

Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2019 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 direct or indirect interests in AUDI AG, SEAT S.A., ŠKODA AUTO a.s., Dr. Ing. h.c. F. Porsche AG, TRATON 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 as a Group with subsidiaries.

The Volkswagen AG Board of Management has sole responsibility for managing the Company. 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 divi-

sions. 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 and the Volkswagen Commercial Vehicles brand. Activities focus on the development of vehicles and engines, the production and sale of passenger cars and light commercial vehicles, and the genuine parts business. The product portfolio ranges from 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 trucks and buses from the Scania and MAN brands, the corresponding genuine parts business and related services. The commercial vehicles portfolio ranges from light vans to heavy trucks and buses. The collaboration between the two commercial vehicle brands is coordinated in TRATON SE, which has been listed on the stock exchange since mid-2019.

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 key sales markets currently include Western Europe, China, the USA, Brazil, Russia, Mexico and Poland.

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.

In addition to the Finance & IT, Human Resources and Integrity & 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. We are convinced that this management model will allow better use of existing expertise and economies of scale, boost synergy effects more systematically and accelerate decision making. In addition, it will prepare the Volkswagen Group for a management structure that is simpler, leaner and more effective, and strengthen 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 within the Volkswagen Group is managed by a brand board of management, which ensures the brand's 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 to be agreed upon, to the extent permitted by law. The rights and obligations of the statutory bodies of the relevant brand company remain unaffected.

The Volkswagen Group companies are managed solely by their respective managements. The management of each individual company takes into account not only the interest of its own company but also 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. Some of the committees were optimized in the reporting year in order to improve the efficiency of their decision making. This has reduced complexity and reinforced governance within the Group.

The Best Governance module of our future program TOGETHER 2025+, which was enhanced over the course of the fiscal year, is fostering our Company's transformation. One of its aims is to further improve manageability of the Group and to make even better use of synergy effects.

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 Truck & Bus GmbH), a subsidiary of Volkswagen AG, as the controlling company, came into force upon its entry in the commercial register on July 16, 2013. In summer 2018, the Higher Regional Court in Munich made a final decision in the award proceedings on an increase in the cash settlement and the compensation rights per share for the noncontrolling interest shareholders of MAN SE. This decision 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 Aktiengesetz (AktG – German Stock Corporation Act) in August 2018 and terminated the control and profit and loss transfer agreement effective January 1, 2019. 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. As of year-end 2019, TRATON SE held 94.68 (87.04)% of the ordinary shares and 86.85 (83.05)% of the preferred shares in MAN SE.

Since the end of June 2019, shares of TRATON SE have been traded on the regulated market of the Frankfurt Stock Exchange and the Nasdaq Stockholm exchange. These no-par value bearer shares were placed with investors from Volkswagen AG's shareholding. Volkswagen remains an involved majority shareholder and held 89.72% of the share capital in TRATON SE at the end of the reporting year. The control and profit and loss transfer agreement between Volkswagen AG and TRATON SE ended in accordance with section 307 of the German Stock Corporation Act on December 31, 2019.

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