

Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2018 with respect to equity investments.

OUTLINE OF THE LEGAL STRUCTURE OF THE GROUP

Volkswagen AG is the parent company of the Volkswagen Group. It develops vehicles and components for the Group's brands, but also produces and sells vehicles, in particular passenger cars and light commercial vehicles for the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands. In its capacity as parent company, Volkswagen AG holds indirect or direct interests in AUDI AG, SEAT S.A., ŠKODA AUTO a.s., Dr. Ing. h.c. F. Porsche AG, Scania AB, MAN SE, Volkswagen Financial Services AG, Volkswagen Bank GmbH and a large number of other companies in Germany and abroad. More detailed disclosures are contained in the list of shareholdings in accordance with sections 285 and 313 of the Handelsgesetzbuch (HGB – German Commercial Code), which can be accessed at www.volkswagenag.com/en/InvestorRelations.html and is part of the annual financial statements.

Volkswagen AG is a vertically integrated energy supply company as defined by section 3 no. 38 of the Energiewirtschaftsgesetz (EnWG – German Energy Industry Act) and is therefore subject to the provisions of the EnWG. In the electricity sector, Volkswagen AG generates, sells and distributes electricity together with a Group subsidiary.

Volkswagen AG's Board of Management is the ultimate body responsible for managing the Group. The Supervisory Board appoints, monitors and advises the Board of Management; it is consulted directly on decisions that are of fundamental significance for the Company.

ORGANIZATIONAL STRUCTURE OF THE GROUP

The Volkswagen Group is one of the leading multibrand groups in the automotive industry. The Company's business activities comprise the Automotive and Financial Services divisions. All brands within the Automotive Division – with the exception of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands – are independent legal entities.

The Automotive Division comprises the Passenger Cars, Commercial Vehicles and Power Engineering business areas. The Passenger Cars Business Area essentially consolidates the Volkswagen Group's passenger car brands. Activities focus on the development of vehicles and engines, the production and sale of passenger cars, and the genuine parts business. The product portfolio ranges from fuel-efficient compact cars to luxury vehicles and also includes motorcycles, and will gradually be supplemented by mobility solutions.

The Commercial Vehicles Business Area primarily comprises the development, production and sale of light commercial vehicles, trucks and buses from the Volkswagen Commercial Vehicles, Scania and MAN brands, the corresponding genuine parts business and related services. The collaboration between the MAN and Scania commercial vehicle brands is coordinated within the TRATON GROUP. The commercial vehicles portfolio ranges from pickups to heavy trucks and buses.

The Power Engineering Business Area combines the large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses.

The activities of the Financial Services Division comprise dealer and customer financing, vehicle leasing, direct banking and insurance activities, as well as fleet management and mobility offerings.

With its brands, the Volkswagen Group is present in all relevant markets around the world. The Group's key sales markets currently include Western Europe, China, the USA, Brazil, Russia and Mexico.

Volkswagen AG and the Volkswagen Group are managed by the Volkswagen AG Board of Management in accordance with the Volkswagen AG Articles of Association and the rules of procedure for Volkswagen AG's Board of Management issued by the Supervisory Board.

To further enhance its leadership and management model, the Volkswagen Group introduced an additional internal operational structure in spring 2018. Volkswagen is convinced that this will allow better use of existing competences and economies of scale, make it possible to leverage synergies more systematically and accelerate decision making.

In addition to the Finance & IT, Human Resources and Integrity and Legal Affairs divisions, the Volkswagen Group collaborates across six operating units and the China region, these being the “Volume”, “Premium”, “Sport & Luxury”, “Truck & Bus” brand groups, as well as the Components & Procurement and Financial Services operating units. The “Volume” brand group comprises the Volkswagen Passenger Cars, SEAT, ŠKODA and Volkswagen Commercial Vehicles brands. The Audi, Lamborghini and Ducati brands are brought together in the “Premium” brand group. “Sport & Luxury” is comprised of the Porsche, Bentley and Bugatti brands. The “Truck & Bus” brand group is the umbrella for the Scania and MAN brands. Components & Procurement will function as one unit spanning all of the brands and supporting them. The Financial Services business has been combined into a single unit.

This prepares the Volkswagen Group for a management structure that is simpler, leaner and more effective, and strengthens the brands, giving them more autonomy. In line with the principle of subsidiarity, decisions will be taken at the lowest competent level, close to business operations.

At the same time, spreading the Group’s management duties more broadly means that responsibility is assigned more clearly and definitively. Every member of the Board of Management has assumed additional higher-level duties for the Group. At the same time, the members of the Board of Management of Volkswagen AG have responsibility for a brand group or operating unit, improving collaboration between the brands and the Group as a whole and ensuring that management of the Group is a shared undertaking.

Each brand in the Volkswagen Group is managed by a brand board of management, which ensures its independent and self-contained development and business operations. To the extent permitted by law, the board adheres to the Group targets and requirements laid down by the Board of Management of Volkswagen AG, as well as with the agreements in the brand groups. This allows Group-wide interests to be pursued, while at the same time safeguarding and reinforcing each brand’s specific characteristics. Matters that are of importance to the Group as a whole are submitted to the Group Board of Management in order to reach agreement between the parties involved, to the extent permitted by law. The rights and obligations of the statutory bodies of the relevant brand company remain unaffected.

The companies of the Volkswagen Group are managed by their respective managements on their own responsibility. In addition to the interests of their own companies, the management of each individual company takes into account the interests of the Group, the relevant brand group and the individual brands in accordance with the framework laid down by law.

At Group level, committees also address key strategic issues, for example relating to product planning, investments, risks management and management issues. The portfolio of these committees and the regulation landscape at Group level was revised in the reporting year and, in the course of this, a committee was established to manage the technology strategy. This has reduced complexity and reinforced governance within the Group.

Within our future program TOGETHER – Strategy 2025, the Organization 4.0 Group initiative is also supporting the Company’s transformation. The aim of this initiative is to connect activities across divisions, initiate new organizational approaches and anchor these in the Group for the long term. This will not only enable but actively create holistic stimulus for innovation, entrepreneurship and change.

MATERIAL CHANGES IN EQUITY INVESTMENTS

The control and profit and loss transfer agreement between MAN SE, as the controlled company, and TRATON SE (at that time Volkswagen Truck & Bus AG), a wholly owned subsidiary of Volkswagen AG, as the controlling company, came into force upon its entry in the commercial register on July 16, 2013. The conclusion of the control and profit and loss transfer agreement replaced, the group based on the de facto exercise of management control with a contractual group, permitting considerably more efficient and less bureaucratic cooperation between the MAN Group and the rest of the Volkswagen Group. In the summer of 2018, the Higher Regional Court in Munich made a final decision in the award proceedings regarding the appropriateness of the cash settlement and the right to compensation for the non-controlling interest shareholders of MAN SE, ruling that the cash settlement amount set out in the contract should be increased to €90.29 per share and the annual compensation to €5.47 gross per share. Following the entry of the final decisions in the commercial register in August 2018, the noncontrolling interest shareholders were entitled to tender their shares in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) within a two-month period. The decision in the award proceedings resulted in a significant increase in the annual compensation to be paid to noncontrolling interest shareholders of MAN SE. In the opinion of the Board of Management at TRATON SE (at

that time TRATON AG), this was no longer proportionate to the profit transfer from MAN SE and other benefits stipulated in the control and profit and loss transfer agreement; TRATON SE therefore exercised its right to extraordinary termination in accordance with section 304(4) of the German Stock Corporation Act on August 22, 2018 and terminated the control and profit and loss transfer agreement effective January 1, 2019. As of year-end 2018, TRATON SE held 87.04 (75.73)% of the ordinary shares and 83.05 (46.95)% of the preferred shares in MAN SE. Following the announcement of the termination of the control and profit and loss transfer agreement and the recording thereof in the commercial register on January 3, 2019, the noncontrolling shareholders of MAN SE once again had the right to tender their shares to TRATON SE, pursuant to the provisions of the control and profit and loss transfer agreement, within a two-month period at a cash settlement price of €90.29.

With the Optimize business portfolio Group initiative, the Board of Management intends to ensure the Volkswagen Group's competitiveness and financial performance as a forward-looking mobility provider by focusing on its core business. To this end, we are continuously monitoring and analyzing our portfolio and can respond in a timely manner by making any necessary purchases or sales.

LEGAL FACTORS INFLUENCING BUSINESS

Like other international companies, the business of Volkswagen companies is affected by numerous laws in Germany and abroad. In particular, there are legal requirements relating to development, products, production and distribution, as well as supervisory, data protection, financial, company, commercial, capital market, anti-trust and tax regulations and regulations relating to labor, banking, state aid, energy, environmental and insurance law.

VOLKSWAGEN AG SHAREHOLDINGS

www.volkswagenag.com/en/InvestorRelations.html