

Corporate Governance Report

Corporate governance is defined as responsible, transparent corporate management and supervision that aim 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 enables us to meet the steadily increasing demand for information from national and international stakeholders.

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

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) on November 15, 2019 with the following wording:

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

The recommendations of the Government Commission of the German Corporate Governance Code in the version dated 7 February 2017 (the Code) that was published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 24 April 2017 was complied with in the period from the last Declaration of Conformity dated

16 November 2018 and will continue to be complied with, with the exception of the numbers listed below and their stated reasons and periods listed below.

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

A severance payment cap will be included in new contracts concluded with members of the Board of Management, but was not stipulated 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 were applied in this respect. This recommendation has been complied with in full since June 2019, because there are no longer any contracts containing grandfather clauses.

> b) 5.3.2(3) sentence 2 (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(3) sentence 2 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, it is our opinion that these relationships do not constitute a conflict of interest nor do they interfere with his duties as the Chairman of the Audit Committee. This deviation is therefore being declared purely as a precautionary measure.

> c) 5.4.1(6 to 8) (disclosure regarding election recommendations)

With regard to the recommendation in number 5.4.1(6-8) of the Code stating that certain circumstances 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, we 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) 5.4.5 sentence 2 (a maximum of three supervisory board mandates in non-group listed corporations or comparable companies)

On 28 June 2019, TRATON SE shares commenced trading on the regulated market of the Frankfurt Stock Exchange and the Nasdaq in Stockholm. The Chairman of the Supervisory Board has been on the supervisory boards of three listed companies since that date, namely VOLKSWAGEN AG, AUDI AG and TRATON SE, as well as on the Supervisory Board of Bertelsmann SE & Co. KGaA. He is also Chairman of the Executive Board of Porsche Automobil Holding SE. Porsche Automobil Holding SE is not part of the same group as AUDI AG, VOLKSWAGEN AG and TRATON SE. As it cannot be ruled out that the supervisory board mandate at Bertelsmann SE & Co. KGaA involves similar requirements to those of a supervisory mandate in a listed company, and as the precise method of counting the mandates is unclear, we declare a deviation from section 5.4.5 sentence 2 of the Code as a precautionary measure. We are, however, confident that the Chairman of the Supervisory Board of VOLKSWAGEN AG has sufficient time at his disposal to fulfill the duties related to his mandate in the VOLKSWAGEN Group.”

The current declaration of conformity is also published on our website <http://www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html>.

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 version of the Code as amended on February 7, 2017 have been complied with. The general compensation clauses in the contracts with members of the Board of Management may, if applied accordingly, result in early disbursement of multi-year variable remuneration components. 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 2019 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 2019 Annual General Meeting so that the introductory remarks and the speech 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, TRATON SE, MAN SE and RENK AG have also each issued declarations of conformity with the German Corporate Governance Code. The declarations of conformity by our listed subsidiaries can be accessed on 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 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 88 to 91.

i DECLARATION OF CONFORMITY OF VOLKSWAGEN AG
www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html

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

i DECLARATION OF CONFORMITY OF TRATON SE
<https://ir.traton.com/websites/traton/English/5000/corporate-governance.html>

i DECLARATION OF CONFORMITY OF MAN SE
<https://www.corporate.man.eu/en/investor-relations/corporate-governance/corporate-governance-at-man/Corporate-Governance-at-MAN.html>

i DECLARATION OF CONFORMITY OF RENK AG
<https://www.renk-ag.com/en/investor-relations/financial-reports/>

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT AS WELL AS THE 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 members of the Supervisory Board should be shareholder representatives with no 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 on the Supervisory Board must be persons who are independent as defined in number 5.4.2 of the 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. After thorough deliberation, the Supervisory Board decided to propose Mr. Hans Michel Piëch to the 2019 Annual General Meeting for re-election to the Supervisory Board, despite him exceeding the regular age limit of 75 (in accordance with the Supervisory Board rules of procedure) at the time of election. Mr. Hans Michel Piëch is indirectly the largest individual shareholder in Volkswagen AG and – thanks in part to his many years of work for numerous other companies in the Volkswagen Group – has a particular wealth of experience and expertise in the Company's business areas. The Supervisory Board is confident that he will continue to contribute this in the Company's best interests in the future. The independent members of the Supervisory Board within the meaning of number 5.4.2 of the Code are, at the present time in any case, Ms. Hessa Sultan Al-Jaber and Ms. Louise Kiesling, Mr. Hussain Ali Al-Abdulla, Mr. Bernd Althusmann and Mr. Stephan Weil.

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 conducted by the company. 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,
- > 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 curriculum vitae of the members of the Supervisory Board are available online at www.volkswagenag.com/en/group/executive-bodies.html.

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 (Führpos-GleichberG – German 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. The employee representatives have met the quota since the end of the 57th Annual General Meeting on May 10, 2017. Both the shareholder and the employee representatives fulfilled the quota on December 31, 2019.

The Supervisory Board set a target quota of 11.1% for the period after December 31, 2016 for the proportion of female members on the Board of Management as required in accordance with the FührposGleichberG. The new deadline set for achievement of this target is December 31, 2021. The proportion of female members on the Board of Management

TOGETHER4INTEGRITY



of Volkswagen AG as of December 31, 2019 was 12.5%, thus meeting the target quota.

For the proportion of women in management in accordance with the FührungsGleichberG, 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, 2019, the proportion of women in the active workforce at the first level of management was 11.4 (10.7)% and at the second level of management it was 16.4 (15.4)%.

REMUNERATION REPORT

Extensive explanations of the remuneration system and the individual remuneration of the members of the Board of Management and Supervisory Board can be found in the Remuneration Report starting on page 70 of the combined management report, in the notes to Volkswagen's consolidated financial statements on page 334, and on page 65 of the notes to the annual financial statements of Volkswagen AG.

The Corporate Governance Report according to number 3.10 of the Code in the version dated February 7, 2017 ends here.

GROUP CORPORATE GOVERNANCE DECLARATION

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

i **GROUP CORPORATE GOVERNANCE DECLARATION**
www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html

INTEGRITY

With the Group strategy that was enhanced in 2019 – TOGETHER 2025+ – Volkswagen has made becoming a role model in the areas of integrity and compliance one of its key objectives.

With the Board of Management position for Integrity and Legal Affairs, the Group has put in place the organizational prerequisites for centralized integrity management. This Group function is responsible for planning, preparing and implementing programs and projects aimed at raising awareness, providing information and reinforcing a shared awareness of integrity.

Integrity at Volkswagen is defined as acting out of conviction, with responsibility and steadfastness. Integrity is an inner disposition that acts as an internal moral compass for doing the right thing in gray areas, in the absence of explicit rules or in the event of conflicting objectives. This means complying with our Group principles and the ethical principles established therein and behaving correctly in accordance with the rules. It also includes the steadfastness needed to adhere to these principles – regardless of economic and social pressure.

A comprehensive integrity program has been in place since 2016 with information campaigns, opportunities for dialog and initiatives aimed at all employees. This encompasses measures such as international get-togethers for managers and so-called integrity workshops for team spokespeople in production. In addition, we have launched an ambassador program that helps multipliers to make integrity a visible and practical part of everyday working life. The reporting year also saw us launch the integrity index as a pilot project in the Volkswagen Passenger Cars and Audi brands' German locations. The index was developed in collaboration with the Technical University of Munich and is

designed to give a comprehensive picture of an organization's integrity. In future, we will use it as a performance indicator to measure our progress toward our strategic goal of being a role model for integrity. With the integrity index, we are setting a benchmark for measuring integrity at an international level. The index can be used across industries and is geared toward global use. It has strong scientific validity and incorporates established frameworks such as the Ethics & Compliance Initiative (ECI) and Global Reporting Initiative (GRI). Its intention is to reveal possible weaknesses in integrity and compliance matters and make visible the changing mindset and behavior of managers and employees.

Together4Integrity: Establishing processes and engaging with people

As a central part of achieving the goal of becoming a role model for integrity and compliance, Volkswagen has launched Together4Integrity (T4I) – one of the largest strategic programs of transformation in the Group's history.

We firmly believe that only with lasting and dependable integrity will our Company be able to gain and boost the trust of its customers, staff, shareholders, business partners and the general public. With T4I, integrity and compliance are given the same priority as other parameters such as economic targets, sales figures and product quality. T4I strengthens corporate governance in a lasting way. As a Group-wide program, it has been bringing together all integrity- and compliance-related initiatives from 15 different departments under a common umbrella since 2018. The departments involved include Research and Development, Compliance, HR and Integrity.

T4I is based on the five principles of the internationally recognized ECI, which relate to strategy, risk management, a culture of integrity, a speak-up environment and resolute accountability. They are codified as the Group's aspiration level and are implemented through T4I. The Board of Management positions for Integrity & Legal Affairs and for Human Resources are responsible for the program. The other Board of Management positions act as sponsors, thus ensuring that T4I is successfully implemented in their area of responsibility.

The program serves to implement processes and structures that create a regulatory framework for acting with integrity and in accordance with the law. Furthermore, T4I aims to engage with people, creating a corporate culture that enables them to work together as equals, opens up space for creativity, allows diversity to flourish and encourages people to act in line with their values.

The program will be rolled out to all Group companies by 2025. Since launching in 2018, it has been introduced to over

200 companies (as of year-end 2019) that were prioritized based on the level of risk. In total, these employ approximately 430,000 people or around two-thirds of the Group's total workforce. From 2020, the program will be introduced to more and more of the smaller companies in the Group.

There are over 100 packages of measures that make up the core content of T4I, and each Group company is responsible for implementing these itself. Every functional area must put comprehensive and robust systems and processes into effect to mitigate compliance and integrity risks, thereby eliminating the factors that have contributed to serious wrongdoing in the past. The packages of measures have been grouped together into eleven key initiatives; for example, product compliance, HR compliance and HR processes, the whistleblower system, and business partner due diligence. Both compliance and integrity are embedded in the processes for every key initiative.

Employees and managers are engaged in T4I through the use of emotive and interactive formats, making them players in the process of change. They become aware of the fact that successful change relies first and foremost on their hard work and that Volkswagen values their efforts. Events such as the T4I kick-off and T4I perception workshops bring together employees and managers regardless of the different hierarchies. They convey a sense of community and strengthen awareness of the role of each individual. They also provide an opportunity to openly ask critical questions and address problems. Both events take place at every Group company in which T4I is rolled out.

T4I not only has an internal impact; it is also felt outside the Group. New processes, for example, such as the implementation of the Business Partner Code of Conduct, ensure that our suppliers and sales partners are committed to the principles of integrity and compliance and are trained accordingly. In addition, our increasing focus on integrity and compliance shapes the manner in which employees interact with customers, representatives from civil society, governments and other stakeholders, particularly as a result of the requirements and examples set out in the Code of Conduct. In this way, we also convey our understanding of integrity and compliance and the subsequent necessary changes beyond the company.

Through T4I, corporate governance will be geared towards comprehensive and sustainable integrity and compliance across the entire Volkswagen Group. This will provide a stable framework within which the whole workforce can act responsibly and with purpose and entrepreneurial spirit, and will help to establish Volkswagen as a reputable company that embodies integrity.

COMPLIANCE

Acting with integrity, compliance and honesty is an essential prerequisite 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 most important principles. We are striving to strengthen the trust of our customers, our business partners and other stakeholders in our Group by treating each other fairly. 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 is to further enhance awareness of this.

Commitment to compliance at the highest level

In September 2019, Herbert Diess, Chairman of the Board of Management of Volkswagen AG, wrote in the social network LinkedIn: "Ethics, integrity, and compliance are crucial to me and the entire Board of Management to our success. This is the foundation for our future business."

Compliance organization

The Group Compliance Committee met regularly in the reporting year. It is a top-management level body that is chaired by the member of the Board of Management responsible for Integrity & Legal Affairs. The committee ensures that compliance and integrity standards are uniformly developed, applied and communicated across the divisions and brands.

The Group Chief Compliance Officer reports directly to the member of the Board of Management responsible for Integrity & Legal Affairs. In the reporting period, there was direct communication on compliance issues at meetings of the Board of Management, the Audit Committee of the Supervisory Board and the Works Council, particularly by the member of the Board of Management responsible for Integrity & Legal Affairs and the Group Chief Compliance Officer.

Central divisions within the Group are supported and advised by their own compliance contacts. Additional centers of competence are responsible for the overall direction of compliance work and develop compliance instruments and program components with which the companies can implement the compliance requirements themselves across the Group. During the reporting period, additional resources were set aside for these tasks.

The global compliance organization at the Volkswagen Group comprises divisional and regional compliance offices. These support and advise the compliance officers and managers of the respective Group and brand companies with an effective, risk-based, Group-wide compliance management system, helping them to conduct their business activities in accordance with the rules and to be consistent in adhering to relevant laws and internal regulations. They also help com-

panies to identify, evaluate, manage and monitor potential compliance risks. Additional compliance resources were provided on a risk-oriented basis in the reporting year. Higher levels of the compliance organization are involved in the appointment of new compliance officers and conduct a standardized training process.

The heads of the centers of competence report to the Group Chief Compliance Officer on disciplinary and functional matters. The Divisional Compliance Officers and the Regional Compliance Officer China report generally to the Group Chief Compliance Officer on functional matters. Meetings and conferences ensure that those responsible for compliance at Group and brand level are connected and communicate regularly.

Compliance management system

Our compliance management system is aligned with national and international laws and standards. Its objective is to encourage, reinforce and ensure compliant behavior in the Company in a lasting manner. The focus of our compliance organization is on preventing corruption, breaches of trust and money laundering and thereby on reducing the risk of unlawful actions. In the reporting year, we also conducted an analysis of fraud prevention for all relevant risks at the second line of defense in the risk management and internal control system.

Where laws and regulations have been violated, our whistleblower system is a suitable tool for taking appropriate action. Members of management are obligated to report every indication of serious rule-breaking. Failure to do so is itself a serious infringement. The accessibility of the whistleblower system has been further improved with a 24-hour hotline.

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

Compliance work in the Volkswagen Group is based on a systematic process of risk identification and reporting in accordance with the IDW standard AsS 980. We used 2019 to conduct a Group-wide compliance risk analysis. The reporting year also saw us begin the global roll-out of our new standardized, IT-based process for selecting business partners. This will be used to regularly review the integrity of existing and new business partners through a risk-based approach and will be conducted every one to six years, depending on the degree of risk exposure. 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's Code of Conduct is established throughout the Group. It is the main tool for reinforcing awareness of good conduct among the workforce, providing assistance to employees and finding suitable contacts in cases of uncertainty. The framework is available to all employees on the intranet and also to third parties on the internet and is continually communicated within the Company via digital and print media and at events.

Employees at all levels of the hierarchy receive regular training on the Code of Conduct, and the Code is also a fixed part of our operational HR processes. New employees receive a copy of it as part of the recruitment process. A reference to the Code of Conduct and the obligation to comply with it are a fixed part of employment contracts. In the reporting year, the Code of Conduct formed part of the employees' annual reviews and was thus taken into account when calculating their variable, performance-related remuneration. As of 2019, employees at senior management levels are required to undergo annual Code of Conduct certification process.

In addition to the Volkswagen Group Code of Conduct, Group Compliance prepares Group policies and guidelines on specific compliance issues, which are incorporated into the relevant rules of the brand and Group companies throughout the entire Group. In the reporting year, for example, uniform rules for dealing with gifts, avoiding corruption and conflicts of interest were set out in a Group policy for the first time. In addition, a revised version of the guidelines on whistleblowing reinforced the role of the Volkswagen whistleblower system as the central point of contact for cases of serious rule-breaking. Group policies on business partner due diligence, on prevention of money laundering and on mergers & acquisitions were also implemented.

There was a new guideline on "Governance and Integrity, Risk Management, Compliance and Legal Affairs" which describes the organization, structure and functions relating to the Compliance, Integrity, Risk Management and Legal departments. Employees have access to the compliance rules and regulations in particular via the compliance pages on the Company intranet.

The Code of Conduct for Business Partners was extensively revised in the reporting year and the new version was enacted throughout the Group. The Code of Conduct for Business Partners defines our minimum standards concerning the compliance matters described therein and is permanently available to third parties via the internet. Business partners can also take part in online training that covers the Code's content.

Whistleblower system

The Volkswagen whistleblower system is the central point of contact for reporting potential cases of serious rule-breaking in the Volkswagen Group. It focuses on investigating serious infringements that could cause major damage to the Company's reputation or financial interests or that involve major breaches of the Volkswagen Group's ethical principles. Examples of matters generally involving serious rule-breaking include economic, corruption-related, tax and environmental offenses, breaches of human rights, infringements of anti-trust and competition law, money laundering and terrorist financing, infringements of rules on product safety and approval, and serious data protection breaches.

The aim of the whistleblower system is to protect Volkswagen and its employees through the use of binding principles and a clearly governed process. The experience gained from reported violations of regulations helps us to improve compliance management and prevent similar incidents in the future. The whistleblower system is designed to provide maximum protection for whistleblowers and affected parties. An investigation is only initiated after the information received has undergone a thorough examination and the latter has identified concrete indications of rule-breaking. The presumption of innocence applies to the parties affected until rule-breaking has been proven. Strict confidentiality and secrecy apply throughout the investigation process. Reports are investigated fairly, swiftly and sensitively. Whistleblowers are also protected. Their statements are treated confidentially. If they wish, and provided the law allows, their identity is not disclosed. Discriminating against whistleblowers is a serious violation of the rules and is not tolerated. Appropriate sanctions are applied where misconduct is proven.

Information on misconduct by Volkswagen Group employees can be reported through a wide range of channels, including anonymously if preferred. Options for anonymous reporting include a specially protected online reporting channel, which allows users to communicate under an alias, and a 24-hour telephone hotline through which reports can be submitted in various languages. In addition to the staff in the Investigation Office, there are two external lawyers

■ **CODE OF CONDUCT OF THE VOLKSWAGEN GROUP**
https://www.volkswagenag.com/presence/konzern/documents/Verhaltensgrundsätze_Group_EN_V2019.pdf

■ **CODE OF CONDUCT FOR BUSINESS PARTNERS**
www.volkswagenag.com/presence/nachhaltigkeit/documents/policy-intern/2019_Code_of_Conduct_for_Business_Partners-DE-EN.pdf

(ombudspersons) available for confidential discussions. The ombudspersons can receive reports and forward them to the Investigation Office.

The whistleblower system is coordinated by the Central Investigation Office in Wolfsburg. This office is also responsible for dealing with reports concerning Volkswagen AG and its subsidiaries. AUDI AG, Dr. Ing. h.c. F. Porsche AG and TRATON SE each operate their own investigation office that also covers their subsidiaries.

Group-wide, 3,174 reports (excluding China) were registered at the four Investigation Offices in 2019 (2018: 1,560). This shows that staff are familiar with the whistleblower system and the underlying processes. It is also proof that employees are motivated by a speak-up culture to take action against misconduct.

Communication, training and advice

We further expanded training and communication activities relating to compliance in the reporting year. Training on the Code of Conduct is mandatory for all employee groups and forms the basis for the understanding of compliance in the Group. It takes place in both face-to-face and online training sessions. The training is regularly repeated with new and expanded content and documented in employees' training history.

In addition, Volkswagen introduced a mandatory anti-corruption training in the reporting year, which is also being rolled out Group-wide. For the first time, training and raising awareness on this issue is aimed not only at specific groups within the Company, but also at business partners from sales and procurement departments based on the level of risk.

Following the risk-based approach, compliance training – some of which is mandatory – continues to take place on topics including the prevention of money laundering. Compliance content is also communicated through personal development programs, in various dialog formats and at presentations and events, for example on the topic of anti-corruption measures and the whistleblower system.

Employees can also use special e-mail addresses to solicit advice on compliance issues. They can also contact advisory services within the compliance organization, such as the compliance Infopoint at Volkswagen.

Compliance key performance indicator

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

> Compliance, a culture of error management and behaving with integrity. This is based on an evaluation of the answers to three questions in the opinion survey relating to compliance with regulations and processes, dealing with risks and errors and behaving with integrity. In the case of negative deviations, the affected departments develop and implement measures. In the reporting year, the key performance indicator further improved on the previous good figure.

Strengthening compliance in company processes

The act implementing the Fourth EU Money Laundering Directive into German law presented new requirements 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). The Group policy adopted and published in this context by the Board of Management in 2018 defines the minimum standard to be implemented by all Group companies.

In 2018, we designed and developed a new IT tool for a risk-based business partner selection process at the Volkswagen Group. We began pilot testing the tool at the end of 2018. The Group has been gradually introducing this business partner selection process since 2019. A key objective of the new process is the creation of transparency within the Volkswagen Group to prevent Group companies from entering into business relationships with business partners that other Group companies have previously classified as not acting with integrity.

New business models are constantly being considered in the Volkswagen Group as part of the enhanced Group strategy TOGETHER 2025⁺. These business models focus particularly on digitalization, automation and electrification, but also on the development of and involvement in mobility concepts. The compliance organization 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 more firmly embedded in mergers & acquisitions and real estate transactions.

WHISTLEBLOWER SYSTEM

www.volkswagenag.com/en/group/compliance-and-risk-management/whistleblowersystem.html

Phone: + 49 5361 9 46300

E-Mail: io@volkswagen.de

Effectiveness review

Independent reviews by Group Internal Audit in 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 2019.

INDEPENDENT MONITOR

In June 2017, in connection with the diesel issue, 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 also works as Independent Compliance Auditor under the Third Partial Consent Decree concluded separately with the US Department of Justice and the US Environmental Protection Agency (EPA) and the Third California Partial Consent Decree agreed with the US 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 179). Mr. Thompson will perform his duties under the Plea Agreement and Third Partial Consent Decrees for a period of three years, which also includes taking measures to further strengthen the Company's compliance and its reporting and monitoring mechanisms, as well as the implementation of an enhanced compliance and ethics program.

In his capacity as the Independent Compliance Monitor on the basis of the Plea Agreement, Mr. Thompson submitted three reports: on March 30, 2018, February 8, 2019, and November 5, 2019; in accordance with the provisions of the Plea Agreement, the reports will not be published. In addition, in his capacity as the Independent Compliance Auditor under the terms of the Third Partial Consent Decrees, Mr. Thompson prepared two annual reports, published on August 27, 2018, and September 4, 2019.

Volkswagen announced on October 17, 2019, that the US Department of Justice and the monitor had granted a 90-day extension to the monitorship to be able to demonstrate that Volkswagen had fulfilled its obligations pursuant to the Plea Agreement. Thanks to this agreement, Volkswagen has 90 more days to fully test and, where necessary, adjust the measures that the Group and its brands have put in place, including the monitor's recommendations, so that Mr. Thompson is able to submit his certification report on the Company's integrity and compliance programs.

On September 2, 2019, Volkswagen also announced that the Company had concluded a settlement agreement with the US Environmental Protection Agency, which had been the reason for commissioning a second auditor for the Volkswagen Group. This agreement was concluded by Volkswagen to prevent it from being excluded from public contracts in the United States. This second auditorship is planned to last three years.

RISK MANAGEMENT, AUDIT

Carefully managing potential risks to the Company is a key component of our daily work. The 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 the 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. It also discusses the annual audit planning, the determination of 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/en/InvestorRelations.html. 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 countermotions 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 and the speeches of the Chairman of the Supervisory Board and the Chairman of the Board of Management on the internet.

In addition, news and information on the Volkswagen Group are available on this 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 "Financial News, Ad-hoc Releases & Publications".

We publish managers' transactions pursuant to Article 19 of the Market Abuse Regulation (Marktmissbrauchsverordnung) or – for previous fiscal years – in accordance with section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) (old version) under the heading "Corporate Governance", menu item "Managers' Transactions". On the same web page – under the heading "Financial News, Ad-hoc Releases & Publications", menu item "Voting

Rights" – you can also access details of the notifications filed in the reporting period in compliance with sections 33 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 88 to 91 of this annual report. The shareholder structure is presented on page 109.

■ MANDATORY PUBLICATIONS OF VOLKSWAGEN AG
www.volkswagenag.com/en/InvestorRelations/news-and-publications.html