

Corporate Governance Report

Corporate governance stands for responsible, transparent corporate management and supervision that aims to add by long-term value. Good corporate governance is not only the basis for lasting corporate success but also a key condition for strengthening the trust of our shareholders, customers, employees and business partners, as well as the financial markets.

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

Corporate governance establishes a framework for managing and supervising a company. This includes its organization and values, and the principles and guidelines for its business policy, among other things. The German Corporate Governance Code contains recommendations and suggestions for good and responsible corporate management and supervision. It was prepared by the government commission established for the purpose on the basis of the material provisions and nationally and internationally accepted standards of corporate governance. As a rule, the government commission reviews the Code annually 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 believe that good corporate governance is a key condition for sustainably increasing 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)

The Board of Management and the Supervisory Board of Volkswagen AG issued the annual declaration of conformity with the German Corporate Governance Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on November 20, 2015 with the following wording:

“The Board of Management and the Supervisory Board declare that:
1) The recommendations of the Government Commission of the German Corporate Governance Code in the version dated June 24, 2014 (the “Code”) published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on September 30, 2014 were complied with in the period from the last Declaration of Conformity dated November 21, 2014

until the entry into force on June 12, 2015 of the amended version of the Code dated May 5, 2015 with the exception of the numbers listed below for the reasons outlined therein.

> a) 4.2.3 paragraph 4 (severance pay cap)

A severance pay 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) 5.1.2 paragraph 2 sentence 3 (age limit for members of the Board of Management)

An age limit for members of the Board of Management is not considered to be appropriate because the ability to manage a company successfully does not necessarily cease when a specific age is reached. A rigid retirement age could also be deemed discriminatory. It may be in the interests of the company to appoint someone over the age of 65. A rigid retirement age would therefore appear to be inappropriate.

> c) 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee)

It is unclear from the wording of the German Corporate Governance Code 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 membership of 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.

- > d) 5.4.1 paragraphs 4 to 6 (disclosure regarding election recommendations)

With regard to recommendation number 5.4.1 paragraphs 4 to 6 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 number 5.4.1 paragraphs 4 to 6.

- > e) 5.4.6 paragraph 2 sentence 2 (performance-related compensation of members of the Supervisory Board)

The remuneration of members of the Supervisory Board is regulated by the shareholders in article 17(1) of the Volkswagen Articles of Association. This regulation includes the linking of remuneration to dividend distribution. We therefore assume that we have complied with the Code and that the variable compensation component is oriented toward the sustainable growth of the enterprise as defined in number 5.4.6 paragraph 2 sentence 2 of the Code. However, as it cannot be ruled out that other views will 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 May 5, 2015 (2015 version of the Code) that was published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on June 12, 2015 were complied with in the period from the entry into force of this version on June 12, 2015 and will continue to be complied with, with the exception of the recommendations listed below.

- > a) 4.2.3 paragraph 4 (severance payment cap)
- > b) 5.1.2 paragraph 2 sentence 3 (age limit for members of the Board of Management)
- > c) 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee)
- > d) 5.4.1 paragraphs 5 to 7 (disclosure regarding election recommendations, formerly 5.4.1 paragraphs 4 to 6)
- > e) 5.4.6 paragraph 2 sentence 2 (performance-related remuneration of members of the Supervisory Board)

The reasons for the exceptions to a) to e) listed above are explained in section 1) above.

- > f) 5.4.1 paragraph 2 sentence 1 (objectives for the composition of the Supervisory Board)

With the entry into force of the 2015 version of the Code, this recommendation regarding the objectives for the composition of the Supervisory Board was expanded to the effect that the objectives for the composition of the Supervisory Board include the specification of a general limit to the length of time that members may serve on the Supervisory Board. During the period from the entry into force of the amended version of the recommendation on June 12, 2015 to the present, the expanded version of this

recommendation was not complied with due to its novelty. Following the necessary consultations and declarations by the Supervisory Board, this recommendation will be complied with fully as of today.”

On March 14, 2016, the Board of Management and Supervisory Board of Volkswagen AG issued a supplement to the declaration of conformity with the Code as required by section 161 of the AktG with the following wording:

“The Board of Management and the Supervisory Board declare that:

1) In their Declaration of Conformity dated November 20, 2015, the Board of Management and the Supervisory Board of Volkswagen AG declared that they would fully comply with the recommendations of the Government Commission of the German Corporate Governance Code (DCGK) in the version dated May 5, 2015 that had been published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on June 12, 2015, with the exception of the following numbers:

- > a) 4.2.3 paragraph 4 (severance payment cap)
- > b) 5.1.2 paragraph 2 sentence 3 (age limit for members of the Board of Management)
- > c) 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee)
- > d) 5.4.1 paragraphs 5 to 7 (disclosure regarding election recommendations)
- > e) 5.4.6 paragraph 2 sentence 2 (performance-related remuneration of members of the Supervisory Board)

2) Due to the currently still unanswered questions relating to the consequences of the emissions issue and the resulting assessment questions, the Board of Management and the Supervisory Board have decided that the 2015 consolidated financial statements and the interim report for the first quarter of 2016 will not be made publicly accessible within 90 days of the end of the fiscal year or within 45 days of the end of the quarter. As such, the supplement to the Declaration of Conformity from November 20, 2015 will include an explanation of the deviation from number 7.1.2 sentence 4 of the German Corporate Governance Code (deadlines for publication). The deviation is limited to the publications listed and the recommendation will be complied with once again as of the 2016 Half-Yearly Financial Report.”

On April 22, 2016, the Board of Management and Supervisory Board of Volkswagen AG issued a further supplement to the declaration of conformity with the Code as required by section 161 of the AktG with the following wording:

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

1) In their Declaration of Conformity dated November 20, 2012, the Board of Management and the Supervisory Board of Volkswagen AG declared that they would comply with the recommendations of the Government Commission of the German Corporate Governance Code (the Code) in the version dated May 5, 2015 published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on June 12, 2015, with the exception of the following articles:

- > a) 4.2.3(4) (severance payment cap)

- > b) 5.1.2(2) sentence 3 (age limit for members of the Board of Management)
- > c) 5.3.2 sentence 3 (independence of the Audit Committee Chairman)
- > d) 5.4.1(5 to 7) (disclosure regarding election recommendations)
- > e) 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board)
- > 2) In their supplement to the declaration described under 1) above, decided on March 14, 2016, the Board of Management and the Supervisory Board of Volkswagen AG further declared that an exception would be made in respect of article 7.1.2 sentence 4 of the Code (date of publication of financial statements).
- > 3) The Supervisory Board today adjusted the performance targets and comparison parameters used to determine the variable remuneration for the members of the Board of Management in fiscal year 2015 in agreement with the individual members of the Board of Management. Article 4.2.3(2) sentence 8 of the Code excludes retroactive changes to the performance targets and comparison parameters for the variable remuneration components. However, the Supervisory Board and members of the Board of Management were of the opinion that continued adherence to the previous performance targets and comparison parameters would have led to results that do not adequately reflect the current situation of the company. A retroactive adjustment of the performance targets and comparison parameters was therefore considered advisable.

As such, a second supplement to the Declaration of Conformity dated 20 November 2015 is being issued in which the company declares that an exception will be made in respect of article 4.2.3(2) sentence 8 of the Code (exclusion of retroactive changes to the comparison parameters).”

The current declarations of conformity are also published on our website, www.volkswagenag.com/ir, under the heading “Corporate Governance”, menu item “Declarations”.

The suggestions of the current version of the German Corporate Governance Code, with the exception of the suggestion in article 5.1.2(2) sentence 1 (Appointment period for first-time appointments to the Board of Management), are complied with in full. The Supervisory Board decides the appointment period for each first-time appointment to the Board of Management on an individual basis, taking the best interests of the Company into account.

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

At Scania AB, the management and supervisory functions are split between the Annual General Meeting, the Board of Directors, and the President and CEO. They are governed by the articles of association, Swedish company law and other laws and regulations.

The declarations of conformity of our listed subsidiaries can be accessed at the websites shown on this page. In addition, further information on corporate governance at Scania AB can be found at the address provided.

.....	■ DECLARATION OF CONFORMITY OF VOLKSWAGEN AG www.volkswagenag.com/ir
.....	■ DECLARATION OF CONFORMITY OF AUDI AG www.audi.com/cgk-declaration
.....	■ DECLARATION OF CONFORMITY OF MAN SE www.man.eu/corporate
.....	■ DECLARATION OF CONFORMITY OF RENK AG http://www.renk.biz/corporated-governance.html
.....	■ CORPORATE GOVERNANCE AT SCANIA AB www.scania.com/scania-group/corporate-governance

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

More information on the 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 81 to 84.

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

In view of the purpose of the Company, its size and the extent of its international activities, the Supervisory Board of Volkswagen AG strives to take the following criteria into account in its composition:

- > At least three members of the Supervisory Board should be persons who embody in particular the characteristic of internationality.
- > At least four shareholder representative members of the Supervisory Board should be persons who do not represent potential conflicts of interest, particularly conflicts of interest that could arise through a position as a consultant or member of the governing bodies of customers, suppliers, lenders, or other third parties.
- > In addition, at least four of the shareholder representatives must be persons who are independent as defined by article 5.4.2 of the German Corporate Governance Code.
- > Furthermore, proposals for elections should not normally include persons who will have reached the age of 75 by the time the election takes place or who have been members of the Supervisory Board for more than 20 years by the time the election takes place.

The above criteria have been met. The statutory gender quota of at least 30% will apply to new appointments to the Supervisory Board of Volkswagen AG from January 1, 2016, based on the Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst (Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors).

The Supervisory Board of Volkswagen AG has also set itself the longer-term goal of increasing the proportion of female members on the Board of Management to 30%. The Supervisory Board did not identify any opportunity for increasing the proportion of female members on the Board of Management by the end of 2016 as of the date stipulated in the Act for determining a specific target; as a result, it resolved a target quota of zero for December 31, 2016. However, the appointment of Dr. Christine Hohmann-Dennhardt in October 2015 to take up the newly created Board of Management position for Integrity and Legal Affairs with effect from January 1, 2016 means that a female member has been appointed to the Group's Board of Management.

Volkswagen AG has set the following target quotas to increase the proportion of women in management: the aim is for the proportion of women in the first management level to amount to 9.8% as of the end of 2016, with the figure for the second management level amounting to 13.3%.

REMUNERATION REPORT

Extensive explanations of the remuneration system and the individual remuneration of the members of the Board of Management and the Supervisory Board may be found in the Remuneration Report on pages 67 to 80 of the management report, in the notes to the consolidated financial statements on page 300 and on page 45 of the notes to the annual financial statements of Volkswagen AG.

CORPORATE GOVERNANCE DECLARATION

The corporate governance declaration is part of the combined management report and is permanently available on our website at www.volkswagenag.com/ir under the heading "Mandatory Publications".



COMPLIANCE

Compliance with international rules and the fair treatment of our business partners and competitors are among the guiding principles followed by our Company. Volkswagen's commitment has always gone beyond statutory and internal requirements; voluntary obligations and ethical principles also form an integral part of our corporate culture. The misconduct uncovered in the fiscal year 2015 runs contrary to all of the values that Volkswagen stands for. However, our conviction remains unchanged: compliant behavior is a cornerstone of business success and must be self-evident for all Group employees.

Commitment to compliance at the highest level

This view is expressly shared by the Company's management. The Chairman of the Board of Management of Volkswagen AG, Matthias Müller, said at a Group-wide information event for management in November 2015 that "no business in the world justifies violating legal and ethical limits. Our key currency is not unit figures or the operating result. Our key currency is credibility and trust in our brands, our products and the people who work for our Company. [...] Compliance and the rule of law are central to Volkswagen rather than being onerous duties, something that is confirmed by the creation of a new Group Board of Management position for Integrity and Legal Affairs."

Preventive compliance management system

Volkswagen has had a distinct and recognized Group-wide compliance management system for a number of years. In 2015, compliance continued to play an important role in the Governance, Risk and Compliance (GRC) organization in the Volkswagen Group (see the Report on Risks and Opportunities starting on page 170).

The Supervisory Board of Volkswagen AG resolved to create the new Board of Management position for Integrity and Legal Affairs from January 2016 as a visible reinforcement of compliance throughout the Company. Dr. Christine Hohmann-Dennhardt, a former judge at the German Federal Constitutional Court, has been appointed to this position.

Volkswagen adopts a preventive compliance approach and aims to create a corporate culture that is designed to prevent potential breaches before they occur by raising awareness and educating employees.

Group Internal Audit and Group Security regularly perform the necessary investigative activities, systematically monitor compliance and perform random checks regardless of any suspicion of infringements, as well as investigating specific suspected breaches.

Responses are implemented by the Human Resources and Group Legal departments. These processes are closely interrelated, in line with the concept of a comprehensive compliance management system. Nevertheless, we are aware that even the best compliance management system can never entirely prevent the criminal actions of individuals.

The Group Chief Compliance Officer is supported by 14 Chief Compliance Officers or compliance contact persons (staff who are responsible at the brands, Volkswagen Financial Services and Porsche Holding GmbH, Salzburg). They are supported by compliance officers in the Group companies.

Various bodies support the work of the compliance organization at Group and brand company level. These include the Compliance Board at senior management level and the core Compliance team, which bundles expertise in compliance issues.

Focal points in 2015

Each year, detailed compliance risk assessments are carried out across the Group as part of the standard GRC process. The results are factored into the risk analyses performed by the Volkswagen Group, the brands and the companies, and into the Compliance Program planning.

We primarily continued to drive forward our work in China in 2015 and intensified our compliance activities at Volkswagen Group subsidiaries and second-tier subsidiaries. We reacted to events surrounding the emissions issue by adopting measures and launching campaigns: the brisk response by the employees to a call to participate in a photo campaign under the motto "Together for Volkswagen, Together for Compliance" demonstrated their clear commitment to compliance. In addition, we have strengthened the product-related internal compliance control system in cooperation with internal and external experts. Cross-departmental projects on this issue were initiated in particular at Technical Development. Detailed information about the investigations into the emissions issue can be found in the special chapter on pages 49 to 54 of this Annual Report.

Communicating compliance

The GRC organization provided information on various compliance issues to the Group's brands and companies over the year, using a wide range of traditional communication channels. These include reports in various employee magazines produced by the brands, companies and locations. Digital media such as intranet portals, smartphone and tablets apps, blogs and newsletters are also frequently used to provide compliance information.

We have communicated the Code of Conduct, including the compliance obligation, to employees at the brand companies, and this forms a key component of our compliance training. It is also integrated into our operational processes. For example, all new employment contracts entered into between Volkswagen AG on the one part and both management staff and employees covered by collective agreements on the other include a reference to the Code of Conduct and the obligation to comply with it. In addition, the Code of Conduct is part of employees' annual reviews and therefore forms part of the calculation of variable, performance-related remuneration.

In addition to the Code of Conduct, Volkswagen's compliance framework incorporates the anti-corruption guidelines, including checklists and the express prohibition of facilitation payments, as well as guidelines on competition and antitrust law, among other things.

Directives on dealing with gifts and invitations, as well as on making donations also apply across the Group.

Learning programs, training and advice

Providing information to employees at all levels continues to be a core component of our compliance work. In 2015, approximately 193,000 employees across the Group participated in a variety of compliance-related topics such as the Code of Conduct, anti-corruption, human rights, anti-money laundering, and competition and antitrust law. In addition to traditional lectures and e-learning programs, case studies, role-playing games and other interactive formats form an integral part of the training provided to employees and managers. Also, since December 2014 a management talk on risk management and compliance has been offered to all newly appointed senior managers in Group functions and the Volkswagen Passenger Cars brand. All new Volkswagen AG employees are required to complete an e-learning program on the Group's Code of Conduct. The subject of human rights is an integral part of this training program. Training on competition and antitrust law is a core component of Compliance work in the Volkswagen Group. Approximately 30,000 employees received training on this issue during the reporting period. Among other things, a compliance app for smartphones and tablets is available to Volkswagen AG's employees as a self-learning solution.

Employees of all brand companies and a large number of Group companies are able to obtain personal advice about compliance issues, usually by contacting the compliance organization via a dedicated e-mail address. An IT-based information and advisory tool is available at Volkswagen AG's German locations.

Business partner check

We also expect our business partners to act with integrity and ensure regulatory compliance. For this reason, Volkswagen verifies the integrity of its business partners (business partner check) in a risk-oriented approach. This check allows us to find out about potential business partners before entering into a relationship with them, reducing the risk of starting a cooperation that could be damaging to the Company or its business.

Ombudsman system

The Group-wide ombudsman system can be used to report any breaches or suspicions regarding corruption, illegal economic activity, or other irregularities, such as violations of human rights and ethical misconduct, in all major Group languages to two external lawyers appointed by the Group. Since 2014, employees providing information have had the option of communicating with the ombudsmen via an additional online channel; various breaches can be reported using a technically highly secure electronic mailbox. Naturally, the people providing the information need not fear being sanctioned by the Company for doing this. After plausibility checks, the ombudsmen passed on 79 reports by people – whose details remained confidential if requested – to Volkswagen AG's Anti-Corruption Officer in 2015. In addition, the Anti-Corruption Officer and the head of Group Internal Audit received information on a further 111 cases directly. During local internal audits of the brands and Group companies, 331 reports were submitted to the Anti-Corruption Officer. All information was or is being followed up. For all breaches of the law and violations of internal regulations, the need for sanctions is reviewed and these are applied where necessary.

In accordance with the normative standards issued by Deutsches Institut für Interne Revision e.V. (German Institute for Internal Auditing – DIIR), internal audit functions should be audited externally every five years. An external quality assessment of the Volkswagen Group's internal audit system was carried out by an audit firm in the period between the third quarter of 2014 and the first quarter of 2015. In addition to central management and supervisory processes, this took into consideration the quality of the

■ OMBUDSMAN SYSTEM
www.ombudsmen-of-volkswagen.com

brands' and regions' internal audit functions (sample size: Volkswagen AG, AUDI AG, SEAT S.A., Volkswagen de Mexico, Volkswagen Group China). The auditors confirmed that all of the internal audit units examined are fully compliant with the underlying DIIR Standard No. 3 "Quality management in the internal audit activity" and, in many areas, use leading internal audit methodologies and practices.

Effectiveness review

We review the effectiveness of the compliance measures taken at the Volkswagen Group's brands and companies annually using an integrated survey, which forms part of the standardized GRC process. We check the effectiveness of selected countermeasures as well as management controls used to manage compliance risks. In addition, the continuous improvement of the compliance management system is ensured through independent reviews by the Group Internal Audit function at the corporate units and the regular exchange of information with external bodies, for example.

RISK MANAGEMENT

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 in line with new conditions as necessary. A detailed description of the risk management system and our accounting-related internal control system can be found in the Risk Report on pages 170 to 173 of this annual report.

The Supervisory Board has established an Audit Committee, which monitors the financial accounting and reporting processes and the effectiveness of the internal control system, risk management, the internal audit system and compliance, in particular. It also supervises the audit of financial statements, particularly the independence of the auditors, the additional services provided by the auditors, the audit engagement, the definition of the areas of emphasis for the audit and the agreed fee.

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 and on its website at www.volkswagenag.com/ir. Among other things, invitations to and the agendas for the shareholders' meetings and any 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 will vote on their behalf in accordance with their voting instructions. In addition, we offer our shareholders the opportunity to watch the entire Annual General Meetings on the Internet.

News and information on the Volkswagen Group are available on our website at www.volkswagenag.com/ir. The releases and other information are published in both English and German.

Immediately after their publication in line with legal requirements, the Company's ad hoc releases are also published on our website at www.volkswagenag.com/ir under the heading "Mandatory Publications", menu item "Ad-hoc releases".

We publish directors' dealings (section 15a of the WpHG) at www.volkswagenag.com/ir under the heading "Mandatory Publications", menu item "Directors' Dealings".

In addition, details of the notifications filed in compliance with sections 21ff. of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) during the reporting period can be found on this website under the heading "Mandatory Publications", menu item "Reporting of voting rights according to WpHG". Notifications relating to other legal issues may be downloaded there under the heading "Mandatory Publications", menu item "Other legal issues".

The supervisory body appointments held by Board of Management members and Supervisory Board members can be found on pages 81 to 84 of this annual report. The shareholder structure is presented on page 103.

