

Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2017 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/ir 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 managed and coordinated under the umbrella of Volkswagen Truck & Bus GmbH. 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, 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 and Mexico.

Volkswagen AG and the Volkswagen Group are managed by the Volkswagen AG's 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.

Each brand in the Volkswagen Group is managed by a board of management, which ensures its independent and self-contained development and business operations. The Group targets and requirements laid down by the Board of Management of Volkswagen AG must be complied with to the extent permitted by law. 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 separately by their respective managements. In addition to the interests of their own companies, the management of each individual company takes into account the interests of the Group and of 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 and management issues.

To continue to enhance the Group's leadership and management model, we redesigned the portfolio of these committees and the regulation landscape at Group level in the reporting period. Among other things, a Committee for Digital Transformation was created and the Committee for Liquidity and Foreign Currency was replaced by the Group Board of Management Committee for Risk Management. These changes have reduced complexity and reinforced governance within the Group. In addition, the Group functions have continued to focus on leveraging substantial synergies across all brands and business fields, pooling competencies and making these available to the brands.

Operational fine-tuning at Group level has also been reduced further and, at the same time, greater entrepreneurial responsibility assigned to the brands and regions, making the Group more agile and speeding up decision-making processes. The Group Board of Management can concentrate more on strategy and the management of major areas in which synergies can be created, for example joint creation of a digitalization architecture, brand positioning, product strategy, development and use of platforms and modules, procurement and plant capacity utilization.

With our future program TOGETHER – Strategy 2025, the Organization 4.0 Group initiative also supports the Company's transformation and is making the Group's organization fit for the future. 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 will actively create holistic stimulus for innovations, entrepreneurship and change, ensuring that the Group remains agile and competitive in future.

MATERIAL CHANGES IN EQUITY INVESTMENTS

The control and profit and loss transfer agreement between MAN SE, as the controlled company, and Volkswagen Truck & Bus GmbH, 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 by a contractual group, permitting considerably more efficient and less bureaucratic cooperation between the MAN Group and the rest of the Volkswagen Group. Noncontrolling interest shareholders of MAN SE have the right to tender MAN ordinary and preferred shares in Volkswagen Truck & Bus GmbH during and two months after the conclusion of the award proceedings instituted in July 2013 to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. The Munich Regional Court ruled in the first instance at the end of July 2015 that the settlement payable to the shareholders should be increased from €80.89 to €90.29 per share. Both Volkswagen Truck & Bus GmbH and a number of the noncontrolling interest shareholders have appealed to the Higher Regional Court in Munich. At the end of December 2017, Volkswagen Truck & Bus GmbH held 75.73% of the ordinary shares and 46.95% of the preferred shares of MAN SE.

At the beginning of September 2016, Volkswagen Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, and the US-based commercial vehicle manufacturer Navistar International Corporation (Navistar), announced that they had signed an agreement to forge a wide-ranging alliance. The transaction was closed on February 28, 2017. Volkswagen Truck & Bus acquired 16.6% of the shares in Navistar through a capital increase. The interest held was increased to 16.9% by the end of 2017. Navistar is a holding company whose subsidiaries produce trucks, coaches, commercial and school buses, diesel engines and service parts. The alliance includes framework agreements for a strategic technology and supply cooperation and for the joint venture Global Truck & Bus Procurement LLC, based in Lisle (Illinois), which will pursue joint global procurement opportunities. The partnership will focus on developing common powertrain systems, but may

also entail collaboration in other areas of commercial vehicle development and procurement. Opportunities to cooperate in the fields of autonomous driving, alternative fuel technologies and connectivity will also be examined. The aim is to jointly create new synergies and to achieve greater independence from the cycles in the industry.

Part of the PGA Group SAS, Paris, France, was sold by POFIN Financial Services Verwaltungs GmbH, Freilassing, to the Emil Frey Group on June 1, 2017. The sale is in connection with the strategic development of Porsche Holding Salzburg's dealer network and the corresponding focus on dealerships exclusively selling Volkswagen Group brand vehicles. The transaction encompasses dealerships in Poland, the Netherlands, Belgium and in some cases also in France.

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 and using its capital to the best advantage. 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, Volkswagen companies are affected by numerous laws in Germany and abroad. In particular, there are legal requirements relating to development, products, production and distribution, as well as, among other things, to 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/ir