the layer count of our prototype cells, delivering samples to our OEM partners for testing, and designing the processes and equipment at QS-0, our pre-pilot facility. QS-0 is intended to be capable of building enough sample cells per year to engage with our prospective customers in vehicle testing as part of the automotive qualification process.

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Year in Review

February 2021

Signed a long-term lease on an approximately 197,000-square-foot facility, near our headquarters in San Jose, that will house our QS-0 pre-pilot line and additional R&D activity

March 2021

Successfully completed our Volkswagen Group milestone, which required delivering test cells of a specific form factor and performance level for testing in its labs in Germany. This represented a critical step toward industrialization and unlocked additional investment from the Volkswagen Group

October 2021

Shared third-party test results that replicated the performance shown in our internal testing

November 2021

Secured QS Campus, a complex of facilities adjacent to the existing QS-0 facility, which will allow more space for R&D and manufacturing activities, and provide sufficient room to accommodate our rapidly growing team

November 2021

Completed our four 2021 milestones, which included construction and validation of four- and 10-layer battery cells, each a major step toward commercial-scale batteries. Validation involved demonstrating the cells are capable of 800 full cycles at one-hour charge rates or better, 25 °C, and pressure of approximately 3.4 atmospheres

December 2021

Revealed new data showing QuantumScape cells with commercially relevant area surpassing 400 cycles with no externally applied pressure, a major feat for solid-state battery technology

As of December 31, 2021

Closed customer sampling agreements with two additional automotive OEMs: a top-10 global manufacturer and an international luxury automotive company. The agreements anticipate testing collaboration and validating QuantumScape cells with the ultimate goal of including them in series production vehicles



Product Lifecycle Management

As a company founded with a mission to enable a sustainable energy future, we support the global community's goals to achieve net-zero emissions and a circular economy. We are passionate about the environmental benefits of our batteries, but recognize that the positive impact created by using our batteries should not be outweighed by substantial negative environmental impacts from the full battery lifecycle. As we engage further in our manufacturing process and supply chain, we are carefully considering the implementation of various environmental metrics across the product life cycle and other aspects of sustainability that are consistent with these global goals.

R&D and Manufacturing

Our most significant direct environmental impacts are from R&D and manufacturing. We track year-over-year environmental metrics to monitor and analyze our performance, and focus on improving resource efficiency. Because our material use, natural resource consumption, emissions and waste generation are limited at this stage of production, we expect to use our first full year of operations at QS-0 to establish a relevant baseline from which we can then begin to set targets and goals. We plan to disclose environmental data from QS-0 in our annual reporting after launch.

Energy, emissions, water, and waste intensity metrics will be used as key performance indicators to track and manage our environmental performance over time. We expect intensity metrics to continuously reduce with both scale and active improvement measures.

Sustainable Supply Chain

Our long-term goal is to measure and continuously improve upon the environmental performance of our company based on our energy consumption, water consumption, GHG and air emissions, waste generation and ecological impacts that can accrue across our value chain, during raw material extraction, manufacturing, transportation and distribution.

We are investing in systems, processes, and the team to make progress on this goal.

As we begin to solidify the types and amounts of materials we will need, and choose longer-term supply chain partners, we will analyze and target areas of risk and opportunity in our supply chain that we can influence, prioritizing partners who have high standards for environmental sustainability or who are willing to improve their practices. R&D will also continue to focus on ways to design out any ESG risks where possible.

End-of-Life Management

Though we are still several years away from commercial production, a key priority in the lead up to commercialization is seeking partnerships for end-of-life management of our batteries that will allow us to maximize the percentage of each battery that is recycled. We have already signed an agreement with a third party to jointly develop methods to handle and process our non-hazardous waste materials that result from our current production.

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Sustainable Product Design

While lithium-metal batteries can play a crucial role in the fight against climate change, we are conscious of the potential negative environmental impacts in the battery lifecycle. Although we are still in the process of developing our products before bringing them to market, sustainable product design is a priority and has been contemplated in the design of our battery. We believe we can further strengthen the environmental value of our technology by designing our batteries to do more with less material, have a longer useful life and retain utility in second-life applications.

QuantumScape's anode-free architecture is designed to eliminate the need for host materials such as the graphite, silicon, and liquid electrolyte, which is in the anodes of conventional lithium-ion battery cells. This reduces the need to extract natural resources and removes the energy use, air emissions, water consumption, and waste associated with the manufacturing of conventional lithium-ion graphitic anodes. According to the European Federation for Transport and Environment (EFTE), graphitic anode production represents 20% to 30% of the global warming potential of conventional lithium-ion battery manufacturing.⁴ One ton of graphite production releases approximately five tons of carbon emissions.⁵

The graphite anode and polymer separator we eliminate from our design are some of the least recyclable parts of a conventional lithium-ion battery cell. In contrast, when our battery reaches its end of life, we believe many of the material constituents will be recyclable and can be returned to useful applications, helping to build a circular resource economy.

According to EFTE, solid-state batteries produced using sustainably sourced raw materials have the potential to reduce the CO₂ emissions from battery manufacturing by nearly 40%. Our lithium-metal battery technology is manufactured anode-free in its discharged state and does not require the manufacturing of lithium-metal foil as an anode material, which may account for as much as a third of the global warming potential of competing solid-state approaches.





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Climate Change Risk

The risks posed by climate change and the need to drastically reduce emissions in the short and medium term are not lost on us. Given these risks, it is imperative for us and our stakeholders to set intensity and absolute emissions targets in line with the latest climate science and Paris Agreement goals, which we will begin to do once manufacturing operations have matured to a point that will allow us to establish a baseline year.

We have not yet conducted climate scenario analysis; however, our board oversees risks, including ESG and climate risks, using the framework recommended by the Task Force on Climate-related Financial Disclosures (TCFD): governance, strategy, risk management, and metrics and targets.

Climate change is not yet built into our formal Enterprise Risk Management (ERM) process. As our operations stabilize and we are able to collect sufficient and meaningful data, we will determine the relevance of disclosing quantifiable financial impacts under various global warming scenarios.



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Social Responsibility

Our employees, customers and suppliers are essential to our mission and business goals, and we take responsibility for their interests. Our social strategy prioritizes growing a diverse, talented and engaged workforce, ensuring the health, safety and welfare of employees, customers and supply chain workers, and protecting our business, employees, customers and vendors from data security and cybersecurity threats.

Our People

QuantumScape’s world-class team of scientists, engineers, technicians and other staff are focused on the challenge of developing a better EV battery and motivated by the mission to limit the effects of climate change. We aim to attract individuals who are the best at what they do, but we believe individual excellence is only truly achievable in the context of a strong team; in a collaborative and supportive setting, people are driven to live up to the example set by their colleagues. We invest in our employees so they can continue to develop their talents and capabilities, broaden their experience and achieve their highest potential at QuantumScape.

Our team more than doubled in 2021, from 276 to 571 team members. We were thankful to also maintain high retention of the valuable people that have helped us grow to this point — our 2021 voluntary turnover rate was 6.4% and our involuntary turnover rate was 1.2%.⁶

To keep pace with growth, our People Operations team also expanded from three to seven full-time employees, complemented by external resources. In addition to ramping up recruiting, they advanced our human resource systems, policies and practices. They set annual objectives to continue adding and retaining team members aligned with our values and committed to our overall success, including:

- Creating a positive onboarding experience, and having a consistent, seamless employee experience from hire to exit
- Refreshing our performance management program and internal promotion process
- Introducing a job leveling framework
- Improving our training and development structure



Talent Development

We believe growth and performance result from providing our employees with a meaningful career at QuantumScape by offering a broad spectrum of training, development and career advancement opportunities.

Training and Professional Development

To reinforce our promote-from-within philosophy, we invest in our employees so they gain the skills and experience needed to advance their careers at QuantumScape. Training and professional development are offered through a combination of on-the-job learning, formal training and individualized education, complemented by our performance management system.

In 2021, we started rolling out management development programs to help leaders engage and develop their team members. This is especially important to support internal mobility for those of our technical employees who are first-time managers.

We have helped our managers grow into great managers through several efforts, including:

- Providing coaching for managers and senior leaders on people management
- Expanding manager communication and disseminating resources through a Microsoft Teams channel on topics such as the performance review and promotion process, hiring and interviewing, new policy announcements and various compliance topics
- Launching hiring manager interview training on technical and behavioral assessments for effective candidate evaluation
- Offering all managers and supervisors intensive compliance training, "Managing within the Law," facilitated by outside legal counsel

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Performance Management

Our annual review process gives employees an opportunity for self-assessment, where they can reflect on their contributions to their team and the organization, the skills they would like to further develop, and their desired career path within the organization.

Managers formally review each team member’s performance against annual objectives and role expectations. As part of the process, we ask that they consider team member’s contributions and areas for development, as well as recommendations for promotions and salary increases.

The annual review is one part of our performance management process; in addition, managers are expected to:

- Hold regular one-on-one meetings and help staff to overcome obstacles and achieve objectives
- Convene coaching meetings and actively support individual development plans
- Provide real-time feedback on individual performance
- Address performance concerns directly, honestly and consistently
- Acknowledge and reward good performance promptly

Our performance review process was enriched in 2021 with several new elements, including:

- A job leveling framework was developed to define the knowledge, skills and behaviors needed for each job level by function; this helps guide manager decision making for employee promotions.
- A behavioral attributes section directly linked to our core values that allows managers to focus on specific behaviors that are enabling or hindering a team member’s ability to contribute to their fullest potential; this supports employee career growth and reinforces our core values.

In 2022, we aim to continue improving our performance evaluations and further embed our core values into our human capital management strategy.

Employee Engagement

Our engagement strategy is focused on finding ways to promote open communication, solicit feedback and create bonds between team members at all levels.

We host quarterly all-hands meetings, where our executives share the highlights of our latest shareholder letter, results from the quarter, major accomplishments and a range of other topics. Each meeting closes with a Q&A session; team members submit questions, feedback or suggestions in the week leading up to the meeting through an anonymous online form that our management team reviews and responds to. This has created an additional level of enthusiasm for our all-hands meetings, and pre-meeting submissions continue to grow, especially as we implement suggestions. For example, employees requested increased communication about company news, so we launched an internal channel where employees are kept abreast on a weekly basis of QuantumScape in the news, earnings releases, and online recordings of external speaking engagements.

Enhancing the Employee Experience

We believe employees want a sense of belonging, to be connected to an organization and its purpose, and to feel valued and heard. Even small day-to-day details matter. With this in mind, providing a positive employee experience is a key component of our attraction and retention strategy.

Some of the actions we took in 2021 toward this end included the following:

- We improved our new hire experience, which now begins approximately two weeks before the start date. We provide more frequent, timely communication in smaller chunks, letting employees know what to expect next. We also improved communication with managers, providing more specific instructions on how to welcome their new team members.
- We enhanced new hire onboarding with several monthly webinars hosted by members of our executive team covering our product and industry, QuantumScape technology and innovation, and our company culture.
- We upgraded our parental leave program, with employees now receiving 100% of pay while on their eligible state and federal leave. Along with this, our People Operations team members started providing counseling to future parents to walk them through the leave process, help them understand how to access state coverage, and explain how QuantumScape makes them whole.
- We launched a centralized platform so new and existing employees can access information about benefits and perks in one place.
- For employees who depart voluntarily for personal or professional reasons, we created a more formal exit interview process in 2021 that incorporates exit surveys and/or exit interviews to ensure we learn from their experiences, spot trends in reasons for departure and make changes to the employee experience where helpful to the organization going forward.



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Attraction and Retention

Compensation – All Employees

Compensation plays a critical role in attracting and retaining in-demand people. This is especially true in the rapidly growing battery industry and even more so in the highly competitive San Francisco Bay Area.

Our compensation philosophy is to maintain an internally equitable and externally competitive program aimed at attracting and retaining dedicated individuals who can make exceptional contributions to our success.

Our new job leveling framework and associated pay ranges allow us to maintain pay equity while offering the attractive and effective compensation needed as we grow and compete for talent.

Because we believe individual team members and management roles are equally important to our goals, we benchmark all levels to management pay ranges. It is also why 100% of our full-time regular employees hold equity in our company and are eligible for the employee stock purchase plan.



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Executive Compensation

We are striving toward best practices with respect to executive compensation. Our approach in 2021 can be summarized as:



What We Do

Performance-Based Compensation

The majority of our executive compensation program is comprised of long-term performance-based compensation, and therefore “at risk,” dependent upon corporate performance, and equity-based to align the interests of our executives with our stockholders.

Independent Compensation Committee

Our compensation committee is comprised solely of independent directors who have established effective means for communicating with each other and with our stockholders, and implementing their executive compensation ideas.

Independent Compensation Consultant

Our compensation committee engaged its own consultants, Compensia, a national compensation consulting firm, to assist with its compensation review and analysis.

Annual Executive Compensation Review

Our compensation committee conducts an annual review and approval of our compensation strategy, including a review of our compensation peer group used for comparative purposes.

Clawback Arrangements

The terms of the Extraordinary Performance Award Program provide for recovery of such awards recipient’s misconduct. Additionally, our equity and incentive plans permit us to implement compensation recoupment provisions.

Stock Ownership Guidelines

In April 2022, we adopted stock ownership requirements for our directors and executive officers.



What We DON'T Do

Minimal Perquisites and Special Benefits

Our executives are eligible to participate in broad-based company-sponsored retirement, health and welfare benefits programs on the same basis as our other full-time, salaried employees. At this time, we provide limited perquisites and other personal benefits to our executives and certain senior employees.

No “Golden Parachute” Tax Reimbursements

We do not provide any tax reimbursement payments on any tax liability that our executives might owe as a result of the application of Sections 280G or 4999 of the Internal Revenue Code.

No Hedging and Pledging

Our Insider Trading Policy prohibits our employees and the members of our board of directors, from hedging any company securities, from pledging any company securities as collateral for any loan or as part of any other pledging transaction, or from holding any company common stock in margin accounts.

No “Single-Trigger” Change-in-Control Arrangements

Our executives are not eligible for benefits that are payable solely as a result of a change-in-control in the company. All change-in-control benefits are based on a “double-trigger” arrangement, requiring both a change-in-control of our company plus an involuntary termination of employment.



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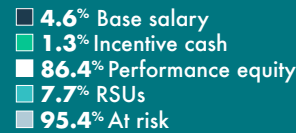
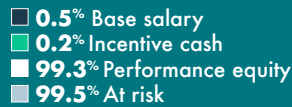
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FY2021 Compensation Mix for Named Executive Officers



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Benefits and Perks

Employees and job seekers increasingly evaluate factors beyond salary when making employment decisions. We continue to evolve our total rewards strategy to support our employees through comprehensive financial, health and wellbeing, and quality of life programs and coverage. Recognizing that what is valued differs by workgroup segment and life cycle, we strive to offer benefits that are generous and flexible to meet the needs of our diverse workforce, including:

- Health, dental and vision insurance
- Life insurance
- Critical illness insurance
- Short- and long-term disability insurance
- Health Savings Account, Flexible Savings Account
- 401(k)
- Employee Stock Purchase Program (ESPP)
- Three weeks paid time off, increased with tenure
- Paid family leave for new mothers and fathers
- Telehealth for pets
- On-site flu shot and COVID-19 vaccine clinics
- Unlimited snacks and drinks in office kitchen
- Discounted moving assistance
- Company events (e.g., summer picnic, holiday party, quarterly all-hands meeting)

Employees are encouraged and incentivized to use low-impact transportation modes to commute to and from the office, where feasible, to align with our purpose. As part of our benefits package, we offer green commuting incentives such as pre-tax commuter benefits for mass transit, bike storage facilities, and, since 2014, charging stations free of charge at our San Jose facilities.



Diversity, Equity and Inclusion

Our company is built on innovation, which requires people with different skills, experiences and perspectives working collaboratively to develop new ways of approaching persistent problems. Our culture of innovation is sustained and bolstered only when everyone feels welcomed, accepted and valued.

A priority in 2021 was proactively eliminating unconscious bias in our hiring and promotion processes and setting the foundation for year-over-year improvements in diverse representation. Some of our actions to achieve this included:

- Delivering in-person unconscious bias training for our senior leaders
- Implementing a job leveling framework to ensure candidates are assessed against a consistent set of criteria
- Making certain that our commitment to equal hiring and promotion opportunities is substantiated with equal pay for equal work by conducting an annual internal pay equity analysis to identify any weaknesses



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We encourage our team members to create connections with their colleagues through clubs and Employee Resource Groups (ERGs). Clubs at QuantumScape are for those with similar interests in a sport or activity who meet socially to build a sense of community and team spirit. ERGs offer a venue for employees to join together based on common backgrounds, demographic factors or shared professional interests. ERGs help foster a diverse and inclusive workplace, help raise awareness of relevant issues, promote professional networking and contribute to professional and personal development. The application process for creating a club or ERG was formalized in 2021, and we expect the number of groups to expand with our headcount.



We hired a Head of Talent Acquisition in 2021 to create our talent acquisition organization, formalize our strategy and processes, and develop our internal capabilities. This included expanding our recruiting program to attract and hire candidates across a range of diverse characteristics, backgrounds and traits.

Coaching was embedded into the internal recruiting process for new positions, starting with the kickoff between a talent acquisition partner and hiring leader to discuss the job description. Talent acquisition team members partner with hiring leaders to increase awareness of the talent market, emphasize the importance of maintaining a broad mindset when evaluating qualified candidates from different backgrounds, and provide counsel on how to fairly consider and evaluate candidates. This helped to deliver a diverse slate of candidates for the interview panels to consider.

Some demographic groups have historically been underrepresented in the technology and automotive industries and we recognize we also have work to do in this area. As we grow, we intend to actively pursue initiatives focused on broadening the range of opportunities for those demographic groups.

Additional actions we took this past year included:

- Broadening our recruiting channels to reach a wider and more diverse candidate pool
- Ensuring job descriptions do not contain stipulations or candidate profiles that are too narrow
- Instituting the use of Textio, an AI-powered platform that analyzes job descriptions for hidden gender bias and suggests alternative language to attract the widest pool of qualified candidates
- Exploring other opportunities within the organization for promising candidates who do not meet the requirements for a particular role
- Tracking and monitoring team member diversity metrics across organizational levels

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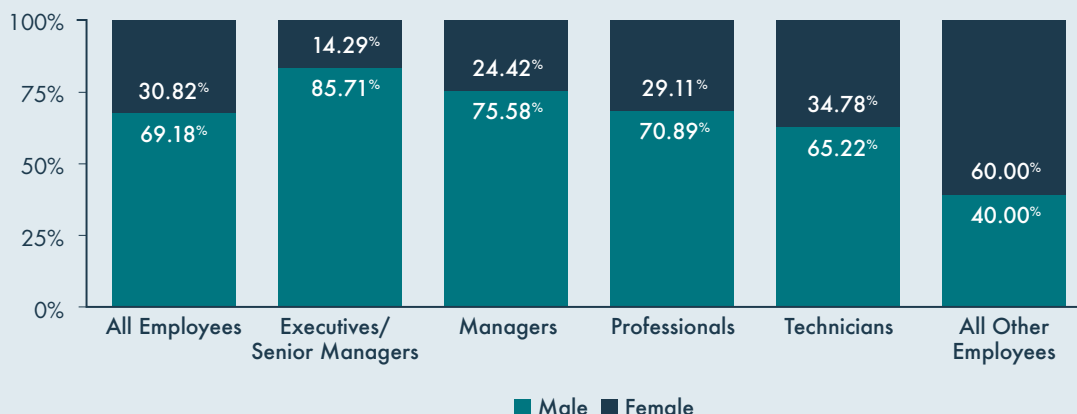
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2021 Team Member Gender Diversity





2021 Team Member Racial/Ethnic Diversity



- 0.4% American Indian or Alaska Native
- 55.2% Asian
- 1.4% Black or African American
- 11.9% Hispanic or Latino
- 3.9% Native Hawaiian or Other Pacific Islander
- 2.3% Two or more races
- 25.0% White



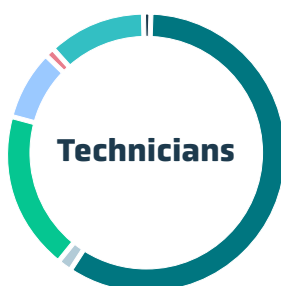
- 35.7% Asian
- 7.1% Two or more races
- 57.1% White



- 50.0% Asian
- 7.0% Hispanic or Latino
- 1.2% Two or more races
- 41.9% White



- 0.5% American Indian or Alaska Native
- 54.9% Asian
- 1.9% Black or African American
- 5.6% Hispanic or Latino
- 0.5% Native Hawaiian or Other Pacific Islander
- 3.8% Two or more races
- 32.9% White



- 0.4% American Indian or Alaska Native
- 58.9% Asian
- 1.6% Black or African American
- 18.6% Hispanic or Latino
- 7.9% Native Hawaiian or Other Pacific Islander
- 1.2% Two or more races
- 11.5% White



- 20.0% Asian
- 60.0% Hispanic or Latino
- 20.0% Native Hawaiian or Other Pacific Islander

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Occupational Health & Safety

The health and safety of our employees is mission critical. We maintain a supportive organization and work culture that encourages personal health and life-work balance for our employees.

Our Environmental, Health and Safety (EHS) department leads the programs that address workplace health and safety concerns through engineering controls, policies, procedures, training, monitoring and audits.

We place heavy emphasis on a proactive safety culture aligned with the following principles:

- Safety is our priority and one of our enduring values
- Safety is a personal commitment for which we take ownership for identifying and correcting issues
- A mindset that all incidents are preventable
- Issues are viewed as opportunities instead of problems, and we share learnings with others
- We share a commitment to coaching each other and being coached
- We feel responsible for the safety of ourselves and our co-workers and are willing to go beyond the call of duty on behalf of the safety of others

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The employee health and safety approach at QuantumScope is based on five imperatives:

- 1** Design out hazards during site construction, equipment design and installation
- 2** Manage hazards by implementing engineering controls
- 3** Control hazards by providing personal protective equipment, procedures and signage
- 4** Empower employees by observing, reporting and correcting unsafe behaviors and conditions
- 5** Promote, recognize and reward employees who are involved in site safety





EHS Incidents & Response

Our primary EHS risks for R&D, manufacturing and office employees include chemical, ergonomic, electrical and mechanical hazards. Most of our EHS risks have been well mitigated, resulting in few incidents. When an incident occurs, we investigate, analyze the cause, develop corrective actions, monitor the effectiveness of the changes and incorporate lessons learned.

We track both leading and lagging indicators to measure our success. These include OSHA Total Recordable Incident Rate (TRIR), Lost Time Incident Rate (LTIR), Near Miss Frequency Rate (NMFR), closure of audit findings in a timely manner, training completion rate, and safety equipment maintenance frequency, among others.

In 2021, our TRIR was 0.4 due to ergonomics-related cases. By comparison, according to the U.S. Bureau of Labor Statistics, in 2020 the general manufacturing incident rate was 3.1 and the automotive manufacturing incident rate was 5.7.⁷ We continued with mitigation activities such as ergonomic considerations built into design reviews, and ergonomics evaluations conducted as requested or needed due to employee concerns or pain. Additional measures introduced to reduce possible injuries included:

- Incorporating ergonomics into our new hire safety training
- Starting a 90-day check in with new hires to encourage their focus on ergonomics and provide another opportunity to express any concerns
- Featuring ergonomics as an EHS topic of the month

As we scale up the size and throughput of our operations (e.g., installing larger and more automated equipment, occupying more floor space), we are cognizant of the additional types and number of EHS challenges that we will face and must address.

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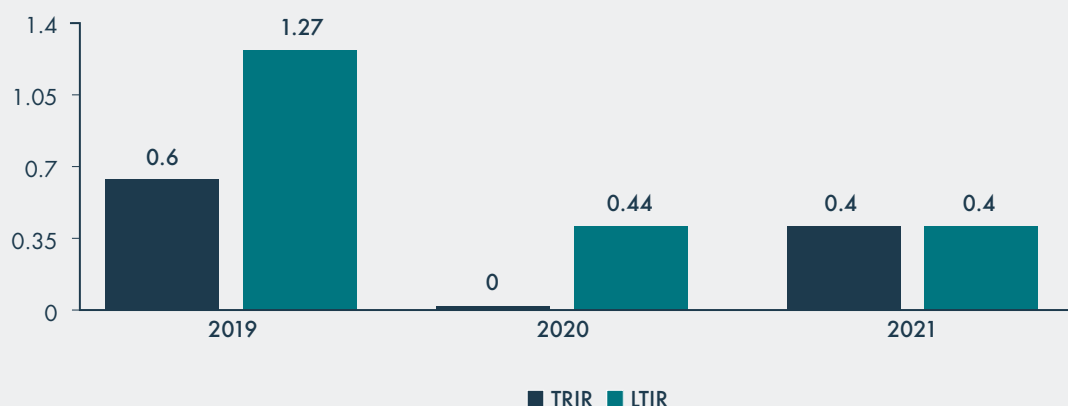
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Incident Rates*



TRIR: (Number of recordable incidents x 200,000) / Total number of employee hours worked

LTIR: (Number of lost time incidents x 200,000) / Total number of employee hours worked

*We have had zero workplace fatalities since inception.



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Injury and Illness Prevention

Our injury and illness prevention program (IIPP) is designed to minimize the frequency and severity of employee safety incidents by reducing physical hazards, improving safety communication and training employees in safe work practices.

Our risk mitigation approach follows the hierarchy of controls, first prioritizing the elimination of hazards. For risks that cannot be eliminated, we look to find a less hazardous substitute product or process and install effective engineering and operational controls.

Hazard Identification and Reporting

Safety hazards are scrutinized, evaluated, monitored and corrected through various means that include:

- Monthly safety inspections that look across all types of hazards
- Weekly safety inspections that focus on chemicals and hazardous waste management
- Annual safety program reviews that cover any regulatory updates and addresses any changes in work conditions from the previous year
- Monthly Lean Manufacturing 5S (Sort, Straighten, Shine, Standardize and Sustain) inspections for keeping the manufacturing workspace clean, uncluttered, organized and safe

Findings for all inspections and audits are tracked until closure, with all high hazard findings prioritized and closed in a timely manner.

We encourage employees to report unsafe conditions, either directly to their manager or EHS staff, and suggest ways to improve. A responsible reporting rewards program, Caught You Safe, recognizes those who are observed doing a safe act by sending them a gift card and a message of praise from their manager.



EHS Training and Communication

Ongoing and open communication about safety is encouraged and expected at QuantumScape. Of all the elements of our EHS program, we gain the most benefit from active employee involvement in a positive safety culture, which is nurtured in multiple ways:

- Company-wide all-hands meetings start with management thanking our workforce for their participation in safety and for achieving safety success.
- Group discussions provide a venue for employees to further their awareness and knowledge on how to identify hazards, how to approach others when they are doing something unsafe, what management is doing to promote safety and what every employee's role is in maintaining a safe environment.
- Safety Committee meetings have voluntary participation from different functions and departments. Each month, EHS team members lead interactive presentations on a range of topics such as incidents, inspections, findings, changes to programs and upcoming trainings. Participants are provided the slides to review with the groups that they represent.
- Safety bulletins are provided monthly to managers with slides on a safety topic that they are expected to cover with their employees.
- Annual employee reviews may incorporate safety performance on items such as completion of training, hazard reporting, hazardous waste reduction and participation in the Safety Committee.

To maintain the effectiveness of our safety program, all employees are required to participate in trainings for general and job-specific safety and health practices. Few EHS courses needed for battery manufacturing are available off the shelf. The majority of EHS training provided to QuantumScape employees and contractors is created and presented by our EHS staff or external subject matter experts. Our EHS department maintains a safety courses matrix with required courses by type of employee, type of work performed and risk exposures. Training is assigned and tracked to completion for each employee through our learning management system.

EHS training begins during new hire orientation, with additional training provided throughout the year and refreshed annually.

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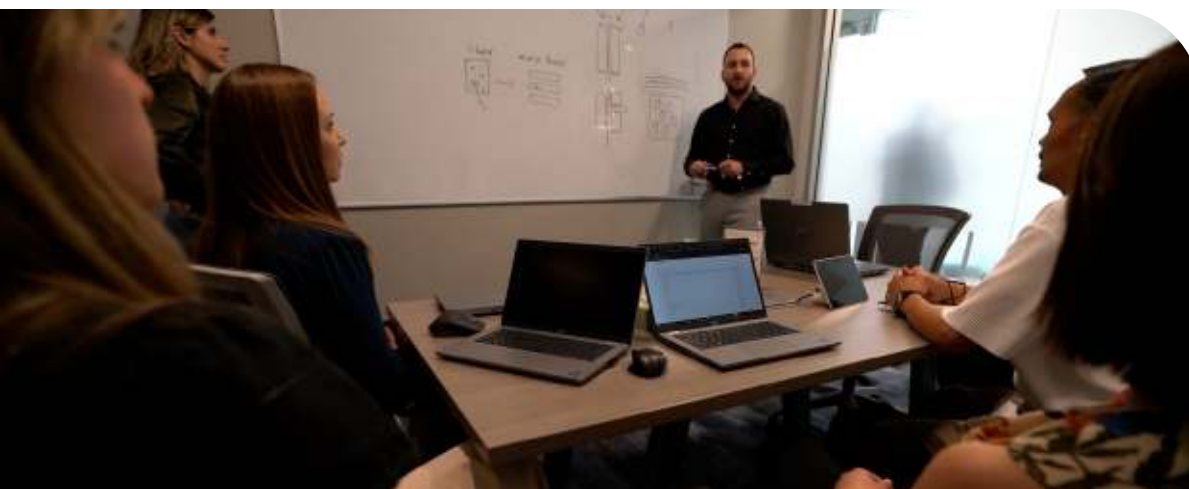
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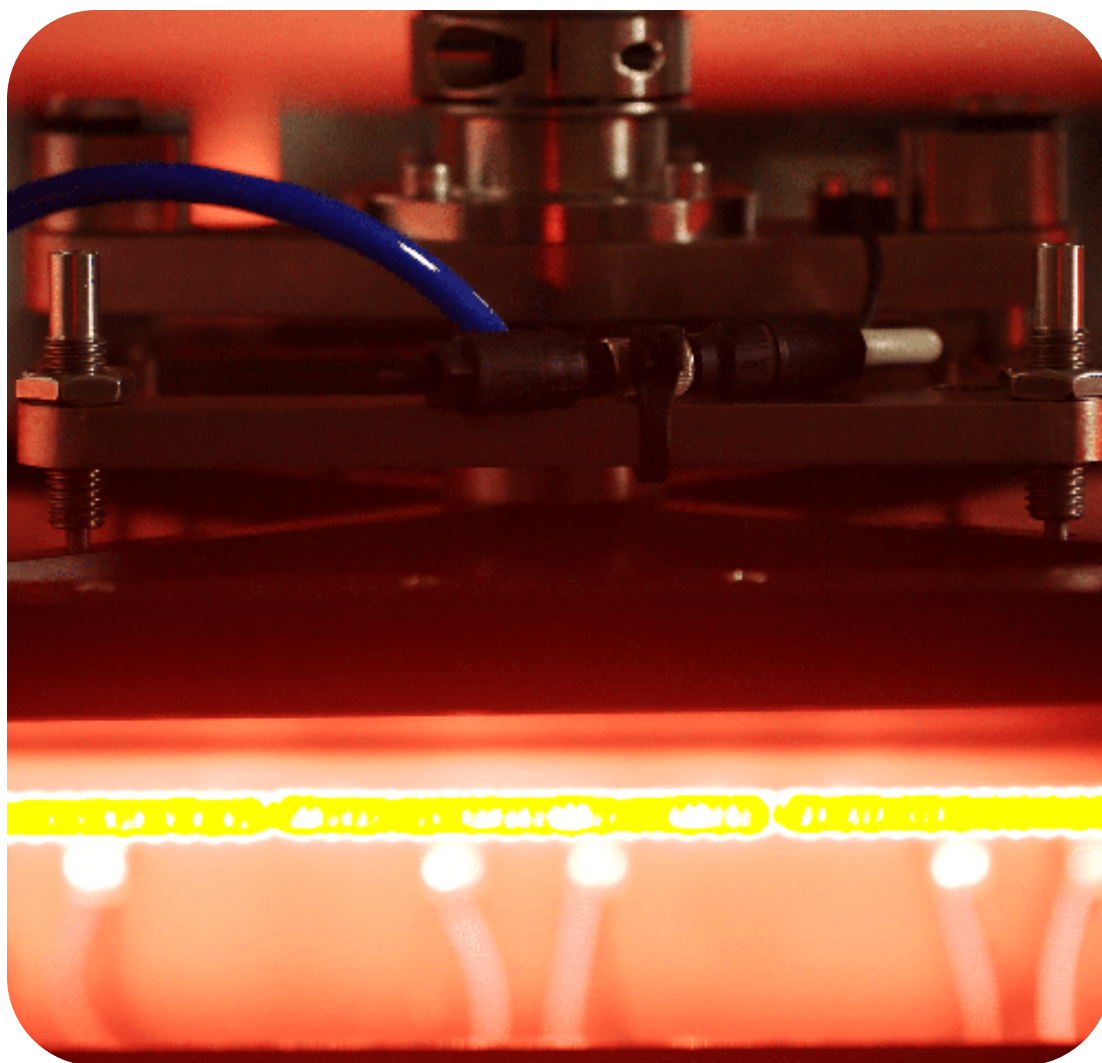


Product Safety

Improving the safety of EV batteries is key to achieving our goal of powering the transition away from fossil fuels. Current lithium-ion batteries used in EVs contain the three elements of the fire triangle: an energy source, a fuel (the combustible liquid electrolyte and polymer separator) and an oxygen source. The primary safety risk in conventional lithium-ion batteries comes from the potential energy stored in the combustible electrolyte and separator, which is released in the event of a fire. In fact, there is more than double the potential energy in the electrolyte than usable energy stored between the battery's anode and cathode. As conventional cells are further optimized for energy density, these safety challenges become even more acute.

QuantumScape's battery technology is designed to reduce these safety risks by replacing the polymer separator found in conventional lithium-ion cells with a nonflammable, noncombustible solid ceramic separator. We believe this will substantially reduce the risk of fire and thermal runaway events.

Although our current product safety function focuses on the battery components, we are now starting to evaluate product safety testing capabilities, both in-house and through third-party lab analyses.



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Data Protection and Security

QuantumScape's information security program is geared toward helping us defend our information assets, including our intellectual property and the personally identifiable information of our employees. Our information security program strategy focuses on protecting information assets from the cultural, managerial and technical root causes of data breaches that have negatively affected other organizations.

A risk-based approach is taken to proactively identify, prioritize, report on and mitigate vulnerabilities that can lead to data breaches. A variety of administrative, process-oriented and technical countermeasures are employed to mitigate information security risks. Training is provided to all employees and contractors during onboarding and on an annual basis to increase awareness of security issues.

Our security program is compliant with the Trusted Information Security Assessment Exchange (TISAX), which is based on the ISO/IEC 27001 and ISO/IEC 27002 standards and adapted to the automotive industry.

Our security committee supports cross-functional collaboration among departments to achieve security holistically across the company. The committee includes our Chief Technology Officer and members of Information Security/Technology, Software, Internal Audit/Compliance, Finance and Accounting, People Operations, Legal and Facilities teams. Much like quality, security is embedded in our culture, and collaboration between cross-functional teams helps instill a mindful and thoughtful culture around it. The audit committee of our board of directors receives periodic updates on information security and privacy, and the full board receives an annual update.

Our Chief Information Security Officer is responsible for continuously improving the company's security posture driven by our security strategy, and implementing through policies, procedures, countermeasures and trainings.



We welcomed **Neil Daswani** as our Chief Information Security Officer in January 2022.

Neil has extensive experience implementing cybersecurity programs at technology companies. His experience is deeply rooted in security research and development. He also serves as co-director of the Stanford Advanced Cybersecurity Program.

Previously, he served in a variety of research, development, teaching and executive roles at firms such as Symantec, LifeLock, Twitter, Google, NTT DoCoMo USA Labs, Yodlee and Bellcore. As a security entrepreneur, Neil co-founded an internet security company that was acquired by Twitter. Neil is also co-author of "Big Breaches: Cybersecurity Lessons for Everyone" and "Foundations of Security: What Every Programmer Needs to Know."

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ESG Oversight

Board Composition

Ethics and Compliance

Risk Management

Supply Chain Management

Corporate Governance

To execute on our mission and business strategy, we believe it is imperative to institute a robust governance structure that supports our internal controls, policies and procedures. This approach requires strong leadership from our board of directors and management team. By setting the tone at the top, we build a workplace culture grounded in ethics, integrity and accountability.

ESG Oversight

The board of directors' oversight of our corporate strategy includes aligning our ESG strategy to support corporate goals and consideration for how environmental and social issues impact the long-term interests of our stockholders. The nominating and corporate governance committee of our board of directors provides direct oversight of ESG and other governance-related matters.

ESG responsibility at QuantumScape runs from the most senior levels to every individual team member and is embedded in how we conduct ourselves, develop our products and run our day-to-day operations to serve the best interest of the business and our stakeholders.



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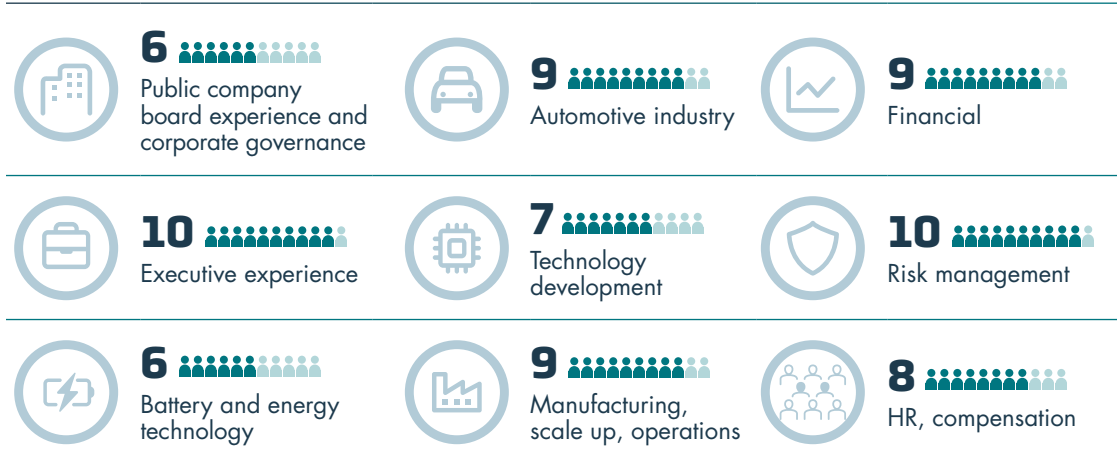
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Board Composition

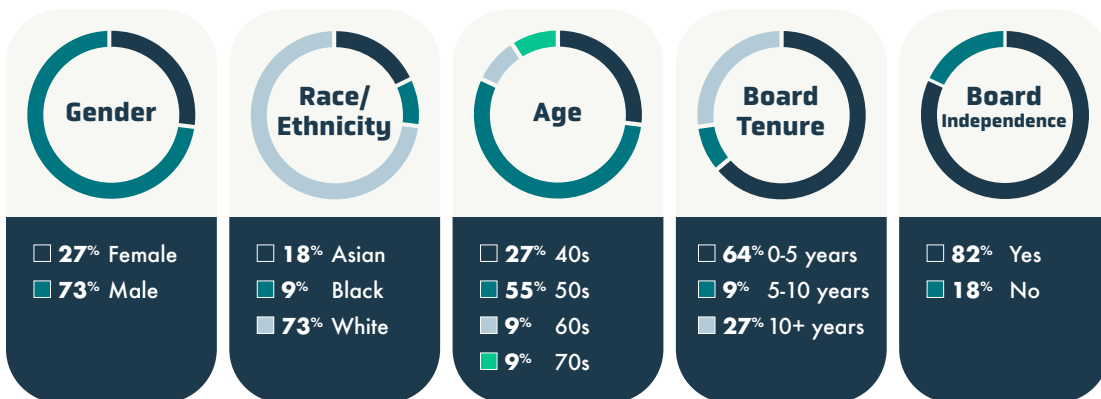
Our board of directors believes that the board should be a diverse body with members that have a mix of viewpoints, experiences and attributes such as professional background, skills, race, ethnicity, gender, education, age, and geography, as well as other individual qualities and attributes that contribute to the total mix of viewpoints and experience represented on our board. Under the leadership of its nominating and corporate governance committee, the board evaluates our board composition and the skills, experiences and attributes needed to oversee QuantumScape’s strategy and business as it grows and transforms. Members of our board of directors possess expertise in relevant areas that include battery and energy technology, the automotive industry, manufacturing operations and scale up, finance, risk management and human resources.

Board Knowledge, Skills and Experience



The board engaged a global executive search firm in 2021 to diversify the racial, ethnic and gender makeup of our board. We are pleased that these efforts led to the appointment of three women to our board, one of whom is racially diverse, between December 2021 and February 2022. From the end of 2021 to April 2022, we increased our board’s gender diversity from 0% to 27% and racial/ethnic diversity from 20% to 27%.

2022 Board Composition*



*Charts are as of September 2022. At the end of FY2021, board diversity by gender was 91% male / 9% female, race/ethnicity was 82% White / 18% Asian, and independence was 82%

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Ethics and Compliance

Our board of directors has adopted a code of business conduct and ethics (Code), applicable to all our employees, executive officers and directors, as well as QuantumScape contractors, consultants and agents. It serves as a guide, and we expect those it covers to use good judgment and adhere to the high ethical standards to which we are committed.

Our Code is designed to deter wrongdoing and promote:

- 1 Fair and accurate financial reporting
- 2 Compliance with applicable laws, rules and regulations
- 3 Prompt internal reporting of violations of the Code
- 4 Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest
- 5 A culture of honesty and accountability

We strictly enforce our corporate policies to instill solidly ethical business practices, transparency, and accountability, covering areas such as insider trading, whistleblowing, anti-bribery and anti-corruption, retention and communications.

Our Chief Legal Officer serves as the compliance officer implementing the Code and related ethical policies. The nominating and corporate governance committee is responsible for overseeing the Code. The audit committee plays an important role in ensuring the integrity of our public reports and overseeing our whistleblower procedures. If an employee believes that questionable accounting or auditing conduct or practices have occurred or are occurring, they are instructed to promptly notify the audit committee.

Our Code details resources and procedures for employees regarding compliance and reporting. If an employee suspects or knows of a violation of our policies or applicable laws and regulations, or an employee has concerns about a situation that they believe does not reflect our culture and values, they are required to report it immediately to their manager, compliance officer or People Operations department. They may also report concerns anonymously to a third-party hotline.

We prohibit retaliation for good faith reports of violations or possible violations. We have procedures in place to investigate grievances made through our third-party whistleblower hotline. Investigations will be carried out by our board of directors in case the potential violation is by a director or executive officer, and by the compliance officer if by an employee. Employees who violate the Code, who direct or approve violations, or who have knowledge of this conduct and do not report it may be subject to disciplinary action up to termination.

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Risk Management

Risk is inherent with every business, and we face a number of risks, including strategic, financial, business and operational, legal and compliance, and reputational risks. We have designed and implemented processes to manage risk in our operations. Our board of directors does not currently have or anticipate having a standing risk management committee, but instead administers this oversight function directly and through various of its standing committees that address risks inherent in their respective areas of oversight.

Board Committee	Risk Oversight Responsibilities
Audit	Internal controls, integrity of financial statements, whistleblower procedures, compliance with laws, cybersecurity, oversight of enterprise risk management (ERM)
Compensation	Compliance of our compensation plans, policies and programs with applicable legal and regulatory requirements, diversity, equity and inclusion initiatives, succession planning
Nominating and Corporate Governance	Board structure and composition, corporate governance, oversight of ESG initiatives

We have implemented an ERM process using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, under which we:

- Conduct annual meetings with leaders of our business areas and other stakeholders to identify and assess risks, including ESG risks, for likelihood and impact
- Develop a framework for risk ratings for the relevant attributes to facilitate risk rankings
- Create and obtain an understanding of the processes and controls that have been established to mitigate risks
- Create and continue to refine the framework to report our top risks and updates therein to team members charged with management, and board members tasked with oversight of ERM activities

We use the ERM process as a means to seek consistent evaluations and common language throughout the risk assessment process. The ERM risk assessment includes the integration of identifying, assessing, managing, monitoring and reporting of certain ESG risks, such as supply chain and data privacy risks.

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Supply Chain Management

Like other EV battery manufacturers, QuantumScape uses mined precursor materials, which require careful consideration as we, and the wider battery industry, scale up to meet increasing demand. Our product development focuses on using earth-abundant materials that will allow us to move into high volume production. Our battery is being designed to use many of the materials and processes that are standard across today's battery manufacturers, so we expect to benefit as the lithium-ion industry solves its supply challenges. While our separator material is unique in the industry, it is made from readily available inputs used in many other industries.

As we look to the future, our supply chain strategy prioritizes:

- Investing heavily in our supply chain team to ensure we can scale the procurement of necessary input materials and effectively scrutinize these materials and our partners' practices
- Identifying industry-leading partners to simplify product development and reduce reliance on in-house solutions



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Supply Chain Organization

As of September 2022, our supply chain organization is managed by a 15-person team, led by our VP of Operations Planning and Supply Chain, who reports to our CEO. The team is responsible for current resource needs as well as creating and implementing a manufacturing plan for QS-0. Our board of directors receives supply chain updates at quarterly meetings and is briefed by the VP on an ad hoc basis when a more focused discussion is needed.

In addition to technological innovation, strong supply chain management is critical for our success. Our supply chain organization plays an important role in finding capable partners that have existing solutions capable of supporting our R&D efforts. Equally important is our team's ability to navigate supply chain disruptions, such as those that occurred during the pandemic, and prepare QuantumScape for future manufacturing scale up by cultivating strong supply chain partners.

Supplier Relationships

We are building a product composed of many parts, procured in several ways, including:

- Purchasing off the shelf for industry-standard materials, such as adhesives or foils
- Working collaboratively through joint development agreements to produce parts
- Partnering with companies producing an existing product with unique properties that will help us improve battery assembly or reliability
- Developing the capacity of select suppliers to convert raw inputs into materials where the scale does not currently exist

We have been testing various materials, contract arrangements and collaborative models with our suppliers, and therefore purchase small quantities of materials from a more diverse set of suppliers than will be needed long term. We have not yet entered into agreements for production quantities of these materials but expect the relationships and partnerships we are building today will take us into the future as we mature.



Supply Chain Risk and Mitigation

We prioritize working with suppliers that we believe can become long-term partners. We invest in these relationships because strong supplier partnerships can reduce our exposure to supply chain risk. These relationships begin with our supplier selection and qualification process. This process varies based on the material being procured and how it is used, with the highest level of scrutiny being applied to our most critical materials.

We also conduct a supply chain risk assessment at least once per quarter. We use this risk assessment to proactively identify and respond to potential disruptions. We mitigate risks by carrying inventory, identifying secondary suppliers and requesting documentation from our suppliers that confirms their ability to provide materials that meet our specifications; we typically validate this documentation with internal testing in conjunction with our Quality Management team.

For many of the most critical battery materials, such as cathode active materials, we rely on our suppliers to source raw materials on our behalf. We have selected these suppliers in part based on their ability to source these materials reliably and professionally. Owing to the strength of our partnerships and the relatively small volumes of materials we use, we believe our current supply chain risk is manageable. As our material needs increase, we will begin to engage directly with raw material producers.

In 2022, our supply chain organization is focused on laying the foundation for future growth. This will center around partnerships with several key suppliers to ensure they have the capacity to support our increasing production targets. These activities will increase our visibility into our supply chain, secure sources of supply, and enhance the level of control we have over incoming material quality. We will also add secondary suppliers for certain key materials to further reduce risk.

2021 Supply Chain Highlights

QuantumScape did not experience significant supply chain disruption due to COVID-19, despite global supply chain challenges over the last couple of years - a testament to our ability to react and respond to the unexpected.

We also started negotiating formal supply agreements with key partners as we shift away from ad hoc purchase orders for material procurement toward long-term contracts.



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Our Supplier Quality Management Framework will expand in 2022 to include:

- Supplier selection and quality assessment
- Supplier quality assurance and quality control audit
- Supplier process sign off
- Supplier production line audits
- Supplier reliability testing
- Failure Analysis/Corrective Action (FACA) and lesson learned
- Supplier quality scorecard

ESG Risks in the Supply Chain

Consistent with our mission, we are committed to measuring and assessing our ESG performance beyond the walls of our facilities, designing our products and processes to avoid and minimize environmental and social impacts throughout our value chain.

Our R&D team seeks ways to reduce our reliance on critical materials, conflict minerals and other materials that have heightened availability, environmental, social, and human rights risks. Our anode-free cell architecture allows us to eliminate the associated raw materials from our supply chain. Our separator is made from abundant materials produced at industrial scale in multiple geographies. While we don't source directly from smelters, refineries and mines, we recognize the cathode materials currently needed for our batteries have limited supply and environmental and social risks that require careful and diligent management.

We conduct business honestly, ethically, transparently and in compliance with laws, regulations and international ESG standards, and we expect our business partners and vendors to do the same. As we begin entering into long-term contracts, we plan to source our input materials from leading suppliers in the lithium-ion battery industry. We already have strategic relationships in place with the industry's leading vendors of cathode active material, one of the most important purchased inputs to our cell, along with leading vendors of other less critical inputs.

As our material needs grow, so too will our vigilance. We will expand our policies, programs and reporting structures to ensure we do not directly or indirectly support human rights abuses and armed conflict (particularly in the Democratic Republic of Congo and neighboring countries); suppliers with labor, health and safety practices not aligned with international standards and laws; and operations that cause environmental degradation. We anticipate extensive due diligence during the qualification process for Tier-1 suppliers that will include externally validated audits and certifications to verify ESG standards. We also will work closely with our suppliers to understand the origin of materials to ensure they were sourced from conflict-free regions.

Supply chain risks are currently integrated into our ERM framework. As we begin purchasing production volumes of materials, we will be expanding our risk register, shifting our supply chain strategy, and maturing our supply chain management system, programs and capabilities accordingly.

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End Notes

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