

Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2016 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 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 company within the meaning of 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 in the Automotive Division – with the exception of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands – are legally independent separate companies. The business activities of the various

companies in the Volkswagen Group focus on developing, producing and selling passenger cars, light commercial vehicles, trucks and buses. The product portfolio of the Passenger Cars Business Area ranges from motorcycles to fuel-efficient small cars and luxury vehicles. In the Commercial Vehicles Business Area, the collaboration between the MAN and Scania 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. Power Engineering manufactures large-bore diesel engines and special gear units, among other things. A wide array of financial services, which will be gradually expanded to include mobility services rounds off the Company's portfolio. With its brands, the Volkswagen Group has a presence in all relevant markets around the world, with Western Europe, China, the USA, Brazil, Mexico and Turkey currently representing its key sales markets.

Volkswagen AG and the Volkswagen Group are managed by 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.

At Group level, committees also deal with key strategic issues relating to product planning, investments, liquidity and foreign currency, and management issues.

Each brand in the Volkswagen Group is managed by a board of management, which ensures its independent and separate 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 companies remain unaffected.

The companies of the Volkswagen Group are managed separately by their respective management. 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.

Following the realignment of Group structures, we fine-tuned the management model in the reporting period and made adjustments to its specific structure. The Group functions have been given a more pronounced strategic focus. They should:

- > sustainably enhance the leadership and management model;
- > leverage substantial synergies across all brands and business fields; and
- > pool competencies and make them available to the brands.

Operational fine-tuning at Group level has been reduced 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 product strategy, toolkits, procurement, plant capacity utilization and key technologies such as digitalization. Further information on the Volkswagen Group's future organizational alignment can be found in the Report on Expected Developments on page 178.

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. Non-controlling 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 and a number of the noncontrolling interest shareholders have appealed to the Higher Regional Court in Munich. At the end of December 2016, Volkswagen Truck & Bus GmbH held 75.73% of the ordinary shares and 46.43% of the preferred shares of MAN SE.

On March 14, 2014, Volkswagen AG made a voluntary tender offer to Scania's shareholders for all shares not previously held by Volkswagen either directly or indirectly. Following completion of the offer, Volkswagen increased its interest in Scania's share capital to 99.57% at the end of 2014. A squeeze-out was initiated for the Scania shares not tendered in the course of the offer and, on November 11, 2014, the Swedish court of arbitration ruled in the squeeze-out proceedings that all Scania shares outstanding would be transferred to Volkswagen AG. Volkswagen AG has been the indirect and direct legal owner of all Scania shares since January 14, 2015, when the decision became final and unappealable. In its ruling of June 30, 2016, the court of arbitration confirmed that the bid price paid by Volkswagen was an appropriate settlement.

Through its 50% interest in the joint venture Global Mobility Holding B.V. (GMH), Amsterdam, the Netherlands, the Volkswagen Group held a 50% indirect stake in the joint venture's subsidiary, LeasePlan Corporation N.V., Amsterdam, the Netherlands (LeasePlan). LeasePlan is a Dutch financial services group whose core business is leasing and fleet management. The final approvals for the sale of LeasePlan to an international consortium of investors were issued by the competent authorities in January 2016. Legal transfer of the LeasePlan shares to the consortium was completed on March 21, 2016.

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, production and distribution, as well as to tax, company, commercial, financial and capital market regulations, and those relating to labor, banking, state aid, energy, environmental and insurance law.

■ VOLKSWAGEN AG SHAREHOLDINGS
www.volkswagenag.com/ir