

## IMPORTANT NOTICE

**NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")) EXCEPT TO PERSONS WHO ARE QUALIFIED INSTITUTIONAL BUYERS PURSUANT TO RULE 144A UNDER THE SECURITIES ACT. NOT FOR DISTRIBUTION ELSEWHERE OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED.**

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering memorandum. You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached offering memorandum. In accessing the attached offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information as a result of such access.

CONFIRMATION OF YOUR REPRESENTATION: By accessing the attached offering memorandum, you shall be deemed to have represented that (a) you consent to delivery of the attached offering memorandum and any amendments or supplements thereto by electronic transmission and (b) either (i) you are a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act), or (ii) (A) you are outside the United States and are not a U.S. person (as defined in Regulation S under the Securities Act), nor acting on behalf of a U.S. person and, to the extent you purchase the Securities (as defined herein) described in the attached offering memorandum, you will be doing so pursuant to Regulation S under the Securities Act, and (B) the electronic mail address to which the attached offering memorandum has been delivered is not located in the United States.

The attached offering memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither Volkswagen AG nor Volkswagen Group of America Finance, LLC nor any of BBVA Securities Inc., Citigroup Global Markets Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC or Mizuho Securities USA LLC (collectively, the "**Initial Subscribers**") or any of their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling them accepts any liability or responsibility whatsoever in respect of any discrepancies between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Initial Subscribers.

Restrictions: The attached offering memorandum is being furnished in connection with an offering exempt from registration under the Securities Act. Nothing in this electronic transmission constitutes an offer of securities for sale in the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the Securities Act).

THE ATTACHED OFFERING MEMORANDUM IS BEING PROVIDED TO YOU ON A CONFIDENTIAL BASIS FOR INFORMATIONAL USE SOLELY IN CONNECTION WITH YOUR CONSIDERATION OF THE PURCHASE OF THE SECURITIES REFERRED TO THEREIN. YOU ARE NOT AUTHORIZED TO, AND YOU MAY NOT, FORWARD OR DELIVER THE ATTACHED OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

THE NOTES TO BE ISSUED AND THE GUARANTEE OF THE NOTES (THE "**SECURITIES**") HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS REGISTERED UNDER THE SECURITIES ACT OR PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION.

The distribution of the attached offering memorandum and the offer, sale or solicitation of an offer to buy the Securities is restricted by law in certain jurisdictions. The attached offering memorandum may not be used for, or in connection with, and does not constitute, any offer to sell or solicitation of an offer to buy the Securities by anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorized or is unlawful. Persons into whose possession the attached offering memorandum may come are required to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Securities and the distribution of the attached offering memorandum and other offering material relating to the Securities is set out under "*Plan of Distribution*" in the attached offering memorandum. No action has been or will be taken in any jurisdiction that would, or is intended to, permit a public offering of the Securities, or possession or distribution of the offering memorandum (in preliminary, proof or final form) or any other offering or publicity material relating to the

Securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Initial Subscribers or any affiliate of the Initial Subscribers is a licensed broker or dealer in that jurisdiction, the offering will be deemed to be made by the Initial Subscribers or such affiliate on behalf of the issuer, Volkswagen Group of America Finance, LLC, in such jurisdiction.

You are reminded that the attached offering memorandum has been delivered to you on the basis that you are a person into whose possession the attached offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. If you receive this document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Nothing in this electronic transmission constitutes, and may not be used in connection with, an offer of securities for sale to persons other than the specified categories of institutional buyers described above and to whom it is directed, and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

None of the Initial Subscribers, any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by it, or on its behalf, in connection with the issuer or the offer. The Initial Subscribers and any of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty express or implied, is made by any of the Initial Subscribers or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in this document.

The Initial Subscribers are acting exclusively for Volkswagen Group of America Finance, LLC and Volkswagen AG and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to anyone other than Volkswagen Group of America Finance, LLC and Volkswagen AG for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

# VOLKSWAGEN

## Volkswagen Group of America Finance, LLC

U.S.\$8,000,000,000

consisting of

U.S.\$1,250,000,000 3.875% Guaranteed Notes due 2020,  
 U.S.\$1,500,000,000 4.000% Guaranteed Notes due 2021,  
 U.S.\$1,250,000,000 4.250% Guaranteed Notes due 2023,  
 U.S.\$750,000,000 4.625% Guaranteed Notes due 2025,  
 U.S.\$1,250,000,000 4.750% Guaranteed Notes due 2028,  
 U.S.\$1,250,000,000 Floating Rate Guaranteed Notes due 2020 and  
 U.S.\$750,000,000 Floating Rate Guaranteed Notes due 2021

Each with an unconditional and irrevocable guarantee as to payment of principal and interest from

## VOLKSWAGEN AKTIENGESELLSCHAFT

The Notes will be issued by Volkswagen Group of America Finance, LLC (the "Issuer") and will be unconditionally and irrevocably guaranteed by VOLKSWAGEN AKTIENGESELLSCHAFT (the "Company" or "Guarantor") (the "Offering"). See "Form of Guarantee of the Notes". The Issuer is offering U.S.\$1,250,000,000 Guaranteed Notes due 2020 (the "A Notes") that will bear interest at a rate of 3.875% per annum, U.S.\$1,500,000,000 Guaranteed Notes due 2021 (the "B Notes") that will bear interest at a rate of 4.000% per annum, U.S.\$1,250,000,000 Guaranteed Notes due 2023 (the "C Notes") that will bear interest at a rate of 4.250% per annum, U.S.\$750,000,000 Guaranteed Notes due 2025 (the "D Notes") that will bear interest at a rate of 4.625% per annum, U.S.\$1,250,000,000 Guaranteed Notes due 2028 (the "E Notes") that will bear interest at a rate of 4.750% per annum, U.S.\$1,250,000,000 Floating Rate Guaranteed Notes due 2020 (the "F Notes") that will bear interest at a floating interest rate of U.S.\$ LIBOR plus 0.77% per annum and U.S.\$750,000,000 Floating Rate Guaranteed Notes due 2021 (the "G Notes" and, together with the A Notes, the B Notes, the C Notes, the D Notes, the E Notes and the F Notes, the "Notes") that will bear interest at a floating interest rate of U.S.\$ LIBOR plus 0.94% per annum. Interest on the A Notes, the C Notes, the D Notes and the E Notes will be payable semi-annually in arrears on May 13 and November 13 of each year, commencing on May 13, 2019; interest on the B Notes will be payable semi-annually in arrears on May 12 and November 12 of each year, commencing on May 12, 2019 (short first coupon); interest on the F Notes will be payable quarterly in arrears on February 13, May 13, August 13 and November 13 of each year, commencing on February 13, 2019; and interest on the G Notes will be payable quarterly in arrears on February 12, May 12, August 12 and November 12 of each year, commencing on February 12, 2019 (short first coupon), as described in this offering memorandum (the "Offering Memorandum"). The A Notes will mature on November 13, 2020, the B Notes will mature on November 12, 2021, the C Notes will mature on November 13, 2023, the D Notes will mature on November 13, 2025, the E Notes will mature on November 13, 2028, the F Notes will mature on November 13, 2020 and the G Notes will mature on November 12, 2021. The Notes of each series will be issued only in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

The Issuer may, at its option, redeem the A Notes, the B Notes, the C Notes, the D Notes and the E Notes in whole or in part, on a *pro rata* basis across such series, at any time as further provided in "Terms and Conditions of the Notes — Redemption, Purchase and Cancellation — Redemption at the Option of the Issuer". The Issuer may also redeem the A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes or the G Notes or all the Notes at the Issuer's option, in whole but not in part, at 100% of their principal amount then outstanding plus accrued interest if certain tax events occur as described in this Offering Memorandum.

The Notes will be unsecured senior obligations of the Issuer and will (i) rank *pari passu* in right of payment with all of the Issuer's existing and future unsecured senior indebtedness, and senior in right of payment to all of the Issuer's existing and future subordinated indebtedness, and (ii) be effectively subordinated in right of payment to all of the Issuer's secured indebtedness, to the extent of the value of the assets securing such indebtedness, and to all existing and future indebtedness of each of the Issuer's subsidiaries. The Notes will be unconditionally and irrevocably guaranteed by the Guarantor. The Guarantor's guarantee of the Notes (the "Guarantee" and, together with the Notes, the "Securities") will be senior unsecured debt obligations of the Guarantor and will rank *pari passu* in right of payment with all of its other senior and unsecured debt obligations. The Guarantee, which includes a negative pledge by the Guarantor, will be governed by, and construed in accordance with, the laws of the Federal Republic of Germany.

The Issuer does not intend to apply to list the Notes on any securities exchange.

**Investing in the Notes involves risks. See "Risk Factors" beginning on page 17.**

### Issue Price:

99.924% of the principal amount of the A Notes,  
 99.618% of the principal amount of the B Notes,  
 99.409% of the principal amount of the C Notes,  
 99.758% of the principal amount of the D Notes,  
 98.880% of the principal amount of the E Notes,  
 100.000% of the principal amount of the F Notes and  
 100.000% of the principal amount of the G Notes  
 plus, in each case, accrued interest, if any, from November 13, 2018

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction. Accordingly, the Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or other securities laws. The Securities may be offered and sold in the United States only to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the Securities Act ("Rule 144A") and in transactions outside the United States to non-U.S. persons in reliance on Regulation S. Prospective purchasers in the United States are hereby notified that the seller of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser and transferee of the Notes, in making its purchase, will be subject to certain restrictions and must be able to make and will be deemed to have made certain acknowledgements, representations and agreements, for itself and for each account for which it is purchasing, as set forth under "Purchase and Transfer Restrictions". The Securities are not transferable except in accordance with the restrictions described under "Purchase and Transfer Restrictions".

The Securities will initially be represented by beneficial interests in one or more global notes in registered form without interest coupons (the "Global Notes"), which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC"). Beneficial interests in a Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "Book-Entry, Delivery and Form".

The Initial Subscribers (as defined below in the section entitled "Plan of Distribution") expect to deliver the Notes in book-entry form only against payment in immediately available funds on or about November 13, 2018.

Joint Book-Running Managers

BBVA

Citigroup

HSBC

J.P.Morgan

Mizuho Securities

The date of this Offering Memorandum is November 7, 2018.

## IMPORTANT NOTICE

**You should only rely on the information contained in this Offering Memorandum when making a decision whether to invest in the Notes. None of the Issuer, the Guarantor or any Initial Subscriber has authorized any other person to provide you with different or additional information. If anyone provides you with such information, you should not rely on it. You should assume that the information contained in this Offering Memorandum is only accurate as of the date on the front cover of this Offering Memorandum. The Issuer's and the Guarantor's business, financial condition, results of operations and prospects may have changed since such date.**

This Offering Memorandum is confidential. You are authorized to use this Offering Memorandum solely for the purpose of considering the purchase of the Notes described in this Offering Memorandum. You may not reproduce or distribute this Offering Memorandum, in whole or in part, and you may not disclose any of the contents of this Offering Memorandum or use any information herein for any purpose other than considering a purchase of the Notes. You agree to the foregoing by accepting delivery of this Offering Memorandum.

The distribution of this Offering Memorandum and the offering contemplated in this Offering Memorandum may, in certain jurisdictions, be restricted by law and this Offering Memorandum may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. This Offering Memorandum does not constitute an offer of, or an invitation to purchase, any Securities in any jurisdiction in which such offer or invitation would be unlawful. The Guarantor, the Issuer and the Initial Subscribers require persons into whose possession this Offering Memorandum comes to inform themselves of and observe all such restrictions. None of the Guarantor, the Issuer or any Initial Subscriber accepts any legal responsibility for any violation by any person, whether or not a prospective subscriber to or purchaser of Notes, of any such restrictions. For a more detailed description of certain restrictions in connection with the offering, see "*Plan of Distribution — Selling Restrictions*" and "*Purchase and Transfer Restrictions*."

The Issuer and the Guarantor have furnished the information in this Offering Memorandum. The Initial Subscribers make no representation or warranty, expressed or implied, as to the accuracy or completeness of such information, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Subscribers. None of the Issuer, the Guarantor or the Initial Subscribers, or any of their respective representatives, makes any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes.

Investors also acknowledge that: (i) they have not relied on the Initial Subscribers or any person affiliated with the Initial Subscribers in connection with any investigation of the accuracy of any information contained in this Offering Memorandum or their investment decision; and (ii) they have relied only on the information contained in this document, and that no person has been authorized to give any information or to make any representation concerning the Issuer, the Guarantor or its subsidiaries or the Securities (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Issuer, the Guarantor or the Initial Subscribers.

The Initial Subscribers are acting exclusively for the Issuer and the Guarantor and no one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Issuer and the Guarantor for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

**IN CONNECTION WITH THE OFFERING, THE INITIAL SUBSCRIBERS MAY PURCHASE AND SELL NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY INCLUDE OVER-ALLOTMENT, SYNDICATE COVERING AND STABILIZING TRANSACTIONS. OVER-ALLOTMENT TRANSACTIONS INVOLVE SALES OF NOTES IN EXCESS OF THE PRINCIPAL AMOUNT OF THE NOTES TO BE PURCHASED IN THE OFFERING, WHICH CREATES A SHORT POSITION. SYNDICATE COVERING TRANSACTIONS INVOLVE PURCHASES OF NOTES IN THE OPEN MARKET AFTER THE DISTRIBUTION HAS BEEN COMPLETED IN ORDER TO COVER SHORT POSITIONS CREATED. STABILIZING TRANSACTIONS CONSIST OF CERTAIN BIDS OR PURCHASES OF NOTES MADE FOR THE PURPOSE OF PEGGING, FIXING OR MAINTAINING THE PRICE OF THE NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE INITIAL SUBSCRIBERS (OR PERSON(S) ACTING ON THEIR BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. ANY OF THESE ACTIVITIES MAY PREVENT A DECLINE IN THE MARKET PRICES OF THE NOTES, AND MAY ALSO CAUSE THE PRICES OF THE NOTES TO BE HIGHER THAN THEY WOULD OTHERWISE BE IN THE**

**ABSENCE OF THESE TRANSACTIONS. THE INITIAL SUBSCRIBERS MAY CONDUCT THESE TRANSACTIONS IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. IF THE INITIAL SUBSCRIBERS COMMENCE ANY OF THESE TRANSACTIONS, THEY MAY DISCONTINUE THEM AT ANY TIME.**

In connection with the issue and offering of the Notes, each Initial Subscriber and any of their respective affiliates each acting as an investor for its own account may take up Notes and in that capacity may retain, purchase or sell Notes for their own account and any other securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the issue and offering of the Notes. Accordingly, references in this document to the Notes being offered or placed and the Offering should be read as including any offering or placement of securities and Offering to each Initial Subscriber and any of its respective affiliates acting in such capacity. In addition, certain of the Initial Subscribers or their respective affiliates may enter into financing arrangements with investors. The Initial Subscribers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

**Each investor in the Notes will be deemed to make certain representations, warranties and agreements regarding the manner of purchase and subsequent transfers of the Notes. These representations, warranties and agreements are described in “Purchase and Transfer Restrictions.”**

**Notice to Prospective Investors in the United States**

**The Securities have not been and will not be registered under the Securities Act and the Notes are being offered and sold in the United States only to QIBs in reliance on Rule 144A under the Securities Act and in transactions outside the United States to, or for the account or benefit of, persons who are not U.S. persons (as defined in Regulation S) in reliance on Regulation S. Prospective purchasers in the United States are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Securities are not transferable except in accordance with the restrictions described under “Purchase and Transfer Restrictions.”**

**The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offense in the United States.**

**Notice to Prospective Investors in the United Kingdom**

This Offering Memorandum is only being distributed to and is only directed at persons (i) who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “**Financial Promotion Order**”) or (ii) falling within Article 49(2)(a) to (d) of the Financial Promotion Order (high net worth companies, unincorporated associations, etc.) or (iii) other persons to whom it may be lawfully communicated in accordance with the Financial Promotion Order (all such persons falling within (i) – (iii) together being referred to as “**Relevant Persons**”). This Offering Memorandum is directed only at Relevant Persons and this document or any of its contents must not be acted on or relied on by persons who are not Relevant Persons. The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with Relevant Persons.

**MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET** – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.

**PRIIPs REGULATION / PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point

(10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation. This Offering Memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of notes. This Offering Memorandum is not a prospectus for the purposes of the Prospectus Directive.

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## GENERAL INFORMATION

Unless otherwise specified, in this Offering Memorandum, references to the “**Issuer**” are to Volkswagen Group of America Finance, LLC, references to the “**Company**”, the “**Guarantor**” or “**Volkswagen AG**” are to VOLKSWAGEN AKTIENGESELLSCHAFT, and references to “**Volkswagen**”, the “**Volkswagen Group**”, “**we**”, “**us**” and “**our**” are to VOLKSWAGEN AKTIENGESELLSCHAFT together with its consolidated subsidiaries, including the Issuer.

As used in this Offering Memorandum, “**euro**,” “**EUR**” or “**€**” means the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Union, as amended from time to time; “**U.S. dollar**,” “**U.S. \$**,” “**USD**” or “**\$**” means the lawful currency of the United States; “**Germany**” means the Federal Republic of Germany; and “**United States**”, “**U.S.**” or “**USA**” means the United States of America.

The Guarantor is not registered with the U.S. Securities and Exchange Commission (the “**SEC**”) and, as such, does not make filings typically required of SEC registrants.

The Guarantor, the Issuer and the Initial Subscribers reserve the right in their absolute discretion to reject any subscription for the Notes or offer to purchase Notes.

### Presentation of Financial Data

The audited consolidated financial statements of Volkswagen AG as of and for the years ended December 31, 2017 and 2016 (the “**Annual Financial Statements**”) were prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (“**IFRS**”). The unaudited condensed consolidated interim financial statements of Volkswagen AG as of and for the nine-month period ended September 30, 2018 (the “**Interim Financial Statements**” and, together with the Annual Financial Statements, the “**Financial Statements**”) were prepared on the basis of International Financial Reporting Standards applicable to interim financial reporting as adopted by the European Union. Unless otherwise specified, the financial information analysis included or incorporated by reference in this Offering Memorandum is based on the Financial Statements. Where financial information in this Offering Memorandum is labeled “audited”, it has been taken from the Annual Financial Statements. The label “unaudited” is used to indicate that financial information has not been taken from the Annual Financial Statements but has been derived from the Annual Financial Statements or has been taken or derived from the Interim Financial Statements or the Company’s accounting records or management reporting and has not been audited. Unless otherwise indicated, the audited 2017 and 2016 financial figures included in this Offering Memorandum have been taken from the 2017 Annual Financial Statements and the audited 2015 financial figures have been taken from the 2016 Annual Financial Statements.

The financial information and related discussion and analysis included or incorporated by reference in this Offering Memorandum are presented in euro except as otherwise specified. For certain information regarding rates of exchange between the euro and the U.S. dollar, see “*Exchange Rates*”.

Gross cash flow, change in working capital, cash flow from investing activities attributable to operating activities, net cash flow, gross liquidity, net liquidity, ratio of capex to sales revenue, capex, operating return on sales and special items are not recognized measures under IFRS (“**Non-GAAP measures**”) and should, for this reason, not be considered as an alternative to the applicable IFRS measures. These Non-GAAP measures may not be comparable to similarly titled measures as presented by other companies due to differences in the way of calculation.

The auditor’s reports for the Annual Financial Statements each make reference to group management reports (*Konzernlageberichte*). The group management reports as a whole are not included or incorporated by reference in this Offering Memorandum. Additionally, the review report on the Interim Financial Statements refers to the interim group management report (*Konzernzwischenlagebericht*), as a whole, which is incorporated by reference in excerpts as described under “— *Incorporation of Certain Information by Reference*” in this Offering Memorandum. The group management reports (*Konzernlageberichte*) and the interim group management report (*Konzernzwischenlagebericht*) were prepared by, and are the sole responsibility of, the Company’s management in accordance with German generally accepted accounting principles and in accordance with the provisions of the German Securities Trading Act (“**WpHG**”) applicable to interim group management reports.

The examination of and auditor’s reports upon such group management report/review report upon such interim group management report are required and were performed in accordance with § 317 HGB/§ 115 WpHG and German generally accepted standards for the audit of management reports promulgated by the German Institut der Wirtschaftsprüfer (IDW). Those examinations were not made in accordance with gen-



erally accepted auditing or attestation standards in the United States. Accordingly, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (“**PwC**”) does not express any opinion on this information or on the Annual Financial Statements or Interim Financial Statements incorporated by reference in this Offering Memorandum, in each case in accordance with U.S. generally accepted auditing standards or U.S. attestation standards. Except for those parts incorporated by reference as described under “— *Incorporation of Certain Information by Reference*” in this Offering Memorandum, the information contained in such group management reports/interim group management report and the auditor’s reports upon such group management reports/review report upon such interim group management report should not be relied upon by U.S. investors.

IFRS differs in various material respects from generally accepted accounting principles in the United States of America (“**U.S. GAAP**”).

No financial statements or financial information included or incorporated by reference herein have been prepared or presented in accordance with U.S. GAAP or the accounting rules and regulations adopted by the SEC (“**SEC Rules and Regulations**”). As a result, such financial information may differ substantially from financial information prepared in accordance with U.S. GAAP and those rules and regulations. It is not practicable for the Volkswagen Group to prepare its financial statements in accordance with U.S. GAAP and the SEC Rules and Regulations or to prepare any reconciliation of the Volkswagen Group’s consolidated financial statements and related notes. In making an investment decision, investors must rely upon their own examination of the Volkswagen Group’s financial position, operation and cash flows, the terms of the Offering and the financial information presented herein. Volkswagen urges potential investors to consult their own professional advisers for an understanding of the differences between IFRS and U.S. GAAP, and of how those differences might affect the financial information presented herein.

### **Industry Information**

Certain market data used in this Offering Memorandum, including statistics in respect of product sales volumes and market shares, in particular those under the captions “*Summary*” and “*Business of the Volkswagen Group*”, have been obtained from internal surveys of the Volkswagen Group, market research, consultant surveys, publicly available information, reports of governmental agencies, industry publications and surveys, and other sources the Volkswagen Group believes to be reliable. Industry surveys, publications and consultant surveys generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Neither the Issuer nor Volkswagen has independently verified any of the data from third-party sources, or ascertained the economic assumptions relied upon therein. Similarly, internal surveys of the Volkswagen Group and market research, which the Issuer and Volkswagen believe to be reliable, based upon Volkswagen’s management’s knowledge of the industry, have not been independently verified. Volkswagen does not make any representation as to the accuracy of information described in this paragraph. Statements as to Volkswagen’s market position are based on currently available data. While the Issuer and Volkswagen are not aware of any misstatements regarding the industry data presented in this Offering Memorandum, estimates involve risks and uncertainties and are subject to change based on various factors, including those described under the captions “*Risk Factors*” and “— *Cautionary Note Regarding Forward-Looking Statements*”.

### **Unit sales, delivery and production information provided by Volkswagen**

This Offering Memorandum contains definitions used by Volkswagen in respect of “deliveries” and “unit sales”. According to these definitions, a vehicle is delivered once it has been handed over to the customer and the term “unit sales” describes those vehicles that have been sold to external wholesalers or to independent authorized dealers. Operational data such as unit sales, delivery and production information appearing in this Offering Memorandum are unaudited.

### **Rounding**

Certain figures included in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

### **Other Information**

All references in this Offering Memorandum to:

- “**EU**” are to the European Union;
- “**Notes**” are to the Notes issued in this Offering;
- “**Holder**” or “**Noteholder**” are to each holder of Notes; and
- “**you**” are to investors or potential investors in the Notes.

## Additional Information and Reporting

The Volkswagen Group currently furnishes, and intends to continue to furnish, to holders of its shares an annual report, which includes its audited consolidated financial statements prepared in accordance with IFRS. The financial statements included in the annual reports will be audited and reported upon, with an auditor's report by the Volkswagen Group's independent auditors. As a listed company in Germany, Volkswagen Aktiengesellschaft publishes quarterly reports to its shareholders, which include unaudited condensed consolidated interim financial information prepared in accordance with IFRS applicable to interim financial reporting.

Volkswagen Aktiengesellschaft is not subject to the periodic reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). Volkswagen Aktiengesellschaft is currently claiming an exemption from the reporting requirements of the Exchange Act pursuant to Rule 12g3-2(b) under the Exchange Act and publishes, in English, on its internet website [www.volkswagenag.com](http://www.volkswagenag.com) certain information required under such Rule. If, at any time, Volkswagen Aktiengesellschaft is neither subject to Section 13 or 15(d) of the Exchange Act, as amended, nor exempt from the reporting requirements of the Exchange Act under Rule 12g3-2(b) thereunder, it will provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owner or purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act for as long as the Notes are outstanding.

In addition, this document contains inactive textual references to internet websites operated by the Volkswagen Group and third parties. Reference to such websites is made for informational purposes only, and information found at such websites is not incorporated herein by reference.

Volkswagen Aktiengesellschaft's registered office is located at Berliner Ring 2, 38440 Wolfsburg, Germany.

## Incorporation of Certain Information by Reference

This Offering Memorandum incorporates by reference, and should be read and construed in conjunction with, the following information:

- the audited consolidated financial statements of Volkswagen AG as of and for the year ended December 31, 2017, as included on pages 195 to 314 of the Annual Report 2017 of the Volkswagen Group, and the Independent Auditor's Report, as included on pages 316 to 325 of the Annual Report 2017 of the Volkswagen Group;
- the audited consolidated financial statements of Volkswagen AG as of and for the year ended December 31, 2016, as included on pages 205 to 318 of the Annual Report 2016 of the Volkswagen Group, and the Auditor's Report, as included on pages 320 to 321 of the Annual Report 2016 of the Volkswagen Group;
- the Responsibility Statements, as included on page 315 of the Annual Report 2017 of the Volkswagen Group and page 319 of the Annual Report 2016 of the Volkswagen Group;
- the unaudited condensed consolidated interim financial statements of Volkswagen AG as of and for the nine-month period ended September 30, 2018, as included on pages 31 to 69 of the Interim Report of the Volkswagen Group January–September 2018, and the Review Report, as included on pages 70 to 71 of the Interim Report of the Volkswagen Group January–September 2018; and
- the following sections of the Interim Report of the Volkswagen Group January–September 2018 (the "**2018 Q3 Report Excerpts**"):

### Interim Group Management Report

Business Development .....	Pages 7 to 14
Results of Operations, Financial Position and Net Assets .....	Pages 15 to 24
<b>Brands and Business Fields</b> .....	Pages 26 to 29

The information contained in each document incorporated by reference herein is given as of the date of such document. Such information shall be deemed to be incorporated in, and form part of, this Offering Memorandum, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this document to the extent that a statement contained or incorporated herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

You may obtain a copy of the Annual Financial Statements, the Interim Financial Statements and the 2018 Q3 Report Excerpts by visiting Volkswagen's website at:

- <http://annualreport2017.volkswagenag.com/servicepages/filelibrary/files/collection.php>;
- <http://annualreport2016.volkswagenag.com/servicepages/filelibrary/files/collection.php>; and
- [https://www.volkswagenag.com/presence/investorrelation/publications/interim-reports/2018/volkswagen/en/Q3\\_2018\\_e.pdf](https://www.volkswagenag.com/presence/investorrelation/publications/interim-reports/2018/volkswagen/en/Q3_2018_e.pdf).

Other than the information specified above and specifically incorporated by reference in this Offering Memorandum, such documents do not form part of this Offering Memorandum and the contents of the Company's internet website do not form part of this Offering Memorandum and, in each case, should not be relied upon for the purposes of forming an investment decision with respect to the Notes.

### **Enforceability of Liabilities and Service of Process**

The Company is a stock corporation (*Aktiengesellschaft*) established under German law with its registered office in Wolfsburg, Germany. The majority of the Company's executive officers and directors reside in Germany or other jurisdictions outside the United States, and all or a substantial portion of the assets of such persons and of the Company are located outside the United States. As a result, it may not be possible for investors to effect service of process in the United States upon the Company, or upon the Company's executive officers and directors, or to enforce against the Company, or the Company's executive officers and directors, judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities law or other laws of the United States. In general, the enforcement of a final judgment of a United States court requires a declaration of enforceability by a German court in a special proceeding.

Under German law, a stock corporation may indemnify its officers, and, under certain circumstances, German labor law requires a stock corporation to do so. However, a stock corporation may not, as a general matter, indemnify members of the Supervisory Board (*Aufsichtsrat*) and Board of Management (*Vorstand*). Certain limited exceptions may apply if the indemnification is in the legitimate interest of the stock corporation. Volkswagen AG's articles of incorporation do not contain provisions regarding the indemnification of its directors and officers. A German stock corporation may purchase directors' and officers' insurance. Volkswagen AG has obtained liability insurance for members of its Supervisory Board and its Board of Management and certain of its officers.

### **Cautionary Note Regarding Forward-Looking Statements**

This Offering Memorandum contains various forward-looking statements, as such term is defined in Section 21E of the Exchange Act. Forward-looking statements relate to future, not past, events and often contain words such as "aim", "anticipate", "believe", "could", "estimate", "expect", "forecast", "intend", "may", "plan", "potential", "predict", "project", "should", "seek", "will" or "would" or, in each case, their negative, or similar expressions. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements appear in a number of places in this Offering Memorandum, including the sections entitled "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Business of the Volkswagen Group*" as well as in the 2018 Q3 Report Excerpts incorporated herein by reference and include, among other things, statements relating to:

- the Volkswagen Group's strategy, outlook and growth prospects;
- the Volkswagen Group's operational and financial targets and its dividend policy;
- the Volkswagen Group's planned investments;
- general economic trends and trends in the Volkswagen Group's industry;
- the Volkswagen Group's expectations regarding the potential outcomes of legal and regulatory proceedings, including those in relation to the diesel issue; and
- the competitive environment in which the Volkswagen Group operates.

Although Volkswagen believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that they will materialize or prove to be correct. Because these statements involve risks and uncertainties, the actual result or outcome could differ materially from those set out in the forward-looking statements as a result of, among other things:

- the Volkswagen Group's ability to successfully develop, introduce and expand its products;
- competition in the Volkswagen Group's market segments;
- the Volkswagen Group's ability to manage its operations and integrate its recent and future acquisitions;
- changes in international and local economic, business and industry conditions;
- significant changes in economic, political and market conditions in China, including the effect of competition from new market entrants, on Volkswagen Group's vehicle sales and market position in China;
- consolidation in certain of the Volkswagen Group's customers' industries;

- the Volkswagen Group's ability to retain key personnel or skilled employees;
- the Volkswagen Group's ability to manage the legal and regulatory proceedings faced by it, including those in relation to the diesel issue;
- the Volkswagen Group's ability to manage the legal and regulatory aspects of its operations, including protecting its intellectual property rights and environmental compliance;
- the Volkswagen Group's ability to reduce its costs; and
- the Volkswagen Group's credit risk management.

Additional factors that could cause the Volkswagen Group's actual results, performance or achievements to differ materially include those discussed under "*Risk Factors*".

These forward-looking statements speak only as of the date of this Offering Memorandum. Volkswagen undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law or regulation. Accordingly, prospective investors are cautioned not to place undue reliance on any of the forward-looking statements herein.

## 1. SUMMARY

### 1.1 Overview

Volkswagen Group is one of the world's leading multibrand companies in the automotive industry. In 2017, Volkswagen Group achieved sales revenue of EUR 230,682 million, operating result of EUR 13,818 million and earnings after tax of EUR 11,638 million. In the first nine months of 2018, Volkswagen Group achieved sales revenue of EUR 174,577 million, operating result of EUR 10,871 million and earnings after tax of EUR 9,376 million. Volkswagen Group delivered 10,741 thousand vehicles to its customers worldwide in 2017 and 8,130 thousand vehicles in the first nine months of 2018.

Volkswagen Group comprises twelve brands from seven European countries: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN.

Volkswagen's product portfolio ranges from compact cars to luxury vehicles and also includes motorcycles, and will gradually be supplemented by mobility solutions, such as shuttle on demand and ride hailing services. In the commercial vehicle sector, the product portfolio ranges from pick-ups to buses and heavy trucks. Volkswagen is also active in the power engineering business field, manufacturing large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems. As of December 31, 2017, Volkswagen Group's product range comprised around 355 models. In addition, the Volkswagen Group offers a wide range of financial services, including dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings.

The Company's business activities comprise two divisions: the Automotive Division and the Financial Services Division.

The Automotive Division is composed of three business areas: Passenger Cars, Commercial Vehicles and Power Engineering. 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 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 Power Engineering business area combines the large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses. The Financial Services Division combines dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings.

The following table provides an overview of the sales volume (including the joint venture companies in China), sales revenue and operating result for the Volkswagen Group and Volkswagen's Divisions:

	<b>For the year ended December 31</b>								
	<b>(unaudited, unless otherwise indicated)</b>								
	<b>Unit sales</b>			<b>Sales revenue</b>			<b>Operating result</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(Thousand vehicles)</b>			<b>(EUR million)</b>					
Volkswagen Group <sup>(1)</sup> . . . . .	10,777	10,391	10,010	230,682 <sup>(2)</sup>	217,267 <sup>(2)</sup>	213,292 <sup>(2)</sup>	13,818 <sup>(2)</sup>	7,103 <sup>(2)</sup>	-4,069 <sup>(2)</sup>
of which:									
Automotive Division <sup>(3)</sup> . . . . .	10,777	10,391	10,010	196,949	186,016	183,936	11,146	4,668	-6,305
Financial Services Division <sup>(4)</sup> . . . . .	-	-	-	33,733	31,251	29,357	2,673	2,435	2,236

<sup>(1)</sup> The sales revenue and operating result of the joint venture companies in China are not included in Volkswagen's figures. The Chinese companies are accounted for using the equity method and recorded proportionate operating result of EUR 4,746 million, EUR 4,956 million and EUR 5,214 million for the years ended December 31, 2017, 2016 and 2015, respectively.

<sup>(2)</sup> Audited.

<sup>(3)</sup> Sales revenue and operating result include allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

<sup>(4)</sup> Financial Services Division corresponds to the Financial Services segment, figures are audited.

	For the nine months ended September 30 (unaudited)					
	Unit sales		Sales revenue		Operating result	
	2018	2017	2018	2017 <sup>(3)</sup>	2018	2017 <sup>(3)</sup>
	(Thousand vehicles)		(EUR million)			
Volkswagen Group <sup>(1)</sup> . . . . .	8,123	7,913	174,577	170,065	10,871	10,636
of which:						
Automotive Division <sup>(2)</sup> . . . . .	8,123	7,913	148,424	144,754	8,832	8,717
Financial Services Division . . . . .	–	–	26,153	25,311	2,039	1,919

<sup>(1)</sup> The sales revenue and operating result of the joint venture companies in China are not included in Volkswagen's figures. The Chinese companies are accounted for using the equity method and recorded proportionate operating result of EUR 3,330 million and EUR 3,305 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

<sup>(2)</sup> Sales revenue and operating result include allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

<sup>(3)</sup> Adjusted for changes in accounting policy (see "— Overview of Consolidated Financial Information of the Volkswagen Group").

Volkswagen Group's financial reporting comprises four reportable segments: Passenger Cars segment, Commercial Vehicles segment, Power Engineering segment and Financial Services segment.

The Automotive Division's three business areas described above conform to Volkswagen's financial reporting segments as follows: The Passenger Cars business area corresponds to the Passenger Cars reporting segment together with the reconciliation, to account for intra-group activities. The Commercial Vehicles business area and Power Engineering business area correspond to the reporting segments of the same name. The Financial Services Division corresponds to the Financial Services segment.

The following tables present an overview of Volkswagen's key figures by segment:

	For the year ended December 31, 2017						
	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
	(EUR million)						
Sales revenue . . . . .	188,405	35,200	3,283	33,733	260,621	–29,939	230,682
Segment result (operating result) . . . . .	12,644	1,892	–55	2,673	17,153	–3,335	13,818
as a percentage of sales revenue <sup>(1)</sup> . . . . .	6.7	5.4	–1.7	7.9	–	–	6.0
Investments in intangible assets, property, plant and equipment, investment property (capex) . . . . .	15,713	1,915	159	421	18,208	104	18,313

<sup>(1)</sup> Unaudited.

	For the nine months ended September 30, 2018 (unaudited)						
	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
	(EUR million)						
Sales revenue . . . . .	140,521	26,289	2,489	26,153	195,452	–20,875	174,577
Segment result (operating result) . . . . .	9,544	1,486	–46	2,039	13,022	–2,151	10,871
as a percentage of sales revenue . . . . .	6.8	5.7	–1.8	7.8	–	–	6.2

In May 2018, Volkswagen introduced an additional internal operating structure, which is being gradually implemented. The Volkswagen Group brands will collaborate along six units and the China region.

The units will consist of (1) the "Volume brand group", (2) the "Premium brand group" and (3) the "Sport & Luxury brand group", (4) the "Truck & Bus brand group", (5) the Components & Procurement business and (6) the Financial Services business.

The "Volume brand group" comprises the Volkswagen Passenger Cars, SEAT, ŠKODA and Volkswagen Commercial Vehicles brands. The "Premium brand group" includes the Audi, Lamborghini and Ducati brands. The "Sport & Luxury brand group" comprises the Porsche, Bentley and Bugatti brands. The "Truck & Bus brand group" is the umbrella for the Scania and MAN brands. With effect from August 30,

2018, Volkswagen Truck & Bus AG became TRATON AG. Within the “Truck & Bus brand group”, TRATON GROUP is designed to combine the brands’ respective strengths and know-how in order to create a new environment for transportation solutions. TRATON is preparing Volkswagen’s trucks and bus business for capital markets readiness. In this context, Volkswagen AG and TRATON AG agreed in October 2018 on the sale of MAN’s Power Engineering business to a Volkswagen Group subsidiary. The sale is intended to be completed by year-end 2018. The Components & Procurement business intends to act as one central unit, which spans across and supports all brands. The placement of Lamborghini, Ducati and Power Engineering within the new additional internal operating structure is currently being reviewed.

The new structure will lay the foundations for streamlining the Volkswagen Group’s management decision making, strengthening the brands and giving them greater autonomy. Volkswagen believes this will enable synergies to be leveraged more systematically and speed up decision-making, thus establishing more efficient group management in a phase of dynamic changes in the company and the entire automotive industry. In 2018, no material modifications or changes of Volkswagen Group’s organizational or financial reporting structure will be implemented as a result of this revision of Volkswagen’s internal operating structure. Effective from January 1, 2019, segment reporting of passenger cars and commercial vehicles will be adapted due to the reallocation of the Volkswagen Commercial Vehicles brand to the Passenger Cars segment.

Volkswagen sells vehicles in about 200 countries. Volkswagen’s primary markets for its automobiles are Europe, Asia-Pacific and the Americas.

The following table presents the regional markets for Volkswagen’s products and services and the percentages of sales revenue from external customers by region (in each case not including the Chinese joint ventures):

	<b>Sales revenue from external customers by region (unaudited)</b>				
	<b>For the nine months ended September 30</b>		<b>For the year ended December 31</b>		
	<b>2018<sup>(2)</sup></b>	<b>2017<sup>(1)</sup></b>	<b>2017 (%)</b>	<b>2016</b>	<b>2015</b>
Germany . . . . .	18.8	19.8	19.2	20.1	19.8
Europe and Other Markets (excluding Germany) . . . . .	42.3	43.3	42.7	43.5	42.3
North America . . . . .	15.7	16.3	16.8	16.3	16.6
South America . . . . .	4.5	4.3	4.3	3.7	4.8
Asia-Pacific . . . . .	18.0	16.3	17.0	16.5	16.5

<sup>(1)</sup> Adjusted for changes in accounting policy (see “— Overview of Consolidated Financial Information of the Volkswagen Group”).

<sup>(2)</sup> Hedging transactions relating to sales revenues in foreign currency are not allocated to regions.

Volkswagen had an average of 634,396 employees worldwide (including the Chinese joint ventures) in 2017.

## 1.2 The Offering

The summary below describes the principal terms of the Notes and the Guarantee. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Terms and Conditions for Floating Rate Notes", "Terms and Conditions for Fixed Rate Notes" and "Form of Guarantee of the Notes" sections of this Offering Memorandum contain more detailed descriptions of the terms and conditions of the Notes and the Guarantee.

<b>Issuer</b> .....	Volkswagen Group of America Finance, LLC
<b>Guarantor</b> .....	Volkswagen Aktiengesellschaft
<b>Offered Securities</b> .....	U.S.\$1,250,000,000 aggregate principal amount of 3.875% Guaranteed Notes due 2020 (the " <b>A Notes</b> "), U.S.\$1,500,000,000 aggregate principal amount of 4.000% Guaranteed Notes due 2021 (the " <b>B Notes</b> "), U.S.\$1,250,000,000 aggregate principal amount of 4.250% Guaranteed Notes due 2023 (the " <b>C Notes</b> "), U.S.\$750,000,000 aggregate principal amount of 4.625% Guaranteed Notes due 2025 (the " <b>D Notes</b> "), U.S.\$1,250,000,000 aggregate principal amount of 4.750% Guaranteed Notes due 2028 (the " <b>E Notes</b> "), U.S.\$1,250,000,000 aggregate principal amount of Floating Rate Guaranteed Notes due 2020 (the " <b>F Notes</b> ") and U.S.\$750,000,000 aggregate principal amount of Floating Rate Guaranteed Notes due 2021 (the " <b>G Notes</b> " and, together with the A Notes, the B Notes, the C Notes, the D Notes, the E Notes and the F Notes, the " <b>Notes</b> ")
<b>Guarantee</b> .....	The Guarantor will unconditionally and irrevocably guarantee the payment of principal, premium, if any, interest and Additional Amounts, if any, payable in respect of the Notes.
<b>Issue Date</b> .....	November 13, 2018
<b>Maturity Date</b> .....	The A Notes will mature on November 13, 2020, the B Notes will mature on November 12, 2021, the C Notes will mature on November 13, 2023, the D Notes will mature on November 13, 2025, the E Notes will mature on November 13, 2028, the F Notes will mature on November 13, 2020 and the G Notes will mature on November 12, 2021.
<b>Ranking</b> .....	<p>The Notes will be unsecured senior obligations of the Issuer and will:</p> <ul style="list-style-type: none"><li>• rank <i>pari passu</i> in right of payment with all of the Issuer's existing and future unsecured senior indebtedness;</li><li>• rank senior in right of payment to all of the Issuer's existing and future subordinated indebtedness;</li><li>• be effectively subordinated in right of payment to all of the Issuer's secured indebtedness, to the extent of the value of the assets securing such indebtedness; and</li><li>• be effectively subordinated in right of payment to all existing and future indebtedness and other liabilities of each of the Issuer's subsidiaries.</li></ul> <p>The Guarantee will be senior unsecured debt obligations of the Guarantor and will rank <i>pari passu</i> in right of payment with all of its other senior and unsecured debt obligations.</p>
<b>Interest Rate</b> .....	The A Notes, the B Notes, the C Notes, the D Notes and the E Notes will bear interest at the rate of 3.875%, 4.000%, 4.250%, 4.625% and 4.750% per annum, respectively. The F Notes and the G Notes will bear interest at a floating interest rate of U.S.\$ LIBOR plus 0.77% per annum and U.S.\$ LIBOR plus 0.94% per annum, respectively.



<b>Interest Payment Days</b> .....	Interest on the A Notes, the C Notes, the D Notes and the E Notes will be payable semi-annually in arrears on May 13 and November 13 of each year, commencing on May 13, 2019; interest on the B Notes will be payable semi-annually in arrears on May 12 and November 12 of each year, commencing on May 12, 2019 (short first coupon); interest on the F Notes will be payable quarterly in arrears on February 13, May 13, August 13 and November 13 of each year, commencing on February 13, 2019; and interest on the G Notes will be payable quarterly in arrears on February 12, May 12, August 12 and November 12 of each year, commencing on February 12, 2019 (short first coupon).
<b>Regular Record Dates for Interest</b> ..	The close of business on the business day prior to the Interest Payment Date.
<b>Business Day</b> .....	Any day which is a day on which (a) the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) is open for business and (b) commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City.
<b>Day Count Fraction</b> .....	30/360 in respect of the A Notes, the B Notes, the C Notes, the D Notes and the E Notes, and Actual/360 in respect of the F Notes and the G Notes.
<b>Day Count Convention</b> .....	Following unadjusted in respect of the A Notes, the B Notes, the C Notes, the D Notes and the E Notes, and adjusted modified following business day in respect of the F Notes and the G Notes.
<b>Optional Redemption</b> .....	The A Notes, the B Notes, the C Notes, the D Notes or the E Notes may be redeemed, in whole or in part, at any time or from time to time, at the Issuer's option, at the redemption price described in " <i>Terms and Conditions of the Notes — Redemption, Purchase and Cancellation — Redemption at the Option of the Issuer</i> " in this Offering Memorandum plus in each case accrued and unpaid interest to the redemption date.
<b>Tax Redemption</b> .....	The A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes or the G Notes or all of the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), if: (i) the Issuer or the Guarantor has or will become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws or regulations of any Tax Jurisdiction (as defined in Condition 8), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of the Offering Memorandum (or, in the case of a successor to the Issuer or the Guarantor that is organized in or a resident for tax purposes of a jurisdiction other than the United States or Germany, the date of such succession), and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Amounts were a payment in respect of the Notes to be redeemed (or the Guarantee, as the case may be) then due. The Notes will be redeemed at a price equal to 100% of the principal amount of the Notes to be redeemed then outstanding plus accrued and unpaid interest on the principal amount being redeemed (and all Additional Amounts, if any) to (but excluding) the date of redemption.

**Payment of Additional Amounts** . . . Subject to certain exceptions, if the Issuer or the Guarantor is required to withhold or deduct certain taxes imposed by the jurisdiction in which it is incorporated or resident for tax purposes or through which it makes payments, from payments made on the Notes or under the Guarantee, the Issuer or the Guarantor, as the case may be, will pay Additional Amounts on those payments so that the amount received by the Holders will equal the amount that would have been received if no such taxes had been applicable.

**Certain Covenants** . . . . . The Notes will contain covenants:

- limiting the Issuer's and the Guarantor's ability to incur liens; and
- restricting the Issuer's and the Guarantor's ability to pledge its assets, secure certain borrowings and create or incur liens on its property.

These covenants will be subject to a number of important qualifications and limitations.

**Cross Default** . . . . . None

**Use of Proceeds** . . . . . The net proceeds from the Notes, less commissions but before expenses payable by the Volkswagen Group in connection with the Notes, will be approximately U.S.\$7,950,680,000 and will be used by the Volkswagen Group for general corporate purposes, including working capital requirements.

**Ratings** . . . . . The Guarantor's long-term credit ratings are A3 (stable outlook) (Moody's Investors Service Ltd.) and BBB+ (stable outlook) (Standard & Poor's Ratings Services).

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning credit rating agency. Neither the credit rating agency nor the Issuer and the Guarantor are obligated to provide a holder of Notes with any notice of any suspension, change or withdrawal of any rating.

**Transfer Restrictions** . . . . . The Securities have not been and will not be registered under the Securities Act, or the securities laws of any other jurisdiction. Unless they are registered, the Notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or other securities laws and may only be transferred in accordance with the restrictions set forth in "*Purchase and Transfer Restrictions*."

**No Prior Market** . . . . . The Notes are new issues of securities for which there currently is no market. The Initial Subscribers have advised Volkswagen that they intend to make a market in the Notes. The Initial Subscribers are not obligated, however, to make a market in the Notes, and any such market-making may be discontinued by the Initial Subscribers in their discretion at any time without notice. Accordingly, Volkswagen cannot assure you that a liquid market for the Notes will develop or be maintained.

**Listing** . . . . . The Notes will not be listed on any securities exchange.

**Further Issuances** . . . . . The Issuer may from time to time without the consent of the Noteholders create and issue further notes having in each such case the same terms and conditions as either the A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes or the G Notes other than the issue price and, if applicable, the first interest payment date (so that, for the avoidance of doubt, refer-

ences in the conditions of such Notes to “Issue Date” shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with the A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes or the G Notes, as the case may be, and references in these Conditions to the “A Notes”, the “B Notes”, the “C Notes”, the “D Notes”, the “E Notes”, the “F Notes” or the “G Notes” as the case may be, shall be construed accordingly, provided however, that in the event any further notes are not fungible with the Notes issued in this Offering for U.S. federal income tax purposes such non-fungible further notes will be issued with a separate CUSIP, ISIN or other identifying number so that they are distinguishable from the Notes.

<b>Denominations</b> .....	The Notes will be issued only in book-entry form, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.	
<b>Fiscal and Paying Agent</b> .....	Citibank, N.A., London Branch Agency & Trust Citigroup Centre Canada Square, Canary Wharf London E14 5LB United Kingdom	
<b>Registrar</b> .....	Citigroup Global Markets Europe AG Agency & Trust Department 5th Floor Reuterweg 16 60323 Frankfurt am Main Germany	
<b>Governing Law</b> .....	The Terms and Conditions of the Notes, the Fiscal and Paying Agency Agreement and the Deed of Covenant will be governed by, and construed in accordance with, the laws of England. The Guarantee will be governed by, and construed in accordance with, the laws of Germany.	
<b>Risk Factors</b> .....	Potential investors should carefully consider the information set forth in the section entitled “ <i>Risk Factors</i> ” and the other information included in this Offering Memorandum in deciding whether to purchase the Notes. See “ <i>Risk Factors</i> ”.	
<b>Notes due 2020 (A Notes)</b> .....	<b>Rule 144A</b>	<b>Regulation S</b>
	CUSIP ..... 928668 AN2	CUSIP ..... U9273A CD5
	ISIN ..... US928668AN24	ISIN ..... USU9273ACD55
	Common	Common
	Code ..... 191024729	Code ..... 191024818
<b>Notes due 2021 (B Notes)</b> .....	<b>Rule 144A</b>	<b>Regulation S</b>
	CUSIP ..... 928668 AP7	CUSIP ..... U9273A CE3
	ISIN ..... US928668AP71	ISIN ..... USU9273ACE39
	Common	Common
	Code ..... 191024737	Code ..... 191024745
<b>Notes due 2023 (C Notes)</b> .....	<b>Rule 144A</b>	<b>Regulation S</b>
	CUSIP ..... 928668 AR3	CUSIP ..... U9273A CG8
	ISIN ..... US928668AR38	ISIN ..... USU9273ACG86
	Common	Common
	Code ..... 191024761	Code ..... 191024834
<b>Notes due 2025 (D Notes)</b> .....	<b>Rule 144A</b>	<b>Regulation S</b>
	CUSIP ..... 928668 AT9	CUSIP ..... U9273A CJ2
	ISIN ..... US928668AT93	ISIN ..... USU9273ACJ26

	<b>Rule 144A</b>	<b>Regulation S</b>
	Common Code . . . . .	Common Code . . . . .
	191024842	191024796
<b>Notes due 2028 (E Notes)</b> . . . . .	<b>Rule 144A</b>	<b>Regulation S</b>
	CUSIP . . . . .	CUSIP . . . . .
	928668 AU6	U9273A CK9
	ISIN . . . . .	ISIN . . . . .
	US928668AU66	USU9273ACK98
	Common Code . . . . .	Common Code . . . . .
	191024800	191024869
<b>Notes due 2020 (F Notes)</b> . . . . .	<b>Rule 144A</b>	<b>Regulation S</b>
	CUSIP . . . . .	CUSIP . . . . .
	928668 AV4	U9273A CL7
	ISIN . . . . .	ISIN . . . . .
	US928668AV40	USU9273ACL71
	Common Code . . . . .	Common Code . . . . .
	191024770	191024788
<b>Notes due 2021 (G Notes)</b> . . . . .	<b>Rule 144A</b>	<b>Regulation S</b>
	CUSIP . . . . .	CUSIP . . . . .
	928668 AQ5	U9273A CF0
	ISIN . . . . .	ISIN . . . . .
	US928668AQ54	USU9273ACF04
	Common Code . . . . .	Common Code . . . . .
	191024826	191024753

### 1.3 Overview of Consolidated Financial Information of the Volkswagen Group

The audited consolidated financial information of the Volkswagen Group set forth below as of and for the years ended December 31, 2017, 2016 and 2015 and the unaudited condensed consolidated interim financial information of the Volkswagen Group as of and for the nine-month periods ended September 30, 2018 and 2017 have been derived from, should be read in conjunction with, and are qualified in their entirety by, the Financial Statements, including the notes thereto, prepared in accordance with IFRS.

The label “unaudited” is used to indicate that financial information has not been taken from the Annual Financial Statements but has been derived from the Annual Financial Statements or has been taken or derived from the Interim Financial Statements or the Company’s accounting records or management reporting and has not been audited.

Prospective investors should read the selected financial and other information in conjunction with the information contained in the sections “General Information — Presentation of Financial Data”, “Risk Factors”, “Capitalization”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Business of the Volkswagen Group” as well as in the 2018 Q3 Report Excerpts and the Financial Statements, including the notes thereto, and other financial data and related discussion and analysis included or incorporated by reference in this Offering Memorandum.

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning on or after January 1, 2018. The application of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” became mandatory as of January 1, 2018.

IFRS 9 changes the accounting requirements for classifying and measuring financial assets, for impairment of financial assets, and for hedge accounting. Financial assets are classified and measured on the basis of the entity’s business model and the characteristics of the financial asset’s cash flows. A financial asset is initially measured either “at amortized cost”, “at fair value through other comprehensive income”, or “at fair value through profit or loss”. The classification and measurement of financial liabilities under IFRS 9 are largely unchanged compared with the current accounting requirements of IAS 39. The basis for measuring impairment losses and recognizing loss allowances switched from an incurred credit loss model to an expected credit loss model. The change in measurement method leads to an increase in the loss allowance. The increase in the loss allowance results firstly from the requirement to recognize a loss allowance even for financial assets not classified as non-performing and whose credit risk has not increased significantly since initial recognition. Secondly, the increase results from the requirement to recognize loss allowances on the basis of the entire expected remaining life of the contractual asset for financial assets for which there has been a significant increase in credit risk since initial recognition. In the case of hedge accounting, IFRS 9 contains both extended designation options and the need to implement more complex recognition and measurement methods. In addition, IFRS 9 also eliminates the quantitative limits for effectiveness testing. Depending on market trends, there is an expectation that operating profit or loss will be

affected by hedging transactions to a greater extent. Due to the retrospective application of the guidance on designating options, the prior-year figures were adjusted.

IFRS 15 specifies new accounting rules for revenue recognition. The Volkswagen Group applies the modified retrospective transition method. This did not result in material transition effects for the Volkswagen Group as of January 1, 2018, because the existing approach used by the Volkswagen Group is already largely in line with the new guidance. In the MAN subgroup, sales revenue for certain types of contract will be recognized at a later point in time than under the previous accounting treatment. Other provisions and other liabilities will be adjusted accordingly. Starting in fiscal year 2018, certain items previously recognized in distribution expenses (in particular financing cost subsidies granted to third parties) are allocated to sales allowances. In addition, from 2018 onward, the reversal of sales allowances is no longer presented under other operating income, but under sales revenue. To make the presentation more consistent and easier to compare, the way other income from the reversal of provisions and accrued liabilities is reported was also adjusted in this context; these items were allocated to those functional area in which they were originally recognized. Comparable interim prior-year figures were adjusted accordingly.

Furthermore in connection with the introduction of IFRS 15, it was established that certain sales programs in certain countries should be allocated to sales allowances rather than distribution expenses. The prior-period distribution expenses were therefore adjusted by €0.8 billion. There was a corresponding decrease in sales revenue.

For more information, see “Accounting Policies” in the notes to the Interim Financial Statements, incorporated by reference in this Offering Memorandum. Due to these changes to the accounting policies, comparable prior-period figures have been adjusted. Such adjustments, wherever applicable, are labeled as “Adjusted for changes in accounting policy”. Annual Financial Statements and financial information for the years presented from January 1 to December 31, 2017, 2016 and 2015 below have not been adjusted.

### **Income Statement Information**

	For the nine months ended September 30		For the year ended December 31		
	2018	2017 <sup>(3)</sup>	2017	2016	2015
	(in EUR million)				
	(unaudited)				
<b>Sales revenue</b> .....	<b>174,577</b>	<b>170,065</b>	<b>230,682</b>	<b>217,267</b>	<b>213,292</b>
Cost of sales .....	-139,533	-137,425	-188,140	-176,270	-179,382
<b>Gross result</b> .....	<b>35,043</b>	<b>32,640</b>	<b>42,542</b>	<b>40,997</b>	<b>33,911</b>
Distribution expenses .....	-15,068	-15,193	-22,710	-22,700	-23,515
Administrative expenses .....	-6,234	-5,974	-8,254	-7,336	-7,197
Net other operating result <sup>(1)</sup> .....	-2,871	-836	2,240	-3,858	-7,267
<b>Operating result</b> .....	<b>10,871</b>	<b>10,636</b>	<b>13,818</b>	<b>7,103</b>	<b>-4,069</b>
Share of the result of equity-accounted investments .....	2,448	2,378	3,482	3,497	4,387
Interest result and other financial result <sup>(2)</sup> .....	-800	-2,725	-3,388	-3,308	-1,620
<b>Financial result</b> .....	<b>1,647</b>	<b>-347</b>	<b>94</b>	<b>189</b>	<b>2,767</b>
<b>Earnings before tax</b> .....	<b>12,518</b>	<b>10,290</b>	<b>13,913</b>	<b>7,292</b>	<b>-1,301</b>
Income tax expense .....	-3,142	-2,746	-2,275	-1,912	-59
<b>Earnings after tax</b> .....	<b>9,376</b>	<b>7,543</b>	<b>11,638</b>	<b>5,379</b>	<b>-1,361</b>
of which attributable to					
Noncontrolling interests .....	10	5	10	10	10
Volkswagen AG hybrid capital investors .....	248	195	274	225	212
Volkswagen AG shareholders .....	9,118	7,344	11,354	5,144	-1,582

<sup>(1)</sup> Total of: other operating income and other operating expenses; unaudited.

<sup>(2)</sup> Total of: interest income, interest expenses and other financial result; unaudited.

<sup>(3)</sup> Adjusted for changes in accounting policy (see “— Overview of Consolidated Financial Information of the Volkswagen Group”).

## Balance Sheet Information

	As of September 30	As of December 31		
	2018	2017	2016	2015
	(in EUR million)			
	(unaudited)			
<b>Assets</b>				
<b>Noncurrent assets</b>	<b>269,254</b>	<b>262,081</b>	<b>254,010</b>	<b>236,548</b>
Intangible assets	63,601	63,419	62,599	61,147
Property, plant and equipment	55,364	55,243	54,033	50,171
Lease assets	42,590	39,254	38,439	33,173
Financial services receivables	77,685	73,249	68,402	63,185
Investments, equity-accounted investments and other equity investments, other receivables and financial assets <sup>(1)</sup>	30,014	30,916	30,537	28,873
<b>Current assets</b>	<b>174,603</b>	<b>160,112</b>	<b>155,722</b>	<b>145,387</b>
Inventories	45,558	40,415	38,978	35,048
Financial services receivables	50,806	53,145	49,673	46,888
Other receivables and financial assets <sup>(2)</sup>	36,324	32,040	30,286	27,572
Marketable securities	16,741	15,939	17,520	15,007
Cash, cash equivalents and time deposits	25,175	18,457	19,265	20,871
Assets held for sale	–	115	–	–
<b>Total assets</b>	<b>443,857</b>	<b>422,193</b>	<b>409,732</b>	<b>381,935</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>	<b>114,522</b>	<b>109,077</b>	<b>92,910</b>	<b>88,270</b>
Equity attributable to Volkswagen AG shareholders <sup>(3)</sup>	101,738	97,761	85,122	80,500
Equity attributable to Volkswagen AG hybrid capital investors	12,565	11,088	7,567	7,560
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	114,303	108,849	92,689	88,060
Noncontrolling interests	219	229	221	210
<b>Noncurrent liabilities</b>	<b>161,639</b>	<b>152,726</b>	<b>139,306</b>	<b>145,175</b>
Financial liabilities	89,749	81,628	66,358	73,292
Provisions for pensions	33,249	32,730	33,012	27,535
Other noncurrent liabilities <sup>(4)</sup>	38,641	38,368	39,936	44,349
<b>Current liabilities</b>	<b>167,696</b>	<b>160,389</b>	<b>177,515</b>	<b>148,489</b>
Put options and compensation rights granted to noncontrolling interest shareholders	3,456	3,795	3,849	3,933
Financial liabilities	85,820	81,844	88,461	72,313
Trade payables	23,464	23,046	22,794	20,460
Other current liabilities <sup>(5)</sup>	54,955	51,705	62,411	51,783
<b>Total equity and liabilities</b>	<b>443,857</b>	<b>422,193</b>	<b>409,732</b>	<b>381,935</b>

<sup>(1)</sup> Including noncurrent tax receivables, noncurrent deferred tax assets; unaudited.

<sup>(2)</sup> Total of: trade receivables, current other financial assets, current other receivables, current tax receivables; unaudited.

<sup>(3)</sup> Total of: subscribed capital, capital reserves, retained earnings, other reserves; unaudited.

<sup>(4)</sup> Total of: noncurrent other liabilities, deferred tax liabilities, noncurrent provisions for taxes, noncurrent other provisions, noncurrent other financial liabilities; unaudited.

<sup>(5)</sup> Total of: current tax payables, current other liabilities, current provisions for taxes, current other provisions, current other financial liabilities; unaudited.

**Cash Flow Statement Information**

	For the nine months ended September 30		For the year ended December 31		
	2018	2017	2017	2016	2015
	(in EUR million)				
	(unaudited)				
<b>Cash and cash equivalents at beginning of period . . .</b>	<b>18,038</b>	<b>18,833</b>	<b>18,833</b>	<b>20,462</b>	<b>18,634</b>
<b>Cash flows from operating activities . . . . .</b>	<b>9,110</b>	<b>346</b>	<b>-1,185</b>	<b>9,430</b>	<b>13,679</b>
<b>Cash flows from investing activities . . . . .</b>	<b>-13,373</b>	<b>-9,443</b>	<b>-16,508</b>	<b>-20,679</b>	<b>-21,151</b>
<b>Cash flows from financing activities . . . . .</b>	<b>11,316</b>	<b>11,927</b>	<b>17,625</b>	<b>9,712</b>	<b>9,068</b>
Effect of exchange rate changes on cash and cash equivalents . . . . .	-260	-675	-727	-91	232
<b>Net change in cash and cash equivalents . . . . .</b>	<b>6,792</b>	<b>2,155</b>	<b>-796</b>	<b>-1,628</b>	<b>1,828</b>
<b>Cash and cash equivalents at end of period . . . . .</b>	<b>24,830</b>	<b>20,989</b>	<b>18,038</b>	<b>18,833</b>	<b>20,462</b>
Securities, loans and time deposits . . . . .	27,284	26,267	26,291	28,036	24,613

## 2. RISK FACTORS

*Each of the Issuer and the Company believes that the following factors may affect its ability to fulfill its obligations under the Notes and the Guarantee, as applicable. Some of these factors are contingencies which may or may not occur and neither the Issuer nor the Company is in a position to express a view on the likelihood of any such contingency occurring or not occurring.*

*If any of the risks described below actually materializes, the Volkswagen Group's business, prospects, financial condition, cash flows or results of operations may be materially adversely affected. If that were to happen, the trading price of the Notes may decline, or the Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes and the Guarantor may be unable to honor the Guarantee and investors may lose all or part of their investment.*

*Each of the Issuer and the Company believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer or the Company to pay interest, principal or other amounts on or in connection with any Notes, or otherwise perform their respective obligations under the Notes and the Guarantee, may occur for other reasons which the Issuer and the Company may not consider to be significant risks based on information currently available to them or for reasons which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decision.*

*The order in which the risk factors are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on the Volkswagen Group's business, prospects, financial condition, cash flows or results of operations.*

### 2.1 Risk Factors regarding Volkswagen Aktiengesellschaft and Volkswagen Group

#### 2.1.1 **Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities.**

On September 18, 2015, the U.S. Environmental Protection Agency ("**EPA**") publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide ("**NOx**") emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the United States. In this context, Volkswagen AG announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines (2.0 liter and 3.0 liter four-cylinder engines). On November 2, 2015, the EPA issued a "Notice of Violation" alleging that irregularities had also been discovered in the software installed in U.S. vehicles with Generation 1 and Generation 2 six-cylinder (V6) 3.0 l diesel engines.

Numerous court and governmental proceedings were subsequently initiated in the United States, Canada (which has the same NOx emissions limits as the U.S.), Germany and the rest of the world. Volkswagen was able to end many significant court and governmental proceedings in the United States by concluding settlement agreements. Outside the United States, Volkswagen also reached agreements with regard to the implementation of technical measures with numerous authorities. Alongside the U.S. and Canadian proceedings, the evolution of which is discussed in more detail below, there are ongoing criminal, administrative, investor and consumer and/or product-related proceedings in relation to the diesel issue in Germany and other countries.

In the United States, Volkswagen AG, AUDI AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements with (i) the U.S. Department of Justice ("**DoJ**") on behalf of the EPA and the State of California on behalf of the California Air Resources Board ("**CARB**") and the California Attorney General, (ii) the U.S. Federal Trade Commission, and (iii) private plaintiffs represented by a Plaintiffs' Steering Committee in a multi-district litigation in California. The settlement agreements resolved certain civil claims made in relation to affected diesel vehicles in the United States. Depending on the type of diesel engine, under the settlement agreements Volkswagen provides for, *inter alia*, free emissions modification of vehicles, buy-backs/trade-ins or early lease terminations. Volkswagen will also make cash payments to affected current owners or lessees as well as certain former owners or lessees. Several thousand consumers have opted out of the settlement agreements, and many of these consumers have filed civil lawsuits seeking monetary damages for fraud and violations of state consumer protection acts.



Volkswagen AG has also entered into agreements to resolve U.S. federal criminal liability relating to the diesel issue and to resolve civil penalties and injunctive relief under the Clean Air Act and other civil claims relating to the diesel issue. As part of its plea agreement, Volkswagen AG has pleaded guilty to three felony counts under United States law – including conspiracy to commit fraud, obstruction of justice and using false statements to import cars into the United States – and has been sentenced to three years’ probation. DoJ investigations into the conduct of various individuals who may be responsible for criminal violations relating to the diesel issue remain ongoing. Volkswagen is required to cooperate with these investigations. In the event of non-compliance with the terms of the plea agreement, Volkswagen could face further penalties and prosecution. Volkswagen has also reached separate settlement agreements with the attorneys general of most U.S. states to resolve existing or potential consumer protection, unfair trade practices claims, and/or state environmental law claims. Certain states still have pending consumer protection, unfair trade practices and state environmental law claims against Volkswagen.

Investigations by various U.S. regulatory and other government authorities, including in areas relating to securities, tax and financing, are ongoing. For example, the SEC has requested information regarding potential violations of securities laws in connection with issuances of bonds and asset-backed securities sponsored by Volkswagen entities, as a result of nondisclosure of certain Volkswagen diesel vehicles’ noncompliance with U.S. emission standards. In January 2017, the SEC informed Volkswagen that it had issued a formal order of investigation; the investigation is ongoing, and the SEC could bring an enforcement action against Volkswagen arising out of this investigation.

In Canada, which has the same NOx emissions limits as the United States, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0 liter and 3.0 liter diesel engines. Volkswagen reached settlements in Canada with consumers relating to 2.0 l and 3.0 l diesel vehicles, in December 2016 and January 2018, respectively, which, *inter alia*, provide for cash payments, free vehicle emissions modification, buy-backs/trade-ins and lease terminations, as applicable. Also, concurrent with the timing of the consumer settlements, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution of its regulatory inquiries into consumer protection issues as to 2.0 l and 3.0 l diesel vehicles. As to pending matters in Canada, a criminal enforcement related investigation by the federal environmental regulator is ongoing as to Volkswagen AG and Volkswagen Group Canada. Additionally, in the case of one provincial environmental regulator in Canada, Volkswagen AG was charged in September 2017 with a quasi-criminal offense alleging that the company caused or permitted the operation of model year 2010-2014 Volkswagen and Audi 2.0 l diesel vehicles that did not comply with prescribed emission standards. This matter has been postponed to a December 5, 2018 case conference, pending ongoing evidence disclosure. No trial date has been set in the matter. On September 17, 2018, Volkswagen, Audi and certain affiliates sought leave to appeal to the Canadian Supreme Court further to a decision by the Quebec provincial court on January 24, 2018, authorizing an environmental class action seeking to assess whether punitive damages could be recovered. Moreover, putative class action and joinder lawsuits by consumers remain pending in certain provincial courts in Canada.

In addition to the 2.0 l and 3.0 l proceedings, since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles. In addition, approximately fourteen putative class actions have been filed against AUDI and certain affiliates alleging that defendants concealed the existence of these “defeat devices” in Audi brand vehicles with automatic transmissions. On December 22, 2017, a mass action on behalf of approximately 75 individual plaintiffs was filed in a California state court alleging similar claims with respect to the existence of “defeat devices” in Audi brand vehicles with automatic transmissions. In Canada, two similar putative class actions have been filed in Ontario and Quebec provincial courts against Audi AG, Volkswagen AG and U.S. and Canadian affiliates. Both the Canadian actions are in the pre-certification stage.

In addition to the above-described U.S. and Canadian proceedings, criminal investigations/misdemeanor proceedings have been opened in Germany (for example, by the public prosecutor’s offices in Braunschweig and Munich) and other countries. Some of these proceedings have been terminated, with the authorities issuing administrative notices imposing fines on Volkswagen Group companies.

The public prosecutor’s office in Braunschweig has also initiated investigations against one current and two former Volkswagen AG Board of Management members regarding their possible involvement in potential market manipulation in connection with the diesel issue. In July 2018, the public prosecutor’s office in Braunschweig formally opened a misdemeanor proceeding in this regard against Volkswagen AG. The Stuttgart public prosecutor’s office also confirmed that it is investigating, among others, the former CEO of Volkswagen AG in his capacity as member of the management board of Porsche SE, regarding his possible involvement in potential market manipulation in connection with this same issue. Moreover, the Stuttgart public prosecutor’s office has commenced a criminal investigation into the diesel issue against one board member and two employees of Porsche AG on suspicion of fraud and illegal advertising. Furthermore, the public prosecutor’s office in Munich II is investigating certain current and former employees in connection

with the alleged anomalies in the NOx emissions of certain Audi vehicles with diesel engines in the United States and Europe, among others against the former CEO of AUDI AG, who is also a former member of Volkswagen AG's Board of Management.

In addition, in May 2018, U.S. federal prosecutors unsealed charges in Detroit against, among others, former Volkswagen CEO Martin Winterkorn, which had been filed under seal in March 2018. Mr. Winterkorn is charged with a conspiracy to defraud the United States, to commit wire fraud, and to violate the Clean Air Act from at least May 2006 through at least November 2015, as well as three counts of wire fraud. Should these investigations result in adverse findings against the individuals involved, this could have a negative impact on the outcome of other proceedings against Volkswagen and/or could have other material adverse financial consequences.

There are additional regulatory, criminal and/or civil proceedings in several jurisdictions worldwide, particularly in South Korea, but also including Andorra, Argentina, Austria, Australia, Belgium, Brazil, Chile, China, Czech Republic, France, Greece, India, Ireland, Israel, Italy, Luxembourg, Mexico, the Netherlands, Norway, Poland, Portugal, Romania, Singapore, Slovenia, South Africa, Spain, Switzerland, Taiwan, Turkey and the United Kingdom. Further claims can be expected.

Customers, consumer associations and/or environmental associations in the affected markets have filed civil lawsuits against Volkswagen AG, other Volkswagen Group companies and non-Volkswagen Group importers and dealers involved in the sales process. In addition, it is possible that importers and dealers could assert claims against Volkswagen, for example through recourse claims. Further lawsuits are possible. Product related class action, collective or mass proceedings against Volkswagen AG and other Volkswagen Group companies are pending in various countries such as Argentina, Australia, Austria, Belgium, Brazil, China, the Czech Republic, Germany, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, South Africa, South Korea, Spain, Switzerland, Taiwan and the United Kingdom. These proceedings are lawsuits aimed among other things at asserting damages, rescission of the purchase contracts or, as is the case in the Netherlands, at a declaratory judgment that customers are entitled to damages. Most of these proceedings – with the exception of Brazil, where there has already been a non-binding judgment in the first instance – are in the early stages and it is difficult to assess their prospects of success, the allegations and the claimants' precise causes of action or to quantify the exposure. However, should these actions be resolved in favor of the claimants, they could result in significant civil damages, fines, the imposition of penalties, sanctions, injunctions and other consequences.

Moreover, private and institutional investors from Germany and other jurisdictions (including the U.S. and Canada) are pursuing claims seeking significant damages against Volkswagen AG for allegedly omitting or delaying the immediate publication of price sensitive insider information relating to the diesel issue and making wrongful financial reporting or false or misleading statements, as well as, in some cases, alleging tort and prospectus liability claims. The claims relate to Volkswagen AG's shares and other securities, including bonds, issued by Volkswagen Group companies, as well as third-party securities.

In Germany, as of the date of this Offering Memorandum, approximately 3,800 actions (including conciliatory proceedings, legal default actions and registrations of claims pursuant to the German Capital Markets Model Case Act (*Kapitalanleger-Musterverfahrensgesetz* — "**KapMuG**") have been served on Volkswagen AG. Currently, the actions still pending have an overall dispute value totaling around EUR 9 billion. Almost the entire volume is currently pending in approximately 1,600 lawsuits at the District Court (*Landgericht*) in Braunschweig. On August 5, 2016, the Braunschweig District Court ordered that common questions of law and fact relevant to the lawsuits pending at the Braunschweig District Court be referred to the Higher Regional Court (*Oberlandesgericht*) in Braunschweig for a binding declaratory decision pursuant to the KapMuG, which establishes a procedure for consolidated adjudication in a higher regional court of legal and factual questions common to numerous securities actions. In this proceeding, common questions of law and fact relevant to these actions shall be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig. All lawsuits at the Braunschweig District Court will be stayed pending resolution of the common issues, unless they can be dismissed for reasons independent of the common issues that are adjudicated in the model case proceedings. The resolution of the common issues in the model case proceedings will be binding on all pending cases in the stayed lawsuits. The model case proceedings oral hearings began in September 2018.

In Canada, a class action filed in Quebec provincial court has been authorized as to claims relating to Volkswagen AG's shares and American Depositary Receipts ("**ADRs**"), and a similar class action was also filed in the Province of Ontario. On August 15, 2018, the Ontario proceeding was dismissed by the Ontario court. An appeal from this Ontario court ruling was noticed on September 14, 2018. Further investor claims could be brought.

Volkswagen is working intensively to eliminate the emissions level deviations through technical improvements and is cooperating with the relevant agencies. A final decision has not been made regarding all necessary technical remedies for the affected vehicles. In particular, Volkswagen is continuing discussions with the EPA and the CARB concerning technical solutions for the U.S. (and, by extension, Canadian) market. The buyback/retrofit program for vehicles in the United States, which is part of the settlements in North America, is proving to be more technically complex and time consuming than anticipated.

Since 2016, AUDI AG has been checking all diesel concepts for possible discrepancies and retrofit potentials. A systematic review process for all engine and gear variants has been underway. On July 21, 2017, AUDI AG offered a software-based retrofit program for up to 850,000 vehicles with V6 and V8 TDI engines meeting the Euro 5 and Euro 6 emission standards in Europe and other markets except the United States and Canada. This will be done in close cooperation with the authorities, especially the German Federal Ministry of Transport and the German Federal Motor Transport Authority (*Kraftfahrt-Bundesamt*, the "KBA"). The retrofit package comprises voluntary measures and, to a small extent, measures directed by the authorities; these are measures which were proposed by AUDI AG itself, reported to and taken up by the KBA and formally ordered by the latter. The tests for the voluntary measures and those which have been formally ordered have already reached an advanced stage but have not yet been completed. Therefore, additional measures cannot be excluded. The measures formally ordered by the KBA so far involved different models of the AUDI, Volkswagen and Porsche brand with a V6 or V8 TDI engine meeting the Euro 6 emission standard, for which the KBA categorized certain emission strategies as an unlawful defeat device. Should additional measures become necessary as a result of the investigations by AUDI AG and the consultations with the KBA, AUDI AG will implement these as part of or in addition to the retrofit program. This is the case for a software update for 83,000 Audi A6 and A7 models worldwide with 3.0 liter TDI Generation 2evo engines for which measures have been formally ordered by the KBA. Furthermore on April 4, 2018, the Korean Ministry of Environment has ordered a recall after it has categorized (i) certain emissions strategies in the engine control software of various AUDI, Volkswagen and Porsche brand diesel vehicles with a V6 or V8 engine and the Euro 6 emissions classification, and (ii) the Dynamic Shift Program (DSP) in the gearbox control in some AUDI vehicle models, as prohibited defeat devices. In addition, AUDI is responding to requests from the U.S. authorities for information regarding automatic gearboxes in certain vehicles. Further field measures with financial consequences can therefore not be ruled out completely at this time.

Volkswagen may be required to repurchase vehicles sold in the United States, Canada and elsewhere. This could lead to further significant costs. Furthermore, if the technical solutions implemented by Volkswagen in order to rectify the diesel issue are not implemented in a timely or effective manner or have an undisclosed negative effect on the performance, fuel consumption or resale value of the affected vehicles, regulatory proceedings and/or customer claims for damages could be brought in the future.

The Volkswagen Group recognized expenses directly related to the diesel issue in the total amount of €16.2 billion in operating result in 2015. Additional expenses of €6.4 billion were recognized in 2016 in connection with the diesel issue. In 2017, additional expenses amounted to €3.2 billion, driven primarily by higher expenses for buy-back/retrofit programs for 2.0 and 3.0 l TDI vehicles in North America as well as higher legal risks. An additional expense of €2.4 billion directly related to the diesel issue was recognized in the first nine months of 2018. This expense was mainly attributable to the fines resulting from the final administrative orders issued by the Braunschweig public prosecutor's office (€1.0 billion) and the Munich II public prosecutor's office (€0.8 billion), and to higher legal defense costs.

Contingent liabilities were disclosed in relation to the diesel issue in 2017 in the aggregate amount of €4.3 billion (2016: €3.2 billion), of which lawsuits filed by investors account for €3.4 billion (2016: €3.1 billion). Also included are certain elements of the class action lawsuits relating to the diesel issue as well as criminal proceedings/misdemeanor proceedings as far as these can be quantified. As some of these proceedings are still at a very early stage, the plaintiffs have in a number of cases so far not specified the basis of their claims and/or there is insufficient certainty about the number of plaintiffs or the amounts being claimed. As of September 30, 2018, there were no material changes to the contingent liabilities compared with 2017.

Evaluating known information and making reliable estimates for provisions is a continuous process. Estimating provisions and contingent liabilities and assessing additional legal risks is subject to great uncertainty due to the ongoing nature of the extensive investigations and proceedings, the risk of new or expanded proceedings, and the complexities of the various negotiations and continuing regulatory approval processes with the relevant authorities. Furthermore, new information not known to Volkswagen's Board of Management at present may surface, requiring further revaluation of the amounts estimated. Considerable further financial charges may be incurred, and further substantial provisions may be necessary as the issues and legal risks, fines and penalties crystallize.

In addition to ongoing, extensive investigations by governmental authorities in various jurisdictions worldwide (the most significant of which are in Europe, the United States and South Korea), further investigations (including in relation to areas carved out of the plea agreement with the U.S. authorities, such as tax and securities laws) could be launched in the future and existing investigations could be expanded. Furthermore, there could be pending or threatened claims against the Volkswagen Group of which Volkswagen's management is not yet aware. Ongoing and future investigations may result in further legal actions being taken against Volkswagen or some of its employees. These actions could include the following: additional assessments of substantial criminal and civil fines as well as forfeiture of gains; the imposition of penalties, sanctions, injunctions against future conduct; the loss of vehicle type certifications; and sales stops and business restrictions. The timing of the release of new information on the investigations and the maximum amount of penalties that may be imposed cannot be reliably determined at present. New information may arise at any time, including after the offer, sale and delivery of the Notes.

Any of the above-described negative developments could result in substantial additional costs and have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as on the prices of its securities and its capability to make payments under its securities, including the Notes.

Moreover, the issues described above have caused or could cause the following effects:

- damage to Volkswagen's reputation or brand image and impairment of Volkswagen's relationship with customers, dealers, suppliers, other important business partners, employees and investors, which could be exacerbated by negative publicity and perception that Volkswagen is insufficiently communicating these developments;
- lower sales, sales prices and margins and higher marketing and sales expenses for new and used Volkswagen Group vehicles, including the cost of Volkswagen having to perform inspections of vehicles free of charge which could have an adverse impact on Volkswagen's ability to compete, as a result of which Volkswagen could lose significant sales revenue;
- higher product inventories, which could increase working capital requirements;
- an adverse impact on Volkswagen's ability to pursue its strategic goals;
- an impairment of Volkswagen's ability to obtain financing required to maintain its operations, rendering Volkswagen's funding sources less efficient and more costly. Volkswagen's credit ratings have been downgraded in the wake of these findings and could be subject to further downgrades, see "*Financial Risks—Volkswagen may not succeed in refinancing its capital requirements in due time and to the extent necessary, or at all. There is also a risk that Volkswagen may refinance on unfavorable terms and conditions*";
- an early redemption of asset-backed securities with respect to which Volkswagen Group vehicles with diesel engines serve as collateral;
- Volkswagen's having to dispose of certain assets, brands, subsidiaries or investments at prices below their fair market value in order to cover emissions-related financial liabilities, especially if the timing of any emissions-related payments leads to constraints on Volkswagen's cash flows; and
- an erosion of Volkswagen's competitive position due to reduced investments.

The majority of the governmental investigations and proceedings as well as the third-party litigation are incomplete at this time. These proceedings could take an extended period of time to resolve, and Volkswagen cannot predict when they will be completed or what their outcomes will be, including the potential effect that their results or the reactions of third parties thereto may have on Volkswagen's business. Future developments in these investigations and proceedings, the need to respond to the requests of governmental authorities and private plaintiffs, and the need to cooperate in these proceedings, especially if Volkswagen is not able to resolve these matters in a timely manner, could divert management's attention and resources from other issues facing Volkswagen's business.

The results of these and any future investigations and claims may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as on the prices of its securities and its ability to make payments under its securities and may result in a negative net cash flow. If Volkswagen's efforts to address, manage and remediate the issues described above are not successful, Volkswagen's business, reputation and competitive position could suffer substantial and irreparable harm. Additionally, the emissions issue could affect or exacerbate the impact of the other risks Volkswagen faces as described in this Offering Memorandum.

**2.1.2 *The diesel issue led to a review and ongoing reforms of Volkswagen’s internal controls, compliance function and company culture. If these reforms are not completed and future material compliance failures occur, Volkswagen could be exposed to significant adverse consequences.***

In the wake of the diesel issue and in accordance with the settlement agreements between Volkswagen and the U.S. government, Volkswagen has initiated programs and projects to enhance its internal controls, procedures and compliance systems to strengthen its culture of integrity and accountability. Behaving with integrity is a prerequisite for Volkswagen’s future commercial success.

Among other things, Volkswagen’s efforts include improvements of internal controls for its product development process and the testing of vehicles, reforms of its whistleblower system, revisions to its code of conduct, increased employee training, improvements to its risk assessment systems, and creation of a centralized integrity management function by setting up a new Board of Management position for Integrity and Legal Affairs. The so-called Golden Rules (internal procedures developed to optimize Volkswagen’s operational internal control system) set forth certain minimum requirements for engine control unit software development, emission certification and escalation management. In addition, pursuant to the settlement agreements with the U.S. authorities, Volkswagen is required to retain for a three-year period an external independent compliance monitor/compliance auditor to review and audit Volkswagen’s compliance with its obligations under the settlement agreements. Larry D. Thompson was appointed as the independent monitor in April 2017. Mr. Thompson submitted his initial review report under the plea agreement in March 2018. Additionally on August 17, 2018, Mr. Thompson submitted his first annual report pursuant to the third partial consent decrees entered into the DoJ and the EPA as well as the state of California and CARB. Volkswagen is working to address the recommendations set forth in Mr. Thompson’s reports.

The goal of these measures is to reinforce Volkswagen’s governance and compliance to help deter and prevent future misconduct. Nevertheless, there remains a risk that Volkswagen fails to effectively implement the revised rules and procedures and that employees do not comply with them or otherwise fail to act in a lawful manner at all times. This could lead to penalties, liabilities, reputational damage and materially adverse business consequences. In addition, violations of Volkswagen’s obligations under the settlement agreements cannot be ruled out. In this case, significant penalties could be imposed as stipulated in the agreements, in addition to the possibility of further monetary fines, criminal sanctions and injunctive relief.

**2.1.3 *Demand for Volkswagen’s products and services depends upon the overall economic situation, which in turn can be impacted by market volatility, macroeconomic trends, protectionist tendencies and other risks.***

The sales volume of Volkswagen’s products and services depends upon the general global economic situation. Economic growth and developments in some industrialized countries and emerging markets have been endangered by volatility in the financial markets and structural deficits in recent years. In particular, high levels of public and private debt, movements in major currencies, volatile commodity prices as well as political and economic uncertainty negatively impacted consumption, damaging the macroeconomic environment.

Additional risks to the economic environment, international trade and demand for Volkswagen’s products could arise from rising protectionist tendencies and the introduction of tariff and non-tariff barriers. For example, the United Kingdom’s planned exit from membership in the European Union or a reorientation of the United States economic policy and, as a consequence, any introduction of regional or international trade barriers, including customs duties, changes in taxation which have similar effects, or withdrawal from or renegotiation of multilateral trade agreements, such as the North American Free Trade Agreement (NAFTA), could adversely impact Volkswagen’s business and results of operations. The U.S. administration is also evaluating the imposition of a 25% tariff on cars imported from Europe. Should import tariffs on foreign vehicles be imposed, Volkswagen’s sales to the United States could be adversely affected. Any retaliatory measures by regional or global trading partners could slow down global economic growth and have an adverse impact on Volkswagen’s business activities, net assets, financial position and results of operations.

Furthermore, escalation of conflicts, armed conflicts, terrorist activities, natural catastrophes or the spread of infectious diseases may lead to prompt unexpected, short-term responses from the markets and declines in demand for Volkswagen’s products and services. Stagnating economic growth or declines in countries and regions that are major economic centers have an immediate effect on the global economy and thus pose a key risk for Volkswagen’s businesses.

Automobile manufacturers generally have the ability to respond to declines in demand by cutting back investments and production in negatively affected regions and by reducing working hours and implementing sales promotions. Excess capacities in worldwide automobile production could still occur, which may lead to an increase in inventories thus immobilizing capital. Excess capacities and higher inventories, as well

as a decrease in demand for vehicles and genuine parts, could cause automobile manufacturers to adjust their capacities or intensify sales promotions, resulting in additional costs and increased price pressures for Volkswagen and its competitors.

However, if demand for vehicles and optional equipment recovers quickly, cut backs in production capacities may lead to supply constraints, which may mean that Volkswagen will not be able to process orders within a reasonable period of time. This may reduce Volkswagen's sales volume compared to competitors who can adjust their production capacities to market demand more quickly. These risks could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

#### **2.1.4 *A decline in retail customers' purchasing power or in corporate customers' financial situation and willingness to invest could significantly adversely affect Volkswagen's business.***

Demand for vehicles for personal use generally depends on consumers' net purchasing power and their confidence in future economic developments, while demand for vehicles for commercial use by corporate customers (including fleet customers) primarily depends on the customers' financial condition, their willingness to invest (which is affected by expected future business prospects), available financing, satisfaction with current products, and changes in mobility demand. A decrease in potential customers' disposable income or their financial condition will generally have a negative impact on vehicle sales.

A weak macroeconomic environment, combined with restrictive lending and a low level of consumer sentiment, reduces consumers' willingness to buy. Government intervention, such as tax increases, can have a similar effect. This tends to lead to existing and potential customers refraining from new vehicle purchases or, if the purchases are made, to potentially choose cheaper and less well-equipped vehicles. In other cases, government sales supporting schemes could for a given period encourage customers to make vehicle purchases earlier than originally planned, generating the risk that future revenues will be reduced accordingly. A deteriorating macroeconomic environment may also disproportionately reduce demand for premium vehicles, which have typically been the most profitable segment for Volkswagen Group. It also leads to reluctance by corporate customers to invest in vehicles for commercial use and leased vehicles leading to a postponement of fleet renewal contracts.

To stimulate demand, the automotive industry has offered customers and dealers price reductions on vehicles and services, which has led to increased price pressures and sharpened competition within the automotive industry. As a provider of numerous high-volume models, Volkswagen's profitability and cash flows are significantly affected by the risk of rising competitive and price pressures.

Special sales incentives and increased price pressures in the new car business also influence price levels in the used car market, with a negative effect on vehicle resale values. This may have a negative impact on the profitability of the used car business in Volkswagen's dealer organization.

#### **2.1.5 *Changing consumer preferences and governmental regulations with respect to modes of transportation could limit Volkswagen's ability to sell Volkswagen's traditional product lines at current volume levels.***

Many consumers today are more focused on acquiring smaller, more fuel efficient and environmentally friendly vehicles, including hybrid and electric models. The size, performance and accessories features of the passenger cars and light commercial vehicles that Volkswagen sells have an impact on Volkswagen's profitability. As a general rule, larger vehicles in higher vehicle categories with higher engine power contribute more to Volkswagen's earnings than smaller vehicles in lower vehicle categories with lower engine power. It is technically demanding and cost intensive for Volkswagen to develop engines that are smaller and more efficient, but which maintain the same performance. On the other hand, growing customer interest in sports utility vehicles (SUV) could impact the carbon dioxide ("CO<sub>2</sub>") balance of Volkswagen's fleet and Volkswagen could incur higher costs in meeting the applicable CO<sub>2</sub> targets. Volkswagen also faces growing pressure regarding customer demands for enhanced digitalization and automated driving features in addition to increasing regulatory requirements. Implementing such changes involves certain technical challenges as well as increased costs. For competitive reasons Volkswagen may be able to pass these costs on to customers only to a limited extent, if at all, which could affect Volkswagen's profitability.

Private and commercial users are increasingly open to use modes of transportation other than the automobile, especially in connection with growing urbanization. The reasons for this could include rising costs associated with owning a vehicle, increasing traffic density in major cities, attractiveness of alternative mobility solutions and environmental awareness. Environmental concerns in particular are prompting calls for increasing traffic or vehicle restrictions, such as the diesel vehicle bans being contemplated or gradually implemented across various cities or regions, or quotas being set for electric vehicles. There is particular

momentum in the debate on the introduction of driving bans for diesel vehicles in Germany. In many places, lawsuits have been filed arguing that only driving bans for diesel vehicles will bring about the necessary short-term reduction in nitrogen dioxide emissions and, in February 2018, a federal court in Germany issued a decision allowing municipalities to enact diesel bans. These debates have already caused sales of diesel vehicles to decline. Local driving bans are already in place in a number of countries, though these mainly affect older vehicles. With a view to the future, large urban areas such as Paris and London are discussing banning vehicles with combustion engines. The move towards more stringent regulations, particularly for conventional drive systems, is accelerating not only in the developed markets of Europe and North America, but also in emerging markets such as China, and shapes consumer preferences. Furthermore, the increased openness to use ride and car sharing concepts and new city-based car rental schemes may reduce dependency on privately owned automobiles altogether or may affect the total cost of ownership such that some customers or potential customers might decide against owning a vehicle. Moreover, transport of goods may shift from trucks to other modes of transport, which could lead to lower demand for Volkswagen's commercial vehicles or could change the customer requirements towards commercial vehicles.

A change in consumer preferences or governmental regulations away from transport by automobile, as well as a trend towards smaller vehicles or vehicles equipped with smaller engines, alternative drivetrains or other technical enhancements could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

**2.1.6 *The larger share of Western Europe, particularly Germany, in Volkswagen's sales exposes it to this region's overall economic development and competitive pressures. A decline in consumer demand and investment activity could significantly adversely affect Volkswagen's business. Volkswagen particularly depends on the Audi brand and Porsche brand, which contribute significantly to Volkswagen's profitability and results of operations.***

In 2017, Volkswagen delivered 31.4% of its passenger cars to customers in Western Europe. Also in 2017, 11.3% of Volkswagen's passenger cars were delivered to customers in Germany. A decrease in demand for Volkswagen's products and services in Western Europe, especially in Germany, would have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations. This also applies to the commercial vehicle market, in which demand is particularly dependent on economic developments.

Any signs of economic uncertainty in Europe, including a slowdown in economic growth, large-scale government austerity measures or tax increases, could lead to significant long-term economic weakness. In addition, the decision by the United Kingdom in June 2016 to leave the European Union has had consequences for macroeconomic growth and outlook in the United Kingdom and Europe, affected exchange rates and could negatively impact demand for Volkswagen's products. A decline in consumer demand or in product prices in Western Europe would have a material adverse effect on Volkswagen's business, financial position and results of operations.

In addition, Volkswagen's competitors may increasingly attempt to serve the Western European market with their spare production capacity or new product offers oriented towards European consumers. A further increase in competitive pressures in Western European markets could result in falling prices and decreased demand for Volkswagen's vehicles, which could adversely affect operating margins and cause a loss of market share.

The brand Audi (pre-consolidated sub group) contributed EUR 4,671 million and the brand Porsche (pre-consolidated sub group) contributed EUR 4,003 million (amounts do not include the elimination of intragroup transactions such as intercompany profits and, in the case of Porsche, do not include depreciation and amortization expenses of identifiable assets as part of purchase price allocation on Volkswagen Group level) to Volkswagen's consolidated operating result of EUR 13,818 million in 2017. Therefore, a significant impairment of the brand or business activities of either Audi or Porsche would also have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

**2.1.7 *Volkswagen faces strong competition in all markets, which may lead to a significant decline in unit sales or price deterioration.***

The markets in which Volkswagen conducts business are marked by intense competition, and Volkswagen expects competition in the international automotive market to intensify further in the coming years. In previous years, this led to considerable price reductions and increase of incentives offered by individual automobile manufacturers.

Volkswagen expects that the automotive industry will experience significant and continued transformation over the coming years. This will require Volkswagen to be responsive not only to its traditional competitors

but also to new industry entrants and evolving trends in mobility. New participants are seeking to disrupt the industry's historic business model through the introduction of new technologies, products or services, new business models or new modes of transportation and car ownership. Competitive pressure will therefore encompass a wider range of competitors, products and services, including those that may be outside Volkswagen's current core business, such as autonomous vehicles, electric vehicles, car sharing concepts and transportation as a service. If Volkswagen does not accurately assess, prepare for and respond to these challenges, its competitive position could erode and harm its business.

Competitive pressure, particularly in the automotive markets in Western Europe, the United States, China, Brazil, India and Russia may further intensify due to cooperation between existing manufacturers or the market entry of new manufacturers, particularly from China, India or Russia, or an expansion of production by existing manufacturers or due to governmental regulations.

Intensified competition could reduce the number of Volkswagen's marketable products and services, as well as the prices and margins Volkswagen can obtain, which would negatively affect Volkswagen's market position and could materially adversely affect Volkswagen's general business activities, net assets, financial position and results of operations.

### **2.1.8 *Volkswagen's commercial success depends on Volkswagen's own and its competitors' efforts in Asia, North America, South America and Central and Eastern Europe.***

Volkswagen believes that its future growth will, to a considerable extent, depend on demand for products of the Volkswagen Group from China, India, Brazil, Russia and North America. Accordingly, Volkswagen has increased its investments in these regions and intends to make further investments there in the future. This also applies to Volkswagen's Financial Services Division.

A number of Volkswagen's competitors, in particular major Asian manufacturers, have also considerably expanded their production capacity or are in the process of doing so in these relevant regions. These facilities primarily serve the respective local markets, where demand for automobiles strongly depends on local economic growth.

If local economic growth and demand for Volkswagen's products do not increase as Volkswagen expects or if they weaken, Volkswagen may sell fewer products in these markets or obtain lower prices than expected. A decline in, or lack of, economic growth in local markets could also lead to significantly intensified price competition, rising inventories and excess production capacity. This could significantly decrease Volkswagen's revenue and income.

Furthermore, due to a lack of economic growth and resulting price competition, Volkswagen may not realize a return on investments in these markets at all or realize it later than planned, which may have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

A continued rise in interest rates in the United States could have a negative impact on economic developments not only in the United States, but also in emerging markets, which have profited recently from capital inflows, as well as other countries. This could result in increased currency pressures on many markets, which may also have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

In particular, Volkswagen's future growth plans significantly depend on the market development in China. Volkswagen operates in the Chinese market mainly through a number of joint ventures. An economic slowdown or new, unfavorable government policies (including ceasing subsidies) — such as regulations setting quotas for new energy vehicles (e.g., battery electric vehicles and plug-in hybrid electric vehicles) — may affect the demand for automobiles. In addition, restrictions on vehicle registrations in metropolitan areas — such as those in effect, for example, in Beijing, Shanghai, Guiyang and Guangzhou — may be extended to other major cities in China. This could have a material adverse effect on Volkswagen's sales in China.

### **2.1.9 *Strategic risks***

#### **2.1.9.1 *Volkswagen may be unable to implement its strategic objectives, or it may be able to do so only at a higher-than-expected cost and Volkswagen may not reach its medium- and long-term financial goals.***

In 2016, based on the significant changes affecting the automotive sector, Volkswagen initiated a new strategy, "TOGETHER – Strategy 2025", aimed at ensuring that Volkswagen participates in shaping the future of mobility, with a focus on digitalization, electrification and sustainability. This will involve developing further core competencies in additional technologies such as battery technology, digital and autonomous driving, mobility services as well as intensifying the focus on profitable growth. Further, as part of its strategic development, Volkswagen anticipates relying to a greater extent on partnerships and venture capital investments.



Numerous factors, some of which are beyond Volkswagen's control, such as a slowdown in economic growth or deterioration in the business climate in Volkswagen's core markets, weaker development in emerging markets or the occurrence of one or more risks described in this Offering Memorandum, can frustrate implementation of the basic strategic policy and the attainment of the specific goals. If Volkswagen is unable to achieve its strategic goals, in whole or in part, or if the costs associated with the basic strategic policy exceed expectations, this could have a material adverse effect on Volkswagen's reputation, general business activities, net assets, financial position and results of operations. In particular, the attainment of Volkswagen's strategic goals may be frustrated by the diesel issue, as discussed under *"Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities."*

#### **2.1.10 Research and development risks**

##### **2.1.10.1 Volkswagen's future business success depends on its ability to develop new, attractive and energy-efficient products and services and to offer these on competitive terms and conditions.**

Customers are increasingly focusing on lower fuel consumption and exhaust emissions when they make a purchasing decision. Alternative drive technologies (for example electric or hybrid powertrains) are becoming more important both due to growing customer demand for local zero emissions mobility and for compliance with legal requirements. Recently, many car companies are also seeking to develop autonomous driving technology. A significant factor for Volkswagen's future success is its ability to recognize such trends early enough to react accordingly and thus strengthen Volkswagen's position in the existing product and service range and the market segments it already serves, as well as enabling it to expand into new market segments. Volkswagen encounters research and development challenges as its products become more complex and as it introduces new, more environmentally friendly technologies. Primarily due to increasingly stringent emission and consumption regulations, it may have difficulties in achieving stated efficiency targets and fulfilling fleet average targets without loss of quality or decline in profitability.

Volkswagen is accelerating its effort in electric mobility, planning extensive investments – including in battery technology – to expand its electric car model range. This plan entails considerable risk, including uncertainties regarding the widespread adoption of electric vehicles and availability of the necessary charging infrastructure, Volkswagen's technological and organizational capabilities to shift from a traditional car manufacturer into a provider of sustainable mobility, availability of supply of required materials (such as lithium or cobalt) and components (in particular safe and reliable batteries), and ability to build out sufficient capacity to serve the new market with comprehensive products and mobility services. Volkswagen has entered into a variety of cooperative arrangements to research and develop new technologies, particularly for alternative drive and energy source technologies, such as high-performance lithium ion batteries for electric cars. Nevertheless, Volkswagen may not achieve its objectives for electrification of its product range and other future technological advances or may not achieve an acceptable return on investment or profitability at the historical levels in the new market segments.

Volkswagen's competitors or their joint ventures may develop better solutions and be able to manufacture the resulting products more rapidly, in larger quantities, with a higher quality or at a lower cost. This could lead to increased demand for competitors' products and result in a loss of Volkswagen's market share. Furthermore, if Volkswagen's financial condition deteriorates, the capital required for making future investments in research and development may not be readily available.

As a result of the intensity of automotive competition and the pace of technological developments, Volkswagen faces continual pressure to develop new products and improve existing products in shorter time. If Volkswagen miscalculates, delays recognition of, or fails to adapt its products and services to trends, legal and customer requirements in individual markets or other changes in demand, Volkswagen's unit sales could drop. Volkswagen cannot eliminate this risk, even with extensive market research. If Volkswagen makes fundamental or repeated miscalculations over the long term, it could lose customers and the reputation of its affected brands could suffer. Such miscalculations could also lead to unprofitable investments and associated costs.

If Volkswagen encounters potential delays in bringing new vehicle models to market or if customers do not accept Volkswagen's new models, or if the other risks mentioned above occur, this could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

### **2.1.10.2 Security breaches and other disruptions of Volkswagen's in-vehicle systems could impact the safety of its customers and reduce confidence in Volkswagen's products.**

Volkswagen's vehicles contain increasingly complex IT systems. These systems control various vehicle functions including engine, transmission, safety, steering, navigation, acceleration, braking, and window and door lock functions. Hackers have reportedly attempted, and may attempt in the future, to gain unauthorized access to modify, alter and use such systems to gain control of, or to change, vehicles' functionality, user interface and performance characteristics, or to gain access to data stored in or generated by the vehicle.

Any unauthorized access to or control of Volkswagen's vehicles or their systems or any loss of data could impact the safety of Volkswagen's customers or result in legal claims or proceedings, liability or regulatory penalties. In addition, regardless of their veracity, reports of unauthorized access to vehicles, their systems or data could negatively affect Volkswagen's brand and reputation, and harm its business, results of operations, financial condition and prospects.

### **2.1.11 Procurement risks**

#### **2.1.11.1 If Volkswagen encounters a shortage of raw materials or is unable to obtain automotive parts and components from suppliers at a reasonable price or at all, for example, due to a supply bottleneck, particularly within a limited supplier environment, or if Volkswagen's suppliers face increasing economic pressure, Volkswagen's procurement, production, transport and service chains could be interrupted or impaired. As a consequence there could be a general risk of loss of production for the Volkswagen Group.**

Volkswagen's business depends, among other things, on the timely availability of raw materials, automotive parts and components, commodities and other materials. In addition, the smooth flow of Volkswagen's production depends on the quality of the parts, components, commodities and other materials, as well as reliable and timely delivery by suppliers.

Volkswagen generally sources materials, automotive parts and components from several suppliers, however, in some cases, Volkswagen relies on one or a few suppliers for the delivery of certain parts, components and other materials. In these cases, Volkswagen faces the risk of a production downtime if one or more suppliers are unable or unwilling to fulfill delivery obligations. This risk could have a material financial impact on the Volkswagen Group. In addition, quality problems may necessitate technical measures involving a considerable financial outlay where costs cannot be passed on to the supplier or can only be passed on to a limited extent. Although Volkswagen has implemented a thorough evaluation process for suppliers of critical parts (i.e. parts required at high volumes across different brands), risks that suppliers may be unable or unwilling to fulfill delivery obligations persist. This effect may be exacerbated by Volkswagen's increasingly local production, in particular in countries such as Brazil, Russia, India and China, where Volkswagen uses regionally-based suppliers whose ability to deliver may be adversely affected by regional conditions and events. Examples include consolidation of the local supply base in different regions as well as exchange rate fluctuations. The availability of parts from local suppliers in these markets may be at risk and resorting to sources outside these regions could have an adverse impact on production cost due to unfavorable exchange rates and import duties.

If vehicle sales decline significantly, competition in the automotive industry will increase, which could have a significant adverse effect on the financial position of some of Volkswagen's suppliers. As a result, some of Volkswagen's suppliers could experience financial distress or file for insolvency. Financial distress in the supply chain may result in delivery bottlenecks, a loss of quality and price increases.

Prices of certain raw materials, such as steel, aluminum, copper, lead, coking coal, crude oil, precious metals and rare earth elements have remained highly volatile. Rises in demand for raw materials, including due to further economic recovery in key markets could create a shortage of the raw materials that are important for Volkswagen's production and further price increases. In addition, the accelerated use of new technologies, such as electrified powertrains, could increase Volkswagen's procurement risks. An industry-wide shift to electro mobility could lead to bottlenecks in supplies and price increases of certain critical materials, such as lithium or cobalt, which could limit Volkswagen's ability to scale the new technologies profitably. Furthermore, the technological transformation will require significant changes to Volkswagen's supply chain, as it increasingly sources parts and supplies designed for new technologies, which may partially not be successful. These risks could lead to higher manufacturing costs for end products, parts and components.

A shortage of raw materials and energy sources could arise from decreases in extraction and production due to natural disasters, political instability or unrest or production limits imposed in extracting and producing countries. For example, China, which is currently the predominant producer of rare earth elements, has

limited the export of such elements in the past and is increasingly using other mechanisms, such as an export licensing system or the imposition of higher raw material duties, which could limit access to such elements. Similarly, geopolitical risks exist with respect to supplies of cobalt, a key metal for battery production.

If the prices for these or other raw materials, including energy, increase and if Volkswagen is not able to pass such increases on to customers, or if Volkswagen is unable to ensure its supply of scarce raw materials, Volkswagen may face higher component and production costs that could in turn negatively affect future profitability and cash flows.

Furthermore, Volkswagen is also facing different environmental and social risks in its complex globally fragmented supply chains. Stakeholders such as fleet customers, investors or non-governmental organizations are calling for a contribution from Volkswagen to address sustainability issues upstream in its supply chains. New technologies such as electro mobility will change the share of materials in the vehicle fleet. Metals used for high voltage batteries are partly produced in countries with low sustainability performance and weak enforcement of national labor and environmental laws, which increases the risk of violations of Volkswagen's sustainability requirements. Social or environmental problems could result in reputational loss or instability of material supply.

### **2.1.12 Production risks**

#### **2.1.12.1 Volkswagen may not be able to adjust its production capacity sufficiently and timely.**

Production capacity for each vehicle project is planned several years in advance on the basis of expected sales developments. Future sales are subject to a wide range of factors, including market dynamics and cannot be estimated with certainty. In particular, the ongoing transformation in the automotive industry makes it more difficult to forecast future sales of electric, hybrid and traditional vehicles, which increases the risk of Volkswagen's production planning. If Volkswagen's sales forecasts prove to be too optimistic, there is a risk that available capacity is underutilized, while pessimistic forecasts could lead to capacity being insufficient to meet demand.

Various factors can cause overall demand for vehicles or demand for particular vehicle models to fluctuate. This requires Volkswagen to continuously adjust production capacity at its many facilities worldwide. As the range of Volkswagen's models grows, while at the same time product lifecycles become shorter, the number of new vehicle start-ups and the risks related to production planning at Volkswagen's sites increase. The processes, quality and technical systems used for this are complex and there is thus a risk that vehicle deliveries could be delayed, negatively affecting demand and consumer satisfaction.

Volkswagen utilizes certain measures such as flexible work hours and production network configuration to calibrate production capacity. However, Volkswagen or its important suppliers may not be able to adjust production capacity sufficiently and timely if demand fluctuates beyond their organizational and technical flexibility. In addition, Volkswagen may not be able to adjust production capacity as planned for political, regulatory or legal reasons. Any restructuring measures could lead to significant one-time costs. If Volkswagen's competitors are able to react more effectively, they could gain market share, which could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

#### **2.1.12.2 Volkswagen's future business success depends on its ability to maintain high quality.**

In order to maintain high quality standards for its products and to comply with government-prescribed standards, such as safety or emissions standards, Volkswagen incurs substantial costs for monitoring and quality assurance.

In the past, Volkswagen was required and may in the future be required to implement service measures or recall vehicles if there are defects or irregularities in parts or components that Volkswagen sources externally or manufactures in-house. Volkswagen may need to develop new technical solutions that require governmental authorization. These measures could be costly and time-consuming, which may lead to warranty-related provisions and expenses that exceed existing provisions. In addition, product recalls can harm Volkswagen's reputation and cause it to lose customers, particularly if the recalls cause consumers to question the quality, safety or reliability of Volkswagen's products. Since Volkswagen applies the modular component concept in vehicle production, Volkswagen's risk is increased because individual components are used in a number of different models and brands.

Product safety and other defects can subject Volkswagen to investigations, fines for non-compliance, customer complaints and litigation with substantial financial consequences. Volkswagen faces investigations in connection with the diesel issue, as described under "*Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings*

*of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities."* In the future, it cannot be ruled out that Volkswagen may incur further quality issues in relation to emissions or otherwise.

Product quality significantly influences consumers' decision to purchase vehicles. Customers increasingly demand that Volkswagen assumes the costs of repairs even after the guarantee period has expired.

A decline in Volkswagen's product quality or customer perception of such decline could harm the image of Volkswagen's selected brands or Volkswagen's image as a prime manufacturer, which in turn could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

**2.1.12.3 *Unforeseen business interruptions to production facilities may lead to production bottlenecks or downtime, and deviations from planning in connection with large projects may hinder their realization.***

Volkswagen has numerous production facilities worldwide. The production facilities may be disrupted or interrupted. These disruptions or interruptions can occur for reasons beyond Volkswagen's control (such as airplane crashes, terrorism, epidemics or natural catastrophes) or for other reasons (such as fire, explosion, release of substances harmful to the environment or health, or strikes). Operational disruptions and interruptions may lead to significant production downtimes. Volkswagen believes that it maintains a suitable level of insurance with respect to these risks based on a cost benefit analysis. However, insurance may not fully cover the aforementioned scenarios. Special risks may arise during large projects. These result in particular from contracting deficiencies, mistakes in costing, post-contracting changes in economic and technical conditions, deviations in product launches (e.g., launch costs, start of production date), weaknesses in project management and poor performance on the part of subcontractors. Any production downtime or stoppage, or deviation from planning in connection with a large project, can have a material adverse effect on Volkswagen's reputation and general business operations. In the case of insufficient insurance coverage, any of these can also have a material adverse effect on Volkswagen's net assets, financial position and results of operations.

**2.1.13 *Sales and distribution risks***

**2.1.13.1 *Volkswagen is dependent on the sale of vehicles to corporate customers (including fleet customers) and is therefore dependent on their economic situation and preferences.***

As a rule, corporate customers, including fleet customers, generate more stable incoming orders than retail customers. Fleet customers need vehicles to travel, distribute their goods and services and visit their customers. They rely on cars, light commercial vehicles, trucks and busses for their daily work and in most cases, they provide a specific budget for the acquisition of the vehicles, generating stable incoming orders. Fleet registrations of passenger vehicles as a share of total registrations in Europe amounted to 28.7% in 2017 for the overall market.

Although Volkswagen does not depend on any individual corporate customer, corporate customers, in aggregate, represent an important customer group. Therefore, Volkswagen is dependent on this customer segment's economic situation. Sales in Volkswagen's truck business are particularly sensitive to economic developments due to the transportation sector's strong cyclicity. The resulting production fluctuations require significant flexibility on the part of truck producers, in particular given the even higher complexity of the product offering with respect to trucks as compared to passenger vehicles. In addition, if Volkswagen sells fewer vehicles to corporate customers, the Financial Services Division may conclude fewer leasing agreements. In relation to the diesel issue, fleet customers have so far reacted cautiously as their own corporate policies may be affected.

Furthermore, due to the higher number of vehicles purchased by corporate customers compared to individual customers, large corporate customers are generally granted larger discounts. There is a risk that Volkswagen may be able to offset discounts to corporate customers only partially or not at all.

Corporate customers tend to include CO2 restrictions in relation to exhaust emissions into their company policies. There is a risk that large corporate customers will reduce or eliminate purchases of Volkswagen products if the Volkswagen Group is not able to offer products with sufficiently low exhaust emissions values.

Additionally, corporate customers are increasingly interested in new forms of mobility as well as mobile online services. There is a risk that Volkswagen could lose sales if the Volkswagen Group's shift to new mobility concepts does not proceed in a timely manner.

A decline in sales to corporate customers could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

**2.1.13.2 Volkswagen's multiple brand strategy may result in overlap in the sales approach, which could lead to weakening of the brands.**

In the Automotive Division, Volkswagen has a number of brands, some of which serve similar customer segments. Additionally, the trend of increasing number of body styles (for example, cross-over body styles) based on customer expectations and competitive actions increases the risk of an overlap in the marketing approach, which can have an effect on the overall position and market share of the individual brands. This risk can be intensified by Volkswagen's modular strategy, which provides the same platforms and components for certain segments.

A shift in demand in the volume market in which Volkswagen simultaneously offers many brands and models, for example, in the compact vehicle class, necessitates additional marketing activities to broaden brand perception and create higher differentiation among brands.

These risks may lead to internal cannibalization, loss of sales or additional expenses associated with higher investment to reposition affected models or brands, which could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

**2.1.13.3 Issues in relation to exhaust emissions have negatively affected and may continue to affect brand image or brand confidence.**

The reputation of the Volkswagen Group and its brands is one of the most important assets and forms the basis for long-term business success. The recent issues faced by Volkswagen in relation to exhaust emissions have negatively influenced customers' brand perception (for example, brand image or brand confidence), which may have a negative impact on customers' purchase decisions and may impair Volkswagen's profitability and market share. See also "*Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities.*"

**2.1.14 Financial risks**

**2.1.14.1 Volkswagen may not succeed in refinancing its capital requirements in due time and to the extent necessary, or at all. There is also a risk that Volkswagen may refinance on unfavorable terms and conditions.**

Volkswagen depends on its ability to cover its financing requirements adequately. As of December 31, 2017, Volkswagen's noncurrent and current financial liabilities amounted to EUR 163,472 million.

Volkswagen may not be able to obtain sufficient financing to meet its needs or Volkswagen may not be able to finance on reasonable terms and conditions, which in turn may have a material adverse effect on Volkswagen's business, net assets, financial position and results of operations.

Volkswagen's Automotive Division and Financial Services Division carry out refinancing separately, but follow the same financial strategy and, therefore, in principle are subject to the same financing risks. The Automotive Division finances itself primarily through retained, undistributed earnings as well as through borrowings in the form of bonds and other instruments. The Financial Services Division satisfies its funding requirements through the issuance of long and short-term debt securities out of money market and capital market programs, bank loans, operating cash flows, retail and wholesale deposits, central bank facilities and the securitization of lease and loan receivables. The Financial Services Division regularly funds itself via the Automotive Division.

Volkswagen's financing opportunities may be adversely affected by a deterioration in financial and general market conditions, a weakening of its credit profile and outlook as well as by a rating downgrade or withdrawal. In these cases, the demand from capital market participants for securities issued by Volkswagen may decrease, which could adversely impact the rates of interest Volkswagen has to pay and may result in lower capacity to access the capital markets. In the wake of the diesel issue, Volkswagen AG's credit ratings have been downgraded and Volkswagen has experienced limited access to refinancing opportunities. See also "*Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further*

*investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities."*

If financial and general market conditions deteriorate or credit spreads and/or the general level of interest rates increase, this would result in higher interest expenses for Volkswagen. If Volkswagen does not limit its exposure to changes in interest rates accordingly, it could incur materially higher financing costs which in turn would lower profitability.

**2.1.14.2 Volkswagen is exposed to the risk that a contract party will default or that the credit quality of its customers or other contractual counterparties will deteriorate.**

**Credit risk**

Volkswagen is exposed to the risk that the credit quality of its retail customers and business partners (such as dealers and other corporate customers) may deteriorate and in the worst case that they may default (risk of counterparty default). This includes the risk of default on lease payments as well as on repayments of and interest payments on financing contracts (credit risk). Credit risk is influenced by, among other factors, customers' financial strength, collateral quality, overall demand for vehicles and general macroeconomic conditions. If, for example, an economic downturn were to lead to increased inability or unwillingness of borrowers or lessees to repay their debts, increased write-downs and higher provisions would be required, which in turn could adversely affect Volkswagen's results of operations. In the course of the diesel discussions, especially regarding potential driving bans in cities for older diesel vehicles, market prices and in turn collateral values of vehicles could decrease. Lower collateral values could negatively impact the asset situation of Volkswagen Group. Risks arising from trade receivables could have an impact on Volkswagen's liquidity position.

Volkswagen has implemented detailed procedures in order to contact delinquent customers for payment, arrange for the repossession of unpaid vehicles and sell repossessed vehicles. However, there is still the risk that Volkswagen's assessment procedures, monitoring of credit risk, maintenance of customer account records and repossession policies might not be sufficient to prevent negative effects for Volkswagen.

Volkswagen's dealers could encounter financial difficulties as a result of the diesel issue. Due to lower sales in new and used car business, or sales carried out with low or (in extreme cases) no margin due to a buying restraint of customers caused by the uncertainties surrounding the diesel issue or other factors, dealers may not be able to generate sufficient cash flows to meet their financial liabilities. This could have a material adverse effect on Volkswagen's business, net assets, financial position and results of operations.

**Counterparty risk / Issuer risk**

Volkswagen is exposed to the risk of deterioration of the credit quality of its contractual counterparties in the money markets and the capital markets. In both its Automotive and Financial Services Divisions, Volkswagen maintains extensive business relationships with banks and financial institutions, in particular, to control liquidity through call money and fixed term deposits and to hedge against such risks as currency exchange rate, interest rate and commodity price risks using derivatives. Volkswagen incurs default risks with respect to the repayment of and interest on the deposits and the fulfillment of obligations under such derivatives. Volkswagen invests surplus liquidity in bonds and similar financial instruments, among others. If the credit quality of an issuer of these financial instruments deteriorates, or if such an issuer becomes insolvent, this may result in losses if Volkswagen sells the financial instrument before or at its maturity. This can even result in the issuer's default on the receivable.

If the macroeconomic environment were to deteriorate in the future, the risks described above could rise and Volkswagen may have to increase its risk provisioning.

**2.1.14.3 Changes in exchange rates, interest rates and commodity prices as well as respective hedging transactions may have a negative impact on Volkswagen.**

Volkswagen's businesses, operations, financial results and cash flows are exposed to a variety of market risks, including in particular the effects of changes in the exchange rates of the Argentine peso, Australian dollar, Brazilian real, British pound sterling, Canadian dollar, Chinese renminbi, Czech koruna, Hong Kong dollar, Hungarian forint, Indian rupee, Japanese yen, Mexican peso, Norwegian krone, Polish zloty, Russian ruble, Singapore dollar, South African rand, South Korean won, Swedish krona, Swiss franc, Taiwan dollar and U.S. dollar, especially against the euro. When business and economic conditions are favorable, Volkswagen is normally able to obtain the equivalent of euro-denominated prices for its products and services. However, this is usually not possible during weak economic periods, with the result that a strong euro may have an intensified negative impact. Volkswagen enters into hedging transactions to lower currency,

interest rate and commodity price risks. However, these risks are not fully hedged. Furthermore, losses arising from hedging activities, together with the expenses of hedging transactions, may result in significant costs.

Due to the continuing uncertainties regarding the impact on Volkswagen of the diesel issue, and environmental protection regulations (e.g. the Worldwide Harmonized Light-Duty Vehicle Test Procedure (“WLTP”)), Volkswagen faces a risk of increased volatility of cash flows in foreign currencies. This could also affect results from hedging activities.

In addition, in order to manage the liquidity and cash needs of its day-to-day operations, Volkswagen holds a variety of interest rate sensitive assets and liabilities. Volkswagen also holds a substantial volume of interest rate sensitive assets and liabilities in connection with its lease and sales financing business. Changes in exchange rates, interest rates and commodity prices may have substantial adverse effects on Volkswagen’s operating results and cash flows.

**2.1.14.4 The Volkswagen Financial Services Division is by nature dependent on sales by the Volkswagen Group, meaning that any risk that negatively influences the vehicle delivery of the Volkswagen Group may have adverse effects on the business of the Financial Services Division.**

The Volkswagen Financial Services Division, as a captive finance company, has a limited business model, namely the sales support of products of the Automotive Division. Thus, the financial success of the Financial Services Division depends largely on the success of the Automotive Division. The development of vehicle deliveries to customers of the Volkswagen Group is crucial and material to the generation of new contracts for the Financial Services Division. As a result, fewer vehicle deliveries would also result in reduced business for the Financial Services Division.

The reason for fewer vehicle sales can be diverse, including but not limited to the following: If economic growth does not materialize to the extent expected or if economic conditions weaken in a particular market, the Volkswagen Group may sell fewer products in these markets or obtain lower-than-expected prices. Additionally, a lack of economic growth could lead to a decrease of deliveries to customers caused by intensified price competition among automotive manufacturers. Moreover, further legal investigations might be launched in the future and existing investigations could be expanded. This may result in further legal actions being taken against the Volkswagen Group and could have a negative influence on customer behavior and the business of Financial Services Division. Finally, if regulatory/political decisions (e.g., sales stops, driving bans, WLTP) influence customer demand, the sales of Volkswagen Group could be negatively affected, resulting in less business opportunities for the Financial Services Division.

Although the Financial Services Division operates different brands in numerous countries, a simultaneous and strong reduction of vehicle deliveries in several core markets might result in negative volume and financial performance for the Financial Services Division. These risks could have a material adverse effect on Volkswagen’s business activities, net assets, financial position and results of operations.

**2.1.14.5 A decrease in the residual values or the sales proceeds of leased vehicles or vehicles financed with a product with balloon rate and return option could have a material adverse effect on the business, financial condition and results of operations of Volkswagen.**

As a lessor under leasing contracts, including contracts with a balloon rate and return option for the customer, the Financial Services Division generally bears the risk that the market value of vehicles sold at the end of the term may be lower than the contracted residual value at the time the contract was entered into (so-called residual value risk). The Financial Services Division takes such differences into account in establishing provisions for the existing portfolio and in its determination of the contracted residual values for new business.

Volkswagen distinguishes between direct and indirect residual value risks. If the Financial Services Division carries the residual value risk, it is referred to as a direct residual value risk. Residual value risk is indirect when that risk has been transferred to a third party (such as a dealer) based on a residual value guarantee. The Financial Services Division frequently enters into agreements that require dealers to repurchase vehicles, so dealers, as residual value guarantors, would bear the residual value risk. When dealers act as the residual value guarantors, the Financial Services Division is exposed to counterparty credit risk. If the residual value guarantor defaults, the leased asset and also the residual value risk pass to the Volkswagen Group.

The residual value risk could be influenced by many different external factors. A decline in the residual value of used cars could be caused by initiatives to promote sales of new vehicles, which was evident during the

global financial and economic crisis when incentive programs were offered by governments (for example, scrapping premium) and automobile manufacturers. Among other things, Volkswagen was required to increase existing loss provisioning for residual value risks in the past. It cannot be ruled out that a similar scenario due to renewed deterioration of the macroeconomic environment could occur in the future.

Moreover, an adverse change in consumer confidence and consumer preferences could lead to higher residual value risks for Volkswagen. Customers determine the demand and therefore the prices of used cars. If customers refrain from purchasing Volkswagen Group vehicles, for example due to such vehicles' perceived poor image or unappealing design, this could have a negative impact on residual values.

Furthermore, changes in economic conditions, government policies, exchange rates, marketing programs, the actual or perceived quality, safety or reliability of vehicles or fuel prices could also influence the residual value risk. For instance, current public discussions on potential political activities in relation to driving bans for diesel vehicles might influence the residual value risk of the relevant Financial Services Division portfolio. Due to the fact that customers might change their consumption behavior and refrain from buying diesel vehicles, these bans could have a negative impact on the corresponding market prices of these vehicles. For this reason, the residual value risk might increase and could materially adversely affect Volkswagen's net assets, financial position and results of operations.

Uncertainties may also exist with respect to the internal methods for calculating residual values, for example due to assumptions that later prove to be incorrect. Although Volkswagen continuously monitors used car price trends and makes adjustments to its risk valuation, assessing residual value risk in advance of actual market indicators remains subject to the risk of assumptions that may prove to be incorrect.

Estimates of provisions for residual value risks may be less than the amounts actually required to be paid due to miscalculations of initial residual value forecasts or changes in market or regulatory conditions. Such a potential shortfall may have a material adverse effect on Volkswagen's business activities, net assets, financial position and results of operations.

Due to the uncertainties surrounding the diesel issue, the demand for Volkswagen Group vehicles could decline, which in turn could result in falling new and used car prices. Falling prices would affect Volkswagen at various stages. It could lead to pressure on margins in leasing products and products with balloon rate and return options. In addition, the residual value risk from lease returns could increase since the residual values calculated may not correspond with the current residual value assumptions for the end of the contract. As a result, Volkswagen would have to maintain higher value adjustments or record direct partial write-offs against income on its leasing portfolio, which would adversely affect Volkswagen's net assets, financial position and results of operations.

## **2.1.15 Other Risks**

### **2.1.15.1 The value of goodwill or brand names reported in Volkswagen's consolidated financial statements may need to be partially or fully impaired as a result of revaluations.**

As of December 31, 2017, goodwill reported in Volkswagen's balance sheet amounted to EUR 23,442 million and the reported value of brand names amounted to EUR 16,911 million.

At least once a year, Volkswagen reviews whether the value of goodwill or brand names may be impaired based on the underlying cash-generating units. If there is objective evidence that the carrying amount is higher than the recoverable amount for the asset concerned, Volkswagen incurs an impairment loss. An impairment loss may be triggered, among other things, by an increase in interest rates. As a consequence, Volkswagen may need to record an impairment loss in the future.

### **2.1.15.2 Volkswagen's future success depends on its ability to attract, retain and provide further training to qualified managers and employees.**

Volkswagen's success depends substantially on the quality of its senior managers and employees as well as employees in key functions. If Volkswagen loses important employees due to turnover, targeted recruiting by competitors or others, or age-related departures, this may lead to a significant drain on Volkswagen's know-how. Competition for qualified personnel is increasing, particularly in the area of automotive engineering, research and development, and is especially intense in areas requiring advanced technological skills. In addition, if Volkswagen's employees do not possess the skills and qualifications necessary to advance Volkswagen's strategic goals, there is a risk that these objectives (e.g., technological change) will not be met. If Volkswagen fails to retain qualified personnel to the necessary extent, or if it fails to recruit qualified personnel or to continue to train existing personnel, Volkswagen may not reach its strategic and economic objectives.



### **2.1.15.3 Volkswagen is dependent on good relationships with its employees and their unions.**

Personnel expenses are a major cost factor for Volkswagen. Employees at Volkswagen's German locations and at a number of foreign subsidiaries have traditionally been heavily unionized. When the current collective agreements and collective wage agreements expire, Volkswagen may not be able to conclude new agreements on terms and conditions that Volkswagen considers to be reasonable. Furthermore, Volkswagen may be able to conclude such agreements only after industrial actions such as strikes or similar measures. If Volkswagen's production or other areas of business are affected by industrial actions for an extended period, this may have material adverse effects on Volkswagen's business, net assets, financial position and results of operations. In addition, Volkswagen's competitors may obtain competitive advantages if they succeed in negotiating collective wage agreements on better terms and conditions than Volkswagen. Foreign competitors, in particular, may also obtain competitive advantages due to more flexible legal environments.

In particular, Volkswagen faces risks from the collective wage agreement for long-term plant and job security (*Zukunftstarifvertrag*) entered into with the German Metalworkers Union (*Industriegewerkschaft Metall*) and the German Christian Metalworkers Union (*Christliche Gewerkschaft Metall*). This agreement became effective on January 1, 2009 and may be terminated at the end of a calendar quarter with a three-month notice period, at the earliest on December 31, 2025. The agreement, which is generally applicable to all employees of Volkswagen AG, rules out compulsory redundancies during its term. In addition, Volkswagen agreed to the target to keep the number of employees at its six West German locations stable, subject to additional structural measures agreed among management and the employees and their representatives. The agreement may limit Volkswagen's ability to react in a timely manner to a change in economic conditions.

In addition, the Board of Management and the General Works Council of Volkswagen have agreed on a pact for the future, effective as of December 1, 2016. In addition to measures regarding the rebalancing of personnel in accordance with business needs, the parties have agreed on measures in relation to safeguarding the future and in relation to efficiency, which will include job reductions. As part of the pact for the future, the parties agreed to continue the employment protection as stipulated in the collective wage agreement with the industrial union until at least December 31, 2025 and therefore to avoid redundancies until then. There can be no assurance that any benefits Volkswagen expects from the pact will be achieved.

### **2.1.15.4 Volkswagen faces risks arising from pension obligations.**

Volkswagen provides retirement benefits to its employees. To determine its pension obligations, Volkswagen makes certain assumptions. If these assumptions prove to be inaccurate, Volkswagen's balance sheet or actual pension obligations could increase substantially, and Volkswagen would have to raise its pension provisions.

Since January 1, 2001, Volkswagen has invested part of Volkswagen AG's and other German subsidiaries' remuneration-linked pension expenses in plan assets that qualify to offset Volkswagen's pension provisions. If the market value of plan assets falls, Volkswagen may have to substantially increase its pension provisions. Existing pension obligations are not fully covered by plan assets.

Currency, interest rate and fluctuations in securities prices may adversely affect the value of the plan assets. Although these risks are monitored and countermeasures taken by entering into hedging transactions, these countermeasures may prove to be insufficient. In such event, the value of the plan assets would fall short of the aggregate pension claims and Volkswagen would have to cover the short-fall, which could materially adversely affect Volkswagen's net assets, financial position and results of operations.

### **2.1.15.5 Volkswagen operates complex IT systems. IT system malfunctions or errors could harm Volkswagen's business.**

Volkswagen operates comprehensive and complex IT systems. Where economically reasonable, Volkswagen intends to harmonize various IT systems. There are risks inherent in non-uniform IT systems, such as compatibility issues for both hardware and software or the necessity to train personnel for different systems. Additionally, numerous essential functional processes in the development, production and sales of vehicles and components depend on computer-controlled applications and cannot be carried out without properly functioning IT systems and IT infrastructure. Malfunctions or errors in internal or external IT systems and networks could have adverse effects on Volkswagen's operations, harm Volkswagen's reputation and expose it to regulatory actions or litigation.

Furthermore, regular or event-driven updates are required for many of Volkswagen's IT systems in order to meet increasingly complex business and regulatory requirements. The software and hardware of some of Volkswagen's established IT systems are no longer supported by their vendors, which increases the

difficulty of ensuring that they continue to operate properly. IT system downtime, interruptions or security flaws may significantly adversely affect customer relationships, accounting, management or credit administration and may result in significant expenses for data restoration and verification.

**2.1.15.6 Security breaches and other disruptions to IT systems and networked products owned or maintained by Volkswagen or third-party vendors or suppliers, could interfere with Volkswagen's operations and could compromise the confidentiality of private customer data or proprietary information.**

Volkswagen collects and stores sensitive data, including intellectual property, proprietary business information, proprietary business information of Volkswagen's dealers and suppliers, as well as personally identifiable information of customers and employees, in data centers and on IT networks. The secure operation of these systems and products, and the processing and maintenance of the information processed by these systems and products, is critical to Volkswagen's business operations and strategy. The importance and complexity of electronically processed data continues to increase and applicable data protection laws place onerous obligations on Volkswagen's IT systems. For example, Volkswagen is subject to the stringent requirements of the EU General Data Protection Regulation which entered into force in May 2018.

These systems and products may be vulnerable to damage, disruptions or shutdowns caused by attacks by hackers, computer viruses, or breaches due to errors or malfeasance by employees, contractors and others who have access to these systems and products. The occurrence of any of these events could compromise the operational integrity of these systems and products. Similarly, such an occurrence could result in the compromise or loss of the information processed by these systems and products. Such events could result in, among other things, the loss of proprietary data, interruptions or delays in Volkswagen's business operations, reputational damage or damage to Volkswagen's financial performance and to its relationships with customers and suppliers.

In addition, such events could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information; disrupt operations; or reduce the competitive advantage Volkswagen seeks to derive from its investment in advanced technologies. Volkswagen has experienced such events in the past and, although past events were immaterial, future events may occur and may be material.

Volkswagen's efforts to mitigate these risks may turn out to be inadequate. The costs (including any insurance) of protecting against IT risks are high and could further increase in the future.

**2.1.16 Risks from Joint Ventures, Acquisitions, Equity Interests in Companies and other Co-operations**

**2.1.16.1 Cooperation with joint venture partners may entail risks that could endanger Volkswagen's market position and cause financial losses.**

At times Volkswagen enters into joint ventures with strategic partners for research and development, market launches and large projects. In addition to Volkswagen's joint ventures in China, important relationships relate to strategic areas, such as battery development, digitalization, mobility concepts and infrastructure. With respect to its strategic development, Volkswagen expects to rely to a greater extent on partnerships and cooperations in the future.

If Volkswagen fails to fulfill its obligations stipulated in the related agreements, it may be subject to claims for damages and contractual penalties or the joint venture agreement may be terminated. In addition, a breach of contract by Volkswagen's partners or unforeseen events may impair the successful implementation of a project. Moreover, the success of Volkswagen's joint ventures requires that the partners constructively pursue the same goals. If Volkswagen decides to divest its shareholdings or withdraw from the joint venture, it may not be able to find a buyer for its shares, or it may not be able to sell the shares for other reasons, or Volkswagen's joint venture partner may claim damages. Additionally, it is possible that Volkswagen's partners may use, outside of the scope of the joint venture project, technologies or intellectual property acquired in the course of the joint venture. The diesel issue could affect Volkswagen's ability to attract future potential cooperation partners, for example, in the area of research and development.

Volkswagen is particularly exposed to these risks in relation to its joint ventures in China, due to their strategic importance in terms of Volkswagen's growth strategy in Asia. Any impairment of the business activities of these joint ventures, irrespective of any associated claims for damages arising from them, may have a material adverse effect on the functioning of these joint ventures. This could result from a number of factors within the respective partnership or due to the partners' differing strategic goals.

If any of these factors were to occur, Volkswagen may lose orders and customers and endanger its strategic market position in the relevant markets, which may result in a time-consuming and costly search for alternative partners and the loss of costs already incurred.

**2.1.16.2 *Volkswagen may be exposed to risks in relation to corporate acquisitions and equity interests in companies as well as with regard to disposals and the rights of minority shareholders.***

Volkswagen has made significant acquisitions in the past and may continue to acquire companies and equity interests in companies in the future. Corporate acquisitions are typically associated with significant investments and risks. For instance, Volkswagen may not be granted full access or provided with all relevant information to completely review the target company before the acquisition or investment or can do so only after incurring disproportionately high costs. Therefore, Volkswagen may not recognize all risks related to such a transaction in advance and may not adequately protect itself against such risks. Target companies may also be located in countries in which the underlying legal, economic, political and cultural conditions do not correspond to those customary in the European Union, or have other national peculiarities with which Volkswagen is not familiar. In addition, acquisitions and integration of companies generally tie up significant management resources. There is also a danger that acquired or licensed technologies or other assets may not be legally valid or intrinsically valuable. Furthermore, Volkswagen may not succeed in retaining, maintaining and integrating the employees, business relationships and operations of the acquired companies.

Volkswagen may not realize the targets for growth, economies of scale, cost savings, development, production and distribution targets, or other strategic goals that Volkswagen seeks from the acquisition. Moreover, anticipated synergies may not materialize, the purchase price may prove to have been too high or unforeseen restructuring expenses may become necessary. Thus, Volkswagen's corporate acquisitions or purchases of equity interests in companies may not be successful. Moreover, in many countries and regions, planned acquisitions are subject to a review by the competition and other regulatory authorities, which may impede a planned transaction. It is also possible that the flow of information to Volkswagen may be restricted for legal reasons in the case of equity interests in companies with minority shareholders.

Furthermore, Volkswagen may not be able to recover guarantees and indemnities provided to it by third parties in the context of acquisitions or investments. There is also a possibility that the acquired entities' contractual partners may be entitled to cancel contracts or make other claims which are disadvantageous to Volkswagen.

In relation to asset disposals, Volkswagen is also exposed to risks typically associated with such transactions, including potential liabilities resulting from contractual warranties and indemnities, as well as regulatory risks of not being able to obtain required approvals.

If any of these risks occurs, or if Volkswagen incorrectly assesses the risks or if there are other failures in relation to Volkswagen's acquisitions, investments or disposals, this may have a material adverse effect on Volkswagen's business activities, net assets, financial position and results of operations.

**2.1.17 *Regulatory, Legal and Tax-Related Risks***

**2.1.17.1 *Volkswagen is subject to a range of different regulatory and legal requirements worldwide that are constantly changing.***

Volkswagen's business operations worldwide are subject to comprehensive and constantly changing government regulations. This includes automobile design, manufacture, marketing and after-sales services or measures undertaken to encourage customer loyalty to the vehicle and brand following sale, including vehicle recycling, vehicle registration and operation regulations, and activities in the financial services sector. Further, Volkswagen is subject to numerous regulatory requirements on the national and international level regarding the use, handling and storage of various substances (including restrictions or prohibitions on the use of chemicals, heavy metals, biocidal products and persistent organic pollutants) in the manufacturing process and their use in Volkswagen's products.

Volkswagen must comply with various regulatory requirements that are not always homogeneous and which are subject to increasing governmental scrutiny and enforcement. This applies in particular to regulatory requirements for the protection of the environment, health and safety. Vehicles are particularly affected by regulatory requirements concerning fuel economy, harmful emissions and CO<sub>2</sub> and NO<sub>x</sub> emission limits, as well as tax regulations in relation to CO<sub>2</sub> or consumption-based motor vehicle tax models. Due to different limits in various countries, Volkswagen is often unable to market a vehicle with the same specifications worldwide. In addition, the operation of Volkswagen's products may be prohibited in a particular country by a lowering of regulatory limits after the vehicle's sale.

For example, the European Commission has imposed increasingly stricter regulations regarding CO2 emissions of all passenger cars (the average of fleet) offered for sale in the European Union. By 2020, all new cars in Europe will have to meet a fleet CO2 average of 95g CO2/km, subject to certain automotive portfolio considerations and transition periods. The targets from 2025/2030 are currently under discussion. The EU environment ministers recently agreed that by 2030 new cars sold in Europe must emit 35% less CO2 compared to the 2020 levels. Future legislative measures at the level of the European Union, its Member States or other countries (including their political subdivisions such as individual States in the United States) may also pose risks for Volkswagen, such as risks from the obligation to take back end-of-life vehicles or risks arising from an integrated energy and climate protection program that could require alterations in permitted or favored fuel sources to be used in vehicles or could result in significant changes to requirements governing permissible air emissions from vehicles. Volkswagen expects that in order to comply with fuel economy and emission control requirements, it will be required to offer a significant volume of hybrid or electric vehicles, as well as implement new technologies for conventional internal combustion engines, all at increased cost levels. There is no assurance that Volkswagen will be able to produce and sell vehicles that use such technologies profitably or that customers will purchase such vehicles in the quantities sufficient for Volkswagen to comply with applicable regulations.

Furthermore, the transition from the "New European Driving Cycle" (i.e. test procedures used previously in the EU to assess the emission levels of car engines and fuel economy) to the new WLTP causes risks due to unregulated questions and frictions in the existing national laws, e.g., labelling or taxation. Additionally, the transition to the new, more time-consuming WLTP has caused, and is expected to further cause production stoppages at some of Volkswagen's plants, certain Volkswagen Group brands to temporarily limit the number of models that are offered for sale in the European Union or any other jurisdictions that have implemented WLTP standards, or a temporary decline in sales or build-up in inventory. This could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

The costs of compliance with regulatory requirements are considerable, and such costs are likely to increase further in the future, given the expected increased scrutiny, regulatory changes or novel interpretations of current regulations and stricter enforcement by regulators globally. A violation of applicable regulations could lead to the imposition of penalties, fines, damages, recalls, restrictions on or revocations of Volkswagen's permits and licenses (including vehicle certifications or other authorizations that must be in place before a particular vehicle may be sold in the authorizing jurisdiction), restrictions on or prohibitions of business operations, reputational harm and other adverse consequences.

Volkswagen is subject to extensive ongoing investigations and claims in a number of jurisdictions worldwide in relation to the diesel issue. These proceedings could lead to further substantial fines, penalties, damages and other materially adverse effects which cannot be estimated fully at present. For more information, see *"Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities."*

#### **2.1.17.2 Volkswagen is exposed to political, economic, tax and legal risks in numerous countries.**

Volkswagen manufactures products in various countries, such as Germany, Sweden, Spain, the Czech Republic and the United States, in countries at the threshold of becoming industrialized nations, as well as those that only recently crossed such threshold, such as China, Brazil, Russia, India and Mexico. Volkswagen offers its products and services globally. In certain countries in which Volkswagen manufactures and sells products and services, the underlying conditions differ significantly from those in Western Europe, and there is less economic, political and legal stability. In a number of countries, there is a history of recurring political or economic crises and changes. This presents Volkswagen with risks over which it has no control and which could have material adverse effects on its business activities and growth opportunities in these countries.

Demand for vehicles and production conditions in certain countries may be influenced by regulatory, foreign trade policy and other government market interventions. For example, restrictions on the granting or retention of approvals for vehicles or production facilities, international trade disputes, revocation of existing tax privileges, demand for the repayment of subsidies and the maintenance or introduction of new customs duties or other trade barriers such as import restrictions, may negatively affect Volkswagen's sales, procurement activities, production costs and expansion plans in the affected regions.

The expansion of bilateral and multilateral free-trade agreements between countries could also negatively affect Volkswagen's market position. This is particularly the case in Southeast Asia, where increasing

numbers of Japanese companies are obtaining preferential market access based on free-trade agreements. Volkswagen's inability to gain access to markets or ability to do so only on restrictive terms could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

**2.1.17.3 *Volkswagen's compliance and risk management systems may prove to be inadequate to prevent and discover breaches of laws and regulations and to identify, measure and take appropriate countermeasures against all relevant risks.***

In connection with its worldwide business operations, Volkswagen must comply with a range of legislative requirements in a number of countries. Volkswagen maintains a compliance management system that supports Volkswagen's operational business processes, helps to ensure compliance with legislative provisions and, where necessary, initiates appropriate countermeasures.

Members of Volkswagen's governing bodies, employees, authorized representatives or agents may violate applicable laws, and internal standards and procedures. Volkswagen may not be able to identify such violations, evaluate them correctly or take appropriate countermeasures. Furthermore, Volkswagen's compliance and risk management systems may not be appropriate to the company's size, complexity and geographical diversification and may fail for various reasons. In addition, on the basis of experience, Volkswagen cannot rule out that, for example in contract negotiations connected with business initiation, members of Volkswagen's governing bodies, employees, authorized representatives or agents have accepted, granted or promised advantages for themselves, Volkswagen or third parties, have applied comparable unfair business practices, or continue to do so. Volkswagen's compliance system may not be sufficient to prevent such actions. See also "*Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities.*" and "*The diesel issue led to a review and ongoing reforms of Volkswagen's internal controls, compliance function and company culture. If these reforms are not completed and future material compliance failures occur, Volkswagen could be exposed to significant adverse consequences.*"

The occurrence of these risks may result in a reputational loss and various adverse legal consequences, such as the imposition of fines and penalties on Volkswagen or members of its governing bodies or employees, or the assertion of damages claims. Volkswagen is particularly exposed to these risks with respect to its minority interests and joint ventures, as well as its listed subsidiaries, where it is difficult and in some cases possible only to a limited extent to integrate these entities fully into Volkswagen's compliance and risk management systems.

**2.1.17.4 *Volkswagen is exposed to environmental and security-related liability risks.***

Volkswagen operates complex industrial plants that manufacture, use, store, manage, generate, emit and dispose of various substances that may constitute a hazard to human life and health as well as to the environment and natural resources. In the past, environmentally hazardous substances from those operations may have entered and in the future, may enter the air, watercourses, especially groundwater, or surface or subsurface soils at Volkswagen facilities or third-party locations, and the environment, natural resources, human health, life and safety of persons and property may have been or may be affected or endangered otherwise because of those environmentally hazardous substances. Volkswagen may be jointly or severally liable, possibly regardless of fault and without any caps on liability, to remove or clean up such harm and to pay damages, including any resulting natural resource damages, arising from those environmentally hazardous substances. These risks could have a material adverse effect on Volkswagen's general business activities, net assets, financial position and results of operations.

**2.1.17.5 *Volkswagen may not adequately protect its intellectual property and know-how or may be liable for infringement of third-party intellectual property.***

Volkswagen owns a large number of patents and other intellectual property rights, a number of which are of essential importance to Volkswagen's business success. Despite ownership of these rights, Volkswagen may fail to enforce claims against third parties to the extent required or desired. Volkswagen's intellectual property rights may be challenged and Volkswagen may not be able to secure such rights in the future. In particular, there is a heightened risk that Volkswagen may not be in a position to secure all necessary intellectual property rights with respect to the development of new technologies, as part of Volkswagen's collaborative partnerships or otherwise.

Furthermore, third parties (including joint venture partners or partners in collaborative projects) may violate Volkswagen's patents and other intellectual property rights and Volkswagen may not be able to prevent such violations for legal or practical reasons. This applies to product piracy where Volkswagen's vehicles and components are copied, possibly with poor quality, resulting in additional reputational and warranty risks. Trade secrets and know-how that cannot be safeguarded through intellectual property rights are also important for Volkswagen's business success. Volkswagen may be unable to prevent disclosure of trade secrets.

Volkswagen may also infringe patents, trademarks or other third-party rights or may not have validly acquired service inventions. Furthermore, Volkswagen may not obtain the licenses necessary for its business success on reasonable terms in the future. If Volkswagen is alleged or determined to have violated third-party intellectual property rights, it may have to pay damages, modify manufacturing processes, redesign products or may be barred from marketing certain products. Volkswagen could also face costly litigation. These risks could lead to delivery and production restrictions or interruptions and materially adversely affect Volkswagen's general business activities, net assets, financial position and results of operations.

**2.1.17.6 Volkswagen is exposed to risks in connection with product-related guarantees and warranties as well as the provision of voluntary services, in particular in relation to recall campaigns.**

As a result of contractual and legal provisions, Volkswagen is obliged to provide extensive warranties to its dealers, importers and national distributors (quality defect liability) as well as, in certain countries, to customers. Volkswagen may face additional liability depending on the applicable laws and contractual obligations.

As a rule, Volkswagen forms provisions for these obligations on an ongoing basis. Nevertheless, relative to the guarantees and warranties that it grants, Volkswagen may have set the calculated product prices and the provisions for guarantee and warranty risks too low or may do so in the future. Volkswagen's suppliers have also provided guarantees and warranties, however, when claims are made against them, these suppliers may not be able to fulfill their obligations.

Supervisory authorities may request that Volkswagen performs recall campaigns and could compel a recall and modification of Volkswagen's products or components included in Volkswagen's products. Frequently, such recalls concern a smaller number of vehicles. However, substantial numbers of vehicles could also be affected. The risk of a recall of a substantial number of vehicles could be exacerbated due to Volkswagen's application of modular vehicle components that are used for the production of vehicles across brands and classes.

Due to the diesel issue, Volkswagen was ordered to initiate a comprehensive recall in various jurisdictions to retrofit certain of its vehicles to bring their emissions systems into compliance with pollution regulations. For more information, see "*Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities.*" The related costs incurred to date are considerable and there could be additional substantial costs. There could be future recalls affecting additional jurisdictions and vehicles. The recalls could pose significant challenges to Volkswagen's dealers. Depending on the required repairs, in particular in the United States and Canada, dealers may lack sufficient technical capacities to implement the works on time. In addition, dealers may experience liquidity issues. To the extent Volkswagen is required to provide support to its dealer network in connection with any recalls, in particular in the United States, it may incur significant costs. Moreover, Volkswagen could be required to compensate dealers for any litigation claims they might face *vis-a-vis* their customers.

On May 5, 2016, the U.S. National Highway Traffic Safety Administration (NHTSA) announced, jointly with the Takata company, a further extension of the recall for various models from different manufacturers containing certain airbags produced by the Takata company. Recalls were also ordered by the local authorities in individual countries. The recalls also included models manufactured by the Volkswagen Group. Appropriate provisions have been recognized. Currently, the possibility of further extensions to the recalls that could also affect Volkswagen Group models cannot be ruled out and could, therefore, have an adverse financial impact.

Volkswagen may not have claims against third parties (for example suppliers) for expenses and costs associated with recalls or part exchanges. Volkswagen may have designed products with product defects or

may manufacture faulty products. Moreover, Volkswagen may provide services as a courtesy or for reputational reasons although Volkswagen is not legally obligated to do so.

**2.1.17.7 Volkswagen's existing insurance coverage may not be sufficient and insurance premiums may increase.**

Volkswagen has obtained insurance coverage in relation to a number of risks associated with its business activities that are subject to standard exclusions, such as willful misconduct. However, Volkswagen may suffer losses or claimants may bring claims that exceed the type and scope of Volkswagen's existing insurance coverage. Significant losses could lead to higher insurance premium payments. In addition, there are risks left intentionally uninsured based on Volkswagen's cost benefit analysis (such as, but not limited to, business interruption, interruptions following marine cargo damage, supplier insolvency, industrial disputes, specific natural hazards or comprehensive car cover), and Volkswagen therefore has no insurance against these events.

If Volkswagen sustains damages for which there is no or insufficient insurance coverage, or if it has to pay higher insurance premiums or encounters restrictions on insurance coverage, this may materially adversely affect Volkswagen's general business activities, net assets, financial position and results of operations.

**2.1.17.8 Volkswagen faces regulatory risks in the aftermarket and with respect to its genuine parts business. There are risks associated with Volkswagen's renegotiation of dealer agreements.**

Volkswagen maintains a European-wide distribution network with selected dealers and workshops based on standardized contracts that are adapted to European and local laws. For the distribution of new motor vehicles, Volkswagen uses quantitative and qualitative selection criteria. Generally, Volkswagen can limit the number of those dealers who fulfil the qualitative criteria. However, under Regulation (EU) No 330/2010 Volkswagen may be required to self-assess its situation and may be required to change its distribution contracts and admit further dealers into its network in markets where Volkswagen's market share may exceed 40%. Furthermore, as part of a new sales strategy, among other things, the renegotiation of agreements with dealers and importers could lead to disputes and expose Volkswagen to claims for damages.

Additionally, Volkswagen is obliged to grant access to technical information for independent market participants in accordance with the Euro 5/Euro 6 legislation (Regulation (EU) No 566/2011, Regulation (EC) No 715/2007 and Regulation (EC) No 692/2008). Due to ongoing political discussions in relation to potential future amendments of the Euro 5/Euro 6 legislation, Volkswagen might be required in the future to grant independent market participants access to technical information that goes beyond the current requirements, in particular to technical information on Volkswagen's genuine parts. The expansion of independent market participants' access to such information could give rise to additional expenses in connection with a review of existing arrangements and other costs that Volkswagen would have to bear in order to adapt to the new regulation. The regulations described above could also expose Volkswagen to greater competition in the aftermarket.

Furthermore, the European Commission plans to end design protection for visible vehicle parts. If this plan is implemented, it could adversely affect Volkswagen's genuine parts business.

**2.1.17.9 Volkswagen is exposed to tax risks, which could arise in particular as a result of tax audits or as a result of past measures.**

Volkswagen and its subsidiaries based in Germany are subject to regular tax audits. The most recent tax audit of the major Volkswagen Group companies based in Germany covered 2001 up to and including 2005. The tax assessment notices regarding this audit are available to Volkswagen and the back taxes have been paid. Volkswagen's foreign companies are subject to the audit requirements of their respective national tax authorities.

Ongoing or future tax audits may lead to demands for back taxes, tax penalties and similar payments. Such payments may arise, for example, from the full or partial non-recognition of intra-group transfer prices. In countries where there are no limitation periods for tax payments (such as China), Volkswagen may also face demands for back taxes relating to earlier periods.

Considerable tax risks could arise from the restructuring measures implemented at Porsche Automobil Holding SE ("**Porsche SE**") in 2009 (the merger of the former Dr. Ing. h.c. F. Porsche Aktiengesellschaft with Porsche Holding Stuttgart GmbH (formerly: Porsche Zweite Zwischenholding GmbH)) and the subsequent spin-off to Dr. Ing. h.c. F. Porsche AG ("**Porsche AG**"), and from the indirect interest of Volkswagen AG in Porsche AG and the transfer of funds from Volkswagen AG's cash contribution to Porsche SE in the form of a loan. These measures could be viewed as tainted transactions during the blocking periods

running until 2016, and consequently lead to subsequent taxation of the spin-offs. The internal reorganization and most of the other measures were discussed with the tax authorities and made the subject of binding rulings prior to their implementation. However, the binding rulings could cease to be valid if the actual circumstances differ from their presentation in the applications for the binding rulings. In addition, other measures could be implemented during the blocking periods running until 2016 that could give rise to subsequent taxation of the spin-offs implemented in 2009.

Volkswagen's provisions for tax risks may be insufficient to cover any actual settlement amount. Risks may also arise due to changes in tax laws or accounting principles. The occurrence of these risks could have a material adverse effect on Volkswagen's net assets, financial position and results of operations.

**2.1.17.10 Volkswagen Financial Services AG, Volkswagen AG and Porsche SE are liable to the Bundesverband deutscher Banken e.V. (Association of German Banks) if the latter incurs losses as a result of having provided assistance to Volkswagen Bank.**

Volkswagen Bank GmbH, Braunschweig, Germany ("Volkswagen Bank") is a member of the Deposit Protection Fund of the Association of German Banks. The Deposit Protection Fund in principle protects all non-bank deposits, that is, deposits of private individuals, commercial enterprises and public-sector entities. Under the by-laws of the Association's Deposit Protection Fund, Volkswagen AG and Porsche SE have provided a declaration of indemnity for Volkswagen Bank. Under this declaration, they have agreed to hold the Association of German Banks harmless from any losses it incurs resulting from assistance provided to Volkswagen Bank. These circumstances may have a material adverse effect on Volkswagen's business, net assets, financial position and results of operations. Moreover, any rescue measures taken by the Deposit Protection Fund may result in a reputational damage.

**2.1.17.11 In Germany, investors have brought conciliation and legal proceedings against Volkswagen AG in connection with Porsche SE's acquisition of Volkswagen AG shares, claiming significant damages for alleged breaches of capital market laws.**

In 2011, ARFB Anlegerschutz UG (*haftungsbeschränkt*) brought an action against Volkswagen AG and Porsche Automobil Holding SE for claims for damages for allegedly violating disclosure requirements under capital market law in connection with the acquisition of ordinary shares in Volkswagen AG by Porsche in 2008. The damages currently being sought are based on allegedly assigned rights and amount to approximately €2.26 billion plus interest. In April 2016, the District Court in Hanover had formulated numerous objects of declaratory judgement that the Cartel Senate of the Higher Regional Court in Celle will decide on in model case proceedings under the German Capital Markets Model Case Act (*Kapitalanleger-Musterverfahrensgesetz* — "**KapMuG**"). In the first hearing on October 12, 2017, the Senate indicated that it currently does not see claims against Volkswagen AG as justified, both in view of a lack of substantiated submissions and for legal reasons. Some of the desired objects of declaratory judgment on the litigants' side may also be inadmissible, the Senate said.

At the time (2010/2011), other investors had also asserted claims arising out of the same circumstances – including claims against Volkswagen AG – in an approximate total amount of €4.6 billion and initiated conciliation proceedings. Volkswagen AG always refused to participate in these conciliation proceedings; since then, these claims have not been pursued further. Volkswagen AG continues to consider the alleged claims to be without merit.

In the future, Volkswagen could be subject to further lawsuits or conciliation proceedings in Europe or elsewhere arising from these facts. In the event of a settlement or an unfavorable decision in the conciliation or legal proceedings, Volkswagen AG could sustain considerable losses.

**2.1.17.12 The European Commission's antitrust proceedings involving Scania AB and MAN SE have resulted in the imposition of fines and further damages are being sought. Volkswagen is also subject to further antitrust investigations.**

In 2011, the European Commission opened antitrust proceedings against European truck manufacturers including MAN and Scania. With its first decision following individual settlements in July 2016 the European Commission fined five European truck manufacturers excluding MAN and Scania. MAN was not fined as the company had informed the Commission about the cartel as a key witness. With regard to Scania, the Commission issued a contentious fine decision in September 2017 by which a fine of EUR 0.88 billion was imposed. Scania has appealed to the European Court in Luxembourg. Depending on how the legal proceedings develop, actual fines may differ. In 2016, Volkswagen set aside a EUR 0.4 billion provision in connection with the proceedings. As is the case in any antitrust proceedings, further lawsuits from customers against MAN and Scania have been filed and will continue to be filed, which could result in substantial liabilities.



Volkswagen is also subject to an ongoing antitrust investigation by the European Commission in relation to potential collusion in the field of technical developments among certain European auto manufacturers. As part of an announced review, in November 2017, the European Commission examined documents in the offices of Volkswagen AG and AUDI AG. Prior to and following the examination, Volkswagen Group companies concerned have been cooperating fully and for a long time with the European Commission and have submitted a corresponding application. In September 2018, the European Commission opened a formal investigation into this matter, restricting the scope of the investigation to the subject of clean emissions technology.

Furthermore, Volkswagen is subject to an ongoing antitrust investigation by the German Federal Cartel Office in relation to potential anti-competitive behavior with regard to steel purchasing. Following proceedings against steel manufacturers on alleged price fixing, the Federal Cartel Office in June 2016 extended the scope of its investigation to certain steel processing companies as well as other steel customers including Volkswagen and in this context carried out an on-site inspection in the offices of Volkswagen AG in June 2016. The Volkswagen Group companies concerned are cooperating fully with the Federal Cartel Office.

The above proceedings are currently pending, and it is too early to assess the potential consequences of the investigation on Volkswagen.

### **2.1.17.13 Volkswagen is subject to risks arising from legal disputes and government investigations.**

In connection with its general business activities, Volkswagen, as well as entities in which Volkswagen holds a direct or indirect interest, are currently the subject of legal disputes and government investigations in Germany as well as abroad, and may continue to be so in the future. Such disputes and investigations may, in particular, arise from Volkswagen's relationships with authorities, suppliers, dealers, customers, employees or investors. Volkswagen may be required to pay fines, or take or refrain from taking certain actions. To the extent customers, particularly in the United States, assert claims for existing or alleged vehicle defects individually or in a class-action lawsuit, Volkswagen may have to undertake costly defense measures, reimburse plaintiffs' legal fees and pay significant damages, including punitive damages. Complaints brought by suppliers, dealers, investors or other third parties (such as governmental authorities or patent exploitation companies) in the United States and elsewhere may also result in significant costs, risks or damages. This particularly relates to current and future class-action lawsuits, actions relating to patent rights and antitrust disputes among others. On November 1, 2018, the German Act on Model Declaratory Action came into effect, allowing certain entities to file an action for declaratory judgment on behalf of consumers. This new law may lead to an increase in consumer litigation in Germany, including with respect to diesel-related litigation against Volkswagen.

Furthermore, there may be investigations by governmental authorities in connection with Volkswagen's compliance with regulatory requirements, in particular where Volkswagen's and the regulators' interpretation of the applicable requirements differ. Uncertainties or differing assessments of risk surrounding enforcement or regulatory interpretations could result in substantial costs, including civil and criminal penalties. Investigations could relate to circumstances of which Volkswagen currently is not aware, or which have already arisen or will arise in the future, including supervisory and environmental law, competition law, state aid or criminal proceedings.

Where the risks arising from legal disputes and investigations can be assessed and insurance coverage is economically sensible, Volkswagen has purchased customary insurance coverage or recognized provisions or contingent liabilities in relation to these risks. However, as certain risks cannot be estimated or can be estimated only with difficulty, Volkswagen may incur losses that are not covered by insurance or provisions. In particular, this is the case concerning estimations of legal risks arising out of the diesel issue. As a result, legal risks could have a material adverse effect on Volkswagen's reputation, business, net assets, financial position and results of operations.

*See also "Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities."*

## **2.2 Risk Related to the Notes**

### **2.2.1 The Notes do not contain any financial covenants.**

Neither Volkswagen nor any of its subsidiaries (including the Issuer) will be restricted from incurring additional unsecured debt or other liabilities, including senior debt under the terms of the Notes or the Fiscal

and Paying Agency Agreement. If Volkswagen incurs additional debt or liabilities, the Issuer and/or Volkswagen's ability to pay its obligations on the Notes could be adversely affected. In addition, under the Notes or the Fiscal and Paying Agency Agreement, neither the Issuer nor Volkswagen Aktiengesellschaft will be restricted from paying dividends or issuing or repurchasing their other securities.

Noteholders will not be protected under the terms of the Notes or the Fiscal and Paying Agency Agreement in the event of a highly leveraged transaction, a reorganization or a restructuring, merger or similar transaction that may adversely affect Noteholders.

**2.2.2 *The Notes and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively, and are subordinated to secured obligations on insolvency.***

Holders of secured obligations of the Issuer and the Guarantor will have claims that are prior to the claims of holders of the Notes to the extent of the value of the assets securing those other obligations. The Notes are effectively subordinated to secured indebtedness to the extent of the value of the assets securing those other obligations. In the event of any distribution of assets or payment in any foreclosure, dissolution, winding up, liquidation, reorganization, or other bankruptcy proceeding, the assets securing the claims of secured creditors will be available to satisfy the claims of those creditors, if any, before they are available to unsecured creditors, including the holders of the Notes. In any of the foregoing events, there is no assurance to holders of the Notes that there will be sufficient assets to pay amounts due on the Notes.

**2.2.3 *The Volkswagen Group may incur substantially more debt in the future.***

The Volkswagen Group may incur substantial additional indebtedness in the future, some of which may be secured by some or all of its assets. The terms of the Notes will not limit the amount of indebtedness Volkswagen may incur. Any such incurrence of additional indebtedness could exacerbate the related risks described in this Offering Memorandum or pose new risks not described in this Offering Memorandum.

**2.2.4 *Disruptions in credit and capital markets could affect the liquidity and pricing of the Notes.***

Concerns regarding high sovereign debt burdens, contagious effects of rating downgrades, possible sovereign defaults and the future of the euro could affect economic growth rates, interest rates and inflation. As a result of risk aversion by investors, demand for, and values of, some securities have decreased and may decrease further in the future. Renewed or intensified turmoil in global credit markets may adversely affect the liquidity and pricing of the Notes.

**2.2.5 *Transfer of the Notes will be restricted, which may adversely affect the value of the Notes.***

The Notes have not been and will not be registered under the Securities Act or the securities laws of any other jurisdiction. Purchasers may not offer the Notes in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws, or pursuant to an effective registration statement. The Notes and the Fiscal and Paying Agency Agreement under which the Notes are issued will contain provisions that will restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A or other exceptions under the Securities Act. It is the Noteholder's obligation to ensure that any offers and sales of the Notes within the United States and other countries comply with applicable securities laws. See "*Purchase and Transfer Restrictions*".

**2.2.6 *An active trading market may not develop for the Notes, in which case the Noteholder's ability to transfer the Notes will be more limited.***

The Notes are new securities for which there currently is no market. The Notes will not be listed on any stock exchange and the Issuer cannot assure you as to the liquidity of any market that may develop for the Notes, the ability of holders of the Notes to sell them or the price at which holders of the Notes may be able to sell them. The liquidity of any market for the Notes will depend on a number of factors, including general economic conditions and the Volkswagen Group's own financial condition, performance and prospects, as well as recommendations of securities analysts. The Issuer cannot assure prospective purchasers that an active trading market for the Notes will develop or, if one does develop, that it will be maintained.

The liquidity of, and trading market for, the Notes may also be hurt by general declines in the market for similar securities. Such a decline may adversely affect any liquidity and trading of the Notes independent of the Volkswagen Group's financial performance and prospects.

**2.2.7      *The Notes will initially be held in book-entry form and therefore holders of the Notes must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.***

Unless and until notes in definitive registered form, or definitive registered notes, are issued in exchange for book-entry interests, owners of book-entry interests will not be considered owners or holders of notes. DTC, or its nominee, will be the registered holder of the Global Notes for the benefit of their respective participants. After payment to the registered holder, the Issuer will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if a holder owns a book-entry interest, such holder must rely on the procedures of DTC, and if such holder is not a participant in DTC, on the procedures of the participant through which the holder owns its interest, to exercise any rights and obligations of a holder under the Fiscal and Paying Agency Agreement. See "*Book-Entry, Delivery and Form*".

Unlike the holders of the Notes themselves, owners of book-entry interests will not have any direct rights to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if a holder owns a book-entry interest, such holder will be permitted to act only to the extent such holder has received appropriate proxies to do so from DTC, or if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable a holder to vote on any matters on a timely basis.

Similarly, upon the occurrence of an event of default under the Fiscal and Paying Agency Agreement, unless and until definitive registered notes are issued in respect of all book-entry interests, if a holder owns a book-entry interest, such holder will be restricted to acting through DTC. There can be no assurance that the procedures to be implemented through DTC will be adequate to ensure the timely exercise of rights under the Notes. See "*Book-Entry, Delivery and Form*".

**2.2.8      *Interest rate risks.***

Investment in fixed rate notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

A key difference between floating rate notes and fixed rate notes is that interest income on floating rate notes cannot be anticipated. Due to varying interest income, Noteholders will not be able to determine a definite yield on floating rate notes at the time of purchase. As a result, the return on investment in respect of floating rate notes cannot be compared with that of investments having fixed interest rates. Noteholders intending to reinvest the interest income paid to them under the floating rate notes may be exposed to reinvestment risk in the event that market interest rates decline, as such reinvestments may be subject to the relevant lower interest rates then prevailing. The condition of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, which could have an adverse effect on the market prices of the Notes.

**2.2.9      *The Floating Rate Notes are exposed to risk of financial benchmark and reference interest rate continuity.***

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate ("**LIBOR**"), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of LIBOR or its discontinuation, could have a material adverse effect on the Floating Rate Notes.

The Terms and Conditions provide that each Floating Rate of Interest shall be determined by reference to the Screen Page (or its successor or replacement). In circumstances where the Reference Rate is discontinued, neither the Screen Page, nor any successor or replacement may be available (all defined terms in this section as defined in "Terms and Conditions of the Notes").

Where neither the Screen Page nor a successor or replacement is available, the Terms and Conditions provide for the relevant Floating Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of the Reference Rate), the relevant Floating Rate of Interest may ultimately revert to the relevant Floating Rate of Interest applicable as at the last Interest Determination Date before the Reference Rate was discontinued. Uncertainty as to the continuation of the Reference Rate, the availability of

quotes from banks, and the rate that would be applicable if the Reference Rate is discontinued may adversely affect the value of, and return on, the Floating Rate Notes.

If a Benchmark Event (as defined in Condition 5(c)(vii) of the Conditions) (which, amongst other events, includes the permanent discontinuation of the Reference Rate) occurs, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser. The Independent Adviser shall endeavour to determine a Successor Rate or Alternative Rate to be used in place of the Reference Rate. The use of any such Successor Rate or Alternative Rate to determine the relevant Floating Rate of Interest will result in the relevant Floating Rate Notes performing differently (which may include payment of a lower Floating Rate of Interest) than they would do if the Reference Rate were to continue to apply in its previous form.

Furthermore, if a Successor Rate or Alternative Rate for the Reference Rate is determined by the Independent Adviser, the Conditions provide that the Issuer may vary the Terms and Conditions, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the relevant Noteholders.

If a Successor Rate or Alternative Rate is determined by the Independent Adviser, the Terms and Conditions also provide that an Adjustment Spread may be determined by the Independent Adviser and applied to such Successor Rate or Alternative Rate. The aim of the Adjustment Spread is to reduce or eliminate, to the extent reasonably practicable, any economic prejudice or benefit (as the case may be) to the Noteholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Rate. However, it may not be possible to determine or apply an Adjustment Spread and even if an Adjustment Spread is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to the Noteholders. If no Adjustment Spread can be determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the relevant Floating Rate of Interest. The use of any Successor Rate or Alternative Rate (including with the application of an Adjustment Spread) will still result in the Floating Rate Notes performing differently (which may include payment of a lower Floating Rate of Interest) than they would if the Reference Rate were to continue to apply in its previous form.

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Rate in accordance with the Terms and Conditions.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner, or the Independent Adviser is unable, to determine a Successor Rate or Alternative Rate before the next Interest Determination Date, the relevant Floating Rate of Interest for the next Floating Rate Interest Period will be the Floating Rate of Interest applicable as at the last Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Floating Rate of Interest will be the initial Floating Rate of Interest.

Where the Issuer has been unable to appoint an Independent Adviser or, the Independent Adviser has failed, to determine a Successor Rate or Alternative Rate in respect of any given Floating Rate Interest Period, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next Interest Determination Date and/or to determine a Successor Rate or Alternative Rate to apply the next and any subsequent Floating Rate Interest Periods, as necessary.

Applying the initial Floating Rate of Interest, or the Floating Rate of Interest applicable as at the last Interest Determination Date before the occurrence of the Benchmark Event will result in the Floating Rate Notes performing differently (which may include payment of a lower Floating Rate of Interest) than they would do if the Reference Rate were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, the Independent Adviser fails to determine a Successor Rate or Alternative Rate for the life of the relevant Floating Rate Notes, the initial Floating Rate of Interest, or the Floating Rate of Interest applicable as at the last Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Notes, in effect, becoming fixed rate notes.

#### **2.2.10 Credit ratings may not reflect all risks.**

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market and additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

### **3. USE OF PROCEEDS**

The net proceeds from the Notes, less commissions but before expenses payable by the Volkswagen Group in connection with the Notes, will be approximately U.S.\$7,950,680,000 and will be used by the Volkswagen Group for general corporate purposes, including working capital requirements.

#### 4. CAPITALIZATION

The following table sets forth the Volkswagen Group's cash and cash equivalents and capitalization (a) as of September 30, 2018 as derived from the Interim Financial Statements and (b) as adjusted to give effect to the issuance of the Notes and the application of proceeds therefrom as discussed under "Use of Proceeds" as if this Offering had been completed as of September 30, 2018. This table should be read in conjunction with the sections entitled "Selected Consolidated Financial and Operating Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", the 2018 Q3 Report Excerpts and the Financial Statements, in particular the balance sheet, and the notes thereto and related discussion and analysis included or incorporated by reference in this Offering Memorandum.

	<b>As of September 30, 2018</b>	
	<b>Actual<sup>(1)</sup> (in EUR million) (unaudited)</b>	<b>As adjusted<sup>(2)</sup> (in EUR million) (unaudited)</b>
<b>Cash, cash equivalents and time deposits</b> .....	<b>25,175</b>	<b>32,040<sup>(2)</sup></b>
<b>Financial liabilities</b>		
Noncurrent financial liabilities .....	89,749	96,614 <sup>(2)</sup>
Bonds, commercial paper and notes .....	70,590	77,455 <sup>(2)</sup>
Liabilities to banks .....	15,196	15,196
Deposit business .....	1,532	1,532
Other financial liabilities .....	2,431	2,431
Current financial liabilities .....	85,820	85,820
Bonds, commercial paper and notes .....	39,477	39,477
Liabilities to banks .....	15,804	15,804
Deposit business .....	29,403	29,403
Other financial liabilities .....	1,136	1,136
<b>Total financial liabilities</b> .....	<b>175,569</b>	<b>182,434<sup>(2)</sup></b>
<b>Total equity</b> .....	<b>114,522</b>	<b>114,522</b>
<b>Total capitalization<sup>(3)</sup></b> .....	<b>290,091</b>	<b>296,956<sup>(2)</sup></b>

<sup>(1)</sup> Financial information of the Company has been derived from the Interim Financial Statements

<sup>(2)</sup> Figure includes the proceeds from the Notes, less commissions but before other expenses payable by the Volkswagen Group in connection with the Notes. The proceeds from this Offering are intended to be used for general corporate purposes, including working capital requirements, as described under "Use of Proceeds". The euro equivalent of Notes offered hereby is based on a euro/U.S. dollar exchange rate of U.S.\$1.15815 = EUR 1.00, which was the middle rate as of September 30, 2018 used to record foreign currency monetary items in the balance sheet.

<sup>(3)</sup> Total capitalization is calculated as a sum of total financial liabilities and total equity.

## 5. SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The audited consolidated financial information of the Volkswagen Group set forth below as of and for the years ended December 31, 2017, 2016 and 2015 and the unaudited condensed consolidated interim financial information of the Volkswagen Group as of and for the nine-month periods ended September 30, 2018 and 2017 have been derived from, should be read in conjunction with, and are qualified in their entirety by, the Financial Statements, including the notes thereto, prepared in accordance with IFRS.

Prospective investors should read the selected financial and other information in conjunction with the information contained in sections "Presentation of Financial Data", "Risk Factors", "Capitalization", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Business of the Volkswagen Group" as well as the 2018 Q3 Report Excerpts and the Financial Statements, including the notes thereto, and other financial data and related discussion and analysis included or incorporated by reference in this Offering Memorandum.

The new accounting standards IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" took effect as of January 1, 2018. For more information, see "Summary — Overview of Consolidated Financial Information of the Volkswagen Group". Comparable prior-period figures have been adjusted. Such adjustments, wherever applicable, are labeled as "Adjusted for changes in accounting policy". Annual Financial Statements for 2017, 2016 and 2015 have not been adjusted.

### Income Statement Information

	For the nine months ended September 30		For the year ended December 31		
	2018	2017 <sup>(3)</sup>	2017	2016	2015
	(in EUR million)				
	(unaudited)				
<b>Sales revenue</b> . . . . .	<b>174,577</b>	<b>170,065</b>	<b>230,682</b>	<b>217,267</b>	<b>213,292</b>
Cost of sales . . . . .	-139,533	-137,425	-188,140	-176,270	-179,382
<b>Gross result</b> . . . . .	<b>35,043</b>	<b>32,640</b>	<b>42,542</b>	<b>40,997</b>	<b>33,911</b>
Distribution expenses . . . . .	-15,068	-15,193	-22,710	-22,700	-23,515
Administrative expenses . . . . .	-6,234	-5,974	-8,254	-7,336	-7,197
Net other operating result <sup>(1)</sup> . . . . .	-2,871	-836	2,240	-3,858	-7,267
<b>Operating result</b> . . . . .	<b>10,871</b>	<b>10,636</b>	<b>13,818</b>	<b>7,103</b>	<b>-4,069</b>
Share of the result of equity-accounted investments . . . . .	2,448	2,378	3,482	3,497	4,387
Interest result and other financial result <sup>(2)</sup> . . . . .	-800	-2,725	-3,388	-3,308	-1,620
<b>Financial result</b> . . . . .	<b>1,647</b>	<b>-347</b>	<b>94</b>	<b>189</b>	<b>2,767</b>
<b>Earnings before tax</b> . . . . .	<b>12,518</b>	<b>10,290</b>	<b>13,913</b>	<b>7,292</b>	<b>-1,301</b>
Income tax expense . . . . .	-3,142	-2,746	-2,275	-1,912	-59
<b>Earnings after tax</b> . . . . .	<b>9,376</b>	<b>7,543</b>	<b>11,638</b>	<b>5,379</b>	<b>-1,361</b>
of which attributable to					
Noncontrolling interests . . . . .	10	5	10	10	10
Volkswagen AG hybrid capital investors . . . . .	248	195	274	225	212
Volkswagen AG shareholders . . . . .	9,118	7,344	11,354	5,144	-1,582

<sup>(1)</sup> Total of: other operating income and other operating expenses; unaudited.

<sup>(2)</sup> Total of: interest income, interest expenses and other financial result; unaudited.

<sup>(3)</sup> Adjusted for changes in accounting policy (see "— Overview of Consolidated Financial Information of the Volkswagen Group").

## Balance Sheet Information

	As of September 30	As of December 31		
	2018	2017	2016	2015
	(in EUR million)			
	(unaudited)			
<b>Assets</b>				
<b>Noncurrent assets</b>	<b>269,254</b>	<b>262,081</b>	<b>254,010</b>	<b>236,548</b>
Intangible assets	63,601	63,419	62,599	61,147
Property, plant and equipment	55,364	55,243	54,033	50,171
Lease assets	42,590	39,254	38,439	33,173
Financial services receivables	77,685	73,249	68,402	63,185
Investments, equity-accounted investments and other equity investments, other receivables and financial assets <sup>(1)</sup>	30,014	30,916	30,537	28,873
<b>Current assets</b>	<b>174,603</b>	<b>160,112</b>	<b>155,722</b>	<b>145,387</b>
Inventories	45,558	40,415	38,978	35,048
Financial services receivables	50,806	53,145	49,673	46,888
Other receivables and financial assets <sup>(2)</sup>	36,324	32,040	30,286	27,572
Marketable securities	16,741	15,939	17,520	15,007
Cash, cash equivalents and time deposits	25,175	18,457	19,265	20,871
Assets held for sale	–	115	–	–
<b>Total assets</b>	<b>443,857</b>	<b>422,193</b>	<b>409,732</b>	<b>381,935</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>	<b>114,522</b>	<b>109,077</b>	<b>92,910</b>	<b>88,270</b>
Equity attributable to Volkswagen AG shareholders <sup>(3)</sup>	101,738	97,761	85,122	80,500
Equity attributable to Volkswagen AG hybrid capital investors	12,565	11,088	7,567	7,560
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	114,303	108,849	92,689	88,060
Noncontrolling interests	219	229	221	210
<b>Noncurrent liabilities</b>	<b>161,639</b>	<b>152,726</b>	<b>139,306</b>	<b>145,175</b>
Financial liabilities	89,749	81,628	66,358	73,292
Provisions for pensions	33,249	32,730	33,012	27,535
Other noncurrent liabilities <sup>(4)</sup>	38,641	38,368	39,936	44,349
<b>Current liabilities</b>	<b>167,696</b>	<b>160,389</b>	<b>177,515</b>	<b>148,489</b>
Put options and compensation rights granted to noncontrolling interest shareholders	3,456	3,795	3,849	3,933
Financial liabilities	85,820	81,844	88,461	72,313
Trade payables	23,464	23,046	22,794	20,460
Other current liabilities <sup>(5)</sup>	54,955	51,705	62,411	51,783
<b>Total equity and liabilities</b>	<b>443,857</b>	<b>422,193</b>	<b>409,732</b>	<b>381,935</b>

<sup>(1)</sup> Including noncurrent tax receivables, noncurrent deferred tax assets; unaudited.

<sup>(2)</sup> Total of: trade receivables, current other financial assets, current other receivables, current tax receivables; unaudited.

<sup>(3)</sup> Total of: subscribed capital, capital reserves, retained earnings, other reserves; unaudited.

<sup>(4)</sup> Total of: noncurrent other liabilities, deferred tax liabilities, noncurrent provisions for taxes, noncurrent other provisions, noncurrent other financial liabilities; unaudited.

<sup>(5)</sup> Total of: current tax payables, current other liabilities, current provisions for taxes, current other provisions, current other financial liabilities; unaudited.



**Cash Flow Statement Information**

	For the nine months ended September 30		For the year ended December 31		
	2018	2017	2017	2016	2015
	(in EUR million)				
	(unaudited)				
<b>Cash and cash equivalents at beginning of period . . .</b>	<b>18,038</b>	<b>18,833</b>	<b>18,833</b>	<b>20,462</b>	<b>18,634</b>
<b>Cash flows from operating activities . . . . .</b>	<b>9,110</b>	<b>346</b>	<b>-1,185</b>	<b>9,430</b>	<b>13,679</b>
<b>Cash flows from investing activities . . . . .</b>	<b>-13,373</b>	<b>-9,443</b>	<b>-16,508</b>	<b>-20,679</b>	<b>-21,151</b>
<b>Cash flows from financing activities . . . . .</b>	<b>11,316</b>	<b>11,927</b>	<b>17,625</b>	<b>9,712</b>	<b>9,068</b>
Effect of exchange rate changes on cash and cash equivalents . . . . .	-260	-675	-727	-91	232
<b>Net change in cash and cash equivalents . . . . .</b>	<b>6,792</b>	<b>2,155</b>	<b>-796</b>	<b>-1,628</b>	<b>1,828</b>
<b>Cash and cash equivalents at end of period . . . . .</b>	<b>24,830</b>	<b>20,989</b>	<b>18,038</b>	<b>18,833</b>	<b>20,462</b>
Securities, loans and time deposits . . . . .	27,284	26,267	26,291	28,036	24,613

## **6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Volkswagen Group's results of operations and financial condition. Historical results may not indicate future performance. The forward-looking statements contained in this discussion are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such a difference include, but are not limited to, those discussed in "General Information – Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors". This discussion is based on and should be read in conjunction with the Annual Financial Statements and the other information included elsewhere or incorporated by reference in this Offering Memorandum. Unless otherwise indicated, all of the financial data and discussions thereof are based upon financial statements prepared in accordance with IFRS.*

*Beginning with 2017 Annual Financial Statements, Volkswagen Group has made some structural changes within its financial result reporting. Furthermore, from January 1, 2018 onwards, effective new IFRS standards were adopted. These changes are described below whenever relevant. As a result of these changes, the comparison to figures in prior period financial statements could be limited. For more information, see "Accounting Policies" in the notes to the Interim Financial Statements, incorporated by reference in this Offering Memorandum, as well as "Summary — Overview of Consolidated Financial Information of the Volkswagen Group". Annual Financial Statements for 2017, 2016 and 2015 have not been adjusted. Unless otherwise indicated, the audited 2017 and 2016 financial figures have been taken from the 2017 Annual Financial Statements and the audited 2015 financial figures have been taken from the 2016 Annual Financial Statements.*

*Trends and significant changes in the Volkswagen Group's results of operations and financial condition as of and for the nine month period ended September 30, 2018 are described in the 2018 Q3 Report Excerpts incorporated herein by reference.*

### **6.1 Business Overview**

Volkswagen Group is one of the world's leading multibrand companies in the automotive industry. In 2017, Volkswagen Group achieved sales revenue of EUR 230,682 million, operating result of EUR 13,818 million and earnings after tax of EUR 11,638 million. In the first nine months of 2018, Volkswagen Group achieved sales revenue of EUR 174,577 million, operating result of EUR 10,871 million and earnings after tax of EUR 9,376 million. Volkswagen Group delivered 10,741 thousand vehicles to its customers worldwide in 2017 and 8,130 thousand vehicles in the first nine months of 2018.

Volkswagen Group comprises twelve brands from seven European countries: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN. For more information on each brand see "*Business of the Volkswagen Group — Volkswagen's Divisions and their Products and Services — Automotive Division — Volkswagen's brands*".

Volkswagen's product portfolio ranges from compact cars to luxury vehicles and also includes motorcycles, and will gradually be supplemented by mobility solutions, such as shuttle on demand and ride hailing services. In the commercial vehicle sector, the product portfolio ranges from pick-ups to buses and heavy trucks. Volkswagen is also active in the power engineering business field, manufacturing large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems. As of December 31, 2017, Volkswagen Group's product range comprised around 355 models. In addition, the Volkswagen Group offers a wide range of financial services, including dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings.

The Company's business activities comprise two divisions: the Automotive Division and the Financial Services Division.

The Automotive Division is composed of three business areas: Passenger Cars, Commercial Vehicles and Power Engineering. 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 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 Power Engineering business area combines the large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses. The Financial Services Division combines dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings.

The following table provides an overview of the sales volume (including the joint venture companies in China), sales revenue and operating result for the Volkswagen Group and Volkswagen's Divisions during the years ended December 31, 2017, 2016 and 2015:

	<b>Unit sales<sup>(1)</sup></b>			<b>Sales revenue<sup>(1)</sup></b>			<b>Operating result<sup>(1)</sup></b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(Thousand vehicles)</b>			<b>(EUR million)</b>			<b>(EUR million)</b>		
Volkswagen Group <sup>(2)</sup> . . . . .	10,777	10,391	10,010	230,682 <sup>(3)</sup>	217,267 <sup>(3)</sup>	213,292 <sup>(3)</sup>	13,818 <sup>(3)</sup>	7,103 <sup>(3)</sup>	-4,069 <sup>(3)</sup>
of which:									
Automotive Division <sup>(4)</sup> . . . . .	10,777	10,391	10,010	196,949	186,016	183,936	11,146	4,668	-6,305
Financial Services Division <sup>(5)</sup> . . . . .	—	—	—	33,733	31,251	29,357	2,673	2,435	2,236

<sup>(1)</sup> Unaudited except where indicated.

<sup>(2)</sup> The sales revenue and operating result of the joint venture companies in China are not included in Volkswagen's figures. The Chinese companies are accounted for using the equity method and recorded proportionate operating result of EUR 4,746 million, EUR 4,956 million and EUR 5,214 million for the years ended December 31, 2017, 2016 and 2015, respectively.

<sup>(3)</sup> Audited.

<sup>(4)</sup> Sales revenue and operating result include allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

<sup>(5)</sup> Financial Services Division corresponds to the Financial Services segment, figures are audited.

Volkswagen Group's financial reporting comprises four reportable segments: Passenger Cars segment, Commercial Vehicles segment, Power Engineering segment and Financial Services segment.

The Automotive Division's three business areas described above conform to Volkswagen's financial reporting segments as follows: The Passenger Cars business area corresponds to the Passenger Cars reporting segment together with the reconciliation, to account for intra-group activities. The Commercial Vehicles business area and Power Engineering business area correspond to the reporting segments of the same name. The Financial Services Division corresponds to the Financial Services segment.

The following table presents an overview of Volkswagen's key figures by segment for the year ended December 31, 2017:

	<b>Passenger Cars</b>	<b>Commercial Vehicles</b>	<b>Power Engineering</b>	<b>Financial Services</b>	<b>Total segments</b>	<b>Reconciliation</b>	<b>Volkswagen Group</b>
	<b>(EUR million)</b>						
Sales revenue . . . . .	188,405	35,200	3,283	33,733	260,621	-29,939	230,682
Segment result (operating result) . . . . .	12,644	1,892	-55	2,673	17,153	-3,335	13,818
as a percentage of sales revenue <sup>(1)</sup> . . . . .	6.7	5.4	-1.7	7.9	—	—	6.0
Investments in intangible assets, property, plant and equipment, investment property (capex) . . . . .	15,713	1,915	159	421	18,208	104	18,313

<sup>(1)</sup> Unaudited.

In May 2018, Volkswagen introduced an additional internal operating structure, which is being gradually implemented. The Volkswagen Group brands will collaborate along six units and the China region.

The units will consist of (1) the "Volume brand group", (2) the "Premium brand group" and (3) the "Sport & Luxury brand group", (4) the "Truck & Bus brand group", (5) the Components & Procurement business and (6) the Financial Services business.

The "Volume brand group" comprises the Volkswagen Passenger Cars, SEAT, ŠKODA and Volkswagen Commercial Vehicles brands. The "Premium brand group" includes the Audi, Lamborghini and Ducati brands. The "Sport & Luxury brand group" comprises the Porsche, Bentley and Bugatti brands. The "Truck & Bus brand group" is the umbrella for the Scania and MAN brands. With effect from August 30, 2018, Volkswagen Truck & Bus AG became TRATON AG. Within the "Truck & Bus brand group", TRATON GROUP is designed to combine the brands' respective strengths and know-how in order to create a new

environment for transportation solutions. TRATON is preparing Volkswagen's trucks and bus business for capital markets readiness. In this context, Volkswagen AG and TRATON AG agreed in October 2018 on the sale of MAN's Power Engineering business to a Volkswagen Group subsidiary. The sale is intended to be completed by year-end 2018. The Components & Procurement business intends to act as one central unit, which spans across and supports all brands. The placement of Lamborghini, Ducati and Power Engineering within the new additional internal operating structure is currently being reviewed.

The new structure will lay the foundations for streamlining the Volkswagen Group's management decision making, strengthening the brands and giving them greater autonomy. Volkswagen believes this will enable synergies to be leveraged more systematically and speed up decision-making, thus establishing more efficient group management in a phase of dynamic changes in the company and the entire automotive industry. In 2018, no material modifications or changes of Volkswagen Group's organizational or financial reporting structure will be implemented as a result of this revision of Volkswagen's internal operating structure. Effective from January 1, 2019, segment reporting of passenger cars and commercial vehicles will be adapted due to the reallocation of the Volkswagen Commercial Vehicles brand to the Passenger Cars segment.

Volkswagen sells vehicles in about 200 countries. Volkswagen's primary markets for its automobiles are Europe, Asia-Pacific and the Americas.

The following table presents the regional markets for Volkswagen's products and services and the percentages of sales revenue from external customers by region during the years ended December 31, 2017, 2016 and 2015 (in each case not including the Chinese joint ventures):

	<b>Sales revenue from external customers by region<sup>(1)</sup></b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
		<b>(%)</b>	
Germany . . . . .	19.2	20.1	19.8
Europe and Other Markets (excluding Germany) . . .	42.7	43.5	42.3
North America . . . . .	16.8	16.3	16.6
South America . . . . .	4.3	3.7	4.8
Asia-Pacific . . . . .	17.0	16.5	16.5

<sup>(1)</sup> Unaudited.

Volkswagen had an average of 634,396 employees worldwide (including the Chinese joint ventures) in 2017.

## **6.2 Basis of Presentation**

In addition to Volkswagen AG, the consolidated Financial Statements comprise all significant German and non-German subsidiaries, including structured entities, which are controlled directly or indirectly by Volkswagen AG. This is the case if Volkswagen AG obtains power over the potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the subsidiaries, and is able to influence those returns. In the case of the structured entities consolidated in the Volkswagen Group, Volkswagen is able to direct the material relevant activities remaining after the change in the structure even if it is not invested in the structured entity concerned and is thus able to influence the variable returns from its involvement. The structured entities are used primarily to enter into asset-backed securities transactions to refinance the financial services business and to invest surplus liquidity in special securities funds. Consolidation of subsidiaries begins at the first date on which control exists, and ends when such control no longer exists.

Subsidiaries whose business is dormant or insignificant, both individually and in the aggregate, for the fair presentation of the net assets, financial position and results of operations as well as the cash flows of the Volkswagen Group are not consolidated. They were carried in the consolidated financial statements at cost net of any impairment losses and reversals of impairment losses required to be recognized.

Significant companies where Volkswagen AG is able, directly or indirectly, to significantly influence financial and operating policy decisions (associates), or that are directly or indirectly jointly controlled (joint ventures), are accounted for using the equity method. Joint ventures also include companies in which the Volkswagen Group holds the majority of voting rights, but whose articles of association or partnership agreements stipulate that important decisions may only be resolved unanimously. Insignificant associates and joint ventures are carried at cost net of any impairment losses and reversals of impairment losses required to be recognized.

## **6.3 Material Changes in Equity Investments**

### **6.3.1 MAN**

In 2011, Volkswagen acquired a majority stake in MAN SE ("**MAN**") under the terms of a mandatory public offer. In July 2013, the control and profit and loss transfer agreement in accordance with section 291 of the German Stock Corporation Act (*AktG — Aktiengesetz*) between MAN, as the controlled company, and TRATON AG (formerly Truck & Bus GmbH, Volkswagen Truck & Bus GmbH and Volkswagen Truck & Bus AG, "**TRATON**"), a wholly owned subsidiary of Volkswagen AG, as the controlling company, entered into force. As a result, MAN's profit or loss are attributed in full to the shareholders of TRATON.

In July 2013, award proceedings were instituted by noncontrolling interest shareholders to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the German Stock Corporation Act (*AktG — Aktiengesetz*) and the cash compensation in accordance with section 304 of the German Stock Corporation Act. It is not uncommon for noncontrolling interest shareholders to institute such proceedings following similar acquisitions. As a precaution, the assessment of liability for put options and compensation rights granted to noncontrolling interest shareholders was adjusted in 2015, resulting in an expense of EUR 0.4 billion, which was recognized in the other financial result. According to the final decision of the Higher Regional Court in Munich in June/July 2018, the cash settlement payable to the noncontrolling interest shareholders was fixed at €90.29 per share and the annual compensation claim at €5.47 gross (less any corporate income tax and any solidarity surcharge according to the respective tax rate applicable to these taxes for the financial year in question). The decisions by the Higher Regional Court in Munich were published in the Federal Gazette on August 6, 2018. In accordance with section 305 of the German Stock Corporation Act, it was possible to accept the cash compensation of €90.29 per share within two months after this date. A total of 17.8 million shares were tendered to the Volkswagen Group. Following the share tendering process, the Volkswagen Group holds 86.9% of the shares in MAN SE.

On August 22, 2018, TRATON terminated the control and profit and loss transfer agreement with MAN SE according to section 304 para 4 of the German Stock Corporation Act (*AktG — Aktiengesetz*) with effect as of January 1, 2019, 0:00 a.m. Following the publication of the registration of the termination of the control and profit transfer agreement in MAN's commercial register at the beginning of 2019, in accordance with the provisions of the control and profit transfer agreement, MAN's noncontrolling interest shareholders will have the right to tender their shares to TRATON in exchange for cash consideration of EUR 90.29 per share over the course of a two-month period.

### **6.3.2 LeasePlan**

In January 2016, the competent authorities approved the sale of Volkswagen's 50% indirect interest in LeasePlan Corporation N.V. ("**LeasePlan**"), a Dutch financial services group active in leasing and fleet management, which was held through Volkswagen's 50% interest in the joint venture Global Mobility Holding B.V., to an international consortium of investors. Legal transfer of the LeasePlan shares to the consortium was completed on March 21, 2016. The sale had a positive effect of EUR 2.2 billion on investing activities attributable to operating activities and net liquidity in 2016 and, taking into account the disposal of the equity-accounted investment, the sale resulted in income of EUR 0.2 billion for the Volkswagen Group, which was reported in the financial result.

### **6.3.3 Suzuki**

On August 29, 2015, an arbitration ruling was delivered to the parties in the proceedings between Suzuki Motor Corporation ("**Suzuki**") and Volkswagen AG. The proceedings were in relation to a claim filed by Suzuki in 2014 seeking the retransfer of Volkswagen's 19.9% equity stake in Suzuki and damages. It found that Volkswagen had acted in accordance with the cooperation agreement between the parties. The arbitration court also confirmed that Suzuki was in breach of contract and, on the merits of this case, acknowledged that Volkswagen had a claim to damages. In addition, the arbitration court established that the parties had the right to give regular notice to terminate the cooperation agreement. It said that Suzuki had exercised this right, ending the partnership.

According to the court, the agreements had to be interpreted in such a way that Volkswagen had to sell its equity investment in Suzuki on termination of the partnership. Volkswagen consequently sold its 19.99% equity investment in Suzuki to Suzuki on September 17, 2015 at the quoted market price of EUR 3.1 billion. The sale of the shares generated income in the amount of EUR 1.5 billion in 2015, which was recognized in other financial result. In February 2016, Volkswagen and Suzuki agreed a settlement regarding the claims for damages brought by Volkswagen.

### **6.3.4 Sale of Third-Party-Brand Dealership of Porsche Holding Salzburg**

On June 1, 2017, Volkswagen sold part of PGA Group SAS, Paris, France, to Emil Frey Group. The sale was made 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 encompassed dealerships in Poland, the Netherlands, Belgium and in some cases also in France. This had a positive effect of EUR 0.8 billion on the Volkswagen Group's net liquidity and, taking into account the disposal of the assets and liabilities, resulted in immaterial income for the Group, which was reported in other operating income. Overall, the transaction led to the disposal of assets in the amount of EUR 2.5 billion and liabilities in the amount of EUR 2.1 billion.

## **6.4 Material Factors Affecting Results of Operations and Financial Position**

Volkswagen believes that the factors described below have had a material effect on its business, financial position and results of operations and that these factors may continue to have such an effect in the future.

### **6.4.1 Diesel Issue**

The diesel issue as described in detail under "*Business of the Volkswagen Group — Diesel Issue*" has affected and will continue to affect Volkswagen's business, financial position and results of operations.

In 2015, Volkswagen recognized expenses directly related to the diesel issue of €16.2 billion in operating result. This primarily entailed recognizing provisions for field activities (service measures and recalls) and for repurchases in the amount of €7.8 billion, as well as €7.0 billion for legal risks. Additional expenses of €6.4 billion were recognized in 2016. These additions resulted from an increase in expenses attributable to legal risks amounting to €5.1 billion, higher warranty costs amounting to €0.4 billion, specific sales programs amounting to €0.5 billion, impairment losses on inventories amounting to €0.3 billion and impairment losses on intangible assets and property, plant and equipment amounting to €0.3 billion, which were in part offset by impairment reversals of non-current and current lease assets in the amount of €0.1 billion. The impairment losses recognized on non-current assets resulted primarily from the lower value in use of various products in the Passenger Cars segment due to expected declines in volumes. In addition, in 2016, provisions of €0.3 billion were recognized for the investments totaling USD 2.0 billion over 10 years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives for these technologies to which Volkswagen had committed itself in the settlement agreements with the U.S. government. Unutilized provisions for legal risks and sales-related measures amounting to a total of €0.5 billion had an offsetting effect. The translation at December 31, 2016 of provisions denominated in foreign currencies resulted in expenses of €0.2 billion after hedging. In 2017, additional expenses amounted to €3.2 billion, driven primarily by higher expenses for buy-back/retrofit programs for 2.0 and 3.0 l TDI vehicles in North America as well as higher legal risks. An additional expense of €2.4 billion directly related to the diesel issue was recognized in the first nine months of 2018. This expense was mainly attributable to the fines resulting from the final administrative orders issued by the Braunschweig public prosecutor's office (€1.0 billion) and the Munich II public prosecutor's office (€0.8 billion), and to higher legal defense costs.

Contingent liabilities were disclosed in relation to the diesel issue in 2017 in the aggregate amount of €4.3 billion (2016: €3.2 billion), of which lawsuits filed by investors account for €3.4 billion (2016: €3.1 billion). Also included are certain elements of the class action lawsuits relating to the diesel issue as well as criminal proceedings/misdemeanor proceedings as far as these can be quantified. As some of these proceedings are still at a very early stage, the plaintiffs have in a number of cases so far not specified the basis of their claims and/or there is insufficient certainty about the number of plaintiffs or the amounts being claimed. These lawsuits meet the definition of a contingent liability but cannot, as a rule, be disclosed because it is impossible to measure the amount involved. As of September 30, 2018, there were no material changes to the contingent liabilities compared with 2017.

Evaluating known information and making reliable estimates for provisions is a continuous process. The provisions recognized and the contingent liabilities disclosed in relation to the diesel issue, and other latent legal risks are subject to substantial estimation risks given the complexity of the individual factors and the ongoing approval process with the authorities and the fact that the independent and comprehensive investigations have not yet been completed. Furthermore, new information not known to Volkswagen's Board of Management at present may surface, requiring further revaluation of the amounts estimated. Considerable financial charges may be incurred and further substantial provisions may be necessary as the issues and legal risks, fines and penalties crystallize.

The effects of the diesel issue will continue to impact Volkswagen's results of operations and financial position as all risks and the full extent of the impact of the diesel issue on Volkswagen's business, including on demand for its vehicles, crystallize. See also "*Risk Factors — Risk Factors regarding Volkswagen Aktiengesellschaft and Volkswagen Group — Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse*

*effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities."*

#### **6.4.2 General economic conditions**

The development of the general economic situation and the global markets for automobiles, especially for passenger cars and light commercial vehicles, is a material factor that affects Volkswagen's sales revenue and results, as well as its net assets, financial position and results of operations, in particular in Germany and Western Europe, with the region accounting for 31.4% of Volkswagen's total vehicle deliveries to customers in 2017 (2016: 32.3%; 2015: 32.9%). The economic developments in Volkswagen's key markets have been mixed. Vehicle markets are at low levels of growth in Europe given the continued uncertainty among consumers, which is likely to be exacerbated by the uncertain outcome of the exit negotiations between the European Union and the United Kingdom. Major emerging markets such as Brazil and Russia returned to growth, but conditions remain uncertain in an environment marked by low economic output, political crises, protectionist tendencies and heavy dependency on global demand for raw materials. The Chinese vehicle market is continuing its growth path for now, although growth is decelerating, while North American vehicle sales have declined. The global market for passenger cars increased to 83.5 million units in 2017, a 2.9% increase compared to the prior year (Source: Volkswagen Group data).

The vehicles that are produced by Volkswagen and distributed worldwide, and the financial services offered in this context, are predominantly purchased and used by private individuals, transportation and logistics companies, and business entities. In turn, their willingness to invest in Volkswagen products depends on the foreseeable state of the economy. The relevant factors include disposable private household income and consumer confidence, the financial situation of business customers and their willingness to invest, the availability and terms of vehicle financing, the price of oil and fuel, and government support programs.

The market for trucks and buses, in which Volkswagen is active through its Scania and MAN brands, has shown an increase in sales volume in 2017, with mixed regional demand. Generally, positive economic development is essential, as an increased demand for products generates an increased demand for transportation by truck.

Macroeconomic conditions in relevant markets for the Volkswagen Group's trucks and buses have been in recovery since 2017 (total volumes for heavy trucks (weighing in excess of 16 tonnes) grew by 16% in 2017) and continued to develop positively in the first six months of 2018. A key driver for this development has been the Chinese market, with Central and Eastern Europe as well as South America also significantly contributing to the growth.

#### **6.4.3 Trends in the markets for automobiles**

The economic success of the Volkswagen Group is dependent on the trends in the automotive markets. Overall, the automotive industry is undergoing a radical transformation process with far-reaching changes. Automotive manufacturers like Volkswagen are facing major challenges in the area of technological advances. Electric drives, connected vehicles, autonomous driving and demand for alternative modes of mobility, such as ride hailing, ride pooling and car sharing, are associated with both opportunities and risks for Volkswagen's business and demand for its products and require Volkswagen to make additional investments in specific product solutions and business models to defend its overall market position. Furthermore, more rapidly evolving customer trends, swift implementation of legislative initiatives and the market entry of new competitors require changed products (e.g., development of new, fuel-efficient vehicles and alternative drive technologies), a faster pace of innovation and adjustments to business models. Key aspects of legislative developments are the implementation of increasingly stringent emission and consumption regulations, taking new test procedures and test cycles (e.g., the Worldwide Harmonized Light-Duty Vehicle Test Procedure) into account, as well as compliance with approval processes (homologation), which are becoming increasingly more complex and time-consuming and may vary by country. In Europe, the threat of driving bans on diesel vehicles in some municipalities and cities in order to comply with emissions limits could also affect demand for Volkswagen's products.

#### **6.4.4 Growing demand in emerging economies**

The growth markets such as China, Brazil and Russia, as well as other Asian and Eastern European countries, are particularly important to Volkswagen's results of operations in terms of the global trend in demand for passenger cars and commercial vehicles. This is because of the high rates of economic growth in those areas and the growing motorization of large sections of the population. Although these markets harbor considerable potential, the underlying conditions in some countries in these regions make it difficult to increase unit sales. Some markets, for example, have high customs barriers or minimum local content requirements for production. The political crisis and its economic consequences have inhibited market

developments in Russia. In South America, structural deficits (and until 2016 a recessionary environment with high unemployment and lower real incomes) continue to have a negative impact. In light of the market declines in South America, Volkswagen recognized restructuring costs in the amount EUR 0.3 billion in 2016 and EUR 0.4 billion in 2015. Restrictions on vehicle registrations in some Chinese cities have hindered sales growth, and similar restrictions could enter into force in further Chinese metropolitan areas in the future.

The table below shows Volkswagen's deliveries of passenger cars in the BRIC countries (Brazil, Russia, India and China) in 2017, 2016 and 2015:

	<b>Deliveries of Passenger Cars</b>			<b>Change 2017/2016<sup>(1)</sup></b>	<b>Change 2016/2015<sup>(1)</sup></b>
	<b>2017</b>	<b>2016<sup>(1)</sup></b>	<b>2015<sup>(1)</sup></b>		
China <sup>(2)</sup> .....	4,173,834	3,975,071	3,542,467	+5.0	+12.2
Brazil .....	272,231	231,196	353,508	+17.7	-34.6
Russia .....	173,384	155,672	164,653	+11.4	-5.5
India .....	72,467	66,046	69,323	+9.7	-4.7

<sup>(1)</sup> The delivery figures for 2016 and 2015 have been updated to reflect subsequent statistical trends.

<sup>(2)</sup> The delivery figures in China also include the delivery figures of the Chinese joint ventures, although these are accounted for using the equity method and their sales revenue and profits and losses are therefore not consolidated. In the consolidated financial statements, the Volkswagen Group's share of the profits and losses of the Chinese joint ventures is included in the financial result and reported as the "Share of the result of equity-accounted investments".

Volkswagen thus delivered approximately 46.7% (2016: 46.0%; 2015: 44.3%) of its passenger cars in the BRIC countries in 2017.

Volkswagen expects that future growth will depend, to a significant extent, on demand in China, Brazil, Russia and India, as well as the ASEAN region, and that both delivery volumes in these countries and the share of the earnings contributions (measured by consolidated profit) generated in these countries will grow in the future. This also applies to the Financial Services Division. Volkswagen has invested in particular in new production sites, particularly in China where it plans to build two new vehicle plants for environmentally friendly models with one of its joint venture partners.

Volkswagen's competitors, including manufacturers from Asia, have considerably expanded their production capacity in these regions, primarily to serve the relevant regional markets. If demand growth levels fall below expectations, this could further exacerbate price competition in these regions, which in turn could adversely affect Volkswagen's unit sales and sales revenue.

#### **6.4.5 Price competition and sales promotion measures**

Volkswagen is exposed to intense competition that has increased in recent years because of the globalization and concentration of the automotive industry, as well as greater market transparency. Additionally, the automotive industry has been suffering from surplus capacity for a number of years, a situation that has increased because of the entry into the market of new automobile manufacturers, in particular from China and India. Competitive pressures are likely to intensify in the future.

The vehicles produced by Volkswagen also compete with other means of transportation, such as trains, aircraft and ships, and it cannot be ruled out that private and business travelers will increasingly use means of transportation other than automobiles in the future. The reasons for this may include rising costs for automotive passenger and freight transportation, the growing density of traffic in urban areas and environmental protection considerations.

At the same time, it can be observed that declining unit sales of certain automobile manufacturers have led to growing price competition with, in some cases, aggressive sales promotion measures, causing prices of both new and, consequently, used vehicles to fall and thus putting pressure on the margins of the automobile manufacturers for new vehicles and the residual values of leased and other used vehicles.

The price pressure could partially be further reinforced, especially if customer expectations of lower prices for new vehicles have become firmly established. As a result, automobile manufacturers could be prompted to engage in aggressive sales promotion by means of continued discounts, which would expose Volkswagen to increased competition and affect it to a significant extent because it offers volume models in the compact and midsize classes.

Although Volkswagen does not intend to participate in aggressive price competition, sales promotion measures, such as discounts, special models, cheaper or no cost accessories packages, and lower cost financing and leasing terms, are becoming increasingly important. Such measures would put pressure on



the price of new vehicles produced by Volkswagen and increase the pressure on Volkswagen to offer sales promotion measures to a larger extent. This would adversely affect the margins in the Automotive Division. The residual values of leased and other used vehicles would also be impaired, which would be reflected in increased residual value risk and associated increased impairment losses and risk provisions in the Financial Services Division. In the case of lower cost financing and leasing terms, the costs of these measures would also affect the margins obtainable by the Automotive Division and by dealers, because the dealers assume the cost of lower interest rates charged by the Financial Services Division.

#### **6.4.6 Product and market mix**

The prices for identical vehicle models may differ from market to market for a number of reasons, such as the local competitive situation, the taxation of the vehicles in the markets concerned, or Volkswagen's strategic considerations. The same applies to the material and production costs incurred to produce a certain vehicle model in various markets. As a result, different margins and earnings contributions are generated for the same vehicle model in different geographic markets. The product mix also differs from geographic market to market. As a result, shifts in the product and market mix, including the geographic distribution of the vehicles sold have a considerable impact on Volkswagen's results of operations. Another material factor is the development of exchange rates, which considerably affect the profitability of the cars sold in the different markets especially in markets where Volkswagen Group does not produce locally. The results are further influenced by the scope and value of the level of accessories demanded by customers. Here, too, demand varies by geographic market and vehicle type.

In total, Volkswagen expects an uneven development in the global automotive markets, which will likely be marked by increasing awareness of CO2 emissions, country-specific tax and legal developments, rising protectionist tendencies, as well as generally rising prices for energy.

#### **6.4.7 Share of the result of equity-accounted investments**

As of December 31, 2017, Volkswagen held interests in the following significant companies that are accounted for as equity-accounted investments and contribute to the share of the result of equity-accounted investments:

- 40% in FAW-Volkswagen Automotive Company, Ltd., Changchun, China;
- 50% in SAIC Volkswagen Automotive Company Ltd., Shanghai, China;
- 30% in SAIC-Volkswagen Sales Company, Shanghai, China;
- 25% in Sinotruk (Hong Kong) Limited, Hong Kong, China;
- 29% of Bertrandt AG, Ehningen, Germany;
- 33% (29.5% as of September 30, 2018) in There Holding B.V., Rijswijk, the Netherlands, as the sole shareholder of HERE International B.V. ("**HERE**"); and
- 17% in Navistar International Corporation, Lisle, USA.

See also "*Business of the Volkswagen Group — Volkswagen's Divisions and their Products and Services — Automotive Division – Significant equity interests*".

The share of the result of equity-accounted investments amounted to EUR 3,482 million in 2017, a slight decline of EUR 15 million compared to EUR 3,497 million in 2016. The 2017 figure includes the gain on remeasurement of the investment in HERE following the acquisition of shares by additional investors. In 2016, the share of the result of equity-accounted investments decreased by EUR 890 million to EUR 3,497 million from EUR 4,387 million in 2015. The decline in 2016 was primarily the result of a year-on-year decrease in income from Chinese joint ventures, while the sale of the LeasePlan shares had a positive effect.

In the equity method of accounting, the income and expenses, as well as the assets and liabilities, of the relevant equity-accounted investments are not fully included in the consolidated income statement and the consolidated balance sheet. Rather, the carrying amount of the investment is increased or decreased by the share of the equity-accounted investment's income or expense attributable to the Volkswagen Group. The share of the result of equity-accounted investments determined in this way is not included in the Volkswagen Group's operating result, but is allocated to the financial result. For this reason, the business development of the Chinese joint ventures, for example, is only reflected in Volkswagen's operating result by deliveries of vehicles and vehicle parts in sales revenue as well as license revenue.

The cost of equity-accounted investments is adjusted to reflect the share of increases or reductions in equity in the books of the associates and joint ventures post acquisition that is attributable to the Volkswagen Group, as well as any effects from purchase price allocation. Additionally, the investment is tested for

impairment, if there are indications of impairment, and is then written down to the lower recoverable amount, if necessary. The recoverable amount is determined using the principles described for indefinite-lived intangible assets. If the reason for impairment ceases to apply at a later date, the impairment loss is reversed to the carrying amount that would have been determined in the case that no impairment loss had been recognized.

#### **6.4.8 Procurement costs**

The cost of materials, raw materials and energy, as well as of vehicle parts and components, accounts for a large portion of the cost of sales. Volkswagen's cost of materials increased by EUR 11,142 million, or 7.9%, from EUR 140,307 million in 2016 to EUR 151,449 million in 2017, after decreasing by EUR 3,393 million, or 2.4%, from EUR 143,700 million in 2015 to EUR 140,307 million in 2016. The ratio of cost of materials to the Volkswagen Group's sales revenue was 65.7% in 2017 (2016: 64.6%; 2015: 67.4%).

The main raw materials required for vehicle production are steel, synthetic material, aluminum, copper, lead, platinum, rhodium and palladium. In addition, Volkswagen needs energy, primarily in the form of electricity, some of which Volkswagen produces itself by burning coal. Commodity and energy prices are subject to fluctuations, which can be considerable (and also sudden), and were exposed to frequent and at times significant changes in the recent past. For example, the prices of certain raw materials that are used by Volkswagen and Volkswagen's suppliers to manufacture their products or components, such as steel, aluminum, copper, lead and various precious metals are volatile. For further information on changes in global market prices of the main raw materials required by Volkswagen and its suppliers, see "*Business of the Volkswagen Group — Volkswagen's Divisions and their Products and Services — Automotive Division — Procurement — Procurement of production materials*".

In addition, Volkswagen could face an increased price and procurement risk due to a shortage in scarce raw materials that are needed in vehicle production, particularly in the production of vehicle's electronic components. This includes for example the so called rare earths, which to a large extent occur in China and which are currently quarried almost exclusively in China. In the past China has restricted export of rare earths but is increasingly using other mechanisms, such as an export licensing system or the imposition of higher raw material duties. If Volkswagen or its suppliers are not able to ensure a sufficient supply of rare earths, this could have a negative impact on vehicle production and on Volkswagen's results of operations before taxes.

Because Volkswagen is dependent on the raw materials listed above, as well as on energy, whose prices and availability in turn affect the prices of vehicle parts and components, changes in raw materials and energy prices materially affect Volkswagen's overall cost of materials. Due to the intense competition in the automotive market, Volkswagen generally cannot pass on price increases for raw materials, energy, parts and components to its customers in full. To reduce these price and purchasing risks on the procurement side, Volkswagen relies in particular on globally coordinated purchasing activities, long-term supply contracts, continuous optimization of its supplier portfolio and the materials, and technical research for alternative materials. Among other things, the business model that is employed by Volkswagen to reflect the demand situation in specific regions encompasses, among other things, alliances with local suppliers and local purchasing agreements, which are designed to ensure the lowest possible cost rate per vehicle through localized production and procurement.

Rises in demand for raw materials, due to further economic recovery in key markets, could create a shortage of the raw materials that are important for Volkswagen's production and further price increases. In addition, the accelerated use of new technologies, such as electrified powertrains, could increase Volkswagen's procurement risk. An industry-wide shift to electromobility could lead to bottlenecks in supplies and price increases of certain critical materials, such as lithium or cobalt, which could limit Volkswagen's ability to scale the new technologies profitably. Furthermore, the technological transformation will require significant changes to Volkswagen's supply chain, as it increasingly sources parts and supplies designed for new technologies, which may partially not be successful. These risks could lead to higher manufacturing costs for end products, parts and components.

Additionally, Volkswagen tries to limit certain availability and pricing risks arising from the purchase of raw materials by entering into forward and swap transactions. Volkswagen has, through the use of appropriate contracts, hedged some of its requirements for raw materials over a period of up to six years. Similar transactions have been entered into for the purpose of supplementing and optimizing allocations of CO2 emission certificates, in particular for burning coal to generate electricity.

#### **6.4.9 Research and development costs**

Volkswagen's economic success and competitiveness depend on its ability to adapt its existing product and service range to technical progress, legal requirements and changing customer requirements in a timely manner, and to set new technical trends.

Especially in developed markets, the global automotive market has been marked in recent years by growing demand for socially responsible and more environmentally friendly technologies. This is linked in particular to the public debate about global warming and climate protection, as well as at times very high, and very volatile, oil and fuel prices. In addition to continuing the development of the current generation of combustion engines, Volkswagen is therefore focusing on the research, development and production of new drive technologies such as natural gas engines, hybrid and electric drives.

In addition, Volkswagen plans to systematically reduce the complexity of the individual products and the costs incurred to develop and manufacture them by further developing the cross-brand modular strategy and by introducing and expanding the modular component concept. The development and deployment of modular platforms will be systematically extended in order to exploit potential for sustained efficiency gains by reducing development times and unit costs per vehicle. In addition, the modular component concept allows faster model changes and new products that are tailored to meet local customer preferences to be launched in the relevant markets. In addition to conventional petrol and diesel engines, the modular component concept affords Volkswagen the opportunity to integrate alternative powertrains, such as natural gas, hybrid or electric drives.

The table below shows the Volkswagen Group research and development costs reported in the income statement, their share of capitalized development costs and the amortization of capitalized development costs in 2017, 2016 and 2015:

	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>Change 2017/2016</b>	<b>Change 2016/2015</b>
	<b>(in EUR million)</b>			<b>(%)</b>	
Total research and development costs . . . .	13,141	13,672	13,612	-3.9	+0.4
of which capitalized development costs . . . . .	5,260	5,750	5,021	-8.5	+14.5
Capitalization ratio (%) . . . . .	40.0	42.1	36.9		
Amortization of capitalized development costs . . . . .	3,734	3,587	3,263	+4.1	+10.0
<b>Research and development costs recognized in profit or loss . . . . .</b>	<b>11,614</b>	<b>11,509</b>	<b>11,853</b>	<b>+0.9</b>	<b>-2.9</b>
Total research and development costs as % of sales revenue of the Automotive Division (unaudited) . . . .	6.7	7.3	7.4		

The capitalization ratio of development costs depends on the production cycle that the brands' individual model series pass through in different periods. The main focus of Volkswagen's research and development costs was on the electrification of its vehicle portfolio, a more efficient range of engines, lightweight construction, digitalization and the development of modular toolkits.

#### **6.4.10 Exchange rate movements**

Volkswagen is active in a large number of countries worldwide and generates a significant portion of its sales revenue in currencies other than the euro, particularly in Argentine peso, Australian dollar, Brazilian real, British pound sterling, Canadian dollar, Chinese renminbi, Czech koruna, Hong Kong dollar, Hungarian forint, Indian rupee, Japanese yen, Mexican peso, Norwegian krone, Polish zloty, Russian ruble, Singapore dollar, South African rand, South Korean won, Swedish krona, Swiss franc, Taiwan dollar and U.S. dollar. Similarly, a major proportion of Volkswagen's expenses are incurred in a variety of currencies, in particular those listed above.

Because income and expenses in the relevant currencies rarely match in any given period, an adverse development in the exchange rates for these currencies may result in a difference between the value of the service provided calculated in euros and the value of the consideration received ("transaction effects").

Gains and losses from exchange rate movements are reported in Volkswagen's consolidated financial statements mainly under "sales revenues" or "other operating income and expenses". These items mainly comprise gains or losses from changes in exchange rates between the dates of initial recognition and payment of receivables and liabilities denominated in foreign currencies, as well as exchange rate gains or losses resulting from measurement at the closing rate. Operating income from foreign exchange gains in 2017 amounted to EUR 2,656 million, while foreign exchange losses in the operating result amounted to EUR 2,839 million (2016: EUR 2,842 million and EUR 3,077 million; 2015: EUR 3,859 million and EUR 3,260 million).

Significant exchange rate movements, as compared to the euro, especially of the Argentine peso, Australian dollar, Brazilian real, British pound sterling, Canadian dollar, Chinese renminbi, Czech koruna, Hong Kong dollar, Hungarian forint, Indian rupee, Japanese yen, Mexican peso, Norwegian krone, Polish zloty, Russian ruble, Singapore dollar, South African rand, South Korean won, Swedish krona, Swiss franc, Taiwan dollar

and U.S. dollar, were observable in the past three years and thus had a corresponding effect on Volkswagen's results of operations. Losses arising from hedging strategies, together with the expenses of hedging transactions, may result in significant costs.

In accordance with studies by the Company, for example, a weakening of the following currencies against the euro by 10% in 2017 would have resulted in a deterioration in the earnings after tax of approximately the following amounts:

	<b><u>Effect on earnings after tax</u></b> <b>(in EUR million)</b>
<b>Currency</b>	
U.S. dollar . . . . .	-365
British pound sterling . . . . .	-73
Chinese renminbi . . . . .	-58
Japanese yen . . . . .	-40
Swiss franc . . . . .	16
Australian dollar . . . . .	-36
Canadian dollar . . . . .	-51
Swedish krona . . . . .	-22
Czech koruna . . . . .	-20
Taiwan dollar . . . . .	-10
Korean won . . . . .	-3
Polish zloty . . . . .	-60

This assumes that changes in relevant parity were not actively offset by appropriate hedging transactions or by countermeasures at an operational level.

Volkswagen reduces its foreign currency risk primarily through "natural hedging", i.e. by flexibly adapting its production capacity at its locations around the world and by establishing new production facilities in the most important currency areas, as well as by purchasing materials in the same currency areas in which the sales are generated. The residual foreign currency risk is hedged primarily for a period of up to six years using financial hedging instruments. These include predominantly currency forwards, currency options, currency swaps and cross-currency swaps. In 2017, EUR 554 million (2016: EUR 1,222 million; 2015: EUR 3,864 million), increasing earnings in the case of 2017 and reducing earnings in the case of 2016 and 2015, was transferred from the cash flow hedge reserve to the other operating result. EUR 11 million (2016: EUR 10 million; 2015: EUR 3 million), increasing earnings in the case of 2017 and reducing earnings in the case of 2016 and 2015, was transferred to the financial result, and EUR 7 million (2016: EUR 90 million; 2015: EUR 90 million) was transferred to cost of sales and financial result, in all cases reducing earnings.

Finally, various subsidiaries and equity investments of the Volkswagen Group prepare their financial statements in currencies other than the euro. These financial statements must be translated into Euros to enable preparation of the Volkswagen Group's consolidated financial statements. This translation may result in corresponding effects in the Volkswagen Group's consolidated financial statements ("translation effects").

#### **6.4.11 Financial services**

Volkswagen has bundled together its financial services activities in its Financial Services Division, offering services worldwide. The vehicle related activities are essentially classified into the following areas: financing (customer and dealer financing), leasing and fleet management, insurance and services. Volkswagen is also active in the direct banking business, which through the deposit business represents an important pillar of the Financial Services Division's refinancing strategy. The objective of Volkswagen's financial services activities is to support the sale of vehicles produced by Volkswagen and to strengthen customer loyalty to the Group's brands. In addition, the financing activities are designed to optimize the Automotive Division's liquidity position.

The Financial Services Division's income from financing, leasing and insurance activities is positively correlated with vehicle sales, the selling price that can be obtained for the vehicles, the term of financing and leasing products, the amount of prepayments and the penetration rate, i.e. the number of vehicles delivered by Volkswagen that are financed by the Financial Services Division.

In the case of financing and leasing products, the Financial Services Division's margin is determined by the interest rate underlying the contract (less refinancing costs) and a surcharge for administrative expenses and risk provisions. If refinancing costs rise, for example because of higher interest rates on the money and capital markets, or for deposits in the direct banking business, the Financial Services Division's margin is

reduced correspondingly if such an increase cannot be offset in the short term by modifying the interest rate underlying a contract or being passed on to new customers. If low interest rates or more attractive terms are offered as part of special financing deals to the Automotive Division's customers to promote sales, the Automotive Division assumes the difference between the standard market rate of interest and the lower interest rate, in part together with the dealer organization.

In addition, the result from the financing and leasing business is affected by the default rates. If the default rates rise, this results in additional impairment losses and expenses for risk provisions, which adversely affect the Volkswagen Group's results of operations.

Other factors that affect the results of the Financial Services Division are linked to the development of innovative new products as well as increasing costs of regulatory compliance.

#### **6.4.12 Financing and refinancing costs**

The Automotive Division obtains most of its financing from retained earnings and debt in the form of commercial paper, bonds and bank loans. The Financial Services Division mainly uses established money and capital market programs, the securitization of loan and lease receivables (asset-backed securitization programs), Volkswagen Bank's direct banking deposits and bank loans for refinancing purposes.

The terms at which Volkswagen is able to raise debt finance depend not only on the general market conditions, especially interest rate developments in the financial markets, but also on the assessment of Volkswagen's credit quality by market participants and rating agencies. As a result of the diesel issue, Volkswagen's ability to access individual refinancing instruments in the money and capital markets in 2015 and 2016 was restricted. Since 2017, Volkswagen was able to improve the ability to access individual refinancing instruments in the money and capital markets.

#### **6.4.13 Amount of income taxes**

Volkswagen's results of operations are also affected by the amount of income taxes. The income tax rate (the ratio of reported income tax expense to earnings before tax) was 16.3% in 2017 (2016: 26.2%; 2015: not meaningful due to losses before tax). The amount of income taxes depends primarily on the development of profit, as well as special factors such as the change in income tax rates and the impact of companies valued at equity (e.g. Chinese joint ventures).

### **6.5 Certain Income Statement Items**

#### **6.5.1 Sales Revenue**

Sales revenue includes revenue from the sale of vehicles and genuine parts (mainly spare parts), used vehicles and third-party products, engines, powertrains and parts deliveries, Power Engineering, motorcycles, income from the leasing business, interest and similar income from the financial services business and other sales revenue (comprises revenue from workshop services and license revenue, among other things). Revenue and other operating income is recognized only when the relevant service has been rendered or the goods have been delivered in accordance with the contractual arrangements.

Sales revenue in the Automotive Division primarily relates to sales revenue from the sale of vehicles, genuine parts, other parts and engines, and Power Engineering.

Sales revenue in the Financial Services Division primarily relates to sales revenue from the rental and leasing business, as well as interest and similar income from the financial services business.

#### **6.5.2 Cost of Sales**

Cost of sales includes the costs incurred to generate the sales revenue and the cost of goods purchased for resale. This item also includes the costs of additions to warranty provisions. Research and development costs not eligible for capitalization in the period and amortization of development costs are likewise carried under cost of sales. Reflecting the presentation of interest and commission income in sales revenue, the interest and commission expenses attributable to the financial services business are presented in cost of sales. Furthermore, cost of sales includes impairment losses on intangible assets, property, plant and equipment, and lease assets.

#### **6.5.3 Distribution and Administrative Expenses**

Distribution expenses include non-staff overheads and personnel costs, and depreciation and amortization attributable to the distribution function, as well as the costs of shipping, advertising and sales promotion. Administrative expenses mainly include non-staff overheads and personnel costs as well as depreciation and amortization attributable to the administrative function.

#### **6.5.4 Other Operating Income**

Other operating income primarily comprised income from the reversal of valuation allowances on receivables and other assets until December 31, 2017, as well as income from the reversal of provisions and accruals, income from foreign currency hedging derivatives and income from foreign exchange gains as well as income from cost allocations. As a result of the new accounting rules specified in IFRS 15 which became effective and applicable to Volkswagen as of January 1, 2018, the manner in which income from the reversal of provisions and accrued liabilities is reported in financial statements prepared after January 1, 2018 has been adjusted; these items are now allocated to their respective functions in which they were originally recognized (for example: the reversal of sales allowances is no longer presented under other operating income, but under sales revenue).

The valuation of provisions and accruals is based on the best possible estimation of expenses necessary to fulfill a given obligation on the due date. The income from reversal of provisions and accruals thus results from changes in estimates linked to a lower than originally anticipated utilization of provisions and accruals for a given transaction in individual cases. Until 2017, reversals of provisions were recognized as other operating income, whereas expenses relating to the recognition of provisions are allocated directly to the functions.

Foreign exchange gains mainly comprise gains from changes in exchange rates between the dates of recognition and payment of receivables and liabilities denominated in foreign currencies, as well as exchange rate gains resulting from measurement at the closing rate. Foreign exchange losses from these items are included in other operating expenses.

Income from cost allocations comprises costs passed through to other parties such as warranty costs, service costs, or other overhead costs.

#### **6.5.5 Other Operating Expenses**

Other operating expenses primarily comprise valuation allowances on receivables and other assets, losses from foreign currency hedging derivatives and foreign exchange.

Foreign exchange losses mainly comprise losses from changes in exchange rates between the dates of recognition and payment of receivables and liabilities denominated in foreign currencies, as well as losses resulting from the fair value measurement at the closing rate. Foreign exchange gains from these items are included in other operating income.

#### **6.5.6 Interest result**

Interest result include all interest income and expenses of the Volkswagen Group including income and expenses from the measurement and realization of interest rate risk, except for interest income and expenses of the Financial Services Division, which are reported in sales revenue and cost of sales.

#### **6.5.7 Other Financial Result**

Other financial result primarily comprises gains and losses from the fair value changes of derivatives both not included and included in hedge accounting, fair value changes of derivatives included in hedge accounting, gains and losses from remeasurement and impairment of financial instruments, realized income and expenses of loan receivables and payables in foreign currency, other income and expenses from equity investments, as well as income from marketable securities and loans.

Following the new IFRS 9 accounting rules which became effective and applicable to Volkswagen as of January 1, 2018, some of the fair value measurement gains and losses on certain derivatives, which were previously reported under the financial result, are reported directly in sales revenue and other operating income from 2018 onwards.

### **6.6 Results of Operations**

The following discussion compares Volkswagen's results of operations for the years ended December 31, 2017, 2016 and 2015. It also includes a discussion of the sales revenue and operating result of the divisions and a presentation by operating segment and geographic market (segment discussion).

The Company has chosen to apply the internationally accepted cost of sales (function of expense) method to the income statement. In the cost of sales method, expenses are classified by function (production (included in cost of sales), distribution and administrative expenses).

The following table presents the main items in Volkswagen's income statements for the years ended December 31, 2017, 2016 and 2015:

	<b>Period from January 1 to December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(in EUR million)</b>		
<b>Sales revenue</b> .....	<b>230,682</b>	<b>217,267</b>	<b>213,292</b>
Cost of sales .....	-188,140	-176,270	-179,382
<b>Gross result</b> .....	<b>42,542</b>	<b>40,997</b>	<b>33,911</b>
Distribution expenses .....	-22,710	-22,700	-23,515
Administrative expenses .....	-8,254	-7,336	-7,197
Other operating income .....	14,500	13,049	12,905
Other operating expenses .....	-12,259	-16,907	-20,171
<b>Operating result</b> .....	<b>13,818</b>	<b>7,103</b>	<b>-4,069</b>
Share of the result of equity-accounted investments .....	3,482	3,497	4,387
Interest income <sup>(1)</sup> .....	951	1,285	1,907 <sup>(2)</sup>
Interest expenses <sup>(1)</sup> .....	-2,317	-2,955	-2,344 <sup>(2)</sup>
Other financial result <sup>(1)</sup> .....	-2,022	-1,638	-1,183 <sup>(2)</sup>
<b>Financial result</b> .....	<b>94</b>	<b>189</b>	<b>2,767</b>
<b>Earnings before tax</b> .....	<b>13,913</b>	<b>7,292</b>	<b>-1,301</b>
Income tax income/expense .....	-2,275	-1,912	-59
<b>Earnings after tax</b> .....	<b>11,638</b>	<b>5,379</b>	<b>-1,361</b>
of which attributable to			
Noncontrolling interests .....	10	10	10
Volkswagen AG hybrid capital investors .....	274	225	212
Volkswagen AG shareholders .....	11,354	5,144	-1,582

<sup>(1)</sup> The structure of the presentation of financial result has been changed since 2017. The presentation of finance costs has been replaced with interest income and interest expenses. Prior-year figures have been adjusted accordingly. See also "—Results of Operations — 2017 compared with 2016 — Interest result".

<sup>(2)</sup> Unaudited.

## 6.6.1 Results of Operations — 2017 compared with 2016

### 6.6.1.1 Sales revenue

The Volkswagen Group generated sales revenue of EUR 230.7 billion in 2017, 6.2% higher than in the previous year. Higher volumes and the positive business performance in the Financial Services division were offset by negative exchange rate effects. The major share of sales revenue was recorded outside Germany (80.8% in 2017 compared with 79.9% in 2016).

Volkswagen's sales revenue by source is as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2017/2016 (%) (unaudited)</b>
	<b>2017</b>	<b>2016</b>	
	<b>(in EUR million)</b>		
Vehicles .....	145,958	137,293	+6.3
Genuine parts .....	15,628	15,220	+2.7
Used vehicles and third-party products .....	13,355	13,324	+0.2
Engines, powertrains and parts deliveries .....	11,318	9,770	+15.8
Power Engineering .....	3,280	3,590	-8.6
Motorcycles .....	601	589	+2.0
Leasing business .....	24,570	22,306	+10.2
Interest and similar income .....	7,119	6,695	+6.3
Other sales revenue .....	8,853	8,481	+4.4
	<b>230,682</b>	<b>217,267</b>	<b>+6.2</b>

There was an increase in sales revenue from the sale of vehicles by EUR 8.7 billion, or 6.3%, in 2017, on account of higher vehicle unit sales. Sales revenue from the sale of genuine parts, and used vehicles and third-party products increased year on year by 2.7% and 0.2%, respectively. The total sales revenues of engines, powertrains and parts deliveries increased in 2017 by EUR 1.5 billion, or 15.8%. Power Engineering reported a decrease in sales revenue of EUR 0.3 billion, or 8.6% in 2017.

Sales revenue from the Financial Services Division's leasing business primarily relates to operating lease payments and the sale of used vehicles. Interest and similar income is generated by the financial services business and primarily consists of interest income from customer and dealer financing, and from finance leases. Similar income primarily relates to commission income from insurance brokerage services. Compared with the prior year, sales revenue from the leasing business rose in 2017 by EUR 2.3 billion, or 10.2%. Revenue from interest and similar income increased in 2017 by EUR 424 million, or 6.3%.

Other sales revenue comprises revenue from workshop services and license revenue, among other things. Other sales revenue increased by EUR 373 million, or 4.4%, in 2017 compared with the prior year.

Volkswagen's sales revenue by division is as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2017/2016 (%)</b>
	<b>2017 (in EUR million)</b>	<b>2016 (unaudited)</b>	
Automotive Division <sup>(1)</sup> .....	196,949	186,016	+5.9
Financial Services Division .....	33,733	31,251	+7.9
<b>Volkswagen Group</b> .....	<b>230,682<sup>(2)</sup></b>	<b>217,267<sup>(2)</sup></b>	<b>+6.2</b>

<sup>(1)</sup> Including allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

<sup>(2)</sup> Audited.

The Automotive Division's sales revenue rose from EUR 186.0 billion in 2016 to EUR 196.9 billion in 2017, a 5.9% increase. The improvement resulted primarily from higher vehicle sales, which were offset by negative exchange rate effects. As the Chinese joint ventures are accounted for using the equity method, the Volkswagen Group's performance in the Chinese passenger car market is reflected in the Group's sales revenue primarily by deliveries of vehicles and vehicle parts.

In 2017, sales revenue in the Passenger Cars Business Area – which for purposes of financial statement segment reporting includes the segment Passenger Cars and the reconciliation – was 5.4% higher than the previous year, at EUR 158.5 billion (2016: EUR 150.3 billion), mainly because of volume-related factors. Exchange rates had a negative effect. Sales revenue in the Commercial Vehicles Business Area amounted to EUR 35.2 billion in 2017, a 9.7% increase compared to EUR 32.1 billion in 2016. This increase was also driven mainly by larger volumes. The Power Engineering Business Area recorded sales revenue of EUR 3.3 billion in 2017, a decline of 8.6% compared to EUR 3.6 billion in revenue in 2016, mainly due to lower volumes.

The Financial Services Division generated sales revenue of EUR 33.7 billion in 2017. The 7.9% increase over the 2016 figure was mainly attributable to the growth in business volumes.

The breakdown of Volkswagen's sales revenue from external customers by region is as follows:

	<b>Germany</b>	<b>Europe and Other Markets<sup>(1)</sup></b>	<b>North America</b>	<b>South America</b>	<b>Asia-Pacific</b>	<b>Total</b>
	<b>(in EUR million)</b>					
2017 .....	44,333	98,420	38,818	9,988	39,123	230,682
2016 .....	43,634	94,445	35,454	7,973	35,761	217,267

<sup>(1)</sup> Excluding Germany.

In Germany combined with Europe and Other Markets, sales revenue increased 3.4% to EUR 142.8 billion due among other things to higher volumes, while exchange rate effects had a negative impact. Sales revenue in North America rose by 9.5% to EUR 38.8 billion, lifted by volume and mix effects. In South America, in an improving economic environment, higher volume and positive mix effects drove a 25.3% increase in sales revenue to EUR 10.0 billion in 2017. Sales revenue in the Asia-Pacific region amounted to EUR 39.1 billion in 2017, with the 9.4% increase over 2016 attributable to higher import volume and improved components business. These figures do not include the sales revenue generated by Volkswagen's Chinese joint ventures, since these are accounted for using the equity method.



### 6.6.1.2 Cost of sales

Volkswagen's cost of sales and the ratio of cost of sales to sales revenue are as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2017/2016 (%) (unaudited)</b>
	<b>2017</b> (in EUR million)	<b>2016</b>	
Cost of sales	188,140	176,270	+6.7
as % of sales revenue (unaudited)	81.6	81.1	

Cost of sales increased by EUR 11.9 billion, or 6.7%, in 2017 compared with the prior year. The increase was due primarily to larger volumes. In addition, a rise in special items in connection with the diesel issue and higher depreciation and amortization charges had a negative impact, while improvements in product costs had a positive effect. Research and development costs recognized in the income statement (research and non-capitalized development costs as well as amortization of capitalized development costs) increased by EUR 105 million, or 0.9%, from EUR 11,509 million in 2016 to EUR 11,614 million in 2017. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio) declined to 6.7% in 2017 (2016: 7.3%) as a result of higher sales revenue and lower expenses.

Cost of sales includes interest expenses of EUR 1,961 million in 2017 (compared with EUR 1,930 million in 2016) attributable to the financial services business. This item also includes impairment losses on intangible assets (primarily development costs), property, plant and equipment (primarily other equipment, operating and office equipment), and lease assets in the amount of EUR 1,185 million (compared with EUR 1,369 million in 2016). The impairment losses on intangible assets and items of property, plant and equipment in 2017 resulted in particular from lower values in use of various products in the Passenger Cars segment, from market and exchange rate risks, and in particular from expected declines in volumes. See also "— Material Factors Affecting Results of Operations and Financial Position — Diesel Issue". The impairment losses on lease assets in 2017 were attributable mainly to the Financial Services segment and were based on constantly updated internal and external information that is factored into the forecast residual values of the vehicles.

### 6.6.1.3 Distribution and administrative expenses

Distribution expenses in 2017 were on a level with the previous year at EUR 22.7 billion. The ratio of distribution expenses to sales revenue decreased. At EUR 8.3 billion, administrative expenses increased by 12.5% between 2016 and 2017, and the ratio of administrative expenses to sales revenue also increased slightly.

Volkswagen's distribution and administrative expenses and the ratio of these expenses to sales revenue are as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2017/2016 (%) (unaudited)</b>
	<b>2017</b> (in EUR million)	<b>2016</b>	
Distribution expenses	22,710	22,700	0.0
as % of sales revenue (unaudited)	9.8	10.4	
Administrative expenses	8,254	7,336	+12.5
as % of sales revenue (unaudited)	3.6	3.4	
	<b>30,964</b>	<b>30,036</b>	<b>+3.1</b>

In the Automotive Division, distribution expenses of EUR 21.4 billion in 2017 were on level with 2016. In 2016, distribution expenses were impacted by negative special items. Exchange rate effects weighed on the Automotive Division's distribution expenses in 2017. The ratio of distribution expenses to sales revenue decreased. Administrative expenses increased by 14.4% to EUR 6.6 billion in 2017 as compared with 2016, and the ratio of administrative expenses to sales revenue also increased.

In the Financial Services Division, both distribution and administrative expenses increased in 2017 as compared with 2016. In addition to higher volumes, the rise in expenses was attributable in particular to digitalization of Volkswagen Group's business. The ratio of distribution expenses and administrative expenses to sales revenue remained unchanged in 2017 as compared to the previous year.

#### 6.6.1.4 Other operating income

The composition of Volkswagen's other operating income and the ratio of this income to sales revenue are as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2017/2016 (%) (unaudited)</b>
	<b>2017 (in EUR million)</b>	<b>2016 (in EUR million)</b>	
Income from reversal of valuation allowances on receivables and other assets	1,043	847	+23.1
Income from reversal of provisions and accruals	4,384	3,738	+17.3
Income from foreign currency hedging derivatives	2,259	1,739	+29.9
Income from foreign exchange gains	2,656	2,842	-6.5
Income from sale of promotional material	502	440	+14.1
Income from cost allocations	1,386	1,222	+13.4
Income from investment property	16	14	+14.3
Gains on asset disposals and the reversal of impairment losses	212	363	-41.6
Miscellaneous other operating income	<u>2,041</u>	<u>1,843</u>	+10.7
	<b><u>14,500</u></b>	<b><u>13,049</u></b>	<b>+11.1</b>
as % of sales revenue (unaudited)	6.3	6.0	

Other operating income increased by EUR 1,451 million, or 11.1%, in 2017, mainly due to higher income from reversal of provisions and accruals resulting principally from unutilized provisions for legal risks and sales-related measures arising in the normal course of business.

#### 6.6.1.5 Other operating expenses

The composition of Volkswagen's other operating expenses and the ratio of these expenses to sales revenue are as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2017/2016 (%) (unaudited)</b>
	<b>2017 (in EUR million)</b>	<b>2016 (in EUR million)</b>	
Valuation allowances on receivables and other assets	1,650	1,787	-7.7
Losses from foreign currency hedging derivatives	1,753	2,964	-40.9
Foreign exchange losses	2,839	3,077	-7.7
Expenses from cost allocations	609	542	12.4
Expenses for termination agreements	35	424	-91.7
Losses on disposal of noncurrent assets	175	144	21.5
Miscellaneous other operating expenses	<u>5,197</u>	<u>7,970</u>	-34.8
	<b><u>12,259</u></b>	<b><u>16,907</u></b>	<b>-27.5</b>
as % of sales revenue (unaudited)	5.3	7.8	

Other operating expenses decreased by EUR 4.6 billion, or 27.5%, driven in particular by lower negative special items in connection with the diesel issue and by exchange rate effects. Litigation expenses in relation to the diesel issue of EUR 1.0 billion in 2017 are included in miscellaneous other operating expenses (2016: EUR 5.1 billion). In 2016, this item also included provisions for the antitrust proceedings that the European Commission opened against European truck manufacturers including MAN and Scania (2016: EUR 0.4 billion), as described in "Business of the Volkswagen Group — Legal and Arbitration Proceedings — Antitrust Proceedings — Europe". In 2016, expenses for termination agreements resulted primarily from the restructuring expenses for the South American market and at MAN. The changes in the foreign currency hedging derivatives in 2017 were due to exchange rate changes between the trade price and the price on realization, in particular in relation to the U.S. dollar, the Chinese renminbi and the British pound sterling.

### 6.6.1.6 Operating result

In 2017, the Volkswagen Group generated an operating result of EUR 13.8 billion, which was EUR 6.7 billion higher than in 2016 (EUR 7.1 billion). The increase was mainly the result of positive volume-, mix- and margin-related factors, as well as improvements in product costs, while higher fixed costs as a result of business expansion and higher depreciation and amortization charges due to the large volume of capital expenditure had an offsetting effect.

In 2017, negative special items of EUR 3.2 billion weighed on operating result. These related exclusively to charges in connection with the diesel issue, primarily to higher expenses attributable to the buyback/retrofit programs for 2.0 l and 3.0 l TDI vehicles in North America and higher legal risks. The operating return on sales rose to 6.0% in 2017 (2016: 3.3%).

In 2016, negative special items of EUR 7.5 billion weighed on operating result. Of the negative special items in 2016, EUR 6.4 billion related to the diesel issue, mainly due to expenses attributable to the recognition of provisions for legal risks. In addition, EUR 0.3 billion were recognized in connection with the Takata recall. Restructuring measures weighed negatively on the operating result in 2016 of both the passenger cars business and the trucks business in South America, in an amount of EUR 0.3 billion and the Power Engineering business area in an amount of EUR 0.2 billion. Provisions for legal risks relating to the commercial vehicles antitrust proceedings launched by the European Commission resulted in negative special items of EUR 0.4 billion in the Commercial Vehicles Business Area in 2016.

Volkswagen's operating result by division is as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2017/2016 (%)</b>
	<b>2017</b>	<b>2016</b>	
	<b>(in EUR million)</b>		
	<b>(unaudited)</b>		
Automotive <sup>(1)</sup> .....	11,146	4,668	>+100.0
as % of sales revenue of the Automotive Division <sup>2</sup> .....	5.7	2.5	
Financial Services .....	2,673	2,435	+9.8
as % of sales revenue of the Financial Services Division <sup>2</sup> .....	7.9	7.8	
<b>Volkswagen Group</b> .....	<b>13,818<sup>(3)</sup></b>	<b>7,103<sup>(3)</sup></b>	<b>+94.5</b>
as % of Group sales revenue <sup>(2)</sup> .....	6.0	3.3	

<sup>(1)</sup> Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

<sup>(2)</sup> Operating return on sales.

<sup>(3)</sup> Audited.

The Automotive Division's operating result rose by EUR 6.5 billion to EUR 11.1 billion in 2017 from EUR 4.7 billion in 2016. The division recorded an operating return on sales of 5.7% in 2017 compared with 2.5% in 2016. The main contributors to the increase in the Automotive Division's operating result in 2017 were improvements in volumes, the mix and margins, as well as product cost optimization. These factors were offset by higher fixed costs as a result of expansion and higher depreciation and amortization charges. Operating result benefited from the business performance of the Chinese joint ventures primarily in the form of deliveries of vehicles and vehicle parts and of license income, as the joint ventures are accounted for using the equity method and therefore included in the financial result. Negative special items contained in the Automotive Division's operating result amounted to EUR 3.2 billion (2016: EUR 7.5 billion). In 2017, these items were exclusively attributable to the Passenger Cars Business Area, reflecting charges in connection with the diesel issue as described above.

The Passenger Cars Business Area – which for purposes of financial statement segment reporting includes the segment Passenger Cars and the reconciliation – generated an operating result of EUR 9.3 billion in 2017, which is EUR 5.1 billion higher than the EUR 4.2 billion recorded in 2016. The operating return on sales was 5.9% in 2017 compared with 2.8% in 2016.

In the Commercial Vehicles Business Area, operating result improved to EUR 1.9 billion in 2017 compared with EUR 0.7 billion in 2016, while the operating return on sales amounted to 5.4% in 2017 compared with 2.2% in 2016. The increase in 2017 was mainly the result of positive volume- and margin-related factors and the expansion of the service business. Operating result in 2016 was negatively impacted by special items from restructuring measures to enhance competitiveness and provisions for legal risks relating to the commercial vehicles antitrust proceedings launched by the European Commission.

Operating result in the Power Engineering Business Area in 2017 amounted to a loss of EUR 0.1 billion compared to a loss of EUR 0.2 billion in the prior year. In 2017, lower volumes were in part offset by positive mix effects. In 2016, negative special items from restructuring measures to safeguard future viability weighed on operating result. The operating return on sales improved from –6.0% in 2016 to –1.7% in 2017.

Operating result in the Financial Services Division rose by 9.8% from EUR 2.4 billion 2016 to EUR 2.7 billion in 2017. The increase resulted, above all, from improved margins and business growth. The operating return on sales rose to 7.9% in 2017 from 7.8% in 2016.

#### **6.6.1.7 Financial result**

Volkswagen’s financial result declined by EUR 0.1 billion from EUR 0.2 billion in 2016 to EUR 0.1 billion in 2017. Lower interest expenses and lower expenses from the measurement of derivative financial instruments had a positive effect, while foreign currency remeasurement had a negative impact. The share of the result of equity-accounted investments in 2017 was at the prior-year level. This includes a gain of EUR 183 million on the remeasurement of the investment in HERE following the acquisition of shares by additional investors. In 2016, the income from the sale of the LeasePlan shares amounting to EUR 0.2 billion had a positive effect.

In 2017, the Automotive Division’s financial result amounted to EUR 0.3 billion compared to EUR 0.2 billion in 2016, including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

The financial result of the Financial Services Division decreased from EUR –27 million in 2016 to EUR –171 million in 2017.

#### **6.6.1.8 Share of the result of equity-accounted investments**

The composition of Volkswagen’s share of the result of equity-accounted investments is as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2017/2016 (%) (unaudited)</b>
	<b>2017 (in EUR million)</b>	<b>2016</b>	
Share of profits of equity-accounted investments . . . . .	3,519	3,563	–1.2
of which: from joint ventures . . . . .	3,327	3,534	–5.9
of which: from associates . . . . .	191	29	>+100.0
Share of losses of equity-accounted investments . . . . .	36	66	–45.4
of which: from joint ventures . . . . .	2	—	—
of which: from associates . . . . .	34	66	–48.5
	<b><u>3,482</u></b>	<b><u>3,497</u></b>	<b>–0.4</b>

The share of the result of equity-accounted investments slightly decreased by EUR 15 million in 2017. This includes the gain on the remeasurement of the investment in HERE following the acquisition of shares by additional investors. In 2016, the income from the sale of LeasePlan shares had a positive effect.

The sales revenue and operating result of the joint venture companies in China are not included in the figures for the Volkswagen Group. The Chinese companies are accounted for using the equity method and recorded a proportionate operating result of EUR 4,746 million in 2017, a 4.2% decrease from EUR 4,956 million in 2016. The negative impact of more intense competition and adverse exchange rate effects was offset by an improvement in the mix, higher volumes and product cost optimization.

### 6.6.1.9 Interest result

The composition of Volkswagen's interest result is as follows:

	Period from January 1 to December 31		Change 2017/2016 (%) (unaudited)
	2017 (in EUR million)	2016 <sup>(1)</sup>	
<b>Interest income</b> .....	<b>951</b>	<b>1,285</b>	<b>-26.0</b>
Other interest and similar income .....	839	915	-8.3
Income from valuation of interest derivatives .....	113	370	-69.5
<b>Interest expenses</b> .....	<b>-2,317</b>	<b>-2,955</b>	<b>21.6</b>
Other interest and similar expenses .....	-1,305	-1,400	6.8
Expenses from valuation of interest derivatives .....	-368	-448	17.9
Interest cost included in lease payments .....	-29	-29	0.4
Interest result on other liabilities .....	-13	-347	96.3
Net interest on the net defined benefit liability .....	-602	-731	17.6
<b>Interest result</b> .....	<b>-1,366</b>	<b>-1,670</b>	<b>18.2</b>

<sup>(1)</sup> Adjusted as the presentation of financial result in 2017 was changed.

In 2017, to enhance comparability, the structure of the presentation of financial result has been changed. The presentation of finance costs was replaced with the interest result. The new structure led to changes in various items in the financial result. See note 8 to the 2017 Annual Financial Statements for further explanation. As a result, the 2016 figures for other financial result, as presented below, have been adjusted by an amount of EUR 1.6 billion.

In 2017, interest result amounted to EUR -1.4 billion compared to EUR -1.7 billion in 2016. The improved interest result reflected primarily lower interest expenses.

### 6.6.1.10 Other financial result

The composition of Volkswagen's other financial result is as follows:

	Period from January 1 to December 31		Change 2017/2016 (%) (unaudited)
	2017 (in EUR million)	2016 <sup>(2)</sup>	
Income from profit and loss transfer agreements .....	35	33	+6.1
Cost of loss absorption .....	-76	-24	>-100.0
Other income from equity investments .....	71	110	-35.1
Other expenses from equity investments .....	-289	-155	-86.5
Income from marketable securities and loans <sup>(1)</sup> .....	-222	-58	>-100.0
Realized income of loan receivables and payables in foreign currency ..	734	882	-16.8
Realized expenses of loan receivables and payables in foreign currency .....	-1,107	-810	-36.7
Gains and losses from remeasurement and impairment of financial instruments .....	-475	-303	-56.8
Gains and losses from fair value changes of derivatives not included in hedge accounting .....	-810	-1,148	+29.4
Gains and losses from fair value changes of derivatives included in hedge accounting .....	117	-166	>+100.0
<b>Other financial result</b> .....	<b>-2,022</b>	<b>-1,638</b>	<b>-23.4</b>

<sup>(1)</sup> Including disposal gains / losses.

<sup>(2)</sup> Adjusted as the presentation of financial result in 2017 was changed.

The other financial result decreased by EUR 0.4 billion to EUR -2.0 billion in 2017 compared with the prior year adjusted figure of EUR -1.6 billion, mainly due to impairment losses on equity investments (i.e. Gett,

Mobvoi) amounting to € 255 million as well as higher negative impact of realized results of loan receivables and payables in foreign currency. Negative impact from fair value changes of derivatives was lower than in 2016.

### 6.6.1.11 Income tax income/expense

The composition of Volkswagen's income tax expense is as follows:

	Period from January 1 to December 31		Change 2017/2016 (%) (unaudited)
	2017 (in EUR million)	2016 (in EUR million)	
Current tax expense, Germany	614	885	-30.6
Current tax expense, abroad	2,590	2,388	+8.5
<b>Current income tax expense</b>	<b>3,205</b>	<b>3,273</b>	<b>-2.1</b>
of which prior-period income/expense	216	188	14.9
Deferred tax income (-)/expense (+), Germany	385	-736	>-100.0
Deferred tax income (-)/expense (+), abroad	-1,315	-625	>+100.0
<b>Deferred tax income (-)/expense (+)</b>	<b>-930</b>	<b>-1,361</b>	<b>-31.7</b>
<b>Income tax income/expense</b>	<b>2,275</b>	<b>1,912</b>	<b>+19.0</b>

Income tax expense increased by EUR 0.4 billion in 2017 compared with the prior year. The tax expense of EUR 2,275 million reported for 2017 was EUR 1,885 million lower than the expected tax expense of EUR 4,160 million that would have resulted from application of a tax rate applicable to undistributed profits of 29.9% to the profit before tax of the Volkswagen Group. This resulted primarily from tax-exempt income. A tax rate of 29.9% was used to measure deferred taxes in the German consolidated tax group in 2017 and 2016.

### 6.6.2 Results of Operations — 2016 compared with 2015

#### 6.6.2.1 Sales revenue

The Volkswagen Group generated sales revenue of EUR 217.3 billion in 2016, 1.9% higher than in the previous year. Improvements in the mix and the good business development in the Financial Services division were offset by negative exchange rate effects and a slight decline in vehicle unit sales, excluding the Chinese joint ventures. A large majority of sales revenue was recorded outside of Germany (79.9% in 2016 compared with 80.2% in 2015).

Volkswagen's sales revenue by source is as follows:

	Period from January 1 to December 31		Change 2016/2015 (%) (unaudited)
	2016 (in EUR million)	2015 (in EUR million)	
Vehicles	137,293	138,903 <sup>(1)</sup>	-1.2
Genuine parts	15,220	14,625	+4.1
Used vehicles and third-party products	13,324	12,193 <sup>(1)</sup>	+9.3
Engines, powertrains and parts deliveries	9,770	8,763	+11.5
Power Engineering	3,590	3,769	-4.7
Motorcycles	589	564	+4.4
Leasing business	22,306	20,085	+11.1
Interest and similar income	6,695	6,755	-0.9
Other sales revenue	8,481	7,635	+11.1
	<b>217,267</b>	<b>213,292</b>	<b>+1.9</b>

<sup>(1)</sup> Adjusted.

The slight decrease in sales revenue from the sale of vehicles by EUR 1.6 billion, or 1.2%, in 2016 was due to the reasons described in the preceding paragraph. Sales revenue from the sale of genuine parts, and used vehicles and third-party products increased year on year by 4.1% and 9.3%, respectively. The total

sales revenues of engines, powertrains and parts deliveries increased in 2016 by EUR 1.0 billion, or 11.5%. Power Engineering reported a decrease in sales revenue of EUR 0.2 billion, or 4.7% in 2016.

Sales revenue from the Financial Services Division's leasing business primarily relates to operating lease payments and the sale of used vehicles. Interest and similar income is generated by the financial services business and primarily consists of interest income from customer and dealer financing, and from finance leases. Similar income primarily relates to commission income from insurance brokerage services. Compared with the prior year, sales revenue from the leasing business rose in 2016 by EUR 2.2 billion, or 11.1%. Revenue from interest and similar income decreased slightly in 2016 by EUR 60 million, or 0.9%.

Other sales revenue comprises revenue from workshop services and license revenue, among other things. Other sales revenue increased by EUR 0.8 billion, or 11.1%, in 2016 compared with the prior year.

Volkswagen's sales revenue by division is as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2016/2015 (%)</b>
	<b>2016</b>	<b>2015</b>	
	<b>(in EUR million)</b>		
	<b>(unaudited)</b>		
Automotive Division <sup>(1)</sup> .....	186,016	183,936	+1.1
Financial Services Division .....	31,251	29,357	+6.5
<b>Volkswagen Group</b> .....	<b>217,267<sup>(2)</sup></b>	<b>213,292<sup>(2)</sup></b>	<b>+1.9</b>

<sup>(1)</sup> Including allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

<sup>(2)</sup> Audited.

The Automotive Division's sales revenue rose slightly from EUR 183.9 billion in 2015 to EUR 186.0 billion in 2016, a 1.1% increase. Improvements in the mix had a positive effect, while negative exchange rate effects and the slight decline in vehicle unit sales had an opposing impact. As the Chinese joint ventures are accounted for using the equity method, the Volkswagen Group's performance in the Chinese passenger car market is mainly reflected in the Group's sales revenue only by deliveries of vehicles and vehicle parts.

In 2016, sales revenue in the Passenger Cars Business Area – which for purposes of financial statement segment reporting includes the segment Passenger Cars and the reconciliation – was on a level with the previous year, at EUR 150.3 billion (2015: EUR 149.7 billion). Favorable mix developments were able to more than offset negative exchange rate effects and declining vehicle unit sales. Sales revenue in the Commercial Vehicles Business Area amounted to EUR 32.1 billion in 2016, a 5.4% increase compared to EUR 30.4 billion in 2015. Higher vehicle unit sales and the expansion of the service business contributed to the increase. The Power Engineering Business Area recorded sales revenue of EUR 3.6 billion in 2016, a decline of 4.8% compared to EUR 3.8 billion in revenue in 2015, mainly due to volume-related factors.

The Financial Services Division generated sales revenue of EUR 31.3 billion in 2016. The 6.5% increase over the 2015 figure was mainly attributable to higher business volumes. Exchange rate effects had a negative impact.

The breakdown of Volkswagen's sales revenue from external customers by region is as follows:

	<b>Germany</b>	<b>Europe and Other Markets<sup>(1)</sup></b>	<b>North America</b>	<b>South America</b>	<b>Asia-Pacific</b>	<b>Total</b>
	<b>(in EUR million)</b>					
2016 .....	43,634	94,445	35,454	7,973	35,761	217,267
2015 .....	42,248	90,287	35,384	10,148	35,225	213,292

<sup>(1)</sup> Excluding Germany.

In Germany combined with Europe and Other Markets, sales revenue increased 4.2% to EUR 138.1 billion due to volume and mix effects, while exchange rates had a negative impact. Sales revenue in North America rose by 0.2% to EUR 35.5 billion. Higher demand in Mexico, which drove an increase in unit sales, was in part offset by negative exchange rate effects. In the highly competitive South American region, challenging market conditions, particularly in Brazil, and exchange rate effects resulted in a 21.4% decrease in sales revenue to EUR 8.0 billion in 2016. Sales revenue in the Asia-Pacific region amounted to EUR 35.8 billion in 2016, with the 1.5% increase over 2015 attributable to higher volumes, which were in part offset by negative currency effects. These figures do not include the sales revenue generated by Volkswagen's Chinese joint ventures, since these are accounted for using the equity method.

### 6.6.2.2 Cost of sales

Volkswagen's cost of sales and the ratio of cost of sales to sales revenue are as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2016/2015 (%) (unaudited)</b>
	<b>2016</b>	<b>2015</b>	
	<b>(in EUR million)</b>		
Cost of sales	176,270	179,382	-1.7
as % of sales revenue (unaudited)	81.1	84.1	

Cost of sales decreased by EUR 3.1 billion, or 1.7%, in 2016 compared with the prior year. A significant decline in expenses for special items from the diesel issue, optimized product costs, exchange rate effects and lower research and development expenditures recognized in the income statement more than offset the rise in depreciation and amortization charges and negative special items from the replacement of procured airbags. Research and development costs recognized in the income statement (research and non-capitalized development costs as well as amortization of capitalized development costs) decreased by EUR 344 million, or 2.9%, from EUR 11,853 million in 2015 to EUR 11,509 million in 2016.

Cost of sales includes interest expenses of EUR 1,930 million in 2016 (compared with EUR 1,868 million in 2015) attributable to the financial services business. This item also includes impairment losses on intangible assets (primarily development costs), property, plant and equipment (primarily other equipment, operating and office equipment), and lease assets in the amount of EUR 1,369 million (compared with EUR 1,391 million in 2015). The impairment losses on intangible assets and items of property, plant and equipment in 2016 resulted in particular from lower values in use of various products in the Passenger Cars segment, from market and exchange rate risks, and in particular from expected declines in volumes. See also "— Material Factors Affecting Results of Operations and Financial Position — Diesel Issue". The impairment losses on lease assets in 2016 were attributable mainly to the Financial Services segment and were based on constantly updated internal and external information that is factored into the forecast residual values of the vehicles.

### 6.6.2.3 Distribution and administrative expenses

Distribution expenses declined by 3.5% to EUR 22.7 billion in 2016. The ratio of distribution expenses to sales revenue also decreased. By contrast, at EUR 7.3 billion, administrative expenses increased slightly between 2015 and 2016, while the ratio of administrative expenses to sales revenue remained unchanged.

Volkswagen's distribution and administrative expenses and the ratio of these expenses to sales revenue are as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2016/2015 (%) (unaudited)</b>
	<b>2016</b>	<b>2015</b>	
	<b>(in EUR million)</b>		
Distribution expenses	22,700	23,515	-3.5
as % of sales revenue (unaudited)	10.4	11.0	
Administrative expenses	7,336	7,197	+1.9
as % of sales revenue (unaudited)	3.4	3.4	
	<b>30,036</b>	<b>30,712</b>	<b>-2.2</b>

In the Automotive Division, distribution expenses decreased in 2016 as compared with 2015 due to lower expenses for special items from the diesel issue as well as positive exchange rate effects. The ratio of distribution expenses to sales revenue also decreased. Administrative expenses increased by 1.5% in 2016 as compared with 2015, although the ratio of administrative expenses to sales revenue remained unchanged.

In the Financial Services Division, distribution expenses in 2016 were on a level with the previous year. Administrative expenses rose slightly in 2016. The ratio of distribution expenses and administrative expenses to sales revenue declined.



#### 6.6.2.4 Other operating income

The composition of Volkswagen's other operating income and the ratio of this income to sales revenue are as follows:

	Period from January 1 to December 31		Change 2016/2015 (%) (unaudited)
	2016 (in EUR million)	2015	
Income from reversal of valuation allowances on receivables and other assets	847	737	+14.9
Income from reversal of provisions and accruals	3,738	2,871	+30.2
Income from foreign currency hedging derivatives	1,739	1,560	+11.5
Income from foreign exchange gains	2,842	3,859	-26.4
Income from sale of promotional material	440	427	+3.0
Income from cost allocations	1,222	1,308	-6.6
Income from investment property	14	10	+40.0
Gains on asset disposals and the reversal of impairment losses	363	188	+93.1
Miscellaneous other operating income	1,843	1,945	-5.2
	<b>13,049</b>	<b>12,905</b>	<b>+1.1</b>
as % of sales revenue (unaudited)	6.0	6.1	

Other operating income increased by EUR 144 million, or 1.1%, in 2016, mainly due to higher income from reversal of provisions and accruals resulting principally from unutilized provisions for legal risks and sales-related measures in connection with the diesel issue.

#### 6.6.2.5 Other operating expenses

The composition of Volkswagen's other operating expenses and the ratio of these expenses to sales revenue are as follows:

	Period from January 1 to December 31		Change 2016/2015 (%) (unaudited)
	2016 (in EUR million)	2015	
Valuation allowances on receivables and other assets	1,787	1,674	+6.8
Losses from foreign currency hedging derivatives	2,964	5,083	-41.7
Foreign exchange losses	3,077	3,260	-5.6
Expenses from cost allocations	542	695	-22.0
Expenses for termination agreements	424	502	-15.5
Losses on disposal of noncurrent assets	144	106	+35.8
Miscellaneous other operating expenses	7,970	8,853	-10.0
	<b>16,907</b>	<b>20,171</b>	<b>-16.2</b>
as % of sales revenue (unaudited)	7.8	9.5	

Other operating expenses decreased by EUR 3.3 billion, or 16.2%, in particular due to currency-related factors and lower litigation expenses related to the diesel issue. Litigation expenses in relation to the diesel issue are included in miscellaneous other operating expenses (2016: EUR 5.1 billion; 2015: EUR 7.0 billion); this item also includes provisions for the antitrust proceedings that the European Commission opened against European truck manufacturers including MAN and Scania (2016: EUR 0.4 billion), as described in "Business of the Volkswagen Group — Legal and Arbitration Proceedings — Antitrust Proceedings". The changes in the foreign currency hedging derivatives in 2016 were due to exchange rate changes between the trade date and the price on realization, in particular in relation to the U.S. dollar, the Chinese renminbi and the British pound sterling.

#### 6.6.2.6 Operating result

In 2016, the Volkswagen Group generated an operating result of EUR 7.1 billion, which was EUR 11.2 billion higher than in 2015 (EUR -4.1 billion). In addition to optimized product costs, improvements in the mix had a positive effect, while exchange rate effects, the decline in unit sales

(excluding the Chinese joint ventures) and higher depreciation and amortization charges had a negative impact.

In 2015, exceptional charges in relation to the diesel issue (in particular for the technical measures, repurchases, customer-related measures and legal risks) in the amount of EUR 16.2 billion weighed on operating result. In addition, operating result in 2015 was impacted by restructuring expenses in the trucks business (EUR 0.2 billion) and in the passenger cars area in South America (EUR 0.2 billion), as well as EUR 0.3 billion recognized in relation to the recall of potentially faulty airbags manufactured and supplied by Takata.

In 2016, negative special items of EUR 7.5 billion weighed on operating result. Of the negative special items in 2016, EUR 6.4 billion related to the diesel issue, mainly due to expenses attributable to the recognition of provisions for legal risks. In addition, EUR 0.3 billion were recognized in connection with the Takata recall. Restructuring measures weighed negatively on the operating result in 2016 of both the passenger cars business and the trucks business in South America, in an amount of EUR 0.3 billion and the Power Engineering business area in an amount of EUR 0.2 billion. Provisions for legal risks relating to the commercial vehicles antitrust proceedings launched by the European Commission resulted in negative special items of EUR 0.4 billion in the Commercial Vehicles Business Area in 2016. The operating return on sales improved from -1.9% in 2015 to 3.3% in 2016.

Volkswagen's operating result by division is as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2016/2015 (%)</b>
	<b>2016</b>	<b>2015</b>	
	<b>(in EUR million) (unaudited)</b>		
Automotive <sup>(1)</sup> .....	4,668	-6,305	>+100.0
as % of sales revenue of the Automotive Division <sup>2</sup> .....	2.5	-3.4	
Financial Services .....	2,435	2,236	+8.9
as % of sales revenue of the Financial Services Division <sup>2</sup> .....	7.7	7.6	
<b>Volkswagen Group</b> .....	<b><u>7,103</u></b> <sup>(3)</sup>	<b><u>-4,069</u></b> <sup>(3)</sup>	<b>&gt;+100.0</b>
as % of Group sales revenue <sup>(2)</sup> .....	3.3	-1.9	

<sup>(1)</sup> Including allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

<sup>(2)</sup> Operating return on sales.

<sup>(3)</sup> Audited.

The Automotive Division's operating result rose by EUR 11.0 billion to EUR 4.7 billion in 2016 from EUR -6.3 billion in 2015. The division recorded an operating return on sales of 2.5% in 2016 compared with -3.4% in 2015. The operating result in 2016 included EUR 7.5 billion in negative special items, mainly in relation to the diesel issue, as well as from the replacement of procured airbags and from restructuring measures in South America (2015: EUR 16.2 billion related to the diesel issue, EUR 0.3 billion to procured airbags and EUR 0.4 billion to restructuring measures in South America). In 2016, optimized product costs and favorable mix developments were able to more than offset negative exchange rate effects and declining vehicle unit sales, as well as higher depreciation and amortization charges. The growth of the Chinese joint ventures is reflected in the Group's operating result only by deliveries of vehicles and vehicle parts, as well as license revenue. The profit recorded by the joint venture companies is accounted for in the financial result using the equity method.

The Passenger Cars Business Area – which for purposes of reporting includes the segment Passenger Cars and the reconciliation – generated an operating result of EUR 4.2 billion in 2016, which is EUR 11.2 billion higher than the EUR -7.0 billion recorded in 2015. The operating return on sales was 2.8% in 2016 compared with -4.7% in 2015.

In the Commercial Vehicles Business Area, operating result improved to EUR 0.7 billion in 2016 compared with EUR 0.6 billion in 2015, while the operating return on sales amounted to 2.2% in 2016 compared with 1.9% in 2015. Higher unit vehicle sales and the expansion of the service business were positive factors, while special items from restructuring measures to enhance competitiveness and provisions for legal risks relating to the commercial vehicles antitrust proceedings launched by the European Commission weighed negatively on operating result.

At EUR -217 million, operating loss in the Power Engineering Business Area in 2016 decreased from operating profit of EUR 123 million in the prior year. The decline resulted from negative volume- and margin-related factors, as well as the negative special items from restructuring measures to safeguard future viability. The operating return on sales decreased from 3.2% to -6.0%.

Operating result in the Financial Services Division rose by 8.9% from 2015 to EUR 2.4 billion in 2016 primarily on account of higher business volume, with the division again making a significant contribution to the Group's consolidated operating result. The operating return on sales rose to 7.8% in 2016 from 7.6% in 2015.

#### **6.6.2.7 Financial result**

Volkswagen's financial result decreased by EUR 2.6 billion from EUR 2.8 billion in 2015 to EUR 0.2 billion in 2016. In 2015, the income from the sale of the Suzuki shares had a positive effect. The decline was also the result of a year-on-year decrease in income from the equity-accounted Chinese joint ventures, higher finance costs due to interest-related and remeasurement effects as well as higher expenses from derivative financial instruments. The income from the sale of the LeasePlan shares amounting to EUR 0.2 billion had a positive effect in 2016.

The Automotive Division's financial result decreased by EUR 2.5 billion to EUR 0.2 billion, including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

The financial result of the Financial Services Division decreased from EUR 97 million in 2015 to EUR -27 million in 2016.

#### **6.6.2.8 Share of the result of equity-accounted investments**

The composition of Volkswagen's share of the result of equity-accounted investments is as follows:

	<b>Period from January 1 to December 31</b>		<b>Change 2016/2015 (%) (unaudited)</b>
	<b>2016 (in EUR million)</b>	<b>2015</b>	
Share of profits of equity-accounted investments . . . . .	3,563	4,417	-19.3
of which: from joint ventures . . . . .	3,534	4,389	-19.5
of which: from associates . . . . .	29	28	+5.5
Share of losses of equity-accounted investments . . . . .	66	30	>+100.0
of which: from joint ventures . . . . .	—	19	—
of which: from associates . . . . .	66	11	>+100.0
	<b><u>3,497</u></b>	<b><u>4,387</u></b>	<b>-20.3</b>

The share of the result of equity-accounted investments decreased by EUR 0.9 billion in 2016 mainly as the result of a year-on-year decrease in income from the equity-accounted Chinese joint ventures.

The sales revenue and operating result of the joint venture companies in China are not included in the figures for the Volkswagen Group. The Chinese companies are accounted for using the equity method and recorded a proportionate operating result of EUR 4,956 million in 2016, a 4.9% decrease from the EUR 5,214 million amount in 2015. Increases in volume and optimization of product costs were unable to fully offset the impact of the more competitive market environment and negative exchange rate effects.

#### **6.6.2.9 Interest result**

In 2017, the structure of the presentation of financial result has been changed. The presentation of finance costs has been replaced with the interest result. The new structure has led to changes in various items in the financial result. See note 8 to the 2017 Annual Financial Statements for further explanation. Below the figures for the financial year 2016 and 2015 are presented on a comparable basis to the new structure adopted in 2017. These figures are different to the historical financial information as presented in the Annual Financial Statements as of December 31, 2016.

The composition of Volkswagen's interest result is as follows:

	Period from January 1 to December 31		Change 2016/2015 (%) (unaudited)
	2016 <sup>(1)</sup> (in EUR million)	2015 <sup>(1)(2)</sup>	
<b>Interest income</b> .....	<b>1,285</b>	<b>1,907</b>	<b>-32.6</b>
Other interest and similar income .....	915	982	-6.8
Income from valuation of interest derivatives .....	370	925	-60.0
<b>Interest expenses</b> .....	<b>-2,955</b>	<b>-2,345</b>	<b>-26.1</b>
Other interest and similar expenses .....	-1,400	-1,370	-2.2
Expenses from valuation of interest derivatives .....	-448	-186	>-100.0
Interest cost included in lease payments .....	-29	-22	-34.3
Interest result on other liabilities .....	-347	-77	>-100.0
Net interest on the net defined benefit liability .....	-731	-690	-6.0
<b>Interest result</b> .....	<b>-1,670</b>	<b>-437</b>	<b>&gt;-100.0</b>

<sup>(1)</sup> Adjusted as the presentation of financial result in 2017 was changed.

<sup>(2)</sup> Unaudited.

#### 6.6.2.10 Other financial result

The composition of Volkswagen's other financial result is as follows:

	Period from January 1 to December 31		Change 2016/2015 (%) (unaudited)
	2016 <sup>(2)</sup> (in EUR million)	2015 <sup>(2)(3)</sup>	
Income from profit and loss transfer agreements .....	33	29	15.3
Cost of loss absorption .....	-24	-18	-33.4
Other income from equity investments .....	110	1,594	-93.1
Other expenses from equity investments .....	-155	-181	14.5
Income from marketable securities and loans <sup>(1)</sup> .....	-58	137	>-100.0
Realized income of loan receivables and payables in foreign currency .....	882	198	>+100.0
Realized expenses of loan receivables and payables in foreign currency .....	-810	-333	>-100.0
Gains and losses from remeasurement and impairment of financial instruments .....	-303	-1,174	74.2
Gains and losses from fair value changes of derivatives not included in hedge accounting .....	-1,148	-637	-80.2
Gains and losses from fair value changes of derivatives included in hedge accounting .....	-166	-798	79.2
<b>Other financial result</b> .....	<b>-1,638</b>	<b>-1,183</b>	<b>-38.5</b>

<sup>(1)</sup> Including disposal gains / losses.

<sup>(2)</sup> Adjusted as the presentation of financial result in 2017 was changed.

<sup>(3)</sup> Unaudited.

The other financial result decreased by EUR 0.5 billion to EUR -1.6 billion in 2016 compared to the adjusted prior year figure of EUR -1.2 billion. The decrease in 2016 is attributable mainly to a decline in other income from equity investments which primarily reflects the nonrecurrence of the gain from the sale of the equity interest in Suzuki in 2015, which generated income of EUR 1.5 billion. The movements in gains and losses from remeasurement and impairment of financial instruments was largely the result of changes in the exchange rate for receivables and liabilities denominated in foreign currency and, in 2015, negative remeasurement effects connected with put options and compensation rights granted to noncontrolling interest shareholders of MAN, as described under "— Material Changes in Equity Investments — MAN", which generated an expense of EUR 0.4 billion in 2015.

### 6.6.2.11 Income tax income/expense

The composition of Volkswagen's income tax expense is as follows:

	Period from January 1 to December 31		Change 2016/2015 (%) (unaudited)
	2016 (in EUR million)	2015 (in EUR million)	
Current tax expense, Germany	885	812	+9.0
Current tax expense, abroad	2,388	2,047	+16.7
<b>Current income tax expense</b>	<b>3,273</b>	<b>2,859</b>	<b>+14.5</b>
of which prior-period income/expense	(188)	(142)	(+32.4)
Deferred tax income (-)/expense (+), Germany	-736	-2,075	+64.5
Deferred tax income (-)/expense (+), abroad	-625	-725	+13.8
<b>Deferred tax income (-)/expense (+)</b>	<b>-1,361</b>	<b>-2,800</b>	<b>+51.4</b>
<b>Income tax income/expense</b>	<b>1,912</b>	<b>59</b>	<b>&gt;+100.0</b>

Income tax expense increased by EUR 1.9 billion in 2016 compared with the prior year. The tax expense of EUR 1,912 million reported for 2016 was EUR 268 million lower than the expected tax expense of EUR 2,180 million that would have resulted from application of a tax rate applicable to undistributed profits of 29.9% to the profit before tax of the Volkswagen Group. This resulted primarily from tax-exempt income. A tax rate of 29.9% was used to measure deferred taxes in the German consolidated tax group in 2016 and 29.8% in 2015.

### 6.7 Pension Liabilities

As of December 31, 2017, Volkswagen recognized EUR 32.7 billion (2016: EUR 33.0 billion) in net liabilities for pension provisions and other post-employment benefits. Please refer to note 29 in each of the Annual Financial Statements for detailed information concerning pension liabilities.

### 6.8 Liquidity and Capital Resources

#### 6.8.1 Sources of liquidity

Volkswagen primarily uses retained earnings and the capital and money markets as sources of refinancing by issuing bonds, commercial paper and notes, asset-backed securities ("ABS") and deposits from the direct banking business.

In the capital market, Volkswagen placed undated subordinated, or hybrid, notes in September 2013, March 2014, March 2015, June 2017 and June 2018.

The following table sets forth information regarding the issuance of undated subordinated, or hybrid, notes.

Undated Subordinated Notes				
Date of issuance	First Call Date <sup>(1)</sup>	Relevant Swap Rate	Coupon	Amount
September 4, 2013	September 4, 2018	5 year	3.875%	EUR 1,250,000,000
September 4, 2013	September 4, 2023	10 year	5.125%	EUR 750,000,000
March 24, 2014	March 24, 2021	7 year	3.75%	EUR 1,250,000,000
March 24, 2014	March 24, 2026	12 year	4.625%	EUR 1,750,000,000
March 17, 2015	March 17, 2022	7 year	2.50%	EUR 1,100,000,000
March 17, 2015	March 17, 2030	15 year	3.50%	EUR 1,400,000,000
June 14, 2017	December 14, 2022	5.5 year	2.70%	EUR 1,500,000,000
June 14, 2017	June 14, 2027	10 year	3.875%	EUR 2,000,000,000
June 20, 2018	June 20, 2027	6 year	3.375%	EUR 1,250,000,000
June 20, 2018	June 20, 2027	10 year	4.625%	EUR 1,500,000,000

<sup>(1)</sup> Beginning on the First Call Date for each issuance, the coupon will be calculated based upon the relevant swap rate plus a margin.

In the credit market, Volkswagen was able to secure reserves through confirmed credit lines. A syndicated credit line into which Volkswagen AG entered in July 2011, was extended in 2015 with a facility in the amount of EUR 5.0 billion through April 2020. This credit line remained unused at September 30, 2018. Other Volkswagen Group companies have obtained syndicated credit lines totaling EUR 6.5 billion, of which EUR 5.4 billion had not been drawn down. In addition, Volkswagen Group companies have arranged bilateral, confirmed

credit lines with national and international banks in various other countries in the amount of EUR 6.8 billion, of which EUR 3.6 billion had not been drawn down at September 30, 2018.

Certain projects are financed by, among other things, loans provided by development banks such as the European Investment Bank (EIB) or the European Bank for Reconstruction and Development (EBRD), or by national development banks such as Kreditanstalt für Wiederaufbau (KfW) or Banco Nacional de Desenvolvimento Econômico e Social (BNDES).

As part of its refinancing strategy, Volkswagen pursues a comprehensive capital market and hedging strategy, as well as a consistent rating strategy. Volkswagen's refinancing policy is to source funds with matching maturities that are as diversified as possible across currency areas, using a range of financing instruments and a broad investor base, and that exclude currency risks to a large extent. The solvency and liquidity of the Volkswagen Group are supported at all times by rolling liquidity planning, a liquidity reserve in the form of cash, confirmed credit lines and globally available debt issuance programs. This extensive range of options means that the liquidity risk to the Volkswagen Group is extremely low.

## 6.8.2 Cash flows

The following table presents the main items in Volkswagen's cash flow statements for the years ended December 31, 2017, 2016 and 2015:

	<b>For the year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	(in EUR million)		
<b>Cash and cash equivalents at beginning of period</b> .....	<b>18,833</b>	<b>20,462</b>	<b>18,634</b>
Earnings before tax .....	13,913	7,292	-1,301
Income taxes paid .....	-3,664	-3,315	-3,238
Depreciation and amortization expense <sup>(1) (8)</sup> .....	22,165	20,924	19,693
Change in pension provisions <sup>(8)</sup> .....	468	235	309
Other noncash income/expense and reclassifications <sup>(2) (8)</sup> .....	-231	871	817
<b>Gross cash flow<sup>(8)</sup></b> .....	<b>32,651</b>	<b>26,007</b>	<b>16,280</b>
<b>Change in working capital<sup>(8)</sup></b> .....	<b>-33,836</b>	<b>-16,576</b>	<b>-2,601</b>
Change in inventories .....	-4,198	-3,637	-3,149
Change in receivables (excluding financial services) .....	-1,660	-2,155	-1,807
Change in liabilities (excluding financial liabilities) .....	5,302	5,048	2,807
Change in other provisions <sup>(8)</sup> .....	-9,910	5,732	18,019
Change in lease assets (excluding depreciation) .....	-11,478	-12,074	-10,808
Change in financial services receivables .....	-11,891	-9,490	-7,663
<b>Cash flow from operating activities</b> .....	<b>-1,185</b>	<b>9,430</b>	<b>13,679</b>
<b>Cash flow from investing activities attributable to operating activities<sup>(8)</sup></b> .....	<b>-18,218</b>	<b>-16,797</b>	<b>-15,523</b>
of which: investments in intangible assets (excluding development costs), property, plant and equipment, and investment property .....	-13,052	-13,152	-13,213
Additions to capitalized development costs .....	-5,260	-5,750	-5,021
Acquisition and disposal of equity investments <sup>(6) (8)</sup> .....	-317	1,754	2,178
<b>Net cash flow<sup>(3)(8)</sup></b> .....	<b>-19,404</b>	<b>-7,367</b>	<b>-1,845</b>
Change in investments in securities, loans and time deposits <sup>(7) (8)</sup> .....	1,710	-3,882	-5,628
<b>Cash flows from investing activities</b> .....	<b>-16,508</b>	<b>-20,679</b>	<b>-21,151</b>
<b>Cash flows from financing activities</b> .....	<b>17,625</b>	<b>9,712</b>	<b>9,068</b>
of which: capital transactions with noncontrolling interests .....	-	-3	-0
Capital contributions .....	3,473	-	2,457
Effect of exchange rate changes on cash and cash equivalents .....	-727	-91	232
<b>Net change in cash and cash equivalents</b> .....	<b>-796</b>	<b>-1,628</b>	<b>1,828</b>
<b>Cash and cash equivalents at Dec. 31<sup>(4)</sup></b> .....	<b>18,038</b>	<b>18,833</b>	<b>20,462</b>
Securities, loans and time deposits .....	26,291	28,036	24,613
<b>Gross liquidity<sup>(9)</sup></b> .....	<b>44,329</b>	<b>46,869</b>	<b>45,075</b>
Total third-party borrowings .....	-163,472	-154,819	-145,604
<b>Net liquidity<sup>(5)</sup></b> .....	<b>-119,143</b>	<b>-107,950</b>	<b>-100,530</b>

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- (1) Total of: Depreciation and amortization of, and impairment losses on, intangible assets, property, plant and equipment, and investment property, Amortization of and impairment losses on capitalized development costs, Impairment losses on equity investments and Depreciation of and impairment losses on lease assets.
- (2) Total of: Gain/loss on disposal of noncurrent assets and equity investments, Share of the result of equity-accounted investments, Other noncash expense/income.
- (3) Net cash flow: cash flows from operating activities, net of cash flows from investing activities attributable to operating activities (investing activities excluding change in investments in securities, loans and time deposits)
- (4) Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.
- (5) The total of cash, cash equivalents, securities, loan receivables from related parties and time deposits net of third-party borrowings (noncurrent and current financial liabilities).
- (6) Total of: Acquisition of subsidiaries, Acquisition of other equity investments, Disposal of subsidiaries and Disposal of other equity investments.
- (7) Total of: Change in investments in securities and Change in loans and time deposits.
- (8) Unaudited.
- (9) Total of: Cash and cash equivalents as well as securities, loans and time deposits.

### **6.8.2.1 Cash flows from operating activities**

Cash flows from operating activities are derived indirectly from earnings before tax. Earnings before tax are adjusted to eliminate noncash expenses (mainly depreciation, amortization and impairment losses) and noncash income. This results in cash flows from operating activities after accounting for changes in working capital, which also include changes in lease assets and in financial services receivables.

The Volkswagen Group generated gross cash flow of EUR 32.7 billion in 2017, 25.5% above the 2016 level. Working capital increased by EUR 17.3 billion to EUR 33.8 billion. The new special items recognized in 2017 had a negative impact on gross cash flow and a positive effect on the change in working capital. In 2017, as expected, there were high cash outflows in connection with the diesel issue, primarily resulting from vehicle recalls and legal risks. As a result, cash flows from operating activities decreased by EUR 10.6 billion to EUR –1.2 billion in 2017 from EUR 9.4 billion in 2016. The Automotive Division's gross cash flow amounted to EUR 23.4 billion in 2017 compared with EUR 16.5 billion in 2016. The year-on-year increase was primarily due to higher operating profit before special items and lower special items compared with 2016. Cash flows from operating activities in the Automotive Division decreased by EUR 8.6 billion to EUR 11.7 billion in 2017. The Financial Services Division's gross cash flow declined by EUR 0.3 billion from the previous year to EUR 9.2 billion in 2017. Due to growth in business volumes, funds tied up in working capital increased by EUR 1.7 billion to EUR 22.1 billion in 2017 (2016: EUR 20.4 billion).

The Volkswagen Group generated gross cash flow of EUR 26.0 billion in 2016, 59.7% above the 2015 level. Funds tied up in working capital increased by EUR 14.0 billion to EUR 16.6 billion. Primarily due to the diesel issue, provisions had to be recognized in 2016, which had a negative impact on gross cash flow and a positive effect on the change in working capital. Cash flows from operating activities declined by EUR 4.2 billion to EUR 9.4 billion in 2016 from EUR 13.7 billion in 2015. The Automotive Division's gross cash flow amounted to EUR 16.5 billion in 2016 compared with EUR 7.5 billion in 2015. The year-on-year increase was primarily due to lower special items compared with 2015 and the higher operating profit before special items, while lower dividend payments by the Chinese joint ventures were a negative factor. Cash flows from operating activities in the Automotive Division decreased by EUR 3.5 billion to EUR 20.3 billion in 2016. The Financial Services Division's gross cash flow rose by 8.9% year-on-year to EUR 9.5 billion in 2016 due to improved earnings. Funds tied up in working capital increased to EUR 20.4 billion in 2016 (compared with EUR 18.9 billion in 2015) due to growth in business volumes.

### **6.8.2.2 Cash flows from investing activities**

Investing activities include investing activities attributable to operating activities (additions to property, plant and equipment and equity investments, additions to capitalized development costs) and investments in securities, loans and time deposits.

At EUR 18.2 billion, the Volkswagen Group's investing activities attributable to operating activities in 2017 were 8.5% above the 2016 level of EUR 16.8 billion. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) of EUR 13.1 billion in 2017 was slightly lower than in 2016 (EUR 13.2 billion). Capitalized development costs decreased to EUR 5.3 billion (2016: EUR 5.8 billion). In the Automotive Division, investing activities attributable to operating activities increased to EUR 17.6 billion in 2017 compared with EUR 15.9 billion in 2016. At EUR 12.6 billion (2016: EUR 12.8 billion), capex in 2017 was at the prior year's level. At 6.4%, the ratio of capex to sales revenue decreased by 0.5 percentage points (2016: 6.9%). Volkswagen invested mainly in its production facilities and in models that it launched in 2017 or were to be launched in 2018. Other investment priorities were the ecological focus of the model range, drivetrain electrification and the modular toolkits. In 2017, the "Acquisition and disposal of equity investments" item mainly included the acquisition

of shares in Navistar and the sale of part of the PGA Group. Investing activities in 2016 included the sale of the shares in LeasePlan amounting to EUR 2.2 billion. In the Financial Services Division, investing activities attributable to operating activities decreased to EUR 0.6 billion in 2017 compared to EUR 0.9 billion in 2016, which had included the acquisition of shares in the ride-hailing service Gett.

At EUR 16.8 billion, the Volkswagen Group's investing activities attributable to operating activities in 2016 were 8.2% above the 2015 level of EUR 15.5 billion. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) of EUR 13.2 billion in 2016 were at the same level as in 2015, while capitalized development costs rose slightly to EUR 5.8 billion (compared with EUR 5.0 billion in 2015). In the Automotive Division, investing activities attributable to operating activities increased to EUR 15.9 billion in 2016 compared with EUR 14.9 billion in 2015. At EUR 12.8 billion (2015: EUR 12.7 billion), capex in 2016 was at the prior year's level. At 6.9%, the ratio of capex to sales revenue remained unchanged year- to-year. Volkswagen invested mainly in its production facilities and in models that it launched in 2016 and 2017. Other investment priorities were the ecological focus of the model range, the growing use of electric drives and the modular toolkits. Investing activities in 2016 included the sale of the shares in LeasePlan amounting to EUR 2.2 billion and in 2015 the sale of the Suzuki shares. In the Financial Services Division, the acquisition of the interest in ride hailing service Gett amounting to EUR 0.3 billion was one of the factors behind the increase in investing activities attributable to operating activities to EUR 0.9 billion in 2016.

### **6.8.2.3 Cash flows from financing activities**

Financing activities include outflows of funds from dividend payments and redemption of bonds, inflows from the capital increase and issuance of bonds, and changes in other financial liabilities.

Cash inflows from financing activities in 2017 amounted to EUR 17.6 billion compared with EUR 9.7 billion in 2016. This cash flow mainly includes dividend payments and the issuance and redemption of bonds and other financial liabilities, including the hybrid notes (EUR 3.5 billion) issued in June 2017.

Volkswagen AG carried out a capital increase of EUR 1.0 billion at Volkswagen Financial Services AG in 2017 in order to finance expected business growth and to comply with stricter regulatory capital requirements. A dividend of EUR 1.0 billion was paid out to the shareholders of Volkswagen AG in 2017, EUR 0.9 billion more than the previous year (2016: EUR 0.1 billion).

Cash inflows from financing activities in 2016 amounted to EUR 9.7 billion compared with EUR 9.1 billion in 2015. This cash flow mainly includes dividend payments and the issuance and redemption of bonds and other financial liabilities. In 2015, they included the issuance of hybrid notes.

Volkswagen AG carried out a capital increase of EUR 1.2 billion at Volkswagen Financial Services AG in 2016 in order to finance the expected growth in business volumes as well as to comply with the continued increase in regulatory capital requirements. The dividend of EUR 0.1 billion paid out to the shareholders of Volkswagen AG in 2016 (2015: EUR 2.3 billion) was considerably lower due to the diesel issue.

### **6.8.2.4 Cash and cash equivalents**

Cash and cash equivalents were EUR 18.0 billion as of December 31, 2017, compared with EUR 18.8 billion as of December 31, 2016 and EUR 20.5 billion as of December 31, 2015.

### **6.8.2.5 Noncurrent and current financial services receivables**

In 2017, some of the receivables previously reported as customer financing in individual markets are now presented as receivables from finance leases. 2016 figures have been restated, resulting in a EUR 12.2 billion reduction in receivables from customer financing and a corresponding increase in receivables from finance leases as of December 31, 2016. See also note 16 to the 2017 Annual Financial Statements. 2015 figures have not been adjusted.



The following table shows noncurrent and current financial services receivables as of December 31, 2017, 2016 and 2015:

	December 31			Change 2017/2016	Change 2016/2015
	2017	2016	2015		
	(in EUR million)				
<b>Noncurrent receivables from financing business</b>	<b>43,096</b>	<b>41,018</b>	<b>46,819</b>	<b>+5.1</b>	<b>-12.4</b>
of which:					
customer financing <sup>(1)</sup>	40,899	38,907	44,985	+5.1	-13.5
dealer financing	2,194	2,108	1,832	+4.1	+15.0
direct banking	4	2	2	+100.0	0
<b>Current receivables from financing business</b>	<b>37,142</b>	<b>35,415</b>	<b>36,941</b>	<b>+4.9</b>	<b>-4.1</b>
of which:					
customer financing <sup>(1)</sup>	19,841	19,630	21,991	+1.1	-10.7
dealer financing	17,033	15,531	14,738	+9.7	+5.4
direct banking	269	254	212	+6.0	+19.7
	<b>80,239</b>	<b>76,433</b>	<b>83,760</b>	<b>+5.0</b>	<b>-8.7</b>

<sup>(1)</sup> 2016 figures are restated, as some of the receivables previously reported as customer financing in individual markets are presented as receivables from finance leases in 2017. 2015 figures have not been adjusted.

The financial indicators shown above are for the Volkswagen Group. For financial indicators of the Financial Services Division (excluding the financial services activities of Scania, Porsche or Porsche Holding), see "Business of the Volkswagen Group — Volkswagen's Divisions and their Products and Services — Financial Services Division".

For further information regarding the direct banking activities, refer to "Business of the Volkswagen Group — Volkswagen's Divisions and their Products and Services — Financial Services Division — Products and services of the Financial Services Division — Direct banking business".

The following table shows receivables from customer financing, receivables from dealer financing, receivables from operating leases and receivables from finance leases as of December 31, 2017, 2016 and 2015:

	2017			2016			2015			Change 2017/2016	Change 2016/2015
	(in EUR million)			(in EUR million)			(in EUR million)				
<b>Receivables from customer financing<sup>(1)</sup></b>	<b>60,739</b>	<b>58,537</b>	<b>66,976</b>	<b>60,739</b>	<b>58,537</b>	<b>66,976</b>	<b>60,739</b>	<b>58,537</b>	<b>66,976</b>	<b>+3.8</b>	<b>-12.6</b>
of which:											
Noncurrent receivables	40,899	38,907	44,985	40,899	38,907	44,985	40,899	38,907	44,985	+5.1	-13.5
Current receivables	19,841	19,630	21,991	19,841	19,630	21,991	19,841	19,630	21,991	+1.1	-10.7
<b>Receivables from dealer financing</b>	<b>19,227</b>	<b>17,639</b>	<b>16,570</b>	<b>19,227</b>	<b>17,639</b>	<b>16,570</b>	<b>19,227</b>	<b>17,639</b>	<b>16,570</b>	<b>+9.0</b>	<b>+6.5</b>
of which:											
Noncurrent receivables	2,194	2,108	1,832	2,194	2,108	1,832	2,194	2,108	1,832	+4.1	+15.0
Current receivables	17,033	15,531	14,738	17,033	15,531	14,738	17,033	15,531	14,738	+9.7	+5.4
<b>Receivables from operating leases</b>	<b>193</b>	<b>197</b>	<b>273</b>	<b>193</b>	<b>197</b>	<b>273</b>	<b>193</b>	<b>197</b>	<b>273</b>	<b>-2.0</b>	<b>-27.8</b>
of which:											
Noncurrent receivables	—	—	—	—	—	—	—	—	—	—	—
Current receivables	193	197	273	193	197	273	193	197	273	-2.0	-27.8
<b>Receivables from finance leases<sup>(1)</sup></b>	<b>45,963</b>	<b>41,445</b>	<b>26,040</b>	<b>45,963</b>	<b>41,445</b>	<b>26,040</b>	<b>45,963</b>	<b>41,445</b>	<b>26,040</b>	<b>+10.9</b>	<b>+59.2</b>
of which:											
Noncurrent receivables	30,153	27,384	16,365	30,153	27,384	16,365	30,153	27,384	16,365	+10.1	+67.3
Current receivables	15,810	14,060	9,674	15,810	14,060	9,674	15,810	14,060	9,674	+12.4	+45.3

<sup>(1)</sup> 2016 figures are restated, as some of the receivables previously reported as customer financing in individual markets are presented as receivables from finance leases in 2017. 2015 figures have not been adjusted.

The financial indicators shown above are for the Volkswagen Group. For financial indicators of the Financial Services Division (excluding the financial services activities of Scania, Porsche or Porsche Holding), see "Business of the Volkswagen Group — Volkswagen's Divisions and their Products and Services — Financial Services Division".

The increase in receivables from customer financing, dealer financing and finance leases in 2017 was primarily due to growth of the business. The decrease in receivables from customer financing in 2016 was primarily due the restatement described above. Receivables from dealer financing and receivables from finance lease increased in 2016, primarily due to business expansion as well due to the restatement described before.

The receivables from customer and dealer financing are collateralized by vehicles or real property liens. Refer to note 16 to the Annual Financial Statements for additional information relating to the financing receivables.

## 6.9 Sources of Refinancing and Other Sources of Liquidity

The following table presents Volkswagen's total debt (sum of noncurrent and current liabilities) as of December 31, 2017, 2016 and 2015:

	<b>As of December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(in EUR million)</b>		
Total debt . . . . .	313,115	316,822	293,664
Of which non-current . . . . .	152,726	139,306	145,175
Of which current . . . . .	160,389	177,515	148,489

The following table presents an overview of Volkswagen's noncurrent and current financial liabilities as of December 31, 2017, 2016 and 2015:

	<b>December 31</b>					
	<b>2017</b>		<b>2016</b>		<b>2015</b>	
	<b>current</b>	<b>non-current</b>	<b>current</b>	<b>non-current</b>	<b>current</b>	<b>non-current</b>
	<b>(in EUR million)</b>					
Bonds . . . . .	14,146	48,971	18,831	33,191	19,891	42,454
Commercial paper and notes . . . . .	22,506	13,399	23,173	18,004	10,428	16,369
Liabilities to banks . . . . .	14,487	15,357	14,180	10,816	16,018	11,101
Deposit business . . . . .	29,291	2,114	31,019	2,759	25,357	1,141
Loans and miscellaneous liabilities . . . . .	1,363	1,358	1,204	1,102	578	1,795
Bills of exchange . . . . .	-	-	-	-	-	-
Finance lease liabilities . . . . .	51	428	53	486	40	431
	<b>81,844</b>	<b>81,628</b>	<b>88,461</b>	<b>66,358</b>	<b>72,313</b>	<b>73,292</b>

Financial liabilities with a remaining maturity of more than one year are classified as noncurrent, and financial liabilities with a remaining maturity of up to one year are classified as current.

The deposits from banking business contained in the Volkswagen Group's financial liabilities of EUR 31,405 million in 2017 (2016: EUR 33,779 million; 2015: EUR 26,498 million) decreased as a result of Volkswagen Group's return to the debt capital markets and corresponding diversification of funding resources.

Structured entities are used to enter into ABS transactions to refinance the financial services business and to invest surplus liquidity in special securities funds. Receivables from the customer financing and the leasing business serve as collateral.

ABS transactions amounting to EUR 24,561 million were entered into in 2017 (compared with EUR 24,191 million in 2016) to refinance the financial services business; these are included in bonds, commercial paper and notes, and liabilities from loans. The corresponding carrying amount of the receivables from the customer and dealer financing and the finance lease business amounted to EUR 26,689 million in 2017 (compared with EUR 26,184 million in 2016). Collateral furnished in ABS transactions amounted to EUR 41,799 million in total in 2017 (compared with EUR 43,847 million in 2016). These ABS transactions did not result in the receivables from financial services business being derecognized, as the Group retains nonpayment and late payment risks. The difference between the assigned receivables and the related liabilities is the result of different terms and conditions and the share of the securitized paper and notes held by the Volkswagen Group itself.

Most of the public and private ABS transactions of the Volkswagen Financial Services AG Group can be repaid in advance (clean-up call) if less than 9% or 10%, as appropriate, of the original transaction volume is outstanding. The assigned receivables cannot be assigned again or pledged elsewhere as collateral. The

claims of the holders of commercial paper and notes are limited to the assigned receivables and the receipts from those receivables are earmarked for the repayment of the corresponding liability. As of December 31, 2017, the fair value of the assigned receivables still recognized in the balance sheet was EUR 27,089 million compared with EUR 27,856 million as of December 31, 2016. The fair value of the related liabilities was EUR 24,511 million at December 31, 2017 (December 31, 2016: EUR 24,424 million).

In 2017, the nominal annual interest rate for newly signed savings plans, savings certificates and fixed-term deposits for direct banking customers was between 0.03% and 2.50% (2016 and 2015: between 0.01% and 3.0%). The average interest rate for overnight deposit accounts was 0.21% as of December 31, 2017 (December 31, 2016: 0.36%; December 31, 2015: 0.34%). Interest rate figures include private and commercial customers for the first time. In the past, only interest rates for private customers have been provided. As a consequence rates for previous years have been adjusted.

In addition to financial liabilities, pension provisions and other provisions reported as noncurrent liabilities, and other liabilities and other provisions reported as current liabilities, are the largest liability items.

## **6.10 Contingent Liabilities and Other Financial Obligations**

### **6.10.1 Contingent Liabilities**

The following table shows Volkswagen's contingent liabilities as of December 31, 2017, 2016 and 2015:

	<b>As of December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(in EUR million)</b>		
Liabilities under guarantees . . . . .	423	419	334
Liabilities under warranty contracts . . . . .	60	75	77
Assets pledged as security for third-party liabilities . . . . .	21	20	20
Other contingent liabilities . . . . .	7,909	6,305	3,069
	<b>8,413</b>	<b>6,819</b>	<b>3,500</b>

The trust assets and liabilities of the savings and trust entities belonging to the South American subsidiaries not included in the consolidated balance sheet amounted to EUR 768 million as of December 31, 2017 (December 31, 2016: EUR 944 million; December 31, 2015: EUR 702 million).

In the case of liabilities from guarantees, the Group is required to make specific payments if the debtors fail to meet their financial obligations.

The other contingent liabilities primarily comprise potential liabilities arising from matters relating to taxes and customs duties, as well as litigation and proceedings relating to suppliers, dealers, customers, employees and investors. The contingent liabilities recognized in connection with the diesel issue totaled EUR 4.3 billion as of December 31, 2017, of which EUR 3.4 billion was attributable to investor lawsuits. Also included are certain elements of the class action lawsuits relating to the diesel issue as well as criminal investigations/misdemeanor proceedings as far as these can be quantified. As some of the proceedings are still at very early stage, the plaintiffs have in a number of cases so far not specified the basis of their claims and/or there is insufficient certainty about the number of plaintiffs or the amounts being claimed. These lawsuits meet the definition of a contingent liability but cannot, as a rule, be disclosed because it is impossible to measure the amount involved. For additional information regarding these proceedings, see "*Business of the Volkswagen Group — Legal and Arbitration Proceedings — Proceedings related to Diesel Issue*".

In addition, as of December 31, 2017, other contingent liabilities include EUR 0.7 billion for potential liabilities from tax risk at MAN Latin America. See also *Business of the Volkswagen Group — Legal and Arbitration Proceedings — MAN Latin America Tax Proceedings*".

On May 5, 2016, the U.S. National Highway Traffic Safety Administration (NHTSA) announced, jointly with Takata Corporation, a further extension of the recall for various models from different manufacturers containing certain airbags produced by Takata Company. Recalls were also ordered by the local authorities in individual countries. The recalls also included models manufactured by the Volkswagen Group. Appropriate provisions have been recognized. Currently, the possibility of further extensions to the recalls that could also affect Volkswagen Group models cannot be ruled out. The technical investigations and consultations with the authorities are still being carried out.

## 6.10.2 Other Financial Obligations

The following table shows Volkswagen's other financial obligations as of December 31, 2017, 2016 and 2015:

	<b>As of December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(in EUR million)</b>		
Purchase commitments in respect of			
property, plant and equipment .....	8,740	8,756	8,383
intangible assets .....	1,425	1,629	1,306
investment property .....	41	13	8
Obligations from			
loan commitments to unconsolidated subsidiaries .....	207	128	560
irrevocable credit commitments to customers .....	3,695	4,595	4,696
long-term leasing and rental contracts .....	5,548	5,745	5,908
Miscellaneous other financial obligations .....	4,874	5,056	4,549

The other financial obligations from long-term leasing and rental contracts are partly offset by expected income from subleases in the amount of EUR 1,467 million as of December 31, 2017 (December 31, 2016: EUR 1,664 million; December 31, 2015: EUR 989 million).

To enhance comparability, irrevocable credit commitments to customers are reported without leasing commitments from 2017 onwards. As of December 31, 2016, the corresponding amount was EUR 2.1 billion.

Other financial obligations as of December 31, 2017 include EUR 1.3 billion for investments in zero emissions vehicle infrastructure to which Volkswagen had committed itself in the settlement agreements in connection with the diesel issue and in corresponding access and awareness initiatives for these technologies.

## 6.11 Critical Accounting Estimates

Preparation of the consolidated financial statements requires management to make certain estimates and assumptions. The recognition and measurement of assets and liabilities, as well as of the income and expenses recognized in the income statement, are affected by these estimates and assumptions. The estimates and assumptions used are based on underlying assumptions that reflect the current state of available knowledge. Estimates and assumptions are subject to a high degree of uncertainty. Actual carrying amounts may differ from the amounts estimated by management.

For additional information on Volkswagen's accounting policies, refer to "Accounting policies" in the Annual Financial Statements.

### 6.11.1 Impairment Tests

Goodwill, intangible assets with indefinite useful lives and intangible assets that are not yet available for use are tested for impairment at least once a year. Assets in use and other intangible assets with finite useful lives are tested for impairment only if there are specific indications that they may be impaired. The Volkswagen Group's intangible assets amounted to EUR 63,419 million as of December 31, 2017 (December 31, 2016: EUR 62,599 million; December 31, 2015: EUR 61,147 million). Of this total, EUR 16,911 million was attributable to brand names (December 31, 2016: EUR 16,941 million; December 31, 2015: EUR 16,986 million), EUR 23,442 million to goodwill (December 31, 2016: EUR 23,558 million; December 31, 2015: EUR 23,646 million), EUR 7,020 million to capitalized development costs for products under development (December 31, 2016: EUR 7,246 million; December 31, 2015: EUR 6,744 million) and EUR 13,953 million to capitalized development costs for products in use (December 31, 2016: EUR 12,326 million; December 31, 2015: EUR 10,713 million). The reported brand names mainly relate to Porsche (EUR 13,823 million), Scania Vehicles and Services (EUR 990 million), MAN Truck & Bus (EUR 1,127 million), MAN Diesel & Turbo (EUR 415 million) and Ducati (EUR 404 million).

EUR 18,825 million of the goodwill reported as of December 31, 2017 related to Porsche (December 31, 2016: EUR 18,825 million; December 31, 2016: EUR 18,825 million), EUR 2,866 million to Scania Vehicles and Services (December 31, 2016: EUR 2,947 million; December 31, 2015: EUR 3,044 million), EUR 595 million to MAN Truck & Bus (December 31, 2016: EUR 608 million; December 31, 2015: EUR 607 million), EUR 268 million to MAN Diesel & Turbo (December 31, 2016: EUR 249 million; December 31, 2015: EUR 250 million), EUR 290 million to Ducati (December 31, 2016: EUR 290 million; December 31, 2015: EUR 290 million), EUR 159 million to ŠKODA (December 31, 2016: EUR 150 million; December 31,

2015: EUR 150 million) and EUR 151 million to Porsche Holding Salzburg (December 31, 2016: EUR 197 million; December 31, 2015: EUR 197 million). The recoverability of reported goodwill was regularly tested for impairment in the course of preparing the Annual Financial Statements. There were no significant impairments.

Goodwill from consolidation is not amortized. The recoverable amount of goodwill and of the individual affiliated companies and other equity investments is tested for impairment once a year or if there are indications that a triggering event has occurred. To do this, value in use is determined by an enterprise valuation using the discounted cash flow method. The cash flow projections used for this are based on management's current planning or on publicly available capital market expectations. For the perpetual annuity phase (2022 and thereafter), a growth discount of up to 1.0% is applied to the cost of capital in individual cases. Country-specific and business-specific discount factors before tax of at least 5.8% (2016: 5.4%; 2015: 6.5%) for the passenger cars segment, 6.8% (2016: 6.5%; 2015: 7.7%); for the commercial vehicles segment and 8.0% (2016: 7.7%; 2015: 9.2%) for the power engineering segment are applied when determining value in use for the purpose of impairment testing of goodwill and of other intangible assets with indefinite useful lives in the Automotive Division.

Volkswagen Group generally applies the higher of value in use and fair value less costs to sell of the relevant cash-generating unit (brands or products) to determine the recoverable amount of goodwill and other indefinite-lived intangible assets. Measurement of value in use is based on management's current planning. The planning period generally covers five years. For subsequent years, plausible assumptions are made regarding future trends. The planning assumptions are adapted to reflect the current state of knowledge. They include reasonable assumptions about macroeconomic trends and historical developments. Cash flow estimates are generally based on the expected growth trends for the markets concerned.

The judgment applied in the consolidated financial statements in respect of the recoverability of upfront expenditures and model-specific assets for certain vehicle models reflects future market assessments. Capitalized assets are tested regularly for impairment. The result of this test was losses on other intangible assets and property, plant and equipment of a total of EUR 700 million in 2017 (2016: EUR 883 million; 2015: EUR 738 million).

#### **6.11.2 Provisions for Legal Risks and Warranty Claims**

In accordance with IAS 37, provisions are recognized where a present obligation exists to third parties as a result of a past event, where a future outflow of resources is probable and where a reliable estimate of that outflow can be made. Refer to note 30 to each of the Annual Financial Statements for additional information on other provisions.

Accounting for provisions is based on estimates of the extent and probability of occurrence of future events, as well as estimates of the discount rate. As far as possible, these are based on past experience or external opinions. Any change in the estimates of the amount of the provisions is recognized in profit and loss. The provisions are regularly adjusted to reflect new information obtained. The use of expected values means that additional provisions must frequently be recognized for provisions, or that unused provisions are reversed.

With regard to the risk assessment of the diesel issue, the provisions recognized, the contingent liabilities disclosed and the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent and comprehensive investigations have not yet been completed. To protect against the currently known legal risks related to the diesel issue, provisions of approximately EUR 2.0 billion existed as of December 31, 2017 on the basis of existing information and current assessments at the time. Beyond this, appropriate provisions have been recognized for defense and legal advice expenses. Insofar as these can be adequately measured at this stage, total contingent liabilities in relation to the diesel issue as of December 31, 2017 in an aggregate amount of EUR 4.3 billion (2016: EUR 3.2 billion), of which lawsuits filed by investors accounted for EUR 3.4 billion (2016: EUR 3.1 billion), were disclosed in the notes to the Annual Financial Statements.

Assumptions were made in respect of the provisions recognized in connection with the diesel issue. These depend on the series, model year and country concerned and relate in particular to the effort, material costs and hourly wage rates involved, or to vehicle values in the case of repurchases. They are based on qualified estimates, which are based in turn on external data, and also reflect additional information available internally, such as values derived from past experience.

In the financial services business, Volkswagen agrees to buy back selected vehicles at a residual value that is fixed at inception of the contract. Residual values are set at a realistic amount so that Volkswagen is able to leverage market opportunities. The underlying lease contracts are evaluated at regular intervals and

necessary provisions are recognized to the extent any potential risks are identified. Management of the residual value risk or allowances is based on a defined feedback loop, seeking to ensure the full assessment, monitoring, management and communication of risks. This process design helps ensure not only professional management of residual risks but also that the handling of residual value risks can be systematically improved and enhanced. As part of its risk management, Volkswagen uses residual value forecasts to regularly assess the appropriateness of the provisions for risks and the potential for residual value risk – also with a view to the emissions issue and the current debate on the possible introduction of driving bans for diesel vehicles in major European cities. In the process, Volkswagen compares the contractually agreed residual values with the fair values obtainable. These are determined utilizing data from external service providers and Volkswagen’s own marketing data. The upside in residual market values is not taken into account when making provisions for risks. The booked reserves at Volkswagen Financial Services remained on the same level in 2017 as in 2016.

#### **6.12 Related Party Transactions**

Volkswagen’s related party transactions are described under “*Related Party Transactions*”, note 44 to the 2017 Annual Financial Statements and note 43 to the 2016 Annual Financial Statements.

#### **6.13 Recent Accounting Pronouncements**

Volkswagen Aktiengesellschaft has complied with all IFRS as adopted by the EU in effect for periods beginning on or after January 1, 2018.

Refer to the notes to the Annual Financial Statements and the Interim Financial Statements for additional information relating to the accounting pronouncements adopted by the Company.

#### **6.14 Recent Events**

There have been no recent events.

## 7. THE ISSUER

The Issuer is a wholly-owned subsidiary of Volkswagen Group of America, Inc., which is a wholly-owned subsidiary of the Company. The Issuer is a Delaware limited liability company, having its registered office at 251 Little Falls Drive, Wilmington, Delaware 19808, USA. The Issuer's principal place of business is at 2200 Ferdinand Porsche Drive, Herndon, Virginia 20171, USA.

The Issuer was formed in the State of Delaware on February 14, 2014 and has unlimited duration. Its purpose is to act as an issuing company in the capital markets to support the funding requirements of other Volkswagen Group companies. The Issuer's Board of Directors consists of four members: Jan Vycital, Kai Otto, Lawrence Tolep and Bjoern Baetge.

In the future, the Issuer may provide additional treasury-related services within the North American Region for Volkswagen Group.

The following table sets forth information regarding the outstanding notes previously issued by Volkswagen Group of America Finance, LLC pursuant to Rule 144A under the Securities Act.

<b>Rule 144A Notes</b>			
<b>Date of issuance</b>	<b>Maturity</b>	<b>Coupon</b>	<b>Amount</b>
May 23, 2014 . . . . .	May 23, 2019	2.125%	USD 1,000,000,000
November 20, 2014 . . . . .	November 20, 2019	2.450%	USD 750,000,000
May 22, 2015 . . . . .	May 22, 2020	2.400%	USD 750,000,000

## 8. BUSINESS OF THE VOLKSWAGEN GROUP

### 8.1 Overview

Volkswagen Group is one of the world's leading multibrand companies in the automotive industry. In 2017, Volkswagen Group achieved sales revenue of EUR 230,682 million, operating result of EUR 13,818 million and earnings after tax of EUR 11,638 million. In the first nine months of 2018, Volkswagen Group achieved sales revenue of EUR 174,577 million, operating result of EUR 10,871 million and earnings after tax of EUR 9,376 million. Volkswagen Group delivered 10,741 thousand vehicles to its customers worldwide in 2017 and 8,130 thousand vehicles in the first nine months of 2018.

Volkswagen Group comprises twelve brands from seven European countries: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN. For more information on each brand see “— Volkswagen's Divisions and their Products and Services — Automotive Division — Volkswagen's brands”.

Volkswagen's product portfolio ranges from compact cars to luxury vehicles and also includes motorcycles, and will gradually be supplemented by mobility solutions, such as shuttle on demand and ride hailing services. In the commercial vehicle sector, the product portfolio ranges from pick-ups to buses and heavy trucks. Volkswagen is also active in the power engineering business field, manufacturing large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems. As of December 31, 2017, Volkswagen Group's product range comprised around 355 models. In addition, the Volkswagen Group offers a wide range of financial services, including dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings.

The Company's business activities comprise two divisions: the Automotive Division and the Financial Services Division.

The Automotive Division is composed of three business areas: Passenger Cars, Commercial Vehicles and Power Engineering. 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 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 Power Engineering business area combines the large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses. The Financial Services Division combines dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings.

The following table provides an overview of the sales volume (including the joint venture companies in China), sales revenue and operating result for the Volkswagen Group and Volkswagen's Divisions during the years ended December 31, 2017, 2016 and 2015:

	<u>Unit sales<sup>(1)</sup></u>			<u>Sales revenue<sup>(1)</sup></u>			<u>Operating result<sup>(1)</sup></u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<b>(Thousand vehicles)</b>			<b>(EUR million)</b>					
Volkswagen Group <sup>(2)</sup> . . .	10,777	10,391	10,010	230,682 <sup>(3)</sup>	217,267 <sup>(3)</sup>	213,292 <sup>(3)</sup>	13,818 <sup>(3)</sup>	7,103 <sup>(3)</sup>	-4,069 <sup>(3)</sup>
of which:									
Automotive									
Division <sup>(4)</sup> . . . . .	10,777	10,391	10,010	196,949	186,016	183,936	11,146	4,668	-6,305
Financial Services									
Division <sup>(5)</sup> . . . . .	-	-	-	33,733	31,251	29,357	2,673	2,435	2,236

<sup>(1)</sup> Unaudited except where indicated.

<sup>(2)</sup> The sales revenue and operating result of the joint venture companies in China are not included in Volkswagen's figures. The Chinese companies are accounted for using the equity method and recorded proportionate operating result of EUR 4,746 million, EUR 4,956 million and EUR 5,214 million for the years ended December 31, 2017, 2016 and 2015, respectively.

<sup>(3)</sup> Audited.

<sup>(4)</sup> Sales revenue and operating result include allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

<sup>(5)</sup> Financial Services Division corresponds to the Financial Services segment, figures are audited.

Volkswagen Group's financial reporting comprises four reportable segments: Passenger Cars segment, Commercial Vehicles segment, Power Engineering segment and Financial Services segment.

The Automotive Division's three business areas described above, conform to Volkswagen's financial reporting segments as follows: The Passenger Cars business area corresponds to the Passenger Cars reporting segment together with the reconciliation, to account for intra-group activities. The Commercial Vehicles



business area and Power Engineering business area correspond to the reporting segments of the same name. The Financial Services Division corresponds to the Financial Services segment.

The following table presents an overview of Volkswagen's key figures by reporting segments for the year ended December 31, 2017:

	<b>Passenger Cars</b>	<b>Commercial Vehicles</b>	<b>Power Engineering</b>	<b>Financial Services</b>	<b>Total segments</b>	<b>Reconciliation</b>	<b>Volkswagen Group</b>
	<b>(EUR million)</b>						
Sales revenue . . . . .	188,405	35,200	3,283	33,733	260,621	-29,939	230,682
Segment result (operating result) . . . . .	12,644	1,892	-55	2,673	17,153	-3,335	13,818
as a percentage of sales revenue <sup>(1)</sup> . . . . .	6.7	5.4	-1.7	7.9	-	-	6.0
Investments in intangible assets, property, plant and equipment, investment property (capex) . . . . .	15,713	1,915	159	421	18,208	104	18,313

<sup>(1)</sup> Unaudited.

In May 2018, Volkswagen introduced an additional internal operating structure, which is being gradually implemented. The Volkswagen Group brands will collaborate along six units and the China region.

The units will consist of (1) the "Volume brand group", (2) the "Premium brand group" and (3) the "Sport & Luxury brand group", (4) the "Truck & Bus brand group", (5) the Components & Procurement business and (6) the Financial Services business.

The "Volume brand group" comprises the Volkswagen Passenger Cars, SEAT, ŠKODA and Volkswagen Commercial Vehicles brands. The "Premium brand group" includes the Audi, Lamborghini and Ducati brands. The "Sport & Luxury brand group" comprises the Porsche, Bentley and Bugatti brands. The "Truck & Bus brand group" is the umbrella for the Scania and MAN brands. With effect from August 30, 2018, Volkswagen Truck & Bus AG became TRATON AG. Within the "Truck & Bus brand group", TRATON GROUP is designed to combine the brands' respective strengths and know-how in order to create a new environment for transportation solutions. TRATON is preparing Volkswagen's trucks and bus business for capital markets readiness. In this context, Volkswagen AG and TRATON AG agreed in October 2018 on the sale of MAN's Power Engineering business to a Volkswagen Group subsidiary. The sale is intended to be completed by year-end 2018. The Components & Procurement business intends to act as one central unit, which spans across and supports all brands. The placement of Lamborghini, Ducati and Power Engineering within the new additional internal operating structure is currently being reviewed.

The new structure will lay the foundations for streamlining the Volkswagen Group's management decision making, strengthening the brands and giving them greater autonomy. Volkswagen believes this will enable synergies to be leveraged more systematically and speed up decision-making, thus establishing more efficient group management in a phase of dynamic changes in the company and the entire automotive industry. In 2018, no material modifications or changes of Volkswagen Group's organizational or financial reporting structure will be implemented as a result of this revision of Volkswagen's internal operating structure. Effective from January 1, 2019, segment reporting of passenger cars and commercial vehicles will be adapted due to the reallocation of the Volkswagen Commercial Vehicles brand to the Passenger Cars segment.

Volkswagen sells vehicles in about 200 countries. Volkswagen's primary markets for its automobiles are Europe, Asia-Pacific and the Americas.

The following table presents the regional markets for Volkswagen's products and services and the percentages of sales revenue from external customers by region during the years ended December 31, 2017, 2016 and 2015 (in each case not including the Chinese joint ventures):

	<b>Sales revenue from external customers by region<sup>(1)</sup></b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(%)</b>		
Germany . . . . .	19.2	20.1	19.8
Europe and Other Markets (excluding Germany) . . . . .	42.7	43.5	42.3
North America . . . . .	16.8	16.3	16.6
South America . . . . .	4.3	3.7	4.8
Asia-Pacific . . . . .	17.0	16.5	16.5

<sup>(1)</sup> Unaudited.

The Company was formed on May 28, 1937 as a limited liability company under the laws of Germany as “Gesellschaft zur Vorbereitung des Deutschen Volkswagens mbH”. During the years that followed the Company’s formation, its name was changed several times. In 1960, the legal form of the Company was changed from a limited liability company to a corporation (*Aktiengesellschaft*) organized under the laws of Germany. In 1985, the Company changed its name to “VOLKSWAGEN AKTIENGESELLSCHAFT”, which is its current name.

The Company is the parent company of Volkswagen Group. On the one hand, it develops cars and car components for the group, on the other hand it manufactures and sells, in particular, passenger cars and commercial vehicles under the Volkswagen brands. The Company, as the ultimate parent company, directly or indirectly holds interests in AUDI AG, Dr. Ing. h.c. F. Porsche AG (“**Porsche AG**”), Scania AB (“**Scania**”), MAN SE (“**MAN**”), SEAT S.A., ŠKODA AUTO a.s., Volkswagen Bank GmbH, Volkswagen Financial Services AG and numerous other companies in Germany and abroad.

Volkswagen had an average of 634,396 employees worldwide (including the Chinese joint ventures) in 2017.

## **8.2 The Global Automotive Market**

The global automotive market is highly competitive and volatile. The demand for automobiles is affected by a number of factors, including: social, political and economic conditions; introduction of new vehicles and technologies; costs incurred by customers to purchase and own a vehicle; and consumer confidence. These factors can cause consumer demand to vary substantially from year to year in different geographic markets and in individual segments of automobiles.

In 2017, the performance of the automotive industry was mixed. Global passenger car and light commercial vehicle sales increased by 2.4% from 90.5 million vehicles in 2016 to 92.6 million vehicles in 2017; global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in 2017 than in 2016, with 547 thousand new vehicle registrations (+7.4%). North America reported slightly lower demand than in the previous year (a 1.4% decrease) while demand in South America increased by 12.6%. Sales in the Asia-Pacific region rose by 3.5%. China had a 2.7% increase in sales in 2017. The Central and Eastern Europe region registered an increase of 11.9%. In the Western European market, demand increased by 2.8% in 2017. (Source: Volkswagen Group data).

China, North America and Western Europe were the world’s largest markets for passenger cars and light commercial vehicles in 2017. The share of each market in the worldwide sales of passenger cars and light commercial vehicles in 2017 was 29% for China, 22% for North America and 18% for Western Europe (Source: Volkswagen Group data). For information concerning worldwide and regional new vehicle sales, see “— *Volkswagen’s Divisions and their Products and Services – Automotive Division – Markets and competition*”.

The global automotive industry is heavily affected by government regulations on environment protection and vehicle safety as well as fuel economy standards. Many governments also mandate local procurement of automotive parts and components, impose tariffs and other trade barriers, and exercise price or exchange controls. Compliance with regulations and government-imposed restrictions has increased and will increase the cost of manufacturing vehicles. For example, the CO<sub>2</sub> targets that governments in the EU, the U.S. and China have imposed on the auto industry could be extended to other parts of the globe, increasing the pressure for new product development and investment in new technologies. Moreover, regulations and government-imposed restrictions may limit operations of automakers and in some cases, make it difficult to repatriate profits to an automaker’s home country or, alternatively, require such repatriation.

To reduce exposure to fluctuations in foreign exchange rates and avoid trade restrictions and tariffs, manufacturers increasingly seek to localize the design and manufacture of automobiles, as well as parts and components in the markets where automobiles are to be sold.

The global automotive industry has been undergoing a phase of consolidation as a result of excess global production capacity, demand for higher cost efficiency, and companies’ desire to expand their global presence into particular segments or geographic markets.

Based on external market forecasts, Volkswagen expects sales of passenger cars and light commercial vehicles to increase in the coming years. Volkswagen expects this trend to center on expected growth in emerging markets and the recovery path in Western Europe and North America.

Volkswagen believes that, in the medium to long term, the global automotive market will mainly be affected by (i) a shift of purchasing power to new growth markets, such as Brazil, Russia, India and China, (ii) increasing awareness of and requirements for environmental protection and sustainable vehicles, leading

to greater demand for electric or hybrid drive vehicles and small-sized vehicles, (iii) growing urbanization, leading to greater demand for vehicles such as buses to bolster local public transportation, as well as smaller vehicles designed for city driving, and (iv) flexible mobility alternatives (for example car-sharing) which could result in changes in vehicle demand.

### 8.3 Volkswagen's Divisions and their Products and Services

#### 8.3.1 Automotive Division

Passenger cars and light commercial vehicles are generally classified by vehicle types and product classes. Volkswagen has a broad portfolio of brands, covering the entire spectrum of vehicle product classes and types. Volkswagen classifies its vehicles into ten vehicle types: (i) hatchback, (ii) notchback/saloon, (iii) station wagon/estate, (iv) MPV (multipurpose vehicle), (v) SUV (sports utility vehicle), (vi) coupé, (vii) convertible, (viii) roadster, (ix) SLW/TRP (city delivery van/transporter) and (x) pick-up. Volkswagen manufactures vehicles in the following product classes: (i) Luxury, (ii) Premium, (iii) Upper mid-range, (iv) Mid-range, (v) Compact, (vi) Subcompact and (vii) Mini.

The following table provides an overview of the sales volume, sales revenue and operating result for Volkswagen's brand's companies during the years ended December 31, 2017, 2016 and 2015. Operating results show the operating results of the individual brands and, with respect to those brands indicated in the footnotes in the table below, is before special items for the years 2017, 2016 and 2015. The figures below may not relate exclusively to the sales volume, sales revenue and operating result of the particular brand. This is because the unit sales figures refer to models sold by each brand company, including vehicles of other Volkswagen Group brands. For example, the figures for the Audi brand may also include the sales volume, sales revenue and operating result from sales of vehicles of Volkswagen Passenger Cars, SEAT or other brands.

	Unit sales <sup>(1)</sup>			Sales revenue <sup>(1),(2)</sup>			Operating result <sup>(1),(2)</sup>		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
	(Thousand vehicles)			(EUR million)			(EUR million)		
Volkswagen Passenger									
Cars <sup>(3)</sup>	3,573	4,347	4,424	79,979	105,651	106,240	3,301 <sup>(12)</sup>	1,869 <sup>(12)</sup>	2,102 <sup>(12)</sup>
Audi	1,530	1,534	1,529	60,128	59,317	58,420	5,058 <sup>(12)</sup>	4,846 <sup>(12)</sup>	5,134 <sup>(12)</sup>
ŠKODA	937	814	800	16,559	13,705	12,486	1,611	1,197	915
SEAT	595	548	544	9,892	8,894	8,572	191	153	-10
Bentley	11	11	11	1,843	2,031	1,936	55	112	110
Porsche Automotive <sup>(4)</sup>	248	239	219	21,674	20,710	21,533	4,003	3,733	3,404
Volkswagen Commercial									
Vehicles	498	478	456	11,909	11,120	10,341	853	455	382 <sup>(12)</sup>
Scania <sup>(5)</sup>	92	83	78	12,789	11,303	10,479	1,289	1,072 <sup>(12)</sup>	1,027 <sup>(12)</sup>
MAN Commercial Vehicles	114	102	102	11,087	10,005	9,958	362	230 <sup>(12)</sup>	-4 <sup>(12)</sup>
MAN Power Engineering	—	—	—	3,283	3,593	3,775	193	194 <sup>(12)</sup>	283 <sup>(12)</sup>
VW China <sup>(6)</sup>	4,020	3,873	3,456	—	—	—	—	—	—
Other <sup>(7)</sup>	-840	-1,638	-1,608	-30,288	-56,617	-56,349	-2,335	-1,343	-2,440
Volkswagen Financial									
Services <sup>(8)</sup>	—	—	—	31,826	27,554	25,901	2,460	2,105	1,921
<b>Volkswagen Group</b>	<b>10,777</b>	<b>10,391</b>	<b>10,010</b>	<b>230,682<sup>(9)</sup></b>	<b>217,267<sup>(9)</sup></b>	<b>213,292<sup>(9)</sup></b>	<b>13,818<sup>(9)(11)</sup></b>	<b>7,103<sup>(9)(11)</sup></b>	<b>-4,069<sup>(9)(11)</sup></b>
Automotive Division <sup>(10)</sup>	10,777	10,391	10,010	196,949	186,016	183,936	11,146	4,668	-6,305
of which:									
Passenger Cars Business									
Area	10,077	9,729	9,374	158,466	150,343	149,716	9,309	4,167	-7,013
Commercial Vehicles									
Area	700	662	636	35,200	32,080	30,445	1,892	718	586
Power Engineering									
Business Area	—	—	—	3,283	3,593	3,775	-55	-217	123
Financial Services									
Division <sup>(13)</sup>	—	—	—	33,733	31,251	29,357	2,673	2,435	2,236

(1) All individual figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

(2) Unaudited except where indicated.

(3) 2017 figures reflect the reclassification of companies from the Volkswagen Passenger Cars brand to the Volkswagen Group in 2017. Along with cross-brand logistics and services, importers that also distribute vehicles from other Volkswagen Group brands have been separated out from the Volkswagen Passenger Cars brand and are disclosed in the line "Other". Prior-year figures were not adjusted.

- (4) Porsche (Automotive and Financial Services): sales revenue of EUR 23,491 million in 2017 (2016: EUR 22,318 million); operating profit of EUR 4,144 million in 2017 (2016: EUR 3,877 million).
- (5) Includes financial services.
- (6) The sales revenue and operating result of the joint venture companies in China are not included in the figures for the Group. These Chinese companies are accounted for using the equity method and recorded a proportionate operating result of EUR 4,746 million in 2017 (2016: EUR 4,956 million; 2015: EUR 5,214 million).
- (7) 2016 figures have been adjusted. In operating profit, mainly intragroup items recognized in profit or loss, in particular from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocation for Scania, Porsche Holding Salzburg, MAN and Porsche.
- (8) Starting January 1, 2017, Porsche's financial services business is reported as part of Volkswagen Financial Services. Prior-year figures were not adjusted.
- (9) Audited.
- (10) Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
- (11) Includes negative special items of EUR 3.2 billion in 2017, EUR 7.5 billion in 2016 and EUR 16.9 billion in 2015, primarily in relation to the diesel issue.
- (12) Before special items.
- (13) Financial Services Division corresponds to the Financial Services segment, figures are audited.

Volkswagen generated sales revenue from vehicle sales of EUR 145,958 million, EUR 137,293 million and EUR 138,903 million during the years ended December 31, 2017, 2016 and 2015, respectively, which corresponds to 63.3%, 63.2% and 65.1%, respectively, of Volkswagen's consolidated sales revenue during such periods. During the years ended December 31, 2017, 2016 and 2015, the Automotive Division generated sales revenue of EUR 15,628 million, EUR 15,220 million and EUR 14,625 million, respectively, from the sale of genuine parts.

### 8.3.1.1 Volkswagen's brands

Each of Volkswagen's twelve brands — Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN — has its own character and is independently managed by the respective companies. Except for the Volkswagen Passenger Cars and Commercial Vehicles brands, each of Volkswagen's brands is owned by an independent legal entity.

The tables presented under the individual brands in the following sections provide an overview of the number of deliveries to customers, unit sales to dealers and the number of vehicles produced by the respective brand companies for the years ended December 31, 2017, 2016 and 2015. In addition, the tables show each brand company's sales revenue, operating result and ratio of operating result to sales revenue (operating return on sales). Operating result shown in the following tables does not eliminate intra-company transactions and does not include special items. Operating result is one of the key metrics used by management to measure the performance of Volkswagen's brands and reflects the brands' management's responsibility. The Ducati brand is allocated and accounted for under the Audi brand.

#### 8.3.1.1.1 Volkswagen Passenger Cars brand

The Company owns the Volkswagen Passenger Cars brand, which primarily produces vehicles in the Compact and Mid-range classes in Volkswagen's high-volume business. The Company has been producing and selling cars in Germany since 1945, in other European markets since 1947 and in markets worldwide since 1952.

	<u>2017<sup>(1)</sup></u>	<u>2016</u>	<u>2015</u>
	<b>(unaudited)</b>		
Deliveries (thousand units) . . . . .	6,230	5,980	5,823
Vehicle sales (thousand units) . . . . .	3,573	4,347	4,424
Production (thousand units) . . . . .	6,317	6,073	5,898
Sales revenue (in EUR million) . . . . .	79,979	105,651	106,240
Operating result (in EUR million) . . . . .	3,301 <sup>(2)</sup>	1,869 <sup>(2)</sup>	2,102 <sup>(2)</sup>
As percentage of the brand's sales revenue . . . . .	4.1 <sup>(2)</sup>	1.8 <sup>(2)</sup>	2.0 <sup>(2)</sup>

(1) 2017 figures reflect the reclassification of companies from the Volkswagen Passenger Cars brand to the Volkswagen Group in 2017. Along with cross-brand logistics and services, importers that also distribute vehicles from other Volkswagen Group brands have been separated out from the Volkswagen Passenger Cars brand and are disclosed in the line "Other". Prior-year figures were not adjusted.

(2) Before special items.

The main production facilities for Volkswagen Passenger Cars brand vehicles are located in Western Europe (in particular in Germany) and Central and Eastern Europe (in particular in Russia and Slovakia). Other major production facilities are located in South America (Brazil and Argentina), North America (Mexico and the United States), as well as South Africa and Asia-Pacific (in particular in China). The main markets for Volkswagen Passenger Cars brand products are Western Europe (in particular Germany), North America,

South America (in particular Brazil) and the Asia-Pacific region (in particular China). Since 1983, Volkswagen Passenger Cars brand products have also been produced, sold and delivered to and in China. See “— *Significant equity interests*”, for a description of the Chinese joint ventures.

### 8.3.1.1.2 Audi brand

As of September 30, 2018, Volkswagen held 99.64% of the shares in AUDI AG, based in Ingolstadt, Germany. Audi primarily produces Compact, Mid-range, Upper mid-range and Premium vehicles.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<b>(unaudited)</b>		
Deliveries (thousand units) <sup>(1)</sup> . . . . .	1,882	1,871	1,806
Vehicle sales (thousand units) <sup>(1)</sup> . . . . .	1,530	1,534	1,529
Production (thousand units) <sup>(1)</sup> . . . . .	1,879	1,903	1,832
Sales revenue (in EUR million) . . . . .	60,128	59,317	58,420
Operating result (in EUR million) . . . . .	5,058 <sup>(2)</sup>	4,846 <sup>(2)</sup>	5,134 <sup>(2)</sup>
As percentage of the brand’s sales revenue . . . . .	8.4 <sup>(2)</sup>	8.2 <sup>(2)</sup>	8.8 <sup>(2)</sup>

<sup>(1)</sup> Includes Lamborghini (deliveries: 2017: 3,815; 2016: 3,457; 2015: 3,245; vehicle sales: 2017: 3,897; 2016: 3,465; 2015: 3,433; production: 2017: 4,056; 2016: 3,579; 2015: 3,707).

<sup>(2)</sup> Before special items.

The main production facilities for the Audi brand are located in Western Europe (primarily in Germany), Central and Eastern Europe (primarily in Hungary) and the Asia-Pacific region (primarily in China). In September 2016, a new production plant opened in San José Chiapa, Mexico. The main markets for the Audi brand are Western Europe, Central and Eastern Europe, North America and Asia-Pacific. Since 1988, Audi brand vehicles have also been produced, sold and delivered to and in China. See “— *Significant equity interests*”, for a description of the Chinese joint ventures.

### 8.3.1.1.3 ŠKODA brand

Volkswagen owns 100% of the shares of ŠKODA AUTO a.s., based in Mladá Boleslav, Czech Republic (“**ŠKODA**”). Volkswagen produces both Subcompact and Compact vehicles under the ŠKODA brand, as well as some Mid-range vehicles.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<b>(unaudited)</b>		
Deliveries (thousand units) . . . . .	1,201	1,126	1,056
Vehicle sales (thousand units) . . . . .	937	814	800
Production (thousand units) . . . . .	1,232	1,152	1,037
Sales revenue (in EUR million) . . . . .	16,559	13,705	12,486
Operating result (in EUR million) . . . . .	1,611	1,197	915
As percentage of the brand’s sales revenue . . . . .	9.7	8.7	7.3

The main production facilities for the ŠKODA brand are located in Central and Eastern Europe (in particular in the Czech Republic) and Asia-Pacific (in particular in India and China). The main markets for products of the ŠKODA brand are Central and Eastern Europe and Asia-Pacific. Since 2007, ŠKODA vehicles have also been produced, sold and delivered in China. See “— *Significant equity interests*”, for a description of the Chinese joint ventures.

### 8.3.1.1.4 SEAT brand

Volkswagen owns 100% of the shares of SEAT S.A. (“**SEAT**”), based in Barcelona, Spain. SEAT produces Compact and Subcompact vehicles, although some Mid-range vehicles are offered. In 2016, SEAT launched its first SUV in the company’s history. Most SEAT vehicles are produced in Spain. The main market for SEAT products is Western Europe (in particular Spain and Germany).

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<b>(unaudited)</b>		
Deliveries (thousand units) . . . . .	468	409	400
Vehicle sales (thousand units) . . . . .	595	548	544
Production (thousand units) . . . . .	479	417	415
Sales revenue (in EUR million) . . . . .	9,892	8,894	8,572
Operating result (in EUR million) . . . . .	191	153	-10
As percentage of the brand’s sales revenue . . . . .	1.9	1.7	-0.1

### 8.3.1.1.5 Bentley, Bugatti, Lamborghini brands

Volkswagen owns Bentley Motors Ltd., based in Crewe, United Kingdom, which manufactures and markets the Bentley brand and has been operating under the name Bentley Motors Ltd. since 2002. Volkswagen also owns Bugatti Automobiles S.A.S., based in Molsheim, France, which manufactures and markets the Bugatti brand. Additionally, Volkswagen owns Lamborghini Holding S.p.A., based in Sant'Agata Bolognese, Italy, which owns the Lamborghini brand.

Volkswagen produces high-priced Premium and Luxury vehicles under the Bugatti, Lamborghini and Bentley brands. The Bugatti and Lamborghini brands produce expensive sports cars and the Bentley brand offers luxurious, yet sporty cars. Bentley brand vehicles are currently produced exclusively in the United Kingdom, Bugatti brand vehicles in France and Lamborghini brand vehicles in Italy. The main markets for Volkswagen's Bentley, Bugatti and Lamborghini brands are Europe, North America, Russia, Asia and the Middle East.

#### Bentley

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(unaudited)		
Deliveries (units) . . . . .	11,089	11,023	10,100
Vehicle sales (units) . . . . .	10,566	11,298	10,616
Production (units) . . . . .	10,552	11,817	10,888
Sales revenue (in EUR million) . . . . .	1,843	2,031	1,936
Operating result (in EUR million) . . . . .	55	112	110
As percentage of the brand's sales revenue . . . . .	3.0	5.5	5.7

#### Bugatti

In 2017, Volkswagen delivered 71 Bugatti brand vehicles worldwide. In 2016 and 2015, the number of vehicles delivered to customers was 1 and 23, respectively. In 2017, Volkswagen produced 70 Bugatti brand vehicles (2016: 17 vehicles, 2015: 4 vehicles).

#### Lamborghini

Volkswagen generally includes sales of the Lamborghini brand in the sales of the Audi brand. During the years ended December 31, 2017, 2016 and 2015, respectively, Volkswagen produced 4,056, 3,579 and 3,707 Lamborghini brand vehicles and delivered 3,815, 3,457 and 3,245 Lamborghini brand vehicles worldwide.

### 8.3.1.1.6 Porsche brand

Volkswagen owns 100% of the shares of Porsche AG, based in Stuttgart, via Porsche Holding Stuttgart GmbH. Porsche develops, produces and sells sports cars with boxer engines from Mid-range to Premium class in the saloon, sports utility vehicle, coupe and roadster segments. The Porsche Group also offers various financial services and operates an original parts business.

Figures in the following table include financial services activities of the Porsche brand.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(unaudited)		
Deliveries (thousand units) . . . . .	246	238	225
Vehicle sales (thousand units) . . . . .	248	239	219
Production (thousand units) . . . . .	256	240	234
Sales revenue (in EUR million) . . . . .	21,674 <sup>(1)</sup>	20,710 <sup>(1)</sup>	21,533 <sup>(1)</sup>
Operating result (in EUR million) . . . . .	4,003 <sup>(1)</sup>	3,733 <sup>(1)</sup>	3,404 <sup>(1)</sup>
As percentage of the brand's sales revenue . . . . .	18.5 <sup>(1)</sup>	18.0 <sup>(1)</sup>	15.8 <sup>(1)</sup>

<sup>(1)</sup> Starting January 1, 2017, Porsche's financial services business is reported as part of Volkswagen Financial Services. 2016 figures were restated in the above table. 2015 figures include financial services activities of the Porsche brand. Porsche (Automotive and Financial Services 2017 sales revenue: EUR 23,491 million (2016: EUR 22,318 million) and operating result: EUR 4,144 million (2016: EUR 3,877 million).

Porsche maintains production sites in Stuttgart-Zuffenhausen as well as in Leipzig and produces cars at the Volkswagen plant in Osnabrück. Porsche's key sales markets are China, the United States and Germany.

### 8.3.1.1.7 Volkswagen Commercial Vehicles brand

In 1950, Volkswagen began mass production of the Volkswagen Transporter, a Volkswagen Commercial Vehicles brand vehicle. In 1995, the Company introduced Volkswagen Commercial Vehicles as a brand. The Volkswagen Group's model portfolio under its Volkswagen Commercial Vehicles brand covers, above all, city delivery vans, small transporters, large MPVs, camper vans as well as pick-ups.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<b>(unaudited)</b>		
Deliveries (thousand units) . . . . .	498	478	431
Vehicle sales (thousand units) . . . . .	498	478	456
Production (thousand units) . . . . .	490	422	410
Sales revenue (in EUR million) . . . . .	11,909	11,120	10,341
Operating result (in EUR million) . . . . .	853	455	382 <sup>(1)</sup>
As percentage of the brand's sales revenue . . . . .	7.2	4.1	3.7 <sup>(1)</sup>

<sup>(1)</sup> Before special items.

The main production facilities for Volkswagen Commercial Vehicles are located in Germany, Poland and Argentina. The main market for the Volkswagen Commercial Vehicles brand is Europe. The Volkswagen Commercial Vehicles brand offers commercial vehicles, and the Compact, Mid-range and Upper Mid-range passenger cars.

### 8.3.1.1.8 Scania brand

Volkswagen owns, directly or indirectly, 100% of the shares in Scania AB, based in Södertälje, Sweden. Scania develops, produces and sells trucks weighing in excess of 16 tonnes that are used for transportation of goods and construction. Scania also produces large buses and coaches in cooperation with third parties. In addition, Scania manufactures and sells engines with capacities of 9, 12 and 16 liters, and an output of 100 to 500 kW, used primarily in construction and agricultural machinery, electric generators and ships. Moreover, Scania offers services to transportation and logistics companies, including genuine parts and repair services, customer-specific fleet management and driver training. Furthermore, Scania offers insurance, purchase and leasing financing for Scania vehicles as well as for associated products such as superstructures, cooling units, trailers and semi-trailers.

Figures in the following table include Scania's truck and bus, industrial and marine engines and financial services businesses.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<b>(unaudited)</b>		
Deliveries (thousand units) . . . . .	91	81	77
Vehicle sales (thousand units) . . . . .	92	83	78
Production (thousand units) . . . . .	96	84	79
Sales revenue (in EUR million) . . . . .	12,789	11,303	10,479
Operating result (in EUR million) . . . . .	1,289	1,072 <sup>(1)</sup>	1,027 <sup>(1)</sup>
As percentage of the brand's sales revenue . . . . .	10.1	9.5 <sup>(1)</sup>	9.8 <sup>(1)</sup>

<sup>(1)</sup> Before special items.

The main production facilities for the Scania brand are located in Europe (in particular in Sweden, France, The Netherlands and Poland) and South America (in particular in Brazil). The main markets for the Scania brand are Europe and South America.

### 8.3.1.1.9 MAN brand

As of September 30, 2018, Volkswagen indirectly held a 74.80% interest in the share capital, corresponding to 75.96% of the voting rights, of MAN SE, based in Munich, Germany.

MAN is one of the leading European companies in the transportation-related engineering sector. It develops, produces and sells trucks, buses, vans, diesel engines, turbo machinery and special gear units.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Commercial Vehicles</b>	<b>(unaudited)</b>		
Deliveries (thousand units) . . . . .	114	102	102
Vehicle sales (thousand units) . . . . .	114	102	102
Production (thousand units) . . . . .	116	102	101
Sales revenue (in EUR million) . . . . .	11,087	10,005	9,958
Operating result (in EUR million) . . . . .	362	230 <sup>(1)</sup>	-4 <sup>(1)</sup>
As percentage of the brand's sales revenue . . . . .	3.3	2.3 <sup>(1)</sup>	0.0 <sup>(1)</sup>

<sup>(1)</sup> Before special items.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Power Engineering</b>	<b>(unaudited)</b>		
Sales revenue (in EUR million) . . . . .	3,283	3,593	3,775
Operating result (in EUR million) . . . . .	193	194 <sup>(1)</sup>	283 <sup>(1)</sup>
As percentage of sales revenue . . . . .	5.9	5.4 <sup>(1)</sup>	7.5 <sup>(1)</sup>

<sup>(1)</sup> Before special items.

With effect from August 30, 2018, Volkswagen Truck & Bus AG became TRATON AG. Within the "Truck & Bus brand group", TRATON GROUP is designed to combine the brands' respective strengths and know-how in order to create a new environment for transportation solutions. TRATON is preparing Volkswagen's trucks and bus business for capital markets readiness. In this context, Volkswagen AG and TRATON AG agreed in October 2018 on the sale of MAN's Power Engineering business to a Volkswagen Group subsidiary. The sale is intended to be completed by year-end 2018. The placement of Power Engineering is currently being reviewed.

### **8.3.1.2 Significant equity interests**

As of September 30, 2018, Volkswagen owned equity interests in the companies and joint ventures described below, which are considered material due to their size. Volkswagen has limited access to financial information of these companies because it does not fully consolidate them.

#### **8.3.1.2.1 Joint ventures**

**SAIC Volkswagen Automotive Company, Ltd.:** Volkswagen holds directly and indirectly 50% of the shares in SAIC Volkswagen Automotive Company, Ltd., a joint venture based in Shanghai, China (formerly named Shanghai Volkswagen Automotive Company, Ltd.). SAIC Volkswagen Automotive Company, Ltd. develops and produces passenger cars. There is an agreement in place between Volkswagen Group companies and the joint venture partner, Shanghai Automotive Industry Corporation, regarding a long-term strategic partnership. ŠKODA, as part of Volkswagen's 50%-share, holds 1% of the shares in SAIC Volkswagen Automotive Company, Ltd. and permits SAIC Volkswagen Automotive Company, Ltd. to manufacture its models under licenses. Since June 2018, Audi also holds 1% of the shares in SAIC Volkswagen Automotive Company, Ltd., as part of Volkswagen's 50%-share.

**FAW-Volkswagen Automotive Company, Ltd.:** Volkswagen holds directly and indirectly 40% of the shares in FAW-Volkswagen Automotive Company, Ltd., a joint venture based in Changchun, China. FAW-Volkswagen Automotive Company, Ltd. develops, produces and sells passenger cars. There is an agreement in place between Volkswagen Group companies and the joint venture partner, China FAW Corporation Limited, regarding a long-term strategic partnership. Audi, as part of Volkswagen's 40%-share, holds 10% of the shares in FAW-Volkswagen Automotive Company, Ltd. and permits FAW-Volkswagen Automotive Company, Ltd. to manufacture its models under licenses.

**SAIC-Volkswagen Sales Company Ltd.:** Volkswagen indirectly holds 30% of the shares in SAIC-Volkswagen Sales Company Ltd., a joint venture based in Shanghai, China. SAIC-Volkswagen Sales Company Ltd. sells passenger cars for SAIC Volkswagen Automotive Company, Ltd. There is an agreement in place between Volkswagen Group companies and the joint venture partner, Shanghai Automotive Industry Corporation, regarding a long-term strategic partnership.

#### **8.3.1.2.2 Associates**

**Sinotruk (Hong Kong) Ltd.:** As of September 30, 2018, the quoted market value of the Volkswagen shares in Sinotruk amounted to EUR 1,298 million (25% participating interest). Sinotruk, based in Hong Kong, China, is one of the largest truck manufacturers in the Chinese market. There is an agreement



in place between Volkswagen Group companies and Sinotruk regarding a long-term strategic partnership, under which Volkswagen participates in the local market.

**Bertrandt AG:** As of September 30, 2018, the quoted market value of the Volkswagen shares in Bertrandt amounted to EUR 234 million (29% participating interest). Bertrandt, based in Ehningen, Germany, is an engineering partner to companies in the automotive and aviation industry. Its portfolio of services ranges from developing individual components through complex modules to end-to-end solutions.

**There Holding B.V.:** In 2015, Audi, the BMW Group and Daimler AG founded There Holding B.V., Rijswijk, the Netherlands, each holding a 33.3% interest. There Holding B.V. acquired all shares in the HERE Group in 2015. HERE develops and sells high-resolution maps with real-time location information. In December 2017, agreements for the sale of shares in There Holding B.V. were signed with Robert Bosch Investment Netherland B.V. and Continental Automotive Holding Netherlands B.V., pursuant to which the purchasers acquired an interest of 5.9% each in There Holding B.V. The transaction was completed on February 28, 2018 and as a result of this transaction, Volkswagen Group's ownership interest declined to 29.4%. In June 2018, There Holding B.V. implemented a capital increase in which the Volkswagen Group participated. The book value of the shares accounted for using the equity method increased by EUR 31 million and participating interest was approximately 29.5% as of September 30, 2018.

**Navistar International Corporation:** Effective on February 28, 2017, Volkswagen Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, acquired a 16.6% equity interest in the U.S.-based commercial vehicle manufacturer Navistar at a price of EUR 0.3 billion. The parties entered into an agreement to forge a wide-ranging alliance. The cooperation primarily involves working together on technical components and in procurement. The partnership will focus on developing common powertrain systems, and may also entail collaboration in other areas of commercial vehicle development and procurement. Due to Volkswagen's representation on the Board of Directors of Navistar and the agreed cooperation, the investment in Navistar is reported as an equity-accounted investment in the consolidated financial statements. Volkswagen's interest in Navistar was increased to 16.9% as of December 31, 2017.

#### **8.3.1.3 Genuine parts business**

Volkswagen's genuine parts business aims at directing and optimizing the supply of the genuine parts of Volkswagen's different brands worldwide. The genuine parts include parts procured from outside suppliers and parts produced by Volkswagen.

#### **8.3.1.4 Markets and competition**

The market information, information on vehicle sales for passenger cars in the market as a whole across all automobile manufacturers worldwide (including Volkswagen) as well as in the individual sales and production regions, and the information on unit sales and deliveries to customers for the Volkswagen Group, as presented in this section, is based on unaudited data and estimates of the Company. See also "*General Information — Industry Information*".

Volkswagen's market shares in this section are calculated as the ratio of vehicles delivered to customers by the Volkswagen Group to the number of vehicles sold in the relevant market as a whole, as estimated by the Company. Volkswagen's market position is determined on the basis of its calculated market share in the relevant market as a whole. Information on the market positions of the Volkswagen Group's competitors is also based on the Company's information and estimates.

The following table provides an overview of the worldwide sales of passenger cars during the years ended December 31, 2017, 2016 and 2015:

	<u>For the year ended December 31</u>			<b>Change 2017/2016</b>	<b>Change 2016/2015</b>
	<b>2017</b>	<b>2016</b>	<b>2015</b>		
		<b>(units)</b>			<b>(in %)</b>
<b>Europe/Other markets</b> .....	<b>21,484,144</b>	<b>20,970,235</b>	<b>20,419,847</b>	<b>2.5</b>	<b>2.7</b>
<b>Western Europe</b> .....	<b>14,323,323</b>	<b>13,971,865</b>	<b>13,201,390</b>	<b>2.5</b>	<b>5.8</b>
Germany .....	3,441,412	3,351,607	3,206,042	2.7	4.5
United Kingdom .....	2,540,617	2,692,786	2,633,503	-5.7	2.3
France .....	2,078,989	1,983,729	1,885,568	4.8	5.2
Italy .....	1,978,985	1,830,627	1,583,616	8.1	15.6
Spain .....	1,234,876	1,147,009	1,034,232	7.7	10.9
<b>Central and Eastern Europe</b> .....	<b>3,031,639</b>	<b>2,693,470</b>	<b>2,752,390</b>	<b>12.6</b>	<b>-2.1</b>
Russia .....	1,470,049	1,309,541	1,485,404	12.3	-11.8
Czech Republic .....	271,595	259,693	230,857	4.6	12.5
Poland .....	483,090	416,197	357,410	16.1	16.4
<b>Other markets</b> .....	<b>4,129,182</b>	<b>4,304,900</b>	<b>4,466,067</b>	<b>-4.1</b>	<b>-3.6</b>
Turkey .....	722,759	756,938	725,596	-4.5	4.3
South Africa .....	369,995	361,336	412,589	2.4	-12.4
<b>North America<sup>(1)</sup></b> .....	<b>20,799,806</b>	<b>21,102,723</b>	<b>20,720,643</b>	<b>-1.4</b>	<b>1.8</b>
United States .....	17,230,683	17,550,351	17,470,499	-1.8	0.5
Mexico .....	1,530,326	1,603,682	1,351,659	-4.6	18.6
Canada .....	2,038,797	1,948,690	1,898,485	4.6	2.6
<b>South America<sup>(1)</sup></b> .....	<b>4,249,701</b>	<b>3,775,812</b>	<b>4,244,747</b>	<b>12.6</b>	<b>-11.0</b>
Brazil .....	2,175,039	1,987,593	2,480,181	9.4	-19.9
Argentina .....	855,381	677,698	616,862	26.2	9.9
<b>Asia-Pacific</b> .....	<b>36,970,832</b>	<b>35,327,170</b>	<b>31,556,467</b>	<b>4.7</b>	<b>11.9</b>
China .....	23,893,192	22,873,532	19,400,686	4.5	17.9
Japan .....	4,400,000	4,146,461	4,213,178	6.1	-1.6
India .....	3,070,131	2,808,985	2,624,987	9.3	7.0
<b>Worldwide</b> .....	<b>83,504,483</b>	<b>81,175,940</b>	<b>76,941,704</b>	<b>2.9</b>	<b>5.5</b>

(Source: Volkswagen Group data)

<sup>(1)</sup> In North and South America, the light vehicle market is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles.

The following table shows the number of passenger cars delivered by Volkswagen Group passenger car brands to customers during the years ended December 31, 2017, 2016 and 2015:

	For the year ended December 31			Change 2017/2016	Change 2016/2015 (in %)
	2017	2016 (units)	2015		
<b>Europe/Other markets</b> .....	<b>4,167,647</b>	<b>4,062,454</b>	<b>4,006,105</b>	<b>2.6</b>	<b>1.4</b>
<b>Western Europe</b> .....	<b>3,157,107</b>	<b>3,114,032</b>	<b>3,062,371</b>	<b>1.4</b>	<b>1.7</b>
Germany .....	1,131,414	1,136,971	1,147,484	-0.5	-0.9
United Kingdom .....	531,592	523,111	521,345	1.6	0.3
France .....	256,712	249,146	252,530	3.0	-1.3
Spain .....	270,645	244,990	235,141	10.5	4.2
Italy .....	259,920	238,537	207,821	9.0	14.8
<b>Central and Eastern Europe</b> .....	<b>668,522</b>	<b>592,275</b>	<b>559,946</b>	<b>12.9</b>	<b>5.8</b>
Russia .....	173,384	155,672	164,653	11.4	-5.5
Czech Republic .....	142,842	134,926	126,886	18.3	6.3
Poland .....	145,024	122,622	104,772	5.9	17.0
<b>Other markets</b> .....	<b>342,018</b>	<b>356,147</b>	<b>383,788</b>	<b>-4.0</b>	<b>-7.2</b>
Turkey .....	158,523	173,965	164,787	-8.9	5.6
South Africa .....	79,968	78,897	90,659	1.4	-13.0
<b>North America</b> .....	<b>962,980</b>	<b>928,033</b>	<b>922,774</b>	<b>3.8</b>	<b>0.6</b>
United States .....	625,128	591,063	607,096	5.8	-2.6
Mexico .....	223,548	238,946	211,845	-6.4	12.8
Canada .....	114,304	98,024	103,833	16.6	-5.6
<b>South America</b> .....	<b>445,636</b>	<b>362,343</b>	<b>489,636</b>	<b>23.0</b>	<b>-26.0</b>
Brazil .....	272,231	231,196	353,508	17.7	-34.6
Argentina .....	125,153	92,257	97,775	35.7	-5.6
<b>Asia-Pacific</b> .....	<b>4,462,387</b>	<b>4,282,656</b>	<b>3,902,172</b>	<b>4.2</b>	<b>9.8</b>
China <sup>(1)</sup> .....	4,173,834	3,975,071	3,542,467	5.0	12.2
Japan .....	84,827	83,109	91,153	2.1	-8.8
India .....	72,467	66,046	69,323	9.7	-4.7
<b>Worldwide</b> .....	<b>10,038,650</b>	<b>9,635,486</b>	<b>9,320,687</b>	<b>4.2</b>	<b>3.4</b>

<sup>(1)</sup> Includes vehicles delivered to customers by the two Chinese joint ventures.

The following table sets forth Volkswagen's estimated market share of the passenger car market by region during the years ended December 31, 2017, 2016 and 2015:

	For the year ended December 31			Change 2017/2016	Change 2016/2015 (in %)
	2017 <sup>(1)</sup>	2016 <sup>(1)</sup> (in %)	2015 <sup>(1)</sup>		
Western Europe .....	22.0	22.3	23.2	-0.3	-0.9
Central and Eastern Europe .....	22.1	22.0	20.3	0.1	1.7
North America .....	4.7	4.4	4.5	0.3	-0.1
South America .....	11.5	10.5	12.4	1.0	-1.9
Asia-Pacific <sup>(2)</sup> .....	12.1	12.1	12.4	0.0	-0.3
Rest of the World .....	8.3	8.3	8.6	0.0	-0.3
Worldwide .....	12.1	11.9	12.2	0.2	-0.3

<sup>(1)</sup> Volkswagen's market share is calculated as the ratio of vehicles delivered to customers by the Volkswagen Group passenger car brands to the number of vehicles sold in the market as a whole. For North and South America, vehicles delivered by Volkswagen Commercial Vehicles brand are also included.

<sup>(2)</sup> Includes vehicles delivered to customers by the two Chinese joint ventures.

#### 8.3.1.4.1 Competition; developments and trends in Volkswagen's main markets

As a global company, Volkswagen is exposed to both global and regional competition. Volkswagen Group considers BMW, Daimler, Fiat Chrysler, Ford, General Motors, Honda, Hyundai/Kia, Peugeot/Citroën, Renault/Nissan and Toyota to be its main competitors in the passenger car market and also faces new competition especially for electric vehicles from brands such as Tesla or new Chinese brands. Volkswagen

believes that, based on the total number of vehicles delivered to customers, Volkswagen ranked first worldwide ahead of Toyota in 2017. Volkswagen estimates that in 2017 it has reached a worldwide market share of 12.1% in the passenger car market. Volkswagen believes it is also the market leader for passenger cars in Western Europe, with an estimated market share of 22.0% in 2017 (Source: Volkswagen Group data). In the market for trucks and buses, Volkswagen's key globally active competitors in the truck and bus segment include, in particular, Volvo and Daimler Trucks.

(i) Western Europe

Sales of passenger cars in Western Europe increased by 2.5% to 14.3 million vehicles in 2017, the highest level in the past ten years, which corresponds to 17.2% of worldwide passenger car sales (Source: Volkswagen Group data). The positive performance was underpinned in particular by the strong macro-economic environment, consumer confidence and low interest rates.

In 2017, Volkswagen delivered 3.2 million passenger cars to customers in Western Europe, resulting in an estimated market share of 22.0%. (Source: Volkswagen Group data). Volkswagen's decline in market share reflected the fact that customer confidence has not yet been fully restored following the diesel issue and the ongoing public discussion on driving bans for diesel vehicles.

(ii) Central and Eastern Europe

In Central and Eastern Europe, sales of passenger cars increased by 12.6% to 3.0 million vehicles in 2017, which corresponds to 3.6% of worldwide vehicle sales (Source: Volkswagen Group data). The main growth driver in the region was the Russian market which saw an increase in demand following four years of decline.

In 2017, Volkswagen delivered 668,522 passenger cars to customers in Central and Eastern Europe, resulting in an estimated market share of 22.1% (Source: Volkswagen Group data).

(iii) North America

In North America, sales of passenger cars and light commercial vehicles decreased by 1.4% in 2017 to 20.8 million vehicles, which corresponds to 24.9% of worldwide vehicle sales. Demand in the United States and Mexico declined while the Canadian market recorded growth (Source: Volkswagen Group data).

In 2017, Volkswagen delivered 962,980 passenger cars and 10,432 light commercial vehicles to customers in North America, with an increase in deliveries in the United States and Canada and a decline in Mexico. This corresponds to an estimated market share of the passenger car market (including light commercial vehicles) of 4.7% (Source: Volkswagen Group data).

(iv) South America

In South America, sales of passenger cars and light commercial vehicles increased from the previously low level by 12.6% in 2017 to 4.2 million vehicles. This represents 5.1% of worldwide vehicle sales in 2017 (Source: Volkswagen Group data). Conditions in the South American market improved significantly in 2017, with automotive demand driven primarily by price reductions and attractive financing models offered by the manufacturers.

Volkswagen delivered 445,636 passenger cars and 41,331 light commercial vehicles to customers in South America in 2017, 23.4% more than in 2016. The Volkswagen Group's estimated market share of the passenger car market (including light commercial vehicles) in the region was 11.5% in 2017 (Source: Volkswagen Group data).

(v) Asia-Pacific

In the Asia-Pacific region, sales of passenger cars increased by 4.7% in 2017 to 37.0 million vehicles, which corresponds to 44.3% of worldwide vehicle sales (Source: Volkswagen Group data). The main growth driver was the Chinese passenger car market, although the growth rate was low compared to the previous years.

The Asia-Pacific region was Volkswagen's most important market for sales of passenger cars in 2017. In this region, China and India are important markets to Volkswagen, due to their significant growth potential. Volkswagen expects that demand in the region will continue to grow (albeit at a slower pace than in the past) due to increasing need for individual mobility. However, at the same time, more stringent emission standards, a decline in government support, and vehicle registration restrictions in densely populated urban areas may have a negative impact on demand for vehicles.

In 2017, Volkswagen (including its Chinese joint ventures) delivered 4.5 million passenger cars to customers in the Asia-Pacific region, which corresponds to 44.5% of Volkswagen's worldwide passenger car deliveries. This represents an estimated market share of 12.1% in 2017 (Source: Volkswagen Group data).

(vi) Commercial Vehicles

Volkswagen is active in the light commercial vehicles market through its Volkswagen Commercial Vehicles brand and in trucks and buses sales through its subsidiaries Scania AB and MAN SE.

The following table shows the number of commercial vehicles delivered to Volkswagen's customers during the years ended December 31, 2017, 2016 and 2015:

	For the year ended December 31			Change 2017/2016 (in %)	Change 2016/2015 (in %)
	2017	2016	2015		
	(units)				
<b>Europe/Other markets</b>	<b>569,983</b>	<b>555,255</b>	<b>498,906</b>	<b>2.7</b>	<b>11.3</b>
Western Europe	426,774	418,931	368,622	1.9	13.6
Central and Eastern Europe	76,054	65,396	55,348	16.3	18.2
Other markets	67,155	70,928	74,936	-5.3	-5.3
<b>North America</b>	<b>13,416</b>	<b>11,140</b>	<b>9,099</b>	<b>20.4</b>	<b>22.4</b>
<b>South America</b>	<b>75,949</b>	<b>59,196</b>	<b>68,958</b>	<b>28.3</b>	<b>-14.2</b>
Brazil	35,781	26,532	36,513	34.9	-27.3
<b>Asia-Pacific</b>	<b>43,457</b>	<b>35,964</b>	<b>32,946</b>	<b>20.8</b>	<b>8.9</b>
China	10,408	7,071	6,165	47.2	14.7
<b>Worldwide</b>	<b>702,805</b>	<b>661,555</b>	<b>609,909</b>	<b>6.2</b>	<b>8.5</b>

In 2017, Scania delivered a total of 90,777 trucks and buses to customers worldwide, a 11.6% increase compared to the prior year (2016: 81,346). MAN delivered a total of 114,134 trucks, buses and light commercial vehicles to customers worldwide in 2017, a 11.6% increase compared to the prior year (2016: 102,235). Volkswagen Commercial Vehicles delivered 497,894 light commercial vehicles of the Amarok, Caddy 4, Crafter and T6 product lines to customers worldwide in 2017, 4.2% or 19,920 vehicles more than in the prior year (2016: 477,974).

### 8.3.1.5 Procurement

#### 8.3.1.5.1 Overview

Procurement purchases of goods include raw materials, vehicle parts and components, services and capital expenditure items. In the year ended December 31, 2017, the incoming goods and order volume amounted to EUR 174 billion (including orders from the Chinese joint ventures). Volkswagen works with approximately 40,000 suppliers worldwide. The most important procurement markets for Volkswagen are Europe, followed by Asia-Pacific and North/South America. See also "Risk Factors — Risk Factors regarding Volkswagen Aktiengesellschaft and Volkswagen Group — Procurement Risks — If Volkswagen encounters a shortage of raw materials, or is unable to obtain automotive parts and components from suppliers at a reasonable price or at all, for example, due to a supply bottleneck, particularly within a limited supplier environment, or if Volkswagen's suppliers face increasing economic pressure, Volkswagen's procurement, production, transport and service chains could be interrupted or impaired. As a consequence there could be a general risk of loss of production for the Volkswagen Group."

The following table provides an overview of Volkswagen's total procurement volume (including the Chinese joint ventures) in 2017, categorized by procurement market:

	For the year ended December 31, 2017 (unaudited)
Europe/Other markets	108
North America	12
South America	4
Asia-Pacific	50

#### 8.3.1.5.2 Procurement of production materials

Volkswagen procures raw materials and pre-products. Pre-products consist of parts and components produced by external suppliers according to Volkswagen's specifications, such as navigation devices and audio systems, wheels, tires, air filters and brake pads.

In 2017, Volkswagen purchased more than 11 million tonnes of steel and more than 260 thousand tonnes of direct aluminum, primarily from European markets. In 2017, Volkswagen's major suppliers of vehicle

parts and components and pre-products were Continental, Bosch and ZF Friedrichshafen. The ten largest suppliers of vehicle parts and components based on supply volume met approximately 29% of Volkswagen's procurement requirements in 2017 (excluding the Chinese joint ventures).

As an effort to reduce production costs, Volkswagen endeavors to procure raw materials and pre-products from local suppliers. Furthermore, Volkswagen hedges price and to a limited extent also shortage risks associated with raw materials and pre-products by entering into forward transactions and swaps.

### **8.3.1.5.3 General procurement**

The general procurement sub-division is responsible for the purchase of all goods and services that are not directly connected to vehicle production. In 2017, the procurement volume of the general procurement sub-division amounted to EUR 7.3 billion.

### **8.3.1.6 Production**

#### **8.3.1.6.1 Production locations**

Volkswagen had 120 operating production locations worldwide as of December 31, 2017: 71 locations in Europe (including 28 in Germany), 31 locations in Asia-Pacific, 5 locations in North America, 9 locations in South America and 4 locations in South Africa. Vehicles were manufactured at 68 of these locations, including 36 locations in Europe, 6 locations in South America, 18 locations in Asia-Pacific, 4 locations in North America and 4 locations in South Africa. Volkswagen's vehicle production in China is performed by its joint ventures.

Volkswagen produced 10,875 thousand units in 2017, of which 23.7% were produced in Germany.

#### **8.3.1.6.2 Description of production**

The modular platform strategy and the modular toolkit concept are key features of production for Volkswagen. Volkswagen has developed the modular platform strategy into the engineering concept of modular toolkits. There are several types of modular toolkits: the modular transverse toolkit platforms for vehicles with transversely mounted engines and the modular longitudinal toolkit platforms for vehicles with longitudinally mounted engines. Other toolkits, e.g., for sports cars, have been added. A tool kit for battery-electric vehicles is under development. A modular toolkit consists of several vehicle components that are combined in a standardized manner. For example, there is a modular toolkit for the seating systems of a vehicle, a modular toolkit for the underbody and a modular toolkit for the axles and for the steering. Modular toolkits can be used for production of vehicles across brands and vehicle classes.

The engineering concept of the modular toolkits means that, in the production of its volume models, Volkswagen mostly uses modular toolkits independently of the brand or vehicle class of the individual model, rather than individual components manufactured for individual brands, vehicle classes or models. Volkswagen intends to expand the development and use of modular components to reduce development time, one-time expenses and unit costs per vehicle. Furthermore, the modular component concept facilitates faster model changes and the launch of new products in various markets to reflect local customer preferences. Volkswagen believes that this engineering concept will enhance its ability to adapt to demand fluctuations and increase the average utilization capacity of its plants.

#### **8.3.1.7 Marketing**

Volkswagen pursues a multibrand strategy in which each company brand has an autonomous character and operates and markets independently. The profiles of Volkswagen's individual brands are conceived so that, as far as possible, they do not overlap. Volkswagen's brands are strengthened through the development of overall brand concepts and core values geared to the specific target customer segments of each brand. Volkswagen's products are developed according to the specific customer requirements of the target group and the relevant competition in that group. Thereby, the Volkswagen Group strives for a sufficient differentiation of its brands in terms of values and products in terms of design and equipment in order to reduce unnecessary diversion of sales from one Volkswagen brand to another and to maximize sales.

One of Volkswagen's key marketing strategies is its remarketing strategy. Volkswagen views a vehicle's resale value as one of the most important factors influencing a customer's purchase decision. In the early course of product development and manufacture, Volkswagen takes into consideration all relevant factors affecting the resale value such as quality, durability, design and equipment. Volkswagen conducts regular customer surveys through internal and external service providers to determine the needs and the requirements of customers for a used car.

The organizational marketing structure of the Volkswagen Group ensures that the brand-specific marketing measures and the image of each brand remain clearly recognizable. In order to ensure the autonomy of the

brands while simultaneously protecting Volkswagen Group interests, the management of the brands is supported by the respective brand boards of management and Volkswagen's Board of Management.

### **8.3.1.8 Customers and sales**

The sale of vehicles of individual brands is fundamentally the responsibility of the respective brand. Each brand generally sells only its own products. One exception is, for example, that in Germany the Volkswagen Group also sells Audi, ŠKODA and Volkswagen Passenger Cars to selected fleet customer groups.

Depending on where the vehicle is sold, the sales channel may differ. If the country of the brand parent company is identical to the country of sale, the vehicles are marketed exclusively through a retail dealer system. Otherwise, a subsidiary of the Volkswagen Group or brand parent company (for example, in France, the United Kingdom or Spain) or an independent wholesale company (for example, in Belgium, the Netherlands or Switzerland) will act as an intermediary between the brand parent company and the local retail dealers. The subsidiary or the wholesale company normally is responsible for the sale of vehicles of one or more brands for one country. Local retail dealers are predominantly independent external contractors.

The independent wholesale companies and independent local dealers generally act in their own names and for their own accounts. In the main markets, Volkswagen has set up a system to monitor the financial positions of independent dealers to ensure that they are not insolvent or on the edge of insolvency.

In terms of sales of genuine parts, Volkswagen Group has its own logistics network and warehouses to facilitate the sales. Volkswagen maintains a total of approximately 154 logistics and warehousing centers worldwide.

### **8.3.2 Financial Services Division**

The Financial Services Division comprises Volkswagen's financial services activities. The vehicle-related activities are broken down into the following areas: financing (customer and dealer financing), leasing, insurance, service and fleet management. Volkswagen is also active in the direct banking business. The objective of Volkswagen's financial services activities is to support the sale of vehicles produced by Volkswagen and to strengthen customer loyalty to the Group's brands.

Although Volkswagen allocates the financial services activities of the Scania brand and Porsche Holding Salzburg to the Financial Services Division, these activities are managed principally by Scania and Porsche Holding Salzburg, respectively. Therefore, the description of the Financial Services Division in this section of the Offering Memorandum does not cover the financial services activities of Scania and Porsche Holding Salzburg nor do the key financial figures include the corresponding data of Scania and Porsche Holding Salzburg (unless indicated otherwise). Until January 1, 2017, the Porsche brand's financial services activities were managed under Porsche's responsibility and were included in the Automotive Division. As of January 1, 2017, Porsche's financial services business is coordinated by Volkswagen Financial Services AG and reported as part of the Financial Services Division.

Volkswagen Financial Services AG ("**VWFS AG**"), a wholly owned subsidiary of the Company, is responsible for the coordination of the Company's worldwide financial services activities. Volkswagen Group's financial services activities are provided by VWFS AG and its subsidiaries, by Volkswagen Bank GmbH ("**Volkswagen Bank**"), as well as in the United States, Canada and Spain, through indirect subsidiaries of the Company.

As of September 1, 2017, VWFS AG completed a reorganization, as a result of which the European lending and deposits business has been separated from other financial services activities and bundled under Volkswagen Bank, now a direct subsidiary of Volkswagen AG. The intention of the reorganization is to increase transparency and clarity for supervisory authorities, optimize the use of equity and reduce complexity. Through Volkswagen Bank, Volkswagen also offers basic banking services such as deposits, credit cards, checking accounts and savings certificates to retail and commercial customers.

Volkswagen's Financial Services Division is represented in 51 countries. The main markets for the Financial Services Division are Germany, the United States, Brazil, the United Kingdom, Spain, Italy, Canada, France and China. Germany is the main market for the Financial Services Division. The main companies in the Financial Services Division in Germany include Volkswagen Bank, Volkswagen Leasing GmbH ("**Volkswagen Leasing**") and Volkswagen-Versicherungsdienst GmbH ("**VVD**").

Volkswagen's financial services operations include mainly loans, leasing as well as insurance programs for customers and dealers. In 2017, 47.9% of Volkswagen's vehicles delivered in Europe/Other markets, 60.5% of Volkswagen's vehicles delivered in North America, 26.2% of Volkswagen's vehicles delivered in South America, and 16.1% of Volkswagen's vehicles delivered in Asia-Pacific (excluding Scania, Porsche

Holding Salzburg and Porsche financial services) were financed by or leased from the companies of Volkswagen's Financial Services Division. Volkswagen's financing and leasing activities are offered in close coordination and cooperation with Volkswagen's Automotive Division.

The following table provides information about Volkswagen Group's financial services receivables (including Scania, Porsche Holding Salzburg and (until January 1, 2017) Porsche) as of December 31, 2017, 2016 and 2015.

	<b>2017</b>		<b>2016</b>		<b>2015</b>	
	<b>Current</b>	<b>Noncurrent</b>	<b>Current</b>	<b>Noncurrent</b>	<b>Current</b>	<b>Noncurrent</b>
<b>(in EUR million)</b>						
Receivables from financing business						
Customer financing <sup>(1)</sup> . . . . .	19,841	40,899	19,630	38,907	21,991	44,985
Dealer financing . . . . .	17,033	2,194	15,531	2,108	14,738	1,832
Direct banking . . . . .	269	4	254	2	212	2
	<b>37,142</b>	<b>43,096</b>	<b>35,415</b>	<b>41,018</b>	<b>36,941</b>	<b>46,819</b>
Receivables from operating leases . . . . .	193	-	197	-	273	-
Receivables from finance leases <sup>(1)</sup> . . . . .	15,810	30,153	14,060	27,384	9,674	16,365
	<b>53,145</b>	<b>73,249</b>	<b>49,673</b>	<b>68,402</b>	<b>46,888</b>	<b>63,185</b>

<sup>(1)</sup> 2016 figures are restated, as some of the receivables previously reported as customer financing in individual markets are presented as receivables from finance leases in 2017. 2015 figures have not been adjusted.

Volkswagen's Financial Services Division is represented in growth markets by subsidiaries or through cooperations with local banks, although the volume of business is in all cases minor compared to the main markets.

### 8.3.2.1 Products and services of the Financial Services Division

Volkswagen's Financial Services Division is present in Volkswagen's main markets, offering its customers "car-centered" financial and banking services and products through the relevant regional companies and branches. Products of the direct banking business are offered through the internet, by telephone and in a few cases also through sales partnerships.

An overview of the products and services of Volkswagen's Financial Services Division (exclusive of the direct banking business), broken down by customer segments, can be described as follows:

<b>Customer segments</b>	<b>Financing</b>	<b>Leasing &amp; Fleet management</b>	<b>Insurance</b>	<b>Service</b>
Private customers	<ul style="list-style-type: none"> <li>• Customer financing</li> </ul>	<ul style="list-style-type: none"> <li>• Private leasing</li> </ul>	<ul style="list-style-type: none"> <li>• Car insurance</li> <li>• Personal insurance</li> </ul>	
Dealers	<ul style="list-style-type: none"> <li>• Dealer financing</li> </ul>	<ul style="list-style-type: none"> <li>• Leasing of office and business furniture and equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Dealer insurance</li> <li>• Car</li> <li>• Personal</li> <li>• Buildings</li> </ul>	Other services centering around the automobile <ul style="list-style-type: none"> <li>• Service &amp; Maintenance</li> <li>• Fuel cards</li> <li>• Tire replacement</li> </ul>
Major/fleet customers		<ul style="list-style-type: none"> <li>• Financial leasing</li> <li>• Operating leasing</li> <li>• Fleet management</li> </ul>	<ul style="list-style-type: none"> <li>• Product packages for leasing &amp; fleet customers</li> <li>• Extension of manufacturer's warranty</li> </ul>	



### **8.3.2.1.1 Financing**

In the area of vehicle financing, Volkswagen offers financial solutions for both private customers and dealers. In the private customer business, vehicles are financed through classic installment loans (*ClassicCredit*) or flexible credit products such as balloon loans (*AutoCredit*). With financing products, the ownership of the vehicle is generally transferred from the financing company to the customer at the end of the term.

With the classic installment loan, upon the purchase of the vehicle customers can make a down payment, which is set flexibly. The loan is then repaid in full through monthly installment payments.

With what are referred to as balloon loans, the customer also initially makes a down payment. For a period of 12 to 54 months, the customer then pays lower installments than, for example, in the case of a classic installment loan. At the end of the term, the customer has three options: (a) return of the vehicle to the dealer at a previously agreed price, (b) entry into a refinancing agreement, or (c) payment of a higher final installment.

The finance contract is entered into directly between Volkswagen's financial services entity and the customer who purchases the car from a dealer. The dealer mediates the contract between the customer and Volkswagen's financial services entity and receives a commission for this service. The Financial Services Division has responsibility for collection of the loans. If the customer does not pay the agreed installments, Volkswagen is entitled to repossess the vehicle from the customer. Loans are generally non-recourse *vis-a-vis* the dealers.

As part of dealer financing, the Financial Services Division offers authorized dealers of the Volkswagen Group the ability to obtain loans. Such loans serve primarily to finance vehicles, genuine and replacement parts and investments.

To optimize the Automotive Division's liquidity position, the Financial Services Division uses factoring to finance the payment terms agreed between Volkswagen, on the one hand, and importers and dealers on the other, as well as payment terms agreed between importers and dealers.

AutoEuropa Bank, Braunschweig, Germany, a branch of Volkswagen Bank, also finances vehicles, caravans and motor homes other than those of Volkswagen.

### **8.3.2.1.2 Leasing**

The leasing products offered by the Financial Services Division are used primarily by individual business customers and corporate customers (including fleet customers).

With respect to leases, the lessor retains ownership of the vehicle during the entire term of the lease. The lessee makes lease payments, which pay for the use of the vehicle and which, depending on the structure of the relevant contract, may pay for services such as vehicle insurance and maintenance.

Leasing contracts are entered into directly between Volkswagen's financial services entity and the customer. The dealer acts as mediator and receives a commission for this service. Volkswagen Financial Services collect the leasing instalments. Vehicles that are returned at the end of the lease are offered back to the dealer at the agreed residual value or are re-marketed directly by Volkswagen Financial Services.

A fundamental distinction needs to be made between finance leasing and operating leasing. In finance leasing, the economic risks and benefits pass over to the lessee at the end of the lease term. The lessee includes the leasing assets in its accounts and also bears the realization risk of the leasing asset.

In operating leasing, the economic risks and benefits of the vehicle and, therefore, the realization risk of the leasing asset, remain with the lessor throughout the lease term. The lessor includes the leasing assets in its accounts as "leased assets". An operating lease can also result in residual value risk for the lessor. Generally, an exposure to residual value risk exists when the market value for realization of the leasing asset at the end of the term of the lease agreement is lower than the residual value calculated when the lease is concluded.

Volkswagen's used-car marketing is supported by the Financial Services Division, both through leasing and financing products.

### **8.3.2.1.3 Insurance services**

The Financial Services Division arranges insurance products as insurer or as intermediary (broker or agent), depending on the specific market environment. With the aim to ensure a best practice business model in each market, the Financial Services Division also cooperates with a large number of different insurance companies.

The major products in the area of private and individual business customers are motor insurance (both third party liability and full comprehensive insurance), warranty insurance, credit protection insurance and gap insurance. Extended and used car warranty products are offered as an insurance or service product, which covers electronic and mechanical breakdown of automobile parts. Credit protection insurance policies cover the remaining payments of the relevant financing in the event of disability, unemployment, or similar circumstances. In addition, so-called "gap insurance" offers protection against the risk that the residual value of the vehicle is below the remaining outstanding financing payments in case of damages.

For corporate customers (including fleet customers), specific product packages are developed and adapted to their specific requirements. Vehicle, personal and property insurance policies are brokered for dealers.

The Financial Services Division is also active in the warranty insurance business via its own primary insurance carrier, Volkswagen Versicherung AG, which offers extended warranty insurance products in Germany and France. Additionally, used car warranty products are offered in the Czech Republic, France, Italy, Poland, The Netherlands, Spain, Sweden, Switzerland, Turkey and the United Kingdom, via freedom of services (i.e. on the basis of the right to provide cross-border business services in European Economic Area member states) or reinsurance with a local company fronting the business.

Through Volkswagen Versicherung AG, the Financial Services Division reinsures significant quotas of the brokered credit insurance portfolios.

Volkswagen Autoversicherung AG, in which VWFS AG holds 51% and the Allianz Group 49% of the shares, offers customized motor insurance and motor insurance-related products to customers of the Volkswagen brands in Germany.

#### **8.3.2.1.4 Services**

In the service area, the Financial Services Division offers its customers vehicle services which are rendered as part of fleet contracts, but can also be purchased individually by retail and fleet customers.

Fleet management includes fleet planning, administration, analysis and control. This includes reporting for fleet customers, which allows them to obtain precise usage data regarding their vehicles and drivers. In addition, the processing of insurance premiums and taxes, repairs and realization of the vehicle are offered as services. In addition, management of vehicle-related consumable materials and supplies, such as fuels, lubricants, tires and the like, is also offered.

#### **8.3.2.1.5 Direct banking business**

Through Volkswagen Bank's direct banking business unit, Volkswagen Group offers direct banking services. During the years ended December 31, 2017, 2016 and 2015, 1,269,000, 1,322,000 and 1,255,000 customers were served, respectively. Customer deposits at Volkswagen Financial Services totaled EUR 30.4 billion, EUR 32.4 billion and EUR 25.5 billion as of December 31, 2017, 2016 and 2015, respectively.

Volkswagen Bank offers typical bank services such as maintaining checking accounts and overnight deposit accounts, non-business loans and credit cards for retail customers. Furthermore, fixed-term deposit accounts, savings plans, savings certificates, mortgage loans, personal and property insurances, as well as securities accounts are marketed. Additionally, Volkswagen Bank provides services related to cashless payment systems for commercial customers.

The securities accounts, fund units, mortgage loans and insurance policies that Volkswagen Bank offers are products of external third parties, which Volkswagen facilitates on a cooperative basis. Volkswagen's major partners in this commission-based business are DAB - a registered brand of BNP Paribas S.A., German branch, (securities transactions and securities account maintenance), Scope Analysis GmbH (mutual fund selection), Whitebox Services GmbH (online financial advisor) and prohyp GmbH (mortgages). In the insurance business, the partners are for example Deutsche Krankenversicherung AG and Generali Lebensversicherung AG.

#### **8.3.2.1.6 Risk management in the Financial Services Division**

Volkswagen Financial Services Division is separated into the risk management of the Volkswagen Bank and its subsidiaries (the "**Volkswagen Bank Group**") and the internal control system of the VWFS AG Group.

#### **8.3.2.1.7 Risk management in the Volkswagen Bank Group**

In accordance with the requirements of the German Banking Act and the German Stock Corporation Act, a system for identifying, measuring, monitoring and managing risk positions has been established for the Volkswagen Bank Group.

Along with the quantification of risk positions, as required by regulation, and the classification of available equity capital components, Volkswagen Bank Group has established a system for determining risk-bearing capacity. Using this system, it compares the economic risk with the available risk-taking potential and performs a quarterly assessment as to whether Volkswagen Bank Group is in a position to bear the risks that could result from the business activity, with the goal of ensuring a going concern.

Volkswagen Bank Group utilizes a limit system, derived from its analysis of risk-bearing capacity, which makes it possible to limit and manage relevant risk types with respect to their amount. The limit system comprises three steps: In a first step, an overall group risk limit is determined. For this purpose, the management of Volkswagen Bank Group determines the portion of the available risk-taking potential (essentially equity capital) that is intended to be available for covering material risks. In the second step, the overall group risk limit is broken down into risk limits for risk types considered to be material and quantifiable. In the third step, the risk type limits are further broken down to branch and subsidiary level, taking into account the planned business and risk development. Regular reports are made to senior management and the management as part of the submission of the risk management reporting.

The management of Volkswagen Bank Group is responsible for establishing and implementing Volkswagen Bank Group's risk strategy, which contains the risk policy principles for Volkswagen Bank Group. The Chief Risk Officer reports to the management and the Supervisory Board of Volkswagen Bank Group on a regular basis on the overall risk position of the Volkswagen Bank Group. The departments in risk management, which report to the Chief Risk Officer, formulate the corresponding risk-policy guidelines for risk management, develop methods and procedures, analyze the current risk position on an ongoing basis and ensure the transparency of reporting. The departments of risk management report to the management of Volkswagen Bank Group and its Supervisory Board at least once a quarter.

Risk management, i.e. the management of the respective portfolios, is in principle integrated into the individual branches and subsidiaries of the Volkswagen Bank Group. In addition, the internal audit function of the Volkswagen Bank Group, an independent department acting on behalf of the management of Volkswagen Bank Group, performs risk-related audits of the operating and commercial processes of the Volkswagen Bank Group.

#### **8.3.2.1.8 Internal control system (ICS) in VWFS AG Group**

ICS adopts a cross-sectional function for risk control, and thus, acts as an interlinkage between local legal entities and the Board of Management of VWFS AG Group. ICS operates within the "Three Lines of Defense" model and is in charge of the central coordination and reconciliation of individual risks with risk owners, which are appointed by the Board of Management of VWFS AG Group.

The 1st Line of Defense contains the approach of sovereignty in risk control within the local units. They are obliged to fulfill central requirements, defined by risk owners and ICS in the 2nd Line of Defense. ICS supports the local units in implementing these central requirements. The 3rd Line of Defense is represented by the internal audit function of VWFS AG Group, acting as an independent department on behalf of the Board of Management of VWFS AG Group and performing audits on the operating, commercial and supporting processes on the basis of a risk-related audit plan.

The Board of Management of VWFS AG Group had delegated the competencies to coordinate a setup of functional early risk identification and risk steering to ICS, which reports on a regular basis on the overall risk position of the VWFS AG Group to the Board of Management and to the Supervisory Board of VWFS AG Group. In addition to local risk management measures and methods, ICS and risk owners formulate the overall corresponding risk-policy guidelines, support the development of methods and procedures, analyze the current overall risk position on an ongoing basis and ensure the transparency of reporting.

#### **8.3.2.1.9 Management of credit risk**

In order to monitor credit risk, which encompasses the risk of default by customers and dealers on loans and leases, rating procedures are utilized for dealers and corporate customers and scoring procedures are utilized for private customers in general. These procedures form the basis for credit decisions.

The scoring procedures for private customers are either of a generic nature or have been developed based on multi-year data histories. The rating procedures for dealers as well as corporate customers include in general both annual financial statement data and qualitative factors, such as quality of management, market and industry environment, and payment behavior. Additionally, models for loss given default and credit conversion factors are in place.

The Group uses product approval procedures, regular portfolio analyses, planning sessions and business financial reviews for the timely identification of new risks and changes in risk. All risks are quantified as part of a quarterly assessment procedure.

Due to the type of financing activity, the outstanding financing amount is essentially secured by the financed vehicles. Therefore, the Financial Services Division monitors changes in the market values of motor vehicles on an ongoing basis. If major changes in market values occur, the forecast values and the processes for liquidating collateral are adjusted.

If customers get into payment difficulties, the affected loans are passed on to the collections department. If the unpaid amounts cannot be recovered, the vehicles serving as collateral are liquidated.

#### **8.3.2.1.10 Management of residual value risk**

Residual value risks arise in particular in connection with leasing products and products with balloon rate and return option when the market value at the time of liquidating the asset at the end of the contract term is lower than the residual value calculated when the contract was concluded.

To the extent that the Financial Services Division bears the residual value risks with regard to their development, the Financial Services Division continuously monitors trends in used car prices, for which it can utilize internal group information and experience as well as external sources such as the Schwacke Eurotax Glass' list. If the residual value risk increases, the risk provision is adjusted accordingly. That approach is based on the residual value risk management circle of the Financial Services Division.

#### **8.3.2.1.11 Management of market price risk**

Volkswagen Financial Services Division is exposed to various market price risks, which consist of interest rate risk, foreign currency risk as well as price risk. In the course of its regular business activities, financial risks may arise from changes in interest rates, exchange rates or prices of financial assets.

The Financial Services Division maintains a risk monitoring and management system within the entire Financial Services Division, the goal of which is to identify and evaluate all market price risks and help ensure active management by limiting and monitoring the market price risk at the level of the individual subsidiaries.

If the prescribed limits are exceeded, the management of Volkswagen Bank Group or VWFSAG Group, as applicable, is informed. Appropriate measures are then discussed and resolved in the Asset Liability Management Committee in order to keep the risk position at or below the approved limit.

#### **8.3.2.1.12 Management of liquidity risk**

The Financial Services Division faces liquidity risk, in particular the risk of a negative difference between actual cash inflows and cash outflows and expected cash inflows and cash outflows. Cash outflows must be covered at all times by cash in hand and cash inflows.

Liquidity management for VWFS AG, Volkswagen Bank and Volkswagen Leasing is the responsibility of Volkswagen Bank GmbH's treasury department. It is carried out within the framework of a multi-step planning and takes into account known cash inflows and payment obligations, the potential growth of the credit business and the development of the deposit business. The Operative Liquidity Committees, which are composed of representatives of the treasury, controlling, direct banking and risk management departments, are responsible for monitoring and micro-managing liquidity within the liquidity risk management concept.

### **8.4 Research and Development**

Total research and development costs in the Automotive Division of Volkswagen Group during the years ended December 31, 2017, 2016 and 2015 were EUR 13,135 million, EUR 13,672 million and EUR 13,612 million, respectively, which corresponded to 6.7%, 7.3% and 7.4% of its sales revenue, respectively. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Material Factors Affecting Results of Operations and Financial Position — Research and development costs*".

Volkswagen's top priority for research and development in 2015, 2016 and 2017 was to develop conventional engines and alternative powertrain concepts to reduce emissions, and to further develop and optimize the modular longitudinal toolkit platforms, the modular transverse toolkit platforms and digitalization. In the Research and Development function, Volkswagen employed 49,316 people worldwide as of December 31, 2017 (including the Chinese joint ventures).

At Volkswagen, research and development differ through their basic orientation. Research is detached from specific series projects and covers new materials and technologies. Mobility, energy, safety and environment are the most important areas of activity. Development is involved primarily with the further development and new development of specific vehicle projects and technologies for utilization in series.

While development of specific vehicle projects is primarily a function and responsibility of each brand, individual modules and components are developed jointly with the development departments of the brands and as a result are made available to all vehicles. Examples of such components are the dual clutch gearbox, the radio navigation system, the modular transverse toolkit, the modular longitudinal toolkit and the modular electrification toolkit.

#### **8.4.1 Research**

From 2014 through 2017, a major focus of Volkswagen's research was on the following areas: future trends and new mobility, fuel and drive trains, emissions reduction, advanced materials, automated driving, communication and car networking.

In the coming years, research strategic emphasis will be on the efficiency and sustainability of the entire system — environmentally friendly powertrain and energy systems, material design and smart manufacturing, optimized traffic management and seamless mobility through safe, intelligent and autonomous vehicles.

From 2014 through 2017, Volkswagen's most important research cooperations with external partners were in the fields of fuel cells and upgrading battery technology (for example, all-solid-state batteries) for hybrid drives and electric vehicles, as well as additive manufacturing (e.g. use of 3D printing technology for the manufacturing of automotive parts).

#### **8.4.2 Development**

From 2014 through 2017, the focus of the brands' development activities was, among other things, in the following areas: powertrain technology, the modular transverse toolkit, the further development of assistance systems and the electrification of powertrains. Several battery-powered electric cars and plug-in hybrid electric vehicles are already available for sale and many more are in development as part of "Roadmap E", Volkswagen Group's comprehensive electrification initiative. In addition, Volkswagen Group is researching on upgrading battery technology and preparing production facilities for the manufacture of electric vehicles.

Among the major development results of the Scania brand is the driver eco-module which continuously analyzes data from various sensors in the vehicle and with it identifies the driving style of the driver who receives suggestions in real time through a display on an economically and ecologically optimized driving style. This module is integrated into the Ecolution program of Scania, which also includes trainings for fuel efficient driving and specific services such as a maintenance module to ensure better technical efficiency.

Volkswagen's development capacities are supplemented through cooperation with external partners such as suppliers and strategic partners. The major partnerships with external parties in the development function include the joint development and production of Volkswagen's models. The joint development and production of certain vehicle models together with strategic external partners makes it possible to reduce development and production costs. At the same time, Volkswagen's expertise and know-how in vehicle development is strengthened through cooperation within the group. Examples of synergies of this kind are the joint development and production of the models Volkswagen Touareg, Audi Q7 and Porsche Cayenne.

#### **8.4.3 Product and services development**

A focal point of Volkswagen's current and future development activities is and will be innovative mobility concepts and the reduction of fuel consumption and emissions of the fleet. The Volkswagen Group's new passenger car fleet in the EU (excluding Lamborghini and Bentley) emitted an average of 122 g CO<sub>2</sub>/km in 2017. With a broad range of development activities in the powertrain and other sectors, Volkswagen will continue to reduce the emissions of its vehicles in the coming years. To this end, Volkswagen has and will continue to expand the electrification of powertrains by introducing new models with hybrid and electric drives, and at the same time, will continue to optimize the use of conventional combustion engines, which, in the Company's opinion will continue to dominate for decades, in particular in the large growth regions.

#### **8.5 Intellectual Property**

Volkswagen generates and holds a significant number of patents in a number of countries in connection with the operation of its business. While none of these patents by itself is material to its business as a whole, these patents are important to Volkswagen's business and continued technological development. In addition, Volkswagen Group holds a number of trademarks and service marks that are important to its identity and recognition in the market place.

#### **8.6 Business Portfolio**

One of Volkswagen's strategic goals is to make Volkswagen a competitive, financially sound mobility provider that focuses on its core business and uses its capital to the best advantage. For this, the Volkswagen

Group's business portfolio is being analyzed in detail and existing options are being examined. A standardized process for continuous evaluation of the Volkswagen Group's business portfolio will also be developed.

## 8.7 Property, Plants and Real Estate

Volkswagen's real estate consists primarily of the vehicle and component production plants of its individual companies. In Volkswagen's Automotive Division, real estate holdings include administrative buildings, which are mostly on plant premises, as well as warehouses for the spare parts business and several buildings primarily used by Volkswagen's wholesale trading companies, located mainly in Germany and other European countries and the United States.

The real estate owned by the Company, which consists of six plants in Germany and their surrounding areas, is encumbered by three real property liens totaling approximately EUR 800 million in favor of Volkswagen Pension Trust e.V., as security for current semi-retirement credit balances in order to protect the credit balances of individuals in semi-retirement against insolvency in accordance with the provisions of the German Partial Retirement Act. Occasionally, Volkswagen leases or rents its real estate to third parties. Volkswagen has rented or leased various real estate properties which are not essential for production, such as office space, from third parties.

The following table shows Volkswagen's key plants (in terms of size, investment volume and/or book value) as of September 30, 2018:

<u>City, country</u>	<u>Size of property in thousand m<sup>2</sup></u>	<u>Gross size of buildings in thousand m<sup>2</sup></u>	<u>Volkswagen or third-party owned</u>
Volkswagen plant, Wolfsburg, Germany (including proving grounds Ehra and additional nearby properties) . . . . .	approx. 20,800	approx. 3,600	group owned
Audi plant, Ingolstadt, Germany . . . . .	approx. 6,800	approx. 3,300	group owned
ŠKODA plant, Mladá Boleslav, Czech Republic . . . . .	approx. 6,500	approx. 1,000	group owned
Audi plant, Neckarsulm, Germany . . . . .	approx. 1,300	approx. 1,700	group owned
SEAT plant, Martorell, Spain . . . . .	approx. 2,900	approx. 1,100	group owned

## 8.8 Employees

Including the Chinese joint ventures, Volkswagen had an average of 634,396, 619,346 and 604,387 employees during the years ended December 31, 2017, 2016 and 2015, respectively. Volkswagen's companies based in Germany had an average of 284,734, 279,993 and 275,857 employees during the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017, 8,004 employees had entered into early retirement agreements with Volkswagen. Volkswagen continuously analyzes whether to enter into further agreements of this kind on the basis of personnel planning, taking into account assumptions regarding job security and financial feasibility.

Employees at Volkswagen's German locations and at a number of foreign subsidiaries have traditionally been heavily unionized. See also "*Risk Factors — Risk Factors regarding Volkswagen Aktiengesellschaft and Volkswagen Group — Other Risks — Volkswagen is dependent on good relationships with its employees and their unions.*"

## 8.9 Risk Management

Volkswagen has established a risk management system, which is based on the internationally recognized COSO enterprise risk management framework, to identify, assess, document and monitor relevant risks, as well as to implement countermeasures and controls. Volkswagen defines risk as the danger of a negative deviation from corporate objectives due to internal and external factors.

Volkswagen's risk management system is an integral part of the Volkswagen Group's structure and work-flows and is embedded into its day-to-day business processes. Events that entail risk are identified and assessed on a decentralized basis in the divisions of the group, as well as in subsidiaries and other investees.

The major risks of the Company are documented quarterly and annually in accordance with the requirements of German law. In these processes, a qualitative likelihood of occurrence, the relative range of loss and additional qualitative criteria are allocated to each identified risk. To mitigate identified risks, suitable countermeasures have to be implemented in an appropriate timeframe. The regular update of risk documentation is coordinated centrally and independently.

The external auditors check both the processes and procedures implemented in this respect and the adequacy of the documentation on an annual basis. The auditors analyzed the risk management and internal control systems, concluding that the Board of Management had taken the measures required by section 91(2) of the German Stock Corporation Act to ensure early detection of any risks endangering the continued existence of the company.

The Financial Services Division, which operates the banking, leasing and insurance business, is subject to special risks and regulatory requirements for risk management. For this reason, the Financial Services Division maintains an autonomous risk management system in accordance with regulatory requirements. See "*— Volkswagen's Divisions and their Products and Services — Financial Services Division –Risk management in the Financial Services Division*".

The Company's Audit Committee and the Board of Management are informed on a regular basis about risk management procedures and results. Volkswagen's risk management system is subject to continuous improvement.

## **8.10 Environmental Management**

Volkswagen AG has implemented an environmental management system (EMS) that applies to its manufacturing, warehouse or other facilities. Through EMS, Volkswagen assesses and manages the environmental practices and impacts of manufacturing and product development. Accordingly, Volkswagen specifies responsibilities and processes applicable to activities that relate to environmental protection and continually reviews the environmental practices and impacts of its facilities. The EMS contains an element for managing the process used to assure compliance with legal and regulatory obligations. In the EU, this process satisfies the environmental requirements of the EU Eco-Management and Audit Scheme (EMAS) and/or the international standards ISO 14001:2004 or ISO 14001:2015, including their provisions governing internal audits. External auditors assess the EMSs and issue appropriate certificates indicating that the respective facilities' EMSs conform with the ISO standard.

Volkswagen has adopted and applies comparable environmental standards in manufacturing processes throughout the group. Worldwide all production sites of the Volkswagen brand have also established site-specific EMSs according to ISO 14001:2004 or ISO 14001:2015. At the European locations, the development, updating, and application of the EMS is supported, among other things, by a regular exchange of experience among those entrusted with environmental responsibility and by additional working groups. Across locations, the improvement process is supported by uniform environmental principles adopted by the Volkswagen Group, which contain strategic guidelines and technical specifications.

## **8.11 Compliance Management System**

Volkswagen has set up a compliance management system. This system supports operational business processes, helps to ensure compliance with legal provisions and, when necessary, initiates appropriate countermeasures which are continuously integrated into operational business processes. This approach is based on the contents prescribed in the voluntary auditing standard of the Institute of Public Auditors in Germany (IDW) for the verification of compliance management systems (IDW PS 980).

Following the diesel issue and in accordance with the settlement agreements between Volkswagen and the U.S. government, Volkswagen has initiated programs and projects to enhance its internal controls, procedures and compliance systems to strengthen its culture of integrity and accountability. The findings resulting from the internal investigations of the diesel issue have been transformed into general guidelines – so-called Golden Rules – for this purpose. Among other things, Volkswagen has focused on creating an organizational framework for a centralized integrity management function by setting up a new Board of Management position for Integrity and Legal Affairs in 2016. This function is responsible for planning, preparing and implementing programs aimed at raising, clarifying and intensifying a collective awareness of integrity. In addition, pursuant to the settlement agreements, Volkswagen is required to retain for a three-year period an external independent compliance monitor/compliance auditor to review and audit Volkswagen's compliance with the obligations under the settlement agreements. Larry D. Thompson was appointed as the Independent Compliance Monitor in June 2017. See also "*Risk Factors — Risk Factors regarding Volkswagen Aktiengesellschaft and Volkswagen Group — The diesel issue led to a review and ongoing reforms of Volkswagen's internal controls, compliance function and company culture. If these reforms are not completed and future material compliance failures occur, Volkswagen could be exposed to significant adverse consequences.*"

A central Compliance Office has responsibility for setting up a group-wide compliance organization and implements steps to comply with regulations, such as the development and implementation of a code of conduct. Various bodies support the work of the compliance organization at Group and brand company level. For example, a core compliance team was formed at the Group level. In order to implement a uniform

policy, the Compliance Office established a group-wide network consisting of a Group Chief Compliance Officer, Divisional Compliance Officer, Chief Compliance Officers, Compliance Officers and Compliance Representatives, to support the brand parent companies, companies, locations and business units in promoting and assuring compliance. A new Group Chief Compliance Officer of the Volkswagen Group was appointed in April 2017, reporting directly to the member of the Board of Management with responsibility for Integrity and Legal Affairs. His responsibilities include the introduction and monitoring of preventive measures. The Group Chief Compliance Officer is supported by five Divisional Compliance Officers and one Regional Compliance Officer China, who are responsible for the Divisions.

The compliance scope covers topics such as anti-corruption, money laundering prevention, fraud prevention, embezzlement prevention, human rights and investigation of compliance violations of employees and sustainability compliance. Providing information to employees at all work levels continues to be a core component of compliance work within the Volkswagen Group.

Volkswagen maintains a whistleblower system. Tips can be given internally and externally. The internal team consists of lawyers who process tips professionally. Additionally, two independent lawyers are available as ombudsmen to all employees, as well as to outside third parties, via a hotline. The ombudsmen are bound by professional secrecy and only disclose information to company investigators. Any breach of the law or internal guidelines leads to appropriate sanction up to, and including, dismissal.

## **8.12 Insurance**

The Company and its subsidiaries carry various insurance policies, including comprehensive general liability insurance, product liability insurance, environmental liability insurance, property insurance, marine cargo insurance, property business interruption insurance and terrorism insurance policies. Furthermore, the Company has taken out directors' and officers' liability insurance for members of the Board of Management and Supervisory Board of the Company. The Company has also taken out directors' and officers' liability insurance for members of the Board of Management and the Supervisory Board of the Issuer.

The insurance protection is regularly reviewed and adjusted. However, losses incurred by Volkswagen or claimed against Volkswagen may not be fully covered by existing insurance policies. This includes claims associated with product recalls, which are not fully insurable.

## **8.13 Diesel Issue**

On September 18, 2015, the U.S. Environmental Protection Agency ("**EPA**") publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide ("**NOx**") emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 I diesel engines in the United States. In this context, Volkswagen AG announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On November 2, 2015, the EPA issued a "Notice of Violation" alleging that irregularities had also been discovered in the software installed in U.S. vehicles with type V6 3.0 I diesel engines.

Numerous court and governmental proceedings were subsequently initiated in the United States and the rest of the world. Volkswagen was able to end many significant court and governmental proceedings in the United States by concluding settlement agreements. Outside the United States, Volkswagen also reached agreements with regard to the implementation of technical measures with numerous authorities.

In the United States, Volkswagen AG, AUDI AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements with (i) the U.S. Department of Justice ("**DoJ**") on behalf of the EPA and the State of California on behalf of the California Air Resources Board ("**CARB**") and the California Attorney General, (ii) the U.S. Federal Trade Commission ("**FTC**"), and (iii) private plaintiffs represented by a Plaintiffs' Steering Committee (the "**PSC**") in a multi-district litigation in California. The settlement agreements resolved certain civil claims made in relation to affected diesel vehicles in the United States: approximately 475,000 vehicles with four-cylinder 2.0 liter TDI diesel engines from the Volkswagen Passenger Cars and Audi brands and around 83,000 vehicles with six-cylinder 3.0 liter TDI diesel engines from the Volkswagen Passenger Cars, Audi and Porsche brands.

The settlement agreements with respect to the four-cylinder 2.0 liter TDI diesel engine vehicles and the Generation 1 six-cylinder 3.0 liter TDI diesel engine vehicles provide affected customers with, inter alia, the option of a buyback, a trade-in (for 3.0 liter vehicles only), a free emissions modification of the vehicles (if the modification is approved by the EPA and CARB) or – for leased vehicles – early lease termination. Pursuant to the settlement agreements, Volkswagen will also make additional cash payments to affected current owners or lessees as well as certain former owners or lessees. For Generation 2 3.0 liter vehicles, Volkswagen will provide affected consumers with a free emissions compliant repair of the vehicles plus a



cash payment. In addition, Volkswagen will pay U.S.\$2.925 billion over three years to support environmental programs and offset excess NOx emissions and will also invest in total U.S.\$2.0 billion over ten years in zero emissions vehicle infrastructure in the United States. Volkswagen will make additional payments to support the availability of zero emissions vehicles in California. Several thousand consumers have opted out of the settlement agreements, and many of these consumers have filed civil lawsuits seeking monetary damages for fraud and violations of state consumer protection acts. A large number of those lawsuits have been filed in Virginia. The Virginia state court has set trial dates for four trials involving four-cylinder and six-cylinder vehicles, with the first trial scheduled to begin in April 2019.

Volkswagen AG has also entered into agreements to resolve U.S. federal criminal liability relating to the diesel issue and to resolve civil penalties and injunctive relief under the Clean Air Act and other civil claims relating to the diesel issue. The coordinated resolutions involve four settlements, including a plea agreement between Volkswagen AG and the DoJ that is accompanied by a published Statement of Facts, acknowledged by Volkswagen AG, which lays out relevant facts. As part of its plea agreement, Volkswagen AG has pleaded guilty to three felony counts under United States law – including conspiracy to commit fraud, obstruction of justice and using false statements to import cars into the United States – and has been sentenced to three years' probation. The plea agreement provides, *inter alia*, for payment of a criminal fine of U.S.\$2.8 billion and the appointment of an independent monitor for a period of three years who will assess and oversee the compliance with the terms of the resolutions. Larry D. Thompson was appointed as the independent monitor in April 2017. Mr. Thompson submitted his initial review report under the plea agreement in March 2018. Additionally on August 17, 2018, Mr. Thompson submitted his first annual report pursuant to the third partial consent decrees entered into the DoJ and EPA as well as the state of California and CARB. Volkswagen is working to address the recommendations set forth in Mr. Thompson's reports.

Volkswagen AG, AUDI AG and other Volkswagen Group companies have further agreed to pay a combined civil penalty of U.S.\$1.45 billion to resolve U.S. federal environmental and customs-related claims in the United States. Furthermore, Volkswagen AG and Volkswagen Group of America, Inc. have agreed to pay a smaller civil penalty to the DoJ to settle other potential claims arising under Federal statute. DoJ investigations into the conduct of various individuals relating to the diesel issue remain ongoing. Volkswagen is required to cooperate with these investigations. In the event of non-compliance with the terms of the plea agreement, Volkswagen could face further penalties and prosecution.

Volkswagen has also reached separate settlement agreements with the attorneys general of most U.S. states to resolve existing or potential consumer protection, unfair trade practices claims, and/or state environmental law claims. Certain states still have pending consumer protection, unfair trade practices and state environmental law claims against Volkswagen. Investigations by various U.S. regulatory and other government authorities, including in areas relating to securities, tax and financing, are ongoing. For example, the SEC has requested information regarding potential violations of securities laws, in connection with issuances of bonds, and asset-backed securities sponsored, by Volkswagen entities, as a result of non-disclosure of certain Volkswagen diesel vehicles' noncompliance with U.S. emission standards. In January 2017, the SEC informed Volkswagen that it had issued a formal order of investigation; the investigation is ongoing, and the SEC could bring an enforcement action against Volkswagen arising out of this investigation.

Volkswagen has also resolved the claims of most Volkswagen-branded franchise dealers in the United States relating to the affected vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to U.S.\$1,208 million and additional benefits. Certain individual Volkswagen branded franchise dealers have either opted out of the settlement agreement or were not included in the settlement class definition and are pursuing individual claims in individual actions currently pending in the federal multidistrict litigation in California. Similarly, a putative class action of Volkswagen salespersons who work at franchise dealerships filed suit alleging claims for lost income, which is currently pending in the federal multidistrict litigation in California.

In Canada, which has the same NOx emissions limits as the United States, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0 liter and 3.0 liter diesel engines. In December 2016, and subject to court approval that was granted in April 2017, Volkswagen AG and other Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0 liter diesel vehicles which, *inter alia*, provides eligible owners and lessees with cash payments and, if applicable, the option of a free emissions modification of their vehicle if approved by U.S. regulators, a buyback, a trade-in or – for leased vehicles – early lease termination. Concurrently with the announcement of the class settlement in December 2016, Volkswagen Group Canada also agreed with the Commissioner of Competition in Canada to a civil resolution of its regulatory inquiry into consumer protection issues as to 2.0 liter diesel vehicles. In June 2017, Volkswagen Group Canada reached an agreement, without court process and on confidential terms, with its Volkswagen-branded franchise dealers to resolve issues related to the diesel emissions matter. In January 2018, and subject to court approval that was granted in April 2018,

Volkswagen AG and other Volkswagen Group companies reached a consumer settlement in Canada involving 3.0 liter diesel vehicles. For Generation 1 3.0 liter diesel vehicles, the settlement provides affected consumers with, inter alia, the option of a buyback, a trade-in, a free emissions modification of their vehicle if approved by U.S. regulators or – for leased vehicles – early lease termination. For Generation 2 3.0 liter diesel vehicles, consumers who complete a free emissions compliant repair for their vehicles, as approved by U.S. regulators, are entitled to also receive a cash payment under the terms of the settlement. Concurrently with the announcement of the 3.0 liter class settlement in January 2018, Volkswagen Group Canada and the Canadian Commissioner of Competition reached a civil resolution related to consumer protection issues relating to 3.0 liter diesel vehicles. As to pending matters in Canada, a criminal enforcement related investigation by the federal environmental regulator is ongoing as to Volkswagen AG and Volkswagen Group Canada. Additionally, in the case of one provincial environmental regulator in Canada, Volkswagen AG was charged on September 15, 2017 with a quasi-criminal offense alleging that the company caused or permitted the operation of model year 2010-2014 Volkswagen and Audi 2.0 liter diesel vehicles that did not comply with prescribed emission standards. This matter has been postponed to a December 5, 2018 case conference pending ongoing evidence disclosure. No trial date has been set in the matter. On September 17, 2018, Volkswagen, Audi and certain affiliates sought leave to appeal to the Canadian Supreme Court further to a decision by the Quebec provincial court on January 24, 2018, authorizing an environmental class action seeking to assess whether punitive damages can be recovered. Moreover, putative class action and joinder lawsuits by consumers remain pending in certain provincial courts in Canada.

In November 2015, Volkswagen also reported that internal indicators had caused concerns that there might have been irregularities in determining CO<sub>2</sub> figures for type approval of around 800,000 vehicles and, as a result, the CO<sub>2</sub> values and therefore the fuel consumption data published for some vehicle models might have been stated incorrectly. Subsequent measurements performed in coordination with the relevant authorities showed that those concerns of possible irregularities in the CO<sub>2</sub> figures for type approval proved to be not correct. Hence, the negative impact on Volkswagen's earnings of EUR 2 billion that had originally been expected in relation to this aspect of the CO<sub>2</sub> issue was not confirmed. However, the public prosecutor's office in Braunschweig is investigating these circumstances.

In Germany, Volkswagen AG filed a criminal complaint against unknown individuals as did AUDI AG. Volkswagen AG and AUDI AG are cooperating with all responsible authorities in the scope of reviewing the incidents. The public prosecutor's office in Braunschweig has also initiated investigations against one current and two former Volkswagen AG Board of Management members regarding their possible involvement in potential market manipulation in connection with the diesel issue. In July 2018 the public prosecutor's office in Braunschweig formally opened a misdemeanor proceeding in this regard against Volkswagen AG. The Stuttgart public prosecutor's office also confirmed that it is investigating, among others, the former CEO of Volkswagen AG in his capacity as member of the management board of Porsche SE, regarding his possible involvement in potential market manipulation in connection with this same issue. Moreover, the Stuttgart public prosecutor's office has commenced a criminal investigation into the diesel issue against one board member and two employees of Porsche AG on suspicion of fraud and illegal advertising. Furthermore, the public prosecutor's office in Munich II is investigating certain current and former employees in connection with the alleged anomalies in the NO<sub>x</sub> emissions of certain Audi vehicles with diesel engines in the United States and Europe, among others against the former CEO of AUDI AG, who is also a former member of Volkswagen AG's Board of Management.

In addition, in May 2018, federal prosecutors unsealed charges in Detroit against, among others, former Volkswagen CEO Martin Winterkorn, which had been filed under seal in March 2018. Mr. Winterkorn is charged with a conspiracy to defraud the United States, to commit wire fraud, and to violate the Clean Air Act from at least May 2006 through at least November 2015, as well as three counts of wire fraud. Should these investigations result in adverse findings against the individuals involved, this could have a negative impact on the outcome of other proceedings against Volkswagen and/or could have other material adverse financial consequences.

There are additional regulatory, criminal and/ or civil proceedings in several jurisdictions worldwide, particularly in South Korea, but also including Andorra, Argentina, Austria, Australia, Belgium, Brazil, Chile, China, Czech Republic, France, Germany, Greece, India, Ireland, Israel, Italy, Luxembourg, Mexico, the Netherlands, Norway, Poland, Portugal, Romania, Singapore, Slovenia, South Africa, Spain, Switzerland, Taiwan, Turkey and the United Kingdom. Further claims can be expected.

Customers, consumer associations and/or environmental associations in the affected markets have filed civil lawsuits against Volkswagen AG, other Volkswagen Group companies and non-Volkswagen Group importers and dealers involved in the sales process. In addition, it is possible that importers and dealers could assert claims against Volkswagen, for example through recourse claims. Further lawsuits are possible.

Product related class action, collective or mass proceedings against Volkswagen AG and other Volkswagen Group companies are pending in various countries such as Argentina, Australia, Austria, Belgium, Brazil, China, the Czech Republic, Germany, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, South Africa, South Korea, Spain, Switzerland, Taiwan and the United Kingdom. These proceedings are lawsuits aimed among other things at asserting damages, rescission of the purchase contracts or, as is the case in the Netherlands, at a declaratory judgment that customers are entitled to damages.

Most of these proceedings – with the exception of the class action in Brazil, where there has already been a non-binding judgement in the first instance – are in the early stages and it is difficult to assess their prospects of success, the allegations and the claimants' precise causes of action or to quantify the exposure. However, should these actions be resolved in favor of the claimants, they could result in significant civil damages, fines, the imposition of penalties, sanctions, injunctions and other consequences.

Moreover, private and institutional investors from Germany and other jurisdictions (including the U.S. and Canada) are pursuing claims seeking significant damages against Volkswagen AG for allegedly omitting or delaying the immediate publication of price sensitive insider information relating to the diesel issue, and making wrongful financial reporting or false or misleading statements, as well as, in some cases, alleging tort and prospectus liability claims. The claims relate to Volkswagen AG's shares and other securities, including bonds, issued by Volkswagen Group companies, as well as third-party securities.

In Canada, a class action filed in Quebec provincial court has been authorized as to claims relating to Volkswagen AG's shares and ADRs, and a similar class action was also filed in the Province of Ontario. On August 15, 2018, the Ontario court dismissed the case on the basis that it lacked jurisdiction over the action, and, alternatively, that Ontario is not the convenient forum to try the action. An appeal from this Ontario court ruling was noticed on September 14, 2018. Further investor claims could be brought.

#### **8.13.1 Investigation Initiated by Volkswagen**

After the first Notice of Violation was issued, Volkswagen AG immediately initiated its own internal inquiries and an external investigation. The Supervisory Board of Volkswagen AG formed a special committee that coordinates the activities relating to the diesel issue for the Supervisory Board.

The global law firm Jones Day was instructed by Volkswagen AG to carry out an extensive investigation of the diesel issue in light of the DoJ's and the Braunschweig public prosecutor's criminal investigation as well as other investigations and proceedings which were expected at that time. Jones Day was instructed by Volkswagen AG to present factual evidence to the DoJ. To resolve U.S. criminal law charges, Volkswagen AG and the DoJ entered into a Plea Agreement, which includes a Statement of Facts. The Statement of Facts is based in part on Jones Day's factual findings as well as the evidence identified by the DoJ itself.

Jones Day has completed the work required to assist Volkswagen AG in assessing the criminal charges against the company in the United States with respect to the diesel issue. However, work in respect of the legal proceedings that are still pending in the United States and the rest of the world is ongoing and will require considerable efforts and a considerable period of time. In connection with this further work, Volkswagen AG is being advised by a number of external law firms.

#### **8.13.2 Technical Measures**

Volkswagen is in contact with the KBA and further responsible authorities in multiple jurisdictions in order to provide technical measures suitable for each market. For further information, see "*Legal and Arbitration Proceedings — Proceedings related to Diesel Issue — Coordination with the authorities on technical measures*".

#### **8.13.3 Tax Issues**

Tax legislation varies from country to country and taxes related to vehicle registration or vehicle ownership are based on a variety of parameters. Investigations by various regulatory and government authorities, including in areas relating to tax, are ongoing. However, should any tax demands be made, Volkswagen may be required to make additional payments, which would thus increase costs.

#### **8.13.4 Risks**

In 2015, Volkswagen recognized expenses directly related to the diesel issue of €16.2 billion in operating result. This primarily entailed recognizing provisions for field activities (service measures and recalls) and for repurchases in the amount of €7.8 billion, as well as €7.0 billion for legal risks. Additional expenses of €6.4 billion were recognized in 2016. These additions resulted from an increase in expenses attributable to legal risks amounting to €5.1 billion, higher warranty costs amounting to €0.4 billion, specific sales programs amounting to €0.5 billion, impairment losses on inventories amounting to €0.3 billion and

impairment losses on intangible assets and property, plant and equipment amounting to €0.3 billion, which were in part offset by impairment reversals of non-current and current lease assets in the amount of €0.1 billion. The impairment losses recognized on non-current assets resulted primarily from the lower value in use of various products in the Passenger Cars segment due to expected declines in volumes. In addition, in 2016, provisions of €0.3 billion were recognized for the investments totaling U.S.\$ 2.0 billion over 10 years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives for these technologies to which Volkswagen had committed itself in the settlement agreements with the U.S. government. Unutilized provisions for legal risks and sales-related measures amounting to a total of €0.5 billion had an offsetting effect. The translation at December 31, 2016 of provisions denominated in foreign currencies resulted in expenses of €0.2 billion after hedging. In 2017, additional expenses amounted to €3.2 billion, driven primarily by higher expenses for buy-back/retrofit programs for 2.0 and 3.0 l TDI vehicles in North America as well as higher legal risks. An additional expense of €2.4 billion directly related to the diesel issue was recognized in the first nine months of 2018. This expense was mainly attributable to the fines resulting from the final administrative orders issued by the Braunschweig public prosecutor's office (€1.0 billion) and the Munich II public prosecutor's office (€0.8 billion), and to higher legal defense costs.

Contingent liabilities were disclosed in relation to the diesel issue in 2017 in the aggregate amount of €4.3 billion (2016: €3.2 billion), of which lawsuits filed by investors account for €3.4 billion (2016: €3.1 billion). Also included are certain elements of the class action lawsuits relating to the diesel issue as well as criminal proceedings/misdemeanor proceedings as far as these can be quantified. As some of these proceedings are still at a very early stage, the plaintiffs have in a number of cases so far not specified the basis of their claims and/or there is insufficient certainty about the number of plaintiffs or the amounts being claimed. These lawsuits meet the definition of a contingent liability but cannot, as a rule, be disclosed because it is impossible to measure the amount involved. As of September 30, 2018, there were no material changes to the contingent liabilities compared with 2017.

Evaluating known information and making reliable estimates for provisions is a continuous process. The provisions recognized and the contingent liabilities disclosed in relation to the diesel issue, and other latent legal risks are subject to substantial estimation risks given the complexity of the individual factors and the ongoing approval process with the authorities and the fact that the independent and comprehensive investigations have not yet been completed. Furthermore, new information not known to Volkswagen's Board of Management at present may surface, requiring further revaluation of the amounts estimated. Considerable financial charges may be incurred and further substantial provisions may be necessary as the issues and legal risks, fines and penalties crystallize.

For further information on risks associated with the diesel issue, see *"Risk Factors — Risk Factors regarding Volkswagen Aktiengesellschaft and Volkswagen Group — Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities."* and *"Risk Factors — Risk Factors regarding Volkswagen Aktiengesellschaft and Volkswagen Group — The diesel issue led to a review and ongoing reforms of Volkswagen's internal controls, compliance function and company culture. If these reforms are not completed and future material compliance failures occur, Volkswagen could be exposed to significant adverse consequences."* See also *"Legal and Arbitration Proceedings — Proceedings related to Diesel Issue"*.

## **8.14 Legal and Arbitration Proceedings**

Various legal risks could potentially have materially adverse consequences for Volkswagen's business, results of operations, financial position and net assets.

### **8.14.1 Proceedings related to Diesel Issue**

The Volkswagen Group is involved in extensive investigations and legal proceedings in relation to the diesel issue as further detailed below. See also *"Risk Factors — Risk Factors regarding Volkswagen Aktiengesellschaft and Volkswagen Group — Government authorities in a number of jurisdictions worldwide have conducted and are continuing to conduct investigations of Volkswagen regarding findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The results of these and any further investigations, and related civil and criminal litigation, may have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, as well as the prices of its securities, including the Notes, and its ability to make payments under its securities"*.

#### **8.14.1.1 Coordination with the authorities on technical measures**

Based on decisions dated October 15, 2015, the KBA ordered the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles and SEAT brands to recall all diesel vehicles that had been issued with vehicle type approval by the KBA from among the eleven million vehicles affected with type EA 189 engines. The recall concerns the member states of the European Union (EU 28). On December 10, 2015, a similar decision was issued regarding Audi vehicles with type EA 189 engines. The timetable and action plan forming the basis for the recall order correspond to the proposals presented in advance by Volkswagen. Volkswagen Group has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU 28, to service workshops since January 2016. The remedial actions differ in scope depending on the engine variant. The technical measures cover software and in some cases hardware modifications, depending on the series and model year.

The technical measures for all vehicles in the European Union have since been approved without exception. The KBA ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO<sub>2</sub> emissions figures, engine power, maximum torque and noise emissions. Once the modifications have been made, the vehicles will thus also continue to comply with the legal requirements and the emission standards applicable in each case. The technical measures for all affected vehicles with type EA 189 engines in the European Union were approved without exception, and implemented in most cases.

In some countries outside the EU – among others South Korea, Taiwan and Turkey – vehicles are homologated by national type approval authorities; the technical measure must therefore be approved by the national authorities. With the exception of Chile, this approval process has been concluded in all countries.

There is an intensive exchange of information with the authorities in the United States and Canada, where Volkswagen's planned actions for the four-cylinder and six-cylinder diesel engines have to be approved by U.S. regulators. Due to NO<sub>x</sub> limits in the United States and Canada that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge to refit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved. The EPA/CARB have approved emissions modifications for the following 2.0 liter, four-cylinder diesel vehicles: Generation 1 vehicles (model year 2009-2014 Jetta and Jetta Sportwagen, model year 2010-2013 Golf 2-door, model year 2010-2014 Golf 4-door, model year 2013-2014 Beetle and Beetle Convertible, and model year 2010-2013 Audi A3), Generation 2 automatic transmission vehicles (model year 2012-2014 Passat), and both phases of a two part emissions modification for Generation 3 vehicles (model year 2015). The EPA/CARB have also approved emissions modifications for the following 3.0 liter, six-cylinder diesel vehicles: (i) Generation 2.1 vehicles (model year 2013-2015 Audi Q7, model year 2013-2014 VW Touareg, and model year 2013-2014 Porsche Cayenne); (ii) Generation 2.2 SUVs (model year 2015-2016 VW Touareg, and model year 2015-2016 Porsche Cayenne); (iii) Generation 2 passenger cars (model year 2014-2016 Audi A6, model year 2014-2016 A7, model year 2014-2016 A8, model year 2014-2016 A8L, and model year 2014-2016 Q5); (iv) Generation 1.1. vehicles (model year 2009-2010 Audi Q7 and model year 2009-2010 VW Touareg) and (v) Generation 1.2 vehicles (model year 2011-2012 Audi Q7 and model year 2011-2012 Volkswagen Touareg). The buy-back/retrofit program for vehicles in the United States, which is part of the settlements in North America, is proving to be more technically complex and time consuming than anticipated. For example, on September 7, 2017, the EPA and CARB rejected the proposed emissions modification for 2.0 liter Generation 2 diesel vehicles with manual transmissions (model-year 2012-2014 Passat vehicles with manual transmissions). Similarly, on November 9, 2017, the EPA and CARB withdrew their previous approval of the proposed emissions modification for approximately 2,800 2.0 liter, four-cylinder model year 2009 Generation 1 diesel vehicles in the U.S. on the grounds that these vehicles require a mechatronic hardware change before the previously approved emissions modification can be installed. A revised emissions modification for these Generation 1 diesel vehicles was subsequently approved on December 28, 2017. Where emissions modifications have been approved by U.S. regulators, similar emissions recall programs to those in the U.S. have been developed for Canada. In the case of 2.0 liter Generation 2 diesel vehicles with manual transmissions, Volkswagen Group of America, Inc. has withdrawn its intent to seek approval of an emissions modification. Because no repair is available for these 2.0 liter Generation 2 manual transmission vehicles, consumers in the U.S. who owned or leased these vehicles as of June 28, 2016 had the option to participate in the settlement and receive a buyback or early lease termination or opt out of the settlement between May 1, 2018 and June 1, 2018. Because no repair will likewise be available in Canada, consumers in possession of these vehicles had the option to participate in the Canadian settlement and receive a buyback, trade-in or early lease termination or, if they had not already made a claim or received benefits, opt out of the settlement between June 15, 2018 and August 15, 2018. Even if not covered under a settlement, Volkswagen may be required to repurchase any other 2.0 liter Generation 2 diesel vehicles with manual transmissions and any other vehicles sold in the United States, Canada and elsewhere. This could lead to further significant costs. For example, in Canada, as agreed with the federal environmental regulator, Volkswagen Group Canada conducted an outreach to any owners or lessees of manual transmission

2.0 liter Generation 2 diesel vehicles who made a claim by the September 1, 2018 settlement deadline to surrender their vehicle, but were not eligible under the Canadian settlement. Furthermore, if the technical solutions implemented by Volkswagen in order to rectify the diesel issue are not implemented in a timely or effective manner or have an undisclosed negative effect on the performance, fuel consumption or resale value of the affected vehicles, regulatory proceedings and/or customer claims for damages could be brought in the future.

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. A systematic review process for all engine and gear variants has been underway since 2016. On June 14, 2017, based on a technical error in the parametrization of the transmission software for a limited number of specific Audi A7/A8 models that AUDI AG itself discovered and reported to the KBA, the KBA issued an order with which a correction proposed by AUDI AG will be submitted. The technical error lies in the fact that, in the cases concerned, by way of exception a specific function that is standard in all other vehicle concepts is not implemented in actual road use. In Europe, this affects around 24,800 units of certain Audi A7/A8 models. In a preliminary, non-binding assessment, the KBA has not categorized this error as an unlawful defeat device.

On July 21, 2017, AUDI AG offered a software-based retrofit program for up to 850,000 vehicles with V6 and V8 TDI engines meeting the Euro 5 and Euro 6 emission standards in Europe and other markets except the United States and Canada. The measure will mainly serve to further improve the vehicles' emissions in real driving conditions in inner city areas beyond the legal requirements. This will be done in close cooperation with the authorities, which have been provided with detailed reports, especially the German Federal Ministry of Transport and the KBA. The retrofit package comprises voluntary measures and, to a small extent, measures directed by the authorities; these are measures which were proposed by AUDI AG itself, reported to and taken up by the KBA and formally ordered by the latter. The tests for the voluntary measures and those which have been formally ordered have already reached an advanced stage, but have not yet been completed. The measures formally ordered by the KBA so far involved different models of the AUDI, Volkswagen and Porsche brand with a V6 or V8 TDI engine meeting the Euro 6 emission standard, for which the KBA categorized certain emission strategies as an unlawful defeat device.

AUDI currently believes that the overall cost of the software-based retrofit program or additional software updates including the scope related to measures which already have been formally ordered by the KBA will be manageable and has recognized provisions in this respect. Should additional measures become necessary as a result of the investigations by AUDI AG and the consultations with the KBA, AUDI AG will implement these as part of or in addition to the retrofit program. This is the case for a software update for 83,000 Audi A6 and A7 models worldwide with 3.0 liter TDI Generation 2evo engines for which measures have been formally ordered by the KBA. The tests for the voluntary measures and those which have been formally ordered have already reached an advanced stage, but have not yet been finally completed. Therefore, additional measures cannot be excluded. Furthermore on April 4, 2018, the Korean Ministry of Environment ordered a recall after it has categorized (i) certain emissions strategies in the engine control software of various AUDI, Volkswagen and Porsche brand diesel vehicles with a V6 or V8 engine and the Euro 6 emissions classification, and (ii) the Dynamic Shift Program (DSP) in the gearbox control in some AUDI vehicle models, as prohibited defeat devices. In addition, AUDI is responding to requests from the U.S. authorities for information regarding automatic gearboxes in certain vehicles. Further field measures with financial consequences can therefore not be ruled out completely at this time.

#### **8.14.1.2 Criminal and administrative proceedings worldwide (excluding the United States/Canada)**

In addition to the above-described approval processes with the responsible approval authorities, in some countries criminal investigations/misdemeanor proceedings (for example, by the public prosecutor's offices in Braunschweig and Munich, Germany) and/or administrative proceedings (for example, by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – "**BaFin**")) have been opened. On June 13, 2018, the Braunschweig public prosecutor issued an administrative order against Volkswagen AG in the context of the diesel issue. According to the findings of the investigation, monitoring duties had been breached in the Powertrain Development department in the context of vehicle tests and these breaches were concurrent causes of 10.7 million vehicles with the diesel engines of the types EA 288 (Gen3), in the United States and in Canada, and EA 189, world-wide, being advertised, sold to customers, and placed on the market with an alleged impermissible software function in the period between mid-2007 and 2015. The administrative order provides for a fine of €1 billion. Volkswagen AG has accepted the fine and it will not lodge an appeal against it. The Munich II public prosecutor also issued an administrative order against AUDI AG on October 16, 2018, in the context of deviations from regulatory requirements in certain V6 and V8 diesel aggregates and diesel vehicles manufactured or distributed by AUDI AG. The administrative order provides for a fine of EUR 800 million. AUDI AG has accepted the fine.

Contingent liabilities have been disclosed in cases where they can be assessed and for which the likelihood of a sanction was deemed not lower than 10%.

In addition, the public prosecutor's office in Braunschweig announced that it has also initiated investigations against one current and two former Volkswagen AG Board of Management members regarding their possible involvement in potential market manipulation in connection with the release of information concerning the diesel issue. In July 2018 the public prosecutor's office in Braunschweig formally opened a misdemeanor proceeding in this regard against Volkswagen AG. The Stuttgart public prosecutor's office also confirmed that it is investigating, among others, the CEO of Volkswagen AG in his capacity as member of the management board of Porsche SE, regarding his possible involvement in potential market manipulation in connection with this same issue. Moreover, the Stuttgart public prosecutor's office has commenced a criminal investigation into the diesel issue against one board member and two employees of Porsche AG on suspicion of fraud and illegal advertising. Furthermore, the public prosecutor's office in Munich II is investigating certain current and former employees in connection with the alleged anomalies in the NOx emissions of certain Audi vehicles with diesel engines in the United States and Europe, among others against the former CEO of AUDI AG, who is also a former member of Volkswagen AG's Board of Management. Should these investigations result in adverse findings against the individuals involved, this could have a negative impact on the outcome of other proceedings against Volkswagen and/or could have other material adverse financial consequences.

In connection with the various criminal proceedings, offices of Volkswagen AG and its subsidiaries have been searched by different public prosecutor's offices.

#### **8.14.1.3 Product-related lawsuits worldwide (excluding the United States/Canada)**

It is possible that customers, consumer associations and/or environmental associations in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen, for example through recourse claims. As well as individual lawsuits, class action, collective or mass proceedings are possible in various jurisdictions. Furthermore, in a number of markets it is possible that consumer associations and/or environmental associations will apply for an injunction or assert claims for a declaratory judgment or for damages. In the context of the diesel issue, various civil lawsuits are currently pending against Volkswagen AG and other Volkswagen Group companies at present.

There are pending class action, collective or mass proceedings and lawsuits brought by consumer and/or environmental associations against Volkswagen AG and other Volkswagen Group companies in various countries such as Argentina, Australia, Austria, Belgium, Brazil, China, the Czech Republic, Germany, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, South Africa, South Korea, Spain, Switzerland, Taiwan and the United Kingdom. These proceedings are lawsuits aimed among other things at asserting damages, rescission of the purchase contracts or, as is the case in the Netherlands, at a declaratory judgment that customers are entitled to damages. With the exception of Brazil, where there has already been a non-binding judgment in the first instance, these proceedings are in the early stages and it is difficult to assess their prospects of success, the allegations and the claimants' precise causes of action or to quantify the exposure.

In South Korea, various mass proceedings are pending (in some of these individual lawsuits several hundred litigants have been aggregated). These lawsuits have been filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Due to special circumstances in the market and specific characteristics of the South Korean legal system, Volkswagen estimates the litigants' prospects of success in the South Korean mass proceedings mentioned above to be inherently higher than in proceedings in other jurisdictions outside the United States and Canada. On May 12, 2017, one first-instance judgment was delivered in these proceedings in South Korea, in which the court completely dismissed an action filed to assert criminal damages over pollution. The judgment has since become binding.

On November 29, 2017, Volkswagen AG was served with an action brought by the U.S. law firm Hausfeld on behalf of Financialright GmbH before the Regional Court Braunschweig, asserting assigned claims by German customers regarding 15,374 affected vehicles. In addition, on January 31, 2018, Volkswagen AG was served with a further action filed by the Hausfeld law firm (dated December 29, 2017) on behalf of Financialright GmbH asserting assigned claims by an additional 2,004 customers. The 2,004 customers are exclusively customers who have concluded their sales or leasing contracts in Switzerland. Financialright GmbH has requested a declaratory judgment that Volkswagen AG is obligated to compensate the respective customers for damages resulting from the use of the software initially installed in vehicles with type EA 189 and – if applicable – for the damages resulting from the technical measures. On April 25, 2018, Volkswagen AG was served with Hausfeld's latest major action on behalf of Financialright GmbH. This latest major action seeks damages based on purportedly assigned claims of approximately 6,000 customers from Slovenia.

The private Spanish consumer protection organisation Organización de Consumidores y Usuarios (OCU) has filed a class action against Volkswagen Group España Distribución S.A. on May 9, 2018. OCU represents around 7,500 Spanish customers.

Volkswagen AG has been served with 14 actions brought by the Austrian consumer protection organization (VKI) asserting claims for damage compensation for approximately 8,400 customers, which have been assigned to VKI for collection. Furthermore, Volkswagen AG has been served with six actions brought by the platform "Cobin Claims" asserting claims for damage compensation for approximately 80 customers, which have assigned their claims to Cobin Claims for collection.

On November 1, 2018, the German Act on Model Declaratory Action came into effect, allowing certain entities to file an action for declaratory judgment on behalf of consumers. Consumers whose claims are in line with the declaratory goals may opt in for the model declaratory action by registering in the claims register. The aim is to isolate identical legal issues of a larger number of different individual claims and to have them decided swiftly and coherently by a single court. An individual consumer's claim has to be established in a subsequent individual proceeding. On November 1, 2018, a German consumer protection association filed a declaratory model action against Volkswagen AG. According to the association's press statements, it will seek a declaratory judgement on factual and legal questions relating to alleged damage claims by consumers against Volkswagen AG in relation to the purchase of EA 189 vehicles. The relevant wording of the German Act on Model Declaratory Action is widely understood to mean that the bringing of the action against Volkswagen AG will suspend the statute of limitation for those alleged consumer claims against Volkswagen AG which will be validly registered with a claim register by the day prior to the first oral hearing of the declaratory model action. Consumers will only be able to opt-in until such date.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG, other Volkswagen Group companies and non-Volkswagen Group importers and dealers in numerous countries such as Austria, Belgium, Brazil, the Czech Republic; China, Chile, France, Germany, Greece, Ireland, Italy, Luxembourg, Poland, Portugal, Romania, Slovakia, Switzerland, Spain, Turkey and the United Kingdom. Additional claims can be expected. In Germany, around 25,500 individual law suits are pending against Volkswagen AG and/or affiliated companies.

Contingent liabilities have been disclosed for those proceedings that can be assessed and for which the chance of success was deemed not implausible. Provisions were recognized to a small extent. It is too early to estimate how many customers will take advantage of the option to file lawsuits in the future, beyond the existing lawsuits, or what their prospects of success will be.

#### **8.14.1.4 Investor proceedings (excluding the United States/Canada)**

Investors from Germany and abroad have filed claims for damages against Volkswagen AG – in some cases along with Porsche Automobil Holding SE as joint and several debtors – based on purported losses due to alleged misconduct in capital market communications in connection with the diesel issue. The claims relate to Volkswagen AG's shares and other securities, including bonds, issued by Volkswagen Group companies, as well as third-party securities.

As of the date of this Offering Memorandum, approximately 3,800 actions (including conciliatory proceedings, legal default actions and registrations of claims pursuant to Section 10 para 2 of the KapMuG) have been served on Volkswagen AG. Currently, the actions still pending have an overall dispute value totaling around EUR 9 billion. Almost the entire volume is currently pending in approximately 1,600 lawsuits at the District Court (*Landgericht*) in Braunschweig.

On August 5, 2016, the Braunschweig District Court ordered that common questions of law and fact relevant to the lawsuits pending at the Braunschweig District Court be referred to the Higher Regional Court (*Oberlandesgericht*) in Braunschweig for a binding declaratory decision pursuant to the KapMuG, which establishes a procedure for consolidated adjudication in a higher regional court of legal and factual questions common to numerous securities actions. In this proceeding, common questions of law and fact relevant to these actions shall be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig. All lawsuits at the Braunschweig District Court will be stayed pending resolution of the common issues, unless they can be dismissed for reasons independent of the common issues that are adjudicated in the model case proceedings. The resolution of the common issues in the model case proceedings will be binding on all pending cases in the stayed lawsuits. The model case proceedings oral hearings began in September 2018.

At the District Court in Stuttgart, further investor lawsuits have been filed. On December 6, 2017, the District Court in Stuttgart issued an order for reference to the Higher Regional Court in Stuttgart in relation to procedural issues, particularly for clarification of jurisdiction. On account of the diesel issue, further



independent model case proceedings against Porsche SE are also pending before the Higher Regional Court in Stuttgart.

Outside Germany (excluding the United States and Canada) only a small number of investors has sued Volkswagen.

A shareholder association in the Netherlands has filed a lawsuit without specifying any amount claimed, alleging that Volkswagen deceived the capital markets. A decision on the question of jurisdiction of the Dutch courts is currently stayed until final ruling has been made in a similar preceding lawsuit.

Except for legal costs, no provisions have been recognized for these investor lawsuits currently amounting to a total of approximately EUR 9 billion.

BaFin initiated in October 2015 investigations into the question whether Volkswagen AG complied with its capital market disclosure obligations under the German Securities Trading Act (*Wertpapierhandelsgesetz*) in the context of the diesel issue. In June 2016, on the basis of a notice by BaFin, the State Prosecutor's office in Braunschweig initiated an investigation concerning potential market manipulation and violation of securities laws against Volkswagen AG's former CEO, Martin Winterkorn, and Herbert Diess (Volkswagen AG's Board of Management member responsible for the Volkswagen Passenger Cars brand, since July 2015, and CEO of Volkswagen AG, since April 2018). These investigations were later extended to Hans Dieter Pötsch, former CFO and current Chairman of the Supervisory Board of Volkswagen AG. In July 2018 the public prosecutor's office in Braunschweig formally opened a misdemeanor proceeding in this regard against Volkswagen AG.

In August 2016, Deutsche Schutzvereinigung für Wertpapierbesitz e.V. ("**DSW**"), a German association for private investors, initiated court proceedings on behalf of certain large U.S. institutional investors, to enforce by a court decision a special independent audit of the diesel issue, including the question whether in the context of the diesel issue the Board of Management and the Supervisory Board of Volkswagen AG violated their legal duties, and a review of Volkswagen's risk management and compliance systems. In December 2016, Deminor Recovery Services, an association located in Brussels, Belgium, initiated comparable court proceedings on behalf of certain large U.S., British and Swedish institutional investors. Both proceedings were instituted after Volkswagen AG's general shareholders' meeting in June 2016 voted down resolutions proposed by DSW and Deminor Recovery Services, respectively, to appoint a special auditor. In November 2017, the higher regional court in Celle ordered the appointment of a special auditor for Volkswagen AG in the DSW case. However, the higher regional court of Celle was informed subsequently that the court-appointed special auditor is no longer available due to reaching the retirement age. The ruling from the higher regional court of Celle is formally legally binding. However, Volkswagen AG lodged a constitutional complaint with the German Federal Constitutional Court regarding the infringement of its constitutionally guaranteed rights. It is currently unclear when the Federal Constitutional Court will reach a decision on this matter. In addition, DSW has filed a motion with the district court of Hanover to replace the appointed special auditor. Volkswagen AG has challenged this motion and argued that such replacement is not permissible under applicable law. The district court of Hanover has indicated that no decision will be issued prior to the end of November 2018. The second motion by Deminor Recovery Services with the district court of Hanover is suspended until the Federal Constitutional Court's decision in the DSW matter.

#### **8.14.1.5 Proceedings in the United States/Canada**

Following the publication of the EPA's "Notices of Violation" of the U.S. Clean Air Act, Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal) and civil litigation. Volkswagen AG and/or other Volkswagen Group companies have received subpoenas and inquiries from state attorneys general and other governmental authorities and are responding to such investigations and inquiries. In addition, Volkswagen AG and other Volkswagen Group companies in the United States and Canada are facing litigation on a number of different fronts relating to the matters described in the EPA's "Notices of Violation".

A large number of putative class action lawsuits by customers and dealers have been filed in U.S. federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

On January 4, 2016, the DoJ, Civil Division, on behalf of the EPA, initiated a civil complaint against Volkswagen AG, AUDI AG and certain other Volkswagen Group companies. The action seeks statutory penalties under the U.S. Clean Air Act, as well as certain injunctive relief, and has been consolidated for pretrial coordination purposes in the California multidistrict litigation.

On January 12, 2016, CARB announced that it intended to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations. On June 28, 2016, Volkswagen AG,

Volkswagen Group of America, Inc. and certain affiliates lodged with the Court a first partial consent decree with the DoJ on behalf of the EPA, CARB and the California Attorney General; and also filed a settlement agreement with private plaintiffs represented by a PSC in the Multi-District Litigation pending in California and a partial consent order with the FTC. Collectively, these agreements resolved certain civil claims made in relation to affected diesel vehicles with 2.0 liter TDI diesel engines from the Volkswagen Passenger Cars and Audi brands in the United States. On October 18, 2016, a fairness hearing on whether final approval should be granted was held, and on October 25, 2016, the court granted final approval of the agreements. A number of class members have filed appeals to a U.S. appellate court from the order approving the settlements and on July 9, 2018, a three-judge panel on the U.S. appellate court affirmed the settlement. Certain of those class members have appealed that decision for an *en banc* rehearing by the U.S. appellate court.

The settlements provide affected customers with the option of a buyback or, for leased vehicles, early lease termination, or a free emissions modification of the vehicles, which is currently only available for Generation 3 2.0 liter vehicles, Generation 2 automatic transmission diesel Passat vehicles and Generation 1 2.0 liter vehicles. Volkswagen will also make additional cash payments to affected current owners or lessees as well as certain former owners or lessees. Volkswagen also agreed to support environmental programs. The company will pay USD 2.7 billion over three years into an environmental trust, managed by a trustee appointed by the court, to offset excess NOx emissions; Volkswagen made the first and second payments of USD 900 million in November 2016 and November 2017, respectively. Volkswagen will also invest in total USD 2.0 billion over ten years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives.

Volkswagen AG and certain affiliates also entered into a separate partial consent decree with CARB and the California Attorney General resolving certain claims under California unfair competition, false advertising, and consumer protection laws related to both the 2.0 liter and 3.0 liter TDI diesel engine vehicles, which was lodged with the court on July 7, 2016. Under the terms of the agreement, Volkswagen agreed to pay California USD 86 million. The court entered judgment on the partial consent decree on September 1, 2016 and the USD 86 million payment was made on September 28, 2016. The partial consent decree includes injunctive and periodic reporting obligations aimed at improving Volkswagen's compliance system.

On December 20, 2016, Volkswagen entered into a second partial consent decree with the DoJ, EPA, CARB and the California Attorney General that resolved claims for injunctive relief under the Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0 liter TDI diesel engine vehicles. Under the terms of this consent decree, Volkswagen agreed to implement a buyback and lease termination program for Generation 1 (model years 2009-2012) 3.0 liter TDI diesel engine vehicles and a free emissions recall and modification program for Generation 2 (model years 2013-2016) 3.0 liter TDI diesel engine vehicles; and pay USD 225 million into the environmental mitigation trust that will be established pursuant to the first partial consent decree. The second partial consent decree was lodged with the court on December 20, 2016 and approved on May 17, 2017.

In addition, on December 20, 2016, Volkswagen entered into an additional, concurrent second partial consent decree, subject to court approval, with CARB and the California Attorney General that resolved claims for injunctive relief under California environmental, consumer protection and false advertising laws related to the 3.0 liter TDI diesel engine vehicles. Under the terms of this consent decree, Volkswagen agreed to provide additional injunctive relief to California, including the implementation of a second "Green City" initiative and the introduction of three new Battery Electric Vehicle ("**BEV**") models in California by 2020, as well as a USD 25 million payment to CARB to support the availability of zero emission vehicles in California.

On January 11, 2017, Volkswagen entered into a third partial consent decree with the DoJ and EPA that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0 liter and 3.0 liter TDI diesel engine vehicles. Volkswagen agreed to pay USD 1.45 billion (plus any accrued interest) to resolve the civil penalty and injunctive relief claims under the Clean Air Act, as well as the customs claims of the U.S. Customs and Border Protection. Under the third partial consent decree, the injunctive relief includes monitoring, auditing and compliance obligations. This consent decree, which was subject to public comment, was lodged with the court on January 11, 2017. Also, on January 11, 2017, Volkswagen entered into a settlement agreement with the DoJ to resolve any claims under FIRREA and agreed to pay USD 50 million (plus any accrued interest), specifically denying any liability and expressly disputing any claims. The court entered judgment on the third partial consent decree on April 13, 2017. On June 1, 2018, a notice of amendment to the third partial consent decree was filed with the federal multidistrict litigation court in California, modifying certain due dates related to annual reporting requirements.

On January 11, 2017 Volkswagen reached an agreement in principle with the State of California and CARB to pay USD 153.8 million in civil penalties and cost reimbursements. These penalties covered California air quality rule violations for both the 2.0 liter and 3.0 liter TDI diesel engine vehicles. This third partial consent decree with California requires injunctive relief generally mirroring the relief included in the DoJ third partial

consent decree. It was lodged with the court on July 20, 2017 and received final approval on July 21, 2017. On August 30, 2018, a notice of amendment to this third California partial consent decree entered into with the State of California was also filed in the federal multidistrict litigation court, modifying certain due dates related to annual reporting requirements.

The DoJ also opened a criminal investigation focusing on allegations that various federal law criminal offenses were committed. As part of its plea agreement, Volkswagen AG pleaded guilty on March 10, 2017 to three felony counts under United States law: (i) conspiracy to defraud the United States, to commit wire fraud and to violate the Clean Air Act, (ii) obstruction of justice, and (iii) using false statements to import cars into the United States. The court accepted Volkswagen AG's guilty plea to all three charges and sentenced the company to three years' probation on April 21, 2017. The plea agreement provides for payment of a criminal fine of U.S.\$2.8 billion. Pursuant to the terms of this agreement, Volkswagen will be on probation for three years and will work with an independent monitor for three years. The independent monitor, Larry D. Thompson, who was appointed in April 2017, will assess and oversee the company's compliance with the terms of the resolution. This includes overseeing the implementation of measures to further strengthen compliance, reporting and monitoring systems, including an enhanced ethics program. Volkswagen will also continue to cooperate with the DoJ's ongoing investigation of individual employees or former employees who may be responsible for criminal violations. Moreover, investigations by various U.S. regulatory and government authorities, including in areas relating to securities, tax and financing, are ongoing. For example, the SEC has requested information regarding potential violations of securities laws, in connection with issuances of bonds, and asset-backed securities sponsored, by Volkswagen entities, as a result of non-disclosure of certain Volkswagen diesel vehicles' noncompliance with U.S. emission standards. In January 2017, the SEC informed Volkswagen that it had issued a formal order of investigation; the investigation is ongoing, and the SEC could bring an enforcement action against Volkswagen arising out of this investigation.

On January 31, 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement with private plaintiffs represented by the PSC in the multidistrict litigation pending in California and a consent order with the FTC. These agreements resolved certain civil claims made in relation to affected diesel vehicles with 3.0 liter TDI diesel engines from the Volkswagen, Audi and Porsche brands in the United States. On February 14, 2017, the court granted preliminary approval of the settlement agreements in relation to the six-cylinder 3.0 liter TDI diesel engines, which were lodged with the court on January 31, 2017. On May 17, 2017, the court finally approved the settlement agreements in connection with the six-cylinder 3.0 liter TDI diesel engines.

Under the settlements, consumers' options and compensation will depend on whether their vehicles are classified as Generation 1 or Generation 2. Generation 1 (model years 2009-2012) consumers will have the option of a buyback, early lease termination, trade-in, or a free emissions modification, provided that EPA and CARB approve the modification. Additionally, Generation 1 owners and lessees, as well as certain former owners and lessees, will be eligible to receive cash payments.

Generation 2 (model years 2013-2016) consumers will receive a free emissions compliant repair to bring the vehicles into compliance with the emissions standards to which they were originally certified as well as cash payments. Volkswagen will also make cash payments to certain former Generation 2 owners or lessees.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of most Volkswagen branded franchise dealers in the United States relating to TDI vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to USD 1.208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. On January 18, 2017, a fairness hearing on whether final approval should be granted was held, and on January 23, 2017, the court granted final approval of the settlement agreement. On April 12, 2017, the court granted the dealer class counsel \$3.1 million in attorneys' fees and costs. Certain individual Volkswagen branded franchise dealers have either opted out of the settlement agreement or were not included in the settlement class definition and are pursuing individual claims.

Additionally, in the United States, some putative class actions, some individual customers' lawsuits and some state or municipal claims have been filed in the federal multidistrict litigation and in state courts. These actions include suits on behalf of consumers and franchise dealers who have opted out of the class action settlements. On September 21, 2017, October 25, 2017 and January 9, 2018 the court in the federal multidistrict litigation allowed more than 1,500 consumers who had initially opted out of the class action settlements to revoke their opt outs and participate in the class action settlements, eliminating a number of pending consumer claims. Approximately 1,375 other opt-outs remain pending. Additionally, a putative class action by certain non-Volkswagen car dealerships is currently pending in the federal multidistrict litigation, asserting that Volkswagen engaged in unfair competition by diverting sales from competitors through false

advertising. Similarly, a putative class action of Volkswagen salespersons who work at franchise dealerships filed suit, which is currently pending in the multidistrict litigation in California.

Volkswagen reached separate agreements with the attorneys general of 44 U.S. states, the District of Columbia and Puerto Rico, to resolve their existing or potential consumer protection and unfair trade practices claims – in connection with both 2.0 liter TDI and 3.0 liter TDI vehicles in the United States – for a settlement amount of USD 603 million. Six states — Arizona, New Jersey, New Mexico, Oklahoma, Vermont, and West Virginia — did not join these settlements. Volkswagen reached a separate agreement with New Jersey to resolve its consumer protection and environmental claims for USD 69 million. Volkswagen also reached separate agreements with Arizona (USD 40 million), West Virginia (USD 2.7 million), Oklahoma (USD 8.5 million) and Vermont (USD 6.5 million) to resolve their consumer protection claims.

Volkswagen also reached an agreement with the attorneys general of ten U.S. states (Connecticut, Delaware, Maine, Massachusetts, New York, Oregon, Pennsylvania, Rhode Island, Vermont and Washington) to resolve their existing or potential state environmental law claims – in connection with both 2.0 liter and 3.0 liter TDI vehicles – for a settlement amount of approximately USD 157 million. Separately, in April 2018, Volkswagen reached agreement to resolve Maryland’s environmental and remaining consumer claims for restitution or injunctive relief, for USD 29 million. Nine U.S. states (Alabama, Illinois, Minnesota, Montana, New Hampshire, New Mexico, Ohio, Tennessee, and Texas) and several counties have suits proceeding in state courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates seeking civil penalties and injunctive relief for alleged violations of environmental laws. Two other states, Wyoming and Missouri, also filed environmental actions against Volkswagen and its affiliates, but those states’ actions were dismissed by the court in the federal multidistrict litigation in California and a Missouri state court, respectively, as pre-empted by the federal Clean Air Act, and Wyoming and Missouri did not appeal. Alabama, Illinois, Minnesota, Missouri, Montana, New Hampshire, Ohio, Tennessee, and Texas participated in the state settlements described above with respect to consumer protection and unfair trade practices claims, but those settlements did not include claims for environmental penalties.

Volkswagen has moved to dismiss (or moved for summary judgment on) several of the pending state environmental lawsuits on pre-emption grounds. On December 18, 2017, an Alabama state court dismissed Alabama’s environmental action as pre-empted by the federal Clean Air Act, though Alabama has appealed that decision. On March 9, 2018, and March 20, 2018, state courts in Minnesota and Tennessee respectively granted in part and denied in part Volkswagen’s motions to dismiss. Volkswagen is appealing both decisions and Tennessee is also appealing. On April 11, 2018, a Texas state court similarly granted in part and denied in part Volkswagen’s motion for summary judgment. Although the Texas trial court denied permission to appeal, Volkswagen filed a mandamus petition in a Texas appellate court seeking to overturn the trial court’s decision. On April 16, 2018, the court in the federal multidistrict litigation in California dismissed as pre-empted by the federal Clean Air Act state and local environmental claims brought by Hillsborough County, Florida, and Salt Lake County, Utah, rejecting the grounds on which the Tennessee, Minnesota, and Texas courts had declined to dismiss similar claims. The counties have appealed that decision. On June 5, 2018, following the decision of the court in the federal multidistrict litigation, an Illinois state court dismissed Illinois’s environmental action, though Illinois has appealed.

Settlement negotiations to resolve consumer and/or environmental claims of the remaining states are ongoing, but it is difficult to predict the outcome of those discussions.

In addition to the lawsuits described above, for which provisions have been recognized, a putative class action has been filed on behalf of purchasers of Volkswagen AG ADRs, alleging a drop in price purportedly resulting from the matters described in the EPA’s “Notices of Violation”. On August 28, 2018, the parties to this litigation filed a “Stipulation and Agreement of Settlement”, agreeing to settle the litigation on behalf of the putative class of ADR purchasers in exchange for a cash payment of U.S.\$48 million. The proposed settlement is subject to approval by the court.

A putative class action has also been filed on behalf of purchasers of certain USD-denominated Volkswagen bonds, alleging that these bonds were trading at artificially inflated prices due to Volkswagen’s alleged misstatements and omissions to disclose material facts, and that the value of these bonds declined after the EPA issued its “Notices of Violation”. This lawsuit has also been consolidated in the federal multidistrict litigation proceeding in the State of California described above. No provisions have been recognized. In addition, contingent liabilities have not been disclosed as they currently cannot be measured.

In Canada, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0 liter and 3.0 liter diesel engines. On December 19, 2016, Volkswagen AG and other Canadian and U.S. Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0 liter diesel engine vehicles, which the courts approved on April 21, 2017. Also on December 19, 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution of its regulatory inquiry into consumer protection issues as to those vehicles. Attorneys’ fees and costs in

connection with the 2.0 liter consumer settlement have to date been resolved through negotiation as to the portion for class counsel representing consumers outside of the Province of Quebec. In June 2017, Volkswagen Group Canada reached an agreement, without court process and on confidential terms, with its Volkswagen-branded franchise dealers to resolve issues related to the diesel emissions matter. On January 12, 2018, and subject to court approval that was granted by April 25, 2018, Volkswagen reached a consumer settlement in Canada involving 3.0 liter diesel vehicles. Also on January 12, 2018, Volkswagen Group Canada and the Canadian Commissioner of Competition reached a civil resolution related to consumer protection issues relating to 3.0 liter diesel vehicles. As to pending matters in Canada, a criminal enforcement related investigation by the federal environmental regulator is ongoing as to Volkswagen AG and Volkswagen Group Canada in relation to 2.0 liter and 3.0 liter diesel engine vehicles. Provisions have been recognized for possible obligations stemming from pending lawsuits in Canada. In addition, on September 15, 2017, the environmental regulator for the Province of Ontario charged Volkswagen AG with a quasi-criminal offense alleging that the company caused or permitted the operation of model year 2010-2014 Volkswagen and Audi 2.0 liter diesel vehicles in Ontario that did not comply with prescribed emission standards. Initial court appearances for the charge took place on November 15, 2017, February 7, 2018, April 4, 2018, June 7, 2018, and September 27, 2018. No trial date has been set, and the matter has been deferred to a December 5, 2018 case conference while Volkswagen AG awaits further evidence disclosure from the province. Provisions have been recognized for possible obligations stemming from pending lawsuits and regulatory investigations in Canada, which are being updated if estimates are revised. On September 17, 2018, Volkswagen, Audi and certain affiliates sought leave to appeal to the Supreme Court further to a decision by the Quebec provincial court on January 24, 2018, authorizing an environmental class action seeking to assess whether punitive damages can be recovered. Moreover, putative class action and joinder lawsuits by consumers remain pending in certain provincial courts in Canada. An assessment of the underlying situation is not possible at this early stage of those proceedings.

In Canada, a class action filed in Quebec provincial court has been authorized as to claims relating to Volkswagen AG's shares and ADRs, and a similar class action was also filed in the Province of Ontario. On August 15, 2018, the Ontario court dismissed the case on the basis that it lacked jurisdiction over the action, and, alternatively, that Ontario is not the convenient forum to try the action. An appeal from this Ontario court ruling was noticed on September 14, 2018. Further investor claims could be brought.

#### **8.14.1.6 Proceedings in relation to automatic transmissions**

Since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles. Additionally, fourteen putative class actions have been filed against Audi and certain affiliates alleging that defendants concealed the existence of "defeat devices" in Audi brand vehicles with automatic transmissions. These putative class actions have been transferred to the federal multidistrict litigation proceeding in the State of California. On October 12, 2017, plaintiffs filed a consolidated class action complaint, and defendants filed a motion to dismiss on December 11, 2017, which has been fully briefed. The parties have stipulated to remove from the court's calendar the hearing on the motion to dismiss that had been scheduled for May 11, 2018.

On December 22, 2017, a mass action on behalf of approximately 75 individual plaintiffs was filed in a California state court alleging similar claims with respect to the existence of "defeat devices" in Audi brand vehicles with automatic transmissions. This case was removed to the Northern District of California on January 25, 2018. Plaintiffs have filed a motion to remand the matter back to state court and all briefing has been completed. A hearing date has not been scheduled and the matter has been stayed pending conclusion of the settlement process.

In Canada, two similar putative class actions, including for a national class, have been filed in Ontario and Quebec provincial courts against Audi AG, Volkswagen AG and U.S. and Canadian affiliates. Both of the Canadian actions are in the pre-certification stage. An authorization hearing is scheduled before a Quebec provincial court for November 13, 2018, to determine if the case may proceed as a class action. In the Ontario matter, the hearing on the class certification motion is scheduled for March 29, 2019.

#### **8.14.1.7 Scrapping subsidies**

Volkswagen AG has received a request for information from the German Federal Office for Economic Affairs and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle*) in relation to the scrapping subsidies (*Umweltprämie*) granted to vehicle owners by the German government in 2009 and 2010. The scrapping premium per vehicle amounted to €2,500. The authority seeks to determine whether approximately 705,000 Volkswagen Group vehicles fulfilled the then-applicable emissions conditions necessary to qualify for the grant. This includes vehicles with various types of gasoline and diesel engines. The authority has not yet requested Volkswagen to reimburse any subsidies granted to Volkswagen Group customers for vehicles affected by the diesel issue. Based on Volkswagen's current assessment, the reimbursement has no legal basis. However, as of the date of this Offering Memorandum, it cannot be finally excluded that Volkswagen could be required to reimburse any amounts.

#### **8.14.1.8 Investigations in relation to European Investment Bank loans**

The European Anti-Fraud Office (“**OLAF**”) conducted an investigation against Volkswagen AG seeking to determine whether Volkswagen used loans from the European Investment Bank (“**EIB**”) or any other funding from the European Union for purposes other than agreed in the respective agreements or funding guidelines, in particular in relation to research and development of the EA 189 engine. On July 25, 2017, Volkswagen AG was notified that OLAF has closed its investigation and submitted its final report dated July 19, 2017 to the public prosecutor’s office in Braunschweig and to the EIB who are in the process of reviewing the issue. As of the date of this Offering Memorandum, Volkswagen cannot assess if and to what extent risks may arise from any measure the public prosecutor in Braunschweig and/or the EIB may take following the analysis of the final report.

#### **8.14.2 Investor Claims in connection with Porsche**

In 2011, ARFB Anlegerschutz UG (haftungsbeschränkt) brought an action against Volkswagen AG and Porsche Automobil Holding SE for claims for damages for allegedly violating disclosure requirements under capital market law in connection with the acquisition of ordinary shares in Volkswagen AG by Porsche in 2008. The damages currently being sought are based on allegedly assigned rights and amount to approximately €2.26 billion plus interest. In April 2016, the District Court in Hanover had formulated numerous objects of declaratory judgment that the Cartel Senate of the Higher Regional Court in Celle will decide on in model case proceedings under the KapMuG. In the first hearing on October 12, 2017, the Senate indicated that it currently does not see claims against Volkswagen AG as justified, both in view of a lack of substantiated submissions and for legal reasons. Some of the desired objects of declaratory judgment on the litigants’ side may also be inadmissible, the Senate said.

At the time (2010/2011), other investors had also asserted claims arising out of the same circumstances – including claims against Volkswagen AG – in an approximate total amount of €4.6 billion and initiated conciliation proceedings. Volkswagen AG always refused to participate in these conciliation proceedings; since then, these claims have not been pursued further. Volkswagen AG continues to consider the alleged claims to be without merit.

#### **8.14.3 Antitrust Proceedings**

##### **8.14.3.1 Europe**

In 2011, the European Commission opened antitrust proceedings against European truck manufacturers including MAN and Scania. With its first decision following individual settlements in July 2016 the European Commission fined five European truck manufacturers excluding MAN and Scania. MAN was not fined as the company had informed the Commission about the cartel as a key witness. With regard to Scania, the Commission issued a contentious fine decision in September 2017 by which a fine of EUR 0.88 billion was imposed. Scania has appealed to the European Court in Luxembourg and will use all means at its disposal to defend itself. Depending on how the legal proceedings develop, actual fines may differ. In 2016, Volkswagen set aside a EUR 0.4 billion provision in connection with the proceedings. As is the case in any antitrust proceedings, further lawsuits from customers against MAN and Scania have been filed and will continue to be filed, which could result in substantial liabilities.

Volkswagen is also subject to an ongoing antitrust investigation by the European Commission in relation to potential collusion in the field of technical developments among certain European auto manufacturers. As part of an announced review, in November 2017, the European Commission examined documents in the offices of Volkswagen AG and AUDI AG. Prior to and following the examination, Volkswagen Group companies concerned have been cooperating fully and for a long time with the European Commission and have submitted a corresponding application. In September 2018, the European Commission opened a formal investigation into this matter, restricting the scope of the investigation to the subject of clean emissions technology.

Furthermore, Volkswagen is subject to an ongoing antitrust investigation by the German Federal Cartel Office in relation to potential anti-competitive behavior with regard to steel purchasing. Following proceedings against steel manufacturers on alleged price fixing, the Federal Cartel Office in June 2016 extended the scope of its investigation to certain steel processing companies as well as other steel customers including Volkswagen and in this context carried out an on-site inspection in the offices of Volkswagen AG in June 2016. The Volkswagen Group companies concerned are cooperating fully with the Federal Cartel Office.

The above proceedings are currently pending, and it is too early to assess the potential consequences of the investigation on Volkswagen.

In 2017, the Italian Competition Authority initiated proceedings to investigate potential competition law infringements (alleged exchange of competitively sensitive information) by a number of captive automotive finance companies, including Volkswagen Bank GmbH. The proceedings were later extended to the relevant parent companies, including Volkswagen AG. In October 2018, Volkswagen AG and Volkswagen Bank

GmbH received a statement of objections summarizing the findings and describing the alleged infringement. At this stage, it is too early to determine the risk exposure for Volkswagen Group.

#### **8.14.3.2 United States and Canada**

From July through November 2017, plaintiffs filed numerous complaints in various jurisdictions on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen AG, Volkswagen Group of America, Inc. and Audi AG. The complaints allege that since the 1990s, defendants engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles by agreeing to share commercially sensitive information and to reach unlawful agreements regarding technology, costs, and suppliers. Moreover, plaintiffs allege that the defendants agreed to limit the size of AdBlue tanks to ensure that U.S. emissions regulators did not scrutinize the emissions control systems in defendants' vehicles, and that such agreement for Volkswagen and Audi was the impetus for the creation of the defeat device. The complaints further allege that defendants coordinated to fix the price of steel used in their automobiles by agreeing with German steel manufacturers to apply a two component pricing formula to steel purchases and worked closely together to generate scientific studies aimed at promoting diesel vehicles. On May 17, 2018, all defendants filed a joint motion to dismiss the two consolidated class action complaints. On May 24, 2018, Volkswagen defendants also filed an individual motion to dismiss on grounds specific to them. The motions have been fully briefed, and a hearing is currently scheduled for February 12, 2019.

Similar claims have been filed in various Canadian jurisdictions. These claims are at an early stage. Service on Volkswagen AG is still pending in some. It is anticipated that claims will ultimately proceed in Ontario and Quebec. A carriage motion to determine which of the competing claims in Ontario will move forward was decided on March 7, 2018 with the court selecting one of the competing claims. No further steps have been scheduled in any of the Canadian actions at this time.

Additionally, Volkswagen AG and certain of its current and former executives and directors have been named as defendants in a putative class action filed in the United States District Court for the Eastern District of New York. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, based on allegations relating to statements in Volkswagen AG's Annual Reports for the years 2012 through 2016 regarding Volkswagen AG's compliance measures, in particular those relating to competition and antitrust law, as well as allegations in an antitrust litigation against Volkswagen AG in the Northern District of California. On July 13, 2018, plaintiffs filed an amended complaint, which Volkswagen moved to dismiss on September 11, 2018. Briefing will be completed in December and discovery is stayed pending resolution of the motion to dismiss.

#### **8.14.4 MAN SE Award Proceedings**

The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Volkswagen Truck & Bus GmbH (formerly Truck & Bus GmbH), a subsidiary of Volkswagen AG, in June 2013. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the German Stock Corporation Act (*AktG — Aktiengesetz*) and the cash compensation in accordance with section 304 of the German Stock Corporation Act. It is not uncommon for noncontrolling interest shareholders to institute such proceedings. According to the final decision of the Higher Regional Court in Munich in June/July 2018, the cash settlement payable to the noncontrolling interest shareholders was fixed at €90.29 per share and the annual compensation claim at €5.47 gross (less any corporate income tax and any solidarity surcharge according to the respective tax rate applicable to these taxes for the financial year in question). The decisions by the Higher Regional Court in Munich were published in the Federal Gazette on August 6, 2018. In accordance with section 305 of the German Stock Corporation Act, it was possible to accept the cash compensation of €90.29 per share within two months after this date. Further applications were made by some of MAN's noncontrolling interest shareholders to the Higher Regional Court in Munich. Whether these will be accepted by the court has not been decided yet.

#### **8.14.5 Nullification Lawsuits**

Two separate claims were initiated against Volkswagen in the District Court (*Landgericht*) of Hannover seeking nullification of certain resolutions passed at the annual General Meeting of Shareholders on June 22, 2016. Specifically, the first claim sought nullification of: (i) the discharge of members of the Board of Management for the financial year 2015, (ii) the discharge of members of the Supervisory Board for the financial year 2015 and (iii) the election to the Supervisory Board of Dr. Hessa Sultan Al-Jaber, Ms. Annika Falkengren, Dr. Louise Kiesling and Mr. Hans Dieter Pötsch. The second claim also addressed some of these same issues and specifically sought the nullification of the resolutions on: (i) the allocation of profits, (ii) the discharge of members of the Board of Management for the financial year 2015, (iii) the discharge of members

of the Supervisory Board for the financial year 2015 and (iv) the election of Dr. Louise Kiesling and Mr. Hans Dieter Pötsch to the Supervisory Board. In September 2017, the District Court rejected all claims. Following denial by the Higher Regional Court in Celle of the appeal filed by the first claimant, the claimant filed a complaint with the German Supreme Court to overrule and Regional Court's denial and permit the appeal.

On June 22, 2017, an additional claim was initiated against Volkswagen in the District Court (*Landgericht*) of Hannover seeking nullification of certain resolutions passed at the annual General Meeting of Shareholders on May 10, 2017. Specifically, the claim seeks nullification of: (i) the discharge of Mr. Matthias Müller from the Board of Management for the financial year 2016, (ii) the discharge of Mr. Hans Dieter Pötsch from the Supervisory Board for the financial year 2016, and (iii) the discharge of Mr. Stephan Weil from the Supervisory Board for the financial year 2016. In July 2018, the District Court of Hannover rejected the claim and the plaintiff filed an appeal with the Higher Regional Court in Celle.

#### **8.14.6     *MAN Latin America Tax Proceedings***

In the tax proceedings between MAN Latin America Indústria e Comércio de Veículos Ltda. ("**MAN Latin America**") and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment was rendered in administrative court proceedings, which was negative for MAN Latin America. MAN Latin America has initiated proceedings against this judgment before the regular court in 2018. Because of the potential range of penalties plus interest which could potentially apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is laden with uncertainty. However, a positive outcome continues to be expected for MAN Latin America. Should the opposite occur, this could result in a risk of about €0.6 billion for the contested period from 2009 onwards, which has been reported within the contingent liabilities as of September 30, 2018. This assessment is based on the accumulated accounts at the reporting date for the claimed tax liability including the potential expected penalty surcharges, as well as accumulated interest, but excluding any future interest and without discounting any cash flows.

#### **8.15        Legal Factors Influencing Business**

As with other international companies, Volkswagen's business is affected by numerous laws in Germany and abroad. In particular, these are legal requirements relating to development, production and distribution, and also include tax, capital market, commercial and company law, as well as antitrust, environmental, labor, banking, state aid, energy and insurance regulations.

Risks from the legal and political framework have a considerable impact on Volkswagen's future business success and have tended to become greater during the recent period. Regulations concerning vehicles' emissions, fuel consumption and safety play a particularly important role. Complying with these varied and often diverging regulations across the world requires strenuous efforts on the part of the automotive industry. In addition to emissions, consumption and safety regulations, traffic-policy restrictions for the reduction of traffic congestion, noise and pollution are becoming increasingly important in cities and urban areas in the European Union and other regions. For example, bans on diesel vehicles are being gradually implemented in several jurisdictions.

When transparent and economically viable, insurance cover is taken out for these risks. For the identifiable and measurable risks, corresponding provisions are recognized and information about contingent liabilities is disclosed. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not being covered by the insured amounts and provisions cannot be ruled out. This particularly applies to legal risk assessment regarding the diesel issue.



## 9. REGULATION

Volkswagen's business is subject to regulatory requirements in various countries. These relate, among other things, to environmental law, intellectual property and copyright law, consumer protection law, product warranty and product liability law, energy law, labor and employment protection law, hazardous substances and chemicals law, export control regulations, banking and insurance law, competition and antitrust law, construction and planning law and tax law, anti-money laundering law and criminal law. In addition, international agreements, including bilateral and multilateral agreements between countries concerning customs duties or other regulations related to the import and export of products, are important for Volkswagen.

Applicable regulatory requirements are not always homogeneous. The cost of compliance with regulatory requirements can be significant and is ongoing.

The regulatory environment applicable to Volkswagen's business operations, broken down by division, is described below.

### 9.1 Automotive Division

The automotive business is in particular subject to regulations concerning the development, design, production and sale/distribution of vehicles, as well as product-related regulations.

#### 9.1.1 *Regulations concerning the development, design, production and distribution of vehicles*

##### 9.1.1.1 *Industrial environmental control*

###### 9.1.1.1.1 *Requirements in Member States of the European Union*

All legal systems of the Member States of the European Union impose restrictions on excessive pollution of the environment, including regulations on air pollutants, chemicals, heavy metals, persistent organic pollutants ("POPs"), and biocides. Volkswagen must comply with these regulations in their manufacturing processes and regarding the contents of their end products.

Volkswagen's European processes are subject to the Regulation for Registration, Evaluation, Authorization and Restriction of Chemicals (Regulation (EC) No 1907/2006 of the European Parliament and of the Council of December 18, 2006, as last amended by Commission Regulation (EU) No 2015/1494 of September 4, 2015) ("**REACH**"). REACH requires manufacturers and importers of chemicals to identify and manage risks linked to the substances they manufacture and market, to submit a registration dossier for substances produced or imported in quantities of one ton or more per year per company, and to provide their downstream users with the risk information they need to be able to use the substances safely. In addition, for "substances of very high concern," REACH may either require authorization for further use or impose restrictions in the future, which may delay or increase the costs of operations.

Further, Volkswagen must comply with the Stockholm Convention on Persistent Organic Pollutants, which the European Union adopted as Regulation (EC) No 850/2004, restricting or, in some cases, prohibiting the production, release and use of numerous POPs, and the Biocidal Product Regulation (Regulation (EU) 528/2012), which regulates how pesticides and anti-microbial substances are used and placed in the market.

Liability for violations of these and other environmental regulations is governed by the national laws of the respective European Union states that implement the requirements and restrictions of Directive 2004/35/EC on environmental liability with regard to the prevention and remedying of environmental damage. The Directive establishes a comprehensive liability system, based on the "polluter pays" principle, for damage to natural resources, protected species and natural habitats, waters and soil. Operators of activities that cause environmental damage or direct danger of damage to these natural resources could be held responsible for restoring the damage caused, or made to pay for restoration, irrespective of whether they are at fault.

###### 9.1.1.1.2 *Requirements in the United States*

Assembly, manufacturing and other operations in the United States, carried out by Volkswagen Group of America, Inc. or one of its subsidiaries, must meet substantial regulatory requirements under numerous federal, state, and local environmental laws. In particular, Volkswagen must comply with the Clean Air Act, the Clean Water Act, the Toxic Substances Control Act, the Comprehensive Environmental Response, Compensation, and Liability Act, the Emergency Planning and Community Right-To-Know Act of 1986, and the Resource Conservation and Recovery Act, as respectively amended. These and related federal, state and local environmental laws and regulations thereunder substantially restrict airborne and waterborne emissions, discharges of pollutants and the disposal of waste from Volkswagen Group of America, Inc.'s

facilities, govern the use and handling of hazardous materials and other regulated chemicals and substances, and address remediation and other liabilities arising from environmental contamination. These requirements may change over time and may require Volkswagen Group of America, Inc. to take additional measures, e.g. upgrade existing or install additional pollution control equipment or emission monitoring devices, alter waste-disposal practices, change chemical products or other regulated components employed in operations, clean up areas of environmental contamination, and meet technical certification requirements relating to vehicle emissions that govern which vehicles may be sold in the United States or individual States. Satisfying any of these obligations could be costly, and failure to meet them could have a significant adverse effect on operations.

### **9.1.1.2 Cross-border import and export of vehicles**

Volkswagen's import and export of goods are subject to the national and international foreign trade legislation and customs laws. Most countries in which Volkswagen conducts business have export control regulations.

The most important foreign trade regulations applicable to Volkswagen in Germany are contained in the German Foreign Trade and Payments Act, the German Foreign Trade and Payments Regulation and Council Regulations (EC) No 428/2009 and (EU) No 388/2012, setting up a Community regime for the control of exports, transfer, brokering and transit of dual-use items. Regulatory systems differ depending on whether the exchange of goods is between Member States of the European Union (so-called intra-community business) or with non-Member States (so-called third-party countries). The German Foreign Trade and Payments Act. Regulations (EC) No 428/2009 and (EU) No 388/2012 classify certain goods as subject to export control by the German Federal Office of Economics and Export Control. Whether an export ban or the withholding of permission for a certain good is applicable, depends on the circumstances of the individual case, i.e. on the type of goods, the (end-) destination country, to whom and for which end use. For example, certain all-terrain vehicles, which according to German law are classified as military goods, as a rule require an export license.

Volkswagen has implemented processes to check its business partners against European and international sanction lists, in which different persons are listed (e.g., Council Regulation (EC) No 881/2002, 2580/2001 and the U.S. Denied Persons List), to help ensure that business is not conducted with listed persons and entities.

In addition to national and European export control legislation, Volkswagen monitors different international regulations, in particular, in countries where products are exported and where companies of the Volkswagen Group produce vehicles. Volkswagen especially monitors U.S. re-export regulations, principally Export Administration Regulations, which cover all relevant regulations regarding dual-use items, and certain sanctions of the U.S. Treasury's Office of Foreign Asset Control (OFAC) are primary focuses when importing and exporting goods, services and technology.

### **9.1.1.3 Antitrust law**

Volkswagen must observe various antitrust laws and regulations applicable in the jurisdictions in which it operates. Provisions on merger control, the prohibition of anti-competitive agreements and collusive behavior and the prohibition of abuse of a dominant position within the market are particularly relevant.

Within the European Union, compliance with applicable European and national competition laws is monitored by the European Commission and the national competition authorities. Article 101(2) of the Treaty on the Functioning of the European Union ("**TFEU**") provides for the invalidity of anti-competitive agreements which are covered by Article 101(1) TFEU to the extent that the requirements of Article 101(3) TFEU are not met.

The assessment of whether the conditions of Article 101(3) TFEU are met must be made by each company in a so-called self-assessment. The self-assessment of compliance of Volkswagen's agreements with dealers, suppliers or competitors generally carries the risk that the European Commission, national competition authorities or national courts could come to a different conclusion as to whether there is an infringement of competition law.

The self-assessment is facilitated through Commission Regulations and Notices, for example Commission Notice on the implementation of Article 101(3) TFEU, and so-called Block Exemption Regulations ("**BERs**"). BERs create a safe harbor for groups of agreements which can be assumed to meet the requirements for an exemption from the cartel prohibition without an individual review under Article 101(3) TFEU.

For new vehicle sales, the non-sector specific General BER on vertical arrangement (Regulation (EU) No 330/2010) ("**General BER**") that entered into force on June 1, 2010 and the sector-specific guidelines issued by the European Commission apply to the sale of new motor vehicles.

For spare part sales and the provision of repair and maintenance services, the European Commission has issued on May 27, 2010 a new Automotive BER, Commission Regulation (EU) No 461/2010 on the application of Article 101(3) TFEU to categories of vertical agreements and concerted practices in the motor vehicle sector ("**Automotive BER**"), applicable since June 1, 2010. The Automotive BER is supplemented by the rules of the General BER.

Based on Europe-wide standardized contracts, which were adapted to the requirements of national law, Volkswagen has established a selective sales and distribution system throughout Europe with vehicle dealers and workshops.

In the area of new vehicle sales and in accordance with the specifications of the General BER, Volkswagen applies a quantitative selective system, under which the number of dealers, which must fulfill specified qualitative standards, can be limited. This system is exempt from Article 101(1) TFEU only if the market share of the supplier does not exceed 30%.

However, the European Commission stated in the sector-specific guidelines that a quantitative selective distribution will generally satisfy the conditions laid down in Article 103(3) of the Treaty if the parties' market shares do not exceed 40%. Where Volkswagen has a market share above 40%, it uses a purely qualitative selection for new vehicle sales, which is permitted even if the 40% threshold has been exceeded. If a change becomes necessary due to the revised legal framework, Volkswagen may have to change its distribution agreements and admit further dealers into its network.

Since June 1, 2010, the aftermarkets (genuine parts and provision of repair and maintenance services) have been subject to the Automotive BER. Under the Automotive BER, vertical agreements regarding the sale of genuine parts and on repair and maintenance services are block-exempt only if they satisfy the requirements set forth in the General BER and comply with more stringent requirements with respect to certain types of restrictions on competition which could limit the supply of genuine parts in the motor vehicle aftermarket (in particular with regard to independent dealers, independent repair shops and end users).

Volkswagen may face certain risks from recent amendments of the Euro 5/Euro 6 legislation (Regulation (EU) No 566/2011, amending Regulation (EC) No 715/2007 of the European Parliament and of the Council and Commission Regulation (EC) No 692/2008 as regards access to vehicle repair and maintenance information, Regulation (EC) No 715/2007 on type approval of motor vehicles with respect to emissions from passenger and light commercial vehicles and on access to vehicle repair and maintenance information and Regulation (EC) No 692/2008 implementing and amending Regulation (EC) No 715/2007). The amendments intend to expand access for independent market participants to technical information on genuine parts. This could give rise to additional expenses in connection with a review of existing arrangements and other costs in order to adapt to the new regulation, and could expose Volkswagen to greater competition in the aftermarkets.

#### **9.1.1.4 Emission trading**

Volkswagen is subject to the European and national emission trading system. The system is based on a "cap and trade" principle which is designed to lead to a reduction in carbon dioxide emissions by limiting the number of emission allowances (cap) required for certain facilities and the possibility of purchasing shortfall or selling surplus emission allowances (trade).

During the current allocation period (2013 to 2020), emission allowances are issued to facility operators on an auction basis except for certain defined categories of operators which may be allocated emission allowances free of charge. The general legal framework for emission trading is provided in Directive 2003/87/EC, as amended by Directive 2009/29/EC (and other directives) and has been implemented into German law. The Directive, among other things, extends the number of facilities that are subject to European emission trading and establishes the framework for the respective auction systems for emission allowances in the member states of the European Union. General exceptions exist for certain parts of manufacturing, trade and certain energy generation facilities. In addition, the European Union has announced the binding target to reduce domestic greenhouse gas emissions by at least 40% below the 1990 level by 2030. This will have repercussions on Volkswagen's production facilities to varying degrees.

Furthermore, other relevant markets might introduce similar schemes in the near-term future which could potentially impact the business operations of Volkswagen. In particular, China has rolled out pilot cap-and-trade systems in several regions which could be followed by a nationwide system if the regional pilot schemes prove effective.

In addition, at the 2015 United Nations Framework Convention on Climate Change in Paris, nearly 200 nations, including Germany, entered into an international climate agreement (referred to as the "**Paris Agreement**"), which entered into effect in November 2016. The Paris Agreement sets a goal of limiting the increase in global average temperature to well below 2 degrees Celsius and pursuing efforts to limit the

increase to 1.5 degrees Celsius, with global greenhouse gas emissions to peak and begin to decline as soon as possible. The Paris Agreement consists of two elements: a commitment by each participating country to set a voluntary emissions reduction target (referred to as “nationally determined contributions” or “**NDCs**”), with a review of the NDCs that could lead to updates and enhancements every five years beginning in 2023 and a transparency commitment requiring participating countries to disclose in full their progress.

### **9.1.2 Product-related regulations**

Each country where Volkswagen develops, produces and sells its vehicles and vehicle components has various product-related regulatory requirements. Volkswagen must comply with substantial licensing, certification, approval and permit requirements, as well as numerous and continually increasing technical product requirements, particularly with regard to environmental protection and the safety of vehicle occupants and other road users. For instance, Volkswagen is required to recall vehicles found to have safety related defects and to repair them without charge. The cost of such recalls can be substantial depending on the nature of the repair and the number of vehicles affected.

The following regulations are of particular relevance for Volkswagen.

#### **9.1.2.1 Type-approval procedure**

##### **9.1.2.1.1 Requirements in Member States of the European Union**

In order to be placed on the European Union market, vehicles must comply with EC type-approval legislation, which sets out the standardized requirements for vehicles, vehicle systems, components and separate technical units. Within the context of the Framework Directive 2007/46/EC, Volkswagen must comply with extensive legislation regulating specific safety, emissions and technical features of vehicles and their components. The Directive provides for an EC type-approval system. With the EC type-approval, the competent government agency of the Member State certifies that a type of motor vehicle or system (such as braking systems), component (such as tires) or independent technical unit (such as lateral safety devices) conforms to the applicable regulations and technical requirements. A valid EC type-approval is a prerequisite to registering, selling and operating motor vehicles, systems, components or separate technical units in the Member States of the European Union.

##### **9.1.2.1.2 Requirements in the United States**

The National Highway Traffic Safety Administration (“**NHTSA**”) issues federal motor vehicle safety standards covering a wide range of vehicle components and systems such as airbags, seatbelts, brakes, windshields, tires, steering columns, displays, lights, door locks, side impact protection, and fuel systems. Volkswagen is required to test new vehicles and equipment and certify their compliance with the standards before selling them in the United States.

These standards add to the cost and complexity of designing and producing vehicles and equipment. In recent years, the NHTSA has mandated, among other things:

- a system for collecting information relating to vehicle performance and customer complaints to assist in the early identification of potential vehicle defects; and
- enhanced requirements for frontal and side impact, including a lateral pole impact.

##### **9.1.2.1.3 Requirements in other markets of significance to Volkswagen**

Most countries in the major markets in which Volkswagen operates have established type-approval systems and vehicle safety regulations. For example, China has recently established extensive and complex vehicle certification procedures.

#### **9.1.2.2 Emission control**

Volkswagen is subject to laws and regulations that require it to control automotive emissions, including exhaust emission standards, vehicle fuel evaporation standards and onboard diagnostic system requirements.

##### **9.1.2.2.1 Requirements in Member States of the European Union**

Volkswagen’s vehicles must comply with increasingly stringent requirements concerning emissions. With respect to exhaust emissions, new type approvals of passenger cars and light commercial vehicles of class I (i.e. with weight of less than 1,350 kg) must comply with the strict Euro 6 emission standard since September 2014 and all class I vehicles since September 2015. Light commercial vehicles of class II and III

(i.e. with weight of 1,350 kg and above) must comply with Euro 6 since September 2015 (new vehicle types) and September 2016 (all vehicles). Heavy passenger and commercial vehicles must currently meet the Euro VI standard. The competent government authorities in the Member States of the European Union monitor compliance with the limits and may require non-compliant manufacturers to take certain measures, including a recall of the affected vehicles.

Since 2012, automobile manufacturers have to reduce the CO<sub>2</sub> emissions of their new passenger car fleet in the European Union with an average industrial target of 130g CO<sub>2</sub>/km, based on Regulation 443/2009. The target to be achieved from 2020 onward is 95g CO<sub>2</sub>/km. In 2021, the target setting will be recalculated to set a target with the comparable stringency level under the new drive cycle WLTP. The targets from 2025/2030 are currently under discussion. Regulation 510/2011 setting performance standards to reduce CO<sub>2</sub> emissions for new light commercial vehicles became effective in 2011, supplementing the regulation on CO<sub>2</sub> emissions of passenger cars. Under the Regulation, manufacturers in the European Union must, for the average of their new fleet of light commercial vehicles, reduce the CO<sub>2</sub> emissions of such vehicles in category N1, phasing in to 175g CO<sub>2</sub>/km by 2017. 147g CO<sub>2</sub>/km is set as the limit to be achieved by 2020. As for passenger cars, the target level in 2021 will be recalculated under the WLTP and the discussions for targets 2025/2030 have already started. A failure to meet the CO<sub>2</sub> emission targets results in an excess emission premium on the automobile manufacturer based on the level by which the emission limits were exceeded. The European Commission is still discussing targets for heavy-duty vehicles.

The new real-driving emissions regulation for passenger cars and class I light duty vehicles applies with mandatory limits for new vehicle types as of September 2017 and for all cars as of September 2018. Light commercial vehicles of class II and III have to comply with the real world driving emission regulation as of September 2018 (new vehicle types) and September 2019 (all vehicles). This regulation enforces emission limits for NO<sub>x</sub> and number of particles under “real world driving” conditions on public roads. The new real-driving emissions regulation will require additional technologies and further increase the cost of combustion engines. Compliance with real-driving emissions tests will introduce additional cost pressures especially on European Union market for smaller diesel vehicles. A possible decline in diesel penetration may make fleet CO<sub>2</sub> compliance more challenging.

#### **9.1.2.2 Requirements in the United States**

U.S. federal and state governments and agencies (i.e. the U.S. Environmental Protection Agency (“**EPA**”) and California Air Resources Board (“**CARB**”)) have created a suite of vehicle and engine emission regulations aimed at improving local air quality and minimizing the potential effects of global climate change. Automobile manufacturers must ensure that their individual vehicles, and in some cases, fleets of vehicles, comply with various pollutant, carbon dioxide, on-board diagnostic, fuel economy, and zero-emission technology requirements. Additional requirements for evaporative emissions and the onboard refueling vapor recovery systems are regulated. Emission and onboard diagnostic requirements become more stringent each year. In particular, increasingly stringent and complex onboard diagnostic standards may lead to increased vehicle recall and warranty costs. The results of various federal and state regulatory and judicial proceedings with respect to fuel quality could also impact a vehicle manufacturer’s warranty costs and its ability to comply with the aforementioned emissions standards.

Volkswagen is responsible under these regulations for the performance of vehicle emission control systems, as well as the emission performance of its sold cars and light duty trucks over certain time and mileage periods. Regulatory authorities may conduct ongoing evaluations of the emissions compliance of Volkswagen’s products, including vehicle emissions testing and review of emission control strategies. EPA regulations are primarily covered by the following main programs:

- Tier 2 and Tier 3 light-duty emissions regulations: Tier 2 emission standards impose individual vehicle and manufacturer fleet average requirements for tailpipe pollutants. The updated Tier 3 program implements increasingly more stringent vehicle and fleet average requirements starting in model year (“**MY**”) 2017 and is mostly aligned with California’s LEV<sub>III</sub> program that started in MY 2015.
- Light-duty vehicle greenhouse gas fleet average standard: Starting with MY 2012, each manufacturer must ensure that their fleet of passenger cars and light duty trucks achieve an annual fleet average target depending on their average footprint, which is increasingly more stringent year-by-year through MY 2025.
- The U.S. Department of Transportation, under Congressional authority, currently regulates light-duty fleet average fuel economy standards under the corporate average fuel economy (“**CAFE**”) program. CAFE standards require each original equipment manufacturer (“**OEM**”) to achieve annual fleet average fuel economy minimum targets for all passenger cars and light duty trucks sold in the United States. The CAFE program was recently updated to include increasingly more stringent requirements through MY 2021. The rulemaking included additional projected requirements through MY 2025.

California and several other states have developed a separate set of vehicle emission regulations, mainly the following three programs:

- LEV (“**Low Emission Vehicle**”)-II and LEV-III light-duty emissions regulations: LEV-II emission standards impose individual vehicle and fleet average requirements for tailpipe pollutants. Identical standards exist for passenger cars and light-duty trucks. The updated LEV-III program implements increasingly more stringent vehicle and fleet average requirements starting in MY 2015 through MY 2025.
- Light-duty greenhouse gas fleet average emission standards: Fleet average targets are determined individually per OEM based on a sale weighted mix of vehicles (passenger cars and light duty trucks) sold in California and other states that have separate vehicle emission regulations. An OEM can prove compliance with the EPA federal greenhouse gas program in lieu of compliance under those regional standards.
- Zero Emission Vehicle mandate (ZEV until MY 2017 and ZEVII starting with MY 2018): California and other states that have separate vehicle emission regulations have established regulatory programs which mandate minimum annual sales volumes for vehicles equipped with qualified zero and near-zero emission powertrain technologies, such as battery-electric, fuel cell, plug-in hybrid, hybrid, and partial zero-emission combustion engines. By MY 2025, it is currently expected that up to 15% of a manufacturer’s total sale volume in California and other states will need to be made up of ZEVII-compliant vehicles. Volkswagen is complying under the ZEV as an intermediate volume manufacturer with Partial Zero Emission Vehicles and is subject to sell Zero Emission Vehicles under ZEVII as a large volume manufacturer. In addition, ZEVII increases the time and mileage periods during which a manufacturer is responsible for a vehicle’s emission performance.

There have been several attempts to harmonize these programs that could lead to further changes in the regulatory framework.

#### **9.1.2.3 Requirements in other markets of significance to Volkswagen**

Most other markets of significance to Volkswagen have regulations concerning vehicle emissions. For example, India, Russia, Australia, Korea and other countries follow the emission classes and emission requirements specified in the European Union, partly with modifications.

China, which is important for Volkswagen due to its high sales volume, is rapidly implementing more stringent legislations. The China 6 exhaust emission regulation starting from 2020 will be the most stringent one worldwide in the final stage in 2023. China 6 requires for light-duty vehicles drastically reduced exhaust emission limits for gaseous pollutants (up to 50% below Euro 6), stringent exhaust emission limits for particulates (equal to Euro 6, but for all engine types), drastically reduced evaporative and refueling emission limits (65% below Euro 6), increased requirements regarding on-board diagnostics and the measurement of exhaust emissions on the road (real-driving emissions).

The Ministry of Industry and Information Technology regulates the passenger car fleet within the corporate average fuel consumption (“**CAFC**”) standard since 2011. CAFC standards require each manufacturer or importer in China to achieve an annual fleet average fuel consumption target for all passenger cars produced or sold in China. The CAFC standard was recently updated to include increasingly more stringent requirements year-by-year, with an average industry target of 5.0 l/100km in 2020. Beyond 2020, targets have not been finally set, but the discussions already started with an average industry target of 4.0 l/100km in 2025.

In addition, a “new energy vehicles” (“**NEV**”) regulation was published in September 2017, mandating a minimum annual sales volumes for vehicles equipped with powertrain technologies such as battery-electric, fuel cell and plug-in hybrid. Starting in 2019, a NEV credit quota of 10% and in 2020 of 12% has to be achieved by the manufacturer or importer. The amount of credit per vehicle depends on the technology and the electrical range or fuel consumption for plug-in hybrids. Beyond 2020, no targets have been announced yet, however, increasingly more stringent targets are expected.

#### **9.1.2.3 Genuine parts**

Genuine parts (and hence, also original parts sold by Volkswagen) are protected by design patents in most European countries. From time to time, efforts are being made to limit this protection by introducing throughout Europe a so-called “repairs clause” aimed to eliminate the design protection for so-called “must-match” genuine parts, i.e. component parts of a complex product for the purpose of the repair of that complex product so as to restore its original appearance. Thus, all genuine parts which must necessarily be identical with the original part would be affected by the introduction of the repair clause. Eliminating design patent protection for “must-match” genuine parts would have a significant consequence for

Volkswagen as it would lead to intensified competition in the genuine parts market. Certain European countries have already adopted such repairs clauses within national design law, however, a harmonized European directive has not been implemented thus far.

#### **9.1.2.4 Reuse, recycling and recovery**

Directive 2000/53/EC on end-of-life vehicles (the “**ELV Directive**”), Directive 2006/66/EC on batteries (the “**Batteries Directive**”) and Directive 2012/19/EC on waste electric and electronic equipment (the “**WEEE Directive**”) govern the recovery of motor vehicles, batteries, and electric and electronic equipment within the European Union. The Directives requires ambitious reuse and recovery and reuse and recycling rates.

The ELV Directive, Batteries Directive and WEEE Directive also contain provisions concerning the collection of end-of-life vehicles, batteries, and electric and electronic equipment. These directives ensure that the take-back occurs without any cost to the last owner. The manufacturers must meet all, or a significant part of, the costs associated with undertaking these measures.

Apart from the above, the ELV Directive, the Batteries Directive as well as the Directive 2011/65/EC on the restrictions of the use of certain hazardous substances in electrical and electronic equipment limit manufacturing options because they also contain prohibitions on the use of certain identified substances and materials.

Although there may be differences in the manner of implementation of laws and regulations concerning the reuse, recycling and recovery, several other material markets in which Volkswagen is active also have enacted laws and regulations with similar goals to those implemented in Germany and/or in the European Union (e.g., in Japan, South Korea, China, Russia).

#### **9.1.2.5 Fuel requirements**

Directive 2003/30/EC on the promotion of the use of biofuels or other renewable fuels for transport specifies that a minimum proportion of the fuel sold in EU Member States is derived from biofuels (fuels produced from biomass, i.e. biodegradable waste and residues that originate, among other things, from agriculture and forestry). Generally, the Directive mandates that this minimum percentage must be at least 5.75% of all diesel and petrol quantities sold.

The Directive on biofuels 2003/30/EC was replaced by Directive 2009/28/EC on the promotion of the use of energy from renewable sources on January 1, 2012. Pursuant to this Directive, each Member State shall ensure that the share of energy from renewable sources in all forms of transport in 2020 is at least 10% of the final consumption of energy in transport in that Member State.

The Renewable Energy Directive II establishes a framework for the promotion of energy from renewable sources in the European Union until 2030 and continues to promote the use of renewable energy in transport, including liquid fuel and electricity, with a target of at least 27% renewables in the final energy consumption by 2030. Some Member States as well as certain countries outside the European Union plan to implement measures (e.g., quota or tax incentives) to establish higher targets.

Regardless of the differences in the implementation of the legislative provisions, in most other significant markets in which Volkswagen is active, provisions have been enacted pursuing legislative goals similar to those in the European Union.

#### **9.1.2.6 Road safety**

Regulation (EC) 661/2009 of the European Parliament and Council (“**GSR**”), amended by the European Commission Regulations (EU) 407/2011, 523/2012, 2015/166 and 2016/1004 governs the type approval requirements for the general safety of motor vehicles, as well as their trailers, systems, components, and separate technical units. The regulation lists the compulsory implementing measures and the vehicle categories to which each regulation applies. In addition, Regulation (EC) 78/2009 on the type approval of motor vehicles with regard to the protection of pedestrians and other vulnerable road users (“**VRUs**”) (the “**Pedestrian Safety Regulation**”) has replaced Directive 2003/102/EC with modified and more advanced provisions, adapted to technical progress. These modifications include passive safety requirements to mitigate the risk of critical injury in the event of a collision between a vehicle and a person.

The GSR requires the Commission to report to the European Parliament periodically with proposals for amendments to the regulation or other relevant community legislation. These proposals relate to the inclusion of new safety features that meet the criteria of the CARS 2020 Action Plan and the policy orientations on road safety 2011-2020. The Pedestrian Safety Regulation also requires the Commission to provide monitoring reports to the European Parliament. In May 2018 DG Growth – the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs – made a proposal for a Regulation that mandates

a large number of advanced safety features as standard equipment such as: tire pressure monitoring systems; intelligent speed assistance; alcohol interlock installation facilitation; driver drowsiness and attention monitoring; advanced distraction recognition; emergency stop signal; reversing detection; lane departure warning systems/lane-keeping systems; advanced emergency braking systems and event data recorder.

## 9.2 Financial Services Division

Due to the reorganization within the Volkswagen Financial Services Division, the regulatory qualification of Volkswagen Financial Services group as financial-holding group and VWFS AG as financial-holding company ended on August 31, 2017.

Since then, together with its subsidiaries and investees, Volkswagen Bank GmbH forms a supervised group within the meaning of the Regulation (EU) No 575/2013 of June 26, 2013 ("**CRR**") and the German Banking Act (*Kreditwesengesetz*, "**Banking Act**"). The consolidated group of companies of a supervised group under supervisory law includes subsidiaries and affiliates classified as credit institutions, financial services institutions, financing companies or ancillary banking services enterprises. Volkswagen Bank GmbH acts as the parent company of the group under the CRR and the Banking Act.

Volkswagen Bank GmbH holds the requisite license to carry out banking business and provide financial services in accordance with the Banking Act. Volkswagen Leasing operates as a financial services institution that provides finance leases in accordance with the German Banking Act. Volkswagen Versicherung AG is a direct insurer (guarantee insurance) with reinsurance business under the German Insurance Supervision Act (*Versicherungsaufsichtsgesetz*).

The VWFS AG group, however, includes a number of foreign institutions that are supervised by the supervisory authorities of the countries in which these institutions are based or provide their services.

### 9.2.1 Banking supervision

The European Central Bank ("**ECB**"), the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "**BaFin**"), and the German Central Bank (*Deutsche Bundesbank*), are the central supervisory authorities for Volkswagen Bank GmbH and the Volkswagen Bank group.

Regulation (EU) No 1022/2013 of October 22, Regulation (EU) No 1024/2013 October 15, 2013 ("**SSM Regulation**") and Regulation 468/2014 of the European Central Bank of April 16, 2014 ("**SSM Framework Regulation**") create a single supervisory mechanism ("**SSM**") for the oversight of banks and other credit institutions of banks established in those member states that have the euro as their common currency ("**Eurozone**") as well as any member states that decide to join the SSM. Under the SSM, specific tasks related to financial stability and banking supervision have been conferred to the ECB. Within the framework of Articles 4 and 6 of the SSM Regulation, the ECB directly supervises credit institutions, financial holding companies or mixed financial holding companies that are significant at the highest level of consolidation within the participating member states.

The ECB determined on October 16, 2017 that Volkswagen Bank GmbH and its consolidated holding group ("**Supervised Group**") is a significant group within the meaning of Article 6 (4) of the SSM Regulation, and that all its subsidiaries within the Supervised Group that are subject to prudential supervision on a consolidated basis in accordance with the CRR are significant supervised entities within the meaning of Article 6 (4) of the SSM Regulation.

The list of group entities subject to the prudential supervision on a consolidated basis consists of Volkswagen Bank GmbH and its subsidiaries, joint ventures and branches. Therefore, the relevant supervisory authority directly supervises these entities. Certain preparatory tasks have been undertaken which involved a comprehensive assessment of Eurozone banks, the results of which have been published.

The ECB co-operates and in particular exchanges information with national supervisory authorities in exercising its direct supervision of significant institutions. With respect to certain supervisory tasks under the SSM Regulation, BaFin is required to assist the ECB in its supervisory tasks relating to the Supervised Group and to follow the ECB's instructions. Where we describe the fulfillment of banking supervisory tasks relevant for regulated Volkswagen entities in the following, we refer to the "**competent authorities**" for carrying out such supervisory tasks.

The Banking Act, the CRR and Directive 2013/36/EU of June 26, 2013 ("**CRD IV**") and related regulations and publications form the legal basis for the supervision of the business activities of the supervised group, Volkswagen Bank GmbH as a credit institution and Volkswagen Leasing, a subsidiary of VWFS AG, as a financial services institution.

According to the Banking Act, a license is required for the operation of a banking business and provision of financial services. The CRR and the Banking Act also stipulates the regulatory requirements which must be



observed by credit institutions and financial services institutions as well as financial holding companies when operating their respective businesses.

As part of their statutory responsibilities, the competent authorities may issue ordinances with respect to institutions, financial holding companies, their managing directors and their shareholders in order to prevent or remedy infringements of regulatory provisions. The admission to carry out business operations, compliance with capital adequacy requirements, liquidity requirements and large exposure limits, as well as the proper business organization of the institutions, including appropriate risk management, are subject to supervision by the competent authorities.

If the competent authorities discover violations of regulatory laws, they may, under certain conditions, revoke an institution's license or take a less severe action by dismissing the managing directors or prohibiting them from continuing to perform their functions.

If the capital adequacy or liquidity requirements are not satisfied and the credit institution does not remedy the deficiencies within a specified period, the competent authorities may under certain circumstances, among other things, prohibit or limit the distribution of profits, payments on equity instruments or the granting of further loans. Further, the competent authorities may instruct the credit institution to take measures in order to reduce risks resulting from certain types of businesses and products or the utilization of certain systems.

If there is a risk that a credit institution will not meet its obligations *vis-a-vis* its creditors, and, in particular, if the safety of the assets entrusted to the institution is at risk, or if there is a legitimate suspicion that effective supervision of the credit institution is not possible, the competent authorities may take interim measures in order to prevent these risks. These measures may include instructions to the institution's management, prohibitions on accepting funds or securities from customers or the granting of loans, prohibitions or limitations of the activities of the managing directors, issuance of a temporary ban on dispositions and payments, prohibitions on accepting payments that are not designated for the discharge of the institution's liabilities, or the closure of the institution to customer business.

### **9.2.2 Capital adequacy requirements**

Credit institutions and sub-groups subject to prudential supervision are required to have adequate levels of own funds in the interest of meeting their obligations to creditors and, in particular, to secure the assets entrusted to them.

Due to the reorganization of VWFS AG, its regulatory reporting requirements on group level ceased on September 1, 2017. This includes the capital adequacy requirements on VWFS AG group level. Since September 1, 2017, regulatory reporting requirements on group level exist for Volkswagen Bank GmbH which had in addition to comply with regulatory reporting requirements on entity level already.

According to the CRR and the Banking Act, an institution has an adequate level of own funds if, at close of business on each day, it is able to fulfill the capital adequacy requirements in relation to risks of counterparty credit (risk of non-performance of debtors), operational risks (risk of losses due to failure of internal systems or as a consequence of external events) as well as the own fund requirements with relation to market risks. Market risks include in general foreign currency risks, commodity risks and trading book position risks. These requirements must also be fulfilled by German banking and financial holding groups on a consolidated basis. The CRR and the related delegated regulations as well as the Banking Act and the German Solvability Regulation (*Solvabilitätsverordnung*) contain detailed provisions for the calculation of own funds and the total risk exposure amounts that are to be backed by own funds. The minimum requirement for the most important form of capital, "Common Equity Tier 1" capital (primarily consisting of share capital, retained earnings and other reserves), is to maintain at least a 4.5% ratio of Common Equity Tier 1 capital to the total risk exposure amount. The minimum requirement for Tier 1 capital, which consists of Common Equity Tier 1 capital and Additional Tier 1 capital, is to maintain at least a 6% ratio. The minimum requirement for the own funds, which consist of the sum of its Tier 1 capital and Tier 2 capital, is to maintain at least an 8% ratio. The competent authorities have additional powers to request additional of own funds requirements under certain circumstances. Additionally, banks are required to fulfil the capital buffer requirements in form of Common Equity Tier 1 capital. The capital buffer requirements include the capital conservation buffer of 1.875% in relation to the risk weighted exposure amounts for the year 2018 and will be increased to up to 2.5% until 2019. The competent authorities may further impose a countercyclical capital buffer of up to 1.875% of total risk exposure amounts for the year 2018 (the maximum amount of which be increased to up to 2.5% until 2019), consisting of Common Equity Tier 1 capital which is designed to be accumulated during phases of excessive credit growth. Additional buffers may apply to institutions depending on systemic relevance and risks.

In connection therewith, the ECB is empowered, in particular as part of the Supervisory Review and Evaluation Process ("**SREP**"), *inter alia*, to analyze the business model, reliability of internal control arrangements

(including the internal models to measure adequacy of capital and liquidity also referred to as “Internal Capital Adequacy Assessment Process” (ICAAP) and “Internal Liquidity Adequacy Assessment Process” (ILAAP), respectively), risk governance of individual groups of significant credit institutions (such as Volkswagen Bank GmbH) and to require those to comply with own funds and liquidity adequacy requirements which may exceed regular regulatory requirements or to take early correction measures to address potential issues.

The key result of the application of the SREP is a common scoring which may result in specific additional individual capital and liquidity requirements for the supervised credit institutions subject to the SSM. As a result, each affected credit institution will receive a SREP decision by the ECB affecting, among other, individual capital requirements which may increase the capital requirements applicable to it.

### **9.2.3 Liquidity requirements**

Volkswagen Bank GmbH is subject to the liquidity coverage ratio (“**LCR**”) and the net stable funding (“**NSFR**”) requirement. The liquidity requirements relating to the LCR (which requires credit institutions to maintain certain liquid assets for a 30-day period against the background of a stress scenario) have to be met with a minimum ratio of 100%. The NSFR (which requires credit institutions to refinance their long term assets under regular as well as under stressed market conditions with respective long term stable funding) which must be adhered to from 2021 at the earliest, must also be at least 100% after full implementation. Since the introduction of the LCR, Volkswagen Bank GmbH has always complied with the given limit. Finally, banks are required to calculate and to report a non-risk-based leverage ratio to the supervisory authority. Furthermore, since 2015 all banks have to disclose their leverage ratios and its components. The new CRR II proposal introduces a legally binding minimum leverage ratio of 3%. This regulation is not expected to come into force before 2019. The introduction of a minimum requirement of 3% for the leverage ratio may constrain the Volkswagen Bank GmbH’s ability to grow in the future or even require it to reduce its business volumes.

### **9.2.4 Organization and risk management in the Financial Services Division**

Volkswagen Financial Services Division is separated into the risk management of Volkswagen Bank Group and the internal control system (“**ICS**”) of the Volkswagen Financial Services AG Group (“**VWFS AG Group**”).

#### **9.2.4.1 Organization and risk management in Volkswagen Bank Group**

The CRD IV package and the Banking Act contain strict standards of corporate governance, improved risk management functions and risk control, and improved regulatory supervision of financial institutions, as well as the possibility of national regulatory supervisors to impose effective, proportional and deterring sanctions.

According to the Banking Act, institutions and financial holding groups must maintain a proper business organization that includes appropriate and effective risk management.

Under the applicable risk management framework, appropriate and effective risk management includes specifying strategies and establishing internal monitoring procedures, taking into account the risk — bearing capacity of the relevant institution. The internal monitoring procedures consist of internal control systems and internal auditing functions. The internal monitoring system comprises rules regarding the structural and operational arrangements and processes for identifying, assessing, treating, monitoring and communicating risks.

The risk management framework in Volkswagen Bank GmbH also sets forth provisions for risk management at the group level. The group related requirements extend to strategies, risk — bearing capacity, risk management and risk monitoring processes, procedural provisions and group auditing. The way risk management is implemented at Volkswagen Bank Group depends on the nature, scope, complexity and level of risk, as well as the corporate law framework.

The Banking Act further provides for the separation of proprietary trading and lending to hedge funds and other highly leveraged funds from deposit taking and requires the transfer of such activities to a financially, organizationally and legally independent financial trading entity (*Finanzhandelsinstitut*) upon reaching a certain threshold. Volkswagen Bank Group does not currently reach or exceed such threshold. BaFin is given powers to impose additional separation requirements.

The ECB, the European Banking Authority (“**EBA**”) and the BaFin regularly assess risks and vulnerabilities in the European and German banking sectors, in particular by conducting stress tests on credit institutions such as Volkswagen Bank Group. The outcome of these stress tests may be published and may therefore have a negative impact on investors’ confidence in the financial market as such or in specific institutions such as Volkswagen Bank Group.

For a description of risk management in Volkswagen's Financial Services Division, see "*Business of the Volkswagen Group — Volkswagen's Divisions and their Products and Services — Financial Services Division — Risk management in the Volkswagen Bank Group.*"

#### **9.2.4.2 Organization and risk management internal control system in VWFS AG Group**

The Board of Management of VWFS AG Group consigns the establishment of a system for identifying, measuring, monitoring and managing risk positions to the Internal Control System ("**ICS**"). The assurance of compliance with regulatory obligations as well as corporate guidelines and industry standards is in responsibility of the legal entities. They are obliged to fulfill central requirements, defined by risk owners and ICS control.

For a description of the internal control system in Volkswagen's Financial Services Division, see "*Business of the Volkswagen Group — Volkswagen's Divisions and their Products and Services — Financial Services Division — Internal control system (ICS) in VWFS AG Group.*"

#### **9.2.5 Recovery and resolution measures**

Credit institutions such as Volkswagen Bank GmbH are subject to the German Recovery and Resolution Act (*Sanierungs- und Abwicklungsgesetz*, "**SAG**") which implements the Directive for the recovery and resolution of credit institutions and investment firms (Directive 2014/59/EU – the "**BRRD**") into German law. It entered into force on January 1, 2015. Within the European Union in addition to the BRRD, by Regulation (EU) No. 806/2014 (the "**SRM-Regulation**"), a Single Resolution Mechanism (the "**SRM**" and together with the SAG, the "**Resolution Framework**") establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms and a Single Resolution Fund (the "**Fund**") was established. The SRM is considered as the second pillar of the so-called EU Banking Union (and in this respect, supplements the SSM as the respective first pillar), according to which a new agency of the European Union, the resolution board (the Single Resolution Board or the "**Board**") has been established for the purposes of a centralized and uniform application of the resolution regime. The predominant part of the provisions of the SRM-Regulation is applicable since January 1, 2016. The Board and the BaFin form together the competent resolution authority for certain significant banks, including Volkswagen Bank GmbH (which is supervised by the ECB).

The SAG and the SRM-Regulation confer additional crisis prevention measures on the competent authorities which are aimed at preventing the occurrence of a financial crisis at an early stage.

The resolution powers of competent resolution authority include the so-called bail-in tool. Pursuant to this measure, claims for payment of principal, interest or other amounts under certain debt instruments (instruments counting towards the institution's own funds as well as other liabilities) may be subject to a permanent reduction, including to zero, variations of the terms and conditions of the debt instruments in other aspects (e.g., changes of the debt instrument's maturity) or a conversion into one or more instruments that constitute common equity tier 1 capital instruments (such as share capital) by intervention of the competent resolution authorities. These measures entail the risk that creditors whose claims are affected (i) suffer a partial or complete write-down of the nominal amount of their outstanding claim, (ii) may otherwise lose all or part of their investment e.g., by being subject to a permanent reduction, including to zero, or variation of the terms and conditions of the debt instruments in other aspects (e.g., extension of the maturity of a debt instrument) or (iii) receive shares or other instruments of the core capital (*hartes Kernkapital*) in exchange for their claims (whereby such equity instruments may be highly diluted and have a value close to zero). Pursuant to the applicable provisions, any write-down (or conversion) in accordance with the bail-in tool or the write-down tool would not constitute an event of default under the terms of the relevant instruments. Consequently, any amounts so written down would be irrevocably lost and the holders of such instruments would cease to have any claims thereunder. The competent resolution authority may however, restore the position of the holders of bail-in or write-down instruments should the position of the respective institution improve. Payments made in breach of the order of the competent resolution authority would have to be reimbursed.

Volkswagen Bank GmbH is required to comply with a minimum requirement for own funds and eligible liabilities ("**MREL**") which may be subject to the bail-in tool. The MREL shall be calculated as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the institution. On November 23, 2016, the European Commission published a proposal for a European Directive amending the BRRD and a proposal for a European Regulation amending the SRM-Regulation. The purpose of this proposal is to reach consistency with the requirements on Total Loss Absorbing Capacity (TLAC) which are agreed on the international level and solely applicable for globally systemic relevant banks (G-SIBs). The obligation to meet minimum requirements of eligible liabilities may increase refinancing costs and may adversely affect its ability to meet the payment obligations under the debt instruments of Volkswagen Bank GmbH.

In addition, the proposal provides for unexpected MREL eligibility criteria which are not included in the market standard terms and conditions of liabilities that were expected to be eligible MREL capital at the time of their issuance. Also, such draft proposal did not provide grandfathering for instruments that have been issued in the past to continue to be MREL eligible. If this would be final law, Volkswagen Bank GmbH would need to fulfil any upcoming MREL by virtue of issuing new debt instruments in the future.

#### **9.2.6 Holders of significant interests**

The Banking Act also includes a number of requirements and empowers the competent authorities to take action with respect to individuals and companies owning a significant interest in an institution. For example, the competent authorities may suspend an institution's license if there are facts justifying the assumption that the holder of a significant interest or its representative appointed by law or according to the articles of association is not reliable or does not, for other reasons, meet the requirements in the interest of a sound and prudent management of the institution. In relation to Volkswagen Bank GmbH and Volkswagen Leasing GmbH, Volkswagen Financial Services AG, Volkswagen AG and Porsche SE have been reported to BaFin as holders of significant interests.

#### **9.2.7 Deposit protection**

As a deposit taking credit institution, Volkswagen Bank GmbH is subject to the statutory deposit protection rules. It is a member of the Compensation Scheme of German Banks. If a creditor is entitled to compensation, such creditor has a direct claim against the Compensation Scheme of German Banks, which is limited to EUR 100,000.

Volkswagen Bank GmbH is also a member of the Deposit Protection Fund of the Association of German Banks, which supplements the government deposit protection by means of a voluntary self-help arrangement. The Deposit Protection Fund protects liabilities towards noncredit institutions, over which not one bank has issued bearer papers, up to a limit of 20% of the liable capital of the credit institution relevant for deposit protection. The current 20% limit will incrementally be reduced to 15% from January 1, 2020 onwards and 8.75% from January 1, 2025 onwards.

The Deposit Protection Fund is funded by an annual contribution from the participating banks. If the resources in the fund are not sufficient, or it is otherwise required in order to enable the fund to perform its tasks, the Association of German Banks may resolve to impose a 50% increase in the annual contribution or levy a special contribution up to one half of the amount of the annual contribution for each year.

Banks contributing to the Deposit Protection Fund must submit a mandatory declaration to the Association of German Banks of individuals or companies who own the majority of the shares in the relevant bank, or who can exercise a direct or indirect controlling influence on such bank. The declaration contains the obligation to indemnify the Association of German Banks against any losses incurred by it as a result of assistance provided to such bank. Volkswagen AG and Porsche SE have submitted such declaration in respect of Volkswagen Bank GmbH.

## 10. MAJOR SHAREHOLDERS

The following table sets forth information regarding the shareholders who hold voting rights in the Company as of the date of this Offering Memorandum. The Company has received notifications in accordance with the German Securities Trading Act (WpHG — *Wertpapierhandelsgesetz*) indicating that the following shareholders hold directly more than 3% of the ordinary voting shares of the Company:

<b><u>Shareholders subject to the notification requirement</u></b>	<b><u>Percentage of voting rights</u></b>
Porsche Automobil Holding SE, Stuttgart <sup>(1)</sup> .....	52.2%
State of Lower Saxony .....	20.0%
Qatar Holding LLC <sup>(2)</sup> .....	17.0%

<sup>(1)</sup> These shares are held indirectly by and for the benefit of individuals from the Porsche and Piëch families who are the ultimate beneficial owners of such shares. There are agreements and other arrangements in place among the intermediate holding companies and the individuals with respect to the shares of Volkswagen AG. Volkswagen AG is not a party to and has no information concerning the terms of these arrangements.

<sup>(2)</sup> These shares are attributed to the State of Qatar (via various intermediate holding companies).

## 11. RELATED PARTY TRANSACTIONS

Persons related to Volkswagen AG include its principal shareholders, including Porsche SE, which is indirectly controlled by the Porsche and Piëch families, together with the State of Lower Saxony and the State of Qatar. See "*Major Shareholders*".

In addition to the direct and indirect equity interests and voting rights in Volkswagen AG held by Porsche SE and the Porsche and Piëch families, members of the Porsche and Piëch families serve on the governing bodies of Volkswagen AG, AUDI AG, MAN SE and Porsche Holding Gesellschaft m.b.H. Salzburg, as well as Porsche SE and its affiliated companies. For additional information, see "*Board of Management and Supervisory Board*".

The Porsche and Piëch families also hold significant interests in Porsche Familienholding GmbH and Porsche Gesellschaft m.b.H., both based in Salzburg. Following Porsche Gesellschaft m.b.H.'s exercise of its put option, Volkswagen acquired Porsche Holding's operating trading business as of March 1, 2011.

In 2017, Volkswagen rendered supplies and services to related parties totaling EUR 15,568 million (EUR 14,833 million in 2016 and EUR 12,883 million in 2015). Volkswagen's total sales revenue amounted to EUR 230,682 million in 2017 (EUR 217,267 million and EUR 213,292 million in 2015). For more information concerning the amounts of the supplies and services transacted, as well as outstanding receivables and liabilities between consolidated companies of the Volkswagen Group and related parties, please refer to note 44 and note 43 to the Annual Financial Statements for 2017 and 2016, respectively.

All business relations with unconsolidated subsidiaries, joint ventures, associates and other related parties are, in the opinion of the Company, conducted on arm's length terms.

### 11.1 Relationships of the Volkswagen Group with Porsche SE and the Porsche and Piëch families

#### 11.1.1 Porsche SE

Volkswagen maintains legal and business relationships with Porsche SE, which holds 52.2% of Volkswagen AG's voting capital.

##### 11.1.1.1 Relationships under company law, dual mandates

Members of Volkswagen's Supervisory Board and Board of Management serve simultaneously on the boards of Porsche SE and AUDI AG. For additional information, see "*Board of Management and Supervisory Board*".

Volkswagen AG ensures that both members of the Board of Management, in the performance of their duties, separate their functions as member of Volkswagen AG's Board of Management and as member of Porsche SE's Executive Board and act in accordance with applicable statutory provisions.

##### 11.1.1.2 Contractual relationships

In the second half of 2009, Volkswagen AG, Porsche SE, Porsche AG, the ordinary shareholders of Porsche SE except for the State of Qatar (i.e. at that time Porsche Gesellschaft mit beschränkter Haftung, Stuttgart, Familie Porsche Beteiligung GmbH, Grünwald, Familien Porsche-Daxer-Piëch Beteiligung GmbH, Grünwald, Ferdinand Piëch GmbH, Grünwald and Hans-Michel Piëch GmbH, Grünwald (collectively, "**SE Ordinary Shareholders**")) and certain other parties entered into comprehensive agreements, including the Comprehensive Agreement, which contains the fundamental agreement concerning the creation of an integrated automotive group with Porsche and establishes the concept and the individual transaction steps (the "**Comprehensive Agreement**").

In the Comprehensive Agreement, Porsche SE and the SE Ordinary Shareholders agreed, among other things, that they would not, at least up to and including 2020, take any steps, undertake any actions or submit any declarations that would serve to enter into a control and profit and loss transfer agreement with Volkswagen AG.

In accordance with the Comprehensive Agreement, Porsche SE voted at the extraordinary general meeting of Volkswagen AG on December 3, 2009 to confirm the existing majority requirement of more than four-fifths of the share capital represented in adopting resolutions, to create a right for the State of Lower Saxony to appoint members to the Supervisory Board and to authorize the issuance of up to 135 million new preferred shares with preemptive rights.

As one component of the concept for creating an integrated automotive group with Porsche SE, Volkswagen entered into an agreement for the acquisition of Porsche Holding Salzburg's operating trading business. The agreement was structured as a put option in favor of Porsche Gesellschaft m.b.H., which exercised the put option on November 10, 2010. All shares of Porsche Holding Salzburg were transferred to Volkswagen on March 1, 2011 for a consideration of EUR 3.3 billion.

In September 2011, Volkswagen AG and Porsche SE reached the conclusion that, due to continuing legal hurdles, the planned merger could not be implemented within the timeframe provided in the Comprehensive Agreement. In addition to the intended merger, the Comprehensive Agreement provided for the integrated automotive group to be achieved through the exercise of put and call options, which were never utilized. The tax treatment of the put/call options provided for in the Comprehensive Agreement did not allow the automotive business to be integrated on economically feasible terms before the second half of 2014.

At the beginning of July 2012, Volkswagen AG and Porsche SE announced that they had agreed on an accelerated integration model, which was implemented as planned on August 1, 2012.

Under the structure developed jointly by Volkswagen AG and Porsche SE, Porsche SE contributed its indirect 50.1 percent holding in Porsche AG to Volkswagen AG effective as of August 1, 2012. Therefore, Volkswagen now holds 100 percent of the shares of Porsche AG via Porsche Holding Stuttgart GmbH (formerly: Porsche Zweite Zwischenholding GmbH). Besides a share consideration Volkswagen paid EUR 4,495 million to Porsche SE as further consideration. The cash consideration is based on the equity value of EUR 3,883 million for the remaining shares of Porsche AG as set out in the Comprehensive Agreement, and also comprises a number of adjustment items. Among other things, Porsche SE has been remunerated for dividend payments that it would have received from its indirect stake in Porsche AG as well as for half of the present value of the net synergies realizable as a result of the accelerated integration.

The accelerated integration model was based on the German Reorganization Tax Act (*Umwandlungssteuergesetz*) and the German Taxation of Reorganizations Circular (*Umwandlungssteuererlass*) published at the end of 2011, as well as advance rulings from the relevant tax authorities.

### **11.1.2 Porsche and Piëch families**

The Porsche and Piëch families have significant interests in Porsche SE, Porsche Familienholding GmbH and Porsche Gesellschaft m.b.H.

Members of the Porsche and Piëch families are represented on Volkswagen AG's Supervisory Board. These are Dr. jur. Hans Michel Piëch, Dr. jur. Ferdinand Oliver Porsche, Dr. rer. comm. Wolfgang Porsche, and Dr. Louise Kiesling. See "*Board of Management and Supervisory Board — Supervisory Board*".

As described under "*— Contractual relationships*", Volkswagen AG, Porsche SE, Porsche AG, the SE Ordinary Shareholders and certain other parties agreed to create an integrated automotive group with Porsche.

### **11.2 Relationships of the Volkswagen Group with the State of Lower Saxony**

The State of Lower Saxony holds, directly and indirectly, approximately 20% of Volkswagen AG's voting capital. See "*Major Shareholders*".

In accordance with Volkswagen AG's articles of association, the State of Lower Saxony is entitled to appoint two members of the Supervisory Board of Volkswagen AG for as long as it directly or indirectly holds at least 15% of Volkswagen AG's ordinary shares.

Transactions with the State of Lower Saxony and private-law entities of the State of Lower Saxony are, in the opinion of the Company, conducted on arm's length terms. In addition, the State of Lower Saxony and its private-law entities have not instructed Volkswagen to enter into, or refrain from entering into, any transactions.

### **11.3 Relationships of the Volkswagen Group with the State of Qatar**

The State of Qatar indirectly holds approximately 17% of Volkswagen AG's voting capital and has two representatives, Dr. Hussain Ali Al-Abdulla and Dr. Hessa Sultan Al-Jaber, on Volkswagen AG's Supervisory Board.

## 12. BOARD OF MANAGEMENT AND SUPERVISORY BOARD

As required by the German Stock Corporation Act, Volkswagen AG has a two-tier board system, consisting of a Supervisory Board (*Aufsichtsrat*) and a Board of Management (*Vorstand*).

### 12.1 Board of Management

The Board of Management is directly responsible for managing the Company.

Pursuant to the articles of association of the Company, the Company is represented by two members of the Board of Management or by one member of the Board of Management and an authorized signatory.

The number of members of the Board of Management is determined by the Supervisory Board. The Board of Management must consist of at least three members. The Board of Management of Volkswagen AG has eight members. Pursuant to German statutory requirements, one member of the Board of Management must be assigned the responsibility for labor matters.

The members of the Board of Management are appointed by the Supervisory Board for a maximum term of five years. The Supervisory Board may also reappoint a member of the Board of Management or extend such member's term of office, in each case for a maximum of five years. The Supervisory Board can revoke the appointment of a member of the Board of Management before the expiration of his term of office for good cause, for example for gross violation of duties or if the general shareholders' meeting declares it no longer has confidence in such member of the Board of Management, unless the vote of "no confidence" was based on grounds that are obviously not objective.

The Board of Management adopts resolutions by a simple majority of the votes cast. If there is a tied vote, the Chairman has the casting vote.

According to the articles of association of the Company, the Board of Management requires the prior approval of the Supervisory Board to take certain measures and to enter into certain transactions which are of particular importance to the Company or which entail exceptional economic risks. Article 9 of the articles of association contains a list of transactions requiring the approval of the Supervisory Board, such as establishing and closing branch offices, setting up and relocating production facilities, or investing under investment programs that must be regularly submitted to the Supervisory Board and investing outside these investment programs, insofar as the costs exceed certain thresholds in the individual case. In addition, the rules of procedure of the Board of Management contain details and additions to these approval reservations. Moreover, the Supervisory Board may require its approval for additional types of transactions. It may also generally give its approval to certain types of transactions in advance or subject to certain conditions, such as approvals of limits.

The Board of Management provides the Supervisory Board with regular, timely and comprehensive information on all matters relevant to the Company and the Volkswagen Group with regard to planning, business developments, risks and risk management. It reports on deviations of the course of business from agreed plans and goals and identifies the reasons. In general, the Board of Management must provide the Supervisory Board with a long-term plan for the group on an annual basis and must report on significant deviations from the existing plan.

The Supervisory Board may request special reports from the Board of Management at any time. In addition, the Board of Management and the Supervisory Board report on the corporate governance of the Company in the annual report.



### 12.1.1 **Members of the Board of Management**

The names of the members of the Board of Management of Volkswagen AG and their respective ages as of September 30, 2018 are listed below.

<b>Name</b>	<b>Age</b>	<b>Position at Volkswagen AG</b>
Dr. Ing. Herbert Diess <sup>(1)</sup>	59	Chairman; Chairman of the Brand Board of Management of Volkswagen Passenger Cars
Dr. Oliver Blume <sup>(2)</sup>	49	Chairman of the Executive Board of Porsche AG
Prof. Dr. rer. pol. Dr.-Ing. E. h. Jochem Heizmann	65	China
Gunnar Kilian <sup>(3)</sup>	43	Human Resources and Organization
Hiltrud Dorothea Werner	51	Integrity and Legal Affairs
Andreas Renschler	59	Commercial Vehicles
Dr. Stefan Sommer <sup>(4)</sup>	55	Components and Procurement
Frank Witter	58	Finance and IT

<sup>(1)</sup> Mr. Herbert Diess has been appointed as chairman of the Board of Management effective April 12, 2018, replacing Mr. Matthias Müller who stepped down from the Board of Management by mutual agreement. Mr. Diess will continue to manage the Volkswagen Passenger Cars brand with the assistance of a chief operating officer, who is responsible for daily operations.

<sup>(2)</sup> Mr. Oliver Blume, Chairman of the Board of Management of Dr. Ing. h.c. F. Porsche AG, has been appointed as a new member of the Board of Management in April 2018 following the departure of Mr. Francisco Javier Garcia Sanz, head of Procurement, who left the Company at his own request.

<sup>(3)</sup> Mr. Gunnar Kilian has taken over the responsibility for Human Resources and Organization from Mr. Karlheinz Blessing in April 2018. Mr. Blessing has left the Board of Management by mutual agreement.

<sup>(4)</sup> Dr. Stefan Sommer assumed responsibility for Components and Procurement as from September 1, 2018.

There are no family relationships between any of the individuals listed above.

**Dr. Herbert Diess** was born in Munich (Bavaria) on October 24, 1958. After completing his high school education, he studied vehicle technology at Munich University of Applied Sciences from 1977 and then mechanical engineering at Munich Technical University from 1978 to 1983. After obtaining his degree in engineering, Dr. Diess was a scientific assistant at the Institute for Tool Machines and Plant Management of Munich Technical University, where he obtained a doctorate in the field of assembly automation in 1987. From 1988, he headed the Assembly Automation Department of the Institute for Tool Machines and Plant Management. In 1989, he continued his career with Robert Bosch GmbH in Stuttgart. In 1990, he was appointed Technical Director, Planning and Maintenance, of the Robert Bosch plant at Treto in Spain, where he was General Manager from 1993. In 1996, Dr. Diess joined BMW AG in Munich as Director, Long-Term and Structural Planning. From 1997, he headed the Process Consulting Department, first in the Production Division and later in the Engineering and Technology Division. He was then assigned to the UK, where he was Director of BMW's Birmingham plant from 1999; one year later, he became Director of the BMW plant in Oxford. In 2003, he was appointed Director of BMW Motorcycles. In 2007, he became Member of the Board of Management, Purchasing and Supplier Network, and, in 2012, Member of the Board of Management, Development, of BMW AG. Effective July 1, 2015, the Supervisory Board of Volkswagen AG appointed Dr. Herbert Diess Member of the Board of Management of Volkswagen Aktiengesellschaft and Chairman of the Board of Management of the Volkswagen Passenger Cars brand.

Dr. Herbert Diess was a member of the executive, administrative, or supervisory bodies and/or a partner in the enterprise or company listed below as of December 31, 2017:

- Infineon Technologies AG, Neubiberg (Member of the Supervisory Board)

**Dr. Oliver Blume** was born on June 6, 1968 in Brunswick. He holds a PhD in mechanical engineering and has been with the Volkswagen Group since 1994. After graduating from high school, Mr. Blume began his studies at TU Braunschweig in 1988, and was awarded a degree in mechanical engineering in 1994. He completed his PhD thesis to receive the title of Doctor of Engineering in Vehicle Engineering from the Institute of Vehicle Technology at Tongji University, Shanghai, in 2001. Mr. Blume already started his professional career in 1994, joining the international trainee program at AUDI AG. After roles in body construction planning and logistics, he held various senior management functions until 2006, including Head of Body Construction for the A3, Head of the AUDI AG Pilot Plant, and Head of Planning and the Pilot Series Centre at SEAT S.A. in Barcelona. Mr. Blume moved to Wolfsburg as Head of Production Planning at the Volkswagen brand in 2009. He became the member of the Executive Board for Production and Logistics at

Porsche AG in 2013. He was appointed Chairman of the Executive Board of Dr. Ing. h. c. F. Porsche AG in 2015.

**Prof. Dr. rer. pol. Dr.-Ing. E. h. Jochem Heizmann** was born on January 31, 1952 in Speyer/Rhein, Germany. In 1975, he completed a degree in industrial engineering at the University of Karlsruhe (TH), Germany. In 1980, he received his doctorate from, the University of Karlsruhe (TH), Germany. Prof. Dr. rer. pol. Heizmann started his career in the car manufacturing industry at AUDI NSU AUTO UNION AG in Ingolstadt, Germany, in 1982, where he held various leading roles, including Head of the Technological Development Department, followed by the Assembly (Vehicle Production) Department. In 1991, Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann joined Volkswagen AG as Head of Central Planning for Engine Production in Wolfsburg. In 1993, he was appointed Head of Production Planning for the Volkswagen brand. In this capacity, Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann was responsible for planning, series production start-up and commissioning of production facilities for new vehicles and engines worldwide. He was also responsible for tools and devices construction at Volkswagen in Wolfsburg. On January 1, 2000, Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann was appointed General Technical Manager and Spokesman for the management of Volkswagen Sachsen GmbH and Volkswagen Sachsen Immobilienverwaltung GmbH. In this capacity, he was responsible for the vehicle plant in Mosel/Zwickau, Germany, and the engine factory in Chemnitz, Germany. From February 2001 until the end of January 2007, he was a member of the Board of Management of AUDI AG responsible for Production. From February 1, 2007 to September 30, 2010, Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann was member of the Board of Management of Volkswagen AG with responsibility for 'Group Production'. Additionally, from October 1, 2007, to September 30, 2009, Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann was member of the Board of Management of Volkswagen Passenger Cars with responsibility for 'Production and Logistics'. With effect from September 1, 2012, the Supervisory Board of Volkswagen AG appointed Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann member of the Board of Management of Volkswagen AG with responsibility for the new Group function of 'China'. Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann was a member of the Board of Management of Volkswagen AG with responsibility for 'Group Commercial Vehicles' from October 1, 2010 to August 31, 2012. Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann was made a guest professor of Tongji University in Shanghai on March 16, 2004. On December 1, 2006, Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann was named an honorary professor of the mechanical engineering faculty at Chemnitz University of Technology. On October 14, 2010, Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann received an honorary doctorate with the academic title of Dr.-Ing. E. h. from Chemnitz University of Technology.

Alongside his office as member of the Board of Management of Volkswagen AG and other offices on the supervisory boards of Volkswagen Group companies and other significant investees, Prof. Dr. rer. pol. Dr.-Ing. E. h. Heizmann was a member of the executive, administrative, or supervisory bodies and/or a partner in the following enterprise or company as of December 31, 2017:

- Lufthansa Technik AG, Hamburg (Member of the Supervisory Board)

**Gunnar Kilian** was born on January 31, 1975 in Westerland/Sylt and has worked for the Volkswagen Group since 2000. He started his professional career in 1995 as an intern with a newspaper, subsequently holding various editorial posts before joining Volkswagen AG as a public relations officer in 2000. From 2003, Mr. Kilian ran the office of a member of the German Bundestag, and returned to Volkswagen AG in 2006 as press spokesperson for the Group Works Council. He worked in the Salzburg office of the Chairman of the Volkswagen AG Supervisory Board from 2012 before returning to Wolfsburg in 2013 to take up the post of Secretary-General and General Manager of the Group Works Council. Mr. Kilian also held Supervisory Board mandates at Wolfsburg AG, Porsche Holding Stuttgart GmbH, Volkswagen Truck & Bus GmbH, MAN Diesel & Turbo SE, Allianz für die Region GmbH as well as Volkswagen Vertriebsbetreuungsgesellschaft and MOIA GmbH. Mr. Kilian has engaged in voluntary work for many years, for example as Chairman of the Volkswagen Belegschaftsstiftung (Volkswagen Employee Foundation) and also as a member of the Stiftungsrat (Board of Trustees) of the International Youth Meeting Center in Auschwitz.

**Hiltrud Dorothea Werner** was born on April 16, 1966, in Bad Doberan (Mecklenburg-Vorpommern). In 1985, she completed a textile technology training program in Mühlhausen, Thuringia. She then earned an economics degree in 1989 at the Martin Luther University in Halle-Wittenberg. Ms. Werner began her career as a project manager for process optimization at Softlab GmbH, a consulting firm that specialized in information technology. She joined BMW AG in 1996 and then completed an international management trainee program. Afterward, she became a department head at BMW Bank GmbH. In 2000, she joined Group Audit and became the head of the BMW Audit Department for Great Britain and Ireland with global responsibility for the brands Rolls-Royce Motor Cars and MINI in 2003. After returning from Great Britain in 2008, she became head of Group Audit Financial Services. In 2011, Ms. Werner was named the Chief Audit Executive at MAN SE. She then assumed the same position at ZF Friedrichshafen in 2014. She became head of Group Audit at Volkswagen Aktiengesellschaft on January 1, 2016. The Supervisory Board of Volkswagen Aktiengesellschaft has appointed Ms. Werner to the Board of Management of Volkswagen Aktiengesellschaft where she is responsible for integrity and legal affairs, effective February 1, 2017.

Ms. Werner was not a member of the executive, administrative, or supervisory bodies and/or a partner in any enterprises or companies as of December 31, 2017.

**Andreas Renschler** was born on March 29, 1958 in Stuttgart (Germany). After completing his training as a banker (1979) and graduating with degrees in business engineering (1983) and business administration (1987), Mr. Renschler began his career at Daimler-Benz AG in 1988. Following various posts at Daimler-Benz AG he took charge of the M Class unit, serving as President and CEO of Mercedes-Benz US. He returned to Germany in 1999 as Senior Vice President, Executive Management Development, at the company then known as DaimlerChrysler AG. Mr. Renschler was appointed President of smart GmbH in the same year. He was assigned to Mitsubishi Motors in Japan in spring 2004 and subsequently named member of the Daimler AG Board of Management with responsibility for the Daimler Trucks Division. He was appointed member of the Daimler AG Board of Management in charge of Manufacturing and Procurement at Mercedes-Benz Cars & Mercedes-Benz Vans in 2013. The Supervisory Board of Volkswagen Aktiengesellschaft appointed Andreas Renschler as member of the Board of Management of Volkswagen Aktiengesellschaft with responsibility for Commercial Vehicles effective February 1, 2015.

Mr. Renschler was a member of the executive, administrative, or supervisory bodies and/or a partner in the enterprise or company listed below as of December 31, 2017:

- Deutsche Messe AG, Hanover (Member of the Supervisory Board)

**Dr. Stefan Sommer** was born on January 7, 1963 in Münster/Westphalia, Germany. He holds a Ph.D. in engineering, specializing in automation technology. After graduating in 1989 from the Ruhr-Universität Bochum, Faculty of Mechanical Engineering, he completed his Ph.D. at the Chair of Control Systems and Control Engineering at the Ruhr-Universität Bochum in 1993. He began his professional career in 1994 as a development engineer at ITT Automotive Group Europe GmbH in Frankfurt am Main. In 1997, he moved to Continental Automotive Systems in Hanover as Director of Electronics & Sensor Development. After several positions of responsibility within the Continental Group, lastly as Senior Vice President EBS Customer Center, Dr. Sommer was appointed to the Board of Management, Chassis Division, at ZF Sachs AG in Schweinfurt. In 2010, he took over responsibility for Materials Management on the Board of Management at ZF Friedrichshafen AG. In January 2012, Dr. Sommer was appointed Deputy Chairman of the Board of Management at ZF Friedrichshafen AG and served as Chairman of the Board of Management at ZF Friedrichshafen AG from May 2012 until the end of 2017.

**Frank Witter** was born on May 29, 1959. He holds a degree in business administration and has been with the Volkswagen Group since 1992. After training as a qualified savings bank officer, Mr. Witter studied economics at the University of Hannover. He joined Volkswagen AG in 1992, heading the capital markets business section at the Group Treasury until 1998. He subsequently became Treasurer at Volkswagen of America Inc., Volkswagen Canada Inc., VW Credit Inc. and their subsidiaries in Auburn Hills, Michigan, USA. From 2001 to 2002 Mr. Witter served as Corporate Treasurer at SAirGroup in Zurich, Switzerland. In 2002, he became Chief Financial Officer (CFO) at Volkswagen of America Inc., Volkswagen Canada Inc., VW Credit Inc. and their subsidiaries. From the beginning of 2005 he held the function of Chief Executive Officer (CEO) and Chief Financial Officer (CFO) at Volkswagen of America Inc. and Volkswagen Canada Inc. He was the Group's Executive Manager and Chief Representative for the region of North America from July 2006 to September 2007. From October 2007 to mid-September 2008, Mr. Witter served as President and Chief Financial Officer (CFO) of VW Credit Inc. and was Regional Manager for the American markets of Volkswagen Financial Services AG. Mr. Witter was Chairman of the Board of Management of Volkswagen Financial Services AG from September 2008.

Mr. Witter was not a member of the executive, administrative, or supervisory bodies and/or a partner in any enterprises or companies as of December 31, 2017.

## 12.1.2 Remuneration of members of the Board of Management

The following table shows the remuneration of the Board of Management members in 2017.

	Component of remuneration			Total	Pension expense
	Non-performance related <sup>(1)</sup>	Performance-related <sup>(2)</sup>	Long-term incentive component <sup>(3)</sup>		
Matthias Müller <sup>(4)</sup> . . . . .	2,317,735	3,513,207	4,309,602	10,140,544	612,807
Dr. rer. soc. Karlheinz Blessing <sup>(4)</sup> . . . . .	1,610,515	1,557,579	2,025,408	5,193,502	686,413
Dr. Ing. Herbert Diess . . . . .	1,428,104	1,557,579	2,048,640	5,034,323	814,654
Dr. rer. pol. h.c. Francisco Javier Garcia Sanz <sup>(4)</sup> . . . . .	1,560,686	1,557,579	1,890,944	5,009,209	889,410
Prof. Dr. rer. pol. Dr.-Ing. E. h. Jochem Heizmann . . . . .	1,551,145	1,557,579	2,031,040	5,139,764	0
Christine Hohmann-Dennhardt (Jan 1, 2016 until Jan 31, 2017) . . . . .	–	–	–	109,361	54,091
Andreas Renschler . . . . .	1,576,037	1,557,579	1,891,648	5,025,264	5,361,551
Prof. Rupert Stadler <sup>(4)</sup> . . . . .	1,419,734	1,557,579	2,025,408	5,002,721	829,730
Hiltrud Dorothea Werner (since Feb 2, 2017) . . . . .	1,341,819	1,427,781	1,856,672	4,626,272	930,689
Frank Witter . . . . .	1,421,980	1,557,579	2,025,408	5,004,967	692,743
<b>Total</b> . . . . .	<b>14,337,116</b>	<b>15,844,041</b>	<b>20,104,770</b>	<b>50,285,927</b>	<b>10,872,088</b>

<sup>(1)</sup> Comprises fixed remuneration and fringe benefits. In addition to the basic level of remuneration, the fixed remuneration includes differing levels of remuneration for appointments assumed at Volkswagen Group companies. The fringe benefits result from the grant of non-cash benefits and include in particular the use of operating assets, such as company cars and the payment of insurance premiums. Taxes due on these non-cash benefits are mainly borne by Volkswagen AG.

<sup>(2)</sup> Includes annual bonus with a one-year assessment period.

<sup>(3)</sup> Comprises the long-term incentive in the form of a performance share plan with a forward-looking three-year term and phantom preferred shares. The performance shares granted to the incumbent members of the Board of Management under the new remuneration system in 2017 were recognized at their fair value at the grant date (EUR 20.1 million). The figures do not reflect any entries for phantom preferred shares from the amount withheld for the fiscal year 2015 because no payments were made to the members of the Board of Management in 2017 (the three-year holding period did not expire, nor did any Board members participating in the amount withheld step down in 2017).

<sup>(4)</sup> Messrs. Müller, Blessing, Sanz and Stadler are no longer members of the Board of Management in 2018.

The annual bonus is based upon the result for the respective fiscal year. Operating result achieved by the Volkswagen Group plus the proportionate operating result of the Chinese joint ventures form half of the basis for the annual bonus, with operating return on sales achieved by the Volkswagen Group making up the second half. Each of the two components of the annual bonus is payable only if certain thresholds are exceeded or reached. The calculated payment amount may be individually reduced (multiplier of 0.8) or increased (multiplier of 1.2) by up to 20% by the Supervisory Board, taking into account the degree of achievement of individual targets agreed between the Supervisory Board and the respective member of the Board of Management, as well as the success of the full Board of Management in achieving the transformation of the Volkswagen Group's employees into new areas of activity. The payment amount for the annual bonus is capped at 180% of the target amount for the annual bonus.

The long-term incentive ("LTI") is granted to the Board of Management in the form of a performance share plan. Each performance period has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the respective member of the Board of Management purely for calculation purposes. The conversion is performed based on the unweighted average closing price of Volkswagen's preferred shares for the last 30 trading days preceding January 1 of a given fiscal year. At the end of each year, the number of performance shares is determined definitively for one-third of the three-year performance period based on the degree of target achievements for the annual earnings per Volkswagen preferred share. A prerequisite for this is that a threshold is reached. A cash settlement is made at the end of the three-year term of the performance share plan. The payment amount corresponds to the final number of determined performance shares, multiplied by the closing reference price at the end of the three-year period plus a dividend equivalent for the relevant term. The payment amount under the performance share plan is limited to 200% of the target amount. An advance of 20% on the payment amount is paid if the average ratio of capex to sales revenue in the Automotive Division of the R&D ratio of the last three years is lower than 5%. Should a member of the Board of Management leave the Company of their own volition without good cause before the performance shares

are paid out or should that member start working for a competitor, the unpaid performance shares will expire. For members of the Board of Management who held their seat as of December 31, 2017, this rule only applies in the event of a future reappointment.

In the introductory phase of the performance share plan (2017-2018), the members of the Board of Management who were Board members as of December 31, 2016 will receive advances of 80% of their target amount. The Chairman of the Board will receive 100% of his target amount in advance. The two advances will each be paid after the first year of the performance period. After the last day of the relevant three-year performance period, settlement will be made based on actual achievement of targets. The Chairman of the Board of Management has been granted the option of immediate settlement of the performance shares at the end of his contract of service.

In addition to the cap on the individual variable components of the remuneration for the members of the Board of Management, the annual benefits for one fiscal year (i.e. basic remuneration and the variable remuneration components) may not exceed EUR 10.0 million for the Chairman of the Board of Management and EUR 5.0 million for each member of the Board of Management. The Supervisory Board regularly reviews and, if necessary, adjusts the level of the total remuneration cap and the individual targets.

As of December 31, 2017, 50,703 phantom shares with a fair value of EUR 7.0 million were allocated to members of the Board of Management who were active members as of April 22, 2016. Payment in relation to the phantom shares is subject to future performance of Volkswagen Aktiengesellschaft's share price. The phantom shares represent a portion of the variable remuneration with respect to the year 2015 to which members of the Board of Management were entitled, but which they waived on April 22, 2016.

Members of the Board of Management with contracts entered into on or after January 1, 2010 are entitled to payment of their normal remuneration for six to twelve months in the event of illness. Contracts entered into before that date grant remuneration for six months. In the event of disability, they are entitled to the retirement pension.

Surviving dependents receive a widow's pension of 66 2/3% and orphan's benefits of 20% of the former member of the Board of Management's pension. Contracts with members of the Board of Management whose first term of office began after April 1, 2015 provide for an entitlement – in line with the principles of the works agreement that also applies to employees of Volkswagen AG covered by collective agreements – to a widow's pension of 60% and orphan's benefits of 10% for half-orphans and 20% for full orphans, based in each case on the former member of the Board of Management's pension.

#### **12.1.3 *Post-employment and early termination benefits of members of the Board of Management***

In the event of regular termination of their service on the Board of Management, the members of the Board of Management are entitled to a pension, including a surviving dependents' pension, as well as the use of company cars for the period in which they receive their pension. The agreed benefits are paid or made available when the Board of Management member reaches the age of 63.

Pension obligations for members of the Board of Management amounted to EUR 125.4 million as of December 31, 2017. EUR 12.9 million was added to the pension provisions in 2017. Retired members of the Board of Management and their surviving dependents received EUR 19.9 million in 2017. Obligations for pensions for this group of persons amounted to EUR 269.0 million as of December 31, 2017.

If the appointment to the Board of Management is terminated for cause through no fault of the Board of Management member, the claims under Board of Management contracts entered into since November 20, 2009 are limited to a maximum of 2 years' remuneration. For Board of Management members who are commencing their third or later term of office, existing rights under contracts entered into before November 20, 2009 are grandfathered.

No severance payment is made if the appointment to the Board of Management is terminated for good reason for which the Board of Management member is responsible.

#### **12.1.4 *Shares held by members of the Board of Management***

No member of the Board of Management held any shares in the Company as of December 31, 2017.

### **12.2 *Supervisory Board***

The Supervisory Board advises the Board of Management on managing the Company and supervises its conduct of the business. In this regard, the Supervisory Board may demand special reports from the Board of Management at any time. In addition, the Board of Management must report to the Supervisory Board on a regular basis about the business of the Company and fundamental matters of business planning.

In accordance with German statutory law and the Company's articles of association, the Supervisory Board consists of 20 members, of whom 10 are shareholder representatives and 10 are elected by the employees.

Pursuant to the Company's articles of association, the German Federal State of Lower Saxony is entitled to appoint two of the shareholder representatives to the Supervisory Board of the Company, as long as the State of Lower Saxony directly or indirectly holds at least 15% of the ordinary shares of the Company. The Supervisory Board membership of Dr. Bernd Althusmann and Stephan Weil are based on this right. The remaining shareholder representatives on the Supervisory Board are elected by the general shareholders' meeting.

The members of the Supervisory Board are elected for a term that ends upon the close of the general shareholders' meeting which resolves the discharge of members from their supervisory duties for the fourth year following the start of their terms of office. The year in which the term of appointment commences is not included in this calculation. A member of the Supervisory Board may resign from his position at any time by giving the Supervisory Board Chairman one month's prior written notice.

A Supervisory Board member elected by the general shareholders' meeting without being bound by an election proposal, i.e. a member elected outside the special rules for the election of employee representatives, may be removed by the general shareholders' meeting at any time before the expiration of his appointment without cause, by resolution adopted by a majority of three quarters of the votes cast.

Resolutions of the Supervisory Board require a majority of the votes cast, unless otherwise provided in the articles of association or by law. If there is a tie vote on the Supervisory Board, and a second vote on the same matter also results in a tie, the Supervisory Board Chairman has two votes. The Deputy Chairman is not entitled to a second vote; this applies also in the absence of the Supervisory Board Chairman. Resolutions on setting up or relocating production facilities require a two-thirds majority of the members of the Supervisory Board.

### **12.2.1 Committees**

The Supervisory Board has formed the following five committees: the Executive Committee, the Mediation Committee, the Audit Committee, the Nomination Committee and the Special Committee on Diesel Engines.

The Executive Committee and the Special Committee on Diesel Engines are each composed of three shareholder representatives and three employee representatives, while the Nomination Committee consists of the shareholder representatives in the Executive Committee. All other committees are composed of two shareholder representatives and two employee representatives.

The responsibilities of the Executive Committee include preparing the resolutions of the Supervisory Board and deciding on contractual matters regarding the Board of Management. The following persons are members of the Executive Committee: Hans Dieter Pötsch (Chairman), Jörg Hofmann (Deputy Chairman), Peter Mosch, Bernd Osterloh, Dr. rer. comm. Wolfgang Porsche and Stephan Weil. The Executive Committee met 17 times during 2017.

The Mediation Committee is responsible, in accordance with the German Co-Determination Act, for appointing the members of the Board of Management. The following persons are members of the Mediation Committee: Hans Dieter Pötsch (Chairman), Jörg Hofmann (Deputy Chairman), Bernd Osterloh and Stephan Weil. The Mediation Committee did not convene in 2017.

The Audit Committee prepares the advice and resolutions of the Supervisory Board on accounting matters. This includes approval of the annual financial statements of Volkswagen AG and the consolidated financial statements, questions relating to accounting and risk management, particularly reviewing the risk monitoring system for compliance issues, and the independence of the external auditor and commissioning an external auditor to audit the annual and consolidated financial statements, including establishing focal points for the audit and agreeing on fees. The Supervisory Board may assign additional tasks to the Audit Committee. The following persons are members of the Audit Committee: Dr. jur. Ferdinand Oliver Porsche (Chairman), Bernd Osterloh (Deputy Chairman), Birgit Dietze and Marianne Heiß. The Audit Committee met five times in 2017.

The task of the Nomination Committee is to suggest suitable candidates to the Supervisory Board who it may propose for election to the general shareholders' meeting. The following persons are members of the Nomination Committee: Hans Dieter Pötsch (Chairman), Dr. rer. comm. Wolfgang Porsche and Stephan Weil. The Nomination Committee did not convene in 2017.

The Special Committee on Diesel Engines is responsible for coordinating all activities relating to the diesel issue and preparing resolutions by the Supervisory Board. To this end, the Special Committee on Diesel

Engines is also provided with regular information by the Board of Management. It is also entrusted with examining any consequences of the findings. The Chairman of the Special Committee on Diesel Engines reports regularly on its work to the Supervisory Board. The following persons are members of the Special Committee on Diesel Engines: Dr. Wolfgang Porsche (Chairman), Dr. Bernd Althusmann, Peter Mosch, Bertina Murkovic, Bernd Osterloh and Dr. Ferdinand Oliver Porsche. In 2017, the Special Committee on Diesel Engines met on 11 occasions, in which, among other topics, details pertaining to the settlements with the U.S. authorities as well as the Supervisory Board's proposed resolutions regarding formal approval of actions of incumbent members in 2016 were discussed.

### 12.2.2 *Members of the Supervisory Board*

The names of the members of the Supervisory Board of Volkswagen AG and their respective ages are listed below. Information regarding their principal business activities performed outside Volkswagen AG, including other principal directorships, listed below is as of December 31, 2017 unless otherwise indicated.

<b><u>Name, Position</u></b>	<b><u>Age</u></b>	<b><u>Principal activities outside Volkswagen AG</u></b>
Hans Dieter Pötsch Chairman Chairman of the executive board and Chief Financial Officer of Porsche Automobil Holding SE	66	<ul style="list-style-type: none"> <li>• AUDI AG, Ingolstadt<sup>(1)</sup></li> <li>• Autostadt GmbH, Wolfsburg (Chairman)<sup>(1)</sup></li> <li>• Bertelsmann Management SE, Gütersloh<sup>(1)</sup></li> <li>• Bertelsmann SE &amp; Co. KGaA, Gütersloh<sup>(1)</sup></li> <li>• Dr. Ing. h.c.F. Porsche AG, Stuttgart<sup>(1)</sup></li> <li>• Wolfsburg AG, Wolfsburg<sup>(1)</sup></li> <li>• Porsche Austria Gesellschaft m.b.H., Salzburg (Chairman)<sup>(2)</sup></li> <li>• Porsche Holding Gesellschaft m.b.H., Salzburg (Chairman)<sup>(2)</sup></li> <li>• Porsche Retail GmbH, Salzburg (Chairman)<sup>(2)</sup></li> <li>• VfL Wolfsburg-Fußball GmbH, Wolfsburg (Deputy Chairman)<sup>(2)</sup></li> <li>• Volkswagen Truck &amp; Bus GmbH, Braunschweig<sup>(2)</sup></li> </ul>
Jörg Hofmann* Deputy Chairman First Chairman of IG Metall	62	<ul style="list-style-type: none"> <li>• Robert Bosch GmbH, Stuttgart<sup>(1)</sup></li> </ul>
Dr. Hussain Ali Al-Abdulla Minister of State	60	<ul style="list-style-type: none"> <li>• Gulf Investment Corporation, Safat/Kuwait<sup>(2)</sup></li> <li>• Kirnaf Finance, Riyadh (Chairman)<sup>(2)</sup></li> <li>• Masraf Al Rayan, Doha (Chairman)<sup>(2)</sup></li> <li>• Qatar Investment Authority, Doha<sup>(2)</sup></li> <li>• Qatar Holding, Doha<sup>(2)</sup></li> </ul>
Dr. Hessa Sultan Al-Jaber Minister of State	58	<ul style="list-style-type: none"> <li>• Droobi Health Technology, Doha<sup>(2)</sup></li> <li>• Qatar Satellite Company, Doha<sup>(2)</sup></li> <li>• Malomatia, Doha<sup>(2)</sup></li> <li>• Trio Investment, Doha<sup>(2)</sup></li> </ul>
Marianne Heiss <sup>(3)</sup> Chief Financial Officer of BBDO Group Germany GmbH, Düsseldorf	45	<ul style="list-style-type: none"> <li>• AUDI AG, Ingolstadt<sup>(1)</sup> (as of May 9, 2018)</li> <li>• Porsche Automobil Holding SE, Stuttgart<sup>(1)</sup> (as of May 15, 2018)</li> </ul>

<b>Name, Position</b>	<b>Age</b>	<b>Principal activities outside Volkswagen AG</b>
Dr. jur. Hans-Peter Fischer* Chairman of the Board of Management of Volkswagen Management Association	58	<ul style="list-style-type: none"> <li>Volkswagen Pension Trust e.V., Wolfsburg<sup>(2)</sup></li> </ul>
Birgit Dietze* Secretary to the Board of IG Metall Trade Union	44	n.a.
Uwe Hück* Chairman of the General and Group Works Council of Dr. Ing. h.c. F. Porsche AG	55	<ul style="list-style-type: none"> <li>Dr. Ing. h.c. F. Porsche AG, Stuttgart (Deputy Chairman)<sup>(1)</sup></li> </ul>
Ulrike Jakob* Deputy Chairwoman of the Works Council of Volkswagen AG, Kassel plant	57	n.a.
Johan Järvklo* Chairman of IF Metall at Scania AB	44	<ul style="list-style-type: none"> <li>Scania CV AB, Södertälje<sup>(2)</sup></li> <li>Volkswagen Truck &amp; Bus GmbH, Braunschweig<sup>(2)</sup></li> </ul>
Dr. Louise Kiesling Designer and entrepreneur	60	n.a.
Dr. Bernd Althusmann Minister of Economic Affairs, Labor, Transport and Digitalization for the Federal State of Lower Saxony	51	<ul style="list-style-type: none"> <li>Deutsche Messe, AG, Hanover<sup>(1)</sup></li> <li>Container Terminal Wilhelmshaven JadeWeserPort-Marketing GmbH &amp; Co. KG, Wilhelmshaven<sup>(2)</sup></li> <li>JadeWeserPort Realisierungs GmbH &amp; Co. KG, Wilhelmshaven<sup>(2)</sup></li> <li>JadeWeserPort Realisierungs-Beteiligungs GmbH, Wilhelmshaven<sup>(2)</sup></li> <li>Niedersachsen Ports GmbH &amp; Co. KG, Oldenburg (Chairman)<sup>(2)</sup></li> </ul>
Peter Mosch* Chairman of the General Works Council of AUDI AG	45	<ul style="list-style-type: none"> <li>AUDI AG, Ingolstadt<sup>(1)</sup></li> <li>Audi Pensionskasse – Altersversorgung der AUTO UNION GmbH, VVaG, Ingolstadt<sup>(1)</sup></li> </ul>
Bertina Murkovic* Chairwoman of the Works Council of Volkswagen Commercial Vehicles	60	n.a.
Bernd Osterloh* Chairman of the General and Group Works Councils of Volkswagen AG	61	<ul style="list-style-type: none"> <li>Autostadt GmbH, Wolfsburg<sup>(1)</sup></li> <li>Wolfsburg AG, Wolfsburg<sup>(1)</sup></li> <li>Allianz für die Region GmbH, Braunschweig<sup>(2)</sup></li> <li>Porsche Holding Gesellschaft m.b.H., Salzburg<sup>(2)</sup></li> <li>SEAT, S.A., Martorell<sup>(2)</sup></li> <li>ŠKODA Auto a.s., Mladá Boleslav<sup>(2)</sup></li> <li>VfL Wolfsburg-Fußball GmbH, Wolfsburg<sup>(2)</sup></li> <li>Volkswagen Immobilien GmbH, Wolfsburg<sup>(2)</sup></li> <li>Volkswagen Truck &amp; Bus GmbH, Braunschweig<sup>(2)</sup></li> </ul>



<b>Name, Position</b>	<b>Age</b>	<b>Principal activities outside Volkswagen AG</b>
Dr. jur. Hans Michel Piëch Lawyer in private practice	75	<ul style="list-style-type: none"> <li>• AUDI AG, Ingolstadt<sup>(1)</sup></li> <li>• Dr. Ing. h.c. F. Porsche AG, Stuttgart<sup>(1)</sup></li> <li>• Porsche Automobil Holding SE, Stuttgart (Deputy Chairman)<sup>(1)</sup></li> <li>• Porsche Cars Great Britain Ltd., Reading<sup>(2)</sup></li> <li>• Porsche Cars North America Inc., Atlanta<sup>(2)</sup></li> <li>• Porsche Holding Gesellschaft m.b.H., Salzburg<sup>(2)</sup></li> <li>• Porsche Ibérica S.A., Madrid<sup>(2)</sup></li> <li>• Porsche Italia S.p.A., Padua<sup>(2)</sup></li> <li>• Schmittenhöhebahn AG, Zell am See<sup>(2)</sup></li> <li>• Volksooper Wien GmbH, Vienna<sup>(2)</sup></li> </ul>
Dr. jur. Ferdinand Oliver Porsche Member of the Board of Management of Familie Porsche AG Beteiligungsgesellschaft	56	<ul style="list-style-type: none"> <li>• AUDI AG, Ingolstadt<sup>(1)</sup></li> <li>• Dr. Ing. h.c. F. Porsche AG, Stuttgart<sup>(1)</sup></li> <li>• Porsche Automobil Holding SE, Stuttgart<sup>(1)</sup></li> <li>• Porsche Holding Gesellschaft m.b.H., Salzburg<sup>(2)</sup></li> <li>• Porsche Lizenz- und Handelsgesellschaft mbH &amp; Co. KG, Ludwigsburg<sup>(2)</sup></li> <li>• Volkswagen Truck &amp; Bus GmbH, Braunschweig<sup>(2)</sup></li> </ul>
Dr. rer. comm. Wolfgang Porsche Chairman of the Supervisory Board of Porsche Automobil Holding SE Chairman of the Supervisory Board of Dr. Ing. h.c. F. Porsche AG	74	<ul style="list-style-type: none"> <li>• AUDI AG, Ingolstadt<sup>(1)</sup></li> <li>• Dr. Ing. h.c. F. Porsche AG, Stuttgart (Chairman)<sup>(1)</sup></li> <li>• Porsche Automobil Holding SE, Stuttgart (Chairman)<sup>(1)</sup></li> <li>• Familie Porsche AG Beteiligungsgesellschaft, Salzburg (Chairman)<sup>(2)</sup></li> <li>• Porsche Cars Great Britain Ltd., Reading<sup>(2)</sup></li> <li>• Porsche Cars North America Inc., Atlanta<sup>(2)</sup></li> <li>• Porsche Holding Gesellschaft m.b.H., Salzburg<sup>(2)</sup></li> <li>• Porsche Ibérica S.A., Madrid<sup>(2)</sup></li> <li>• Porsche Italia S.p.A., Padua<sup>(2)</sup></li> <li>• Schmittenhöhebahn AG, Zell am See<sup>(2)</sup></li> </ul>
Athanasios Stimoniaris* Chairman of the Works Council and of the General Works Council of MAN Truck & Bus AG and Chairman of the Group Works Council of MAN SE and of the SE Works Council	46	<ul style="list-style-type: none"> <li>• MAN SE, Munich<sup>(1)</sup></li> <li>• MAN Truck &amp; Bus AG, Munich (Deputy Chairman)<sup>(1)</sup></li> <li>• Rheinmetall MAN Military Vehicles GmbH, Munich<sup>(1)</sup></li> <li>• Volkswagen Truck &amp; Bus GmbH, Braunschweig<sup>(2)</sup></li> </ul>
Stephan Weil Minister-President of the Federal State of Lower Saxony	59	n.a

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\* Employee representative.

<sup>(1)</sup> Membership of statutory supervisory boards in Germany.

<sup>(2)</sup> Comparable appointments in Germany and abroad.

<sup>(3)</sup> Replaced Annika Falkengren as member of the Supervisory Board as of February 14, 2018. Ms. Heiss was confirmed as a new member of the Supervisory Board at the Annual General Meeting held on May 3, 2018.

The following family relationships exist between the members of the Supervisory Board: Dr. jur. Hans Michel Piëch and Dr. rer. comm. Wolfgang Porsche are cousins. In addition, Dr. jur. Ferdinand Oliver Porsche is a nephew of the aforementioned members of the Supervisory Board. Dr. Louise Kiesling is a niece of Dr. jur. Hans Michel Piëch. There are no family relationships among the remaining members of the Supervisory Board.

### **12.2.3 Remuneration of members of the Supervisory Board**

According to the articles of association of the Company, the members of the Supervisory Board of Volkswagen AG receive the following remuneration:

- A fixed remuneration of EUR 100,000 per fiscal year in addition to the reimbursement of their expenses.
- The Chairman of the Supervisory Board shall receive three times the amount, and the Deputy Chairman shall receive two times the amount of the fixed remuneration specified above.
- In addition, each member of the Supervisory Board shall receive an additional fixed remuneration of EUR 50,000 per committee per fiscal year for his work in a committee of the Supervisory Board, if the respective committee has met at least once a year in fulfilment of its duties. This shall not include membership of the Nomination Committee and the Mediation Committee in accordance with Section 7(3) of the German Codetermination Act (*Mitbestimmungsgesetz*).
- The chairmen of the committees shall receive two times the amount, and their deputy chairmen shall receive one-and-a-half times the amount of the aforementioned committee remuneration.
- The work on a maximum of two committees shall be included in calculating the remuneration. In case this maximum is exceeded the two most highly remunerated functions shall be decisive for the respective remuneration.
- Members of the Supervisory Board who have been member of the Supervisory Board or a committee of the Supervisory Board for only part of a fiscal year shall receive the remuneration on a *pro rata temporis* basis.
- For attendance at a meeting of the Supervisory Board or of a committee of the Supervisory Board each attending member shall receive an attendance fee of EUR 1,000; if several meetings take place on the same day, the attendance fee shall only be paid once.
- The remuneration and the attendance fees shall be payable after the end of each fiscal year.
- The Company shall reimburse to each Supervisory Board member the value-added tax incurred on his remuneration. In addition, the Company undertakes to conclude a liability insurance in favor of the members of the Supervisory Board.

Members of the Supervisory Board who are also members of the Supervisory Board of other companies of the Volkswagen Group may receive additional remuneration from these companies.

In 2017, the aggregate remuneration of the Supervisory Board of the Company amounted to EUR 3,786,839. It comprised a fixed component and a variable component that is linked to the amount of the dividend paid and the number of meetings attended. The fixed components of remuneration (including attendance fees) amounted to EUR 3,516,389 and the variable components of remuneration amounted to EUR 270,450 in 2017.

The following table shows the remuneration of the Supervisory Board members in 2017.

	<b>Component of remuneration</b>			<b>Total</b>
	<b>Fixed</b>	<b>Work in the Committees</b>	<b>Other<sup>(1)</sup></b>	
	<b>(in EUR)</b>			
	<b>(unaudited)</b>			
Hans Dieter Pötsch	–	–	–	–
Jörg Hofmann <sup>(2)</sup>	200,000	75,000	20,000	295,000
Dr. Hussain Ali Al-Abdulla	100,000	–	7,000	107,000
Dr. Hessa Sultan Al-Jaber	100,000	–	11,000	111,000
Dr. Bernd Althusmann <sup>(3)</sup> (since December 14, 2017)	4,583	–	–	4,583
Birgit Dietze <sup>(2)</sup>	100,000	50,000	13,000	163,000
Annika Falkengren	100,000	38,750	12,000	150,750
Dr. jur. Hans-Peter Fischer <sup>(2)</sup>	100,000	–	9,000	109,000
Uwe Fritsch <sup>(2)</sup> (until May 10, 2017)	35,972	17,986	9,000	62,958
Uwe Hück <sup>(2)</sup>	100,000	–	80,500	180,500
Johan Järvklo <sup>(2)</sup>	100,000	–	10,000	110,000
Ulrike Jakob <sup>(2)</sup> (since May 10, 2017)	64,028	–	4,000	68,028
Dr. Louise Kiesling	100,000	–	11,000	111,000
Olaf Lies <sup>(3)</sup> (until December 14, 2017)	95,417	47,639	20,000	163,056
Peter Mosch <sup>(2)</sup>	100,000	91,007	102,100	293,107
Bertina Murkovic <sup>(2)</sup> (since May 10, 2017)	64,028	32,014	6,000	102,042
Bernd Osterloh <sup>(2)</sup>	100,000	98,021	28,000	226,021
Dr. jur. Hans Michel Piëch	100,000	–	150,600	250,600
Dr. jur. Ferdinand Oliver Porsche	100,000	150,000	147,100	397,100
Dr. rer. comm. Wolfgang Porsche	100,000	150,000	161,400	411,400
Athanasios Stimoniaris <sup>(2)</sup> (since May 10, 2017)	64,028	–	106,750	170,778
Stephan Weil <sup>(3)</sup>	100,000	50,000	24,000	174,000
Stephan Wolf <sup>(2)</sup> (until May 10, 2017)	35,972	17,986	11,000	64,958
Thomas Zwiebler <sup>(2)</sup> (until May 10, 2017)	35,972	17,986	7,000	60,958
Supervisory Board members who left in the previous year	–	–	–	–
<b>Total</b>	<b>2,000,000</b>	<b>836,389</b>	<b>950,450</b>	<b>3,786,839</b>

<sup>(1)</sup> Attendance fees, membership of other Group bodies (non-performance related: EUR 257,000; performance related: EUR 270,450).

<sup>(2)</sup> In accordance with the guidelines of the German Federation of Trade Unions, these employee representatives have requested that their Supervisory Board remuneration be remitted to the Hans-Böckler Foundation.

<sup>(3)</sup> Under section 5(3) of the Ministers' Act of Lower Saxony, these Supervisory Board members must remit the remuneration paid for their activities on the Supervisory Board to the State of Lower Saxony to the extent that the remuneration exceeds EUR 6,200 per year. Remuneration in this context means Supervisory Board remuneration and attendance fees to the extent the amount of the fees exceeds EUR 200.

Mr. Pötsch waived his remuneration for fiscal year 2017 in full. The reason for this waiver is the agreement made in connection with Mr. Pötsch's transfer from the Board of Management to the Supervisory Board as of October 8, 2015. It had been agreed to deduct the amount of Supervisory Board remuneration received up to December 31, 2017 from the compensation payment for his Board of Management remuneration to which he would have been entitled for the period from October 8, 2015 to December 31, 2017.

#### **12.2.4 Shares held by members of the Supervisory Board**

As of December 31, 2017, Dr. jur. Hans-Peter Fischer held indirectly 150 preferred shares in the Company, Uwe Fritsch held 2 ordinary shares in the Company, Peter Mosch held 166 preferred shares in the Company, Dr. jur. Hans Michel Piëch held 1,168 preferred shares in the Company, Bernd Osterloh held 30 ordinary shares and 198 preferred shares in the Company, Stephan Wolf held 10 ordinary shares in the Company, and Thomas Zwiebler held 10 ordinary shares and 173 preferred shares in the Company. The other members of the Supervisory Board did not hold any shares in the Company as of December 31, 2017.

Dr. Louise Kiesling, Dr. jur. Hans Michel Piëch, Dr. jur. Ferdinand Oliver Porsche and Dr. rer. comm. Wolfgang Porsche are members of the Supervisory Board and are indirect owners of voting rights in Volkswagen AG through their indirect interest in Porsche Automobil Holding SE and Porsche Gesellschaft m.b.H., which collectively hold approximately 53% of the ordinary shares of Volkswagen AG. See "Major Shareholders".

### 12.3 Conflicts of Interest and Related Party Transactions

Some of the members of the Board of Management and the Supervisory Board are also members of executive bodies of Volkswagen Group companies, which are companies in which the Company has a substantial interest, and of key shareholders of the Company, so-called dual mandates.

Such dual mandates are, for example, held by Ms. Hiltrud Dorothea Werner, who is simultaneously a member of the Supervisory Board of AUDI AG. A member of the Board of Management, Dr. Oliver Blume, is simultaneously the Chairman of the Board of Management of Dr. Ing. H.c.F. Porsche AG.

Dual mandates also exist in relation to key shareholders of Volkswagen AG and the members of its governing bodies.

Dr. jur. Hans Michel Piëch, Dr. jur. Ferdinand Oliver Porsche and Marianne Heiss are simultaneously members of the Supervisory Board of Volkswagen AG and members of the Supervisory Board of Porsche Automobil Holding SE. Dr. rer. comm. Wolfgang Porsche, Chairman of the Supervisory Board of Porsche Automobil Holding SE, is simultaneously a member of the Supervisory Board of Volkswagen AG.

Dr. jur. Hans Michel Piëch and Dr. jur. Ferdinand Oliver Porsche are simultaneously members of the Supervisory Board of Volkswagen AG and members of the Supervisory Board of Dr. Ing. h.c. F. Porsche AG. Dr. rer. comm. Wolfgang Porsche, Chairman of the Supervisory Board of Dr. Ing. h.c. F. Porsche AG, is simultaneously a member of the Supervisory Board of Volkswagen AG.

Dr. jur. Hans Michel Piëch, Dr. jur. Ferdinand Oliver Porsche, Dr. rer. comm. Wolfgang Porsche, Peter Mosch and Marianne Heiss are members of the Supervisory Board of Volkswagen AG and members of the Supervisory Board of AUDI AG.

Due to the dual mandates, there could be instances in which there arises a conflict of interest in the structuring of business relationships between Volkswagen companies, as well as with other companies outside the Volkswagen Group, or a disadvantageous exercise of influence over the Volkswagen Group's business. This is particularly the case given the background that, due to the overlap of personnel and the Volkswagen Group's structure, decision-making within the Board of Management and the Supervisory Board cannot take place as independently as would be the case for subsidiaries which are not as connected with their parent company in the same manner. To the extent that conflicts of interest occur, the relevant members deal with them in a responsible manner and in accordance with legal requirements.

For information regarding benefits provided to members of the Board of Management and the Supervisory Board at the end of their employment relationship, see "*— Board of Management — Post-employment and early termination benefits of members of the Board of Management*" and "*— Supervisory Board — Remuneration of members of the Supervisory Board*".

Dr. Louise Kiesling, Dr. jur. Hans Michel Piëch, Dr. jur. Ferdinand Oliver Porsche and Dr. rer. comm. Wolfgang Porsche are members of the Supervisory Board and are indirect owners of voting rights in Volkswagen AG, as described above and under "*Major Shareholders*". For information regarding related party transactions involving these persons directly or their affiliates, refer to "*Related Party Transactions — Relationships of the Volkswagen Group with Porsche SE and the Porsche and Piëch families*".

Apart from the facts indicated above, there are no potential conflicts of interests between any duties to the Guarantor of the members of the Board of Management and the Supervisory Board and their private interests and or other duties.

### 13. EXCHANGE RATE INFORMATION

The following tables set forth information regarding the noon buying rates for euro in New York City as certified for customs purposes by the Federal Reserve Bank of New York expressed in U.S. dollars per euro during the periods and as of the dates shown (“noon buying rates”). The average exchange rate for the periods shown is the average of the month-end rates during the period, except for monthly average rates, which are determined by averaging the daily rates during the respective months. Unless otherwise noted, the rate used for the translations was U.S.\$ 1.2022 per EUR 1.00, the noon buying rate on December 31, 2017. On November 5, 2018, the euro market bid price at noon New York time and as indicated by Bloomberg Finance L.P. was EUR 1.1392 per U.S.\$1.00, which equates to U.S.\$ 0.8776 per EUR 1.00.

Solely for the convenience of the reader, this Offering Memorandum contains translations of certain euro amounts into U.S. dollars at specified rates. These translations should not be construed as representations that the euro amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated.

The following tables show the noon buying rates in U.S. dollars per euro.

<b><u>Year Ended December 31</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Average</u></b>	<b><u>Period End</u></b>
2015 .....	1.2015	1.0524	1.1096	1.0859
2016 .....	1.1516	1.0375	1.1072	1.0552
2017 .....	1.2041	1.0416	1.1298	1.2022

<b><u>Year Ending December 31, 2018</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Average</u></b>	<b><u>Period End</u></b>
First Quarter .....	1.2488	1.1922	1.2289	1.2320
Second Quarter .....	1.2384	1.1551	1.1922	1.2074
Third Quarter .....	1.1773	1.1332	1.1629	1.1718

The above rates may vary slightly from the rates used for translating foreign currencies into euro in the preparation of the consolidated financial statements of Volkswagen AG.

#### 14. TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions (the "Conditions") that shall be applicable to the U.S.\$1,250,000,000 3.875% Guaranteed Notes due 2020 (the "A Notes"), the U.S.\$1,500,000,000 4.000% Guaranteed Notes due 2021 (the "B Notes"), the U.S.\$1,250,000,000 4.250% Guaranteed Notes due 2023 (the "C Notes"), the U.S.\$750,000,000 4.625% Guaranteed Notes due 2025 (the "D Notes"), the U.S.\$1,250,000,000 4.750% Guaranteed Notes due 2028 (the "E Notes"), the U.S.\$1,250,000,000 Floating Rate Guaranteed Notes due 2020 (the "F Notes") and the U.S.\$750,000,000 Floating Rate Guaranteed Notes due 2021 (the "G Notes" and, together with the A Notes, the B Notes, the C Notes, the D Notes, the E Notes and the F Notes, the "Notes"). These terms and conditions shall be incorporated by reference into each Global Note (as defined below) and each Note in definitive form. All capitalized terms that are not defined in these Conditions will have the meanings given to them in the Fiscal and Paying Agency Agreement (as defined below).*

*Unless the context requires otherwise, references in these Conditions to any law, statutory provision or legislative enactment of mandatory effect are subject to amendment to the extent that such law, provision or legislative enactment is altered or re-enacted with retroactive effect.*

References herein to the Notes shall mean (i) the global Notes (each, a "**Global Note**") and (ii) any Notes in definitive form.

The Notes are issued on November 13, 2018 (the "**Issue Date**") pursuant to a fiscal and paying agency agreement dated November 8, 2018 (as amended and supplemented from time to time, the "**Fiscal and Paying Agency Agreement**") among Volkswagen Group of America Finance, LLC (the "**Issuer**"), Volkswagen Aktiengesellschaft (the "**Guarantor**"), Citibank, N.A., London Branch as fiscal agent, calculation agent, transfer agent and paying agent (the "**Fiscal Agent**", "**Calculation Agent**", "**Transfer Agent**" and "**Paying Agent**", respectively) and Citigroup Global Markets Europe AG as registrar (the "**Registrar**" and, together with the Fiscal Agent, the Calculation Agent, the Transfer Agent and the Paying Agent, the "**Agents**"), and with the benefit of a deed of covenant dated the Issue Date and executed by the Issuer in relation to the Notes (as amended and supplemented from time to time, the "**Deed of Covenant**"), and a Guarantee dated the Issue Date and executed by the Guarantor in relation to the guarantee of the Notes (as amended and supplemented from time to time, the "**Guarantee**"). The Noteholders (as defined herein) are deemed to have notice of all of the provisions of the Fiscal and Paying Agency Agreement, the Deed of Covenant and the Guarantee applicable to them.

The Notes will be unconditionally and irrevocably guaranteed by Volkswagen Aktiengesellschaft, in its capacity as Guarantor, pursuant to the Guarantee. Under the Guarantee, the Guarantor has guaranteed the due and punctual payment of all amounts due under the Notes and the Deed of Covenant as and when the same shall become due and payable. The original of the Guarantee is held by the Fiscal Agent.

The Notes that are initially offered and sold in the United States to persons who are qualified institutional buyers (each, a "**Qualified Institutional Buyer**") (as defined in Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) will be represented by beneficial interests in one or more global notes (the "**Rule 144A Global Notes**") in registered form without interest coupons, which will be deposited on or about the Issue Date with the custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company ("**DTC**").

The Notes that are offered and sold in reliance on Regulation S ("**Regulation S**") under the Securities Act will be represented by beneficial interests in one or more global notes (the "**Regulation S Global Notes**") in registered form without interest coupons, which will be deposited on or about the Issue Date with, the custodian for and registered in the name of Cede & Co., as nominee of DTC.

As used herein, the term "Global Notes" refers to both the Rule 144A Global Notes and the Regulation S Global Notes.

Beneficial interests in the Global Notes may be held only through DTC (or any successor clearing system) and its participants. Investors may hold their interests in the Global Notes directly through DTC if they are participants in or indirectly through organizations which are participants in such system.

Noteholders will hold beneficial interests in the Global Notes through DTC in book-entry form. Notes in definitive form will only be issued under the limited circumstances set forth below.

The Notes (including any beneficial interest in a Global Note) will be subject to certain restrictions on transfer set forth in the Notes and the Fiscal and Paying Agency Agreement. The Global Notes and any Notes issued in definitive form will bear a legend regarding the restrictions as set forth under "*Purchase and Transfer Restrictions*" of the offering memorandum dated November 7, 2018 relating to the Notes (the "**Offering Memorandum**"). Under certain circumstances, transfers may be made only upon receipt by the Registrar and Transfer Agent of a written certification (in the form provided in the Fiscal and Paying Agency Agreement).

The Notes will not be listed on any securities exchange or quoted on any automated quotation system. There is currently no public market for the Notes.

Any reference to “**Noteholders**” or “**holders**” shall mean the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below.

Copies of the Fiscal and Paying Agency Agreement, the Deed of Covenant and the Guarantee are available for inspection at the specified offices of each of the Agents.

The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Fiscal and Paying Agency Agreement.

## **1. Form, Denomination and Title**

The Notes will be issued only in registered form and serially numbered, in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof (the “**Specified Denomination**”).

Subject as set out below, title to the Notes will pass upon registration of transfers in accordance with the provisions of the Fiscal and Paying Agency Agreement. The Issuer, the Guarantor and any Agent will (except as otherwise required by law or ordered by a court having jurisdiction or an official authority) deem and treat the registered holder of any Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as DTC or its nominee is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Fiscal and Paying Agency Agreement and the Notes, except to the extent that, in accordance with DTC’s published rules and procedures, any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes that are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC and its participants (including Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”)) and its indirect participants, as the case may be.

## **2. Transfers**

**(a) Transfers within Global Notes:** Subject to the procedures and limitations described in the Fiscal and Paying Agency Agreement, including the transfer restrictions set forth in Schedule 3 thereto, transfers of beneficial interests within a Global Note may be made without delivery to the Issuer, the Guarantor or the Fiscal Agent of any written certifications or other documentation by the transferor or transferee.

**(b) Transfers of interests in Global Notes:** Transfers of beneficial interests in Global Notes will be effected by DTC and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Global Note only in Specified Denominations and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Fiscal and Paying Agency Agreement. Transfers of a Global Note shall be limited to transfers of such Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor’s nominee.

**(c) Transfers between the Global Notes:** A beneficial interest in a Regulation S Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through a Rule 144A Global Note only upon receipt by the Transfer Agent of a written certification (in the form provided in the Fiscal and Paying Agency Agreement) from the transferor to the effect that the transferor (i) reasonably believes that the transferee is a Qualified Institutional Buyer purchasing for its own account (or for the account of one or more Qualified Institutional Buyers over which account it exercises sole investment discretion), (ii) is transferring such note in a transaction meeting the requirements of Rule 144A and (iii) has notified the transferee of the restrictions on transfer and the representations set forth under the heading on transfer set forth under the heading “*Purchase and Transfer Restrictions*” of the Offering Memorandum, if then applicable.

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note without any written certification from the transferor or the transferee, and each transferee of a Rule 144A Global Note, in making its purchase, will be subject to certain restrictions and must be able to make and will be deemed to have made certain acknowledgements,

representations and agreements for itself and for each account for which it is purchasing as set forth under the heading “*Purchase and Transfer Restrictions — Rule 144A Notes*” of the Offering Memorandum.

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the Transfer Agent of a written certification (in the form provided in the Fiscal and Paying Agency Agreement) from the transferor to the effect that such transfer is being made in compliance with the restrictions and representations set forth under the heading “*Purchase and Transfer Restrictions*” of the Offering Memorandum and in accordance with Rule 904 of Regulation S. No representation can be made by the Issuer as to the availability of the exemption provided by Rule 144 for resale of an interest in a Rule 144A Global Note.

Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in a Regulation S Global Note will, upon transfer, cease to be a beneficial interest in such Rule 144A Global Note and will become a beneficial interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such Regulation S Global Note for so long as such person retains such an interest.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A Global Note will, upon transfer, cease to be a beneficial interest in such Regulation S Global Note and will become a beneficial interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such Rule 144A Global Note for so long as such person retains such an interest.

**(d) Transfers or Exchanges from Global Notes to Definitive Notes:** Each Global Note may be exchangeable, in whole or in part, for Notes in definitive, registered form (each, a “**Definitive Note**”):

(i) if DTC notifies the Issuer that it is unwilling or unable to hold the applicable Global Note or DTC ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and in each case the Issuer does not appoint a successor depositary which shall be registered under the Exchange Act within 90 days of the Issuer’s receiving such notice or DTC’s ceasing to be so registered;

(ii) if a payment default has occurred and is continuing; or

(iii) if, in the event of a bankruptcy or liquidation default pursuant to Condition 10(d) and (e) respectively, the Issuer (or failing whom, the Guarantor) fails to make payment on the Notes when due.

**(e) Transfer of Definitive Notes:** Upon the terms and subject to the conditions set forth in the Fiscal and Paying Agency Agreement, a Definitive Note may be transferred in whole or in part (in Specified Denominations). In order to effect any such transfer (i) the holder or holders must (A) surrender the Note for registration of the transfer of the Note (or the relevant part of the Note) at the specified office of the Registrar or the Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorized in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the Transfer Agent and (ii) the Registrar or, as the case may be, the Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 3 to the Fiscal and Paying Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the Transfer Agent will, within five business days (being for this purpose a day, other than a Saturday or Sunday, on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located (a “**Definitive Note Business Day**”)) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations) authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request, a new Definitive Note of a like aggregate nominal amount to the Note (or the relevant part of the Note) transferred. In the case of the transfer of part only of a Definitive Note, a new Definitive Note in respect of the balance of the Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent by uninsured mail to the address of the transferor as the transferor may request.

Upon the transfer, exchange or replacement of Definitive Notes set forth in Schedule 1, Part III to the Fiscal and Paying Agency Agreement, the Issuer will deliver only Definitive Notes that bear such legend.

**(f) Exchange and Costs:** Exchanges and transfers of Notes on registration, transfer or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require), which tax or charge shall be



borne by the relevant Noteholder. Holders of Definitive Notes may exchange such Notes for interests in a Global Note of the same type at any time.

### 3. Status of the Notes and the Guarantee

**(a) Notes:** The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation, at all times rank *pari passu* with all other unsecured and unsubordinated indebtedness of the Issuer, present and future.

**(b) Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes. Its obligations in that respect are contained in the Guarantee. The Guarantee will be the direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Guarantor. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation, at all times rank *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor, present and future.

### 4. Negative Pledge

(a) So long as any of the Notes remain outstanding (as defined in the Fiscal and Paying Agency Agreement), the Issuer shall not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each, a "**Security Interest**") upon the whole or any part of its respective assets or revenues of whatever nature present or future, to secure any notes or bonds, or any guarantee of or indemnity in respect of thereof, unless at the same time or prior thereto the Issuer's obligations under the Notes are secured equally and ratably therewith or benefit from a Security Interest or guarantee or indemnity in substantially identical terms thereto to the extent permitted by applicable law or regulation. For the avoidance of doubt, this undertaking shall not apply to any Security Interest provided in connection with asset-backed securities issued by the Issuer, or by a special purpose vehicle where the Issuer is the originator of the underlying assets.

(b) So long as any of the Notes remain outstanding (as defined in the Fiscal and Paying Agency Agreement), neither the Guarantor nor any of the Guarantor's Principal Subsidiaries (as defined below) shall create or permit to subsist any Security Interest upon the whole or any part of its respective assets or revenues of whatever nature present or future, to secure any Relevant Debt (as defined below) or any guarantee of or indemnity in respect thereof, unless at the same time or prior thereto the Issuer's obligations under the Notes are secured equally and ratably therewith or benefit from a Security Interest or guarantee or indemnity in substantially identical terms thereto to the extent permitted by applicable law or regulation. For the avoidance of doubt, this undertaking shall not apply to any Security Interest provided in connection with asset-backed securities issued by the Guarantor or any of the Guarantor's Principal Subsidiaries, or by a special purpose vehicle where the Guarantor or any of the Guarantor's Principal Subsidiaries is the originator of the underlying assets.

"**Relevant Debt**" means any present or future indebtedness for borrowed money in the form of, or represented by, bonds, notes or other securities that are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter market or other securities market.

"**Principal Subsidiary**" means at any time

(a) each of AUDI AG, Porsche AG, SEAT S.A., ŠKODA Auto A.S., Volkswagen Financial Services AG, Volkswagen Bank GmbH and Volkswagen Leasing GmbH; and

(b) any Subsidiary of Volkswagen Aktiengesellschaft (other than a Securitization Entity) which has consolidated sales revenues which exceed 10% of the consolidated total sales revenues of the Volkswagen Group. Compliance with this provision shall be determined by reference to the most recent audited consolidated profit and loss accounts of the Volkswagen Group and such Subsidiary.

"**Securitization Entity**" means a special purpose entity created to facilitate one or more financings of receivables, loans, installment sales contracts, leases and/or leased assets, floor plan or other loans or leases to vehicle dealers or similar or related assets and for which Volkswagen Aktiengesellschaft and its Principal Subsidiaries do not provide recourse for credit losses or residual value losses.

"**Subsidiary**" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one

or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries).

“**Person**” means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

“**Volkswagen Group**” means Volkswagen Aktiengesellschaft together with its consolidated subsidiaries, including the Issuer.

## 5. Interest

**(a) Fixed Interest Rate:** Each of the A Notes, the B Notes, the C Notes, the D Notes and the E Notes (together, the “**Fixed Rate Notes**”) bears interest from and including the Issue Date at a rate of 3.875% per annum in the case of the A Notes (the “**A Note Rate of Interest**”), 4.000% per annum in the case of the B Notes (the “**B Note Rate of Interest**”), 4.250% per annum in the case of the C Notes (the “**C Note Rate of Interest**”), 4.625% per annum in the case of the D Notes (the “**D Note Rate of Interest**”) and 4.750% per annum in the case of the E Notes (the “**E Note Rate of Interest**”). Interest on the A Notes, the C Notes, the D Notes and the E Notes will be payable semi-annually in arrears on May 13 and November 13 of each year, commencing on May 13, 2019 and interest on the B Notes will be payable semi-annually in arrears on May 12 and November 12 of each year, commencing on May 12, 2019 (short first coupon) (each, a “**Fixed Rate Interest Payment Date**”), up to (and including) November 13, 2020 in the case of the A Notes (the “**A Note Maturity Date**”), November 12, 2021 in the case of the B Notes (the “**B Note Maturity Date**”), November 13, 2023 in the case of the C Notes (the “**C Note Maturity Date**”), November 13, 2025 in the case of the D Notes (the “**D Note Maturity Date**”) and November 13, 2028 in the case of the E Notes (the “**E Note Maturity Date**”). The amount of interest payable on the Fixed Rate Notes on a Fixed Rate Interest Payment Date shall be calculated on the basis of a 360-day year consisting of twelve 30-day months (unadjusted, following Payment Day) and by applying the A Note Rate of Interest, the B Note Rate of Interest, the C Note Rate of Interest, the D Note Rate of Interest or the E Note Rate of Interest, as relevant, to an increment of U.S.\$1,000 (rounding the resultant figure to the nearest whole cent, with U.S.\$0.005 rounded upwards), multiplied by the nominal amount of such Fixed Rate Note divided by 1,000.

### **(b) Floating Interest Rate:**

(i) Each of the F Notes and the G Notes (together, the “**Floating Rate Notes**”) bears interest from and including the Issue Date at a floating interest rate of the Reference Rate plus 0.77% per annum in the case of the F Notes (the “**F Note Rate of Interest**”) and the Reference Rate plus 0.94% per annum in the case of the G Notes (the “**G Note Rate of Interest**” and, together with the F Note Rate of Interest, the “**Floating Rates of Interest**” and each, a “**Floating Rate of Interest**”), payable quarterly in arrears, in the case of the F Notes, on February 13, May 13, August 13 and November 13 in each year and, in the case of the G Notes, on February 12, May 12, August 12 and November 12 in each year (each, a “**Floating Rate Interest Payment Date**”) commencing on February 13, 2019 in the case of the F Notes and on February 12, 2019 (short first coupon) in the case of the G Notes, up to (and including) November 13, 2020 in the case of the F Notes (the “**F Note Maturity Date**”) and November 12, 2021 in the case of the G Notes (the “**G Note Maturity Date**” and, together with the A Note Maturity Date, the B Note Maturity Date, the C Note Maturity Date, the D Note Maturity Date, the E Note Maturity Date and the F Note Maturity Date, the “**Maturity Dates**” and each, a “**Maturity Date**”).

The amount of interest payable on the Floating Rate Notes on a Floating Rate Interest Payment Date shall be calculated on the basis of the actual number of days in the relevant Floating Rate Interest Period divided by 360 (adjusted, modified following Payment Day).

“**Reference Rate**” means, subject to Condition 5(c), the U.S.\$ LIBOR.

“**U.S.\$ LIBOR**” means, with respect to each Floating Rate Interest Period, the interest rate (determined by the Calculation Agent as of the Interest Determination Date immediately preceding such Floating Rate Interest Period) on the basis of the offered rate (expressed as a percentage per annum) for deposits in U.S. dollars for a period equal to such Floating Rate Interest Period, commencing on the second London Business Day immediately following such Interest Determination Date, which appears on the display page designated LIBOR01 on the Reuters Service (or any other such page as may replace that page on that service, or such other service as may be nominated as the information vendor for the purpose of displaying comparable rates) (the “**Screen Page**”) as of approximately 11:00 a.m. London time, on such Interest Determination Date. With respect to an Interest Determination Date on which no rate appears on the Screen Page as of approximately 11:00 a.m., London time, on such Interest Determination Date, the Calculation Agent will request the principal London offices of each of four major reference banks in the London interbank market (such reference banks to be selected by the Issuer) to provide the Calculation Agent with

a quotation of the rate at which deposits of U.S. dollars for a period equal to such Floating Rate Interest Period, commencing on the second London Business Day immediately following such Interest Determination Date, are offered by it to prime banks in the London interbank market as of approximately 11:00 a.m., London time, on such Interest Determination Date in an amount that is representative for a single transaction in that market at that time. If fewer than two such quotations are provided, U.S.\$ LIBOR for such Interest Determination Date will be the arithmetic mean of the rates quoted as of approximately 11:00 a.m., N.Y. City time, on such Interest Determination Date by three major banks in the City of New York selected by the Issuer for loans in U.S. dollars to leading European banks for a period equal to such Floating Rate Interest Period, commencing on the second London Business Day immediately following such Interest Determination Date and in an amount that is representative for a single transaction in that market at that time; **provided, however, that** if the banks selected by the Issuer are not providing quotations in the manner described in this sentence, U.S.\$ LIBOR determined as of such Interest Determination Date will be the U.S.\$ LIBOR as displayed on the Screen Page on the last day preceding the Interest Determination Date on which such U.S.\$ LIBOR was displayed on the Screen Page.

**"Floating Rate Interest Period"** means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Floating Rate Interest Payment Date and each successive period beginning on (and including) a Floating Rate Interest Payment Date and ending on (but excluding) the next succeeding Floating Rate Interest Payment Date; **provided that** if any Floating Rate Interest Payment Date falls on a day that is not a Payment Day, such Floating Rate Interest Payment Date shall for the purpose of this definition be deemed to fall on the next day that is a Payment Day, unless that day falls in the next calendar month, in which case such Floating Rate Interest Payment Date shall be deemed to fall on the immediately preceding Payment Day.

**"Payment Day"** means any day on which (a) the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) is open for business and (b) commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City.

**"Interest Determination Date"** for a Floating Rate Interest Period means the second London Business Day prior to the first day of such Floating Rate Interest Period.

**"London Business Day"** means any day that is not a Saturday or Sunday, and that is not a day on which banking institutions are generally authorized or obligated by law, regulation or executive order to close in London.

(ii) The Calculation Agent will, as soon as practicable after 11:00 a.m., London time, on each Interest Determination Date in relation to each Floating Rate Interest Period, calculate the amount of interest (the **"Floating Rate Interest Amount"**) payable in respect of each Floating Rate Note for such Floating Rate Interest Period. The Floating Rate Interest Amount will be calculated by applying the relevant Rate of Interest in respect of such Floating Rate Note for such Floating Rate Interest Period to an increment of U.S.\$1,000 (rounding the resultant figure to the nearest whole cent, with U.S.\$0.005 rounded upwards), multiplied by the nominal amount of such Floating Rate Note divided by 1,000.

(iii) All determinations, calculations and quotations made or obtained for the purposes of calculating each Rate of Interest in respect of the Floating Rate Notes and each Floating Rate Interest Amount, whether by the Calculation Agent or the relevant banks in the London or New York interbank market (or any of them) will, in the absence of willful default or manifest error, be binding on the Issuer, the Calculation Agent, the Paying Agent, the Fiscal Agent and all holders of the Floating Rate Notes. No holder shall, in the absence of willful default or manifest error, be entitled to proceed against the Calculation Agent, the Paying Agent, the Fiscal Agent or the relevant banks in the London or New York interbank market (or any of them) in connection with the exercise or non-exercise by them of their powers, duties and discretions.

(iv) The Calculation Agent will cause the F Note Rate of Interest and the G Note Rate of Interest, and the Floating Rate Interest Amount for each respective Floating Rate Interest Period and the relevant Floating Rate Interest Payment Date to be notified in accordance with Condition 14 (Notices) on or as soon as practicable after the Interest Determination Date. If the Floating Rate Notes become due and payable pursuant to Condition 6(b) (Redemption, Purchase and Cancellation — Redemption for Tax Reasons) or Condition 10 (Events of Default) other than on a Floating Rate Interest Payment Date, the accrued interest and the relevant Floating Rate Interest Amount payable in respect of the relevant Floating Rate Notes shall nevertheless continue to be calculated as previously described by the Calculation Agent in accordance with this provision but no publication of the relevant Floating Rate of Interest or the Floating Rate Interest Amount so calculated need be made.

**(c) Benchmark discontinuation**

(i) Independent Adviser

If a Benchmark Event occurs in relation to the Reference Rate when the Floating Rate of Interest (or any component part thereof) for any Floating Rate Interest Period remains to be determined by reference to such Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(c)(ii)) and, in either case, an Adjustment Spread, if any (in accordance with Condition 5(c)(iii)) and any Benchmark Amendments (in accordance with Condition 5(c)(iv)).

In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Fiscal Agent, the Agents or the Noteholders for any determination made by it pursuant to this Condition 5(c).

If (i) the Issuer is unable to appoint an Independent Adviser or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(c) prior to the relevant Interest Determination Date, the Reference Rate applicable to the immediate following Floating Rate Interest Period shall be the Reference Rate applicable as at the last preceding Interest Determination Date. If there has not been a first Floating Rate Interest Payment Date, the Reference Rate shall be the Reference Rate applicable to the first Floating Rate Interest Period. For the avoidance of doubt, any adjustment pursuant to this Condition 5(c) shall apply to the immediately following Floating Rate Interest Period only. Any subsequent Floating Rate Interest Period may be subject to the subsequent operation of this Condition 5(c).

(ii) Successor Rate or Alternative Rate

If the Independent Adviser determines in its discretion that:

(A) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 5(c)(iii)) subsequently be used in place of the Reference Rate to determine the Floating Rate of Interest for the immediately following Floating Rate Interest Period and all following Floating Rate Interest Periods, subject to the subsequent operation of this Condition 5(c); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 5(c)(iii)) subsequently be used in place of the Reference Rate to determine the Floating Rate of Interest for the immediately following Floating Rate Interest Period and all following Floating Rate Interest Periods, subject to the subsequent operation of this Condition 5(c).

(iii) Adjustment Spread

If the Independent Adviser determines in its discretion (A) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall apply to the Successor Rate or the Alternative Rate (as the case may be).

(iv) Benchmark Amendments

If any relevant Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 5(c) and the Independent Adviser determines in its discretion (i) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(c)(v), without any requirement for the consent or approval of relevant Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice.

(v) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5(c) will be notified promptly by the Issuer to the Fiscal Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 14, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Fiscal Agent of the same, the Issuer shall deliver to the Fiscal Agent a certificate signed by two authorized signatories of the Issuer:

(A) confirming (x) that a Benchmark Event has occurred, (y) the relevant Successor Rate, or, as the case may be, the relevant Alternative Rate and, (z) where applicable, any relevant Adjustment Spread and/or the

specific terms of any relevant Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 5(c); and

(B) certifying that the relevant Benchmark Amendments are necessary to ensure the proper operation of such relevant Successor Rate, Alternative Rate and/or Adjustment Spread.

The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of such Successor Rate or Alternative Rate and such Adjustment Spread (if any) and such Benchmark Amendments (if any)) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the Paying Agents and the Noteholders.

(vi) Survival of Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5(c)(i), (ii), (iii) and (iv), the Reference Rate and the fallback provisions provided for in the definition of the term "Reference Rate" in Condition 5(b)(i) will continue to apply unless and until a Benchmark Event has occurred.

(vii) Definitions

As used in this Condition 5(c):

**"Adjustment Spread"** means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser determines is required to be applied to the relevant Successor Rate or the relevant Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(A) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate); or

(B) the Independent Adviser determines, is recognized or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Independent Adviser determines that no such industry standard is recognized or acknowledged); or

(C) the Independent Adviser determines to be appropriate.

**"Alternative Rate"** means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5(c)(ii) is customary in market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component part thereof) in U.S.\$.

**"Benchmark Amendments"** has the meaning given to it in Condition 5(c)(i).

**"Benchmark Event"** means:

(A) the Reference Rate ceasing to be published for a period of at least five (5) London Business Days or ceasing to exist; or

(B) a public statement by the administrator of the Reference Rate that it will cease publishing the Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Reference Rate); or

(C) a public statement by the supervisor of the administrator of the Reference Rate, that the Reference Rate has been or will permanently or indefinitely discontinued; or

(D) a public statement by the supervisor of the administrator of the Reference Rate as a consequence of which the Reference Rate will be prohibited from being used either generally, or in respect of the relevant Floating Rate Notes; or

(E) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or any other party to calculate any Floating Rate of Interest using the Reference Rate.

**"Independent Adviser"** means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Issuer under Condition 5(c)(i).

**“Relevant Nominating Body”** means, in respect of a benchmark or screen rate (as applicable):

(A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

**“Successor Rate”** means a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

**(d) Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue at the relevant Rate of Interest until the earlier of the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, with immediate effect, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, **provided that** payment is in fact made upon such presentation.

## **6. Redemption, Purchase and Cancellation**

**(a) Final Redemption:** Unless previously redeemed or purchased and cancelled as provided below, each Note shall be finally redeemed on the relevant Maturity Date specified herein, in each case at its principal amount in U.S. dollars.

**(b) Redemption for Taxation Reasons:** The A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes or the G Notes or all of the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), if: (i) the Issuer or the Guarantor (or any successor to the Issuer or the Guarantor) has or will become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws or regulations of any Tax Jurisdiction (as defined in Condition 8), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of the Offering Memorandum (or, in the case of a successor to the Issuer or the Guarantor that is organized in or a resident for tax purposes of a jurisdiction other than the United States or Germany, the date of such succession), and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it; **provided that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Amounts were a payment in respect of the Notes to be redeemed (or the Guarantee, as the case may be) then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by a duly authorized officer of the Issuer (or the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognized standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Amounts as a result of such change or amendment. Notes redeemed pursuant to this Condition 6(b) will be redeemed at a price equal to 100% of the principal amount of the Notes to be redeemed then outstanding plus accrued and unpaid interest on the principal amount being redeemed (and all Additional Amounts, if any) to (but excluding) the date of redemption.

**(c) Redemption at the Option of the Issuer:** The Issuer may redeem the A Notes, the B Notes, the C Notes, the D Notes or the E Notes, in whole or in part, at any time and from time to time at the Issuer's election, upon not less than 30 nor more than 60 days' notice in accordance with Condition 14, at a redemption price equal to the greater of (i) 100% of the principal amount of the Notes to be redeemed, and (ii) as determined by the Quotation Agent (as defined below), the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 15 basis points for the A Notes, 20 basis points for the B Notes, 20 basis points for the C Notes, 25 basis points for the D Notes and 25 basis points for the E Notes plus, in each case, accrued

and unpaid interest thereon to the date of redemption. In connection with such optional redemption, the following defined terms apply:

**“Treasury Rate”** means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date;

**“Comparable Treasury Issue”** means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes to be redeemed;

**“Comparable Treasury Price”** means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Fiscal Agent obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such quotations;

**“Quotation Agent”** means the Reference Treasury Dealer appointed by the Issuer;

**“Reference Treasury Dealer”** means (i) each Citigroup Global Markets Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and Mizuho Securities USA LLC or their respective applicable affiliate dealers and their respective successors; **provided, however, that** if the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a **“Primary Treasury Dealer”**), the Issuer shall substitute therefor another Primary Treasury Dealer; and (ii) at least two other Primary Treasury Dealers selected by the Issuer; and

**“Reference Treasury Dealer Quotations”** means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., Eastern Standard Time, on the third business day preceding such redemption date.

**(d) Purchases:** The Issuer, the Guarantor and any of their subsidiaries may at any time purchase Notes in the open market or otherwise at any price. Such Notes may be held, resold (subject to the restrictions on sale and resale set forth in the Fiscal and Paying Agency Agreement) or, at the option of the Issuer, surrendered to the Fiscal Agent or Registrar, as the case may be, for cancellation. Any Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any of their respective subsidiaries, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 11(a).

**(e) Cancellation:** Any Notes purchased by or on behalf of the Issuer, the Guarantor or any of their subsidiaries may, at the option of the Issuer, Guarantor or the relevant subsidiary, as the case may be, be surrendered for cancellation. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

## **7. Payments**

**(a) Method of Payment:** Subject as provided below, payments will be made by credit or transfer to an account in U.S. dollars maintained by the payee with a bank in New York City. Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

### **(b) Payment procedures:**

(i) Payments of principal in respect of each Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Note at the specified office of the Registrar or any of the Paying Agent. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the register of holders of the Notes maintained by the Registrar (the **“Register”**) at the close of business on the business day (being for this purpose a day on which banks are open for general business in the city where the specified office of the Registrar is located) prior to the relevant due date (the **“Record Date”**). If (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$1,000,000, payment will instead be made by a check in U.S. dollars drawn on a Designated Bank (as defined below). For these purposes, **“Designated Account”** means the account maintained by a holder with a Designated Bank and identified as such in the Register and **“Designated Bank”** means a bank in New York City.

(ii) Payments of interest in respect of each Note (whether or not in global form) will be made by transfer to the Designated Account of the holder (or the first named of joint holders) of the Note appearing in the Register at the close of business on the Record Date (or in the case of Notes in definitive form, at the close of business on the 15<sup>th</sup> day (whether or not such 15<sup>th</sup> day is a business day) before the Record Date) at his address shown in the Register on the Record Date. If a holder does not have a Designated Account, payment will instead be made by a check in U.S. dollars drawn on a Designated Bank. Payment of the interest due in respect of each Note on redemption and the final installment of principal will be made in the same manner as payment of the principal amount of such Note.

(iii) Holders will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Note as a result of a check posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Notes.

(iv) None of the Issuer, the Guarantor and the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

**(c) General provisions concerning payments:** The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, the Guarantor will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, the Guarantor to, or to the order of, the holder of such Global Note. Street name and other indirect holders should consult their banks or brokers for information on how they will receive payments.

**(d) Payment day:**

(i) Fixed Rate Notes. If the date for payment of any amount in respect of any Fixed Rate Note is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day and shall not be entitled to further interest or other payment in respect of such delay.

(ii) Floating Rate Notes. If the date for payment of any amount in respect of any Floating Rate Note is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day, unless that day falls in the next calendar month, in which case the holder thereof shall be entitled to payment on the immediately preceding Payment Day.

**(e) Interpretation of principal and interest:** References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all interest amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any Additional Amounts that may be payable under this Condition.

## **8. Taxation**

All payments of principal and interest in respect of the Notes or under the Guarantee by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by any Tax Jurisdiction (as defined below), unless the Issuer or the Guarantor, as the case may be, is required by law to make such withholding or deduction. In that event, the Issuer or the Guarantor, as the case may be, shall pay such additional amounts (the "**Additional Amounts**") as shall result in receipt by holders that are not subject to income tax in the United States on a net income basis of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable:

(a) in respect of any tax, assessment or governmental charge (including backup withholding) that would not have been so withheld or deducted but for:

(i) the beneficial owner or the holder, or a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, the holder if the holder is an estate, trust, partnership, limited liability company, corporation or other entity, or a person holding a power over an estate or trust administered by a fiduciary holder, being considered as: (w) being or having been present or engaged in a trade or business in the relevant Tax Jurisdiction or having or having had a permanent establishment in the



relevant Tax Jurisdiction, (x) having a current or former relationship with the relevant Tax Jurisdiction (other than merely the holding of such Notes or receipt of interest, principal or premiums in respect thereof or activities (including enforcement) incidental thereto), including a relationship as a citizen or resident thereof, (y) being or having been a foreign or domestic personal holding company, a passive foreign investment company or a controlled foreign corporation with respect to the United States, a corporation that has accumulated earnings to avoid United States federal income tax or a private foundation or other tax-exempt organization, (z) being or having been a "10-percent shareholder" of the Company as defined in Section 871(h)(3) of the United States Internal Revenue Code of 1986, as amended, or the Code, or any successor provision or being or having been a bank whose receipt of interest on a note is described in Section 881(c)(3)(A) of the Code or any successor provision;

(ii) the failure of the holder or any other person to comply with certification, information, documentation, reporting or other similar requirements concerning the nationality, residence, identity or connection with the relevant Tax Jurisdiction of the holder or beneficial owner of such Note, (including, but not limited to, the failure to provide U.S. Internal Revenue Service, or IRS, Form W-8BEN, W-8BEN-E or W-8ECI or any subsequent versions thereof), or any other certification, information, documentation, reporting or other similar requirement under the income tax laws or regulations of the relevant Tax Jurisdiction that would establish entitlement to otherwise applicable relief or exemption from any tax, assessment or governmental charge;

(iii) the failure of the holder to present the Note for payment (where such presentation is required) within 30 days of the Relevant Date (as defined below); or

(iv) the presentation of the Note by or on behalf of a holder or beneficial owner of the Note (where such presentation is required) for payment in one location if the holder or beneficial owner would have been able to avoid such tax by presenting the Note for payment elsewhere;

(b) in respect of any estate, inheritance, gift, sales, excise, transfer, wealth or personal property tax or a similar tax, assessment or governmental charge;

(c) in respect of any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment of principal of or interest on any note, if such payment can be made without such withholding by any other paying agent;

(d) in respect of a tax, assessment or governmental charge that is imposed otherwise than by withholding by the Issuer, the Guarantor or one of their agents from the payment; or

(e) in respect of any combination of the foregoing clauses.

As used in these Conditions,

**"Tax Jurisdiction"** means, with respect to any payment made under the Notes by the Issuer or Guarantor, any jurisdiction or any political subdivision or taxing authority thereof or therein in which the Issuer or Guarantor is organized, is a resident for tax purposes or conducts business; and

**"Relevant Date"** means, with respect to any payment due from the Issuer or Guarantor, the date on which such payment becomes due or, if the full amount payable has not been received by the Paying Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the Notes.

Notwithstanding any other provision of these Terms and Conditions, any amounts to be paid in respect of the Notes or under the Guarantee by or on behalf of the Issuer or the Guarantor will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the Code, any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code (**"FATCA Withholding"**). Neither the Issuer, the Guarantor, nor any other Person will be required to pay Additional Amounts on account of any FATCA Withholding.

## **9. Prescription**

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the applicable due date.

## **10. Events of Default**

If any of the following events ("**Events of Default**") occurs and is continuing:

(a) the Issuer fails to pay principal, interest or Additional Amounts due thereon within 15 days from the relevant due date; or

(b) the Issuer fails duly to perform any other obligation arising from the Notes or the Guarantor fails to perform any obligation arising from the Guarantee which failure is not capable of remedy or, if such failure is capable of remedy, such failure continues for more than 45 days after the Fiscal Agent has received notice thereof from a Noteholder; or

(c) the Issuer or the Guarantor announces its inability to meet its financial obligations or ceases its payments; or

(d) a court opens bankruptcy or other insolvency proceedings against the Issuer or the Guarantor, or such proceedings are instituted and have not been discharged or stayed within 60 days, or the Issuer or the Guarantor applies for or institutes such proceedings; or

(e) the Issuer or the Guarantor goes into liquidation unless this is done in connection with a merger or other form of combination with another company and such company assumes in writing all obligations contracted by the Issuer or the Guarantor, as the case may be, under the Notes or the Guarantee; or

(f) the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect,

then any Noteholder may, by written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, declare any of the Notes held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at their principal amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

## **11. Meetings of Noteholders; Modifications and Amendments**

**(a) Meetings of Noteholders:** The Fiscal and Paying Agency Agreement contains provisions for convening meetings of the Noteholders of the A Notes ("**Tranche A Noteholders**"), meetings of the Noteholders of the B Notes (the "**Tranche B Noteholders**"), meetings of the Noteholders of the C Notes (the "**Tranche C Noteholders**"), meetings of the Noteholders of the D Notes (the "**Tranche D Noteholders**"), meetings of the Noteholders of the E Notes (the "**Tranche E Noteholders**"), meetings of the Noteholders of the F Notes (the "**Tranche F Noteholders**"), meetings of the Noteholders of the G Notes (the "**Tranche G Noteholders**") and meetings of all Noteholders, in each case to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined below) of certain modifications of the relevant Notes or the provisions of the Fiscal and Paying Agency Agreement. Such a meeting may be convened by the Issuer or Noteholders holding not less than one-twentieth in nominal amount of the A Notes in respect of matters affecting the interests of the Tranche A Noteholders only, the B Notes in respect of matters affecting the interests of the Tranche B Noteholders only, the C Notes in respect of matters affecting the interests of the Tranche C Noteholders only, the D Notes in respect of matters affecting the interests of the Tranche D Noteholders only, the E Notes in respect of matters affecting the interests of the Tranche E Noteholders only, the F Notes in respect of matters affecting the interests of the Tranche F Noteholders only, the G Notes in respect of matters affecting the interests of the Tranche G Noteholders only and all Noteholders in respect of any matter affecting the interest of all Noteholders, in each case for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than one-half in nominal amount of the relevant Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing the relevant Noteholders whatever the nominal amount of the relevant Notes so held or represented. An Extraordinary Resolution passed at any meeting of the Tranche A Noteholders shall be binding on all the Tranche A Noteholders, an Extraordinary Resolution passed at any meeting of the Tranche B Noteholders shall be binding on all the Tranche B Noteholders, an Extraordinary Resolution passed at any meeting of the Tranche C Noteholders shall be binding on all the Tranche C Noteholders, an Extraordinary Resolution passed at any meeting of the Tranche D Noteholders shall be binding on all the Tranche D Noteholders, an Extraordinary Resolution passed at any meeting of the Tranche E Noteholders shall be binding on all the Tranche E Noteholders, an Extraordinary Resolution passed at any meeting of the Tranche F Noteholders shall be binding on all the Tranche F Noteholders, an Extraordinary Resolution passed at any meeting of the Tranche G Noteholders shall be binding on all the Tranche G Noteholders and an Extraordinary Resolution passed at any meeting of all Noteholders shall be binding on all the Noteholders, in each case whether or not they are present at the meeting, **provided that** no Extraordinary Resolution passed at a meeting of the Tranche A Noteholders only shall be binding on any of the Tranche B Noteholders, any of the Tranche C Noteholders, any of the Tranche D Noteholders, any of the Tranche E Noteholders, any of the Tranche F Noteholders or any of the Tranche G Noteholders, no Extraordinary Resolution passed at a meeting of the Tranche B Noteholders only shall be binding on any of the Tranche A Noteholders, any of the Tranche C Noteholders, any of the Tranche D Noteholders, any of the Tranche E Noteholders, any of the Tranche F Noteholders or any of the Tranche G Noteholders, no Extraordinary Resolution passed at a meeting of the Tranche C Noteholders only shall be binding on any of the Tranche A

Noteholders, any of the Tranche B Noteholders, any of the Tranche D Noteholders, any of the Tranche E Noteholders, any of the Tranche F Noteholders or any of the Tranche G Noteholders, no Extraordinary Resolution passed at a meeting of the Tranche D Noteholders only shall be binding on any of the Tranche A Noteholders, any of the Tranche B Noteholders, any of the Tranche C Noteholders, any of the Tranche E Noteholders, any of the Tranche F Noteholders or any of the Tranche G Noteholders, no Extraordinary Resolution passed at a meeting of the Tranche E Noteholders only shall be binding on any of the Tranche A Noteholders, any of the Tranche B Noteholders, any of the Tranche C Noteholders, any of the Tranche D Noteholders, any of the Tranche F Noteholders or any of the Tranche G Noteholders, no Extraordinary Resolution passed at a meeting of the Tranche E Noteholders only shall be binding on any of the Tranche A Noteholders, any of the Tranche B Noteholders, any of the Tranche C Noteholders, any of the Tranche D Noteholders, any of the Tranche F Noteholders or any of the Tranche G Noteholders, and no Extraordinary Resolution passed at a meeting of the Tranche G Noteholders only shall be binding on any of the Tranche A Noteholders, any of the Tranche B Noteholders, any of the Tranche C Noteholders, any of the Tranche D Noteholders, any of the Tranche E Noteholders or any of the Tranche F Noteholders.

**(b)** Notwithstanding Condition 11(a) above, no Extraordinary Resolution shall be passed or become effective, and no other modification of the A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes or the G Notes or any provision of the Fiscal and Paying Agency Agreement shall have any effect, in each case, without the consent of the holder of each Note that would be affected thereby, if the effect of such Extraordinary Resolution or other modification would be to:

- (i) change the maturity of the principal of any A Note, B Note, C Note, D Note, E Note, F Note or G Note or reduce the principal amount thereof, or reduce the rate or extend the time of payment of any installment of interest thereon, or change the place or currency of payment of principal of, or interest on, any A Note, B Note, C Note, D Note, E Note, F Note or G Note, or change the Issuer's or the Guarantor's obligation to pay Additional Amounts, impair or affect the right of any Noteholder to institute suit for the enforcement of any such payment on or after the due date thereof (or in the case of redemption, on or after the redemption date) or change in any manner adverse to the interests of the Tranche A Noteholders, the Tranche B Noteholders, the Tranche C Noteholders, the Tranche D Noteholders, the Tranche E Noteholders, the Tranche F Noteholders and/or the Tranche G Noteholders the terms and provisions of the Guarantees in respect of the due and punctual payment of principal amount of the A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes or the G Notes then outstanding plus accrued and unpaid interest (and all Additional Amounts, if any); or
- (ii) reduce the aforesaid requirement for consent of the Tranche A Noteholders, the Tranche B Noteholders, the Tranche C Noteholders, the Tranche D Noteholders, the Tranche E Noteholders, the Tranche F Noteholders, the Tranche G Noteholders or all Noteholders, as applicable.

**(c)** The Issuer, the Guarantor and the Fiscal Agent may, without the consent of any of the Noteholders or the need for any meeting of Noteholders to be convened pursuant to Condition 11(a), from time to time and at any time, enter into a fiscal and paying agency agreement or fiscal and paying agency agreements supplemental thereto for one or more of the following purposes:

- (i) to convey, transfer, assign, mortgage or pledge to the Fiscal Agent or another person as security for the Notes any property or assets;
- (ii) to evidence the succession of another person to the Issuer or the Guarantor, or successive successions, and the assumption by the successor person of the covenants, agreements and obligations of the Issuer or the Guarantor, pursuant to the Fiscal and Paying Agency Agreement;
- (iii) to evidence and provide for the acceptance of appointment of a successor or successors to the Fiscal Agent in any of its capacities;
- (iv) to add to the covenants of the Issuer or the Guarantor, such further covenants, restrictions, conditions or provisions as the Issuer or the Guarantor, as the case may be, shall reasonably consider to be for the protection of the Noteholders, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the Notes permitting the enforcement of all or any of the several remedies provided in the applicable fiscal and paying agency agreement; **provided that**, in respect of any such additional covenant, restriction, condition or provision, such supplemental fiscal and paying agency agreement may provide for a particular period of grace after default (which may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such an Event of Default or may limit the right of any of the Tranche A Noteholders of a majority in aggregate principal amount of the A Notes, the Tranche B Noteholders of a majority in aggregate principal amount of the B Notes, the Tranche C Noteholders of a majority in aggregate principal amount of the C Notes, the Tranche D Noteholders of a majority in aggregate principal amount of the D Notes, the Tranche E Noteholders of a majority in aggregate principal amount of the

E Notes, the Tranche F Noteholders of a majority in aggregate principal amount of the F Notes, the Tranche G Noteholders of a majority in aggregate principal amount of the G Notes or all Noteholders of a majority in aggregate principal amount of all Notes, as the case may be, to waive such an Event of Default;

(v) to modify the restrictions on, and procedures for, resale and other transfers of the Notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;

(vi) to cure any ambiguity or to correct or supplement any provision contained in the Fiscal and Paying Agency Agreement, the Notes or the Guarantees, or in any supplemental agreement, which may be defective or inconsistent with any other provision contained therein or in any supplemental agreement or to make such other provision in regard to matters or questions arising under the Fiscal and Paying Agency Agreement or under any supplemental agreement as the Issuer may deem necessary or desirable and which will not adversely affect the interests of the Noteholders to which such provision relates in any material respect; and

(vii) to “reopen” the A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes and/or the G Notes and create and issue further A Notes, B Notes, C Notes, the D Notes, the E Notes, the F Notes and/or G Notes, as applicable, in accordance with Condition 13 below.

“**Extraordinary Resolution**” means a resolution passed at a meeting of the Tranche A Noteholders, a meeting of the Tranche B Noteholders, a meeting of the Tranche C Noteholders, a meeting of the Tranche D Noteholders, a meeting of the Tranche E Noteholders, a meeting of the Tranche F Noteholders, a meeting of the Tranche G Noteholders or a meeting of all Noteholders, as applicable, in each case duly convened and held in accordance with the provisions contained in these Conditions by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll shall be duly demanded then by a majority consisting of not less than three-fourths of the votes given on the poll.

## **12. Replacement of Notes**

If a Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and regulations, at the specified office of the Fiscal Agent and of the Registrar (in the case of Definitive Notes) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees, costs, taxes and duties incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes) and otherwise as the Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## **13. Further Issues**

The Issuer may from time to time without the consent of the Noteholders create and issue further notes having in each such case the same terms and conditions as the A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes or the G Notes, other than the issue price and, if applicable, the interest commencement date and the first interest payment date (so that, for the avoidance of doubt, references in the conditions of such Notes to “Issue Date” shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with the A Notes, the B Notes, the C Notes, the D Notes, the E Notes, the F Notes or the G Notes, as the case may be, and references in these Conditions to the “A Notes”, the “B Notes”, the “C Notes”, the “D Notes”, the “E Notes”, the “F Notes” or the “G Notes”, as the case may be, shall be construed accordingly, **provided, however, that** in the event any further notes are not fungible with the Notes issued in this Offering for U.S. federal income tax purposes such non-fungible further notes will be issued with a separate CUSIP, ISIN or other identifying number so that they are distinguishable from the Notes.

## **14. Notices**

Any notice to the Noteholders will be given (i) so long as the Notes are represented by Global Notes, by delivery of the relevant notice to DTC for communication by it to entitled participants, or (ii) in the case of Definitive Notes, by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Definitive Note) with the relative Note or Notes, with the Registrar. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Paying Agent or the Registrar through DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Paying Agent, the Registrar and DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## 15. Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note is due (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor shall only constitute a discharge to the Issuer or the Guarantor, as the case may be, to the extent of the amount in the currency of payment under the relevant Note that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note (such amount being the “**shortfall**”), the Issuer failing whom the Guarantor shall, to the fullest extent permitted by applicable law, indemnify the recipient in an amount equal to the shortfall and, if a purchase is made, against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder to demonstrate that a shortfall would have arisen had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer’s and the Guarantor’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

## 16. Agents

The names of the initial Agents and their initial specified offices are set forth in the Fiscal and Paying Agency Agreement.

The Issuer and the Guarantor are entitled to terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, **provided that:**

- (a) there will at all times be a Paying Agent and a Registrar;
- (b) there will at all times be a Paying Agent in a jurisdiction within Continental Europe, other than the jurisdiction in which the Issuer or the Guarantor is incorporated; and
- (c) so long as any Note is outstanding, there will at all times be a Calculation Agent.

Any termination, appointment or change shall take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days prior written notice thereof, which notice shall expire not less than 30 days before or after any due date for payment of any principal or interest in respect of the Notes, shall have been given to the Noteholders in accordance with Condition 14.

In acting under the Fiscal and Paying Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligation to, or relationship of agency or trust with, any Noteholders. The Fiscal and Paying Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## 17. Governing Law, Jurisdiction and Service of Process

**(a) Governing Law:** The Notes (and any non-contractual obligations arising out of or in connection with them), the Deed of Covenant and the Fiscal and Paying Agency Agreement are governed by, and shall be construed in accordance with, English law.

The Guarantee of the Guarantor is governed by German law.

**(b) Jurisdiction:** The courts of England are to have non-exclusive jurisdiction to settle any disputes that may arise out of or in connection with any Notes, the Deed of Covenant and the Fiscal and Paying Agency Agreement and accordingly any legal action or proceedings arising out of or in connection with any Notes, the Deed of Covenant and the Fiscal and Paying Agency Agreement (“**Proceedings**”) may be brought in such courts. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

The non-exclusive place of jurisdiction for all legal proceedings arising out of or in connection with the Guarantee against the Guarantor is Frankfurt am Main, Germany.

**(c) Service of Process:** Each of the Issuer and the Guarantor irrevocably appoints Volkswagen Group United Kingdom Limited, Yeomans Drive, Blakelands, Milton Keynes MK14 5AN, United Kingdom as its

agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer or the Guarantor). If for any reason such process agent ceases to be able to act as such or no longer has an address in England, each of the Issuer and the Guarantor irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Nothing shall affect the right to serve process in any manner permitted by law.

**(d) Consent to Enforcement.** Each of the Issuer and the Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any judgment or award which may be made or given in such Proceedings.

**(e) Waiver of Immunity.** To the extent that either the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or an award or otherwise) or other legal process including in relation to the enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer, the Guarantor or their respective assets or revenues, each of the Issuer and the Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

#### **18. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 15. FORM OF GUARANTEE OF THE NOTES

### GUARANTEE AND NEGATIVE PLEDGE

by  
VOLKSWAGEN AKTIENGESELLSCHAFT,  
Wolfsburg, Germany,  
(the "**Guarantor**")

in favour of the holders of Notes (as defined below) issued by  
Volkswagen Group of America Finance, LLC,  
Delaware, United States of America,  
(the "**Issuer**")  
under the

U.S.\$1,250,000,000 3.875% Guaranteed Notes due 2020 (the "**A Notes**"),  
U.S.\$1,500,000,000 4.000% Guaranteed Notes due 2021 (the "**B Notes**"),  
U.S.\$1,250,000,000 4.250% Guaranteed Notes due 2023 (the "**C Notes**"),  
U.S.\$750,000,000 4.625% Guaranteed Notes due 2025 (the "**D Notes**"),  
U.S.\$1,250,000,000 4.750% Guaranteed Notes due 2028 (the "**E Notes**"),  
U.S.\$1,250,000,000 Floating Rate Guaranteed Notes due 2020 (the "**F Notes**") and  
U.S.\$750,000,000 Floating Rate Guaranteed Notes due 2021 (the "**G Notes**" and, together with the  
A Notes, the B Notes, the C Notes, the D Notes, the E Notes and the F Notes, the "**Notes**")

The Guarantor hereby unconditionally and irrevocably guarantees to the holder of (i) each Note and (ii) any direct rights arising in relation to such Note ("**Direct Rights**") pursuant to a deed of covenant relating to the Notes and dated the date hereof (the "**Deed of Covenant**") (in each case, a "**Holder**") the due payment of the amounts corresponding to the principal of and interest, if any, on the respective Notes or Direct Rights in accordance with the respective terms applicable to such Notes or Direct Rights.

The intent and purpose of this Guarantee and Negative Pledge is to ensure that the Holders under all circumstances, whether factual or legal, and regardless of the motives or considerations by reason of which the Issuer may fail to effect payment, shall receive the amounts payable as principal and interest, if any, on the dates provided for in the Terms and Conditions (the "**Conditions**") applicable to the respective Notes.

The Guarantor expressly guarantees the payment of principal of, and interest, if any, on, all Notes or Direct Rights.

The payment obligations of the Guarantor under this Guarantee shall, save for such exceptions as may be provided by applicable legislation, at all times rank *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor, present and future.

The Guarantor further undertakes, as long as Notes or Direct Rights are outstanding, but only up to the time all amounts of principal and interest, if any, have been placed at the disposal of the Fiscal Agent, not to provide for any other Bond Issue, including any guarantee or indemnity in respect thereof, any security upon its assets without at the same time having the Holders share equally and rateably in such security. For the avoidance of doubt, this undertaking shall not apply to security provided in connection with asset-backed securities issued by (i) the Issuer, (ii) a special purpose vehicle where the Issuer is the originator of the underlying assets, (iii) the Guarantor or any of the Guarantor's Principal Subsidiaries, or (iv) a special purpose vehicle where the Guarantor or any of the Guarantor's Principal Subsidiaries is the originator of the underlying assets. For the purposes of this Guarantee and Negative Pledge, "**Bond Issue**" shall mean an issue of debt securities which is, or is intended to be, or is capable of being, quoted, listed or dealt in on any stock exchange, over-the-counter or other securities market.

This Guarantee and Negative Pledge is given in respect of any and all Notes which are or will be issued by the Issuer on or after the date hereof and any Direct Rights relating thereto.

This Guarantee and Negative Pledge and all undertakings contained herein constitute a contract for the benefit of the Holders from time to time as third party beneficiaries pursuant to § 328 (1) BGB (German Civil Code)<sup>1</sup>. They give rise to the right of each such Holder to require performance of the obligations undertaken herein directly from the Guarantor, and to enforce such obligations directly against the Guarantor.

Any Holder has the right in case of non-performance of any payments on the Notes or the Direct Rights to enforce the Guarantee by filing a suit directly against the Guarantor without the need to take prior proceedings against the Issuer.

<sup>1</sup> An English language translation of § 328 (1) German Civil Code would read as follows: "A contract may stipulate performance for the benefit of a third party, to the effect that the third party acquires the right directly to demand performance."

Citibank, N.A., London Branch, which accepted this Guarantee and Negative Pledge in its capacity as Fiscal Agent, does not act in a relationship of agency or trust, a fiduciary or in any other similar capacity for the Holders.

All payments of principal and interest under this Guarantee by the Guarantor shall be made free and clear of, and without withholding or deduction for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed informally, unless such withholding or deduction is required by German law. In that event, subject to the provisions of the Conditions, the Guarantor shall pay Additional Amounts to the Holders.

Terms used in this Guarantee and Negative Pledge and not otherwise defined herein shall have the meaning attributed to them in the Conditions.

This Guarantee and Negative Pledge may be amended in accordance with Condition 11. Should the Conditions of a Note be amended in accordance with Condition 11 this Guarantee shall also apply to payments due under the amended Conditions.

The rights and obligations arising from this Guarantee and Negative Pledge shall in all respects be determined in accordance with German law. Place of performance shall be Frankfurt am Main.

The original version of this Guarantee and Negative Pledge shall be delivered to, and kept by, Citibank, N.A., London Branch.

The non-exclusive place of jurisdiction for all legal proceedings arising out of or in connection with this Guarantee and Negative Pledge against the Guarantor shall be Frankfurt am Main.

On the basis of a copy of this Guarantee and Negative Pledge certified as being a true copy by a duly authorized officer of Citibank, N.A., London Branch, each Holder may protect and enforce in his own name his rights arising under this Guarantee and Negative Pledge in any legal proceedings against the Guarantor or to which such Holder and the Guarantor are parties, without the need for production of the original version of this Guarantee and Negative Pledge in such proceedings.

Wolfsburg, 2018  
Volkswagen Aktiengesellschaft  
as Guarantor

By: \_\_\_\_\_

By: \_\_\_\_\_

Citibank, N.A., London Branch  
as Fiscal Agent

By: \_\_\_\_\_



## 16. BOOK-ENTRY, DELIVERY AND FORM

*The information set out below in connection with DTC is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC currently in effect. The information in this section concerning DTC has been obtained from sources believed to be reliable, but neither the Issuer nor the Guarantor nor any Initial Subscriber takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any clearing system are advised to confirm the continued applicability of the rules, regulations and procedures of such clearing system. Neither the Issuer nor the Guarantor nor any Initial Subscriber nor any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the Securities Act) will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial interests in the Notes held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### 16.1 General

The Notes that are initially offered and sold in the United States to Qualified Institutional Buyers will be represented by beneficial interests in one or more global notes (the “**Rule 144A Global Notes**”) in registered form without interest coupons, which will be deposited on or about the Issue Date with the custodian for and registered in the name of Cede & Co. as nominee of DTC. DTC is referred to as the “depository.” Noteholders will hold beneficial interests in the Notes through DTC in book-entry form. This means that the Issuer will not issue certificates to each holder. The Notes that are offered and sold in reliance on Regulation S will be represented by beneficial interests in one or more global notes (the “**Regulation S Global Notes**”) in registered form without interest coupons, which will be deposited on or about the Issue Date with the custodian for and registered in the name of Cede & Co., as nominee of DTC.

Beneficial interests in the Global Notes may be held only through DTC (or any successor clearing system) and its participants. Investors may hold their interests in the Global Notes directly through DTC if they are participants in or indirectly through organizations which are participants in such system.

As used in this Offering Memorandum, “**Global Notes**” refers to both the Rule 144A Global Notes and the Regulation S Global Notes.

So long as DTC or its nominee is the registered holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the applicable Global Note for all purposes set forth under the Fiscal and Paying Agency Agreement and the Notes (except as the context otherwise requires in respect of additional amounts).

The Notes (including any beneficial interest in a Global Note) will be subject to certain restrictions on transfer set forth in the Notes and the Fiscal and Paying Agency Agreement and under “*Purchase and Transfer Restrictions*”. The Global Notes and any Notes issued in definitive form will bear a legend regarding the restrictions as set forth under “*Purchase and Transfer Restrictions*.” Under certain circumstances, transfers may be made only upon receipt by the transfer agent or the registrar of a written certification (in the form provided in the Fiscal and Paying Agency Agreement). See “*Terms and Conditions of the Notes*” and “*Purchase and Transfer Restrictions*”.

The Notes will not be listed on any securities exchange or quoted on any automated quotation system.

### 16.2 Transfers within Global Notes

Subject to the procedures and limitations described herein, including under “*Purchase and Transfer Restrictions*,” transfers of beneficial interests within a Global Note may be made without delivery to the Issuer, the Guarantor or the Fiscal Agent of any written certifications or other documentation by the transferor or transferee.

### 16.3 Transfers of interest in Global Notes

Transfers of beneficial interests in Global Notes will be effected by DTC and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Global Note only in Specified Denominations and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Fiscal and Paying Agency Agreement. Transfers of a Global Note shall be limited to transfers of such Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor’s nominee.

#### **16.4 Transfers between the Global Notes**

A beneficial interest in a Regulation S Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through a Rule 144A Global Note only upon receipt by the transfer agent of a written certification (in the form provided in the Fiscal and Paying Agency Agreement) from the transferor to the effect that the transferor (i) reasonably believes that the transferee is a Qualified Institutional Buyer purchasing for its own account (or for the account of one or more Qualified Institutional Buyers over which account it exercises sole investment discretion), (ii) transfers such note in a transaction meeting the requirements of Rule 144A and (iii) has notified the transferee of the restrictions on transfer and the representations set forth under "*Purchase and Transfer Restrictions*."

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note without any written certification from the transferor or the transferee, and each transferee of a Rule 144A Global Note, in making its purchase, will be subject to certain restrictions and must be able to make and will be deemed to have made certain acknowledgements, representations and agreements for itself and for each account for which it is purchasing as set forth under "*Purchase and Transfer Restrictions — Rule 144A*."

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the transfer agent of a written certification (in the form provided in the Fiscal and Paying Agency Agreement) from the transferor to the effect that such transfer is being made in compliance with the restrictions and representations set forth under "*Purchase and Transfer Restrictions*" and in accordance with Rule 904 of Regulation S under the Securities Act. No representation can be made as to the availability of the exemption provided by Rule 144 for resale of an interest in a Rule 144A Global Note.

Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in a Regulation S Global Note will, upon transfer, cease to be a beneficial interest in such Rule 144A Global Note and become a beneficial interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such Regulation S Global Note for so long as such person retains such an interest.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A Global Note will, upon transfer, cease to be a beneficial interest in such Regulation S Global Note and become a beneficial interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such Rule 144A Global Note for so long as such person retains such an interest.

#### **16.5 Transfers or Exchanges from Global Notes to Definitive Notes**

No Global Note may be exchanged in whole or in part for Notes in definitive registered form ("**Definitive Notes**") unless:

- the depository notifies the Issuer that it is unwilling or unable to hold the applicable Global Note or the depository ceases to be a clearing agency registered under the Exchange Act, and in each case the Issuer does not appoint a successor depository which shall be registered under the Exchange Act within 90 days;
- a payment default has occurred and is continuing; or
- in the event of bankruptcy or liquidation default pursuant to the terms and conditions of the Notes, the Issuer (or failing whom, the Guarantor) fails to make payment on the Notes when due.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the registrar or any transfer agent. In exchange for the relevant Global Note, as provided in the Fiscal and Paying Agency Agreement, the registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Fiscal and Paying Agency Agreement.

The registrar will not register the transfer of, or exchange of interests in, a Global Note for Definitive Notes for a period of 15 calendar days immediately preceding the due date for redemption of any of the Notes.

"**Exchange Date**" means a day falling not later than 30 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which DTC is located.

#### **16.6 Delivery**

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Guarantor (but against such indemnity as the registrar or any relevant transfer

agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the registrar with (a) a written order containing instructions and such other information as the Issuer, the Guarantor and the registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a Qualified Institutional Buyer. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Purchase and Transfer Restrictions*".

## **16.7 Legends**

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the registrar or any transfer agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of Definitive Notes bearing the legend set forth under "*Purchase and Transfer Restrictions — Rule 144A Notes*", or upon specific request for removal of the legend on a Rule 144A Note that is a Definitive Note, the Issuer will deliver only Definitive Notes that bear such legend or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Upon the transfer, exchange or replacement of Definitive Notes bearing the legend set forth under "*Purchase and Transfer Restrictions — Regulation S Notes*" on or prior to the 40<sup>th</sup> day after the later of the commencement of the sale of the relevant tranche of Notes and the final delivery date with respect thereto, the Issuer will deliver only Definitive Notes that bear such legend.

Each Definitive Note will benefit from the Guarantee of the Guarantor, in the form set forth herein under "*Form of Guarantee of the Notes*," and will include terms substantially in the form of those set forth in the Fiscal and Paying Agency Agreement.

## **16.8 Direct Rights**

The Noteholders are entitled to the benefit of the Deed of Covenant dated the Issue Date and executed by the Issuer (the "**Deed of Covenant**"). Pursuant to the Deed of Covenant, if at any time any Global Note becomes void in accordance with its terms (such time, the "**Determination Date**"), each holder of an account with DTC will have against the Issuer all rights (including the right to receive payments due on the Notes) ("**Direct Rights**") which such accountholder would have had in respect of such Notes if, immediately before the Determination Date, it had been the holder of Definitive Notes. No further action will be required on the part of the Issuer or any other person for such accountholders to enjoy the Direct Rights, or for each such accountholder to have the benefit of the Conditions as if they had been incorporated *mutatis mutandis* into the Deed of Covenant, **provided, however, that** nothing in the Deed of Covenant will entitle any such accountholder to receive any payment which has already been made in accordance with the terms of any Global Note.

## **16.9 Clearing and Settlement**

Under the rules, regulations, and procedures creating and affecting DTC and its operations (the "**Rules**"), DTC is required to make book-entry transfers of Notes among DTC participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system as described below (the "**DTC Notes**") and to receive and transmit distributions of the nominal amount and interest on the DTC Notes. DTC participants and indirect DTC participants with which beneficial owners of DTC Notes ("**owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective owners. Accordingly, although owners who hold DTC Notes through DTC participants or indirect DTC participants will not possess Notes, the Rules by virtue of the requirements described above, provide a mechanism by which such owners will receive payments and will be able to transfer their interests with respect to the Notes.

Transfers of ownership or other interests in the Notes in DTC may be made only through DTC participants. Indirect DTC participants are required to effect transfers through a DTC participant. DTC has no knowledge of the actual beneficial owners of the Notes. DTC's records reflect only the identity of the DTC participants to whose accounts the Notes are credited, which may not be the beneficial owners. DTC participants will remain responsible for keeping account of their holdings on behalf of their customers and for forwarding all notices concerning the Notes to their customers.

So long as DTC, or its nominee, is the registered holder of a Global Note, payments on the applicable Notes will be made in immediately available funds to DTC. DTC's practice is to credit DTC participants' accounts on the applicable payment date in accordance with their respective holdings shown on its records, unless DTC has reason to believe that it will not receive payment on that date. Payments by DTC participants to beneficial owners will be governed by standing instructions and customary practices, and will be the responsibility of the DTC participants and not of DTC, or any other party, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the paying agent. Disbursement of payments for DTC participants will be DTC's responsibility, and disbursement of payments to the beneficial owners will be the responsibility of DTC participants and indirect DTC participants.

Because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect DTC participants, and because owners of beneficial interests in the Notes holding through DTC will hold interests in the Notes through DTC participants or indirect DTC participants, the ability of the owners of the beneficial interests to pledge Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to the Notes, may be limited.

DTC will take any action permitted to be taken by an owner only at the direction of one or more DTC participants to whose account with DTC such owner's DTC Notes are credited. Additionally, DTC has advised the Issuer that it will take such actions with respect to any percentage of the beneficial interest of owners who hold Notes through DTC participants or indirect participants only at the direction of and on behalf of DTC participants whose account holders include undivided interests that satisfy any such percentage.

To the extent permitted under applicable law and regulations, DTC may take conflicting actions with respect to other undivided interests to the extent that such actions are taken on behalf of DTC participants whose account holders include such undivided interests.

Ownership of interests in the Global Notes will be shown on, and the transfer of those ownership interests will be effected only through records maintained by, DTC, the DTC participants and the indirect DTC participants. Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules.

#### **16.10 Limitation on Responsibilities**

Although the foregoing sets out the procedures of the depositaries established in order to facilitate the transfer of interests in the Global Notes among their participants, none of the depositaries is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

DTC has no knowledge of the actual beneficial owners of interests in a Global Note. DTC's records reflect only the identity of the DTC participants to whose accounts those Global Notes are credited, which may or may not be the beneficial owners of interests in a Global Note.

None of the Issuer, the Guarantor or the Initial Subscribers, nor any of their respective agents will have any responsibility for the performance by any depositary or its respective participants of their respective obligations under the rules and procedures governing their operations.

#### **16.11 Initial Settlement**

Upon the issue of a Global Note deposited with DTC or a nominee therefor, DTC or its nominee, as the case may be, will credit, on its internal system, the respective nominal amount of the individual beneficial interest represented by such relevant DTC Note or Notes to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant dealers. Ownership of beneficial interest in a DTC Note will be limited to DTC participants or indirect DTC participants. Ownership of beneficial interests in DTC Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC participants) and the records of DTC Participants (with respect to interests of indirect DTC participants).

Investors that hold their interests in a DTC Note will follow the settlement procedures applicable to global bond issues. Investors' securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

#### **16.12 Secondary Market**

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date. Although DTC has agreed to the following procedures in order to facilitate transfers of

interests in Global Notes deposited with DTC or a custodian therefor among participants of DTC, DTC is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor any agent of the Issuer will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Secondary market trading between DTC participants will be settled using the procedures applicable to global bond issues in same-day funds.

### **16.13 Payments**

So long as any of the Notes remains outstanding, the Issuer and the Guarantor will maintain an office or agency in London (a) where the Notes may be presented for payment (by the Issuer pursuant to the Notes or by the Guarantor pursuant to the Guarantee), (b) in the case of the Issuer, where the Notes may be presented for registration of transfer and for exchange and (c) where notices and demands to or upon the Issuer, or the Guarantor or under the Fiscal and Paying Agency Agreement may be served. The Issuer and the Guarantor, as applicable, will give the Fiscal Agent written notice of the location of any such office or agency and of any change of location thereof. The Issuer and the Guarantor, as applicable, will initially designate Citibank, N.A., London Branch, in London for such purposes.

The Issuer or Guarantor, may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes or where such notices or demands maybe served and may from time to time rescind such designations; **provided, however, that** no such designation or rescission shall in any manner relieve the Issuer, or any Guarantor, of any obligation to maintain an office or agency in London for such purposes. The Issuer, or the Guarantor, shall give written notice to the agents of any such designation or rescission and of any such change in the location of any other office or agency.

The Issuer may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any exchange or registration of transfer of Notes and any other expenses (including the fees and expenses of the Agents). No service charge will be made for any such transaction.

No transfer shall be registered (i) for so long as the Notes are represented by the Global Notes, for a period of three business days (as such term is defined in the Fiscal and Paying Agency Agreement) and (ii) if the Notes are represented by Definitive Notes, 15 calendar days, in each case immediately preceding the due date for redemption of any of the Notes.

The Notes will be issued in registered form without coupons and transferable in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

The laws of some jurisdictions require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in the Global Notes is limited to such extent.

## 17. TAX CONSIDERATIONS

### 17.1 U.S. Federal Income Tax Considerations

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note by an investor that acquires the Note in the initial offering from the Initial Subscribers at the issue price (the first price at which a substantial amount of the Notes is sold for money to investors) and holds it as a capital asset (generally, property held for investment). This summary does not address all aspects of U.S. federal income taxation that may be applicable to a particular investor's decision to acquire, own or dispose of a Note.

The discussion below is based on the Internal Revenue Code of 1986, as amended (the "**Code**"), U.S. Treasury regulations thereunder, and judicial and administrative interpretations thereof, all as of the date of this Offering Memorandum and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below. In addition, there can be no assurances that the U.S. Internal Revenue Service (the "**IRS**") would not assert, or that a U.S. court would not uphold, positions concerning the U.S. federal income tax consequences of an investor's acquisition, ownership or disposition of a Note that are contrary to the discussion below.

If an entity or arrangement classified as a partnership for U.S. federal income tax purposes invests in a Note, the U.S. federal income tax consequences to the partners of such partnership will depend on the activities of the partnership and the status of the partners. Such entities or arrangements should consult with their own tax advisers about the consequences to them and the partners of an investment in the Notes.

#### 17.1.1 U.S. Holders

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes: (i) an individual who is a citizen or resident of the United States; (ii) a corporation created or organized in or under the laws of the United States, any state therein or the District of Columbia; (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust.

This summary does not address all U.S. federal income tax consequences that apply to prospective investors subject to special tax rules, including, among others:

- tax-exempt organizations;
- financial institutions;
- dealers and traders in securities or currencies;
- U.S. Holders that will hold a Note as part of a "straddle," hedging transaction or "conversion transaction" for U.S. federal income tax purposes;
- U.S. Holders that enter into "constructive sale" transactions with respect to the Notes;
- U.S. Holders that own (directly or through attribution) 10% or more of the equity, by vote or value, of the Issuer;
- U.S. Holders that have a "functional currency" other than the U.S. dollar;
- Partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes), or partners therein; and
- certain U.S. expatriates.

In addition this summary does not address consequences to U.S. Holders of the acquisition, ownership and disposition of a Note under U.S. federal tax laws other than the U.S. federal income tax (such as the alternative minimum tax or the Medicare contribution tax) or the tax laws of any state, locality or other political subdivision of the United States or other countries or jurisdictions.

Prospective purchasers should consult their own tax advisers as to the particular tax considerations for them relating to the purchase, ownership and disposition of a Note, including the applicability of any U.S. federal, state, or local tax laws, or non-U.S. tax laws, any changes in applicable tax laws, and any pending or proposed legislation or regulations.

### **17.1.1.1 Special Rules Applicable to Certain Accrual Method Taxpayers**

Pursuant to recent legislation, for taxable years beginning after December 31, 2017 (or, in the case of Notes issued with original issue discount for U.S. federal income tax purposes, taxable years beginning after December 31, 2018), an accrual method taxpayer that reports revenues on an “applicable financial statement” generally must recognize income for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in the applicable financial statements. This rule could potentially require such a taxpayer to recognize income for U.S. federal income tax purposes with respect to Notes prior to the time such income otherwise would be recognized pursuant to the rules described below. U.S. Holders should consult their tax advisors regarding the potential applicability of these rules to their investment in the Notes.

### **17.1.1.2 Payments of stated interest**

In general, a payment of stated interest on a Note will be taxable to a U.S. Holder as U.S. source ordinary interest income at the time it is accrued or is paid in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

### **17.1.1.3 Original issue discount**

If the issue price of a Note is less than its principal amount by more than a *de minimis* amount, U.S. Holders will be subject to special U.S. federal income tax rules with respect to this original issue discount (“OID”). OID will be considered to be *de minimis* if it is less than .25% of the principal amount multiplied by the number of complete years to maturity from the issue date. U.S. Holders will be required to include any OID in income for U.S. federal tax purposes as it accrues in accordance with a constant yield method based on a compounding of interest, even though the cash attributable to this income will not be received until a Note is sold, exchanged, redeemed or otherwise disposed of.

### **17.1.1.4 Sale, exchange, redemption, retirement at maturity or other taxable disposition of the Notes**

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount of cash and the fair market value of any property received on the disposition (except to the extent such cash or property is attributable to accrued and unpaid stated interest, which will be treated like a payment of interest, as described above) and the U.S. Holder’s adjusted tax basis in the Note. A U.S. Holder’s adjusted tax basis in a Note generally will equal the amount paid for the Note increased by the amount of any OID included in the U.S. Holder’s income with respect to the Note.

Any gain or loss that a U.S. Holder recognizes upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note generally will be U.S. source capital gain or loss and will be long-term capital gain or loss if, at the time of the disposition, the U.S. Holder’s holding period for the Note is more than one year. The deductibility of capital losses is subject to limitations.

### **17.1.1.5 Information reporting and backup withholding requirements**

U.S. Holders may be subject to information reporting on the amounts paid to them (including OID accrued in the manner described above), unless they provide proof of an applicable exemption. If a U.S. Holder does not provide this proof of exemption, it may be subject to backup withholding on such amounts unless the U.S. Holder provides its taxpayer identification number and otherwise complies with the requirements of the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s U.S. federal income tax liability and may entitle the U.S. Holder to a refund, **provided that** the required information is timely furnished to the IRS.

U.S. Holders should consult their tax advisors about any additional reporting obligations that may apply as a result of the acquisition, holding or disposition of a Note. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

### **17.1.2 Non-U.S. Holders**

As used herein, the term “**Non-U.S. Holder**” means a beneficial owner of a Note that is, for U.S. federal income tax purposes: (i) a nonresident alien individual; (ii) a corporation created or organized in or under the laws of a jurisdiction outside of the United States or of any political subdivision thereof or (iii) an estate or trust the income of which is not subject to U.S. federal income taxation regardless of its source.

The following discussion describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note by a Non-U.S. Holder. This discussion does not consider the specific facts

and circumstances that may be relevant to a particular Non-U.S. Holder. In particular, this discussion does not address, among others, potential investors that:

- are banks;
- own (directly or through attribution) equity possessing 10% or more of the total combined voting power of the Issuer;
- are controlled foreign corporations for U.S. federal income tax purposes that are considered to be related parties of the Issuer;
- are partnerships (or entities or arrangements treated as partnerships for U.S. federal income tax purposes), or partners therein;
- are treated as earning income on a Note that is effectively connected with a trade or business of the potential investor in the United States; or
- are individuals that are present in the United States for 183 days or more in a taxable year in which they dispose of a Note.

Prospective investors should consult their own tax advisers with regard to the application of the U.S. federal income tax laws to their particular circumstances as well as any tax consequences arising under U.S. federal tax laws (other than the U.S. federal income tax laws) and the laws of any state, local or non-U.S. taxing jurisdiction.

Subject to the discussion under “— *FATCA Withholding*” below, a Non-U.S. Holder will not be subject to U.S. federal income tax or backup withholding on payments (including OID, if any) on, or gain realized on the sale, exchange or other disposition of, a Note **provided that** the Non-U.S. Holder certifies on the appropriate IRS Form W-8, under penalties of perjury, that it is not a U.S. person. A Non-U.S. Holder that fails to certify on the appropriate IRS Form W-8 its status as a non-U.S. person will generally be subject to U.S. withholding tax on payments of stated interest (and OID, if any) on a Note at a flat rate of 30%.

### **17.1.3 FATCA Withholding**

U.S. tax rules commonly referred to as FATCA impose a 30% withholding tax on certain U.S. source payments, including interest (and OID if any), and after December 31, 2018, on the gross proceeds received from a disposition of property of a type which can produce U.S. source interest if paid to a foreign financial institution, whether as a beneficial owner or intermediary, unless the financial institution collects and reports certain information regarding U.S. financial account holders (including certain account holders that are foreign entities with U.S. owners), or otherwise qualifies for an exemption. These rules also generally impose a withholding tax of 30% on such payments made to certain other payees that are not classified as financial institutions unless they provide the withholding agent with certain documentation containing information about their identity and their FATCA status, and if required a certification identifying their direct and indirect substantial U.S. owners. Under certain circumstances, an investor may be eligible for a refund or credit of such withheld taxes.

These rules generally apply to interest payments made on the Notes. The withholding also will generally apply to payments of gross proceeds from a sale or redemption of the Notes after December 31, 2018. If withholding does apply, there will be no additional amounts paid in respect of such withholding. Prospective investors are urged to consult with their own tax advisers regarding the possible implications of these rules on their investment in the Notes.

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISERS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER OTHER FEDERAL TAX RULES, STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

### **17.2 The Proposed EU Financial Transactions Tax (“FTT”)**

On February 14, 2013 the European Commission published a proposal (the “**Commission’s Proposal**”) for a directive for a common FTT in Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia, Slovakia (the “**Participating Member States**”) and Estonia. However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.



Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

However, the FTT proposal remains subject to negotiation between the Participating Member States. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## 18. ERISA CONSIDERATIONS

Sections 404 and 406 of the Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”) and Section 4975 of the Code impose fiduciary and prohibited transaction restrictions on the activities of employee benefit plans and certain other retirement plans and arrangements subject to such provisions of law, including investment funds, bank collective investment funds and insurance company accounts, the assets of which are deemed to be “plan assets” for purposes of such provisions of law (together referred to as “**Benefit Plan Investors**”).

Governmental plans (as defined in Section 3(32) of ERISA), plans maintained outside the United States primarily for the benefit of persons substantially all of whom are non-resident aliens (as described in Section 4(b)(4) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) are not subject to Sections 404 and 406 of ERISA, and may not be subject to Section 4975 of the Code, but may be subject to applicable laws similar to such provisions of law (“**Similar Law**”). The Issuer, the Guarantor, the Initial Subscribers, the Fiscal and Paying Agent, the Registrar and their respective affiliates (collectively, the “**Transaction Parties**”) may be “parties in interest” or “disqualified persons” as to certain Benefit Plan Investors. Thus, the acquisition or holding of Notes by or on behalf of a Benefit Plan Investor may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code unless a statutory or administrative exemption applies. Fiduciaries and other persons involved in a non-exempt prohibited transaction may be subject to penalties and other liabilities under ERISA or Section 4975 of the Code, and the prohibited transaction may need to be rescinded or otherwise corrected.

There are statutory or administrative exemptions that could apply, depending on the circumstances, to provide relief from certain of the prohibited transaction provisions of ERISA or Section 4975 of the Code in connection with the acquisition or holding of Notes, including, but not limited to: Prohibited Transaction Class Exemption (“**PTCE**”) 84-14 a (applicable to a “qualified professional asset manager”); PTCE 90-1 (applicable to insurance company separate accounts); PTCE 91-38 (applicable to bank collective investment funds); PTCE 95-60 (applicable to insurance company general accounts); and PTCE 96-23 (applicable to an “in-house asset manager”). In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally exempt certain transactions with a person that is a party in interest or disqualified person to a Benefit Plan Investor solely by reason of it or its affiliate providing services to the Benefit Plan Investor and such services are not in a fiduciary capacity within the meaning of ERISA or Section 4975 of the Code in connection with the investment of plan assets of the Benefit Plan Investor involved in the transaction, and the Benefit Plan Investor pays no more than and receives no less than adequate consideration in connection with the transaction.

There can be no assurance that any prohibited exemption will apply to the acquisition or holding, or subsequent transfer or other disposition, of Notes by any particular Benefit Plan Investor or, even if all of the conditions specified therein were satisfied, that the exemption would apply to all prohibited transactions that may occur in connection with such investment. Each Benefit Plan Investor and its fiduciary acting on its behalf shall be solely responsible for determining whether any prohibited transaction exemptions apply and provide full relief to the acquisition and holding of Notes by the Benefit Plan Investor.

Each of the Transaction Parties has its own interests in the offering and sale of Notes and related transactions, which differ from the interests of any Benefit Plan Investor considering the acquisition or holding of Notes, and such financial interests are disclosed in this Offering Memorandum. Any person that, for any direct or indirect compensation, makes a suggestion, directly or indirectly, to engage in or refrain from a particular action in connection with the acquisition or holding of a Note by any Benefit Plan Investor might be rendering “investment advice” so as to become a fiduciary to the Benefit Plan Investor. The Transaction Parties, as well as their respective directors, officers, employees or agents are not authorized to, have not provided and do not undertake to provide any impartial investment advice or to give advice in any fiduciary capacity to any Benefit Plan Investor or any fiduciary, representative or agent thereof. There is a safe harbor applicable to persons seeking to avoid being a “fiduciary” to any Benefit Plan Investor by reason of investment advice if, among other requirements, the Benefit Plan Investor is represented by an independent fiduciary with financial expertise that meets all of the requirements described in U.S. Department of Labor regulation Section 2510.3-21(c)(1). Benefit Plan Investors and their independent fiduciaries shall be required to represent and warrant that they are represented in connection with the acquisition, holding and transfer or other disposition of Notes by such an independent fiduciary and make other representations pertaining to the applicability of ERISA. Any fiduciary or representative of a Benefit Plan Investor or other employee benefit plan or arrangement that is subject to Similar Law that proposes to acquire or hold Notes on behalf of or with assets of any such investor is encouraged to consult with its counsel regarding the application of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code, or in the case of such other plans or arrangements, the applicability of Similar Law before making the proposed investment.

**The sale of Notes to a Benefit Plan Investor is in no respect a representation by the Issuer or Initial Subscribers that such an investment meets all relevant legal requirements with respect to investments by Benefit Plan Investors generally or any particular Benefit Plan Investor, or that such an investment is appropriate for Benefit Plan Investors generally or any particular Benefit Plan Investor.**

## 19. PLAN OF DISTRIBUTION

### 19.1 Subscription

The Issuer and the Guarantor have entered into a Subscription Agreement dated November 7, 2018 (the “**Subscription Agreement**”) with the Initial Subscribers named below (the “**Initial Subscribers**”), pursuant to which, and subject to the terms and conditions set forth therein, the Issuer has agreed to issue and sell to the Initial Subscribers and each Initial Subscriber has severally agreed to subscribe to, the principal amount of the Notes as set forth below:

<b>Initial Subscribers</b>	<b>Principal Amount of A Notes</b>	<b>Principal Amount of B Notes</b>	<b>Principal Amount of C Notes</b>	<b>Principal Amount of D Notes</b>	<b>Principal Amount of E Notes</b>	<b>Principal Amount of F Notes</b>	<b>Principal Amount of G Notes</b>
BBVA Securities Inc. . . . .	U.S.\$ 250,000,000	U.S.\$ 300,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000	U.S.\$ 250,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000
Citigroup Global Markets Inc. . . . .	U.S.\$ 250,000,000	U.S.\$ 300,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000	U.S.\$ 250,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000
HSBC Securities (USA) Inc. . . . .	U.S.\$ 250,000,000	U.S.\$ 300,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000	U.S.\$ 250,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000
J.P. Morgan Securities LLC . . . . .	U.S.\$ 250,000,000	U.S.\$ 300,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000	U.S.\$ 250,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000
Mizuho Securities USA LLC. . . . .	U.S.\$ 250,000,000	U.S.\$ 300,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000	U.S.\$ 250,000,000	U.S.\$ 250,000,000	U.S.\$150,000,000
<b>Total</b> . . . . .	<b>U.S.\$1,250,000,000</b>	<b>U.S.\$1,500,000,000</b>	<b>U.S.\$1,250,000,000</b>	<b>U.S.\$750,000,000</b>	<b>U.S.\$1,250,000,000</b>	<b>U.S.\$1,250,000,000</b>	<b>U.S.\$750,000,000</b>

The obligations of the Initial Subscribers under the Subscription Agreement, including their agreement to subscribe to the Notes from the Issuer, are several and not joint. The Subscription Agreement provides that the Initial Subscribers will subscribe, subject to certain conditions precedent, to all the Notes if any of them are subscribed to.

The Initial Subscribers initially propose to offer and sell the Notes of each tranche at the applicable prices set forth on the cover page of this Offering Memorandum. If all of the Notes of a tranche are not sold at the initial offering price, the initial offering price and other selling terms may be changed at any time without notice. The offering of the Notes by the Initial Subscribers is subject to receipt and acceptance and subject to the Initial Subscribers’ right to reject any order in whole or in part. The Initial Subscribers may offer and sell Notes through certain of their affiliates.

In the Subscription Agreement, the Issuer and the Guarantor have agreed, jointly and severally, to the extent permitted by the laws of England, to indemnify and hold harmless each Initial Subscriber, its affiliates, directors, officers, partners, employees and controlling persons against certain liabilities in connection with the Offering and to contribute to payments that the Initial Subscribers may be required to make in respect thereof. The Initial Subscribers have agreed to reimburse certain of the Issuer’s offering-related expenses.

The Notes are new issues of securities for which there currently are no markets and the Issuer has no intention of listing the Notes on any securities exchange or arranging for their quotation on any automated quotation system. Certain of the Initial Subscribers have advised the Issuer that following the completion of the Offering, they intend to make a market in the Notes of each tranche. They are not obligated to do so, however, and any market-making activities with respect to the Notes may be discontinued at any time at their sole discretion without notice. In addition, such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, the Issuer cannot give any assurance as to the development of any markets or the liquidity of any markets for the Notes.

In connection with the Offering, the Initial Subscribers may engage in over-allotment, stabilizing transactions and syndicate covering transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Subscribers. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the prices of the Notes. Syndicate covering transactions involve purchasers of the Notes in the open market after the distribution has been completed in order to cover short positions. Any of these activities may prevent a decline in the market prices of the Notes, and may also cause the prices of the Notes to be higher than they would otherwise be in the absence of these transactions. The Initial Subscribers may conduct these transactions in the over-the-counter market or otherwise. If the Initial Subscribers commence any of these transactions, they may discontinue them at any time and, if begun, must be brought to an end after a limited period. Any stabilization action or over-allotment must be conducted by the Initial Subscribers in accordance with all applicable laws and rules.

The Initial Subscribers also may impose a penalty bid. This occurs when a particular Initial Subscriber repays to the Initial Subscribers a portion of the underwriting discount received by it because such Initial Subscriber or its affiliates have repurchased notes sold by or for the account of such Initial Subscriber in stabilizing or short covering transactions.

The Initial Subscribers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Some of the Initial Subscribers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or affiliates of the Issuer or Guarantor. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Initial Subscribers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantor or affiliates of the Issuer or Guarantor. Certain of the Initial Subscribers or their respective affiliates that have a lending relationship with the Issuer, the Guarantor or affiliates of the Issuer or Guarantor routinely hedge, and certain other of these Initial Subscribers or their respective affiliates are likely to hedge, their credit exposure to the Issuer, the Guarantor or affiliates of the Issuer or Guarantor consistent with their customary risk management policies. Typically, such Initial Subscribers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities of the Issuer, the Guarantor or affiliates of the Issuer or Guarantor, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Subscribers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Delivery of the Notes is expected to be made against payment on the Notes on or about the date specified on the cover page of this Offering Memorandum, which will be the third business day (as such term is used for purposes of Rule 15c6-1 of the U.S. Exchange Act) following the date of pricing of the Notes (this settlement cycle is being referred to as "T+3"). Under Rule 15c6-1 of the U.S. Exchange Act, trades in the secondary market generally are required to settle in two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of this Offering Memorandum or the next three succeeding business days will be required to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisors.

## **19.2 Selling Restrictions**

### **19.2.1 United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only to (i) persons who are Qualified Institutional Buyers within the United States in each case purchasing for their own account or the account of one or more persons, each of which is a Qualified Institutional Buyer, as to which the purchaser exercises sole investment discretion, in transactions meeting the requirements of Rule 144A and (ii) non-U.S. persons located outside the United States in reliance on Regulation S under the Securities Act.

The Notes being offered and sold pursuant to Regulation S may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the Notes are registered under the Securities Act or an exemption from the registration requirements under the Securities Act is available. Terms used above have the meaning given to them by Regulation S and Rule 144A. See "*Purchase and Transfer Restrictions*".

In addition, until forty days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

### **19.2.2 European Economic Area**

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning

of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “**Prospectus Directive**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation. This Offering Memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of notes. This Offering Memorandum is not a prospectus for the purposes of the Prospectus Directive.

### **19.2.3 United Kingdom**

Each of the Initial Subscribers has represented, warranted and agreed that:

(a) It has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) It has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **19.2.4 Hong Kong**

Each of the Initial Subscribers has severally represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “**SFO**”) and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “**Companies Ordinance**”) or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are or are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made thereunder.

### **19.2.5 Japan**

Each of the Initial Subscribers has severally represented and agreed that the Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended); it will not offer or sell, directly or indirectly, any of the Notes in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit of, any resident for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except (i) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and (ii) in compliance with the other relevant laws and regulations of Japan.

### **19.2.6 Singapore**

Each of the Initial Subscribers has severally represented and agreed that this Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “**MAS**”).

Accordingly, each of the Initial Subscribers severally represents, warrants and agrees that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of

Singapore) (the “**SFA**”) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law; or

(4) as specified in section 276(7) of the SFA.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## 20. PURCHASE AND TRANSFER RESTRICTIONS

### 20.1 General

*Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes.*

The offering is being made in accordance with Rule 144A and Regulation S under the Securities Act. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except as set forth below.

The Notes (including any beneficial interest in a Global Note) will be subject to certain restrictions on transfer set forth in the Notes and the Fiscal and Paying Agency Agreement. A beneficial interest in a Regulation S Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through a Rule 144A Global Note only upon receipt by the transfer agent of a written certification (in the form provided in the Fiscal and Paying Agency Agreement) from the transferor to the effect that the transferor (i) reasonably believes that the transferee is a Qualified Institutional Buyer purchasing for its own account (or for the account of one or more Qualified Institutional Buyers over which account it exercises sole investment discretion), (ii) transfers such note in a transaction meeting the requirements of Rule 144A and (iii) has notified the transferee of the restrictions on transfer and the representations described in this section.

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note without any written certification from the transferor or the transferee.

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only upon receipt by the transfer agent of a written certification (in the form provided in the Fiscal and Paying Agency Agreement) from the transferor to the effect that such transfer is being made in compliance with the restrictions and representations described in this section and in accordance with Rule 904 of Regulation S under the Securities Act.

Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in a Regulation S Global Note will, upon transfer, cease to be a beneficial interest in such Rule 144A Global Note and become a beneficial interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such Regulation S Global Note for so long as such person retains such an interest.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A Global Note will, upon transfer, cease to be a beneficial interest in such Regulation S Global Note and become a beneficial interest in the Rule 144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such Rule 144A Global Note for so long as such person retains such an interest.

### 20.2 Rule 144A Notes

Each purchaser of the Notes (including the registered holders and beneficial owners of the Notes as they exist from time to time, including as a result of transfers, in each case, as of the time of purchase) offered hereby in reliance on Rule 144A (the "**Rule 144A Notes**") must be able to and will be deemed to have represented and agreed, on its own behalf and on behalf of each account for which it is purchasing, as follows:

- (a) It is a Qualified Institutional Buyer; is aware the sale of the Notes to it is being made in reliance on Rule 144A; and is acquiring such Notes for its own account or the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion:
- (b) It understands and acknowledges that such Rule 144A Notes are being offered only in a transaction not involving any public offering in the United States, within the meaning of the Securities Act, and the Rule 144A Notes offered hereby have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except to a person who the seller reasonably believes is a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A, in accordance with all applicable securities laws of the states of the United States.
- (c) It agrees that it will deliver to each person to whom it transfers the Rule 144A Notes notice of any restrictions on transfer of such Rule 144A Notes.



(d) It understands and acknowledges that Rule 144A Global Notes (or any interest therein) may be purchased, sold, pledged or otherwise transferred only in minimum principal amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

(e) Either (a) it is not and is not acting on behalf of a Benefit Plan Investor or other plan or arrangement subject to Similar Law or (b) (i) its purchase and holding of a Note will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code, a violation of applicable Similar Law or subject the Issuer's assets to Section 404 or 406 of ERISA, Section 4975 of the Code or any Similar Law, and (ii) if it is a Benefit Plan Investor, it is represented by an independent fiduciary with financial expertise that meets all of the requirements described in U.S. Department of Labor regulation Section 2510.3-21(c)(1). Benefit Plan Investors and none of the Transaction Parties or their respective officers, employees or agents has received or will receive a fee or other compensation directly from the Benefit Plan Investor for the provision of investment advice in connection with the acquisition and holding of any Note.

(f) It understands that each Rule 144A Global Note, and each Definitive Note issued in exchange for all or part of a Rule 144A Global Note or an interest therein, will bear a legend to the following effect, unless the Issuer determines otherwise in compliance with applicable law:

"THE NOTES EVIDENCED BY THIS RESTRICTED GLOBAL NOTE MAY BE PURCHASED AND TRANSFERRED ONLY IN MINIMUM PRINCIPAL AMOUNTS OF U.S. \$200,000 AND INTEGRAL MULTIPLES OF U.S. \$1,000 IN EXCESS THEREOF.

NEITHER THE NOTES EVIDENCED BY THIS RESTRICTED GLOBAL NOTE NOR THE RELATED GUARANTEE HAS BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"). THE NOTES EVIDENCED BY THIS RESTRICTED GLOBAL NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A)(1) TO A PERSON WHO THE HOLDER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AS TO WHICH THE PURCHASER EXERCISES SOLE INVESTMENT DISCRETION, IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S ("**REGULATION S**") UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES, **PROVIDED THAT**, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER HEREOF, THE ISSUER, THE GUARANTOR OR THE FISCAL AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL, THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH THE FOREGOING. THE HOLDER OF NOTES EVIDENCED BY THIS RESTRICTED GLOBAL NOTE, BY PURCHASING OR ACCEPTING NOTES EVIDENCED BY THIS RESTRICTED GLOBAL NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF NOTES EVIDENCED BY THIS RESTRICTED GLOBAL NOTE FROM THE HOLDER OF THE RESALE RESTRICTIONS REFERRED TO ABOVE."

(g) It understands that no representation can be made as to the availability of the exemption provided by Rule 144 for resales of the Notes offered hereby.

(h) It acknowledges that the Fiscal Agent will not be required to accept for registration of transfer any Notes acquired by it, except upon presentation of evidence satisfactory to the Issuer and the Guarantor that the restrictions set forth herein have been complied with.

(i) It acknowledges that the Issuer, the Guarantor, the Initial Subscribers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Notes are no longer accurate, it shall promptly notify the Issuer and the Initial Subscribers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

### **20.3 Regulation S Notes**

Each purchaser of Notes other than the Rule 144A Notes ("**Regulation S Notes**") must be able to and will be deemed to have represented and agreed as follows:

(a) It is a non-U.S. person who is acquiring such Regulation S Notes in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

(b) It understands that such Regulation S Notes are being offered only outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act and that the Regulation S Notes offered hereby have not been and will not be registered under the Securities Act and may not be offered, resold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons except as permitted by the legend set forth in paragraph (5) below.

(c) It agrees that it will deliver to each person to whom it transfers the Regulation S Notes notice of any restrictions on transfer of such Regulation S Notes.

(d) Either (a) it is not and is not acting on behalf of a Benefit Plan Investor or other plan or arrangement subject to Similar Law or (b) (i) its purchase and holding of a Note will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code, a violation of applicable Similar Law or subject the Issuer's assets to Section 404 or 406 of ERISA, Section 4975 of the Code or any Similar Law, and (ii) if it is a Benefit Plan Investor, it is represented by an independent fiduciary with financial expertise that meets all of the requirements described in U.S. Department of Labor regulation Section 2510.3-21(c)(1). Benefit Plan Investors and none of the Transaction Parties or their respective officers, employees or agents has received or will receive a fee or other compensation directly from the Benefit Plan Investor for the provision of investment advice in connection with the acquisition and holding of any Note.

(e) It understands that each Regulation S Global Note, and each Definitive Note issued in exchange for all or part of a Regulation S Global Note or interest therein, will bear a legend to the following effect, unless the Issuer determines otherwise in compliance with applicable law:

"THE NOTES EVIDENCED BY THIS UNRESTRICTED GLOBAL NOTE MAY BE PURCHASED AND TRANSFERRED ONLY IN MINIMUM PRINCIPAL AMOUNTS OF U.S. \$200,000 AND INTEGRAL MULTIPLES OF U.S. \$1,000 IN EXCESS THEREOF.

NEITHER THE NOTES EVIDENCED BY THIS UNRESTRICTED GLOBAL NOTE NOR THE RELATED GUARANTEE HAS BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO A U.S. PERSON (EACH AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. THE ISSUER OF THE NOTES EVIDENCED BY THIS UNRESTRICTED GLOBAL NOTE HAS AGREED THAT THIS PARAGRAPH OF THIS LEGEND SHALL BE DEEMED TO HAVE BEEN REMOVED ON THE 41ST DAY FOLLOWING THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES EVIDENCED BY THIS UNRESTRICTED GLOBAL NOTE AND THE FINAL DELIVERY DATE WITH RESPECT THERETO."

(f) It acknowledges that the Fiscal Agent will not be required to accept for registration of transfer any Notes acquired by it, except upon presentation of evidence satisfactory to the Issuer and the Guarantor that the restrictions set forth herein have been complied with.

(g) It acknowledges that the Issuer, the Guarantor, the Initial Subscribers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Notes are no longer accurate, it shall promptly notify the Issuer and the Initial Subscribers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

## **21. LEGAL MATTERS**

The validity of the Notes and the Guarantee and certain legal matters in connection with the Offering with respect to United States federal securities law, New York law, German law and English law will be passed upon for the Issuer and the Company by Clifford Chance. Certain legal matters in connection with the Offering with respect to Delaware law will be passed upon for the Issuer by Richards, Layton & Finger, P.A. Certain matters of United States federal securities law, New York law, German law and English law will be passed upon for the Initial Subscribers by Linklaters LLP.

## 22. INDEPENDENT AUDITORS

The annual consolidated financial statements of Volkswagen Aktiengesellschaft as of and for the years ended (a) December 31, 2017 with comparative financial information as of and for the year ended December 31, 2016 and (b) December 31, 2016 with comparative information as of and for the year ended December 31, 2015 incorporated by reference in this Offering Memorandum have been audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (formerly PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft — “**PwC**”) Fuhrberger Straße 5, 30625 Hannover, a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*), Berlin, as stated in their auditor’s reports. See “*General Information — Presentation of Financial Data*”. The auditor’s reports (*Bestätigungsvermerke*) issued on the consolidated financial statements of Volkswagen Aktiengesellschaft as of and for the fiscal year ended December 31, 2017 as well as December 31, 2016 each contain an emphasis of matter paragraph concerning “The Diesel Issue”, and the related awareness of members of the Company’s Board of Management and provisions for warranties and legal risks.

With respect to the unaudited condensed consolidated interim financial statements of Volkswagen Aktiengesellschaft for the nine-month period ended September 30, 2018 with comparative financial information for the nine-month period ended September 30, 2017, incorporated by reference in this Offering Memorandum, PwC reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated October 30, 2018 incorporated by reference herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The review report contains an emphasis of matter paragraph concerning “The Diesel Issue”, and the related awareness of members of the Company’s Board of Management and provisions for warranties and legal risks.

**REGISTERED OFFICE OF THE GUARANTOR**

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America

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America

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AND TRANSFER AGENT**

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United Kingdom

**REGISTRAR**

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*To Volkswagen*

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*To the Joint Book-Running Managers*

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**AUDITORS**

*To the Guarantor:*

**PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft**  
Fuhrberger Strasse 5  
30625 Hanover  
Germany

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# VOLKSWAGEN

## VOLKSWAGEN GROUP OF AMERICA FINANCE, LLC

**U.S.\$8,000,000,000**

**consisting of**

**U.S.\$1,250,000,000 3.875% Guaranteed Notes due 2020,**

**U.S.\$1,500,000,000 4.000% Guaranteed Notes due 2021,**

**U.S.\$1,250,000,000 4.250% Guaranteed Notes due 2023,**

**U.S.\$750,000,000 4.625% Guaranteed Notes due 2025,**

**U.S.\$1,250,000,000 4.750% Guaranteed Notes due 2028,**

**U.S.\$1,250,000,000 Floating Rate Guaranteed Notes due 2020 and**

**U.S.\$750,000,000 Floating Rate Guaranteed Notes due 2021**

**Each with an unconditional and irrevocable guarantee of principal  
and interest from**

## VOLKSWAGEN AKTIENGESELLSCHAFT

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**OFFERING MEMORANDUM**

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**November 7, 2018**

*Joint Book-Running Managers*

**BBVA**

**Citigroup**

**HSBC**

**J.P. Morgan**

**Mizuho Securities**

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