

Corporate Governance Report

Corporate governance is defined as responsible, transparent corporate management and supervision that aims to add long-term value. For us, good corporate governance not only forms the basis for lasting success; it is also an important prerequisite for strengthening the trust of our stakeholders in our work.

THE GERMAN CORPORATE GOVERNANCE CODE – A BLUEPRINT FOR SUCCESSFUL CORPORATE GOVERNANCE

Corporate governance provides the regulatory framework for corporate management and supervision. This includes a company's organization and values, and the principles and guidelines for its business policy. The German Corporate Governance Code (the Code) contains recommendations and suggestions for sound, responsible corporate management and supervision. It was prepared by a dedicated government commission on the basis of the material provisions and nationally and internationally accepted standards of corporate governance. The government commission regularly reviews the Code in light of current developments and updates it as necessary. The Board of Management and the Supervisory Board of Volkswagen AG base their work on the recommendations and suggestions of the German Corporate Governance Code. We consider good corporate governance to be a key prerequisite for achieving a lasting increase in the Company's value. It helps strengthen the trust of our shareholders, customers, employees, business partners and investors in our work and meet the steadily increasing demand for information from national and international stakeholders.

DECLARATIONS OF CONFORMITY (VALID AS OF THE DATE OF THE RELEVANT DECLARATION)

On November 17, 2017, the Board of Management and the Supervisory Board of Volkswagen AG issued the annual declaration of conformity with the Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) with the following wording:

"The Board of Management and the Supervisory Board declare the following:

1. The recommendations of the Government Commission of the German Corporate Governance Code in the version dated 5 May 2015 (the Code) that were published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 12 June 2015 were complied

with in the period from the last Declaration of Conformity dated 18 November 2016 until the amended version of the Code dated 7 February 2017 came into effect on 24 April 2017, with the exception of the following numbers listed below with their stated reasons.

➤ a) 4.2.3(4) (severance cap)

A severance cap will be included in new contracts concluded with members of the Board of Management, but not in contracts concluded with Board of Management members entering their third term of office or beyond, provided a cap did not form part of the initial contract. Grandfather rights have been applied accordingly.

➤ b) 5.3.2 sentence 3 (independence of the chair of the Audit Committee)

It is unclear from the wording of this recommendation whether the Chairman of the Audit Committee is "independent" within the meaning of number 5.3.2 sentence 3 of the Code. Such independence could be considered lacking in view of his seat on the Supervisory Board of Porsche Automobil Holding SE, kinship with other members of the Supervisory Board of the company and of Porsche Automobil Holding SE, his indirect minority interest in Porsche Automobil Holding SE, and business relations with other members of the Porsche and Piëch families who also have an indirect interest in Porsche Automobil Holding SE. However, in the opinion of the Supervisory Board and the Board of Management, these relationships do not constitute a conflict of interest nor do they interfere with his duties as the Chairman of the Audit Committee. This exception is therefore being declared purely as a precautionary measure.

➤ c) 5.4.1(5 to 7) (disclosure regarding election recommendations)

With regard to recommendation number 5.4.1(5) to (7) of the Code stating that certain circumstances must be disclosed by the Supervisory Board when making election recommendations to the Annual General Meeting, the stipulations of the Code are vague and the definitions

unclear. Purely as a precautionary measure, the Board of Management and the Supervisory Board therefore declare a deviation from the Code in this respect. Notwithstanding this, the Supervisory Board will make every effort to satisfy the requirements of the recommendation.

- d) 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board)

Until the amendment to article 17(1) of the Articles of Association adopted by the Annual General Meeting on 10 May 2017 that came into effect on 1 June 2017, Supervisory Board remuneration was linked in part to the dividends. We therefore assumed that we had complied with the Code and that the variable compensation component was oriented toward the sustainable growth of the company as defined in number 5.4.6(2) sentence 2 of the Code. However, as it could not be ruled out that other views would be taken in this respect, a deviation from this recommendation in the Code is being declared as a precautionary measure.

2. The recommendations of the Government Commission of the German Corporate Governance Code in the version dated 7 February 2017 (the 2017 Code) that were published by the German Ministry of Justice on 24 April 2017 in the official section of the Federal Gazette (Bundesanzeiger) were complied with in the period from when this version came into effect on 24 April 2017 and will continue to be complied with, with the exception of the numbers listed below and their stated reasons.

- a) 4.2.3(4) (severance cap)
- b) 5.3.2(3) sentence 2 (independence of the chair of the Audit Committee)
- c) 5.4.1(6 to 8) (disclosure regarding election recommendations)

The reasons for exceptions a) to c) are listed above in the details under point 1.

- d) 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board)

Until the amendment to article 17(1) of the Articles of Association adopted by the Annual General Meeting on 10 May 2017 that came into effect on 1 June 2017, Supervisory Board remuneration was linked in part to the dividends. We therefore assumed that we had indeed complied with the Code and that the variable compensation component was oriented toward the sustainable growth of the company as defined in number 5.4.6(2) sentence 2 of the 2017 Code. However, as it could not be ruled out that other views would be taken in this respect, a deviation from this recommendation in the Code was declared as a precautionary measure. The amendment to the Articles of Association that came into effect on 1 June 2017 introduced fixed remuneration retroactively as of 1 January 2017, so that the recommendation has definitely been complied with since 1 June 2017.

- e) 4.2.3(2) sentence 3 (variable remuneration package in principle future-oriented)

The recommendation that the variable remuneration components based on a multi-year assessment should essentially be forward-looking has been recently added to the Code. The corresponding remuneration components for the members of the Board of Management were in the former system essentially based on the results of the past fiscal year and would therefore not be suitable for this recommendation. In February 2017, the Supervisory Board adopted a new system for the Board of Management remuneration in which the multi-year variable remuneration components were essentially future-oriented. The new remuneration system was fully implemented with retroactive effect to 1 January.

- f) 5.4.1(2) sentence 1 (objectives regarding the composition of the Supervisory Board; profile of skills and expertise)

This recommendation concerning the specification of concrete objectives for the composition of the Supervisory Board was supplemented when the 2017 Code came into force to the effect that the Supervisory Board should also prepare a profile of skills and expertise for the entire committee in addition to specifying objectives for its composition. This recommendation, more specifically the supplement, has not been complied with from when the amended version of the recommendation took effect until today due to the new addition. Following consultations and specifications on the part of the Supervisory Board, this recommendation will be complied with in full as of today.

- g) 5.4.1(5) sentence 2 (curriculum vitae of the members of the Supervisory Board)

The recommendation to publish updated curriculum vitae of all members of the Supervisory Board on the company website every year, including an overview of the main ancillary activities, has been newly added to the 2017 Code. The curriculum vitae of members of the Supervisory Board were published on 1 August 2017; this included an overview of their main ancillary activities beyond their Supervisory Board mandates. The recommendation has been complied with since that time."

The current declaration of conformity is also published on our website, www.volkswagenag.com/ir.

With the exception of number 4.2.3(2) sentence 9 (no early disbursements of variable remuneration components) and number 5.1.2(2) sentence 1 (duration of first-time appointments to the Board of Management), the suggestions in the current version of the Code have been complied with. Provision is made to some extent for the early disbursement of multiple-year, variable remuneration components in the event that one member of the Board of Management retires (early) from the Board; independently of this, such remuneration components could be disbursed early. The Supervisory Board will decide the duration of each first-time

appointment to the Board of Management on an individual basis, taking the best interests of the Company into account. The suggestion made in number 2.3.2 sentence 2 (accessibility of the voting proxy during the Annual General Meeting) was implemented at the 2017 Annual General Meeting in such a manner that the shareholders were able to reach the voting proxies named by the Company to exercise their voting rights until 1:00 pm, also by electronic means. The suggestion made in number 2.3.3 (broadcast of the Annual General Meeting) was implemented at the 2017 Annual General Meeting so that the introductory remarks by the Chairman of the Supervisory Board and the speech of the Chairman of the Board of Management were broadcast.

Our listed subsidiaries AUDI AG, MAN SE and Renk AG have also issued declarations of conformity with the German Corporate Governance Code.

The declarations of conformity of our listed subsidiaries can be accessed at the websites shown on this page.

COOPERATION BETWEEN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

The Supervisory Board advises and monitors the Board of Management with regard to the management of the Company and is directly involved in decisions of fundamental importance to the Company. The Board of Management and the Supervisory Board of Volkswagen AG consult closely on the strategic orientation of the Volkswagen Group. The two bodies jointly assess, at regular intervals, the progress made in implementing the corporate strategy. The Board of Management reports to the Supervisory Board regularly, promptly and comprehensively in both written and oral form on all issues of relevance for the Company with regard to strategy, planning and the situation of the Company, the development of the business, the risk situation, risk management and compliance.

More information on cooperation between the Board of Management and the Supervisory Board of Volkswagen AG and on the work and structure of the committees of the Supervisory Board can be found in the Report of the Supervisory Board on pages 12 to 17 of this annual report.

Information on the members of the Board of Management and Supervisory Board, as well as on the Supervisory Board committees can be found on pages 84 to 87.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT AS WELL AS SENIOR EXECUTIVE POSITIONS

In view of the Company's specific situation, its purpose, its size and the extent of its international activities, the Supervisory Board of Volkswagen AG strives to achieve a composition that takes the Company's ownership structure and the following aspects into account:

- › At least three members of the Supervisory Board should be persons who embody the criterion of internationality to a particularly high degree.
- › At least four shareholder representative members of the Supervisory Board should be persons without potential conflicts of interest, particularly conflicts of interest that could arise from an advisory or board position at customers, suppliers, lenders, or other third parties.
- › In addition, at least four of the shareholder representatives must be persons who are independent as defined in number 5.4.2 of the German Corporate Governance Code.
- › At least three of the seats on the Supervisory Board should be held by people who make a special contribution to the diversity of the Board.
- › Furthermore, proposals for elections should not normally include persons who will have reached the age of 75 on the date of the election or who will have been members of the Supervisory Board for more than 15 years on the date of the election.

The above criteria have been met.

In addition, the Supervisory Board has decided on the following profile of skills and expertise for the full Board:

The Supervisory Board as a whole must collectively have the knowledge, skills, and professional expertise required to properly perform its supervisory function and assess and monitor the business that the Company conducts. For this, the members of the Supervisory Board must collectively be familiar with the sector in which the Company operates. The key skills and requirements of the Supervisory Board as a whole include, in particular:

- › Knowledge of or experience in the manufacture and sale of all types of vehicles and engines or other technical products,
- › Knowledge of the automotive industry, the business model and the market, as well as product expertise,
- › Knowledge in the field of research and development, particularly of technologies with relevance for the Company,
- › Experience in corporate leadership positions or in the supervisory bodies of large companies,
- › Knowledge in the areas of governance, law or compliance,

i DECLARATION OF CONFORMITY OF VOLKSWAGEN AG
www.volkswagenag.com/ir

i DECLARATION OF CONFORMITY OF AUDI AG
www.audi.com/cgk-declaration

i DECLARATION OF CONFORMITY OF MAN SE
www.corporate.man.eu

i DECLARATION OF CONFORMITY OF RENK AG
www.renk.biz/corporated-governance.html

- › Detailed knowledge in the areas of finance, accounting, or auditing,
- › Knowledge of the capital markets,
- › Knowledge in the areas of controlling/risk management and the internal control system,
- › Human resources expertise (particularly the search for and selection of members of the Board of Management, and the succession process) and knowledge of incentive and remuneration systems for the Board of Management,
- › Detailed knowledge or experience in the areas of codetermination, employee matters and the working environment in the Company.

The current composition of the Supervisory Board is also in line with this profile of skills and expertise. The independent members of the Supervisory Board within the meaning of article 5.4.2 of the Code are or were Ms. Hessa Sultan Al-Jaber, Ms. Marianne Heiß, Ms. Louise Kiesling, Mr. Hussain Ali Al-Abdulla, Mr. Bernd Althusmann and Mr. Stephan Weil, as well as Ms. Annika Falkengren and Mr. Olaf Lies, who have since left the Supervisory Board. The curriculum vitae of the members of the Supervisory Board are available online at www.volkswagenag.com/ir.

The statutory quota of at least 30% women and at least 30% men has applied to new appointments to the Supervisory Board of Volkswagen AG since January 1, 2016 as required by the Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst (FührposGleichberG – Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors). Shareholder and employee representatives have resolved that each side will meet this quota separately. The shareholder representatives have met the quota of at least 30% women and at least 30% men since the 56th Annual General Meeting on June 22, 2016. In the election of employee representatives to the Supervisory Board of Volkswagen AG on April 6, 2017, Ms. Ulrike Jakob, Ms. Bertina Murkovic and Mr. Athanasios Stimoniaris were elected to the Supervisory Board for the first time. The remaining employee representatives on the Supervisory Board were reappointed. The term of office began at the end of the Annual General Meeting on May 10, 2017. This means that the legally prescribed proportion of at least 30% women and at least 30% men is also complied with on the employee side of the board. Both the shareholder and the employee representatives fulfilled the quota on December 31, 2017.

For the proportion of female members on the Board of Management that the Supervisory Board was required to set in accordance with the FührposGleichberG, the Supervisory Board set a target quota of 11.1% for the period after December 31, 2016. The new deadline set for achievement of this target is December 31, 2021. The appointment of Ms. Hiltrud Dorothea Werner, the Group Board of Management member responsible for Integrity and Legal Matters since February 1, 2017, brings the percentage of female members on the Group Board of Management to 11.1%. The target quota was thus fulfilled on December 31, 2017.

For the proportion of women in management in accordance with the FührposGleichberG, Volkswagen AG has set itself the target of 13.0% women in the first level of management and 16.9% women in the second level of management for the period up to the end of 2021. As of December 31, 2017, the proportion of women in the active workforce at the first level of management was 10.4 (9.8)% and at the second level of management it was 14.0 (13.5)%.

REMUNERATION REPORT

Extensive explanations of the remuneration system and the individual remuneration of the members of the Board of Management and the Supervisory Board can be found in the Remuneration Report on pages 67 to 83 of the management report, in the notes to the consolidated financial statements on page 313, and on page 63 of the notes to the annual financial statements of Volkswagen AG.

GROUP CORPORATE GOVERNANCE DECLARATION

The Group corporate governance declaration forms part of the combined management report and is permanently available at www.volkswagenag.com/ir. It also contains the description of the diversity concepts for the Board of Management and Supervisory Board of Volkswagen AG.

 **GROUP CORPORATE GOVERNANCE DECLARATION**
www.volkswagenag.com/ir

COMPLIANCE

Acting with integrity and compliant and ethical behavior are essential prerequisites for the success of the Volkswagen Group. For this reason, compliance with national and international laws and regulations, internal rules and voluntary commitments is among our Company's guiding principles. We are striving to strengthen the trust of our customers, our business partners and stakeholders in our Group through fair treatment. Compliant behavior is the basis for this and must be a matter of course for all Group employees. One of our Company's main tasks at the present time is to further enhance awareness of this.

Commitment to compliance at the highest level

At the Global Management Meeting in March 2017, Matthias Müller, Chairman of the Board of Management of Volkswagen AG, underlined that integrity and compliant behavior are the responsibility of each individual in the Group: "Compliance and integrity are not something that can be delegated to another department or a single person – everyone must play their part."

At the presentation of the new Code of Conduct for the Volkswagen Group in September 2017, Hiltrud Dorothea Werner, member of the Board of Management responsible for Integrity and Legal Matters, said: "It is our shared responsibility to bring the concept of integrity to life at Volkswagen. In practice, this involves us all being familiar with the rules in place, acting responsibly and making the right decisions. The new Code of Conduct provides the basis for this."

Strengthening the compliance organization

In light of the growing relevance of the topic of compliance, the Group's compliance organization was restructured in the reporting period. Since April 2017, Group Compliance has been a separate unit, with the Group Chief Compliance Officer reporting directly to the Board Member for Integrity and Legal Affairs; he also reports to the Audit Committee of the Supervisory Board.

The structures, responsibilities and processes within this unit have also been honed and reinforced. The Volkswagen Group's compliance organization has been set up with divisional and regional compliance offices. This enables central corporate functions to be supported to an even greater extent and advised by their own compliance contacts. Additional centers of competence develop and manage key compliance issues for the entire Group. The heads of the centers of competence and the divisional and regional compliance offices report directly to the Group Chief Compliance Officer. Communication between the Group and brand compliance officers and networking were enhanced and

intensified in the reporting period through regular meetings and team conferences.

In the reporting period, there was direct communication on compliance issues at meetings of the Supervisory Board, the Board of Management and the Works Council, particularly by the Board Member for Integrity and Legal Affairs and the Group Chief Compliance Officer.

The Group Compliance Committee chaired by the Board Member for Integrity and Legal Affairs was formed at top management level in 2017. This committee ensures that compliance and integrity standards are uniformly applied and communicated on a cross-divisional and cross-brand basis. The core compliance team, which concentrates expertise on compliance issues from different departments, remained unchanged.

Compliance management system

Our compliance management system is based on national and international standards. Its objective is to encourage and reinforce compliant behavior in the Group. The new Code of Conduct is the key element for strengthening awareness among staff of correct behavior and finding the right contact person in cases of doubt.

Where laws and regulations have been seriously violated, our restructured whistleblower system is a suitable tool for taking appropriate action.

We place value on communication and training seminars to permanently anchor compliance-related content among the workforce.

The basis of compliance work in the Volkswagen Group is a systematic process of risk identification and reporting in accordance with the IDW standard AsS 980. We used 2017 to review the content of and the process for the existing compliance risk analysis. The objective is to obtain transparency at Group level of the risk exposure of all Group companies included in the compliance scope.

However, we are also aware that even the best compliance management system can never entirely prevent the criminal actions of individuals.

Code of Conduct and guidelines

The Volkswagen Group Code of Conduct was completely overhauled in the reporting period and approved by the Group Board of Management. All Group companies are required to introduce the new Code of Conduct. This was completed at the brand level by December 31, 2017.

Based on the 2010 Code of Conduct (for instance on the topic of environmental protection) the content was updated and new content added (such as product conformity). Readability and practical relevance were enhanced through a clear

structure, simpler language and specific examples. It emphasizes each individual employee's responsibility as regards compliant behavior.

The introduction of the new Code of Conduct was accompanied by an intensive internal communication drive in digital and print media.

The Code of Conduct is a key component of compliance training and is also integrated into operating processes. For example, all new employment contracts for employees of Volkswagen AG include a reference to the Code of Conduct and the obligation to comply with it. In addition, compliance with the Code of Conduct remained a component of our employees' annual reviews in the reporting period and was thus taken into account when calculating their variable, performance-related remuneration.

In addition to the Code of Conduct, the Volkswagen Group's compliance framework incorporates the anti-corruption guidelines among others, including checklists and the express prohibition of facilitation payments, as well as guidelines on competition, antitrust law and anti-money laundering. Organizational instructions on dealing with gifts and invitations as well as on making donations also apply across the Group.

Employees have access to the compliance rules and regulations in particular via the compliance pages on the Company intranet.

Whistleblower system

In the Volkswagen Group, the whistleblower system refers to the internal and external contact points, where employees and third parties can report potentially serious violations of laws and internal regulations by employees of the Volkswagen Group, in addition to the committees that support and monitor the work of these contact points.

The Company has had a system for reporting any breaches of the law or regulations already since 2006. In 2017, the whistleblower system was improved and partially reorganized. The processes were optimized further as of November 1, 2017 to be able to follow up on reports even faster and in a fairer and more transparent manner. Among other things, a central Investigation Office was set up in the Compliance department at the beginning of the year, which is responsible for coordinating the whistleblower system in the

Volkswagen Group and for processing information received concerning Volkswagen AG and its subsidiaries – with the exception of AUDI AG, Dr. Ing. h.c. F. Porsche AG and Volkswagen Truck & Bus GmbH. These companies have separate investigative offices for themselves and their subsidiaries.

The whistleblower system uses defined processes to investigate reports on breaches and to penalize misconduct where appropriate. Protection of both the whistleblower and the party affected has top priority in the applicable procedural principles and guarantees. In addition, a Group Guideline sets out the responsibilities in the Group and the specific procedure for the processing of reports.

Information on misconduct can be submitted in any of the major languages used by the Group and are treated confidentially. The people providing the information need not fear any sanctions from the Company for their actions. They can decide for themselves whether they wish to give their names. For this reason, a specially protected online reporting channel was additionally set up in 2017 through which anonymized reports from whistleblowers can be sent to the Investigation Office. We also continue to rely on existing tried-and-tested channels such as ombudspersons (counsels of trust).

As the whistleblower system was enhanced, reporting was reorganized, for example to ensure standard Group-wide handling. A total of 1,489 reports were registered throughout the Group in 2017. All substantiated reports have been, or will be, investigated, and any misconduct penalized.

Communication, training and advice

Providing information to employees at all levels on compliance and offering them advice is a core component of our compliance activities.

The compliance organization regularly briefs the workforce on compliance-related issues using the internal Group-wide communication platform called "Group Connect". Content on compliant behavior is also made public through the internal communication channels of the Group and its brands. Focal points of compliance communication in the reporting period were the introduction of the revised Code of Conduct and the further development of the whistleblower system.

CODE OF CONDUCT OF THE VOLKSWAGEN GROUP

www.volkswagenag.com/presence/konzern/documents/Code_of_Conduct_2017_VW_Konzern_deutsch.pdf

WHISTLEBLOWER SYSTEM

www.volkswagenag.com/de/group/compliance-and-risk-management/whistleblowersystem.html
e-mail: io@volkswagen.de

Furthermore, the topic of compliant behavior was intensely discussed at employee events and works meetings.

In 2017, approximately 219,000 employees across the Group participated in various forms of training courses on compliance-related topics. Following a risk-based approach, mandatory compliance training is conducted for specific target groups. In addition to traditional lectures and online tutorials, case studies, role-playing games and other interactive formats form a part of the training provided to employees and managers. Another event held in 2017 was the Volkswagen Convention – Integrity, Culture and Compliance, which was attended by more than 7,300 executives and works council members from Volkswagen AG, Volkswagen Sachsen and Volkswagen Osnabrück. The Convention was aimed at driving the change process forward at Volkswagen.

Employees can use special e-mail addresses to solicit advice on compliance issues.

Compliance key performance indicators

To measure the level of target achievement, we defined a strategic indicator for the major brands that manufacture passenger cars:

- › Compliance, process reliability and a zero-defect culture. This indicator is based on an evaluation of the answers to three questions in the opinion survey relating to compliance with regulations and processes, transparency and monitoring, and dealing with risks and errors. In the case of adverse deviations, the departments will develop and implement measures. The indicator improved to 79.53 (79.03)% during the reporting year.

We have also defined a strategic indicator for the Financial Services Division – the compliance and governance indicator. In addition to achieving our economic objectives, we are also striving to ensure compliance with legislation and legal requirements and are working towards a culture shaped by compliance and integrity. To this end, we have established a compliance function within the individual companies to accompany the implementation of suitable and effective compliance standards for fields of law that have been identified as significant. To evaluate the effectiveness thereof, we will consult examination and inspection findings from both the internal and external auditing, risk management and compliance, as well as the timely processing of the measures defined by these control units.

Strengthening compliance in company processes

The act to transpose the Fourth EU Money Laundering Directive into German law presented new challenges for Volkswagen AG as a company that is bound by the Gesetz über das Aufspüren von Gewinnen aus schweren Straftaten (GWG –

Law on Tracing Profits from Serious Criminal Offences). A Group Directive, which already exists in draft form, will define the minimum standard to be implemented by all Group companies.

A concept for a new sales-related business partner check was drawn up in the reporting period. A key objective of this new process is the creation of transparency within the Volkswagen Group to prevent Group companies from entering into business relationships with business partners which other Group companies have classified as not acting with integrity. The sales-related business partner check will be gradually introduced in the Group from 2019.

New business models are constantly being considered in the Volkswagen Group as part of the TOGETHER – Strategy 2025 program. Areas on which these focus in particular are digitalization, automation and electrification, but also the development of and involvement in mobility concepts. Group Compliance helps the strategic business units to implement their forward-looking projects through individual risk assessments and recommendations based on these.

In addition, compliance will become anchored in mergers and acquisitions and real estate transactions to a greater extent.

Effectiveness review

Independent reviews by the Group Internal Audit function at the corporate units and the regular exchange of information with external bodies help ensure continuous improvement of the compliance management system. There are no indications that our current compliance management system was ineffective in 2017.

INTEGRITY

Volkswagen AG is undergoing the most far-reaching process of change in the Company's history. Particularly the loss of trust as a result of the diesel issue clearly showed that, in terms of integrity, Volkswagen must become a role model for a modern, transparent and successful enterprise. This plan is one of the strategic goals of TOGETHER – Strategy 2025.

By setting up the new Board of Management position for Integrity and Legal Affairs on January 1, 2016, we created the organizational framework for a centralized integrity management function. This Group function is responsible for planning, preparing and implementing programs and projects aimed at raising awareness, providing explanation and intensifying a collective awareness of integrity as well as reinforcing a shared culture of integrity in the Company. A continuous exchange of ideas and discussion of issues relating to integrity are key components of the integrity management function.

Behaving with integrity is a prerequisite for commercial success and for a positive future for the Company. Only with lasting, dependable integrity will our Company gain and strengthen the trust of its staff, customers, shareholders, business partners and the general public. Volkswagen will enhance the culture of integrity in the Company, thus creating a collective Group awareness for integrity. To this end, we launched an integrity program in 2016 that addresses all of the Company's employees.

INDEPENDENT MONITOR

In June 2017, Larry D. Thompson was appointed as the Independent Compliance Monitor at Volkswagen under the terms of the Plea Agreement with the United States Department of Justice announced on January 11, 2017 and confirmed by a US federal court on April 21, 2017. He will also work as Independent Compliance Auditor under the Third Partial Consent Decree concluded separately with the US Environmental Protection Agency (EPA) and the Third California Partial Consent Decree agreed with the State of California and the environmental authority California Air Resources Board, CARB (for more information on these agreements, please see the Litigation section starting on page 178). Mr. Thompson will assess and oversee Volkswagen's compliance with the terms of the Plea Agreement and Consent Decrees for a period of three years, which includes taking measures to further strengthen the Company's compliance, reporting and monitoring mechanisms and the implementation of an enhanced compliance and ethics program.

RISK MANAGEMENT, AUDIT

Carefully managing potential risks to the Company is a key component of our daily work. Volkswagen Group's risk management system is oriented toward identifying, assessing, communicating and managing risks at an early stage. This system is reviewed on an ongoing basis and adjusted if and when conditions change. A detailed description of the risk management system and our accounting-related internal control system can be found in the Risk Report on pages 164 to 167 of this annual report.

The Supervisory Board has established an Audit Committee that in particular monitors the financial accounting, the financial accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, the audit of the financial statements and compliance. Furthermore, the Audit Committee makes a well-founded recommendation for the election of auditor to the Supervisory Board, obtains a declaration of independence from the auditor, supervises the additional services provided

by the auditor and prepares the audit engagement resolution, thereby giving consideration to the annual audit planning, the areas of emphasis for the audit, the agreed fee and the auditor's obligation to provide information.

COMMUNICATION AND TRANSPARENCY

The Volkswagen Group publishes a financial calendar listing all the relevant dates for its shareholders in its annual report and interim reports as well as on its website at www.volkswagenag.com/ir. Among other things, invitations to the shareholders' meetings as well as agendas for these meetings and any motions to be added to the agenda or counter motions received are also available on this website. At the shareholders' meetings, shareholders may exercise their voting rights themselves, have this right exercised on their behalf by a third-party proxy whom they have appointed, or use a proxy designated by the Company who votes on their behalf in accordance with their voting instructions. We also give our shareholders the opportunity to watch the introductory remarks of the Chairman of the Supervisory Board and the speech of the Chairman of the Board of Management on the internet. In addition, news and information on the Volkswagen Group are available on our website. The press releases and other information are published in both English and German.

Immediately after their publication in accordance with legal requirements, the Company's ad-hoc releases are also published on the same website under the heading "IR News, Ad-hoc Releases & Publications".

We publish managers' transactions pursuant to Article 19 of the Market Abuse Regulation or section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) under the heading "Corporate Governance", menu item "Directors' Dealings".

On the same web page – under the heading "IR News, Ad-hoc Releases & Publications", menu item "Notifications of changes in voting rights" – you can also access details of the notifications filed in the reporting period in compliance with sections 21 ff. of the WpHG as well as notifications relating to other legal issues.

The supervisory body appointments held by Board of Management members and Supervisory Board members can be found on pages 84 to 87 of this annual report. The shareholder structure is presented on page 110.