

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 Citigroup Global Markets Inc. ("**Citigroup**"), Credit Agricole Securities (USA) Inc. ("**Credit Agricole CIB**"), Goldman Sachs & Co. LLC ("**Goldman Sachs**") Mizuho Securities USA LLC ("**Mizuho Securities**") or Morgan Stanley & Co. LLC ("**Morgan Stanley**", and 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.\$4,000,000,000

consisting of

U.S.\$1,500,000,000 2.900% Guaranteed Notes due 2022,

U.S.\$1,000,000,000 3.125% Guaranteed Notes due 2023,

U.S.\$1,000,000,000 3.350% Guaranteed Notes due 2025 and

U.S.\$500,000,000 3.750% Guaranteed Notes due 2030

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.\$1,500,000,000 Guaranteed Notes due 2022 (the “**A Notes**”) that will bear interest at a rate of 2.900% per annum, U.S.\$1,000,000,000 Guaranteed Notes due 2023 (the “**B Notes**”) that will bear interest at a rate of 3.125% per annum, U.S.\$1,000,000,000 Guaranteed Notes due 2025 (the “**C Notes**”) that will bear interest at a rate of 3.350% per annum and U.S.\$500,000,000 Guaranteed Notes due 2030 (the “**D Notes**”) and, together with the A Notes, the B Notes and the C Notes, the “**Notes**”) that will bear interest at a rate of 3.750% per annum. Interest on the A Notes, the C Notes and the D Notes will be payable semi-annually in arrear on May 13 and November 13 of each year, commencing on November 13, 2020, as described in this offering memorandum (the “**Offering Memorandum**”). Interest on the B Notes will be payable semi-annually in arrear on May 12 and November 12 of each year, commencing on November 12, 2020 (short first coupon). The A Notes will mature on May 13, 2022, the B Notes will mature on May 12, 2023, the C Notes will mature on May 13, 2025 and the D Notes will mature on May 13, 2030. 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 and the D 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 or the D 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:

99.946% of the principal amount of the A Notes,

99.952% of the principal amount of the B Notes,

99.895% of the principal amount of the C Notes and

99.926% of the principal amount of the D Notes

plus, in each case, accrued interest, if any, from May 13, 2020

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 May 13, 2020.

Joint Book-Running Managers

Citigroup Credit Agricole CIB Goldman Sachs Mizuho Securities Morgan Stanley

The date of this Offering Memorandum is May 6, 2020

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.

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**”) or in the United Kingdom. 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 (EU) 2016/97 (the “**Insurance Distribution Directive**”), as amended, 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 Regulation (EU) 2017/119 (as amended, the “**Prospectus Regulation**”). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the United Kingdom may be unlawful under the PRIIPs Regulation. This Offering Memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA or in the United Kingdom will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of notes. This Offering Memorandum is not a prospectus for the purposes of the Prospectus Regulation.

Notice to Prospective Investors in Canada

This Offering Memorandum constitutes an “exempt offering document” as defined in and for the purposes of applicable Canadian securities laws. No prospectus has been filed with any securities commission or

similar regulatory authority in Canada in connection with the offer and sale of the Notes. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this Offering Memorandum or on the merits of the Notes and any representation to the contrary is an offence.

The Notes are subject to a “hold period” or “restricted period” under applicable Canadian securities laws and purchasers will not be able to resell the Notes until expiration of the applicable “hold period” or “restricted period” except in accordance with limited exemptions under applicable Canadian securities laws and compliance with certain other requirements of applicable law. In particular, purchasers are hereby notified that in Canada, unless permitted under applicable Canadian securities legislation, the holder of the Notes must not trade the Notes before the later of (i) the date that is four months and a day after the Notes are issued or (ii) the date that the Issuer becomes a “reporting issuer” in any province or territory of Canada. Each purchaser in Canada acknowledges that the certificate representing the Notes, if any, or the related confirmation or other ownership statement may contain a legend reflecting the above described resale restrictions.

Purchasers of the Notes are advised to seek appropriate Canadian legal advice prior to any resale of the Notes as such resales may only be undertaken in accordance with applicable law.

TABLE OF CONTENTS

	Page
1. SUMMARY	6
2. RISK FACTORS	17
3. USE OF PROCEEDS	53
4. CAPITALIZATION	54
5. SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION	55
6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	59
7. THE ISSUER	101
8. BUSINESS OF THE VOLKSWAGEN GROUP	102
9. REGULATION	140
10. MAJOR SHAREHOLDERS	152
11. RELATED PARTY TRANSACTIONS	153
12. BOARD OF MANAGEMENT AND SUPERVISORY BOARD	155
13. EXCHANGE RATE INFORMATION	167
14. TERMS AND CONDITIONS OF THE NOTES	168
15. FORM OF GUARANTEE OF THE NOTES	180
16. BOOK-ENTRY, DELIVERY AND FORM	182
17. TAX CONSIDERATIONS	187
18. CERTAIN ERISA AND RELATED CONSIDERATIONS	190
19. PLAN OF DISTRIBUTION	192
20. PURCHASE AND TRANSFER RESTRICTIONS	197
21. LEGAL MATTERS	200
22. INDEPENDENT AUDITORS	201

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; “**Can\$**” or “**CAD**” means the lawful currency of Canada; “**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, 2019 and December 31, 2018 (respectively, the “**2019 Annual Financial Statements**” and the “**2018 Annual Financial Statements**”, together, 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 three-month period ended March 31, 2020 (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 2019 and the 2018 financial figures included in this Offering Memorandum have been taken or derived from the 2019 Annual Financial Statements. The 2017 financial figures have been taken or derived from the 2018 Annual Financial Statements. As a result, not all figures may be comparable.

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, ratio of research and development costs to sales revenue, capex and operating return on sales 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 generally 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 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, 2019, as included on pages 195 to 335 of the Annual Report 2019 of the Volkswagen Group, and the Auditor’s Report, as included on pages 337 to 345 of the Annual Report 2019 of the Volkswagen Group;
- the audited consolidated financial statements of Volkswagen AG as of and for the year ended December 31, 2018, as included on pages 193 to 328 of the Annual Report 2018 of the Volkswagen Group, and the Auditor’s Report, as included on pages 330 to 339 of the Annual Report 2018 of the Volkswagen Group;
- the Responsibility Statements, as included on page 336 of the Annual Report 2019 of the Volkswagen Group, and page 329 of the Annual Report 2018 of the Volkswagen Group;
- the unaudited condensed consolidated interim financial statements of Volkswagen AG as of and for the three-month period ended March 31, 2020, as included on pages 27 to 51 of the Interim Report of the Volkswagen Group January—March 2020 and the Review Report, as included on pages 52 to 53 of the Interim Report of the Volkswagen Group January—March 2020; and
- the following sections of the Interim Report of the Volkswagen Group January—March 2020 (the “**2020 Q1 Report Excerpts**”):

Interim Group Management Report	Page
Business Development	7–15
Results of Operations, Financial Position and Net Assets (but excluding the “Report on Expected Developments, Risks and Opportunities” subsection on page 20)	16–21
Brands and Business Fields	23–25

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 2020 Q1 Report Excerpts by visiting Volkswagen's website at:

- <https://annualreport2019.volkswagenag.com/servicepages/filelibrary/files/collection.php>;
- <https://annualreport2018.volkswagenag.com/servicepages/filelibrary/files/collection.php>;
- https://www.volkswagenag.com/ir/Q1_2020_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 2020 Q1 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 state-

ments 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 impact of the SARS-CoV-2 pandemic and government measures to contain it;
- 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 2019, Volkswagen Group achieved sales revenue of EUR 252,632 million, operating result of EUR 16,960 million and earnings after tax of EUR 14,029 million. In the first three months of 2020, Volkswagen Group achieved sales revenue of EUR 55,054 million, operating result of EUR 904 million and earnings after tax of EUR 517 million. Volkswagen Group delivered 10,975 thousand vehicles to its customers worldwide in 2019 and 2,006 thousand vehicles in the first three months of 2020.

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. In addition, the Volkswagen Group offers a wide range of financial services, including dealer and customer financing, vehicle leasing, direct 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 light commercial vehicles of the Volkswagen Commercial Vehicles brand and the genuine parts business. The Commercial Vehicles business area primarily comprises the development, production and sale of trucks and buses from the Scania and MAN brands, the corresponding genuine parts business and related services. The 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, vehicle leasing, direct banking and insurance activities, fleet management and mobility offerings.

Effective from January 1, 2019, light commercial vehicles of the Volkswagen Commercial Vehicles brand are no longer allocated to the Commercial Vehicles segment but reported under the Passenger Cars and Light Commercial Vehicles segment. The Commercial Vehicles segment continues to correspond to the Commercial Vehicles Business Area but excludes the Volkswagen Commercial Vehicles brand. These changes do not impact reporting under the Automotive Division.

As a result, unless otherwise indicated, the 2019 and the 2018 financial figures regarding the segment reporting structure included in this Offering Memorandum have been taken or derived from the 2019 Annual Financial Statements. The adjusted 2017 financial figures as well as comparisons only between the years 2018 and 2017 regarding the segment reporting structure have been taken or derived from the 2018 Annual Financial Statements. As a result, not all figures may be comparable.

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:

	For the year ended December 31, (unaudited, unless otherwise indicated)								
	Unit sales ⁽¹⁾			Sales revenue ⁽¹⁾			Operating result ⁽¹⁾		
	2019	2018	2017	2019	2018	2017 ⁽²⁾	2019	2018	2017 ⁽²⁾
	(Thousand vehicles)			(EUR million)			(EUR million)		
Volkswagen Group ⁽³⁾	10,956	10,900	10,777	252,632 ⁽⁴⁾	235,849 ⁽⁴⁾	229,550 ⁽⁴⁾	16,960 ⁽⁴⁾	13,920 ⁽⁴⁾	13,818 ⁽⁴⁾
of which:									
Automotive Division ⁽⁵⁾	10,956	10,900	10,777	212,473	201,067	195,817	13,748	11,127	11,146
Financial Services Division ⁽⁶⁾	-	-	-	40,160	34,782	33,733	3,212	2,793	2,673

⁽¹⁾ Unaudited, except where indicated.

- (2) Adjusted for changes in accounting policy (see "Summary — Overview of Consolidated Financial Information of the Volkswagen Group").
- (3) 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 a proportionate operating result of EUR 4,425 million, EUR 4,627 million and EUR 4,746 million for the years ended December 31, 2019, 2018 and 2017, respectively.
- (4) Audited.
- (5) Sales revenue and operating result include allocation of consolidation adjustments between the Automotive and Financial Services Divisions.
- (6) Financial Services Division corresponds to the Financial Services segment, figures are audited.

	For the three months ended March 31, (unaudited)					
	Unit sales		Sales revenue		Operating result	
	2020	2019	2020	2019	2020	2019
	(Thousand vehicles)		(EUR million)		(EUR million)	
Volkswagen Group ⁽¹⁾	1,937	2,583	55,054	60,012	904	3,868
of which:						
Automotive Division ⁽²⁾	1,937	2,583	44,650	50,777	197	3,166
Financial Services Division	–	–	10,404	9,236	707	701

(1) 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 a proportionate operating result of EUR 276 million and EUR 1,074 million for the three-month periods ended March 31, 2020 and 2019, respectively.

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

Volkswagen Group's financial reporting comprises four reportable segments: the Passenger Cars and Light Commercial Vehicles 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 and Light Commercial Vehicles 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, 2019						
	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
	(EUR million)						
Sales revenue	202,273	26,444	3,997	40,160	272,875	-20,242	252,632
Segment result (operating result)	15,610	1,653	-93	3,212	20,381	-3,422	16,960
as a percentage of sales revenue ⁽¹⁾	7.7	6.3	-2.3	8.0	–	–	6.7
Investments in intangible assets, property, plant and equipment, investment property (capex)	17,098	1,460	197	223	18,977	423	19,401

(1) Unaudited.

For the three months ended March 31, 2020 (unaudited)

	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
	(EUR million)						
Sales revenue	43,298	5,564	922	10,404	60,188	-5,133	55,054
Segment result (operating result)	1,391	121	-44	707	2,175	-1,271	904
as a percentage of sales revenue	3.2	2.2	-4.8	6.8	-	-	1.6

In May 2018, Volkswagen introduced an additional internal operational structure. 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. Decisions will be taken at the lowest competent level, close to business operations, in line with the principle of subsidiarity.

The Volkswagen Group now collaborates across six operating units and the China region, in addition to the Finance & IT, Human Resources and Integrity and Legal Affairs divisions. The units consist of the "Volume", "Premium" "Sport & Luxury" and, "Truck & Bus" brand groups, as well as the Components & Procurement business and 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. The collaboration between the MAN and Scania vehicle brands is coordinated within the TRATON GROUP. Components & Procurement intends to act as one central unit, which spans across and supports all brands. The Financial Services business has been combined into a single unit across the Group.

In 2019, no material modifications or changes of Volkswagen Group's organizational or financial reporting structure were implemented as a result of this revision of Volkswagen's internal operational structure.

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):

Sales revenue from external customers by region (unaudited)

	For the three months ended March 31		For the year ended December 31		
	2020⁽¹⁾	2019⁽¹⁾	2019⁽¹⁾	2018⁽¹⁾	2017⁽²⁾
	(%)				
Germany	19.9	20.3	19.4	18.6	19.3
Europe and Other Markets (excluding Germany)	42.5	43.4	41.6	42.5	42.9
North America	17.6	17.0	17.1	16.1	16.4
South America	4.3	3.9	4.5	4.4	4.4
Asia-Pacific	15.6	15.5	17.4	18.4	17.0

⁽¹⁾ Hedging transactions relating to sales revenues in foreign currency are not allocated to regions.

⁽²⁾ Adjusted for changes in accounting policy (see "—Overview of Consolidated Financial Information of the Volkswagen Group").

Volkswagen had an average of 667,748 employees worldwide (including the Chinese joint ventures) in 2019. As of March 31, 2020, Volkswagen employed a total of 670,011 employees worldwide.

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 of the 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.

Issuer	Volkswagen Group of America Finance, LLC
Guarantor	Volkswagen Aktiengesellschaft
Offered Securities	U.S.\$1,500,000,000 aggregate principal amount of 2.900% Guaranteed Notes due 2022 (the “ A Notes ”), U.S.\$1,000,000,000 aggregate principal amount of 3.125% Guaranteed Notes due 2023 (the “ B Notes ”), U.S.\$1,000,000,000 aggregate principal amount of 3.350% Guaranteed Notes due 2025 (the “ C Notes ”) and U.S.\$500,000,000 aggregate principal amount of 3.750% Guaranteed Notes due 2030 (the “ D Notes ” and, together with the A Notes, the B Notes and the C Notes, the “ Notes ”).
Guarantee	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.
Issue Date	May 13, 2020
Maturity Date	The A Notes will mature on May 13, 2022, the B Notes will mature on May 12, 2023, the C Notes will mature on May 13, 2025 and the D Notes will mature on May 13, 2030.
Ranking	<p>The Notes will be unsecured senior obligations of the Issuer and will:</p> <ul style="list-style-type: none">• rank <i>pari passu</i> in right of payment with all of the Issuer’s existing and future unsecured senior indebtedness;• rank senior in right of payment to all of the Issuer’s existing and future subordinated indebtedness;• 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• be effectively subordinated in right of payment to all existing and future indebtedness and other liabilities of each of the Issuer’s subsidiaries. <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>
Interest Rate	The A Notes, the B Notes, the C Notes and the D Notes will bear interest at the rate of 2.900%, 3.125%, 3.350% and 3.750% per annum, respectively.
Interest Payment Days	Interest on the A Notes, the C Notes and the D Notes will be payable semi-annually in arrear on May 13 and November 13 of each year, commencing on November 13, 2020. Interest on the B Notes will be payable semi-annually in arrear on May 12 and November 12 of each year, commencing on November 12, 2020 (short first coupon).
Regular Record Dates for Interest ..	The close of business on the business day prior to the Interest Payment Date.
Business Day	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.

Day Count Fraction	30/360 in respect of the A Notes, the B Notes, the C Notes and the D Notes.
Day Count Convention	Following unadjusted in respect of the A Notes, the B Notes, the C Notes and the D Notes.
Optional Redemption	The A Notes, the B Notes, the C Notes or the D 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.
Tax Redemption	The A Notes, the B Notes, the C Notes or the D 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	<p>The Notes will contain covenants:</p> <ul style="list-style-type: none"> • 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. <p>These covenants will be subject to a number of important qualifications and limitations.</p>

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.\$3,988,040,000 and will be used by the Volkswagen Group for general corporate purposes, including working capital requirements.
Ratings	<p>The Guarantor's long-term credit ratings are A3 (rating under review from stable outlook) (Moody's Investors Service Ltd.) and BBB+ (negative) (Standard & Poor's Ratings Services).</p> <p>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.</p>
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 " <i>Purchase and Transfer Restrictions</i> ".
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 or the D Notes other than the issue price and, if applicable, 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 or the D Notes, as the case may be, and references in these Conditions to the "A Notes", the "B Notes", the "C Notes" or the "D 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.
Denominations	The Notes will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Fiscal and Paying Agent	Citibank, N.A., London Branch Agency & Trust Citigroup Centre Canada Square, Canary Wharf London E14 5LB United Kingdom			
Registrar	Citigroup Global Markets Europe AG Agency & Trust Department 5th Floor Reuterweg 16 60323 Frankfurt am Main Germany			
Governing Law	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.			
Risk Factors	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> ".			
Notes due 2022 (A Notes)	Rule 144A		Regulation S	
	CUSIP	928668BC5	CUSIP	U9273ACY9
	ISIN	US928668BC59	ISIN	USU9273ACY92
	Common		Common	
	Code	217422558	Code	217422876
Notes due 2023 (B Notes)	Rule 144A		Regulation S	
	CUSIP	928668BD3	CUSIP	U9273ACZ6
	ISIN	US928668BD33	ISIN	USU9273ACZ67
	Common		Common	
	Code	217424640	Code	217425034
Notes due 2025 (C Notes)	Rule 144A		Regulation S	
	CUSIP	928668BE1	CUSIP	U9273ADA0
	ISIN	US928668BE16	ISIN	USU9273ADA08
	Common		Common	
	Code	217425760	Code	217426855
Notes due 2030 (D Notes)	Rule 144A		Regulation S	
	CUSIP	928668BF8	CUSIP	U9273ADB8
	ISIN	US928668BF80	ISIN	USU9273ADB80
	Common		Common	
	Code	217427355	Code	217427789

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, 2019, 2018 and 2017 and the unaudited condensed consolidated interim financial information of the Volkswagen Group as of and for the three-month periods ended March 31, 2020 and 2019 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.

Unless otherwise indicated, the 2019 and the 2018 financial figures included in this Offering Memorandum have been taken or derived from the 2019 Annual Financial Statements. The 2017 financial figures have been taken or derived from the 2018 Annual Financial Statements. As a result, not all figures may be comparable.

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 2020 Q1 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, 2019. The application of IFRS 9 “Financial Instruments” and IFRS 15 “Revenue from Contracts with Customers” became mandatory as of January 1, 2018.

As of January 1, 2019, Volkswagen Group has adopted the IFRS 16 accounting standard (IFRS 16 “Leases”) in the presentation of its financial statements, using the modified retrospective method. The main objective of IFRS 16 is to recognize all leases on the balance sheet. It establishes that lessees are no longer required to classify their leases as either finance leases or operating leases. They will instead generally be required to recognize a right-of-use asset and a lease liability for all leases on the balance sheet.

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 classified 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 2017 figures were adjusted. This resulted in an effect of EUR -0.2 billion on earnings after tax in fiscal year 2017.

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 are recognized at a later point in time than under the previous accounting treatment. Other provisions and other liabilities were 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 2017 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 2017 distribution expenses were therefore adjusted by EUR 1.1 billion. There was a corresponding decrease in sales revenue.

For more information, see “*Effects of new and amended IFRSs*” in the notes to the Financial Statements 2019 and “*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 2017 figures, wherever applicable, are labeled as “Adjusted for changes in accounting policy”.

Income Statement Information

	For the three months ended March 31		For the year ended December 31		
	2020	2019	2019	2018	2017 ⁽³⁾
	(in EUR million)				
	(unaudited)				
Sales revenue	55,054	60,012	252,632	235,849	229,550
Cost of sales	-45,824	-48,324	-203,490	-189,500	-186,001
Gross result	9,231	11,688	49,142	46,350	43,549
Distribution expenses	-4,472	-4,941	-20,978	-20,510	-20,859
Administrative expenses	-2,445	-2,271	-9,767	-8,819	-8,126
Net other operating result ⁽¹⁾	-1,409	-608	-1,437	-3,100	-745
Operating result	904	3,868	16,960	13,920	13,818
Share of the result of equity-accounted investments	129	808	3,349	3,369	3,482
Interest result and other financial result ⁽²⁾	-351	-605	-1,953	-1,646	-3,628
Financial result	-222	203	1,396	1,723	-146
Earnings before tax	682	4,071	18,356	15,643	13,673
Income tax expense	-165	-1,018	-4,326	-3,489	-2,210
Earnings after tax of which attributable to	517	3,053	14,029	12,153	11,463
Noncontrolling interests	-6	7	143	17	10
Volkswagen AG hybrid capital investors	117	134	540	309	274
Volkswagen AG shareholders	405	2,912	13,346	11,827	11,179

⁽¹⁾ Total of: other operating income and other operating expenses; unaudited.

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

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

Balance Sheet Information

	As of March 31	As of December 31		
	2020	2019	2018	2017
	(in EUR million)			
	(unaudited)			
Assets				
Noncurrent assets	297,752	300,608	274,620	262,081
Intangible assets	66,019	66,214	64,613	63,419
Property, plant and equipment	64,507	66,152	57,630	55,243
Lease assets	49,910	48,938	43,545	39,254
Financial services receivables	84,254	86,973	78,692	73,249
Investments, equity-accounted investments and other equity investments, other receivables and financial assets ⁽¹⁾	33,061	32,331	30,140	30,916
Current assets	193,399	187,463	183,536	160,112
Inventories	48,877	46,742	45,745	40,415
Financial services receivables	57,028	58,615	54,216	53,145
Other receivables and financial assets ⁽²⁾	39,698	38,620	37,557	32,040
Marketable securities	18,468	16,769	17,080	15,939
Cash, cash equivalents and time deposits	28,449	25,923	28,938	18,457
Assets held for sale	879	795	–	115
Total assets	491,151	488,071	458,156	422,193
Equity and Liabilities				
Equity	125,886	123,651	117,342	109,077
Equity attributable to Volkswagen AG shareholders ⁽³⁾	111,495	109,117	104,522	97,761
Equity attributable to Volkswagen AG hybrid capital investors	12,576	12,663	12,596	11,088
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	124,071	121,781	117,117	108,849
Noncontrolling interests	1,815	1,870	225	229
Noncurrent liabilities	182,212	196,497	172,846	152,726
Financial liabilities	103,139	113,556	101,126	81,628
Provisions for pensions	36,666	41,389	33,097	32,730
Other noncurrent liabilities ⁽⁴⁾	42,408	41,551	38,623	38,368
Current liabilities	183,053	167,924	167,968	160,389
Put options and compensation rights granted to noncontrolling interest shareholders	–	–	1,853	3,795
Financial liabilities	103,334	87,912	89,757	81,844
Trade payables	22,035	22,745	23,607	23,046
Other current liabilities ⁽⁵⁾	57,327	56,896	52,750	51,705
Liabilities associated with assets held for sale	356	370	–	–
Total equity and liabilities	491,151	488,071	458,156	422,193

⁽¹⁾ Including noncurrent tax receivables, noncurrent deferred tax assets; unaudited.

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

⁽³⁾ Total of: subscribed capital, capital reserve, retained earnings, other reserves; unaudited.

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

⁽⁵⁾ 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 three months ended March 31		For the year ended December 31		
	2020	2019	2019	2018	2017 ⁽¹⁾
	(in EUR million)				
	(unaudited)				
Cash and cash equivalents at beginning of period	24,329	28,113	28,113	18,038	18,833
Cash flows from operating activities	1,894	2,849	17,983	7,272	-1,185
Cash flows from investing activities	-6,588	-4,196	-21,146	-21,590	-16,508
Cash flows from financing activities	7,527	-7,399	-865	24,566	17,625
Effect of exchange rate changes on cash and cash equivalents	-267	372	243	-173	-727
Change of loss allowance within cash and cash equivalents	-1	1	1	-1	-
Net change in cash and cash equivalents	2,565	-8,373	-3,784	10,075	-796
Cash and cash equivalents at end of period	26,894	19,740	24,329	28,113	18,038
Securities, loans and time deposits	30,325	28,999	29,099	28,036	26,291

⁽¹⁾ Adjusted for changes in accounting policy (see "Summary—Overview of Consolidated Financial Information of the Volkswagen Group").

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.

RISK FACTORS REGARDING VOLKSWAGEN AKTIENGESELLSCHAFT AND VOLKSWAGEN GROUP

2.1 Coronavirus impact

2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*

In December 2019, a novel strain of coronavirus ("SARS-CoV-2") was reported to have surfaced in Wuhan, China. SARS-CoV-2 has since spread to numerous countries globally, including Volkswagen's primary markets and the location of its principal operations, Germany and Europe as a whole and the United States. On March 11, 2020 the World Health Organization declared SARS-CoV-2 a pandemic. The potential impact and duration of SARS-CoV-2 or another pandemic could have sustained repercussions across regional and global economies, pushing some of them into recessions, and financial markets.

The global impact of the outbreak continues to evolve rapidly and, as cases of the virus continue to be identified, many countries, including China, the member states of the European Union and the United States, have reacted by instituting quarantines and restrictions on travel. Such actions have caused a material deterioration of the global economy and the financial markets, with serious negative consequences for both advanced economies and emerging markets, including all of Volkswagen's core markets, disrupting global supply chains, severely decreasing consumer demand and spending, and adversely impacting a number of industries, including the automobile industry.

The effects of the SARS-CoV-2 outbreak have had and may continue to have a material adverse effect on Volkswagen's business and results of operations, and, depending on the duration of the outbreak, national responses, the resulting economic downturn, and the shape of any potential recovery could adversely impact Volkswagen's ability to successfully operate in the future due to, among other factors:

- depressed consumer demand, which has led to continued significant declines in vehicle sales in all of Volkswagen's primary markets, adversely impacting Volkswagen's sales to retail and corporate customers, which may be compounded by cancellations of lease and sales contracts due to the economic downturn and import restrictions or other such measures intended to mitigate the economic effects of the SARS-CoV-2 pandemic on national economies;
- dealership closures and quarantine or other measures aimed at preventing the spread of the virus, which may materially affect Volkswagen's ability to sell its products and services through its customary channels; new sales channels may need to be implemented, which may not prove successful;
- a further slowdown or continued suspension in production at Volkswagen's facilities worldwide, including joint ventures in China or at Volkswagen's plants in Germany, or the slowdown or suspension of production at other Volkswagen facilities or further such measures as may be necessary in the future;

- adverse impacts on Volkswagen's ability to operate in affected areas, or delays or disruptions in the supply chain of automotive parts, components, commodities and other materials that are needed for plants and factories to operate effectively and allow Volkswagen to meet targets and complete orders in a timely manner, or impact Volkswagen's ability to comply with regulatory obligations (e.g., homologation, licenses or approvals) leading to reputational harm and regulatory issues, fines or sales stops;
- the current material deterioration of the global economy and significant drop in consumer demand, which may lead the Financial Services Division to conclude fewer leasing and financing agreements and could additionally cause a significant decrease in residual values for leased vehicles or vehicles financed with a balloon rate and return option. An increase in residual value risk could cause Volkswagen to increase its existing loss provisioning for residual value risks, while fewer leasing and financing contracts sales could have a significant negative impact on the earnings and financial position of the Financial Services Division and thus also on the Volkswagen Group;
- difficulty accessing debt and equity capital on attractive terms, or at all, and a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions, which may affect Volkswagen's ability to access capital necessary to fund business operations, meet financial obligations or replace or renew maturing liabilities on a timely basis, and may adversely affect the valuation of financial assets and liabilities, any of which could affect Volkswagen's liquidity, ability to meet capital expenditure requirements or have a material adverse effect on Volkswagen's business, financial condition, results of operations and cash flows;
- the instability of the global financial markets and availability of internal and/or external resources may delay or disrupt some of Volkswagen's cooperation with joint ventures and its acquisition and disposal activities with external partners;
- a decline in the continued service and availability of skilled workforce and personnel, including executive officers and other leaders that are part of Volkswagen's management team and Volkswagen's ability to recruit, attract and retain skilled personnel. To the extent Volkswagen's workforce, personnel and management are impacted in significant numbers by the outbreak of disease and are not available to conduct work, Volkswagen's business and operating results may be further negatively impacted;
- disruptions, delays or other impairments to Volkswagen's internal business processes, in particular due to working from home schemes being implemented at Volkswagen and potential increased risks in terms of IT exposure, data security and increased risk of cyberattacks;
- supply chain disruptions, which have affected and may continue to affect Volkswagen's alternative drivetrain technology research activities, which may delay the scheduled rollout of products based on such new technologies and may impede Volkswagen's ability to develop and test new technologies needed to comply with intensifying environmental rules (e.g., CO₂ targets); and
- continued deterioration of the economy in Volkswagen's core markets and other knock-on effects from the SARS-CoV-2 pandemic may frustrate the attainment of Volkswagen's strategic goals, which could have a material adverse effect on Volkswagen's reputation, general business activities, net assets, financial position and results of operations.

In March 2020, Germany enacted emergency legislation to mitigate the negative economic effects of the SARS-CoV-2 pandemic. Among other measures, section 240 of the introductory law to the German civil law code (*Einführungsgesetz zum Bürgerlichen Gesetzbuch*) was amended to allow lessees that qualify as consumers or micro-sized enterprises under certain circumstances to defer payments under lease or financing contracts, as relevant, until June 30, 2020 (or such later date as extended by the German government). There is a risk that Volkswagen lessees or borrowers may delay or seek to delay payments on existing leases or financing agreements under the emergency legislation. The introduction of similar legislation, and/or amendments to existing legislation, intended to mitigate the SARS-CoV-2 pandemic and its adverse economic consequences can be expected in the markets in which Volkswagen operates. It is currently not possible to estimate or quantify any effects such legislative measures may have on Volkswagen's business, financial condition, results of operations and cash flows. Even if the impact on Volkswagen of the SARS-CoV-2 pandemic is less severe than expected, future epidemics or pandemics could potentially cause further significant damage to the global economy and to Volkswagen's business.

The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of SARS-CoV-2. Nevertheless, SARS-CoV-2 presents material uncertainty and risk and has had and could continue to have material adverse effects on Volkswagen's revenues, net assets, cash flows, financial condition and results of operations.

2.2 Macroeconomic, sector specific, markets and sales risks

2.2.1 Demand for Volkswagen's products and services depends upon the overall economic situation; restrictions on trade and increasingly protectionist tendencies can result in a negative trend in markets and impact Volkswagen's unit sales.

The sales volume of Volkswagen's products and services depends upon the general global economic situation. Economic growth and developments in advanced economies and emerging markets have been endangered by volatility in the financial and commodity markets, restrictions on trade and increasingly protectionist tendencies 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 have in the past, and may in the future have a negative impact on consumption, damaging the macroeconomic environment.

Particular risks to the economic environment, international trade and demand for Volkswagen's products may arise from rising protectionist sentiment in Volkswagen's key markets and the introduction of further tariff and non-tariff barriers or similar measures due to increasing protectionist tendencies. For example, the United Kingdom's decision to leave the European Union ("**Brexit**"), trade tensions between the United States and China, or a reorientation of the United States economic policy (any introduction of additional 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 United States-Mexico-Canada Agreement (USMCA), previously known 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. In February 2019, the U.S. Commerce Department declared European cars a threat to US national security. Although the U.S. administration delayed a decision on whether to impose tariffs on foreign vehicles, such tariffs could still be imposed, adversely affecting Volkswagen's sales to the United States. Any retaliatory measures by regional or global trading partners could further 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 global or regional conflicts, armed confrontations, terrorist activities, cyber-attacks, natural catastrophes or the spread of infectious diseases (such as the current spread of SARS-CoV-2) 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 or economic disruptions in countries and regions that are major economic centers or are relevant to the global supply chain, in particular US and China, have an immediate effect on the global economy and thus pose a key risk for Volkswagen's businesses.

Recently, the effects of the SARS-CoV-2 pandemic have resulted in a material deterioration of the global economy and financial markets, with serious negative consequences for both advanced economies and emerging markets, affecting all of Volkswagen's core markets. Many of Volkswagen's key markets are already in, or are expected to soon be in economic recession. The effects of the SARS-CoV-2 pandemic may exacerbate the risks arising from volatility in the commodity markets and restrictions on trade and may increase protectionist tendencies and structural deficits. The SARS-CoV-2 pandemic's impact on the global economy has had a marked adverse effect on consumption and increases the likelihood that consumption could further decline in the future. Volkswagen believes that these developments have had, and could continue to have adverse effects on its business, financial condition and results of operation. See also "*2.1.1 The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*"

2.2.2 The larger share of Western Europe, particularly Germany, and of China in Volkswagen's sales exposes Volkswagen to these regions' overall economic development and competitive pressures. The material deterioration of economic conditions and financial markets in these regions caused by spread of SARS-CoV-2 have resulted and may continue to result in a marked decline in consumer demand and investment activity and has significantly adversely affected, and may continue to affect Volkswagen's business.

In 2019, Volkswagen delivered 32.1% of its passenger cars to customers in Western Europe. Also, in 2019, 11.7% of Volkswagen's passenger cars were delivered to customers in Germany. In the same year, Volkswagen delivered 41.3% of its passenger cars to customers in China. A sustained decrease in demand for Volkswagen's products and services in Western Europe, especially in Germany, or in China 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, recession, large-scale government austerity measures or tax increases, could lead to significant long-term economic weakness.

In addition, Brexit has had consequences for macroeconomic growth and outlook in the United Kingdom and Europe, affected exchange rates and negatively impacted demand for Volkswagen's products. Depending on the future relationship between the UK and the EU, economic conditions in the United Kingdom, the European Union and global markets, including currency markets, may be adversely affected by reduced growth and heightened volatility. If the United Kingdom and the European Union fail to reach an agreement on a future trade relationship, it may result in increased trade barriers between the European Union and the United Kingdom. Any such trade barriers could have a negative impact on volumes and costs both for Volkswagen's vehicles and components produced in the European Union for sale in the United Kingdom, and vice versa. A sustained economic downturn in the United Kingdom as a result of Brexit would furthermore adversely affect Volkswagen's sales in one of its largest individual markets in Western Europe. 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.

A slowdown of the Chinese economy, partly as a result of the trade dispute between China and the US, but mainly due to the rapid spread of SARS-CoV-2 pandemic, has in recent months led to a severe decline in demand for automobiles, affecting Volkswagen's business. This decline in demand could worsen. Further, the slowdown in the Chinese economy could have a negative impact on the world economy and international capital markets, affecting developed and emerging economies. Additionally, further aggravation of political conflicts and increased nationalist and protectionist behavior, could also result in reduced demand for Volkswagen's products and services in China.

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. Alongside this, China's automotive industry is intensely competitive, with many domestic and foreign manufacturers attempting to maintain or grow their market share, for example, through marketing incentives. A further increase in competitive pressures in Western European or Chinese markets could result in falling prices and decreased demand for Volkswagen's vehicles, which could adversely affect sales, operating margins and cause a loss of market share.

Recently, the effects of the SARS-CoV-2 pandemic caused a significant worldwide economic downturn, affecting among others, Europe, Germany and China. This led to a severe decline in demand for automobiles and other goods, and, depending on the length and severity of the pandemic, could lead to significant prolonged long-term economic weakness or recession and declines in automobile demand. Further global spread and continued severity of the SARS-CoV-2 pandemic could prolong this decline or cause it to worsen. This has had and could continue to have material adverse effects on Volkswagen's revenues, net assets, cash flows, financial condition and results of operations. See also "2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*"

2.2.3 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 main business, such as autonomous 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 its business could be harmed.

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 the US, China or India, 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.

As a result of the SARS-CoV-2 pandemic, competitive pressures in the automotive industry could increase significantly and Volkswagen's ability to sell its products and services through its customary channels may be adversely affected for some time. This could result in new sales channels needing to be implemented, which may not prove successful. Furthermore, the pandemic's effect on the global economy may trigger changes to customer demand characteristics that Volkswagen may not be able to successfully predict or adapt to as quickly and effectively as some of its competitors. See also "2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*"

2.2.4 A decline in retail customers' purchasing power or in corporate customers' financial situation and willingness to invest as well as increased price pressure 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. Alternatively, the government sales support schemes may focus on market segments which are not beneficial for Volkswagen.

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 in the past and may in the future offer 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.

The material deterioration in the global economy and financial markets, including increases in unemployment levels and declines in income and personal wealth caused by the SARS-CoV-2 pandemic have resulted and may continue to result in significant declines in demand for automobiles, affecting Volkswagen's business, revenues, net assets, cash flows, financial condition and results of operations. The global spread and severity of the SARS-CoV-2 pandemic could prolong this decline in demand or cause it to worsen. These effects will be exacerbated the longer the SARS-CoV-2 pandemic lasts. See also "2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*"

2.2.5 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.

Several 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 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.

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. A prolonged economic slow-down 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.

The impact of the SARS-CoV-2 pandemic on local economic growth in these markets has caused, and may continue to cause a significant decline in demand for Volkswagen's products, causing Volkswagen to sell fewer products in these markets and/or obtain lower prices than expected. Should the SARS-CoV-2 pandemic result in a continued decline in, or lack of, economic growth in local markets, this could also lead to significantly intensified price competition, rising inventories and excess production capacity. See also "2.1.1 The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues."

2.2.6 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. Generally, 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 ("CO₂") balance of Volkswagen's fleet and Volkswagen could incur higher costs in meeting the applicable CO₂ targets. Volkswagen also faces growing pressure 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 self-owned 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. 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.

2.2.7 *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 several 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 a negative 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, would necessitate 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.

2.2.8 *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 35.0% in 2019 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, 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 or financing agreements.

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.

At this time, Volkswagen is not able to fully determine the impact that the SARS-CoV-2 pandemic may have on the financial position of its corporate customers. The sensitivity of this customer group to the material deterioration of the global economy and the financial markets resulting from the SARS-CoV-2 pandemic has caused and may continue to cause Volkswagen to sell significantly fewer vehicles to corporate customers, which in turn may cause the Financial Services Division to conclude fewer leasing or financing agreements. If corporate customers experience significant losses or a deterioration of their financial position or insolvency, this may adversely impact Volkswagen's business, revenues, net assets, cash flows, financial condition and results of operations. See also "2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*"

2.2.9 *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 "2.6.1 *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.*"

2.2.10 *Volkswagen faces regulatory risks in the aftermarkets 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 is entitled to limit the number of dealers to those 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 the amendment of the Euro 5/Euro 6 legislation in the form of Regulation (EC) No. 2018/858 effective September 1, 2020, Volkswagen could in the future be obliged to grant independent operators 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 aftermarkets.

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.

2.3 *Research and development risks*

2.3.1 *Volkswagen's future business success depends on its ability to develop new, attractive and energy-efficient products; failure to develop products in line with demand and regulations, especially in view of e-mobility and digitalization could materially impact Volkswagen's operations*

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 com-

pliance 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. See also: "2.5.1 Volkswagen is subject to a range of different environmental regulatory and legal requirements worldwide that are constantly changing; and not meeting CO2-related regulations could lead to substantial fees, penalties, damages and other materially adverse effects."

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 future regulations and the extent of governmental support, uncertainties regarding the widespread adoption of electric vehicles and their performance, 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 sufficiently increase its 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, for example as a result of the SARS-CoV-2 pandemic, 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.

The outbreak of SARS-CoV-2 pandemic, and the resulting supply chain disruptions, have affected and may continue to further affect Volkswagen's alternative drivetrain technology research and development activities, causing delays. See also "2.1.1 The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues."

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.

2.3.2 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, alternative drivetrains, digital and autonomous driving, mobility services as well as intensifying the focus on profitable growth. In 2019, due to accelerated developments in the industry, Volkswagen has further revised its strategy –

“TOGETHER Strategy 2025+—Focus and Speed” – with the further objective of improving the enterprise value of the Volkswagen Group. In addition to the above-mentioned areas, Volkswagen aims to focus on improving corporate governance, further increasing brand value, strengthening software expertise and leadership development.

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 economic and financial repercussions linked to the SARS-CoV-2 pandemic or the diesel issue, as discussed under “2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen’s business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*” and “2.6.1 *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.*”

2.3.3 Volkswagen faces challenges in connection with stricter processes/requirements for vehicle approval (homologation) and new test procedures (e.g. WLTP).

The vehicle approval process (homologation) and the implementation of increasingly stringent emission and consumption regulations are becoming increasingly more complex and time-consuming and may vary by country. 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, periodic regulatory changes, the need to develop new harmonized internal standards to comply with regulations, and stricter enforcement by regulators globally. In the past, Volkswagen was required and may in the future be required to devote significant resources to develop and maintain the required internal processes.

For example, beginning with September 2017, a new more time-consuming test procedure has applied in the EU to all new vehicles with the transition from the “New European Driving Cycle” (i.e. test procedures used previously in the EU to assess the emission levels and fuel economy) to the new Worldwide Harmonized Light-Duty Vehicle Test Procedure (“**WLTP**”). The transition has caused 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, a temporary decline in sales and build-up in inventory. This has adversely impacted Volkswagen’s results in the 2018 and 2019 financial year and could continue to have a material adverse effect on Volkswagen’s general business activities, net assets, financial position and results of operations.

Furthermore, the European Real Driving Emissions (RDE) regulation for passenger cars and light commercial vehicles imposed uniform limits to new vehicle types across the EU since September 2017 onwards, for nitrogen oxide and particulate emissions in real road traffic. The RDE test procedure is fundamentally different from past emission standards. Stricter RDE processes and requirements have resulted in certain challenges relating to test criteria and homologation for Volkswagen.

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. This, in turn, could have a material adverse effect on Volkswagen’s general business activities, net assets, financial position and results of operations.

2.4 Operational risks

2.4.1 *Volkswagen operates complex IT systems and is exposed to risks in the areas of cyber security and new regulatory requirements for IT.*

Volkswagen operates comprehensive and complex IT systems. IT risks exist in relation to confidentiality, data integrity and availability, and can arise in the form of unauthorized access to, modification of and extraction of sensitive electronic corporate or customer data as well as limited systems availability as a consequence of downtime and disasters.

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 (GDPR) which entered into force in May 2018, and new vehicle and software development requirements are expected as a result of the United Nations Economic Commission for Europe (UNECE) cyber security regulation (WP.29). In addition, Volkswagen is providing more services through private and public clouds, increasing the Group's dependencies on third parties such as cloud vendors. Development and provisioning of cloud software and services is characterized by rapid iterations and rollouts. As a result, there is an increased risk that existing IT compliance and testing procedures will not adequately mitigate IT risks.

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.

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. Volkswagen expects further integration and implementation of the Internet of Things (IoT) infrastructure that may increase the dependency between Volkswagen's infrastructure and that of its partners. 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.

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.

2.4.2 *Any unauthorized control or manipulation of Volkswagen's in-vehicle systems could impact the safety of Volkswagen 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, or undiscovered software flaws or other malfunctions, 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.

2.4.3 *Volkswagen's future business success depends on its ability to maintain high quality and Volkswagen may incur substantial costs as a result of having to comply with government-prescribed standards for vehicles and components.*

In order to maintain high quality standards for its products and to comply with government-prescribed standards, such as safety, emissions or environmental standards, Volkswagen incurs substantial costs for monitoring and quality assurance. Since Volkswagen applies a modular component concept in vehicle production, Volkswagen's risk is increased because individual components are used in several different models and brands.

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. Competent authorities have begun assessing potential actions as a result of a finding of excessive lead content in vehicle components supplied to automotive manufacturers, including Volkswagen, by their suppliers. These components have been used in vehicles sold by Volkswagen and other automotive manufacturers. There is a risk that competent authorities may impose, among other things, waste disposal orders and/or fines against Volkswagen.

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 "2.6.1 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." In the future, it cannot be ruled out that Volkswagen may experience 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.

2.4.4 *If Volkswagen 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, Volkswagen's procurement, production, transport and service chains could be interrupted or impaired.*

Volkswagen's business depends, among other things, on the timely availability of automotive parts and components. 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. Recently, the increasing technical complexity and Volkswagen's expanding use of the modular toolkit system resulted in an increased need for high-grade supplier components and software of impeccable quality.

Volkswagen generally sources 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 fulfil delivery obligations. This risk could have a material financial impact on the Volkswagen Group. In addition, quality problems may necessitate technical measures involving a consid-

erable 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 fulfil 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.

Weakening growth in the global economy, ongoing trade disputes and shifts in customer demand – especially the technological shift toward e-mobility – along with the resulting changes in order volume from suppliers are posing challenges for Volkswagen's suppliers, resulting in an increased need for financing. Additionally, if vehicle sales decline significantly across the automotive market, competition in the automotive industry will increase, which could have a significant adverse effect on the financial position of some of Volkswagen's suppliers. Some of Volkswagen's suppliers could experience financial distress or file for insolvency as a result. Financial distress in the supply chain may result in delivery bottlenecks, a loss of quality and price increases.

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 composition of materials required for the vehicle fleet. Metals used for high voltage batteries necessary for electric vehicles 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 damage to Volkswagen or instability of material supply.

The SARS-CoV-2 pandemic has had, and may continue to have, a material effect on Volkswagen's ability to obtain automotive parts and components from suppliers. A bottleneck in supply chains, caused by several factors linked to the SARS-CoV-2 outbreak, including regional, national and international restrictions on the business activities of Volkswagen suppliers and the unavailability of critical workforce, contributed to the decision to slow down or suspend production at Volkswagen's facilities worldwide. Additionally, the SARS-CoV-2 pandemic may have an impact on suppliers' resources and ability to develop and innovate, thereby adversely influencing Volkswagen's future product innovation and quality. Some of Volkswagen's suppliers have experienced and could continue to experience financial distress or file for insolvency as a result. Financial distress in the supply chain has resulted and may continue to result in delivery bottlenecks, a loss of quality and price increases. While it is currently impossible to estimate and quantify the extent of its negative effects, the SARS-CoV-2 pandemic poses a material risk to Volkswagen's supply chains and production, the sales of Volkswagen products and the delivery of its services. See also "2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*"

2.4.5 Volkswagen is exposed to risks arising from procurement of raw materials, potentially impacting its procurement, production, transport and service chains.

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 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, rhodium 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. Such planned changes may not always 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, epidemics or pandemics such as the SARS-CoV-2 pandemic 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.

2.4.6 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 the limits of 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 can 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.

Recently, the spread of the SARS-CoV-2 pandemic has had a material impact on Volkswagen's production capacity, leading to the slowdown or temporary closure of Volkswagen facilities worldwide and has presented financial challenges for Volkswagen, as its fixed operating costs could not be fully reduced in line with the decrease in revenue at the height of the pandemic. These measures may be continued or further measures may be necessary in the future. Volkswagen expects that these developments will adversely affect its revenues, net assets, cash flows, financial condition and results of operations. See also "2.1.1 The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues."

2.4.7 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 – such as the recent SARS-CoV-2 pandemic—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. In particular, risks may arise 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.

Recently, the rapid spread of the SARS-CoV-2 pandemic has led to regional, national and international restrictions on the business activities of Volkswagen and its suppliers and the unavailability of critical workforce, contributing to the decision to slow down or suspend production at Volkswagen's facilities worldwide. These measures may be continued or further measures may be necessary in the future. Volkswagen expects that these developments will adversely affect its revenues, net assets, cash flows, financial condition and results of operations. See also "2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*"

2.5 Environmental and Social risks

2.5.1 Volkswagen is subject to a range of different environmental regulatory and legal requirements worldwide that are constantly changing; and not meeting CO₂-related regulations could lead to substantial fees, penalties, damages and other materially adverse effects.

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, including the use of parts provided by suppliers.

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, CO₂ and other emission limits (such as NO_x), as well as tax regulations in relation to CO₂ or fuel 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 older vehicles (including Volkswagen's own products) may be restricted in particular cities or regions, by a lowering of regulatory limits after the vehicle's sale in response to, among other things, local air quality.

For example, the European Commission has imposed increasingly stricter regulations regarding CO₂ emissions of all passenger cars (calculated on a fleet average) offered for sale in the European Union. Since 2015, Volkswagen's entire new fleet (calculated on yearly registrations) has had to meet a limit of 130g CO₂/km. From 2020 onward, the average industry emissions from all European passenger car fleet has to meet 95g CO₂/km (while in 2021 the target will be transferred from NEDC to WLTP). For light commercial vehicles, the EU's CO₂ regulation set limits to be met from 2014 onwards; with targets having been phased in gradually—the average CO₂ emissions from newly registered commercial vehicles was limited to 175g CO₂/km. From 2020, an industry target of 147g CO₂/km will apply.

The EU targets for both passenger cars and commercial vehicles are to be further tightened from 2025. For new European passenger car fleets, a reduction of 15% compared to 2021 levels will be required from 2025 and, from 2030 onwards, a reduction of 37.5% will be required. For new light commercial vehicle fleets, from 2025, the required reductions will be 15% compared to 2021 levels and 31% from 2030 onwards. Volkswagen anticipates that targets can only be achieved through a high proportion of electric vehicles. Starting with 2020, non-fulfillment of the fleet-wide targets will incur an excess emission premium of €95 per exceeded gram of CO₂/km per vehicle sold.

At the same time, regulations governing fleet fuel consumption are in place or are being developed and introduced outside the European Union, for example in Brazil, Canada, China, India, Japan, Mexico, Saudi Arabia, South Korea, Switzerland, Taiwan and the US. In China, the fuel consumption regulations currently require an industry average fleet target of 5.0 liters/100 km, for 2020 (NEDC) and 4.6 liters/100 km in 2025 (WLTP). In addition to this legislation on fleet consumption, a so-called "new energy vehicle quota" applies in China, requiring every manufacturer to increase the share of electric vehicles in its total sales. The quota for 2020 is 12%, to be fulfilled through battery-electric vehicles, plug-in hybrids, or fuel cell vehicles with further increased targets after 2020. Finally, due to the extension of greenhouse gas legislation in the US (the law was signed in 2012), uniform fuel consumption and greenhouse gas standards apply in all federal states in the period from 2017 to 2025.

Commercial vehicles are also increasingly subject to ever stricter environmental regulations all around the world, particularly to regulations relating to climate change and vehicle emissions. The EU has set very ambitious targets for reducing CO₂ emissions within the next decade for new heavy trucks with a permitted gross weight of over 16 tonnes. The CO₂ emissions from such vehicles must be reduced by 15% by 2025 and 30% by 2030 compared to a reference value for a monitoring period from July 2019 to June 2020. If they fail to meet these targets, vehicle manufacturers will be liable to substantial penalties for the excess emissions, amounting to €4,250 per excess gram of CO₂/ton-kilometer (tkm) per vehicle for the period from 2025 to 2029 and €6,800 per excess gram of CO₂/tkm per vehicle for the period from 2030 onward.

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 sufficient quantities for Volkswagen to comply with applicable regulations.

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. Failure to comply with applicable regulations could lead to the imposition of penalties, fees, 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 "2.6.1 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."

2.5.2 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.

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

Volkswagen's success depends substantially on the quality of its employees and senior managers 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.

2.5.4 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*) applicable to Volkswagen's German locations (i.e. Wolfsburg, Braunschweig, Salzgitter, Emden, Kassel and Volkswagen Commercial Vehicles with its location in Hannover). 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. The agreement, which is generally applicable to all employees of Volkswagen, rules out compulsory redundancies during its term. In addition, Volkswagen agreed to the target to keep the number of employees at its 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. Moreover, the Board of Management and the General Works Council of Volkswagen have agreed on a pact for the future (*Zukunftspakt*), effective as of December 1, 2016. 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. 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. There can be no assurance that any benefits Volkswagen expects from the pact will be achieved.

In addition to the *Zukunftspakt*, the Board of Management and Volkswagen's General Works Council agreed on a digital transformation roadmap, with a focus on, among other things, personnel development, that ensures employees are prepared for the new challenges of digitization. The parties agreed to extend the employment guarantee through 2029 and to also include Volkswagen Sachsen GmbH alongside the existing Volkswagen German locations.

2.5.5 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.

Factors such as currency, interest rate and fluctuations in securities prices may adversely affect the value of the plan assets. 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.

2.6 Legal risks

2.6.1 **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 US. 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 second “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 governmental proceedings seeking damages, recalls and/or technical fixes for affected diesel vehicles, criminal and administrative proceedings, consumer claims and investor lawsuits were subsequently initiated in the US, Canada, Germany and the rest of the world. In the years 2015 to 2019, Volkswagen recognized expenses directly related to the diesel issue in the total amount of EUR 31.3 billion, adversely affecting its operating profit, financial position and results of operations. Work in respect of the legal proceedings that are still pending in the US and the rest of the world is ongoing, will require considerable efforts and coordination from Volkswagen, may demand significant management resources, and is expected to continue for some time. Ongoing and potential further legal proceedings related to the diesel issue could result in considerable further financial charges.

In coordination with the respective responsible authorities, Volkswagen Group is making technical measures available to rectify the diesel issue in affected diesel vehicles worldwide. In this context, within the Volkswagen Group, Volkswagen AG has development responsibility for the four-cylinder diesel engines such as the type EA 189, and AUDI AG has development responsibility for the six- and eight-cylinder diesel engines such as the type V6 3.0 l and V8 diesel engines. These measures have resulted in, and may continue to result in, significant expenses for the Volkswagen Group.

In the USA Volkswagen AG and certain affiliates reached settlement agreements with various government authorities and private plaintiffs, the latter represented by a Plaintiffs’ Steering Committee in a multidistrict litigation in the US state of California. These agreements resolved certain civil claims as well as criminal charges under US federal law and the laws of certain US states in connection with the diesel issue. As part of the agreements entered into with the US Department of Justice (“DOJ”) and the State of California (Plea Agreement and Third Partial Consent Decrees), a Compliance Monitor and Compliance Auditor were appointed for Volkswagen in 2017 for a term of three years. On October 17, 2019, Volkswagen announced that it has been granted a 90-day extension by DOJ and the Monitor to demonstrate that it has met its commitments under the terms of the Plea Agreement. Although Volkswagen AG and its subsidiaries and affiliates are firmly committed to fulfilling the obligations arising from these agreements, a breach of these obligations cannot be completely ruled out. In the event of a violation, significant penalties could be imposed as stipulated in the agreements, in addition to the possibility of further monetary fines, criminal sanctions and injunctive relief.

Several thousand consumers initially opted out of the settlement agreements, and many of these consumers filed civil lawsuits seeking monetary damages for fraud and violations of state consumer protection acts. As a result of various subsequent resolutions, fewer than 350 consumer opt-outs have claims pending against Volkswagen. A significant volume of the remaining opt-out cases are pending in the federal multidistrict litigation in California and in California state court. The first opt-out trial was held in late February and early March 2020 in the federal multidistrict litigation. In the aggregate, the ten opt-out plaintiffs were awarded a total of \$28,735 in compensatory and punitive damages combined. In Canada, which has the same NOx emissions limits as the US, Volkswagen has reached settlements with consumers relating to 2.0l and 3.0l diesel vehicles, which, *inter alia*, provided for cash payments for completing free vehicle emissions modifications, buy-backs/trade-ins and early lease terminations, as applicable. In connection with these consumer settlements, Volkswagen Group Canada and the Canadian Competition Bureau reached civil resolutions related to consumer protection issues in relation to the 2.0 l and 3.0 l diesel engines.

Outside the US and Canada, Volkswagen has also reached agreements with regard to the implementation of technical measures with numerous authorities.

In agreement with the respective responsible authorities, the Volkswagen Group made technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines. In the European Union (EU 28), the German Federal Motor Transport Authority ("**KBA**"–*Kraftfahrt-Bundesamt*) ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO₂ emission figures, engine output, maximum torque, and noise emissions. Nevertheless, the proposed technical measures are currently under varying stages of implementation and under consideration by the KBA. The discussions are ongoing, and their outcome is open. This may lead to further significant costs, regulatory proceedings and/or customer claims for damages.

Following the studies carried out by AUDI AG to check all relevant diesel concepts for possible irregularities and retrofit potentials, measures proposed by AUDI AG have been adopted and mandated by the KBA in various recall orders pertaining to vehicle models with V6 and V8 TDI engines. Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. However, if AUDI AG's assumptions are incorrect and costs exceed expectations and balance-sheet provisions, AUDI AG and Volkswagen's results of operations and cash flows may be adversely affected. AUDI AG has in the meantime developed software updates for many of the affected powertrains and, after approval by the KBA, already installed these in the vehicles of a large number of affected customers. However, additional measures may become necessary as a result of the investigations by AUDI AG and the consultations with the KBA.

Worldwide, responsible authorities are continuing their review and assessment of the diesel concepts and of the technical solutions. Volkswagen may be required to repurchase vehicles sold in the US, Germany, Canada and elsewhere. This could lead to further significant costs. In 2018, the Korean Ministry of Environment ("**KME**") ordered a recall after it 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 (ii) the Dynamic Shift Program (DSP) in the gearbox control in some AUDI vehicle models, as prohibited defeat devices. On August 21, 2019, the KME further announced that it has categorized an injection strategy of urea solution as an illegal emission defeat device and plans to (i) revoke the certifications of eight AUDI, Volkswagen and Porsche brand diesel vehicles with V6 engines, (ii) issue a recall order and an advance notice for administrative fines, and (iii) refer the manufacturers to the prosecutors' office in criminal proceedings. In addition, AUDI is responding to requests from the U.S. authorities for information regarding automatic gearboxes in certain vehicles. 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. Further field measures with financial consequences cannot be ruled out completely at this time.

Alongside coordination with authorities on technical measures, there are ongoing criminal and administrative proceedings in relation to the diesel issue in the US, Germany and other countries worldwide.

In the US, Volkswagen has entered into agreements to resolve federal criminal liability relating to the diesel issue and to resolve civil penalties and injunctive relief under the U.S. 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 US law – including conspiracy to commit fraud, obstruction of justice and using false statements to import cars into the US – 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 every U.S. state to resolve existing or potential consumer protection and unfair trade practices claims. Volkswagen has also settled the environmental claims of certain states. However, certain states and municipalities still have pending state or local 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. In March 2019, the SEC filed a complaint in the U.S. District Court for the Northern District of California against Volkswagen AG, Volkswagen Group of America Finance, VW Credit and the former Volkswagen CEO, Martin Winterkorn, alleging violations of the antifraud provisions of the federal securities laws in connection with securities sold in the US. The SEC complaint seeks permanent injunctions, disgorgement of allegedly ill-gotten gains with prejudgment interest, and civil penalties. 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 US, 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 proceedings result in adverse court decisions 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 Canada, in December 2019, the Canadian federal environmental regulator filed charges against Volkswagen AG in respect of 2.0 I and 3.0 I Volkswagen and Audi vehicles at the conclusion of its criminal enforcement-related investigation into the diesel issue. Volkswagen AG cooperated with the investigation and agreed to a plea resolution addressing all of the charges. In January 2020, Volkswagen AG pleaded guilty to the charges and agreed to pay a penalty of C\$196.5 million, which was approved by the court. Following this approval, the Ontario provincial environmental regulator withdrew its action against Volkswagen AG charging a quasi-criminal enforcement-related offense with respect to certain Volkswagen and Audi 2.0 I diesel vehicles. As to pending matters in Canada, an environmental class action has been authorized on behalf of residents in Quebec. This environmental class action was authorized on the sole issue of whether punitive damages could be recovered. While Volkswagen's appeals from the authorization ruling have been denied, the case remains in the early stages. Class action and joinder lawsuits have also been filed against Volkswagen in Canada, including alleged consumer protection and securities claims, asserting damages among other things. While a class action filed in Quebec provincial court was authorized as to claims relating to Volkswagen AG's shares, ADRs and debt securities, the case was dismissed by the Quebec court on April 16, 2020 for lack of jurisdiction. The plaintiff has at least thirty days to notice any appeal. A similar class action pertaining to shares and ADRs was also filed in the Province of Ontario. On August 15, 2018, the Ontario proceeding was dismissed by the Ontario court. While an appeal from this Ontario court ruling was noticed on September 14, 2018, the appeal was resolved before a hearing and dismissed.

In addition to the U.S. and Canadian proceedings, criminal investigations/misdemeanor proceedings have been opened in Germany by, among others, the public prosecutor's offices in Braunschweig, Stuttgart and Munich and by the Federal Financial Supervisory Authority ("**BaFin**" –*Bundesanstalt für Finanzdienstleistungsaufsicht*). Some of these regulatory offense proceedings against Volkswagen AG were terminated in 2018 and 2019, with the authorities issuing administrative notices imposing fines on Volkswagen Group companies.

Proceedings are ongoing in relation to current and former employees of Volkswagen. The public prosecutor's office in Braunschweig has issued indictments 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. In April 2019, the Braunschweig public prosecutors brought criminal charges, among others, against former Volkswagen CEO, Martin Winterkorn, in relation to alleged crimes tied to the diesel issue. The Stuttgart public prosecutor's office also confirmed that it is investigating, among others, the former CEO of Volkswagen AG, Martin Winterkorn, in his capacity as member of the management board of Porsche Automobil Holding SE ("**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 Dr. Ing. h.c. F. Porsche AG ("**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 US and Europe. In July 2019, the Munich II public prosecutor brought criminal charges against, among others, former Audi CEO, Rupert Stadler, in relation to alleged crimes tied to the diesel issue. Should any of these ongoing proceedings, especially those headed against (former) board members, result in final criminal court decisions against these individuals, it could result in substantial additional costs and have a material adverse effect on Volkswagen's business, financial position, results of operations, and reputation, and could have an impact on the consolidated financial statements and on the group management report for 2019 and prior years.

There are additional regulatory, criminal and/or civil proceedings in several jurisdictions worldwide. Volkswagen continues to cooperate with government authorities. However, there is a risk the criminal administrative proceedings discussed above, or any other further claims that may arise, could ultimately result in further fines for Volkswagen.

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 Australia, Belgium, Brazil, Germany, Italy, the Netherlands, Portugal, South Africa, the United Kingdom and the US. These proceedings are lawsuits aimed among other things at asserting damages, rescission of the purchase contracts or seeking declaratory

judgments that customers are entitled to damages. Some of 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. 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 for Volkswagen. In Germany for example, Volkswagen reached a settlement with the Verbraucherzentrale Bundesverband e.V. (Federation of Consumer Organizations) involving approximately 260,000 customers, who are, as a result, entitled to submit an offer for a settlement agreement. While so far approximately 240,000 consumers decided to submit an offer, Volkswagen cannot estimate how many of approximately 20,000 customers who decided to not submit an offer, will file individual lawsuits. Individual lawsuits and similar proceedings are pending against Volkswagen in various countries, most of which are seeking damages or rescission of purchase contracts. In Germany, there are around 70 thousand such individual lawsuits. On May 5, 2020, at a preliminary hearing at the German Supreme Court (*Bundesgerichtshof*) in connection with one of the individual lawsuits, the Supreme Court expressed a view favorable to the plaintiff on the merits but emphasized the need to compensate Volkswagen for the plaintiff's use of the car. A decision is expected on May 25, 2020. This decision is expected to have an impact on other individual lawsuits pending across Germany. A total of approximately one thousand three hundred additional lawsuits are pending in other countries. Volkswagen cannot estimate how many customers will choose to file lawsuits in the future in addition to those already pending.

Furthermore, 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 supposed 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. Further investor claims could be brought.

The vast majority of these investor lawsuits are currently pending at the Regional Court in Braunschweig. In 2016, the Regional Court in Braunschweig ordered that common questions of law and fact be referred to the Higher Regional Court (*Oberlandesgericht*) in Braunschweig for binding declaratory rulings pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information ("**KapMuG**" –*Kapitalanleger-Musterverfahrensgesetz*). All lawsuits at the Regional Court in Braunschweig will be stayed pending resolution of the common issues, unless the cases can be dismissed for reasons independent of the common issues that are to be adjudicated in the model case proceedings. The resolution in the model case proceedings of the common questions of law and fact will be binding for all pending cases that have been stayed in the described manner. Oral argument hearings in the model case proceeding began in September 2018 and are being continued at subsequent hearings.

Outside the US and Canada, investor lawsuits, judicial applications for dunning procedures and conciliation proceedings, and claims under the KapMuG are currently pending against Volkswagen AG in connection with the diesel issue, amounting to an aggregated exposure of approximately EUR 9.6 billion.

In the U.S., 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 multi-district 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.

Overall, Volkswagen Group recognized expenses directly related to the diesel issue in the total amount of EUR 31.3 billion in the years 2015 to 2019, adversely affecting its operating profit, financial position and results of operations. Expenses recognized in operating profit relating to the diesel issue amounted to EUR 3.2 billion in fiscal year 2018 and were mainly attributable to the legally final administrative fine orders imposed by the public prosecutor's office in Braunschweig against Volkswagen AG (EUR 1.0 billion) and by the Munich II public prosecutor's office against AUDI AG (EUR 0.8 billion), higher legal risks and legal defense costs, as well as higher expenses for technical measures. In fiscal year 2019, additional expenses of EUR 2.3 billion had to be recognized in connection with the diesel issue. Charges of EUR 2.6 billion were recognized under other operating expenses, which arose from the administrative fine order of EUR 0.5 billion issued by the Stuttgart Public Prosecutor, which ended the ongoing regulatory offense proceeding against Porsche AG, and higher provisions for legal risks. This was set against the reversal of reserves for technical measures of EUR 0.3 billion, which reduced cost of sales.

In addition, contingent liabilities were disclosed in relation to the diesel issue in the aggregate amount of EUR 3.7 billion as of December 31, 2019 (December 31, 2018: EUR 5.4 billion), of which lawsuits filed by investors account for EUR 3.4 billion (December 31, 2018: EUR 3.4 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.

Evaluating known information and making reliable estimates for provisions is a continuous process. The provisions recognized, and the contingent liabilities disclosed as well as the other latent legal risks in the context of the diesel issue are in part subject to substantial estimation risks given that the fact-finding efforts have not yet been concluded, and due to the complexity of the individual relevant factors and the ongoing coordination with the authorities. As a result, Volkswagen could be subject to further considerable financial charges that exceed its current estimates. 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.

In addition to ongoing, extensive investigations by governmental authorities in various jurisdictions worldwide, further investigations (including in relation to areas carved out of the plea agreement with the U.S. authorities, such as tax) 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 and 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 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 investigations, proceedings and litigation are ongoing 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, proceedings and litigation, 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, proceedings and litigation 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.

2.6.2 *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 compliance monitor in April 2017. Mr. Thompson submitted his initial review report under the plea agreement in March 2018. On February 8, 2019, Mr. Thompson submitted his first follow-up review report under the plea agreement. In November 2019, the Mr. Thompson submitted his second follow-up review report under the plea agreement. Additionally, on August 17, 2018 and August 16, 2019, Mr. Thompson submitted his first and second annual reports under the Third Partial Consent Decrees. Volkswagen is working to address the recommendations set forth in Mr. Thompson's reports. On October 17, 2019, Volkswagen announced that it has been granted a 90-day extension by DOJ and the Monitor to demonstrate that it has met its commitments under the terms of the Plea Agreement.

On August 13, 2019, Volkswagen and the US Environmental Protection Agency entered into an administrative agreement with a three-year term, seeking to resolve all administrative matters that relate to suspension and debarment arising from the Plea Agreement. Pursuant to the administrative agreement, Volkswagen has also retained an Independent EPA Auditor for the duration of this agreement.

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.

2.6.3 *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, mem-

bers 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 "2.6.1 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." and "2.6.2 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."

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.

2.6.4 Volkswagen may fail to 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.

2.6.5 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 "2.6.1 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." 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. Based on findings from Volkswagen's analysis program, further models were voluntarily recalled in certain countries with specific climate conditions. 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.

2.6.6 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.

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.

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.

2.6.7 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 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. Furthermore, German tax authorities may not accept all costs, expenses, fines or similar liabilities incurred by Volkswagen and its subsidiaries in Germany as a result of the diesel issue as tax deductible business expense.

In Brazil, the Brazilian tax authorities commenced tax proceedings against MAN Latin America; at issue in these proceedings are the tax consequences of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a final instance judgment that was negative for MAN Latin America was rendered in administrative court proceedings. MAN Latin America initiated proceedings against this judgment before the regular court in 2018. Due to the difference in the 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 EUR 0.5 billion for the contested period from 2009 onwards, which has been reported within contingent liabilities as of March 31, 2020.

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.

2.6.8 *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 SE claiming 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 EUR 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. The Senate also held that some of the desired objects of declaratory judgment on the litigants' side may be inadmissible.

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 EUR 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. However, in the event of a settlement or an unfavorable decision in the legal proceedings, Volkswagen AG could sustain considerable losses.

2.6.9 *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 conducted searches at European truck manufacturers on suspicion of an unlawful exchange of information during the period 1997–2011 and issued a statement of objections to MAN, Scania and the other truck manufacturers concerned in November 2014. With its settlement decision in July 2016, the European Commission fined five European truck manufacturers. MAN's fine was waived in full as the company had informed the European Commission about the irregularities as a key witness.

In September 2017, the European Commission fined Scania EUR 0.88 billion. Scania has appealed to the European Court of Justice in Luxembourg. Scania had already recognized a provision of EUR 0.4 billion in 2016.

Furthermore, antitrust lawsuits for damages were received from customers. As is the case in any antitrust proceedings, this may result in further lawsuits for damages. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In April 2019 the European Commission issued a statement of objections to Volkswagen AG, AUDI AG, and Porsche AG in connection with the Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity

to comment. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of Selective Catalytic Reduction (SCR) systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. After receiving access to the investigation files starting in July 2019, Volkswagen in December 2019 filed its reply to the European Commission's statement of objections. In the same matter, the Chinese Competition Authority has also issued information requests to Volkswagen AG, AUDI AG, and Porsche AG, and commenced an administrative action.

In the proceedings against a number of captive automobile finance companies regarding potential competition law infringements (alleged exchange of competitively sensitive information), the Italian Competition Authority assessed a fine of €163 million against Volkswagen AG and Volkswagen Bank GmbH in January 2019. Provisions were recognized by Volkswagen Bank GmbH. Volkswagen AG and Volkswagen Bank GmbH filed an appeal against this decision in March 2019. In the same context, an antitrust class action lawsuit has furthermore been filed by customers in Italy against Volkswagen Bank GmbH, among others.

In March 2020, the US District Court for the Northern District of California dismissed two putative class action complaints brought by purchasers of German luxury vehicles alleging that, since the 1990s, several automobile manufacturers, including Volkswagen AG and other Group companies conspired to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support that the alleged agreements unreasonably restrained competition in violation of U.S. law. The court granted Plaintiffs leave to file amended complaints with respect to a limited subset of plaintiffs' original claims.

Plaintiffs in Canada filed claims with similar allegations on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Group Canada Inc., Audi Canada Inc., and other Group companies. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In addition, a few national and international authorities have initiated antitrust investigations. Volkswagen is cooperating closely with the responsible authorities in these investigations. The above proceedings are currently pending, and it is too early to assess the potential consequences of the investigation on Volkswagen.

2.6.10 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 law has already led to a significant increase in consumer litigation in Germany, including with respect to diesel-related litigation against Volkswagen and it may lead to further increases in litigation the future.

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.

Risks may also emerge in connection with the adherence to regulatory requirements. This particularly applies in the case of regulatory grey areas where Volkswagen and the authorities responsible for the respective regulations may interpret the regulations differently. In addition, legal risks can arise from criminal activities of individual persons, which even the best compliance management system can never completely prevent.

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”.

2.6.11 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.

2.7 Financial risks

2.7.1 Volkswagen is exposed to risks from volatile foreign exchange markets; changes in exchange rates, interest rates and commodity prices as well as respective hedging transactions may have a negative impact on Volkswagen operating result.

Volkswagen operates across numerous jurisdictions around the world, conducting business in multiple currencies and as a result, is exposed to financial risks that may arise from changes in interest rates, exchange rates, raw material prices, or share and fund prices. These market risks may have substantial adverse effects on Volkswagen’s operating results and cash flows. Volkswagen enters into hedging transactions to lower currency, interest rate and commodity price risks. Management of these financial and liquidity risks is centrally operated by the Group’s treasury department, using nonderivative and derivative financial instruments. However, these risks are not fully hedged and losses arising from hedging activities, together with the expenses of hedging transactions, may result in significant costs.

Volkswagen is exposed to the effects of changes in the exchange rates – especially against the euro—of several currencies that play a significant role in the group’s worldwide operations. Such currencies include, the: 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. 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. This could affect results from hedging activities and adversely affect Volkswagen’s operating results and cash flows.

Moreover, 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, exposing the group to interest rate risk. This also applies to the leasing and financing operations. Volkswagen hedges interest rate risk – where appropriate in combination with currency risk – and risks arising from fluctuations in the value of financial instruments by means of interest rate swaps, cross-currency interest rate swaps and other interest rate contracts with generally matching amounts and maturities. However, if interest rates develop in an adverse manner and/or if Volkswagen’s hedge positions are inadequate, this could result in losses, affect results from hedging activities, create liquidity issues, and adversely affect Volkswagen’s operating results and cash flows.

Finally, the hedging of commodity prices entails risks relating to the availability of raw materials and price trends. See also: *"2.4.5 Volkswagen is exposed to risks arising from procurement of raw materials, potentially impacting its procurement, production, transport and service chains."* Volkswagen limits these risks mainly by entering into forward transactions and swaps. For example, Volkswagen hedges some of its requirements for commodities such as aluminum, lead, coal and copper over a period of up to six years, in the case of nickel for up to nine years. The precious metals platinum, palladium and rhodium have shorter hedging periods, generally amounting to a maximum of up to three years. Volkswagen has entered into similar transactions in order to supplement and improve allocations of CO₂ emission certificates. Compliance with environmental protection regulations and Volkswagen's strategy for e-mobility might increase Volkswagen's need for commodities used in catalytic converters and / or for batteries, in turn increasing hedge positions. Changes in prices due to high market demand for such commodities as well as changes in market values of hedges for such commodities might impact Volkswagen's ability to maintain appropriate hedge positions for affected commodities, and could in turn adversely affect Volkswagen's operating results.

The effects of the SARS-CoV-2 pandemic on the global economy have created significant volatility in exchange rates and commodity prices, caused interest rates to drop and severely disrupted financial markets. These developments have affected and could continue to affect results, including results from hedging activities, and may exacerbate the financial risks to which Volkswagen is exposed and could have a material adverse effect on Volkswagen's operating results and cash flows. See also *"2.1.1 The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues."*

2.7.2 Volkswagen may not succeed in financing or 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 March 31, 2020, Volkswagen's noncurrent and current financial liabilities amounted to EUR 206,473 million.

Volkswagen's Automotive Division and Financial Services Division carry out refinancing separately, but 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.

The rapid global spread of the SARS-CoV-2 pandemic has resulted in a material deterioration of global economic conditions and financial markets, which may make it difficult for Volkswagen to obtain sufficient financing to meet its needs or may prevent Volkswagen from being able to finance on reasonable terms or at all. This may have a material adverse effect on Volkswagen's business, net assets, financial position and results of operations.

Volkswagen AG's credit ratings were downgraded in the wake of the diesel issue and Volkswagen has in the past, and may experience in the future limited access to refinancing opportunities. In addition, the recent SARS-CoV-2 pandemic has and may continue to adversely affect the automotive industry, potentially affecting Volkswagen AG's credit ratings and refinancing opportunities. See also *"2.6.1 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."* and *"2.1.1 The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues."*

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 lead to lower profitability.

2.7.3 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 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 addition, 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.

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 and regulatory or political decisions. 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.

In addition, the SARS-CoV-2 pandemic could lead to a weakening of the global economy which in turn could have a negative impact on the creditworthiness of Volkswagen Group customers, both retail customers, dealers and fleet customers. Possibly increasing unemployment rates or short-time work could lead to increasing payment delays due to lower income for private customers. At the same time, Volkswagen's fleet customers could also be affected by a troubled economy and their solvency could be impaired by lower sales and thus lower cash flows and earnings. Additionally, fewer sales of motor vehicles can have a negative impact on dealers, so that payment difficulties can also arise here due to longer vehicle downtimes and a lack of revenue. A shift in consumption of retail customers due to the uncertain situation could initially lead to increasing drawdowns on credit lines in this context and subsequently lead to the failure of dealers. All of these scenarios would have a material negative impact on the assets, earnings and financial position of Volkswagen Group. See also "2.1.1 The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues."

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. The foregoing risks could have a material adverse effect on Volkswagen's business, net assets, financial position and results of operations.

2.7.4 *The Volkswagen Financial Services Division is dependent on Volkswagen Group sales, and 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 reasons 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. Furthermore, a weakening economy is accompanied by lower disposable income from both existing and potential new customers. A decrease in customers' disposable income or their financial condition will generally have a negative impact on vehicle sales.

Recently, the rapid spread of the SARS-CoV-2 pandemic has led to a weakening of the global economy, which caused and may continue to cause to a corresponding drop in demand for vehicles, and in Volkswagen's ability to produce vehicles. Fewer vehicle sales could have a significant negative impact on the earnings position of the Financial Services Division and thus also on Volkswagen Group. See also "2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*"

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) or technological developments (e.g., e-mobility) 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.

2.7.5 *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 premiums) 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 for 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, including as a result of the SARS-CoV-2 pandemic, 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, 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.

The development of residual value risks could be influenced by the topic of e-mobility. On the one hand, rapid technical progress in the field of battery technology in favor of vehicle ranges could lead to increasing residual value risks in existing electric vehicle portfolios, as customer demand for outdated technologies declines, especially in the first few years. On the other hand, due to substitution effects, sales of electric cars as a result of changing customer behavior could have a negative impact on the residual values of conventional combustion based vehicles, as a result of decreasing customer demand. Finally, e-mobility developments and the impact on residual value risks are difficult to predict and could therefore materially adversely affect Volkswagen Financial Services Division'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 remaining 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.

As a result of the spread of the SARS-CoV-2 pandemic, Volkswagen could face an increasing residual value risk. Due to the drop in consumer demand, new vehicles may have to be sold at a significant discount, which could have a material impact on the residual value of used vehicles. In addition, consumer demand for used vehicles may also decline, which could further impact the residual values of used vehicles. Decreasing residual values and resulting residual value risks could influence both Volkswagen Group (direct residual value risk) and the dealers, which are financed by the Financial Services Division (indirect residual value risk). Consequently, Volkswagen Group may have to post direct write-offs on its portfolio or build higher loss allowances, which would have a material adverse effect on earnings. See also "2.1.1 *The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues.*"

2.7.6 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 deposits of private individuals and foundations and certain deposits of commercial enterprises, institutional

investors and public-sector entities. Under the by-laws of the Association's Deposit Protection Fund, Volkswagen AG and Porsche SE have provided declarations of indemnity for Volkswagen Bank. Under these declarations, they have agreed to hold the Association of German Banks harmless from any losses it incurs resulting from assistance provided to Volkswagen Bank. Volkswagen AG, in turn, has provided a declaration of indemnity to Porsche SE in respect of the indemnity provided by Porsche SE to the Association of German Banks. 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.

2.7.7 *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 March 31, 2020, goodwill reported in Volkswagen's balance sheet amounted to EUR 23,057 million and the reported value of brand names amounted to EUR 16,737 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 recoverable amount is lower than the carrying amount for the asset concerned, Volkswagen incurs an impairment loss. As a consequence, should Volkswagen need to record an impairment loss in the future, this may have a material adverse effect to its balance sheet and result of operations.

2.8 Risks from mergers & acquisitions, strategic partnerships and/or investments

2.8.1 *Cooperation with joint venture partners or other 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, autonomous driving, 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, which may not always be the case. 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. Disputes with joint venture partners can be costly and divert management's attention from the operation of the business. 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.

2.8.2 *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 be 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.

The spread of the SARS-CoV-2 pandemic and resulting economic downturn may adversely affect Volkswagen's acquisition and disposal activities, causing, among other things, increased financial exposure due to availability of debt, potential transaction delays or project cancellations. Furthermore, the general slowdown in business processes and activities might limit to some extent our ability for risk mitigation actions (e.g. depth of due diligence, possibility for onsite inspections, etc.) resulting in a higher transaction risk. Furthermore, adverse effects on the target business cases due to prolonged economic uncertainty may impact long term value creation resulting in impairments post-closing. See also "2.1.1 The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues."

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, it may lead to an impairment of the acquisition, reputational damage and compliance risks, and may have a material adverse effect on Volkswagen's business activities, net assets, financial position and results of operations.

RISK RELATED TO THE NOTES

2.9 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.

2.10 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.

2.11 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.

2.12 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. Continued volatility or intensified turmoil in global credit markets may adversely affect the liquidity and pricing of the Notes.

2.13 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*".

2.14 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.

2.15 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 holders 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*”.

2.16 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.

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.

2.17 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.\$3,988,040,000 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 March 31, 2020 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 March 31, 2020. 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 2020 Q1 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.

	As of March 31, 2020	
	Actual⁽¹⁾	As adjusted
	(in EUR million) (unaudited)	
Cash, cash equivalents and time deposits	28,449	32,091⁽²⁾
Financial liabilities		
Noncurrent financial liabilities	103,139	106,781⁽²⁾
Bonds, commercial paper and notes	82,796	86,438 ⁽²⁾
Liabilities to banks	10,668	10,668
Deposit business	2,365	2,365
Lease liabilities	5,069	5,069
Other financial liabilities	2,240	2,240
Current financial liabilities	103,334	103,334
Bonds, commercial paper and notes	42,631	42,631
Liabilities to banks	28,741	28,741
Deposit business	29,732	29,732
Lease liabilities	974	974
Other financial liabilities	1,256	1,256
Total financial liabilities	206,473	210,115⁽²⁾
Total equity	125,886	125,886
Total capitalization⁽³⁾	332,359	336,001⁽²⁾

⁽¹⁾ Financial information of the Company has been derived from the Interim Financial Statements

⁽²⁾ 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.\$ 1.09490 = EUR 1.00, which was the middle rate as of March 31, 2020 used to record foreign currency monetary items in the balance sheet.

⁽³⁾ 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, 2019, 2018 and 2017 and the unaudited condensed consolidated interim financial information of the Volkswagen Group as of and for the three-month periods ended March 31, 2020 and 2019 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.

Unless otherwise indicated, the 2019 and the 2018 financial figures included in this Offering Memorandum have been taken or derived from the 2019 Annual Financial Statements; the 2017 financial figures have been taken or derived from the 2018 Annual Financial Statements; and the unaudited interim financial figures as of and for the three month period ending March 31, 2020 and March 31, 2019 have been taken or derived from the Interim Financial Statements. As a result, not all figures may be comparable.

Prospective investors should read the selected financial and other information in conjunction with the information contained in 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 the 2020 Q1 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 IFRS 16 accounting standard came into effect as of January 1, 2019, amending previous lease accounting rules. IFRS 16 introduced a single lessee accounting model which requires all leases (with limited exceptions) with a term of over twelve months to be brought onto the balance sheet, including, for the first time, operating leases. This led to, among other things, an increase in total assets (but did not affect equity) and an impact on cash flow for 2019. The prior-year figures have not been adjusted. As a result, the figures as of and for the year ended December 31, 2019 may not be comparable to the results presented as of and for the years ended December 31, 2018 and December 31, 2017.

The accounting policies applied in 2018 were generally retained. The only changes required resulted from new or amended standards and in relation to the definition of cash-generating units. In the case of internally generated intangible assets with finite useful lives and the associated property, plant and equipment in the Passenger Cars Business Area, the individual product or product group has in the past represented the cash-generating unit. This had to be redefined for the Passenger Cars Business Area in 2019, because the cash flows generated by the individual products are not largely independent of each other any longer. Due to the fact that emission regulations are being tightened worldwide, the cash flows of the individual products influence each other to an increasing extent. The brands have, since the fourth quarter of 2019, been designated as cash generating units in the Passenger Cars Business Area, thus forming the basis for impairment tests and profitability assessments when initially recognizing internally generated intangible assets. The changed definition of cash-generating units led to a non-recurring reversal of write-downs, which had an effect of EUR 0.9 billion on other operating income in the fourth quarter of 2019 and will lead to increased depreciation and amortization in subsequent periods. Furthermore, impairment losses of EUR 0.2 billion recognized in the first quarter of 2019 had to be reversed. In addition, the financial result benefited in an amount of EUR 75 million from the reversal of impairment losses at the Chinese joint ventures. The revised definition of cash generating units will in future lead to a slight increase in the capitalization ratio.

The IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" accounting standards took effect 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. Some of the fair value measurement gains and losses on certain derivatives, which were previously reported under the financial result, are now reported directly in sales revenue and other operating income, resulting in a more significant impact on operating profit. Due to the retrospective application of the guidance on designating options, the 2017 figures were adjusted. This resulted in an effect of EUR -0.2 billion on earnings after tax in fiscal year 2017.

IFRS 15 specifies new accounting rules for revenue recognition. The Volkswagen Group applies the modified retrospective transition method. 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. As a result, an amount of EUR 0.6 billion has been moved between other operating income and 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 areas in which they were originally recognized. Comparable 2017 figures were adjusted accordingly. As a result, cost of sales

declined in the reporting period because of income from the reversal of provisions and accrued liabilities of EUR 2.5 billion (2017: EUR 2.1 billion). In addition, distribution expenses were down by EUR 0.5 billion (2017: EUR 0.7 billion) and administrative expenses by EUR 0.2 billion (2017: EUR 0.1 billion). There was a corresponding EUR 3.3 billion (2017: EUR 3.0 billion) decrease in other operating income. 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 2017 distribution expenses were therefore adjusted by EUR 1.1 billion. There was a corresponding decrease in sales revenue.

For more information, see “Effects of new and amended IFRSs” in the notes to the 2019 Annual Financial Statements and “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, wherever applicable, are labeled as “Adjusted for changes in accounting policy”.

Income Statement Information

	For the three months ended March 31		For the year ended December 31		
	2020	2019	2019	2018	2017⁽³⁾
	(in EUR million)				
	(unaudited)				
Sales revenue	55,054	60,012	252,632	235,849	229,550
Cost of sales	-45,824	-48,324	-203,490	-189,500	-186,001
Gross result	9,231	11,688	49,142	46,350	43,549
Distribution expenses	-4,472	-4,941	-20,978	-20,510	-20,859
Administrative expenses	-2,445	-2,271	-9,767	-8,819	-8,126
Net other operating result ⁽¹⁾	-1,409	-608	-1,437	-3,100	-745
Operating result	904	3,868	16,960	13,920	13,818
Share of the result of equity-accounted investments	129	808	3,349	3,369	3,482
Interest result and other financial result ⁽²⁾	-351	-605	-1,953	-1,646	-3,628
Financial result	-222	203	1,396	1,723	-146
Earnings before tax	682	4,071	18,356	15,643	13,673
Income tax expense	-165	-1,018	-4,326	-3,489	-2,210
Earnings after tax	517	3,053	14,029	12,153	11,463
of which attributable to					
Noncontrolling interests	-6	7	143	17	10
Volkswagen AG hybrid capital investors	117	134	540	309	274
Volkswagen AG shareholders	405	2,912	13,346	11,827	11,179

⁽¹⁾ Total of: other operating income and other operating expenses; unaudited.

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

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

Balance Sheet Information

	As of March 31	As of December 31		
	2020	2019	2018	2017
	(in EUR million)			
	(unaudited)			
Assets				
Noncurrent assets	297,752	300,608	274,620	262,081
Intangible assets	66,019	66,214	64,613	63,419
Property, plant and equipment	64,507	66,152	57,630	55,243
Lease assets	49,910	48,938	43,545	39,254
Financial services receivables	84,254	86,973	78,692	73,249
Investments, equity-accounted investments and other equity investments, other receivables and financial assets ⁽¹⁾	33,061	32,331	30,140	30,916
Current assets	193,399	187,463	183,536	160,112
Inventories	48,877	46,742	45,745	40,415
Financial services receivables	57,028	58,615	54,216	53,145
Other receivables and financial assets ⁽²⁾	39,698	38,620	37,557	32,040
Marketable securities	18,468	16,769	17,080	15,939
Cash, cash equivalents and time deposits	28,449	25,923	28,938	18,457
Assets held for sale	879	795	–	115
Total assets	491,151	488,071	458,156	422,193
Equity and Liabilities				
Equity	125,886	123,651	117,342	109,077
Equity attributable to Volkswagen AG shareholders ⁽³⁾	111,495	109,117	104,522	97,761
Equity attributable to Volkswagen AG hybrid capital investors	12,576	12,663	12,596	11,088
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	124,071	121,781	117,117	108,849
Noncontrolling interests	1,815	1,870	225	229
Noncurrent liabilities	182,212	196,497	172,846	152,726
Financial liabilities	103,139	113,556	101,126	81,628
Provisions for pensions	36,666	41,389	33,097	32,730
Other noncurrent liabilities ⁽⁴⁾	42,408	41,551	38,623	38,368
Current liabilities	183,053	167,924	167,968	160,389
Put options and compensation rights granted to noncontrolling interest shareholders	–	–	1,853	3,795
Financial liabilities	103,334	87,912	89,757	81,844
Trade payables	22,035	22,745	23,607	23,046
Other current liabilities ⁽⁵⁾	57,327	56,896	52,750	51,705
Liabilities associated with assets held for sale	356	370	–	–
Total equity and liabilities	491,151	488,071	458,156	422,193

(1) Including noncurrent tax receivables, noncurrent deferred tax assets; unaudited.

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

(3) Total of: subscribed capital, capital reserve, retained earnings, other reserves; unaudited.

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

(5) 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 three months ended March 31		For the year ended December 31		
	2020	2019	2019	2018	2017 ⁽¹⁾
	(in EUR million)				
	(unaudited)				
Cash and cash equivalents at beginning of period	24,329	28,113	28,113	18,038	18,833
Cash flows from operating activities	1,894	2,849	17,983	7,272	-1,185
Cash flows from investing activities	-6,588	-4,196	-21,146	-21,590	-16,508
Cash flows from financing activities	7,527	-7,399	-865	24,566	17,625
Effect of exchange rate changes on cash and cash equivalents	-267	372	243	-173	-727
Change of loss allowance within cash and cash equivalents	-1	1	1	-1	-
Net change in cash and cash equivalents ...	2,565	-8,373	-3,784	10,075	-796
Cash and cash equivalents at end of period	26,894	19,740	24,329	28,113	18,038
Securities, loans and time deposits	30,325	28,999	29,099	28,036	26,291

1) Adjusted for changes in accounting policy (see "Summary—Overview of Consolidated Financial Information of the Volkswagen Group").

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 Interim Financial Statements, 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. Additional information on the trends and significant changes in the Volkswagen Group's results of operations and financial condition as of and for the three month period ended March 31, 2020, including a discussion of the impact of the SARS-CoV-2 pandemic, can be found in the 2020 Q1 Report Excerpts incorporated herein by reference.

From January 1, 2018 and from January 1, 2019 onwards, Volkswagen Group adopted effective new IFRS standards. Changes in accounting policy are described below whenever relevant. As a result of these changes, the comparison to figures in the respective prior period financial statements could be limited. For more information, see "Effects of new and amended IFRSs" in the notes to the 2019 Annual Financial Statements and 2018 Annual Financial Statements, as well as "Summary— Overview of Consolidated Financial Information of the Volkswagen Group". Unless otherwise indicated, the 2019 and the 2018 financial figures have been taken or derived from the 2019 Annual Financial Statements. The 2017 financial figures have been taken or derived from the 2018 Annual Financial Statements. As a result, not all figures may be comparable.

Effective from January 1, 2019, light commercial vehicles of the Volkswagen Commercial Vehicles brand are no longer allocated to the Commercial Vehicles segment but reported under the Passenger Cars and Light Commercial Vehicles segment. The Commercial Vehicles segment continues to correspond to the Commercial Vehicles Business Area but excludes the Volkswagen Commercial Vehicles brand. These changes do not impact reporting under the Automotive Division.

6.1 Business Overview

In terms of sales volume (i.e. the number of vehicles delivered to dealers), the Volkswagen Group is one of the world's leading multi-brand groups in the automotive industry. In 2019, Volkswagen Group achieved sales revenue of EUR 252,632 million, operating result of EUR 16,960 million and earnings after tax of EUR 14,029 million. Volkswagen Group delivered 10,975 thousand vehicles to its customers worldwide in 2019.

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 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. In addition, the Volkswagen Group offers a wide range of financial services, including dealer and customer financing, vehicle leasing, direct 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 light commercial vehicles of the Volkswagen Commercial Vehicles brand and the genuine parts business. The Commercial Vehicles business area primarily comprises the development, production and sale of trucks and buses from the Scania and MAN brands, the corresponding genuine parts business and related services. The 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, vehicle leasing, direct banking and insurance activities, fleet management and mobility offerings.

Effective from January 1, 2019, light commercial vehicles of the Volkswagen Commercial Vehicles brand are no longer allocated to the Commercial Vehicles segment but reported under the Passenger Cars and Light Commercial Vehicles segment. The Commercial Vehicles segment continues to correspond to the Commercial Vehicles Business Area but excludes the Volkswagen Commercial Vehicles brand. These changes do not impact reporting under the Automotive Division.

As a result, unless otherwise indicated, the 2019 and the 2018 financial figures regarding the segment reporting structure included in this Offering Memorandum have been taken or derived from the 2019 Annual Financial Statements. The 2017 financial figures as well as comparisons only between the years 2018 and 2017 regarding the segment reporting structure have been taken or derived from the 2018 Annual Financial Statements. As a result, not all figures may be comparable.

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, 2019, 2018 and 2017:

	Unit sales⁽¹⁾			Sales revenue⁽¹⁾			Operating result⁽¹⁾		
	2019	2018	2017	2019	2018	2017⁽²⁾	2019	2018	2017⁽²⁾
	(Thousand vehicles)			(EUR million)			(EUR million)		
Volkswagen Group ⁽³⁾	10,956	10,900	10,777	252,632 ⁽⁴⁾	235,849 ⁽⁴⁾	229,550 ⁽⁴⁾	16,960 ⁽⁴⁾	13,920 ⁽⁴⁾	13,818 ⁽⁴⁾
of which:									
Automotive Division ⁽⁵⁾	10,956	10,900	10,777	212,473	201,067	195,817	13,748	11,127	11,146
Financial Services Division ⁽⁶⁾	–	–	–	40,160	34,782	33,733	3,212	2,793	2,673

⁽¹⁾ Unaudited, except where indicated.

⁽²⁾ Adjusted for changes in accounting policy (see "Summary—Overview of Consolidated Financial Information of the Volkswagen Group").

⁽³⁾ 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 a proportionate operating result of EUR 4,425 million, EUR 4,627 million and EUR 4,746 million for the years ended December 31, 2019, 2018 and 2017, respectively.

⁽⁴⁾ Audited.

⁽⁵⁾ Sales revenue and operating result include allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

⁽⁶⁾ Financial Services Division corresponds to the Financial Services segment, figures are audited.

Volkswagen Group's financial reporting comprises four reportable segments: the Passenger Cars and Light Commercial Vehicles 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 and Light Commercial Vehicles 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, 2019:

	For the year ended December 31, 2019						
	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
	(EUR million)						
Sales revenue	202,273	26,444	3,997	40,160	272,875	-20,242	252,632
Segment result (operating result)	15,610	1,653	-93	3,212	20,381	-3,422	16,960
as a percentage of sales revenue ⁽¹⁾	7.7	6.3	-2.3	8.0	-	-	6.7
Investments in intangible assets, property, plant and equipment, investment property (capex)	17,098	1,460	197	223	18,977	423	19,401

⁽¹⁾ Unaudited.

In May 2018, Volkswagen introduced an additional internal operational structure. The new structure helps 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.

The Volkswagen Group collaborates across six operating units and the China region, in addition to the Finance & IT, Human Resources and Integrity and Legal Affairs divisions. The units consist of the "Volume", "Premium", "Sport & Luxury" and "Truck & Bus" brand groups, as well as the Components & Procurement business and 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. The collaboration between the MAN and Scania vehicle brands is coordinated within the TRATON GROUP (formerly Volkswagen Truck & Bus). Components & Procurement intends to act as one unit spanning all of the brands and supporting them. The Financial Services business has been combined into a single unit across the Group.

Volkswagen sells vehicles in about 200 countries. Volkswagen's primary markets for its automobiles are Western Europe, China, the United States of America, Brazil, Russia, Mexico and Poland.

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, 2019, 2018 and 2017 (in each case not including the Chinese joint ventures):

	Sales revenue from external customers by region⁽¹⁾		
	2019⁽²⁾	2018⁽²⁾	2017⁽³⁾
	(%)		
Germany	19.4	18.6	19.3
Europe and Other Markets (excluding Germany)	41.6	42.5	42.9
North America	17.2	16.1	16.4
South America	4.5	4.4	4.4
Asia-Pacific	17.4	18.4	17.0

⁽¹⁾ Unaudited.

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

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

Volkswagen had an average of 667,748 employees worldwide (including the Chinese joint ventures) in 2019.

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 Investments

6.3.1 TRATON IPO

Beginning with June 28, 2019, shares of TRATON SE have been traded on the regulated markets of the Frankfurt Stock Exchange and the NASDAQ Stockholm Exchange. This led to an increase of EUR 1.4 billion in the Volkswagen Group's equity, of which EUR 1.2 billion is reported as noncontrolling interests. Volkswagen Group recorded the cash inflow together with additional minor effects resulting from the exercise of the underwriters' greenshoe notice at the beginning of the third quarter of 2019.

The Volkswagen Group remains the majority shareholder and as of March 31, 2020 held 89.72% of the share capital in TRATON SE. The control and profit and loss transfer agreement between Volkswagen AG and TRATON SE ended in accordance with section 307 of the German Stock Corporation Act (*AktG — Aktiengesetz*) on December 31, 2019.

6.3.2 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 SE (formerly Truck & Bus GmbH, Volkswagen Truck & Bus GmbH, Volkswagen Truck & Bus AG and TRATON AG, "**TRATON**"), a publicly listed and majority 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 of MAN 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. According to the final decision of the Higher Regional Court in Munich in June 2018 (as supplemented and amended in July and December 2018), the cash settlement payable to the noncontrolling interest shareholders was fixed at EUR 90.29 per share and the annual compensation claim at EUR 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 pub-

lished in the Federal Gazette on August 6, 2018 and January 10, 2019. In accordance with section 305 of the German Stock Corporation Act, it was possible to accept the cash compensation of EUR 90.29 per share within two months after this date. As a precaution, the assessment of liability for put options and compensation rights granted to noncontrolling interest shareholders was adjusted again in 2018.

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 on January 3, 2019, in accordance with the provisions of the control and profit transfer agreement, MAN's noncontrolling interest shareholders were entitled 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. Following the share tendering process, the Volkswagen Group held 94.36% of the shares in MAN SE. On 28 February 2020, TRATON SE announced that it intends to implement a merger squeeze-out of the minority shareholders of MAN SE.

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.

The Volkswagen Group recognized expenses directly related to the diesel issue in the total amount of EUR 31.3 billion in the years 2015 to 2019.

In 2015, Volkswagen recognized expenses directly related to the diesel issue of EUR 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 EUR 7.8 billion, as well as EUR 7.0 billion for legal risks. Additional expenses of EUR 6.4 billion were recognized in 2016. These additions resulted from an increase in expenses attributable to legal risks amounting to EUR 5.1 billion, higher warranty costs amounting to EUR 0.4 billion, specific sales programs amounting to EUR 0.5 billion, impairment losses on inventories amounting to EUR 0.3 billion and impairment losses on intangible assets and property, plant and equipment amounting to EUR 0.3 billion, which were in part offset by impairment reversals of non-current and current lease assets in the amount of EUR 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 EUR 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 EUR 0.5 billion had an offsetting effect. The translation at December 31, 2016 of provisions denominated in foreign currencies resulted in expenses of EUR 0.2 billion after hedging.

In 2017, additional expenses amounted to EUR 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.

In 2018, expenses recognized in operating profit relating to the diesel issue amounted to EUR 3.2 billion and were mainly attributable to the legally final administrative fine orders imposed by the public prosecutor's office in Braunschweig against Volkswagen AG (EUR 1.0 billion) and by the Munich II public prosecutor's office against AUDI AG (EUR 0.8 billion), higher legal risks and legal defense costs, as well as higher expenses for technical measures.

In 2019, additional expenses of EUR 2.3 billion had to be recognized in connection with the diesel issue. Charges of EUR 2.6 billion were recognized under other operating expenses, which arose from the administrative fine order of EUR 0.5 billion issued by the Stuttgart Public Prosecutor, which ended the ongoing regulatory offense proceeding against Porsche AG, and higher provisions for legal risks. This was set against the reversal of reserves for technical measures of EUR 0.3 billion, which reduced cost of sales.

Contingent liabilities were disclosed in relation to the diesel issue as of December 31, 2019 in the aggregate amount of EUR 3.7 billion (as of December 31, 2018: EUR 5.4 billion), of which lawsuits filed by investors account for EUR 3.4 billion (as of December 31, 2018: EUR 3.4 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 March 31, 2020, there were no material changes to the contingent liabilities resulting from the diesel issue compared with December 31, 2019.

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 — Legal Risks — 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 33.8% of Volkswagen's total passenger car deliveries to customers in 2019 (2018: 32.8%; 2017: 33.1%).

Prior to the outbreak of the SARS-CoV-2 pandemic in January 2020, the economic developments in Volkswagen's key markets had been mixed. Vehicle markets were at low levels of growth in Europe given the continued uncertainty among consumers, which was exacerbated by the uncertain outcome of the exit negotiations between the European Union and the United Kingdom. Major emerging markets such as Central and Eastern Europe and Brazil grew slightly, 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. Following slight decreases in 2018, Chinese passenger car demand decreased markedly over the course of 2019 compared to the previous year's level, largely as a result of the ongoing trade dispute between China and the US. North American vehicle sales have also declined. The global market volume of passenger cars fell below the prior-year level for the second year in a row, decreasing to 79.6 million units in 2019 (2018: 82.9 million units; 2017: 83.9 million units). (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 global market for trucks and buses, in which Volkswagen is active through its Scania and MAN brands, increased slightly in sales volume in 2019. This trend was interrupted by a sharp fall in the first quarter of 2020. Generally, positive economic development is essential, as an increased demand for products generates an increased demand for transportation by truck.

Until the outbreak of the SARS-CoV-2 pandemic in January 2020, macroeconomic conditions in relevant markets for the Volkswagen Group's trucks and buses had been in recovery since 2017 (total volumes for heavy trucks weighing in excess of 16 tonnes grew by 2.8% in 2019). A key driver for this development was the EU27+3 region (EU27 countries excluding Malta, but including the United Kingdom, Norway and Switzerland); Brazil also contributed significantly to the growth.

Due to the recent spread of the SARS-COV-2 pandemic, global demand for passenger cars, light commercial vehicles and mid-sized to heavy trucks fell substantially year-on-year from January to March 2020, affecting all sales regions. See also: "*6.14 Recent Events*".

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, regulations regarding the use, handling and storage of certain substances (which apply to both the manufacturing of automobiles and the automobile itself), as well as compliance with approval processes (homologation), which are becoming increasingly more complex and time-consuming and may vary by country. In Europe, further municipalities and cities might impose driving bans on diesel vehicles in order to comply with emissions limits which could also affect demand for Volkswagen's products.

Finally, the effect of the SARS-CoV-2 pandemic on the foregoing trends, due to the medium- and long-term economic impact of the outbreak, including on consumer demand, as well as other pandemic-driven factors such as possible changes in commuting patterns, levels of reliance on public transportation, trains and aircraft versus privately-owned automobiles, and the ongoing possibility of further outbreaks, is highly uncertain but could be significant. See also: "6.14 Recent Events".

6.4.4 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 historically 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. 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 2019, 2018 and 2017:

	Deliveries of Passenger Cars ⁽¹⁾			Change	Change
	2019	2018 ⁽²⁾	2017 ⁽²⁾	2019/2018 ⁽²⁾	2018/2017 ⁽²⁾
				(%)	
China ⁽³⁾	4,228,840	4,202,398	4,179,400	+0.6	+0.6
Brazil	420,880	363,766	284,864	+15.7	+27.7
Russia	223,452	216,950	180,481	+3.0	+20.2
India	51,541	61,277	72,467	-15.9	-15.4

⁽¹⁾ The Volkswagen Commercial Vehicles has been reported as part of Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted accordingly.

⁽²⁾ The delivery figures for 2018 and 2017 have been updated to reflect subsequent statistical trends.

⁽³⁾ 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 45.9% (2018: 45.7%; 2017: 44.8%) of its passenger cars in the BRIC countries in 2019.

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⁽³⁾ 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 has opened new vehicle plants and one component plant in 2018.

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.

Recently, the SARS-CoV-2 pandemic had a negative effect on the overall economy and consumer demand for Volkswagen products and services in BRIC regions. The resulting consequences of the SARS-CoV-2 pandemic on future demand for Volkswagen vehicles are not yet foreseeable. See also "6.14 Recent Events".

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, 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. The consequences of the SARS-CoV-2 pandemic on Volkswagen's future product and market mix are not yet foreseeable. See also: "6.14 Recent Events"

6.4.7 Share of the result of equity-accounted investments

As of December 31, 2019, 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;
- 30% 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 3,349 million in 2019, a loss of EUR 20 million compared to EUR 3,369 million in 2018.

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. Materials purchased for production amounted to approximately two-thirds of Volkswagen Group's sales revenue for each of the 2019, 2018 and 2017 fiscal periods.

The main raw materials required for vehicle production are steel, synthetic material, aluminum, copper, lead, platinum, palladium, rhodium and lithium. 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.

The SARS-CoV-2 pandemic has caused significant volatility in the prices and supply of raw materials and may continue to impact the prices and supply of raw materials, as worldwide supply chains are affected by production shortages, while on the other hand, many companies are facing a decline in demand, impacting prices. At this time, Volkswagen cannot fully assess the impact of the pandemic on the Group's procurement costs. See also: "6.14 Recent Events".

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 technology progress, legal requirements and changing customer requirements in a timely manner, and to set new technical and customer 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 alternative drive technologies such as 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 and modular platform concepts. 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 hybrid or electric drives.

The table below shows the research and development costs reported in the income statement, their share of capitalized development costs and the amortization of capitalized development costs in 2019, 2018 and 2017; these figures are only related to the Automotive Division:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>Change</u> <u>2019/2018</u>	<u>Change</u> <u>2018/2017</u>
	(in EUR million) (unaudited)			(%) (unaudited)	
Total research and development costs	14,306	13,640	13,135	+4.9	+3.8
of which capitalized development costs . . .	5,171	5,234	5,260	-1.2	-0.5
Capitalization ratio (%)	36.1	38.4	40.0		
Amortization of capitalized development costs	4,064	3,710	3,734	+9.5	-0.6
Research and development costs recognized in profit or loss	13,199	12,116	11,609	+8.9	+4.3
Total research and development costs as % of sales revenue of the Automotive Division	6.7	6.8	6.7	—	—

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 alternative drives and 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 2019 amounted to EUR 2,346 million, while foreign exchange losses in the operating result amounted to EUR 2,013 million (2018: EUR 2,530 million and EUR 2,800 million; 2017: EUR 2,656 million and EUR 2,839 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 2019 would have resulted in a deterioration in the earnings after tax of approximately the following amounts:

Currency	Effect on earnings after tax (in EUR million)
British pound sterling	-172
U.S. dollar	-473
Chinese renminbi	-155
Swiss franc	-1
Japanese yen	-13
Swedish krona	-122
Canadian dollar	-14
Czech koruna	-62
Polish zloty	-58
Brazilian real	-111
Australian dollar	-25
Hungarian forint	-104
South Korean Won	-19

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

During the course of its general business activities, 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 (maximum tenor of 10 years) using financial hedging instruments. These include predominantly currency forwards, currency options, currency swaps and cross-currency swaps. In 2018, Volkswagen changed its disclosure of profit and loss effects of cash flow hedges to account for IFRS 9 changes. In the case of cash flow hedges, the hedging instruments are also measured at fair value. The designated effective portion of the hedging instrument is accounted for through other comprehensive income I ("**OCI I**") and the non-designated portion through other comprehensive income II ("**OCI II**"). They are recognized in the income statement when the hedged item is recognized in profit or loss. The ineffective portion of cash flow hedges is recognized through profit or loss immediately.

In 2019, EUR 782 million was transferred from OCI I to operating result, increasing earnings, and EUR 997 million was transferred from OCI II to operating result, decreasing earnings. In 2018, EUR 1,939 million was transferred from OCI I to operating result, increasing earnings, and EUR 377 million was transferred from OCI II to operating result, decreasing 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").

The SARS-CoV-2 pandemic has had and may continue to have significant effects on the exchange rates of many foreign currencies, in particular but not limited to a deterioration in the value of several emerging market currencies as compared to the Euro. Due to significant changes in forecasted inflows and outflows of several of the previously mentioned foreign currencies, hedging positions had to be modified as part of the reaction to the coronavirus pandemic. At this time, Volkswagen cannot fully assess the impact of the pandemic on the group's foreign exchange rate exposure. See also: "6.14 Recent Events".

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), vehicle leasing, insurance activities, fleet management and mobility offerings. 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. However, as a result of the SARS-CoV-2 pandemic and the resulting global economic downturn, financing has become more expensive and this may continue in the future.

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 23.6% in 2019 (2018: 22.3%; 2017: 16.2%*). 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).

*Adjusted for changes in accounting policy (see "*Summary—Overview of Consolidated Financial Information of the Volkswagen Group*").

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, hedges sales revenue and other sales revenue (comprises revenue from workshop services and license revenue, among other things). Sales revenue, interest and commission income from financial services 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.

During the implementation of IFRS 15 for the fiscal year 2018, the way income from the reversal of provisions and accrued liabilities is reported was adjusted. These items have been allocated to those functional areas in which they were originally recognized. 2017 figures were adjusted (see disclosures on IFRS 15 in “*Summary—Overview of Consolidated Financial Information of the Volkswagen Group*”).

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.

During the implementation of IFRS 15 for the fiscal year 2018, the way income from the reversal of provisions and accrued liabilities is reported was adjusted, these items have been allocated to those functional areas in which they were originally recognized. 2017 figures were adjusted (see disclosures on IFRS 15 in “*Summary—Overview of Consolidated Financial Information of the Volkswagen Group*”).

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.

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 other hedges includes primarily foreign exchange gains from the fair value measurement of financial instruments used to hedge exchange rates and commodity prices and are not designated in a hedging relationship. Foreign exchange losses 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.

Due to the fact that emission regulations are being tightened worldwide, the cash flows of the individual products influence each other to an increasing extent. The brands have, since the fourth quarter of 2019, been designated as cash generating units in the Passenger Cars Business Area, thus forming the basis for impairment tests and profitability assessments when initially recognizing internally generated intangible assets. The changed definition of cash-generating units led to a non-recurring reversal of write-downs, which had an effect of EUR 0.9 billion on other operating income in the fourth quarter of 2019 and will lead to increased depreciation and amortization in subsequent periods.

6.5.5 Other Operating Expenses

Other operating expenses primarily comprise valuation allowances on trade receivables including construction contracts and on other receivables and other assets, losses from foreign currency hedging derivatives within hedge accounting and from foreign exchange, expenses from other hedges, expenses from cost allocations, as well as miscellaneous other operating expenses.

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.

Expenses from other hedges include primarily foreign exchange losses from the fair value measurement of financial instruments used to hedge exchange rates and commodity prices and that are not designated in a hedging relationship.

6.5.6 Interest result

Interest result includes 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 realized income and expenses of loan receivables and payables in foreign currency, gains and losses from the fair value changes of derivatives both not included and included in hedge accounting, gains and losses from remeasurement and impairment of financial instruments, 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, 2019, 2018 and 2017. 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).

Furthermore, effective new IFRS standards were adopted on January 1, 2018 and 2019. Changes in accounting policy are described below whenever relevant. As a result of these changes, comparability to figures in prior period financial statements could be limited. For more information, see "Effects of new and amended IFRSs" in the notes to the Annual Financial Statements, as well as "*Summary — Overview of Consolidated Financial Information of the Volkswagen Group*". Unless otherwise indicated, the 2019 and the 2018 financial figures have been taken or derived from the 2019 Annual Financial Statements. The 2017 financial figures have been taken or derived from the 2018 Annual Financial Statements. As a result, trends and significant changes in results of operations and financial condition discussion as of and for the 2019 and 2018 financial years will be presented based on the 2019 Annual Financial Statement figures, and discussion as of and for the 2017 financial years will be presented based on the 2018 Annual Financial Statement figures.

The following table presents the main items in Volkswagen's income statements for the years ended December 31, 2019, 2018 and 2017. To facilitate comparison and discussion in the following paragraphs, the 2017 figures are shown adjusted according to the 2018 Annual Financial Statements.

	Period from January 1 to December 31		
	2019	2018	2017⁽¹⁾
	(in EUR million)		
Sales revenue	252,632	235,849	229,550
Cost of sales	-203,490	-189,500	-186,001
Gross result	49,142	46,350	43,549
Distribution expenses	-20,978	-20,510	-20,850
Administrative expenses	-9,767	-8,819	-8,126
Other operating income	11,453	11,631	11,514
Other operating expenses	-12,890	-14,731	-12,259
Operating result	16,960	13,920	13,818
Share of the result of equity-accounted investments	3,349	3,369	3,482
Interest income	910	967	951
Interest expenses	-2,524	-1,547	-2,317
Other financial result	-339	-1,066	-2,262
Financial result	1,396	1,723	-146
Earnings before tax	18,356	15,643	13,673
Income tax income/expense	-4,326	-3,489	-2,210
Earnings after tax	14,029	12,153	11,463
of which attributable to			
Noncontrolling interests	143	17	10
Volkswagen AG hybrid capital investors	540	309	274
Volkswagen AG shareholders	13,346	11,827	11,179

⁽¹⁾ Adjusted for changes in accounting policy (see "Summary — Overview of Consolidated Financial Information of the Volkswagen Group").

6.6.1 Results of Operations — 2019 compared with 2018

6.6.1.1 Sales revenue

The Volkswagen Group generated sales revenue of EUR 252.6 billion in 2019, 7.1% higher than in the previous year. Improvements in product mix, higher sales volumes and the healthy business performance of the Financial Services Division had a positive impact; offsetting the negative effects from exchange rate developments. The major share of sales revenue (excluding sales revenue from hedges) was recorded outside Germany (80.6% in 2019 compared with 81.4% in 2018).

Volkswagen's sales revenue by source is as follows:

	Period from January 1 to December 31		Change 2019/2018 (%) (unaudited)
	2019	2018	
	(in EUR million)		
Vehicles	157,212	146,826	+7.1
Genuine parts	16,676	15,919	+4.8
Used vehicles and third-party products	13,449	12,554	+7.1
Engines, powertrains and parts deliveries	12,116	12,440	-2.6
Power Engineering	3,994	3,605	+10.8
Motorcycles	603	582	+3.6
Leasing business	29,147	25,006	+16.6
Interest and similar income	8,066	7,351	+9.7
Hedges sales revenue	11	1,535	-99.3
Other sales revenue	11,359	10,031	+13.2
	252,632	235,849	+7.1

There was an increase in sales revenue from the sale of vehicles by EUR 10.4 billion, or 7.1%, in 2019, on account of higher vehicle unit sales. Sales revenue from the sale of genuine parts grew year on year by EUR 757 million or 4.8%, and the sale of used vehicles and third-party products grew by EUR 895 million or 7.1% in 2019 compared to 2018, respectively. The total sales revenues of engines, powertrains and parts deliveries decreased in 2019 by EUR 324 million, or 2.6%. Power Engineering reported an increase in sales revenue of EUR 389 million, or 10.8% in 2019. 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 2018, sales revenue from the leasing business increased in 2019 by EUR 4.1 billion, or 16.6%. Revenue from interest and similar income increased in 2019 by EUR 715 million, or 9.7%.

Other sales revenue comprises revenue from workshop services and license revenue, among other things. Other sales revenue increased by EUR 1.3 billion, or 13.2%, in 2019 compared with 2018.

Of the sales revenue recognized in 2019, an amount of EUR 6,333 million was included in contract liabilities as of January 1, 2019. EUR 359 million of the sales revenue recognized in 2019 is attributable to performance obligations satisfied in a prior period as compared to EUR 667 million in 2018.

Volkswagen's sales revenue by division is as follows:

	Period from January 1 to December 31		Change 2019/2018 (%) (unaudited)
	2019 (in EUR million) (unaudited)	2018 (in EUR million) (unaudited)	
Automotive Division ⁽¹⁾	212,473	201,067	+5.7
Financial Services Division	40,160	34,782	+15.5
Volkswagen Group	<u>252,632</u> ⁽²⁾	<u>235,849</u> ⁽²⁾	+7.1

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

⁽²⁾ Audited.

The Automotive Division's sales revenue rose from EUR 201.1 billion in 2018 to EUR 212.5 billion in 2019, a 5.7% increase. The improvement resulted primarily from improvements in product mix and higher sales volumes, 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 almost exclusively through deliveries of vehicles and vehicle parts.

In 2019, sales revenue in the Passenger Cars Business Area – which for purposes of financial statement segment reporting includes the segment Passenger Cars and Light Commercial Vehicles and the reconciliation – was 5.4% higher than the previous year, at EUR 182.0 billion (2018: EUR 172.7* billion), mainly because of positive mix and higher sales volumes. Exchange rates had a negative effect. Sales revenue in the Commercial Vehicles Business Area amounted to EUR 26.4 billion in 2019, a 6.7% increase compared to EUR 24.8** billion in 2018. This increase was also driven mainly by higher volumes and a positive mix. The Power Engineering Business Area recorded sales revenue of EUR 4.0 billion in 2019, an increase of 10.8% compared to EUR 3.6 billion in revenue in 2018 due to volume improvements.

* Note: Adjusted from EUR 160.8 billion as reported in the 2018 Annual Financial Statements (prepared using the old segment structure), due to inclusion of Commercial Vehicles as of January 1, 2019

** Note: Adjusted from EUR 36.7 billion as reported in the 2018 Annual Financial Statements (prepared using the old segment structure), due to exclusion of Commercial Vehicles as of January 1, 2019

The Financial Services Division generated sales revenue of EUR 40.2 billion in 2019. The 15.5% rise over the 2018 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:

	<u>Germany</u>	<u>Europe and Other Markets⁽¹⁾</u>	<u>North America</u>	<u>South America</u>	<u>Asia-Pacific</u>	<u>Hedges sales revenue</u>	<u>Total</u>
	(in EUR million)						
2019	48,991	105,009	43,351	11,297	43,974	11	252,632
2018	43,526	99,563	37,656	10,405	43,166	1,535	235,849

⁽¹⁾ Excluding Germany.

In Germany, combined with Europe and Other Markets, sales revenue increased slightly by 7.6% to EUR 154.0 billion in 2019 due to volume and mix effects. Sales revenue in North America rose 15.1% to EUR 43.4 billion in 2019, primarily due to the increase in volumes as well as positive exchange rate effects. In South America, positive mix effects contributed to a 8.6% increase in sales revenue to EUR 11.3 billion in 2019, while exchange rate trends had a negative impact. Sales revenue in the Asia-Pacific region amounted to EUR 44.0 billion in 2019, with the 1.9% increase over 2018 attributable to an improved mix and positive exchange rate 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.

6.6.1.2 Cost of sales

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

	<u>Period from January 1 to December 31</u>		<u>Change 2019/2018 (%)</u> <u>(unaudited)</u>
	<u>2019</u> <u>(in EUR million)</u>	<u>2018</u>	
Cost of sales	203,490	189,500	+7.4
as % of sales revenue <i>(unaudited)</i>	80.5	80.3	—

Cost of sales grew by EUR 14.0 billion, or 7.4%, in 2019 compared with the prior year, mainly as a result of higher volumes and a rise in depreciation and amortization charges due to the large capital expenditure volume as well as an increase in research and development costs recognized in profit or loss in the Automotive Division. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) amounted to 6.7% in 2019 and were slightly lower against 6.8% in 2018. In addition to new models, the R&D activities focused above all on the electrification of the vehicle portfolio, a more efficient range of engines, digitalization and new technologies.

Cost of sales includes interest expenses of EUR 2,705 million in 2019 (compared with EUR 2,270 million in 2018) 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 830 million (compared with EUR 1,165 million in 2018). The impairment losses of EUR 295 million in 2019 (compared with EUR 631 million in 2018) on intangible assets and items of property, plant and equipment in 2019 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. The impairment losses on lease assets in the amount of EUR 535 million in 2019 (compared with EUR 534 million in 2018) were predominantly attributable to the Financial Services segment. They are based on constantly updated internal and external information that is factored into the forecast residual values of the vehicles. Thereof, EUR 25 million (compared with EUR 24 million in 2018) were reported in current lease assets.

6.6.1.3 Distribution and administrative expenses

Distribution expenses in 2019 were EUR 21.0 billion, with the previous year at EUR 20.5 billion. The ratio of distribution expenses to sales revenue was down. At EUR 9.8 billion, administrative expenses rose by 10.7% between 2018 and 2019, 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:

	Period from January 1 to December 31		Change 2019/2018 (%) unaudited)
	2019	2018	
	(in EUR million)		
Distribution expenses	20,978	20,510	+2.3
as % of sales revenue (<i>unaudited</i>)	8.3	8.7	—
Administrative expenses	9,767	8,819	+10.7
as % of sales revenue (<i>unaudited</i>)	3.9	3.7	—
	<u>30,745</u>	<u>29,329</u>	—

In the Automotive Division, distribution expenses increased in 2019 to EUR 19.7 billion, as compared to EUR 19.0 billion in 2018. The ratio of distribution expenses to sales revenue was down. Administrative expenses increased by 5.9% to EUR 7.5 billion in 2019 as compared with 2018, and the ratio of administrative expenses to sales revenue was virtually unchanged.

In the Financial Services Division, distribution expenses declined, while administrative expenses rose in 2019 as compared with 2018. The rise in expenses was attributable due to higher volume. Overall, the ratio of costs to sales revenue was down slightly.

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:

	Period from January 1 to December 31		Change 2019/2018 (%) (unaudited)
	2019	2018	
	(in EUR million)		
Income from reversal of loss allowances on receivables and other assets	1,482	1,586	-6.6
Income from reversal of provisions and accruals	969	1,144	-15.3
Income from foreign currency hedging derivatives within hedge accounting	686	822	-16.5
Income from foreign exchange gains	2,346	2,530	-7.3
Income from other hedges	1,177	1,138	+3.4
Income from sale of promotional material	498	483	+3.1
Income from cost allocations	985	1,139	-13.5
Income from investment property	12	14	-14.3
Gains on asset disposals and the reversal of impairment losses	1,182	390	>+100
Miscellaneous other operating income	2,116	2,383	-11.2
	<u>11,453</u>	<u>11,631</u>	-1.5
as % of sales revenue (<i>unaudited</i>)	4.5	4.9	—

Other operating income fell by EUR 178 million, or 1.5%, in 2019, due to lower income from reversal of loss allowances on receivables and other assets as well as lower income from provisions and accruals and foreign currency hedging derivatives within hedge accounting.

The changed definition of cash-generating units led to a non-recurring reversal of write-downs, which had an effect of EUR 0.9 billion on other operating income (especially on the gains on asset disposals and the reversal of impairment losses) in the fourth quarter of 2019 and will lead to increased depreciation and amortization in subsequent periods. This effect was offset by a decrease in almost any other item included in the "other operating profit".

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:

	Period from January 1 to December 31		Change 2019/2018 (%) (unaudited)
	2019 (in EUR million)	2018⁽¹⁾	
Loss allowances on trade receivables including construction contracts	317	315	+0.6
Loss allowances on other receivables and other assets	1,783	1,833	-2.7
Losses from foreign currency hedging derivatives within hedge accounting	997	856	+16.5
Expenses from other hedges	1,332	1,592	-16.3
Foreign exchange losses	2,013	2,800	-28.1
Expenses from cost allocations	563	650	-13.4
Expenses for termination agreements	54	36	+50.0
Losses on disposal of noncurrent assets	119	161	-26.1
Miscellaneous other operating expenses	<u>5,712</u>	<u>6,488</u>	-12.0
	<u>12,890</u>	<u>14,731</u>	-12.5
as % of sales revenue (unaudited)	5.1	6.2	—

⁽¹⁾ The presentation of other operating expenses for 2018 has been adjusted to account for the implementation of IFRS 15, requiring loss allowances on trade receivables, including receivables from long-term construction contracts, to be presented separately. The prior-year amount is included in the loss allowances on other receivables and other assets item.

Other operating expenses fell by EUR 1.8 billion, or 12.5 % in 2019 compared to 2018, primarily due to a decrease in foreign exchange losses and lower miscellaneous other operating expenses. Expenses from other hedges included primarily foreign exchange losses from the fair value measurement of financial instruments used to hedge exchange rates and commodity prices and that are not designated in a hedging relationship. Litigation expenses in relation to the diesel issue of EUR 2.6 billion (2018: 3.0 billion) were recognized under other operating expenses, which arose from the administrative fine order of EUR 0.5 billion issued in May 2019 by the Stuttgart Public Prosecutor, which ended the regulatory offense proceeding against Porsche AG, and higher provisions for legal risks.

6.6.1.6 Operating result

In 2019, the Volkswagen Group generated an operating result of EUR 17.0 billion, which was EUR 3.0 billion higher than in 2018 (EUR 13.9 billion). The increase was mainly attributable to positive mix effects, higher volumes, the reversal of impairment losses following the remeasurement of development costs, product cost optimizations, and the fair value measurement of certain derivatives. A rise in fixed costs had a negative impact. Expenses in connection with the diesel issue reduced operating result by EUR 2.3 billion in 2019 as compared to a reduction of EUR 3.2 billion in 2018.

In 2018, expenses directly related to the diesel issue of EUR 3.2 billion weighed on operating result. These were mainly attributable to the fines resulting from the final administrative fine orders issued by the Braunschweig public prosecutor's office (EUR 1.0 billion) and the Munich II public prosecutor's office (EUR 0.8 billion), from higher legal risks and legal defense costs and an increase in expenses for technical measures. The operating return on sales climbed to 6.7% in 2019 (2018: 5.9%).

Volkswagen's operating result by division is as follows:

	Period from January 1 to December 31		Change 2019/2018 (%) (unaudited)
	2019	2018	
	(in EUR million) (unaudited)		
Automotive Division ⁽¹⁾	13,748	11,127	+23.6
as % of sales revenue of the Automotive Division ⁽²⁾	6.5	5.5	—
Financial Services Division	3,212	2,793	+15.0
as % of sales revenue of the Financial Services Division ⁽²⁾	8.0	8.0	—
Volkswagen Group	16,960⁽³⁾	13,920⁽³⁾	+21.8
as % of Group sales revenue ⁽²⁾	6.7	5.9	—

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

⁽²⁾ Operating return on sales.

⁽³⁾ Audited.

The Automotive Division's operating result rose to EUR 13.7 billion in 2019, a 23.6% jump from 2018. The division recorded an operating return on sales of 6.5% in 2019 compared with 5.5% in 2018. The main contributors to the Automotive Division's operating result in 2019 were improvements in the mix as well as higher vehicle sales, the reversal of impairment losses following the remeasurement of development costs, product cost optimization, the measurement of certain derivatives and a decline in expenses directly related to the diesel issue. Higher depreciation and amortization charges and higher research and development costs had an offsetting effect. Expenses directly related to the diesel issue contained in the Automotive Division's operating result amounted to EUR 2.3 billion in 2019 (2018: EUR 3.2 billion). In 2019 and 2018, these expenses were exclusively attributable to the diesel issue.

The Passenger Cars Business Area – which for purposes of financial statement segment reporting includes the segment Passenger Cars and Light Commercial Vehicles and the reconciliation – generated an operating result of EUR 12.2 billion in 2019, an increase of EUR 2.2 billion compared with 2018. The operating return on sales was 6.7% in 2019 compared with 5.8% in 2018.

In the Commercial Vehicles Business Area, operating result rose to EUR 1.7 billion in 2019 compared with EUR 1.2 billion in 2018, while the operating return on sales amounted to 6.3% in 2019 (2018: 4.8%). The increase in 2018 was mainly the result of higher volumes, positive mix and price improvements while cost increases had a negative impact. The 2019 figures reflect the re-allocation of the Volkswagen Commercial Vehicles brand to the Passenger Cars and Light Commercial Vehicles segment, and the 2018 figures have been adjusted accordingly.

Operating result in the Power Engineering Business Area in 2019 amounted to a loss of EUR 0.1 billion, unchanged from the prior year. In 2019, higher volumes were offset by a rise in fixed costs. The operating return on sales dipped to –2.3% in 2019 from –1.8% in 2018.

Operating result in the Financial Services Division increased by 15.0% from EUR 2.8 billion in 2018 to EUR 3.2 billion in 2019. The increase resulted, above all, from higher business volumes and exchange rate effects. The operating return on sales was unchanged at 8.0% in 2019.

6.6.1.7 Financial result

Volkswagen's financial result decreased by EUR 0.3 billion to EUR 1.4 billion in 2019. The interest expenses included in this item rose markedly, driven by the rise in the refinancing volume, the interest expense on provisions and application of the new IFRS 16.

In 2019, the Automotive Division's financial result amounted to EUR 1.4 billion compared to EUR 1.7 billion in 2018. The financial result of the Financial Services Division climbed from EUR –12 million in 2018 to EUR 7 million in 2019.

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:

	Period from January 1 to December 31		Change 2019/2018 (%) (unaudited)
	2019 (in EUR million)	2018 (in EUR million)	
Share of profits of equity-accounted investments	3,501	3,551	-1.4
of which: from joint ventures	3,257	3,320	-1.9
of which: from associates	244	231	+5.6
Share of losses of equity-accounted investments	152	182	-16.5
of which: from joint ventures	10	23	-56.5
of which: from associates	142	159	-10.7
	3,349	3,369	-0.6

The share of the result of equity-accounted investments remained stable at EUR 3,349 million in 2019, a decrease of 0.6% or EUR 20 million compared to 2018.

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 4,425 million in 2019, a 4.4% decrease from EUR 4,627 million in 2018. In 2019, the negative impact of more intense market competition and the increase in research and development costs were offset by improvements in the mix 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 2019/2018 (%) (unaudited)
	2019 (in EUR million)	2018 (in EUR million)	
Interest income	910	967	-5.9
Other interest and similar income	904	950	-4.8
Income from valuation of interest derivatives	6	17	-64.7
Interest expenses	-2,524	-1,547	-63.2
Other interest and similar expenses	-1,401	-974	-43.8
Expenses from valuation of interest derivatives	-6	-1	>-100.0
Interest expenses included in lease payments	-217	-27	>-100.0
Interest result on other liabilities	-238	77	>-100.0
Net interest on the net defined benefit liability	-662	-623	-6.3
Interest result	-1,614	-580	>-100.0

In 2019, interest result amounted to EUR -1.6 billion compared to EUR -0.6 billion in 2018. The decrease in interest result reflected primarily increased 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 2019/2018 (%) (unaudited)
	2019 (in EUR million)	2018	
Income from profit and loss transfer agreements	19	77	-75.3
Cost of loss absorption	-72	-54	-33.3
Other income from equity investments	178	101	+76.2
Other expenses from equity investments	-374	-360	-3.9
Income from marketable securities and loans	27	-355	>+100.0
Realized income of loan receivables and payables in foreign currency	877	1,161	-24.5
Realized expenses of loan receivables and payables in foreign currency	-980	-1,130	+13.3
Gains and losses from remeasurement and impairment of financial instruments	228	-41	>+100.0
Gains and losses from fair value changes of derivatives not included in hedge accounting	-240	-453	+47.0
Gains and losses from fair value changes of derivatives included in hedge accounting	0	-12	>+100.0
Other financial result	-339	-1,066	+68.2

The other financial result increased by EUR 0.7 billion to EUR -0.3 billion in 2019 compared with the prior year figure of EUR -1.1 billion, mainly due to gains from remeasurement and impairment of financial instruments and income from marketable securities and loans as well as gains from fair value changes of derivatives not included in hedge accounting.

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 2019/2018 (%) (unaudited)
	2019 (in EUR million)	2018	
Current tax expense, Germany	1,473	1,131	+30.2
Current tax expense, abroad	2,673	2,401	+11.3
Current income tax expense	4,147	3,533	+17.4
of which prior-period income/expense	32	79	-59.5
Deferred tax income (-)/expense (+), Germany	115	429	-73.2
Deferred tax income (-)/expense (+), abroad	65	-472	>-100.0
Deferred tax income (-)/expense (+)	180	-43	>-100.0
Income tax income/expense	4,326	3,489	+24.0

Income tax expense increased by EUR 0.8 billion to EUR 4.3 billion in 2019 compared with the prior year. The tax expense of EUR 4,326 million reported for 2019 was EUR 1,144 million lower than the expected tax expense of EUR 5,470 million that would have resulted from application of a tax rate applicable to undistributed profits of 29.8% to the profit before tax of the Volkswagen Group. This resulted primarily from tax-exempt income. A tax rate of 29.8% was used to measure deferred taxes in the German consolidated tax group in 2019 (2018: 29.8%).

6.6.2 Results of Operations — 2018 compared with 2017

6.6.2.1 Sales revenue

The Volkswagen Group generated sales revenue of EUR 235.8 billion in 2018, 2.7% higher than in 2017. Higher volumes and improvements in the mix and the healthy business performance in the Financial Serv-

ices division were offset by negative exchange rate effects. The effects of applying the new International Financial Reporting Standards resulted in an overall increase in sales revenue. The major share of sales revenue (excluding hedge sales revenue) was recorded outside Germany (81.4% in 2018 compared with 80.7% in 2017).

Volkswagen's sales revenue by source is as follows:

	Period from January 1 to December 31		Change 2018/2017 (%) (unaudited)
	2018 (in EUR million)	2017⁽¹⁾	
Vehicles	146,826	144,826	+1.4
Genuine parts	15,919	15,628	+1.9
Used vehicles and third-party products	12,554	13,355	-6.0
Engines, powertrains and parts deliveries	12,440	11,318	+9.9
Power Engineering	3,605	3,280	+9.9
Motorcycles	582	601	-3.2
Leasing business	25,006	24,570	+1.8
Interest and similar income	7,351	7,119	+3.3
Hedges sales revenue	1,535	—	—
Other sales revenue	10,031	8,853	+13.3
	235,849	229,550	+2.7

⁽¹⁾ Adjusted for changes in accounting policy (see "Summary—Overview of Consolidated Financial Information of the Volkswagen Group").

There was an increase in sales revenue from the sale of vehicles by EUR 2 billion, or 1.4%, in 2018, on account of higher vehicle unit sales. Sales revenue from the sale of genuine parts increased year on year by 1.9%, whereas the sale of used vehicles and third-party products decreased year on year by 6.0%, respectively. The total sales revenues of engines, powertrains and parts deliveries increased in 2018 by EUR 1.1 billion, or 9.9%. Power Engineering reported an increase in sales revenue of EUR 0.3 billion, or 9.9% in 2018 compared to 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 2018 by EUR 0.4 billion, or 1.8%. Revenue from interest and similar income increased in 2018 by EUR 232 million, or 3.3%.

Other sales revenue comprises revenue from workshop services and license revenue, among other things. Other sales revenue increased by EUR 1,178 million, or 13.3%, in 2018 compared with the prior year.

Of the sales revenue recognized in 2018, an amount of EUR 6,333 million was included in contract liabilities as of January 1, 2018. EUR 667 million of the sales revenue recognized in 2018 is attributable to performance obligations satisfied in a prior period.

Volkswagen's sales revenue by division is as follows:

	Period from January 1 to December 31		Change 2018/2017 (%) (unaudited)
	2018 (in EUR million) (unaudited)	2017⁽¹⁾	
Automotive Division ⁽²⁾	201,067	195,817	+2.7
Financial Services Division	34,782	33,733	+3.1
Volkswagen Group	235,849⁽³⁾	229,550⁽³⁾	+2.7

⁽¹⁾ Adjusted for changes in accounting policy (see "Summary—Overview of Consolidated Financial Information of the Volkswagen Group").

⁽²⁾ Including allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

⁽³⁾ Audited.

The Automotive Division's sales revenue rose from EUR 195.8 billion in 2017 to EUR 201.1 billion in 2018, a 2.7% increase. The improvement resulted primarily from higher vehicle sales and improvements in the mix, which were offset by negative exchange rate effects. In the second half of the year, the changeover to WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) weighed on performance. 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 almost exclusively through deliveries of vehicles and vehicle parts.

In 2018, 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 2.2% higher than the previous year, at EUR 160.8 billion (result is taken from the 2018 Annual Financial Statements and does not include the Volkswagen Commercial Vehicles brand which was reported as part of the Commercial Vehicles Business Area until January 1, 2019) as compared to EUR 157.3 billion in 2017, mainly because of volume- and mix-related factors. Exchange rates had a negative effect. Sales revenue in the Commercial Vehicles Business Area, amounted to EUR 36.7 billion in 2018 (result is taken from the 2018 Annual Financial Statements and includes the Volkswagen Commercial Vehicles brand which was reported as part of the Commercial Vehicles Business Area until January 1, 2019), a 4.1% increase compared to EUR 35.2 billion in 2017. This increase was also driven mainly by larger volumes, a positive mix and exchange rate effects while cost increases had a negative impact. The Power Engineering Business Area recorded sales revenue of EUR 3.6 billion in 2018, an increase of 9.9% compared to EUR 3.3 billion in revenue in 2017, volume improvements were offset by a deterioration in the mix.

The Financial Services Division generated sales revenue of EUR 34.8 billion in 2018. The 3.1% increase over the 2017 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:

	<u>Germany</u>	<u>Europe and Other Markets⁽¹⁾</u>	<u>North America</u>	<u>South America</u>	<u>Asia-Pacific</u>	<u>Hedges sales revenue</u>	<u>Total</u>
	(in EUR million)						
2018	43,526	99,563	37,656	10,405	43,166	1,535	235,849
2017 ⁽²⁾	44,333	98,420	37,686	9,988	39,123	—	229,550

⁽¹⁾ Excluding Germany.

⁽²⁾ Adjusted for changes in accounting policy (see "Summary—Overview of Consolidated Financial Information of the Volkswagen Group").

In Germany, combined with Europe and Other Markets, sales revenue increased slightly by 0.2% to EUR 143.1 billion due to, among other things, higher volumes, while exchange rate effects had a negative impact. The second half of 2018 was negatively impacted by the changeover to the WLTP test procedure. Sales revenue in North America was on a level with the previous year at EUR 37.7 billion in 2018. Negative effects resulted from the decline in new vehicle sales and from exchange rates, while improvements in the mix and the financial services business, as well as revenue stemming from retrofitted used vehicles in connection with the diesel issue, had a positive impact. In South America, a higher volume and positive mix effects drove a 4.2% increase in sales revenue to EUR 10.4 billion in 2018, while exchange rate trends had a negative impact. Sales revenue in the Asia-Pacific region amounted to EUR 43.2 billion in 2018, with the 10.3% increase over 2017 attributable to higher 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.

6.6.2.2 Cost of sales

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

	<u>Period from January 1 to December 31</u>		<u>Change 2018/2017 (%) (unaudited)</u>
	<u>2018</u>	<u>2017⁽¹⁾</u>	
	(in EUR million)		
Cost of sales	189,500	186,001	+1.9
as % of sales revenue (unaudited)	80.3	81.0	

⁽¹⁾ Adjusted for changes in accounting policy (see "Summary — Overview of Consolidated Financial Information of the Volkswagen Group").

Cost of sales increased by EUR 3.5 billion, or 1.9%, in 2018 compared with the prior year, mainly as a result of business expansion and due to higher depreciation and amortization charges and research and development costs recognized in profit or loss in the Automotive Division. Expenses directly related to the diesel issue recognized here in 2018 were down compared to 2017. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) amounted to 6.8% in 2018 and were slightly up against 6.7% in 2017. In addition to new models, the R&D activities focused above all on the electrification of the vehicle portfolio, a more efficient range of engines, digitalization and new technologies.

Cost of sales includes interest expenses of EUR 2,270 million in 2018 (compared with EUR 1,961 million in 2017) attributable to the financial services business. Cost of sales 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 1,165 million (compared with EUR 1,185 million in 2017). The impairment losses on intangible assets and items of property, plant and equipment in 2018 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. The impairment losses on lease assets in the amount of EUR 534 million (2017: EUR 485 million) were predominantly attributable to the Financial Services segment. They are based on constantly updated internal and external information that is factored into the forecast residual values of the vehicles. Thereof, EUR 24 million (2017: EUR 37 million) were reported in current lease assets.

6.6.2.3 Distribution and administrative expenses

Distribution expenses in 2018 were EUR 20.5 billion, with the previous year at EUR 20.9 billion. The ratio of distribution expenses to sales revenue decreased. At EUR 8.8 billion, administrative expenses increased by 8.5% between 2017 and 2018, 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:

	Period from January 1 to December 31		Change 2018/2017 (%) unaudited)
	2018 (in EUR million)	2017⁽¹⁾	
Distribution expenses	20,510	20,859	-1.7
as % of sales revenue (<i>unaudited</i>)	8.7	9.1	
Administrative expenses	8,819	8,126	+8.5
as % of sales revenue (<i>unaudited</i>)	3.7	3.5	
	<u>29,329</u>	<u>28,985</u>	+1.2

⁽¹⁾ Adjusted for changes in accounting policy (see "Summary — Overview of Consolidated Financial Information of the Volkswagen Group").

In the Automotive Division, distribution expenses were lower in 2018 at EUR 19.0 billion, as compared to EUR 19.5 billion in 2017. This was attributable to reclassifications of expenses to sales revenue in 2018, as a consequence of the new IFRS 15, the sale of the PGA Group in June 2017, as well as exchange rate effects. The ratio of distribution expenses to sales revenue decreased. Administrative expenses increased by 10.4% to EUR 7.1 billion in 2018 as compared with 2017, and the ratio of administrative expenses to sales revenue also increased.

In the Financial Services Division, both distribution and administrative expenses increased in 2018 as compared with 2017. In addition to higher volumes, the rise in expenses was attributable in particular to higher IT costs. The ratio of distribution expenses to sales revenue rose in 2018 as compared to the previous year, whereas the ratio of administrative expenses to sales revenue was virtually unchanged year-on-year.

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 2018/2017 (%) (unaudited)
	2018 (in EUR million)	2017⁽¹⁾	
Income from reversal of loss allowances on receivables and other assets	1,586	1,043	+52.1
Income from reversal of provisions and accruals	1,144	1,398	-18.2
Income from foreign currency hedging derivatives within hedge accounting	822	2,259	-63.6
Income from foreign exchange gains	2,530	2,656	-4.7
Income from other hedges	1,138	—	—
Income from sale of promotional material	483	502	-3.8
Income from cost allocations	1,139	1,386	-17.8
Income from investment property	14	16	-12.5
Gains on asset disposals and the reversal of impairment losses	390	212	+84.0
Miscellaneous other operating income	2,383	2,041	+16.8
	11,631	11,514	+1.0
as % of sales revenue (unaudited)	4.9	5.0	

⁽¹⁾ Adjusted for changes in accounting policy (see "Summary—Overview of Consolidated Financial Information of the Volkswagen Group").

Other operating income increased by EUR 117 million, or 1.0%, in 2018, mainly due to higher income from reversal of loss allowances on receivables and other assets as well as income from other hedges.

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 2018/2017 (%) (unaudited)
	2018 (in EUR million)	2017	
Loss allowances on trade receivables including construction contracts	315	—	—
Loss allowances on other receivables and other assets	1,833	1,650	+11.1
Losses from foreign currency hedging derivatives within hedge accounting	856	1,753	-51.2
Expenses from other hedges	1,592	—	—
Foreign exchange losses	2,800	2,839	-1.4
Expenses from cost allocations	650	609	+6.7
Expenses for termination agreements	36	35	+2.9
Losses on disposal of noncurrent assets	161	175	-8.0
Miscellaneous other operating expenses	6,488	5,197	+24.8
	14,731	12,259	+20.2
as % of sales revenue (unaudited)	6.2	5.3	

The presentation of other operating expenses for 2018 has been adjusted to account for the implementation of IFRS 15, requiring loss allowances on trade receivables, including receivables from long-term construction contracts, to be presented separately. The prior-year amount is included in the loss allowances on other receivables and other assets item.

Other operating expenses increased by EUR 2,472 million, or 20.2% in 2018 compared to 2017, driven in particular by expenses from other hedges, higher loss allowances on other receivables and other assets and also by higher miscellaneous other operating expenses. Expenses from other hedges included primarily foreign exchange losses from the fair value measurement of financial instruments used to hedge exchange rates and commodity prices and that are not designated in a hedging relationship. In the previous year, these effects were recognized in the financial result. Under IFRS 9, they are included in operating profit. Litigation expenses in relation to the diesel issue of EUR 3.0 billion in 2018 are included in miscellaneous other operating expenses (2017: EUR 1.0 billion).

6.6.2.6 Operating result

In 2018, the Volkswagen Group generated an operating result of EUR 13.9 billion, which was EUR 0.1 billion higher than in 2017 (EUR 13.8 billion). Positive factors included primarily volume improvements. Negative factors impacting operating result comprised of higher depreciation and amortization charges due to the large volume of capital expenditure, increased research and development costs, and fair value measurement gains and losses on certain derivatives (reported under operating result since the beginning of the 2018 financial year).

In 2018, expenses directly related to the diesel issue of EUR 3.2 billion weighed on operating result. These were mainly attributable to the fines resulting from the final administrative fine orders issued by the Braunschweig public prosecutor's office (EUR 1.0 billion) and the Munich II public prosecutor's office (EUR 0.8 billion), from higher legal risks and legal defense costs and an increase in expenses for technical measures. The operating return on sales declined to 5.9% in 2018 (2017: 6.0%).

Volkswagen's operating result by division is as follows:

	Period from January 1 to December 31		Change 2018/2017 (%) (unaudited)
	2018 (in EUR million) (unaudited)	2017	
Automotive Division ⁽¹⁾	11,127	11,146	-0.2
as % of sales revenue of the Automotive Division ⁽²⁾	5.5	5.7	
Financial Services Division	2,793	2,673	+4.5
as % of sales revenue of the Financial Services Division ⁽²⁾	8.0	7.9	
Volkswagen Group	13,920⁽³⁾	13,818⁽³⁾	+0.7
as % of Group sales revenue ⁽²⁾	5.9	6.0	

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

⁽²⁾ Operating return on sales.

⁽³⁾ Audited.

The Automotive Division's operating result was at the prior-year level at EUR 11.1 billion in 2018. The division recorded an operating return on sales of 5.5% in 2018 compared with 5.7% in 2017. The main contributors to the Automotive Division's operating result in 2018 were volume improvements. Higher depreciation and amortization charges, higher research and development costs recognized in profit or loss and the fair value measurement of gains and losses on certain derivatives that have had to be reported here since the beginning of the year negatively weighed on operating profit. Expenses directly related to the diesel issue contained in the Automotive Division's operating result amounted to EUR 3.2 billion (2017: EUR 3.2 billion).

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 9.2 billion in 2018 (result is taken from the 2018 Annual Financial Statements and does not include the Volkswagen Commercial Vehicles brand which was reported as part of the Commercial Vehicles Business Area until January 1, 2019), which is in line with EUR 9.3 billion recorded in 2017. The operating return on sales was 5.7% in 2018 compared with 5.9% in 2017.

In the Commercial Vehicles Business Area operating result improved to EUR 2.0 billion in 2018 (result is taken from the 2018 Annual Financial Statements and includes the Volkswagen Commercial Vehicles brand which was reported as part of the Commercial Vehicles Business Area until January 1, 2019), compared with EUR 1.9 billion in 2017, while the operating return on sales amounted to 5.4% in 2018 (2017: 5.4%). The increase in 2018 was mainly the result of positive volume-, mix and exchange rate effects while cost increases had a negative impact.

Operating result in the Power Engineering Business Area in 2018 amounted to a loss of EUR 0.1 billion compared to a loss of EUR 0.1 billion in the prior year. In 2018, higher volumes were in part offset by deterioration in mix effects. The operating return on sales stood at –1.8% in 2018 compared to –1.7% in 2017.

Operating result in the Financial Services Division rose by 4.5% from EUR 2.7 billion in 2017 to EUR 2.8 billion in 2018. The increase resulted, above all, from higher business volume. The operating return on sales rose to 8.0% in 2018 from 7.9% in 2017.

6.6.2.7 Financial result

Volkswagen’s financial result increased by EUR 1.9 billion to EUR 1.7 billion in 2018. Foreign currency measurement, lower interest expenses and lower expenses from the measurement on the reporting date of derivative financial instruments, which are used to hedge financing transactions, had a positive effect. The effect of the remeasurement of put options and compensation rights in connection with the control and profit and loss transfer agreement with MAN SE had a negative impact on Volkswagen’s financial result.

In 2018, the Automotive Division’s financial result amounted to EUR 1.7 billion compared to EUR 25 million in 2017. The financial result of the Financial Services Division increased from EUR–171 million in 2017 to EUR –12 million in 2018.

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:

	Period from January 1 to December 31		Change 2018/2017 (%) (unaudited)
	2018 (in EUR million)	2017	
Share of profits of equity-accounted investments	3,551	3,519	+0.9
of which: from joint ventures	3,320	3,327	–0.2
of which: from associates	231	191	+20.9
Share of losses of equity-accounted investments	182	36	>+100.0
of which: from joint ventures	23	2	>+100.0
of which: from associates	159	34	>+100.0
	<u>3,369</u>	<u>3,482</u>	–3.2

The share of the result of equity-accounted investments slightly decreased by EUR 113 million in 2018. In 2017, the share of the result of equity-accounted investments included a one-off gain of EUR 183 million on the remeasurement of the investment in HERE following the acquisition of shares by additional investors. A rise in the profits generated by the Chinese joint ventures in 2018 partly offset the year-on-year decrease.

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 4,627 million in 2018, a 2.5% decrease from EUR 4,746 million in 2017. In 2018, the negative impact of more intense market competition, adverse exchange rate effects as well as the increase in research and development costs were offset by improvements in the mix, higher volumes and product cost optimization.

6.6.2.9 Interest result

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

	Period from January 1 to December 31		Change 2018/2017 (%) (unaudited)
	2018 (in EUR million)	2017 (in EUR million)	
Interest income	967	951	+1.7
Other interest and similar income	950	839	+13.2
Income from valuation of interest derivatives	17	113	-85.0
Interest expenses	-1,547	-2,317	+33.2
Other interest and similar expenses	-974	-1,305	+25.4
Expenses from valuation of interest derivatives	-1	-368	+99.7
Interest expenses included in lease payments	-27	-29	+6.9
Interest result on other liabilities	77	-13	>+100.0
Net interest on the net defined benefit liability	-623	-602	-3.5
Interest result	-580	-1,366	+57.5

In 2018, interest result amounted to EUR -0.6 billion compared to EUR -1.4 billion in 2017. The improved interest result reflected primarily lower interest expenses.

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 2018/2017 (%) (unaudited)
	2018 (in EUR million)	2017 ⁽¹⁾ (in EUR million)	
Income from profit and loss transfer agreements	77	35	>+100.0
Cost of loss absorption	-54	-76	+28.9
Other income from equity investments	101	71	+42.3
Other expenses from equity investments	-360	-289	-24.6
Income from marketable securities and loans	-355	-222	-59.9
Realized income of loan receivables and payables in foreign currency	1,161	734	+58.2
Realized expenses of loan receivables and payables in foreign currency	-1,130	-1,107	+2.1
Gains and losses from remeasurement and impairment of financial instruments	-41	-475	+91.4
Gains and losses from fair value changes of derivatives not included in hedge accounting	-453	-1,050	+56.9
Gains and losses from fair value changes of derivatives included in hedge accounting	-12	117	>-100.0
Other financial result	-1,066	-2,262	+52.9

⁽¹⁾ Adjusted for changes in accounting policy (see "Summary — Overview of Consolidated Financial Information of the Volkswagen Group").

The other financial result increased by EUR 1.2 billion to EUR -1.1 billion in 2018 compared with EUR -2.3 billion in 2017, mainly due to a positive impact from fair value changes of derivatives not included in hedge accounting, from remeasurement and impairment of financial instruments as well as from realized income of loan receivables and payables in foreign currency.

6.6.2.11 Income tax/expense

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

	Period from January 1 to December 31		Change 2018/2017 (%) (unaudited)
	2018 (in EUR million)	2017 ⁽¹⁾	
Current tax expense, Germany	1,131	614	+84.2
Current tax expense, abroad	2,401	2,590	-7.3
Current income tax expense	3,533	3,205	+10.2
of which prior-period income/expense	79	216	-63.4
Deferred tax income (-)/expense (+), Germany	429	321	+33.6
Deferred tax income (-)/expense (+), abroad	-472	-1,315	-64.1
Deferred tax income (-)/expense (+)	-43	-995	-95.7
Income tax income/expense	3,489	2,210	+57.9

⁽¹⁾ Adjusted for changes in accounting policy (see "Summary — Overview of Consolidated Financial Information of the Volkswagen Group").

Income tax expense increased by EUR 1.3 billion in 2018 compared with the prior year. The tax expense of EUR 3,489 million reported for 2018 was EUR 1,188 million lower than the expected tax expense of EUR 4,677 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 29.8% was used to measure deferred taxes in the German consolidated tax group in 2018 (2017: 29.9%).

6.7 Pension Liabilities

As of December 31, 2019, Volkswagen recognized EUR 41.4 billion (2018: EUR 33.1 billion) in net liabilities for pension provisions and other post-employment benefits. Please refer to note 29 to 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 ⁽¹⁾	Relevant Swap Rate	Coupon	Amount
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 20, 2015	March 20, 2022	7 year	2.50%	EUR 1,100,000,000
March 20, 2015	March 20, 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 27, 2018	June 27, 2024	6 year	3.375%	EUR 1,250,000,000
June 27, 2018	June 27, 2028	10 year	4.625%	EUR 1,500,000,000

⁽¹⁾ 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. At the end of fiscal year 2019, a banking syndicate granted Volkswagen AG a syndicated line of credit amounting to EUR 10.0 billion that initially runs until December 2024. It replaces the previous line of credit amounting to EUR 5.0 billion that would have expired in April 2020. Other Volkswagen Group companies have obtained syndicated credit lines totaling EUR 10.2 billion, of which EUR 7.4 billion had not been drawn down as of March 31, 2020. 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 5.1 billion, of which EUR 3.1 billion had not been drawn down as of March 31, 2020.

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, cash equivalents, securities, loans and time deposits, 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, 2019, 2018 and 2017. To facilitate comparison and discussion in the following paragraphs, the 2017 figures are shown adjusted according to the 2018 Annual Financial Statements.

	For the year ended December 31		
	2019	2018	2017⁽¹⁰⁾
	(in EUR million)		
Cash and cash equivalents at beginning of period	28,113	18,038	18,833
Earnings before tax	18,356	15,643	13,673
Income taxes paid	-2,914	-3,804	-3,664
Depreciation and amortization expense ^{(1) (8)}	24,439	22,561	22,165
Change in pension provisions ⁽⁸⁾	342	524	468
Share of the result of equity-accounted investments	460	244	274
Other noncash income/expense and reclassifications ^{(2) (8)}	-734	445	-265
Gross cash flow⁽⁸⁾	39,950	35,613	32,651
Change in working capital⁽⁸⁾	-21,966	-28,341	-33,836
Change in inventories	-674	-5,372	-4,198
Change in receivables (excluding financial services)	-893	-6,400	-1,660
Change in liabilities (excluding financial liabilities)	2,297	3,645	5,302
Change in other provisions ⁽⁸⁾	1,304	-1,286	-9,910
Change in lease assets (excluding depreciation)	-13,204	-11,647	-11,478
Change in financial services receivables	-10,796	-7,282	-11,891
Cash flow from operating activities	17,983	7,272	-1,185
Cash flow from investing activities attributable to operating activities⁽⁸⁾	-20,076	-19,386	-18,218
of which:			
investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs	-14,230	-13,729	-13,052
capitalized development costs	-5,171	-5,234	-5,260
acquisition and disposal of equity investments ^{(6) (8)}	-913	-705	-317
Net cash flow⁽³⁾⁽⁸⁾	-2,093	-12,113	-19,404
Change in investments in securities, loans and time deposits ^{(7) (8)}	-1,069	-2,204	1,710
Cash flows from investing activities	-21,146	-21,590	-16,508
Cash flows from financing activities	-865	24,566	17,625
of which:			
capital transactions with noncontrolling interests	1,368	-28	-
capital contributions/capital redemptions	-	1,491	3,473
Effect of exchange rate changes on cash and cash equivalents	243	-173	-727
Change of loss allowance within cash and cash equivalents	1	-1	-
Net change in cash and cash equivalents	-3,784	10,075	-796
Cash and cash equivalents at Dec. 31⁽⁴⁾	24,329	28,113	18,038
Securities, loans and time deposits	29,099	28,036	26,291
Gross liquidity⁽⁹⁾	53,428	56,148	44,329
Total third-party borrowings	-201,468	-190,883	-163,472
Net liquidity⁽⁵⁾	-148,040	-134,735	-119,143

(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, 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.

⁽¹⁰⁾ Adjusted for changes in accounting policy (see “Summary — Overview of Consolidated Financial Information of the Volkswagen Group”).

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 39.9 billion in 2019, 12.2% greater than the 2018 level. The change was driven primarily by healthy earnings growth, lower tax payments than in 2018, and positive effects from the application of the IFRS 16. The change in working capital amounted to EUR –22.0 billion in 2019 compared to EUR –28.3 billion in 2018. In the Financial Services Division, an increase on the funds tied-up was mainly driven by its growth of business. In the Automotive Division a significantly smaller increase in inventories and markedly lower cash outflows attributable to the diesel issue had a positive effect. Cash flows from operating activities increased by EUR 10.7 billion to EUR 18.0 billion in 2019 from EUR 7.3 billion in 2018. The Automotive Division’s gross cash flow amounted to EUR 29.1 billion in 2019, an increase of EUR 3.1 billion compared with EUR 26.0 billion in 2018. Cash flows from operating activities in the Automotive Division increased by EUR 12.2 billion to EUR 30.7 billion in 2019. The Financial Services Division’s gross cash flow increased by EUR 1.3 billion from the previous year to EUR 10.9 billion in 2019. Cash flows from operating activities of the Financial Services Division amounted to EUR –12.7 billion, a decrease of EUR 1.4 billion compared to EUR –11.3 billion in 2018. Funds allocated to working capital for the Financial Services Division decreased by EUR 2.7 billion to EUR –23.6 billion in 2019 (2018: EUR –20.9 billion).

The Volkswagen Group generated gross cash flow of EUR 35.6 billion in 2018, 9.1% above the 2017 level. The increase in working capital led to tied-up funds in the amount of EUR –28.3 billion (2017: EUR –33.8 billion). The EUR 5.5 billion change reflects the significant decrease in cash outflows attributable to the diesel issue in the reporting period, set against a WLTP-related increase in inventories. Cash flows from operating activities increased by EUR 8.5 billion to EUR 7.3 billion in 2018 from EUR –1.2 billion in 2017. The Automotive Division’s gross cash flow amounted to EUR 26.0 billion in 2018 compared with EUR 23.4 billion in 2017. Cash flows from operating activities in the Automotive Division increased by EUR 6.8 billion to EUR 18.5 billion in 2018. The Financial Services Division’s gross cash flow increased by EUR 0.4 billion from the previous year to EUR 9.6 billion in 2018. Cash flows from operating activities of the Financial Services Division improved by EUR 1.6 billion to EUR –11.3 billion in 2018 from EUR –12.9 billion in 2017. Funds allocated to working capital for the Financial Services Division declined by EUR 1.2 billion to EUR –20.9 billion in 2018 (2017: EUR –22.1 billion).

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 20.1 billion, the Volkswagen Group’s investing activities attributable to operating activities in 2019 were up 3.6% above the 2018 level of EUR 19.4 billion. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) of EUR 14.2 billion in 2019 was 3.6% higher than in 2018, while capitalized development costs remained at the same level year-to-year at EUR 5.2 billion. In the Automotive Division, investing activities attributable to operating activities increased to EUR 19.9 billion in 2019 compared with EUR 18.8 billion in 2018. At EUR 14.0 billion (2018: EUR 13.2 billion), capex in 2019 was 6.0% higher than the previous year. The ratio of capex to sales revenue remained unchanged in 2019 at 6.6%. Volkswagen invested mainly in its production facilities and in models that it launched in 2019 and plans to launch in 2020. Other investment priorities were the ecological focus of the model range, product electrification and digitalization and the modular toolkits. Capitalized development costs of EUR 5.2 billion in 2019 (2018: EUR 5.2 billion) were unchanged. Within the “Acquisition and disposal of equity investments” item, investments in a number of companies (such as Wireless CarAB and Northvolt AB) led to a EUR 0.1 billion increase to EUR 0.7 billion in 2019. In 2018, the “Acquisition and disposal of equity investments” item mainly included the sale of a part of the shares in There Holding, which was offset mainly by the investment in the joint venture with Anhui Jianghuai Automobile (JAC) and the acquisition of additional shares in Quantum Scape. In the Financial Services Division, investing activities attributable to operating activities were down on the previous year at EUR 0.2 billion in 2019 compared to EUR 0.5 billion in 2018.

At EUR 19.4 billion, the Volkswagen Group’s investing activities attributable to operating activities in 2018 were 6.4% above the 2017 level of EUR 18.2 billion. Investments in property, plant and equipment, invest-

ment property and intangible assets, excluding capitalized development costs (capex) of EUR 13.7 billion in 2018 was slightly higher than in 2017, while capitalized development costs remained at the same level year-to-year at EUR 5.2 billion in 2018. In the Automotive Division, investing activities attributable to operating activities increased to EUR 18.8 billion in 2018 compared with EUR 17.6 billion in 2017. At EUR 13.2 billion (2017: EUR 12.6 billion), capex in 2018 was 4.6% higher than the previous year. At 6.6%, the ratio of capex to sales revenue in 2018 was slightly up against 6.5% in 2017. Volkswagen invested mainly in its production facilities and in models that it launched in 2018 and plans to launch in 2019. Other investment priorities were the ecological focus of the model range, product electrification and digitalization and the modular toolkits. Capitalized development costs of EUR 5.2 billion in 2018 (2017: EUR 5.3 billion) were in line with prior year levels. Within the "Acquisition and disposal of equity investments" item, the sale of a part of the shares in There Holding was offset mainly by the investment in the newly established joint venture with Anhui Jianghuai Automobile (JAC) and the acquisition of additional shares in Quantum Scape. 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. In the Financial Services Division, investing activities attributable to operating activities were in line with the previous year at EUR 0.5 billion in 2018 compared to EUR 0.6 billion in 2017.

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 decreased significantly from EUR 24.6 billion in 2018 to a cash outflow of EUR -0.9 billion in 2019. This change is primarily attributable to the change in other financial liabilities and the issuance and redemption of bonds. The initial recognition of lease liabilities as financial liabilities in the balance sheet led to a marked increase in third-party borrowings in the cash flow statement, which had a corresponding negative impact on cash flows from financing activities. Financing activities include the dividend paid to the shareholders of Volkswagen AG, the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement, the cash inflow resulting from the IPO of TRATON and, most particularly, the issuance and redemption of bonds and changes in other financial liabilities.

In the Automotive Division, cash inflows from financing activities declined to EUR -11.3 billion (2018: EUR 4.3 billion) in 2019. This change is primarily attributable to the change in other financial liabilities and the issuance and redemption of bonds. In May 2019, reducing cash flows, a dividend totaling EUR 2.4 billion was distributed to the shareholders of Volkswagen AG, EUR 0.5 billion more than in 2018.

Cash inflows from financing activities in 2018 amounted to EUR 24.6 billion compared with EUR 17.6 billion in 2017. These cash flows were mainly attributable to the issuance and redemption of bonds and other financial liabilities. Financing activities also include the dividends paid to the shareholders of Volkswagen AG, the acquisition of MAN shares tendered following the ruling in the award proceedings, the successful placement of dual-tranche hybrid notes in June 2018 and the redemption of the hybrid notes terminated in the third quarter of 2018.

In the Automotive Division, cash inflows from financing activities amounted to EUR 4.3 billion (2017: EUR 3.6 billion) in 2018. In May 2018, reducing cash flows, a dividend totaling EUR 2.0 billion was distributed to the shareholders of Volkswagen AG, EUR 1.0 billion more than in 2017.

6.8.2.4 Cash and cash equivalents

Cash and cash equivalents were EUR 24.3 billion as of December 31, 2019, compared with EUR 28.1 billion as of December 31, 2018 and EUR 18.0 billion as of December 31, 2017.

6.8.2.5 Noncurrent and current financial services receivables

Since 2017, some of the receivables previously reported as customer financing in individual markets are presented as receivables from finance leases.

The following table shows noncurrent and current finance business receivables as of December 31, 2019, 2018 and 2017:

	December 31,			Change 2019/2018	Change 2018/2017
	2019	2018	2017		
	(in EUR million)			Change (%) (unaudited)	
Noncurrent receivables from financing					
business	51,692	47,191	43,096	+9.5	+9.5
of which:					
customer financing	49,175	45,089	40,899	+9.1	+10.2
dealer financing	2,512	2,099	2,194	+19.7	-4.3
direct banking	5	3	4	+66.7	-25.0
Current receivables from financing					
business	39,958	36,551	37,142	+9.3	-1.6
of which:					
customer financing	22,873	21,487	19,841	+6.5	+8.3
dealer financing	16,781	14,781	17,033	+13.5	-13.2
direct banking	305	284	269	+7.4	+5.6
	91,650	83,742	80,239	+9.4	+4.4
Non-current receivables from leases					
Receivables from operating leases	-	-	-	n.a.	n.a.
Receivables from finance leases	35,281	31,501	30,153	+12.0	+4.5
Current receivables from leases					
Receivables from operating leases	285	219	193	+30.1	+13.5
Receivables from finance leases	<u>18,371</u>	<u>17,446</u>	<u>15,810</u>	+5.3	+10.3
Total amount of receivables	145,588	132,909	126,395	+9.5	+5.2

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 direct banking, receivables from operating leases and receivables from finance leases as of December 31, 2019, 2018 and 2017:

	2019	2018	2017	Change 2019/2018	Change 2018/2017
	(in EUR million)				
	(in EUR million)			Change (%) (unaudited)	
Receivables from customer financing	72,048	66,575	60,739	+8.2	+9.6
of which:					
Noncurrent receivables	49,175	45,089	40,899	+9.1	+10.2
Current receivables	22,873	21,487	19,841	+6.5	+8.3
Receivables from dealer financing	19,293	16,879	19,227	+14.3	-12.2
of which:					
Noncurrent receivables	2,512	2,099	2,194	+19.7	-4.3
Current receivables	16,781	14,781	17,033	+13.5	-13.2
Receivables from direct banking	310	288	272	+7.6	+5.9
of which:					
Noncurrent receivables	5	3	4	+66.7	-25.0
Current receivables	305	284	269	+7.4	+5.6
Receivables from operating leases	285	219	193	+30.1	+13.5
of which:					
Noncurrent receivables	-	-	-	-	-
Current receivables	285	219	193	+30.1	+13.5
Receivables from finance leases	53,652	48,948	45,963	+9.6	+6.5
of which:					
Noncurrent receivables	35,281	31,501	30,153	+12.0	+4.5
Current receivables	18,371	17,446	15,810	5.3	+10.3

In 2019, receivables from customer financing, dealer financing and finance leases rose compared to 2018, primarily as a result of business growth. The increase in receivables from customer financing and finance leases in 2018 was also primarily due to growth of the business.

The receivables from customer and dealer financing are collateralized by vehicles or real property liens.

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, 2019, 2018 and 2017:

	As of December 31		
	2019	2018	2017
	(in EUR million)		
Total debt (unaudited)	364,421	340,814	313,115
Of which non-current	196,497	172,846	152,726
Of which current	167,924	167,968	160,389

The following table presents an overview of Volkswagen's noncurrent and current financial liabilities as of December 31, 2019, 2018 and 2017:

	December 31					
	2019		2018		2017	
	current	non-current	current	non-current	current	non-current
	(in EUR million)					
Bonds	19,789	68,839	19,132	62,416	14,146	48,971
Commercial paper and notes	18,103	20,147	22,381	18,975	22,506	13,399
Liabilities to banks	17,337	15,337	18,455	15,447	14,487	15,357
Deposit business	30,252	2,395	28,555	1,455	29,291	2,114
Loans and miscellaneous liabilities	1,429	1,629	1,183	2,433	1,363	1,358
Bills of exchange	—	—	—	—	—	—
Finance lease liabilities	1,002	5,208	51	399	51	428
	<u>87,912</u>	<u>113,556</u>	<u>89,757</u>	<u>101,126</u>	<u>81,844</u>	<u>81,628</u>

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 32,647 million in 2019 increased from EUR 30,010 million in 2018 and EUR 31,405 million in 2017.

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 27.8 billion were entered into in 2019 (compared with EUR 27.9 billion in 2018) 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 34.1 billion in 2019 (compared with EUR 32.7 billion in 2018). Collateral furnished in ABS transactions amounted to EUR 47.9 billion in total in 2019 (compared with EUR 47.9 billion in 2018). 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, as well as the proportion of vehicles financed within the Group.

Most of the public and private ABS transactions of the Volkswagen 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, 2019, the fair value of the assigned receivables still recognized in the balance sheet was EUR 34.8 billion compared with EUR 32.9 billion as of December 31, 2018. The fair value of the related liabilities was EUR 30.1 billion at December 31, 2019 (December 31, 2018: EUR 30.1 billion).

In 2019, the nominal annual interest rate for newly signed savings plans, savings certificates and fixed-term deposits for direct banking customers was between 0.0% and 1.4% (2018: between 0.03% and 2.00%;

2017: between 0.03% and 2.50%). The average interest rate for overnight deposit accounts was 0.8% as of December 31, 2019 (December 31, 2018: 0.09%; December 31, 2017: 0.21%). Interest rate figures include private and commercial customers accounts.

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, 2019, 2018 and 2017:

	As of December 31		
	2019	2018	2017
	(in EUR million)		
Liabilities under guarantees	574	511	423
Liabilities under warranty contracts	192	138	60
Assets pledged as security for third-party liabilities	19	18	21
Other contingent liabilities	<u>7,708</u>	<u>8,607</u>	<u>7,909</u>
	<u>8,494</u>	<u>9,274</u>	<u>8,413</u>

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 419 million as of December 31, 2019 (December 31, 2018: EUR 558 million; December 31, 2017: EUR 768 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 3.7 billion as of December 31, 2019 (December 31, 2018: EUR 5.4 billion), of which EUR 3.4 billion (December 31, 2018: EUR 3.4 billion) was attributable to investor lawsuits. Also included are certain elements of the class action lawsuits and proceedings/misdemeanor proceedings relating to the diesel issue 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, 2019, 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, 2019, 2018 and 2017:

	As of December 31		
	2019	2018	2017
	(in EUR million)		
Purchase commitments in respect of			
property, plant and equipment	8,603	9,983	8,740
intangible assets	1,189	1,107	1,425
investment property	24	39	41
Obligations from			
loan commitments to unconsolidated subsidiaries	314	326	207
irrevocable credit commitments to customers	2,661	3,085	2,699
long-term leasing and rental contracts	652	6,372	5,548
Miscellaneous other financial obligations	5,966	5,699	4,874

The amount of other financial obligations for financial years 2018 and 2017 include obligations from long-term leasing and rental contracts. In accordance with IFRS 16, Volkswagen presents those obligations in the affected balance sheet items as January 1, 2019.

Other financial obligations primarily result from purchase commitments for property, plant and equipment and irrevocable credit commitments to customers. In addition, as of December 31, 2019, they include EUR 1.2 billion for investments to which the Volkswagen Group has committed itself, in the infrastructure for zero-emission vehicles and in initiatives to promote access to and awareness of these technologies. These commitments were made as part of the settlement agreements in the USA in connection with the diesel issue.

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 66,214 million as of December 31, 2019 (December 31, 2018: EUR 64,613 million; December 31, 2017: EUR 63,419 million). Of this total, EUR 16,793 million was attributable to brand names (December 31, 2018: EUR 16,868 million; December 31, 2017: EUR 16,911 million), EUR 23,247 million to goodwill (December 31, 2018: EUR 23,317 million; December 31, 2017: EUR 23,442 million), EUR 6,143 million to capitalized development costs for products under development (December 31, 2018: EUR 7,173 million; December 31, 2017: EUR 7,020 million) and EUR 17,842 million to capitalized development costs for products in use (December 31, 2018: EUR 15,251 million; December 31, 2017: EUR 13,953 million). The reported intangible assets attributed to brand names mainly relate to Porsche (EUR 13,823 million), Scania Vehicles and Services (EUR 932 million), MAN Truck & Bus (EUR 1,127 million), MAN Energy Solutions (EUR 415 million) and Ducati (EUR 404 million).

EUR 18,825 million of the goodwill reported as of December 31, 2019 related to Porsche (December 31, 2018: EUR 18,825 million; December 31, 2017: EUR 18,825 million), EUR 2,699 million to Scania Vehicles and Services (December 31, 2018: EUR 2,755 million; December 31, 2017: EUR 2,866 million), EUR 587 million to MAN Truck & Bus (December 31, 2018: EUR 587 million; December 31, 2017: EUR 595 million), EUR 265 million to MAN Energy Solutions (December 31, 2018: EUR 267 million; December 31, 2017: EUR 268 million), EUR 290 million to Ducati (December 31, 2018: EUR 290 million; December 31, 2017: EUR 290 million), EUR 160 million to ŠKODA (December 31, 2018: EUR 158 million; December 31, 2017: EUR 159 million) and EUR 151 million to Porsche Holding Salzburg (December 31, 2018: EUR 156 million;

December 31, 2017: EUR 151 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 5.7% (2018: 5.5%; 2017: 5.8%) for the passenger cars segment, 7.7% (2018: 6.8%; 2017: 6.8%) for the commercial vehicles segment and 7.9% (2018: 7.8%; 2017: 8.0%) 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 brands have, since the fourth quarter of 2019, normally been designated as cash generating units in the Passenger Cars Business Area, thus forming the basis for impairment tests and profitability assessments when initially recognizing internally generated intangible assets. The changed definition of cash-generating units led to a non-recurring reversal of write-downs, which had an effect of EUR 0.9 billion on other operating income in the fourth quarter of 2019 and will lead to increased depreciation and amortization in subsequent periods. Furthermore, impairment losses of EUR 0.2 billion recognized in the first quarter of 2019 had to be reversed. In addition, the financial result of 2019 benefited in an amount of EUR 75 million from the reversal of impairment losses at the Chinese joint ventures in 2019. The revised definition of cash-generating units will in future lead to a slight increase in the capitalization ratio. The impairment losses totaling EUR 295 million (2018: EUR 631 million) recognized in 2019 on intangible assets and items of property, plant and equipment result primarily from lower values in use of various products in the Passenger Cars and Light Commercial Vehicles segment, from market and exchange rate risks, and in particular from expected declines in volumes.

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. Similarly to expenses for the recognition of provisions, income from the reversal of provisions is allocated to the respective functions.

Warranty claims from sales transactions are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. Assumptions were made in respect of the provisions recognized in connection with the diesel issues. These depend on the series, model year and country concerned and relate in particular to the effort, material costs and hourly wage rates involved. In addition, assumptions are made about future resale prices of repurchased vehicles. These assumptions 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 experience.

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 EUR 2.9 billion existed as of December 31,

2019 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, 2019 in an aggregate amount of EUR 3.7 billion (2018: EUR 5.4 billion), of which lawsuits filed by investors accounted for EUR 3.4 billion (2018: EUR 3.4 billion), were disclosed in the notes to the Annual Financial Statements.

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 2019 as in 2018.

6.12 Related Party Transactions

Volkswagen's related party transactions are described under "Related party disclosures in accordance with IAS 24", note 47 to the 2019 Annual Financial Statements and note 44 to the 2018 Annual Financial Statements.

6.13 Recent Accounting Pronouncements

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning in fiscal year 2019.

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

Prospective investors are cautioned that key business metrics in the 2019 Annual Financial Statements and in the Interim Financial Statements may not be predictive of the Volkswagen Group's actual results, performance or achievements for the financial year 2020 due to the global spread of the SARS-CoV-2 pandemic and the related restrictions on movement and business imposed by many governments and the resulting global economic downturn, as well as other factors discussed under "Risk Factors" in general and as specifically discussed under "2.1.1 The recent outbreak of SARS-CoV-2 has had a material adverse effect on Volkswagen's business, affecting sales, production and supply chains, and employees. Further, the spread of the SARS-CoV-2 outbreak has caused and may continue to cause severe disruptions in the European and global economy and financial markets and could potentially create widespread business continuity issues."

The management of Volkswagen anticipates a negative growth rate in the world economy in 2020 as a result of the spread of the SARS-CoV-2 coronavirus. In addition, Volkswagen continues to believe that there are risks of continuing protectionist tendencies, volatility on financial markets and structural deficits in individual countries. In addition, growth prospects are expected to be negatively impacted by continuing geopolitical tensions and conflicts. Volkswagen therefore expects advanced as well as emerging economies to experience a marked decline in economic performance even though Volkswagen believes there will be the beginning of an economic recovery during the course of the year 2020.

The global economy contracted over the three month period ending March 31, 2020, primarily due to the global spread of the SARS-CoV-2 outbreak and the related restrictions on movement and business imposed by many governments. Advanced economies and emerging markets have both been affected, including Volkswagen's core markets. The spread of SARS-CoV-2 has caused serious disruptions in global supply chains, a significant decrease in consumer demand and spending, and adversely impacted a number of industries, including the automobile industry.

The global economic downturn and restrictions on movement attributable to the coronavirus pandemic resulted in a significant decrease in customer demand for Volkswagen's products and services, as well as

serious disruptions to the supply chains and production and have had a material impact on all of Volkswagen's business areas for the three month period ending March 31, 2020.

Global demand for passenger cars decreased substantially by 23.3% over the first quarter of 2020 as compared to the same period in 2019, primarily due to economic effects related to the SARS-CoV-2 pandemic. Worldwide demand for light commercial vehicles for January through March 2020 also decreased substantially compared to the same period for 2019. Volkswagen's key markets were negatively affected, especially Western Europe and the Asia-Pacific region. In Western Europe, the passenger car market in Italy, France, the United Kingdom and Spain lost one-third of its volume and in Germany, new passenger car registrations fell by one-fifth as compared to the first quarter of 2019. The volume of new registrations of light commercial vehicles in Western Europe dropped substantially below the prior-year figure. Demand for light commercial vehicles in Germany in the same period was markedly lower than in the first quarter of 2019. In major emerging markets such as Central and Eastern Europe and Brazil, new registrations of passenger cars and light commercial vehicles were significantly lower as compared to first quarter of 2019. The passenger car market in Russia, however, remained substantially unchanged from the same period in 2019 and the number of light commercial vehicles in Russia between January and March 2020 was down moderately on the previous year. Due to an earlier outbreak, the negative effects of SARS-CoV-2 impacted the entire first quarter of 2020 in the Asia-Pacific region, with the number of new registered passenger cars almost one-third lower than the first quarter of 2019. This decline was primarily attributable to developments in the passenger car market in China, where the effects of the coronavirus further depressed an already negative growth rate. There was as well a sharp year-on-year decline in demand for light commercial vehicles in the Asia-Pacific region for the first quarter of 2020. New registrations for passenger cars and light commercial vehicles declined significantly in North America and South America in the first quarter as compared to 2019, due to the initial effects of the coronavirus pandemic.

Due to the SARS-CoV-2 pandemic and reduced availability of market data for the Commercial Vehicle segment, reliable figures for March 2020 are not currently available. Demand for Commercial Vehicles over 6 tons for January and February 2020 in Volkswagen's key markets were significantly lower than the relevant period in 2019 and are expected to fall further for March 2020 due to the effects of the SARS-CoV-2 pandemic.

Demand for Commercial Vehicles in the EU27+3 was significantly lower in January and February 2020 as compared to 2019. In Russia, however, demand was significantly higher than the same period in 2019, driven primarily by favorable exchange rate effects as well as government spending. In Brazil, demand for the first two months of 2020 was slightly lower than for the same period in 2019.

The markets for Power Engineering are affected by differing regional and cyclical influences, causing the development of the different segments to vary independently of each other. Overall, the markets were negatively affected by the SARS-CoV-2 pandemic and in different ways affected by the low oil prices.

Demand for automotive financial services was steady in the first three months of 2020 due, among other things, to the low interest rates in the main currency areas. At the same time, the SARS-CoV-2 pandemic put pressure on the demand for financial services in nearly all regions.

Going forward, Volkswagen – in a very uncertain environment – anticipates that economic recovery could commence in the course of 2020, but expects a continued decrease in global demand for new vehicles, an increase in competition and challenges in maintaining a stable supply chain and protecting the health of its employees.

The Volkswagen Group expects deliveries to customers and sales revenue in 2020 to be significantly below the prior year due to the impact of the SARS-CoV-2 pandemic. Challenges will also arise particularly from the increasing intensity of competition, volatile commodity and foreign exchange markets and more stringent emissions-related requirements.

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: Bjoern Baetge, Thorsten Brand, Elmar-Marius Licharz, and Lawrence Tolep.

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.

Rule 144A Notes			
Date of issuance	Maturity	Coupon	Amount
May 22, 2015	May 22, 2020	2.400%	USD 750,000,000
November 13, 2018	November 13, 2020	3.875%	USD 1,250,000,000
November 13, 2018	November 13, 2020	3 month U.S.\$ LIBOR + 77 bps	USD 1,250,000,000
November 13, 2018	November 12, 2021	4.000%	USD 1,500,000,000
November 13, 2018	November 12, 2021	3 month U.S.\$ LIBOR + 94 bps	USD 750,000,000
November 13, 2018	November 13, 2023	4.250%	USD 1,250,000,000
November 13, 2018	November 13, 2025	4.625%	USD 750,000,000
November 13, 2018	November 13, 2028	4.750%	USD 1,250,000,000
September 26, 2019	September 24, 2021	2.500%	USD 500,000,000
September 26, 2019	September 24, 2021	3 Month U.S. \$ LIBOR + 86 bps	USD 500,000,000
September 26, 2019	September 26, 2022	2.700%	USD 1,000,000,000
September 26, 2019	September 26, 2024	2.850%	USD 500,000,000
September 26, 2019	September 26, 2026	3.200%	USD 500,000,000

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 2019, Volkswagen Group achieved sales revenue of EUR 252,632 million, operating result of EUR 16,960 million and earnings after tax of EUR 14,029 million. Volkswagen Group delivered 10,974,636 vehicles to its customers worldwide in 2019.

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 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. In addition, the Volkswagen Group offers a wide range of financial services, including dealer and customer financing, vehicle leasing, direct banking and insurance activities, fleet management and mobility offerings.

The Volkswagen Group 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 light commercial vehicles of the Volkswagen Commercial Vehicles brand, and the genuine parts business.
- The Commercial Vehicles business area primarily comprises the development, production and sale of trucks and buses from the Scania and MAN brands, the corresponding genuine parts business, and related services.
- The 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.

Effective from January 1, 2019, light commercial vehicles of the Volkswagen Commercial Vehicles brand are no longer allocated to the Commercial Vehicles segment but reported under the Passenger Cars and Light Commercial Vehicles segment. The Commercial Vehicles segment continues to correspond to the Commercial Vehicles Business Area but excludes the Volkswagen Commercial Vehicles brand. These changes do not impact reporting under the Automotive Division. As a result, unless otherwise indicated, the 2019 and the 2018 financial figures regarding the segment reporting structure included in this Offering Memorandum have been taken or derived from the 2019 Annual Financial Statements. The 2017 financial figures as well as comparisons only between the years 2018 and 2017 regarding the segment reporting structure have been taken or derived from the 2018 Annual Financial Statements. As a result, not all figures may be comparable.

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, 2019, 2018 and 2017:

	Unit sales⁽¹⁾			Sales revenue⁽¹⁾			Operating result⁽¹⁾		
	2019	2018	2017	2019	2018	2017⁽²⁾	2019	2018	2017⁽²⁾
	(Thousand vehicles)			(EUR million)			(EUR million)		
Volkswagen									
Group ⁽³⁾	10,956	10,900	10,777	252,632 ⁽³⁾⁽⁴⁾	235,849 ⁽³⁾⁽⁴⁾	229,550 ⁽³⁾⁽⁴⁾	16,960 ⁽³⁾⁽⁴⁾	13,920 ⁽³⁾⁽⁴⁾	13,818 ⁽³⁾⁽⁴⁾
of which:									
Automotive									
Division ⁽⁵⁾	10,956	10,900	10,777	212,473	201,067	195,817	13,748	11,127	11,146
Financial Services									
Division ⁽⁶⁾	–	–	–	40,160	34,782	33,733	3,212	2,793	2,673

⁽¹⁾ Unaudited, except where indicated.

- (2) Adjusted for changes in accounting policy (see "Summary — Overview of Consolidated Financial Information of the Volkswagen Group").
- (3) 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 4,425 million, EUR 4,627 million and EUR 4,746 million for the years ended December 31, 2019, 2018 and 2017, respectively.
- (4) Audited.
- (5) Sales revenue and operating result include allocation of consolidation adjustments between the Automotive and Financial Services Divisions.
- (6) Financial Services Division corresponds to the Financial Services segment, figures are audited.

8.2 Volkswagen Group Reporting Structure

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

The following table shows Volkswagen Group's reporting structure as of December 31, 2019:

Automotive Division		Financial Services Division	
Passenger Cars Business Area	Commercial Vehicles Business Area	Power Engineering Business Area	
Volkswagen Passenger Cars Audi ŠKODA SEAT Bentley Porsche Automotive Volkswagen Commercial Vehicles ⁽¹⁾ Others	Scania Vehicles and Services MAN Commercial Vehicles	Power Engineering	Dealer and customer financing Leasing Direct bank Insurance Fleet management Mobility offerings

- (1) Effective from January 1, 2019, light commercial vehicles of the Volkswagen Commercial Vehicles brand are no longer allocated to the Commercial Vehicles segment but reported under the Passenger Cars and Light Commercial Vehicles segment. The Commercial Vehicles segment continues to correspond to the Commercial Vehicles Business Area but excludes the Volkswagen Commercial Vehicles brand. These changes do not impact reporting under the Automotive Division.

The Automotive Division's three business areas described above, conform to Volkswagen's financial reporting segments as follows: The Passenger Car business area corresponds to the Passenger Cars and Light Commercial Vehicles 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, 2019:

	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
	(EUR million)						
Sales revenue	202,273	26,444	3,997	40,160	272,875	-20,242	252,632
Segment result (operating result)	15,610	1,653	-93	3,212	20,381	-3,422	16,960
as a percentage of sales revenue ⁽¹⁾ . . .	7.7	6.3	-2.3	8.0	-	-	6.7
Investments in intangible assets, property, plant and equipment, investment property (capex)	17,098	1,460	197	223	18,977	423	19,401

- (1) Unaudited.

In May 2018, Volkswagen introduced an additional internal operational structure. 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.

The Volkswagen Group collaborates across six operating units and the China region, in addition to the Finance & IT, Human Resources and Integrity and Legal Affairs divisions. The units consist of the "Volume", "Premium", "Sport & Luxury" and "Truck & Bus" brand groups, as well as the Components & Procurement business and 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. The collaboration between the MAN and Scania vehicle brands is coordinated within the TRATON GROUP (formerly Volkswagen Truck & Bus). Components & Procurement intends to act as one unit spanning all of the brands and supporting them. The Financial Services business has been combined into a single unit.

Effective from January 1, 2019, light commercial vehicles of the Volkswagen Commercial Vehicles brand are no longer allocated to the Commercial Vehicles segment but reported under the Passenger Cars and Light Commercial Vehicles segment. The Commercial Vehicles segment continues to correspond to the Commercial Vehicles Business Area but excludes the Volkswagen Commercial Vehicles brand. These changes do not impact reporting under the Automotive Division. In 2019, no further material modifications or changes of Volkswagen Group's organizational or financial reporting structure were implemented as a result of this revision of Volkswagen's internal operational structure.

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, 2019, 2018 and 2017 (in each case not including the Chinese joint ventures):

	Sales revenue from external customers by region⁽¹⁾		
	2019⁽²⁾	2018⁽²⁾	2017⁽³⁾
	(%)		
Germany	19.4	18.6	19.3
Europe and Other Markets (excluding Germany)	41.6	42.5	42.9
North America	17.2	16.1	16.4
South America	4.5	4.4	4.4
Asia-Pacific	17.4	18.4	17.0

⁽¹⁾ Unaudited.

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

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

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, 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 667,748 employees worldwide (including the Chinese joint ventures) in 2019.

8.3 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 2019, the performance of the automotive industry was mixed. Global passenger car and light commercial vehicle sales decreased by 4.1% from 91.9 million vehicles in 2018 to 88.2 million vehicles in 2019; 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 increased in 2019 compared to 2018 levels, with 609 thousand new vehicle registrations (an increase of 2.8%).

Demand in North America decreased compared to prior year levels, to 20.2 million in 2019 (a 2.3% decrease) while demand in South America declined by 5.0% compared to 2018 levels. Sales in the Asia-Pacific region declined by 6.0%, largely due to decreasing demand in China and India. China had a 7.1% decline in sales in 2019. The trade dispute between China and the United States of America in the reporting period weighed on business and consumer confidence, among other things, and led to a marked decline in demand. The Central and Eastern Europe region registered a slight increase of 2.1%. In the Western European market, demand increased by 0.8% in 2019. (Source: Volkswagen Group data).

China, North America and Western Europe were the world's largest markets for passenger cars and light commercial vehicles in 2019. The share of each market in the worldwide sales of passenger cars and light commercial vehicles in 2019 was 27% for China, 23% for North America and 19% 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*" and the sections "*Business Development – General Economic Development*" and "*Business Development – Trends in the Markets for Passenger Cars and Light Commercial Vehicles*" from the 2020 Q1 Report Excerpts, incorporated by reference to this Offering Memorandum.

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 CO₂ 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.

Before the outbreak of the SARS-CoV-2 pandemic and based on external market forecasts, Volkswagen expected sales of passenger cars and light commercial vehicles in the coming years to be in line with figures seen in prior reporting periods; expecting this trend to center on expected growth in emerging markets and the recovery path in Eastern Europe and South America. The outbreak of the SARS-CoV-2 pandemic raises unprecedented challenges to the whole automotive industry. As the crisis continues to hit more and more markets with sharp declining customer demand, any projection for the short term is purely speculative.

Provided that the effects of the SARS-CoV-2 pandemic could be overcome in the medium to long term, Volkswagen believes that, the global automotive market will mainly be affected by (i) a shift of purchasing power to new growth markets, such as Asia's emerging economies and to a lesser degree, Central and Eastern Europe, South America and Asia, (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.

8.4 Volkswagen's Divisions and their Products and Services

8.4.1 Automotive Division

The Automotive Division is composed of three business areas: Passenger Cars, Commercial Vehicles and Power Engineering and comprises of twelve brands (Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Volkswagen Commercial Vehicles, Scania and MAN) and Power Engineering. The Automotive Division has its own character and is independently managed by the respective brand companies. Except for the Volkswagen Passenger Cars and Commercial Vehicles brands, each of Volkswagen's brands is owned by an independent legal entity. The brands are allocated in the business areas as follows:

- Passenger Cars business area: Volkswagen Passenger Cars, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche, Ducati and Volkswagen Commercial Vehicles;

- Commercial Vehicles business area: Scania and MAN; and
- Power Engineering business area: comprises of large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses.

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, 2019, 2018 and 2017.

Operating results show the operating results of the individual brands and, with respect to those brands indicated in the footnotes in the table below, are before expenses directly related to the diesel issue for the years 2019, 2018 and 2017. 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 ⁽¹⁾			Sales revenue ⁽¹⁾⁽²⁾			Operating result ⁽¹⁾⁽²⁾		
	2019	2018	2017	2019	2018	2017 ⁽³⁾	2019	2018	2017 ⁽³⁾
	(Thousand vehicles)			(EUR million)			(EUR million)		
Volkswagen Passenger Cars ⁽⁴⁾	3,677	3,715	3,573	88,407	84,585	79,186	3,785 ⁽¹³⁾	3,239 ⁽¹³⁾	3,301 ⁽¹³⁾
Audi	1,200	1,467	1,530	55,680	59,248	59,789	4,509	4,705 ⁽¹³⁾	5,058 ⁽¹³⁾
ŠKODA	1,062	957	937	19,806	17,293	16,559	1,660	1,377	1,611
SEAT	667	608	595	11,496	10,202	9,892	445	254	191
Bentley	12	10	11	2,092	1,548	1,843	65	-288	55
Porsche Automotive ⁽⁵⁾	277	253	248	26,060	23,668	21,674	4,210 ⁽¹³⁾	4,110	4,003
Volkswagen Commercial Vehicles	456	469	498	11,473	11,875	11,909	510	780	853
Scania Vehicles and Services	101	97	92	13,934 ⁽⁶⁾	12,981 ⁽⁶⁾	12,789 ⁽⁶⁾	1,506 ⁽⁶⁾	1,207 ⁽⁶⁾	1,289 ⁽¹⁶⁾
MAN Commercial Vehicles	143	137	114	12,663	12,104	11,087	402	332	362
Power Engineering	—	—	—	3,997	3,608	3,283	159	193	193
VW China ⁽⁷⁾	4,048	4,101	4,020	—	—	—	—	—	—
Other ⁽⁶⁾	-685	-912	-840	-30,931	-34,029	-30,288	-917	-1,418	-2,335
Volkswagen Financial Services ⁽⁹⁾	—	—	—	37,957	32,764	31,826	2,960	2,612	2,460
Volkswagen Group	10,956	10,900	10,777	252,632⁽¹⁰⁾	235,849⁽¹⁰⁾	229,550⁽¹⁰⁾	16,960⁽¹⁰⁾⁽¹²⁾	13,920⁽¹⁰⁾⁽¹²⁾	13,818⁽¹⁰⁾⁽¹²⁾
Automotive Division ⁽¹¹⁾	10,956	10,900	10,777	212,473	201,067	195,817	13,748	11,127	11,146
of which:									
Passenger Cars Business Area ⁽¹⁵⁾	10,713	10,206	10,077	182,031	172,678	157,334	12,188	10,000	9,309
Commercial Vehicles Business Area ⁽¹⁵⁾	243	694	700	26,444	24,781	35,200	1,653	1,191	1,892
Power Engineering Business Area	—	—	—	3,997	3,608	3,283	-93	-64	-55
Financial Services Division ⁽¹⁴⁾	—	—	—	40,160	34,782	33,733	3,212	2,793	2,673

⁽¹⁾ All individual figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

⁽²⁾ Unaudited except where indicated.

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

⁽⁴⁾ 2017 and 2018 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".

⁽⁵⁾ Porsche (including Financial Services): sales revenue of EUR 28,518 million in 2019 (2018: EUR 25,784 million, 2017: EUR 23,491 million); operating result before expenses directly related to the diesel issue of EUR 4,396 million in 2019 (operating result 2018: EUR 4,291 million, 2017: EUR 4,144 million).

- ⁽⁶⁾ Scania (including Financial Services): sales revenue of EUR 14,391 million in 2019 (2018: EUR 13,360); operating result of EUR 1,648 million (2018: EUR 1,346 million).
- ⁽⁷⁾ 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 4,425 million in 2019 (2018: EUR 4,627 million 2017: EUR 4,746 million).
- ⁽⁸⁾ 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.
- ⁽⁹⁾ Starting January 1, 2017, Porsche's financial services business is reported as part of Volkswagen Financial Services.
- ⁽¹⁰⁾ Audited.
- ⁽¹¹⁾ Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
- ⁽¹²⁾ Includes negative expenses of EUR 2.3 billion in 2019, EUR 3.2 billion in 2018 and EUR 3.2 billion in 2017, primarily in relation to the diesel issue.
- ⁽¹³⁾ Before expenses directly related to the diesel issue.
- ⁽¹⁴⁾ Financial Services Division corresponds to the Financial Services segment, figures are audited.
- ⁽¹⁵⁾ The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The 2018 figures have been adjusted.
- ⁽¹⁶⁾ Includes financial services.

Volkswagen generated sales revenue from vehicle sales of EUR 157,212 million, EUR 146,826 million and EUR 144,826 million during the years ended December 31, 2019, 2018 and 2017, respectively, which corresponds to 62.2%, 62.3% and 63.1%, respectively, of Volkswagen's consolidated sales revenue during such periods. During the years ended December 31, 2019, 2018 and 2017, the Automotive Division generated sales revenue of EUR 16,676 million, EUR 15,919 million and EUR 15,628 million, respectively, from the sale of genuine parts.

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, 2019, 2018 and 2017. 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 with respect to those brands indicated in the footnotes, is before expenses directly related to the diesel issue. 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.

8.4.1.1 Volkswagen Passenger Cars business area

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.

8.4.1.1.1 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.

	2019	2018⁽¹⁾	2017⁽¹⁾
	(unaudited)		
Deliveries (thousand units)	6,278	6,245	6,230
Vehicle sales (thousand units)	3,677	3,715	3,573
Production (thousand units)	6,184	6,297	6,317
Sales revenue (in EUR million)	88,407	84,585	79,186 ⁽²⁾
Operating result (in EUR million) ⁽³⁾	3,785	3,239	3,301 ⁽²⁾
As percentage of the brand's sales revenue ⁽³⁾	4.3	3.8	4.2 ⁽²⁾

⁽¹⁾ 2018 and 2017 figures reflect the reclassification of companies from the Volkswagen Passenger Cars brand to the Volkswagen Group in 2018. 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.

⁽²⁾ Adjusted for changes in accounting policy (see "Summary — Overview of Consolidated Financial Information of the Volkswagen Group").

⁽³⁾ Before expenses directly related to the diesel issue.

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.

8.4.1.1.2 Audi brand

As of March 31, 2020, 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>2019</u>	<u>2018</u> (unaudited)	<u>2017</u>
Deliveries (thousand units) ⁽¹⁾	1,854	1,818	1,882
Vehicle sales (thousand units) ⁽¹⁾	1,200	1,467	1,530
Production (thousand units) ⁽¹⁾	1,802	1,871	1,879
Sales revenue (in EUR million)	55,680	59,248	59,789 ⁽²⁾
Operating result (in EUR million)	4,509	4,705 ⁽³⁾	5,058 ⁽²⁾⁽³⁾
As percentage of the brand’s sales revenue	8.1	7.9 ⁽³⁾	8.5 ⁽²⁾⁽³⁾

⁽¹⁾ Includes Lamborghini (deliveries: 2019: 8,205; 2018: 5,750; 2017: 3,815; vehicle sales: 2019: 8,290; 2018: 6,333; 2017: 3,897; production: 2019: 8,664; 2018: 6,571; 2017: 4,056).

⁽²⁾ Adjusted for changes in accounting policy (see “Summary — Overview of Consolidated Financial Information of the Volkswagen Group”).

⁽³⁾ Before expenses directly related to the diesel issue.

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.

8.4.1.1.3 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>2019</u>	<u>2018</u> (unaudited)	<u>2017</u>
Deliveries (thousand units)	1,243	1,254	1,201
Vehicle sales (thousand units)	1,062	957	937
Production (thousand units)	1,243	1,285	1,232
Sales revenue (in EUR million)	19,806	17,293	16,559
Operating result (in EUR million)	1,660	1,377	1,611
As percentage of the brand’s sales revenue	8.4	8.0	9.7

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.

8.4.1.1.4 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>2019</u>	<u>2018</u>	<u>2017</u>
	(unaudited)		
Deliveries (thousand units)	574	518	468
Vehicle sales (thousand units)	667	608	595
Production (thousand units)	592	528	479
Sales revenue (in EUR million)	11,496	10,202	9,892
Operating result (in EUR million)	445	254	191
As percentage of the brand’s sales revenue	3.9	2.5	1.9

8.4.1.1.5 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.

(i) Bentley

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(unaudited)		
Deliveries (units)	11,006	10,494	11,089
Vehicle sales (units)	11,631	9,559	10,566
Production (units)	12,430	9,115	10,552
Sales revenue (in EUR million)	2,092	1,548	1,843
Operating result (in EUR million)	65	-288	55
As percentage of the brand’s sales revenue	3.1	-18.6	3.0

(ii) Bugatti

In 2019, Volkswagen delivered 82 Bugatti brand vehicles worldwide. In 2018 and 2017, the number of vehicles delivered to customers was 76 and 71, respectively. In 2019, Volkswagen produced 94 Bugatti brand vehicles (2018: 78 vehicles, 2017: 70 vehicles).

(iii) Lamborghini

Volkswagen generally includes sales of the Lamborghini brand in the sales of the Audi brand. During the years ended December 31, 2019, 2018 and 2017, respectively, Volkswagen produced 8,664, 6,571 and 4,056 Lamborghini brand vehicles and delivered 8,205, 5,750 and 3,815 Lamborghini brand vehicles worldwide.

8.4.1.1.6 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.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(unaudited)		
Deliveries (thousand units)	281	256	246
Vehicle sales (thousand units)	277	253	248
Production (thousand units)	274	268	256
Sales revenue (in EUR million) ⁽¹⁾	26,060	23,668	21,674
Operating result (in EUR million) ⁽¹⁾	4,210 ⁽²⁾	4,110	4,003
As percentage of the brand's sales revenue ⁽¹⁾	16.2 ⁽²⁾	17.4	18.5

⁽¹⁾ Since January 1, 2017, Porsche's financial services business is reported as part of Volkswagen Financial Services. Porsche Automotive and Financial Services 2019 sales revenue: EUR 28,518 million (2018: EUR 25,784 million, 2017: EUR 23,491 million) and operating result before expenses directly related to the diesel issue in 2019: EUR 4,396 million (operating result 2018: EUR 4,291 million, 2017: EUR 4,144 million).

⁽²⁾ Before expenses directly related to the diesel issue.

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.

8.4.1.1.7 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>2019</u>	<u>2018</u>	<u>2017</u>
	(unaudited)		
Deliveries (thousand units)	492	500	498
Vehicle sales (thousand units)	456	469	498
Production (thousand units)	477	519	490
Sales revenue (in EUR million)	11,473	11,875	11,909
Operating result (in EUR million)	510	780	853
As percentage of the brand's sales revenue	4.4	6.6	7.2

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.

8.4.1.2 Commercial Vehicles business area

With effect from August 30, 2018, Volkswagen Truck & Bus AG became TRATON AG (now TRATON SE). Within the "Truck & Bus brand group", TRATON GROUP is designed to combine the brands' respective strengths (MAN, Scania, Volkswagen Caminhões e Ônibus and RIO brands) and know-how in order to create a new environment for transportation solutions.

8.4.1.2.1 Scania brand

As of March 31, 2020, Volkswagen owned indirectly 89.05% 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 businesses.

	<u>2019</u>	<u>2018</u>	<u>2017⁽¹⁾</u>
	(unaudited)		
Deliveries (thousand units)	99	96	91
Vehicle sales (thousand units)	101	97	92
Production (thousand units)	97	101	96
Sales revenue (in EUR million)	13,934	12,981	12,789
Operating result (in EUR million)	1,506	1,207	1,289
As percentage of the brand's sales revenue	10.8	9.3	10.1

⁽¹⁾ 2017 figures include Scania Financial Services

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.

8.4.1.2 MAN brand

As of March 31, 2020, Volkswagen held a 89.72% interest in the share capital of TRATON SE. As of March 31, 2020, TRATON SE in turn directly held a 94.36% interest in the share capital of MAN SE, corresponding to 94.68% of the voting rights of MAN SE, based in Munich, Germany. On 28 February 2020, MAN SE announced that TRATON SE intends to implement a merger squeeze-out of the minority shareholders of MAN SE.

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>2019</u>	<u>2018</u>	<u>2017</u>
	(unaudited)		
Commercial Vehicles			
Deliveries (thousand units)	143	137	114
Vehicle sales (thousand units)	143	137	114
Production (thousand units)	141	138	116
Sales revenue (in EUR million)	12,663	12,104	11,087
Operating result (in EUR million)	402	332	362
As percentage of the brand's sales revenue	3.2	2.7	3.3

8.4.1.3 Power Engineering business area

The Power Engineering business area combines the large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses. In October 2018, Volkswagen AG and TRATON SE agreed on the sale of MAN's Power Engineering business to a Volkswagen Group subsidiary. The sale was executed on December 31, 2018. The placement of Power Engineering is currently being reviewed.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(unaudited)		
Power Engineering business area			
Sales revenue (in EUR million)	3,997	3,608	3,283
Operating result (in EUR million)	-93	-64	-55
As percentage of sales revenue	-2.3	-1.8	-1.7

8.4.1.4 Significant equity interests

As of March 31, 2020, 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.

8.4.1.4.1 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 5% 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.

Argo AI: On July 12, 2019, Volkswagen announced that, together with Ford Motor Company (Ford), it would be investing in Argo AI, a company that is working on the development of a system for autonomous driving. The investment will firstly include the provision of financial resources totaling USD 1.0 billion, spread over several years, and secondly Volkswagen will contribute its consolidated subsidiary Autonomous Intelligent Driving (AID). Furthermore, Volkswagen will acquire existing Argo AI shares from Ford for a purchase price of USD 500 million, payable in three equal annual installments. The transaction, including the contribution of AID, is expected to be completed in the first half of 2020 – subject to the required regulatory approvals and other conditions precedent.

8.4.1.4.2 Associates

Sinotruk (Hong Kong) Ltd.: As of March 31, 2020, the quoted market value of the Volkswagen shares in Sinotruk amounted to EUR 1,049 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 March 31, 2020, the quoted market value of the Volkswagen shares in Bertrandt amounted to EUR 92 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.: Together with the BMW Group, Daimler AG and other companies, Volkswagen holds an equity investment in There Holding B.V., Rijswijk (the Netherlands), an investment company. In turn, There Holding B.V. holds around 85 % of the shares of HERE International B.V., Eindhoven (the Netherlands). HERE International B.V. is one of the world's largest producers of digital road maps for navigation systems. Since the interest held does not grant control in accordance with IFRS 10, HERE International B.V. is included in the financial statements of There Holding B.V. as an associate using the equity method. Capital increases were implemented at There Holding B.V. in 2019, in which Volkswagen participated. As a result, the shares accounted for using the equity method increased by €69 million. In December 2019, it was announced that additional investors would acquire shares in HERE International B.V. Following the signing in December 2019, Mitsubishi Corporation (MC) and Nippon Telegraph and Telephone Corporation of Japan (NTT) are aiming to jointly acquire 30 % of the shares of HERE International B.V. in the first half of 2020, subject to antitrust approval. The interest held by There Holding B.V. in HERE International B.V. is expected to decline to around 60 % as a result. The ownership interest in There Holding B.V. amounted to 29.7% as of March 31, 2020.

Navistar International Corporation: Effective on February 28, 2017, TRATON SE, a majority 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. As of March 31, 2020, the quoted market value of the Volkswagen shares in Navistar amounted to EUR 250 million (16.7% participating interest).

On January 30, 2020, TRATON SE submitted to the Board of Directors of Navistar a proposal to acquire all outstanding shares not already owned by TRATON at a price of approx. USD 2.9 billion (USD 35 per Navistar share), against cash compensation. Volkswagen AG has signaled its general intention to provide funds for the financing of an offer. If the proposal is accepted, TRATON will become the sole owner of Navistar.

The proposal is in particular subject to TRATON and Navistar agreeing on a merger agreement, the conduct of satisfactory due diligence and the approval of the merger agreement by the boards of TRATON and Volkswagen AG as well as the Board of Directors and the shareholders' meeting of Navistar.

8.4.1.5 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.

8.4.1.6 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 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, 2019, 2018 and 2017:

	For the year ended December 31			Change 2019/2018	Change 2018/2017
	2019	2018	2017		
		(units)		(in %)	
Europe/Other markets	20,822,910	21,329,954	21,658,304	-2.4	-1.5
Western Europe	14,434,272	14,351,311	14,349,679	0.6	0.0
Germany	3,607,444	3,435,778	3,441,261	5.0	-0.2
United Kingdom	2,310,616	2,367,147	2,540,617	-2.4	-6.8
Italy	1,923,378	1,916,999	1,977,276	0.3	-3.0
France	2,209,220	2,173,578	2,110,863	1.6	3.0
Spain	1,362,241	1,429,196	1,234,931	-4.7	15.7
Central and Eastern Europe	3,343,626	3,267,484	2,945,617	2.3	10.9
Russia	1,630,000	1,666,081	1,471,803	-2.2	13.2
Czech Republic	249,960	261,437	271,595	-4.4	-3.7
Poland	555,610	531,973	486,425	4.4	9.4
Other markets	3,045,012	3,711,159	4,363,008	-17.9	-14.9
Turkey	387,256	486,321	722,759	-20.4	-32.7
South Africa	356,206	366,046	369,189	-2.7	-0.9
North America⁽¹⁾	20,210,000	20,686,195	20,804,307	-2.3	-0.6
United States	17,000,000	17,274,277	17,230,683	-1.6	0.3
Mexico	1,310,000	1,426,926	1,534,827	-8.2	-7.0
Canada	1,900,000	1,984,992	2,038,797	-4.3	-2.6
South America⁽¹⁾	4,313,829	4,541,987	4,280,386	-5.0	6.1
Brazil	2,665,579	2,475,355	2,175,039	7.7	13.8
Argentina	440,544	772,977	862,843	-43.0	-10.4
Asia-Pacific	34,242,322	36,379,772	37,129,797	-5.9	-2.0
China	21,332,848	22,783,815	23,893,488	-6.4	-4.6
Japan	4,334,830	4,440,098	4,495,174	-2.4	-1.2
India	2,837,418	3,220,508	3,070,131	-11.9	4.9
Worldwide	79,589,061	82,937,908	83,872,794	-4.0	-1.1

(Source: Volkswagen Group data)

⁽¹⁾ 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, 2019, 2018 and 2017:

Deliveries to customers by markets (units) ⁽¹⁾	Year Ended December 31			Change (%)	
	2019	2018	2017	2019/2018	2018/2017
Europe/Other markets	4,714,997	4,575,023	4,587,571	+3.1	-0.3
Western Europe	3,627,693	3,475,401	3,489,110	+4.4	-0.4
of which: Germany	1,324,942	1,248,952	1,254,016	+6.1	-0.4
United Kingdom	544,117	540,817	577,864	+0.6	-6.4
Italy	310,944	286,980	273,344	+8.4	+5.0
France	307,847	280,533	279,236	+9.7	+0.5
Spain	305,494	309,907	287,326	-1.4	+7.9
Central and Eastern Europe	769,681	757,575	709,763	+1.6	+6.7
of which: Russia	223,452	216,950	180,481	+3.0	+20.2
Poland	165,530	164,480	155,299	+0.6	+5.9
Czech Republic	136,377	138,922	149,596	-1.8	-7.1
Other markets	317,623	342,047	388,698	-7.1	-12.0
of which: South Africa	90,969	91,311	88,484	-0.4	63.2
Turkey	78,251	110,785	186,316	-29.4	-40.5
North America	948,309	953,188	973,406	-0.5	-2.1
of which: USA	654,152	638,274	625,128	+2.5	+2.1
Mexico	181,910	196,431	233,974	-7.4	-16.0
Canada	112,247	118,483	114,304	-5.3	+3.7
South America	551,734	542,239	445,636	+1.8	+11.7
of which: Brazil	420,880	363,766	284,864	+15.7	+27.7
Argentina	70,496	115,426	146,594	-38.9	-21.3
Asia-Pacific	4,517,375	4,530,564	4,488,674	-0.3	+0.9
of which: China	4,228,840	4,202,398	4,179,400	+0.6	+0.6
Japan	79,268	86,356	84,832	-8.2	+1.8
India	51,541	61,277	72,467	-15.9	-15.4
Worldwide	10,732,415	10,601,014	10,536,618	+1.2	+0.6

⁽¹⁾ Deliveries for 2018 and 2017 have been updated or amended to reflect subsequent statistical trends and the changes in reporting structure. The figures include the 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, 2019, 2018 and 2017:

	For the year ended December 31				
	2019 ⁽¹⁾	2018 ⁽¹⁾ (in %)	2017 ⁽¹⁾	Change 2019/2018 (in %)	Change 2018/2017
Western Europe	22.8	21.9	22.0	+0.9	-0.1
Central and Eastern Europe	20.2	20.6	22.0	-0.3	-1.4
North America	4.7	4.6	4.7	+0.1	-0.1
South America	12.7	11.9	11.4	+0.9	+0.6
Asia-Pacific ⁽²⁾	13.2	12.4	12.0	+0.8	+0.4
Rest of the World	9.4	8.2	7.8	+1.2	+0.3
Worldwide	12.9	12.8	12.6	+0.7	+0.2

⁽¹⁾ 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. With the exception of North and South America, vehicles delivered by Volkswagen Commercial Vehicles brand are not included.

⁽²⁾ Includes vehicles delivered to customers by the two Chinese joint ventures.

8.4.1.6.1 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 Group ranked first worldwide ahead of Toyota in 2019. Volkswagen estimates that in 2019 it has reached a worldwide market share of 12.9 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 22.8 in 2019 (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 slightly by 0.6% to 14.4 million vehicles in 2019, which corresponds to 18.1% of worldwide passenger car sales (Source: Volkswagen Group data). The mixed performance of the markets reflects growing imbalances connected to Brexit and global trade risks, weakening macroeconomic KPIs, as well as adverse consequences of WLTP in the end of 2019.

Volkswagen Group delivered 3,627,693 passenger cars and light commercial vehicles to customers, an increase of 4.4% compared to the previous year's figures (2018: 3,475,401). Negative effects, arising primarily from the public debate around driving bans for diesel vehicles and restricted capacity for petrol engines were offset by positive effects such as the successful launch of new vehicle models.

(ii) Central and Eastern Europe

In Central and Eastern Europe, sales of passenger cars increased by 2.3% to 3.3 million vehicles in 2019, which corresponds to 4.2% of worldwide vehicle sales (Source: Volkswagen Group data).

In 2019, Volkswagen Group delivered 769,681 passenger cars and light commercial vehicles to Central and Eastern Europe customers, an increase of 1.6% in 2019 as compared to prior-year figures (2018: 757,575). Demand for Group models increased in Russia and Poland, while it declined in the Czech Republic.

Volkswagen Group's share of the passenger car market in Central and Eastern Europe in 2019 was 20.3%, a slight decrease compared to 2018 (20.6%).

(iii) North America

In North America, sales of passenger cars and light commercial vehicles decreased by 2.3% in 2019 to 20.2 million vehicles, which corresponds to 25.4% of worldwide vehicle sales. The shift in demand from traditional passenger cars (decrease of 10.1%) to light commercial vehicles such as SUVs and pickup models (2.6% increase) continued in 2019.

In North America, demand for Volkswagen Group models in 2019 was 0.5% lower at 948,309 vehicles compared to the prior year period (2018: 953,188); in a slightly declining overall passenger car and light commercial vehicle market. 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 decreased compared to prior year levels by 5.0% in 2019 to 4.3 million vehicles. This represents 5.4% of worldwide vehicle sales in 2019 (Source: Volkswagen Group data). The main growth driver was the Brazilian automotive market, outperforming the preceding year. However, other markets, including Argentina, experienced a significant decline in sales.

Volkswagen Group delivered 551,734 vehicles to customers in 2019, an increase of 1.8% compared to the prior year period (2018: 542,239). The Volkswagen Group's estimated market share of the passenger car market (including light commercial vehicles) in the region was 12.8% in 2019 (Source: Volkswagen Group data).

(v) Asia-Pacific

In the Asia-Pacific region, sales of passenger cars decreased by 5.9% in 2019 to 34.2 million vehicles, which corresponds to 43.0% of worldwide vehicle sales (Source: Volkswagen Group data). This was mainly due to the weakness of the Chinese passenger car market (6.4% decline). The trade dispute between China and the United States of America in the reporting period weighed on business and consumer confidence, among other things, and led to a marked decline in demand, especially in the second half of the year.

The Asia-Pacific region was Volkswagen's most important market for sales of passenger cars in 2019. 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 2019, Volkswagen Group delivered 4,517,375 units to customers in this region, a decrease of 0.3% compared to 2018 (2018: 4,530,564); while the Group's market share in the region rose to 13.2% of the overall market (2018: 12.4%). (Source: Volkswagen Group data). In China, Volkswagen Group slightly increased sales, delivering 4,228,840 vehicles to customers, 0.6% more than in the prior year (2018: 4,202,398).

(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, 2019, 2018 and 2017:

	For the year ended December 31			Change 2019/2018 (in %)	Change 2018/2017 (in %)
	2019⁽¹⁾	2018⁽¹⁾	2017		
	(units)				
Europe/Other markets	169,409	165,998	569,962	+2.1	+2.6
Western Europe	119,284	108,122	426,773	+10.3	+4.3
Central and Eastern Europe	36,130	39,590	76,031	-8.7	+9.6
Other markets	13,995	18,286	67,158	-23.5	-15.8
North America	3,219	3,517	13,410	-8.5	-2.5
South America	56,826	47,734	75,949	+19.0	+21.3
Brazil	49,551	37,984	35,781	+30.5	+55.7
Asia-Pacific	12,767	15,745	43,457	-18.9	-2.2
China	4,737	4,658	10,408	+1.7	-0.5
Worldwide	242,221	232,944	702,778	+4.0	+4.3

⁽¹⁾ Figures reflect allocation of light commercial vehicles of the Volkswagen Commercial Vehicles brand to the Passenger Cars and Light Commercial Vehicles segment.

In 2019, Volkswagen Group delivered a total of 242,221 mid-sized and heavy trucks, buses and TGE model vehicles from MAN (an increase of 4.0% compared to 2018). Trucks accounted for 205,936 units (+1.7%), buses for 21,496 units (-5.0%) and TGE model vehicles from MAN for 14,789 deliveries (2018: 7,871).

8.4.1.7 Procurement

8.4.1.7.1 Overview

Procurement purchases of goods include raw materials, vehicle parts and components, services and capital expenditure items. In the year ended December 31, 2019, the incoming goods and order volume amounted to EUR 320 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 —Operational risks —Volkswagen is exposed to risks arising from procurement of raw materials, potentially impacting its procurement, production, transport and service chains." and "If Volkswagen 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, Volkswagen's procurement, production, transport and service chains could be interrupted or impaired."

The following table provides an overview of Volkswagen's total procurement volume (including the Chinese joint ventures) in 2019, categorized by procurement market:

	For the year ended December 31, 2019
	(unaudited) in EUR billion
Europe/Other markets	130.9
North America	6.1
South America	6.4
Asia-Pacific	54.0

8.4.1.7.2 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 2019, Volkswagen purchased more than 8 million tonnes of steel, primarily from European markets. In 2019, 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 50% of Volkswagen's procurement requirements in 2019 (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.

8.4.1.7.3 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 2019, the procurement volume of the general procurement sub-division amounted to approximately EUR 33 billion.

8.4.1.8 Production

8.4.1.8.1 Production locations

Volkswagen had 124 operating production locations worldwide as of December 31, 2019: 72 locations in Europe (including 28 in Germany), 33 locations in Asia-Pacific, 6 locations in North America, 9 locations in South America and 4 locations in Africa. Vehicles were manufactured at 69 of these locations, including 36 locations in Europe, 6 locations in South America, 19 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 Group produced 10,823,378 vehicles worldwide in 2019, 1.8% less than in the previous year. In total, Volkswagen Group's Chinese joint ventures manufactured 4.1% fewer units in 2019 than in the prior year. In Germany, the production declined by 8.3%, mainly due to numerous new vehicle startups as well as the transition to electric vehicles. The percentage of the Group's total production accounted for by Germany was lower than in 2018, at 19.5% (2018: 20.9%).

8.4.1.8.2 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 and, recently, a modular electric drive toolkit has been developed. 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.

8.4.1.9 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.

8.4.1.10 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.

8.4.2 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 and Canada, 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.

Volkswagen Financial Services is represented in 48 countries. The main markets for Volkswagen Financial Services are Germany, the United States, Brazil, the United Kingdom, Spain, Italy, Canada, France and China. Germany is the main market for Volkswagen Financial Services. In Europe, the principal companies are Volkswagen Bank, Volkswagen Leasing GmbH ("**Volkswagen Leasing**") and Volkswagen Versicherungsdienst GmbH ("**VVD**"). VW Credit, Inc. operates financial services activities in North America.

Volkswagen's financial services operations include mainly loans, leasing as well as insurance programs for customers and dealers. In 2019, 34.2% (2018: 33.9%) of Volkswagen's vehicles delivered worldwide were financed by or leased from the companies of Volkswagen's Financial Services Division (including the Chinese joint ventures but excluding Scania and Porsche Holding Salzburg financial services). 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, 2019, 2018 and 2017.

	2019		2018		2017	
	Current	Noncurrent	Current	Noncurrent	Current	Noncurrent
	(in EUR million)					
Receivables from financing business						
Customer financing	22,873	49,175	21,487	45,089	19,841	40,899
Dealer financing	16,781	2,512	14,781	2,099	17,033	2,194
Direct banking	305	5	284	3	269	4
	39,958	51,692	36,551	47,191	37,142	43,096
Receivables from operating leases	285	–	219	–	193	–
Receivables from finance leases	18,371	35,281	17,446	31,501	15,810	30,153
	58,615	86,973	54,216	78,692	53,145	73,249

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.

8.4.2.1 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:

Customer segments	Financing	Leasing & Fleet management	Insurance	Service	New Mobility
Private customers	<ul style="list-style-type: none"> • Customer financing 	<ul style="list-style-type: none"> • Private leasing 	<ul style="list-style-type: none"> • Car insurance • Personal insurance 		<ul style="list-style-type: none"> • Parking • Fueling • Car rental • Carsharing • Car rental
Dealers	<ul style="list-style-type: none"> • Dealer financing 	<ul style="list-style-type: none"> • Leasing of office and business furniture and equipment 	<ul style="list-style-type: none"> • Dealer insurance • Car • Personal • Buildings 		
Other services centering around the automobile				<ul style="list-style-type: none"> • Service & Maintenance • Fuel cards • Tire replacement 	
Major/fleet customers		<ul style="list-style-type: none"> • Financial leasing • Operating leasing • Fleet management 	<ul style="list-style-type: none"> • Product packages for leasing & fleet customers • Extension of manufacturer's warranty 		<ul style="list-style-type: none"> • Parking • Truck / Car rental • Fueling

8.4.2.1.1 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 can make 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.

8.4.2.1.2 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 can be made between finance leasing and operating leasing. In finance leasing, the economic risks and benefits pass over to the lessee. The realization risk (risk that at the end of the lease term the leasing asset actually has the value predicted and reflected in the leasing agreement) of the underlying asset is not borne by the lessor.

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.

8.4.2.1.3 Insurance services

The Financial Services Division provides 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 or leasing 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 or leasing protection insurance policies cover the remaining payments of the relevant financing or leasing contract 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 or leasing 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/leasing protection 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.

8.4.2.1.4 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.

8.4.2.1.5 New Mobility Unit

The Financial Services Division includes a "Mobility Unit", which is responsible for the expansion of vehicle-related mobility services and providing mobility services. The current portfolio includes in particular car fuel and service cards, charging, tolling, car sharing, smart parking, car and truck rental, mobility management and payment services.

A subsidiary within the Financial Services Division is operating the fuel and service card business with a network of all together more than 40,000 petrol stations in 29 countries with two different types of cards. Next to a co-branded fuel card the subsidiary issues its own card for fuel, e-charging and services (charge&fuel) with an acceptance network of more than 17,000 stations in about 20 countries for fuel and more than 20,000 e-charging points in Germany. An international rollout for e-charging is planned for this year. The fuel network covers many of the major brand petrol stations, a network of low price locations and supermarket stations. Customers have also the possibility to use further value-added services e.g. payment of truck tolls, which is available in 18 European countries. In the area of car charging, the Financial Services Division has its own Charge & Fuel card and app product which is mentioned above and a cooperation with a big mobility service provider. The Charge & Fuel card and app product is restricted to Germany and covers about 20,000 charging points while the product with the mobility service provider is covering 90,000 charging points in Europe and more than 190,000 charging points worldwide.

Volkswagen Financial Services' carsharing segment operates 2,400 station-based vehicles in more than 150 cities in the Netherlands and Germany and is available for B2C and B2B customers. Furthermore, there is a special B2B solution which covers about 1,000 vehicles. This combines fleet management and carsharing, giving the customer the chance to operate its fleet with the benefit that the drivers can also use the public fleet of the carsharing operator.

The car parking sector includes different parking solutions containing off-street and on-street parking spaces. The products vary from a free basis product up to a premium fleet product containing a monthly consolidated invoice. Parking services are provided in many cities across North America (United States and Canada) and Europe (including Germany, United Kingdom, France, Italy, Spain, Netherlands, Belgium, Austria and Switzerland).

For truck parking, the portfolio provides a truck driver app to find, book and park at secure truck parking locations at different spots in 53 countries in Europe.

The Financial Services Division provides – through its companies – high quality rental cars for long- and short-term rental at over 2,000 stations in Germany. The fleet of over 30,000 cars covers private rentals, business trip rentals, global assignments, fleet demand peaks and bridging mobility.

Besides car rental, the customers have also the possibility of short- and long-term rental for commercial vehicles ranging from 3.5 up to 40 tons including MAN trucks and vendor-neutral trailer. Customers benefit from a complete value chain, ranging from new vehicle purchase to second-hand vehicle marketing. Well-equipped vehicles, flexibility and full-service covering repair and maintenance, tire management, insurance, toll, telematics complete the portfolio.

In addition, the Financial Services Division offers also payment solutions regarding mobility services, e.g., mobile ticket sale for public transport and their payment transactions.

8.4.2.1.6 Direct banking business

Through Volkswagen Bank's direct banking business unit, Volkswagen Group offers direct banking services. During the years ended December 31, 2019, 2018 and 2017, 1,075 thousand, 1,215 thousand and 1,269 thousand customers were served, respectively. Customer deposits at Volkswagen Bank totaled EUR 31.7 billion, EUR 29.3 billion and EUR 33.6 billion as of December 31, 2019, 2018 and 2017, respectively. Since January 1, 2019, the volume of consumer deposits has been calculated without cash deposits from Volkswagen Group companies. The 2018 figure was adjusted retrospectively. Considering the changed calculation basis for 2018 and 2019 only, the 2017 figure is not comparable.

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 currently consist of 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 interhyp GmbH (mortgages). In the insurance business, the partners are for example Deutsche Krankenversicherung AG and Generali Lebensversicherung AG. With the continuous amendment of its strategy, Volkswagen Bank is currently redefining its business and cooperation model for selected products, such as securities and insurances business.

8.4.2.1.7 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.

8.4.2.1.8 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.

8.4.2.1.9 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 early warning system of VWFS AG Group is essentially considered as an economic forward-looking monitoring, that summarizes each risk owner's individual activities in risk steering with an early warning character. Thereby, the "Three Lines of Defence" model assures the risk-type-specialized recognition. Each risk owner takes the responsibility for implementing a risk-based steering concept (risk management circle), which consists of defining the target, identification, assessment, steering, controlling and communication of the risks and determining the risk's individual early warning indicators. 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.

8.4.2.1.10 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.

8.4.2.1.11 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.

8.4.2.1.12 Management of market price risk

Volkswagen Financial Services Division is exposed to various market price risks, which consist of interest rate risk in the banking book, 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.

8.4.2.1.13 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 and lease 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 and ICS concepts.

8.5 Research and Development

Total research and development costs in the Automotive Division of Volkswagen Group during the years ended December 31, 2019, 2018 and 2017 were EUR 14,306 million, EUR 13,640 million and EUR 13,135

million, respectively, which corresponded to 6.7%, 6.8% and 6.7% 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 2017, 2018 and 2019 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 51,947 people worldwide as of December 31, 2019 (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 future technologies. Mobility, energy, safety and sustainability 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.

8.5.1 Research

From 2015 through 2019, 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 propulsion and energy systems, material design and smart manufacturing and seamless mobility through safe, intelligent vehicles, future vehicle concepts and mobility solutions, digitalization and artificial intelligence.

From 2015 through 2019, 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).

8.5.2 Development

From 2015 through 2019, 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 Volkswagen Group’s comprehensive electrification initiative. In addition, Volkswagen Group is researching on upgrading battery technology and preparing further 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.

8.5.3 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 124g CO₂/km in 2019, which was below the European limit of 130g CO₂/km, based on provisional EU data. 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. As small volume manufacturers, the Lamborghini and Bentley brands each have an independent fleet for the purposes of the European CO₂ legislation; Bentley complied with its individual target, Lamborghini was slightly above its target.

8.6 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 marketplace.

8.7 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.

8.8 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 in Germany for Volkswagen AG consists of six plants and their surrounding areas, is encumbered by real property liens totaling approximately EUR 1,300 million in favor of Volkswagen Pension Trust e.V. as of December 31, 2019, as security for current semi-retirement and individual long-term working time credit balances in order to protect the credit balances of individuals in semi-retirement against insolvency.

Furthermore, Volkswagen Group occasionally 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. In connection with land and buildings, as of December 31, 2019 in total real property liens of EUR 1,221 million are pledged as collateral for partial retirement obligations, financial liabilities and other liabilities within the Volkswagen Group.

The following table shows Volkswagen's key plants (in terms of size, investment volume and/or book value) as of December 31, 2019:

City, country	Size of property in thousand m²	Gross size of buildings in thousand m²	Volkswagen or third-party owned
Volkswagen plant, Wolfsburg, Germany (including proving grounds Ehra and additional nearby properties)	approx. 20,700	approx. 3,500	group owned
Audi plant, Ingolstadt, Germany	approx. 6,900	approx. 3,500	group owned
ŠKODA plant, Mladá Boleslav, Czech Republic	approx. 6,500	approx. 1,000	group owned
Audi plant, Neckarsulm, Germany	approx. 1,300	approx. 2,000	group owned
SEAT plant, Martorell, Spain	approx. 2,900	approx. 1,100	group owned

8.9 Employees

Including the Chinese joint ventures, Volkswagen had an average of 667,748, 655,722 and 634,396 employees during the years ended December 31, 2019, 2018 and 2017, respectively. Volkswagen's companies based in Germany had an average of 294,779, 290,757 and 284,734 employees during the years ended December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019, 9,968 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"*.

8.10 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 workflows 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.

8.11 Environmental Management

Volkswagen AG has implemented an environmental compliance and energy management system (ECMS) that applies to its manufacturing, warehouse or other facilities. Through ECMS in collaboration with other relevant management systems (esp. Product Compliance Management System, Quality Management System), Volkswagen assesses and manages the environmental practices and impacts of manufacturing and product development as well as other activities with environmental relevance. 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 ECMS 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 ISO 50001 or ISO 14001, including their provisions governing internal audits. External auditors assess the ECMS and issue appropriate certificates indicating that the respective facilities' ECMS conform with the ISO standard.

Volkswagen has adopted and applies comparable environmental standards throughout the group. Minimum requirements have been described in a group policy, which also contains strategic guidelines. Worldwide all production sites of the Volkswagen brand have also established site-specific ECMSs according to ISO 50001 and ISO 14001. At the European locations, the development, updating, and application of the ECMSs is supported, among other things, by a regular exchange of experience among those entrusted with environmental responsibility and by additional working groups.

8.12 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, embezzlement prevention and investigation of compliance violations of employees. 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.

8.13 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.

8.14 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 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 Overview of the Diesel Issue

The diesel issue is rooted in a modification of parts of the software of the relevant engine's control units – which, according to Volkswagen AG's legal position, is only unlawful under US law – for the type EA 189 diesel engines that Volkswagen AG was developing at that time.

In the months following publication of a study by the International Council on Clean Transportation in May 2014, Volkswagen AG's Powertrain Development department checked the test set-ups on which the study was based for plausibility and confirmed the unusually high NOx emissions from certain US vehicles with type EA 189 2.0 I diesel engines. The California Air Resources Board (CARB) – a part of the environmental regulatory authority of California – was informed of this result, and, at the same time, Volkswagen offered to recalibrate the engine control unit software of type EA 189 diesel engines in the US. This measure was evaluated and adopted by the *Ausschuss für Produktsicherheit* (APS – Product Safety Committee), which initiates necessary and appropriate measures to ensure the safety and conformity of Volkswagen AG's products that are placed in the market.

In the course of the summer of 2015, it became successively apparent to individual members of Volkswagen AG's Board of Management that the cause of the discrepancies in the US was a modification of parts of the software of the engine control unit, which was later identified as an unlawful "defeat device" as defined by US law. This culminated in the disclosure of the existence of a "defeat device" in certain US vehicles with type EA 189 2.0 I diesel engines to EPA and CARB on September 3, 2015. According to the assessment of the responsible persons dealing with the matter at that time, the scope of the costs expected by the Volkswagen Group (recall costs, retrofitting costs and financial penalties) was not fundamentally dissimilar to that of previous cases involving other vehicle manufacturers, and, therefore, appeared to be manageable overall with a view to the business activities of the Volkswagen Group. This assessment by the Volkswagen Group was based, among other things, on the advice of a law firm engaged in the US for compliance issues, according to which similar cases in the past were resolved amicably with the US authorities.

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 US. 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 second "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 governmental proceedings seeking damages, recalls and/or technical fixes for affected diesel vehicles, criminal and administrative proceedings, consumer, dealer and salespersons claims and investor lawsuits were subsequently initiated in the US, Canada, Germany and the rest of the world.

After the first Notice of Violation was issued, Volkswagen AG initiated its own internal inquiries and an external investigation. The Supervisory Board of Volkswagen AG formed a special committee to coordinate the activities relating to the diesel issue for the Supervisory Board. The law firm Jones Day was instructed by Volkswagen AG to carry out an 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 US with respect to the diesel issue.

Work in respect of the legal proceedings that are still pending in the US and the rest of the world is ongoing, will require considerable efforts and coordination from Volkswagen, may demand significant management resources, and is expected to continue for some time. In connection with this further work, Volkswagen AG is being advised by a number of external law firms. Ongoing legal proceedings related to the diesel issue could result in further considerable financial charges.

The diesel issue has affected and will continue to affect Volkswagen's business, financial position and results of operations. In the years 2015 to 2019, Volkswagen recognized expenses directly related to the diesel issue in the total amount of EUR 31.3 billion, adversely affecting its operating profit, financial position and results of operations. For more information see also: "*6.4.1 Diesel Issue*"

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.

8.14.1.2 Coordination with authorities on technical measures

In coordination with the respective responsible authorities, Volkswagen Group is making technical measures available designed to rectify the diesel issue in affected diesel vehicles worldwide. In this context, within the Volkswagen Group, Volkswagen AG has development responsibility for the four-cylinder diesel engines such as the type EA 189, and AUDI AG has development responsibility for the six- and eight-cylinder diesel engines such as the type V6 3.0 I and V8 diesel engines. These measures have resulted in, and may continue to result in, significant expenses for the Volkswagen Group.

In the United States and Canada, where Volkswagen's planned actions for the four-cylinder and six-cylinder diesel engines must be approved by U.S. regulators, intensive exchanges of information with the authorities have resulted in approval of emissions modifications for these engines in certain vehicles in the markets. Due to NOx limits in the United States and Canada that are considerably stricter than in the EU and much of the rest of the world, it is a greater technical challenge to refit the vehicles so that the emission standards defined in the U.S. settlement agreements for these vehicles can be achieved. In 2017 and 2018, the EPA/CARB issued the outstanding approvals needed for the technical solutions for affected vehicles with 2.0 I TDI and with V6 3.0 I TDI engines. In the case of 2.0 I Generation 2 diesel vehicles with manual transmissions, Volkswagen elected to withdraw the approved emissions modification proposal, whereby owners were given the option of a buyback and lessees were given the option of early lease termination. Further field measures with financial consequences cannot be ruled out completely at this time. On October 31, 2018, after discussions with DOJ, EPA, and CARB, the parties agreed to modify the First and Second Partial Consent Decrees to clarify that Volkswagen may repair certain technical issues with approved emissions modifications through an "AEM Correction" (Approved Emissions Modification Correction).

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. Because, as in the US, no repair will be available in Canada for 2.0 I Generation 2 manual transmission vehicles, 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.

Volkswagen may be required to repurchase any other 2.0 I Generation 2 diesel vehicles with manual transmissions and any other diesel vehicles sold in the US, Canada and elsewhere, even if not covered under a settlement. This could lead to further significant costs. For example, in Canada, as agreed with the federal environmental regulator, any owners or lessees of manual transmission 2.0 I Generation 2 diesel vehicles who made a claim by the September 1, 2018 settlement deadline could surrender their vehicle, even if they 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.

In October and December 2015, the KBA ordered the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles, SEAT and Audi brands to recall all EA189 diesel vehicles that had been issued with vehicle type approval by the KBA. The recall concerned the member states of the European Union (EU 28). 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 technical measures 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 KBA has ascertained for all clusters (groups of vehicles) that the implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO₂ emissions figures, engine power, maximum torque and noise emissions. On Volkswagen's voluntary notification the KBA is currently re-examining the proposed technical measures for one class of EA189 engines (1.2l 3-cylinder only). In addition, in 2018, Volkswagen together with AUDI AG proposed a voluntary modification to the onboard monitoring system (On-Board Diagnosis (OBD)) for certain vehicles equipped with EA 288 EU6 diesel engines, which has been accepted by the KBA in March 2020 for Volkswagen; whereas for AUDI AG the proposed voluntary modification is under review by the SNCH, the Luxembourg national certification and homologation authority (*Société Nationale de Certification et d'Homologation*, "SNCH"). The technical measures are under varying stages of implementation and under consideration by the KBA. The discussions are ongoing, and their outcome is open. This may lead to further significant costs, regulatory proceedings and/or customer claims for damages.

AUDI AG has worked intensively for many months to check all relevant V-TDI diesel concepts for possible discrepancies and retrofit potentials to ensure compliance with environmental rules. The measures proposed by AUDI AG have been adopted and mandated in various recall notices issued by the KBA for vehicle models of the AUDI, Volkswagen and Porsche brand with a V6 or V8 TDI engine meeting the Euro 4 (AUDI and Volkswagen), Euro 5 or Euro 6 emission standard. Further issues are still under consideration by the KBA. Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. Additional measures may become necessary as a result of the investigations by AUDI AG and the consultations with the KBA.

In some countries outside the EU (excluding US and Canada), vehicles are homologated by national type approval authorities; the technical measure had to be approved by the national authorities. This approval process has been concluded in all countries.

On April 4, 2018, the Korean Ministry of Environment (“KME”) ordered a recall after it 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 (ii) the Dynamic Shift Program (DSP) in the gearbox control in some AUDI vehicle models, as prohibited defeat devices. On August 21, 2019, the KME further announced that it has categorized an injection strategy of urea solution as an illegal emission defeat device and plans to (i) revoke the certifications of eight AUDI, Volkswagen and Porsche brand diesel vehicles with V6 engines, (ii) issue a recall order and an advance notice for administrative fines, and (iii) refer the manufacturers to the prosecutors’ office in criminal proceedings.

In addition, AUDI is responding to requests from the U.S. authorities for information regarding automatic gearboxes in certain vehicles. See also “*Proceedings related to Diesel Issue—Proceedings in relation to automatic transmissions*”.

8.14.1.3 Criminal and administrative proceedings worldwide (excluding the United States/Canada)

Criminal investigations, regulatory offense proceedings, and/or administrative proceedings have been opened in some countries (in Germany for example by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – “BaFin”). The public prosecutor’s offices in Braunschweig and Munich are investigating the core issues of the diesel case. In April 2019, the Braunschweig Office of the Public Prosecutor issued an indictment against, among others, Volkswagen AG’s former CEO, Martin Winterkorn, charging, among other things, fraud relating to Type EA 189 engines in connection with the diesel issue. In September 2019, the Braunschweig Office of the Public Prosecutor furthermore indicted the current and a former Chairman of the Board of Management of Volkswagen AG as well as a former member of its Board of Management (currently Chairman of the Supervisory Board) on charges of market manipulation relating to capital market disclosure obligations in connection with the diesel issue. The Braunschweig Regional Court has named Volkswagen AG as a collateral participant in the proceedings.

In July 2019, the Munich II Office of the Public Prosecutor issued an indictment, against, among others, Rupert Stadler, the former Chairman of the Board of Management of AUDI AG, charging, among other things, fraud relating to 3.0 TDI engines in connection with the diesel issue.

The Stuttgart Office of the Public Prosecutor is conducting a criminal investigation relating to the diesel issue on suspicion of fraud and illegal advertising that also involves a member of the Board of Management of Porsche AG.

As the type approval authority of proper jurisdiction, the KBA is moreover continuously testing Audi, Volkswagen, and Porsche brand vehicles for problematic functions. If certain functions are deemed impermissible by the KBA, the affected vehicles are recalled pursuant to a recall order or they are brought back into compliance by means of a voluntary service measure.

Furthermore, additional administrative actions relating to the diesel issue are ongoing in other jurisdictions. The companies of the Volkswagen Group continue to cooperate with the government authorities. Whether the criminal and administrative proceedings will ultimately result in fines or other consequences for the Company, and if so what amounts these may entail, is currently subject to estimation risks. Should these proceedings result in adverse court decisions 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. 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%. Provisions were recognized to a small extent.

8.14.1.4 Product-related lawsuits worldwide (excluding the United States/Canada)

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. Most of 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. 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.

Customer class action lawsuits and actions brought by consumer and/or environmental organizations are pending against Volkswagen AG and other Volkswagen Group companies in a number of countries including Australia, Belgium, Brazil, Germany, Italy, the Netherlands, Portugal, South Africa, and the United Kingdom. Alleged rights to damages and other relief are asserted in these actions. The pending actions include in particular the following:

In Australia, various class action lawsuits with opt-out provisions have been filed against Volkswagen AG and other Volkswagen Group companies, including the Australian subsidiaries. In December 2019 Volkswagen AG reached agreements with the Australian class action plaintiffs that would terminate the litigation. The court approved the settlement on April 1, 2020. Volkswagen will pay approximately AUD 2,800 (approximately EUR 1,500) per vehicle to each of the approx. 42,000 customers that registered for the settlement. The settlement sum will thus be approximately AUD 120 million (approximately EUR 70 million) plus costs. Customers who did not register for the settlement will not receive payments and can generally no longer bring a claim against Volkswagen. Two civil suits filed against Volkswagen AG and other Group companies by the Australian Competition and Consumer Commission (ACCC) were settled in the second half of 2019. The settlement is not yet legally final, however, as an appellate court has yet to rule on the amount of the fine. Depending on the appellate court decision, Volkswagen AG anticipates payment of a fine of up to AUD 125 million plus litigation costs.

In Belgium, the Belgian consumer organization Test Aankoop VZW has filed a class action to which an opt-out mechanism has been held to apply. The class action pertains to vehicles purchased by consumers on the Belgian market after September 1, 2014. The asserted claims are based on purported violations of unfair competition and consumer protection law as well as on alleged breach of contract.

In Brazil two class actions are pending. One of these pertains to approximately 17 thousand vehicles. In this litigation, an appeals judgment was rendered in May 2019 that only partially upheld the lower court's decision. This judgment initially reduced the damage liability of Volkswagen do Brasil to around BRL 172 million plus interest. This amount can increase as a result of the adjudicated inflation rate and the assertion of individual claims alleging declines in the value of affected Amarok vehicles. The judgment remains non-final. In the second class action, compensation claims are made based on purported breaches of environmental regulations.

In Germany, the Verbraucherzentrale Bundesverband e.V. (Federation of Consumer Organizations) filed an action in November 2018 with the Braunschweig Higher Regional Court for model declaratory judgment against Volkswagen AG. On February 28, 2020, a settlement has been concluded between Volkswagen AG and Verbraucherzentrale Bundesverband e.V. The volume of the settlements amounts to approximately €830 million and involves approximately 260,000 registered consumers. So far, approximately 240,000 customers decided to submit an offer for a settlement agreement, further thousands of cases are under review and will be cleared for a settlement if all conditions are met. As a result of the settlement, Verbraucherzentrale Bundesverband e.V. will withdraw its action for model declaratory judgment. In addition, various actions have been brought against companies of the Volkswagen Group in several German Regional Courts by financialright GmbH, which is asserting rights assigned to it by a total of approximately 45 thousand customers in Germany, Slovenia, and Switzerland.

In England and Wales, suits filed in court by various law firms have been joined in a single collective action (group litigation). Because of the opt-in mechanism, not all vehicles with type EA 189 engines are automatically covered by the group litigation; potential claimants must instead take action in order to join. To date, around 91,000 plaintiffs have registered claims under the group litigation. The group litigation opt-in period has expired. On April 6, 2020 the High Court decided on two preliminary issues, ruling that the switching logic of the EA189 engine was a defeat device and finding itself bound by the KBA's findings in this regard. Volkswagen does not share the legal opinion of the High Court and is considering whether to appeal the judgment. The question of Volkswagen's liability was not subject of the judgment and will only be discussed later in the process.

In Italy, a class action lawsuit filed by the consumer association Altroconsumo on behalf of Italian customers is pending before the Venice Regional Court. This litigation involves damage claims based on alleged

breach of contract as well as claims based on purported violations of Italian consumer protection law. Some 82 thousand customers have registered for the class action, whereby the validity of roughly half of the registrations is still unclear. In Italy, the court decision dismissing the class action filed by the consumer association Codacons as inadmissible also became legally final in 2019.

In the Netherlands, Stichting Volkswagen Car Claim has brought an opt-out class action seeking declaratory rulings. Any individual claims would then have to be established afterwards in separate proceedings. In November 2019 the Regional Court in Amsterdam held the requests for relief to be inadmissible in part. Oral argument on the merits of the class action will take place in 2020. On March 13, 2020, another class action lawsuit for damages with an opt-out mechanism for Dutch consumers has been filed by the Diesel Emissions Justice Foundation. After an amendment to the law that came into force on January 1, 2020, European consumers can also join the class action as part of an opt-in option. The class action lawsuit affects not only vehicles of the EA 189 engine type, but also vehicles with EA 288 and EA 897 engines.

A Portuguese consumer organization has filed a class action with opt-out mechanism in Portugal. There are potentially up to approximately 139 thousand vehicles affected in the Portuguese market. The complaint seeks vehicle return and alleges damages as well.

In South Africa, an opt-out class action seeking damages is pending that pertains to some 8 thousand vehicles with V6 and V8 TDI engines in addition to approximately 72 thousand vehicles with type EA 189 engines.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in various countries, most of which are seeking damages or rescission of the purchase contract. In Germany, there are around 70 thousand such individual lawsuits. On May 5, 2020, at a preliminary hearing at the German Supreme Court (*Bundesgerichtshof*) in connection with one of the individual lawsuits, the Supreme Court expressed a view favorable to the plaintiff on the merits but emphasized the need to compensate Volkswagen for the plaintiff's use of the car. A decision is expected on May 25, 2020. This decision is expected to have an impact on other individual lawsuits pending across Germany.

Contingent liabilities are disclosed for these proceedings where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not implausible. Since most of these proceedings are still in an early stage, it is in many cases not yet possible to quantify the realistic risk exposure. In addition, provisions were recognized to the extent necessary based on the current assessment. 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.

8.14.1.5 Investor proceedings outside the United States and Canada

Private and institutional investors from Germany and other jurisdictions 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. The vast majority of these investor lawsuits are currently pending at the Regional Court in Braunschweig, with further investor lawsuits filed at the Regional Court in Stuttgart.

In August 2016, the Regional Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the Regional Court in Braunschweig be referred to the Higher Regional Court (*Oberlandesgericht*) in Braunschweig for binding declaratory rulings pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (*KapMuG –Kapitalanleger-Musterverfahrensgesetz*). All lawsuits at the Regional Court in Braunschweig will be stayed pending resolution of the common issues, unless the cases can be dismissed for reasons independent of the common issues that are to be adjudicated in the model case proceedings. The resolution in the model case proceedings of the common questions of law and fact will be binding for all pending cases that have been stayed in the described manner. Oral argument hearings in the model case proceedings before the Braunschweig Higher Regional Court began in September 2018 and are being continued at subsequent hearings.

At the Regional Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtor. Holding that the factual situation at issue is by and large already covered by the model case proceedings being heard by the Braunschweig Higher Regional Court and that these proceedings, being paramount in this regard, preclude further such actions, the Stuttgart Higher Regional Court in March 2019 refused to proceed with further capital investor model case proceedings (directed also against Porsche SE) that had been referred to it by the Stuttgart Regional Court. The plaintiff side has appealed one of these decisions to the Federal Court of Justice.

Further investor lawsuits have been filed at various courts in Germany and the Netherlands. Outside the US and Canada, investor lawsuits, judicial applications for dunning procedures and conciliation proceedings, and claims under the KapMuG, are currently pending against Volkswagen AG in connection with the diesel issue, amounting to an aggregated exposure of approximately EUR 9.6 billion.

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. In June 2019, the Regional Court of Hannover rejected DSW's application to appoint a special auditor in its entirety. DSW filed an appeal in July 2019. The court proceedings in the Deminor case have been stayed pending a decision by the Federal Constitutional Court.

8.14.1.6 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 US 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 consumers, investors, dealers and salespersons 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 sought statutory penalties under the U.S. Clean Air Act, as well as certain injunctive relief, and was 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.

Volkswagen was able to end many significant court and governmental proceedings in the US by concluding settlement agreements. with (i) the DoJ on behalf of the EPA and the State of California on behalf of CARB and the California Attorney General, (ii) the U.S. Federal Trade Commission, and (iii) private plaintiffs represented by a Plaintiffs' Steering Committee (PSC) in a multi-district litigation in California. The settlement agreements resolved certain civil claims made in relation to affected diesel vehicles in the US. Depending on the type of diesel engine, under the settlement agreements Volkswagen provided for, *inter alia*, free emissions modification of vehicles, buy-backs/trade-ins or early lease terminations, and made cash payments to affected current owners or lessees as well as certain former owners or lessees. Volkswagen also agreed to support environmental programs, make significant investments over a period of ten years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives. Certain consumers found to be ineligible under the settlement agreements by the federal court in California have appealed this decision. Several thousand consumers initially opted out of the settlement agreements, and many of these consumers filed civil lawsuits seeking monetary damages for fraud and violations of state consumer protection acts. Various subsequent resolutions have eliminated the majority of the cases brought by the original consumer opt-outs. A significant volume of the remaining opt-out cases are pending in the federal multidistrict litigation in California and in California state court. The first opt-out trial was held in late February and early March 2020 in the federal multidistrict litigation. In the aggregate, the ten opt-out plaintiffs were awarded a total of U.S.\$28,735 in compensatory and punitive damages combined.

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 US law: (i) conspiracy to defraud the US, 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 US. 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, is assessing and overseeing 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. Mr. Thompson submitted his initial review report under the plea agreement in March 2018. On February 8, 2019, Mr. Thompson submitted his first follow-up review report under the plea agreement. In November 2019, Mr. Thompson submitted his second follow-up review report under the plea agreement. Additionally, on August 17, 2018 and August 16, 2019, Mr. Thompson submitted his first and second annual reports under the Third Partial Consent Decrees. Volkswagen is working to address the recommendations set forth in Mr. Thompson's reports. On October 17, 2019, Volkswagen announced that it has been granted a 90-day extension by DOJ and the Monitor to demonstrate that it has met its commitments under the terms of the Plea Agreement.

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 customs-related claims in the US. 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 resolved the claims of Volkswagen-branded franchise dealers in the US 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.\$1.2 billion and additional benefits. Certain individual Volkswagen branded franchise dealers either opted out of the settlement agreement or were not included in the settlement class definition and pursued individual claims in individual actions, but those actions have been resolved. Additionally, 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.

Moreover, investigations by various U.S. regulatory and government authorities, including in areas relating to securities, tax and financing, are ongoing. On March 14, 2019, the SEC filed a complaint in the U.S. District Court for the Northern District of California, against Volkswagen AG, Volkswagen Group of America Finance, LLC, VW Credit Inc. and the former Volkswagen CEO, Martin Winterkorn, alleging violations of the antifraud provisions of the federal securities laws. The SEC complaint seeks permanent injunctions, disgorgement of allegedly ill-gotten gains with prejudgment interest, and civil penalties.

In the US, Volkswagen has reached separate agreements with the attorneys general of all 50 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 l TDI and 3.0 l TDI vehicles in the US. Volkswagen has also reached separate agreements with the attorneys general of thirteen US states (California, Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws. The attorneys general of five other US states (Illinois, Montana, New Hampshire, Ohio and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, alleging violations of environmental laws. The environmental claims of nine states – Alabama, Illinois, Minnesota, Missouri, Montana, Ohio, Tennessee, Texas, and Wyoming – as well as Hillsborough County (Florida), Salt Lake County (Utah), and two Texas counties, have been dismissed in full or in part by trial or appellate courts as preempted by federal law. Illinois, Hillsborough County, and Salt Lake County have appealed the dismissal of their claims.

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, which has the same NOx emissions limits as the US, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0 l and 3.0 l 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*, provided for cash payments for completing free vehicle emissions modifications, buy-backs/trade-ins and early 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 civil resolutions of its regulatory inquiries into consumer protection issues as to 2.0 l and 3.0 l diesel vehicles. In December 2019, the Canadian federal environmental regulator filed charges against Volkswagen AG in respect of 2.0 l and 3.0 l Volkswagen and Audi vehicles at the conclusion of its criminal enforcement-related investigation into the diesel issue. Volkswagen AG cooperated with the investigation and agreed to a plea resolution addressing all of the charges. In January 2020, Volkswagen AG pleaded guilty to the charges and agreed to pay a penalty of C\$196.5 million, which was approved by the court. Following this approval, the Ontario provincial environmental regulator withdrew its action against Volkswagen AG charging a quasi-criminal enforcement-related offense with respect to certain Volkswagen and Audi 2.0 l diesel vehicles.

As to pending matters in Canada, an environmental class action has been authorized on behalf of residents in Quebec. This action was authorized on the sole issue of whether punitive damages could be recovered. While Volkswagen's appeals from the authorization have been denied, the case remains in the early stages.

Class action and joinder lawsuits have also been filed in Canada, including alleged consumer protection and securities claims asserting damages among other things. While a class action filed in Quebec provincial court was authorized as to claims relating to Volkswagen AG's shares, ADRs and debt securities, the case was dismissed by the Quebec court on April 16, 2020 for lack of jurisdiction. The plaintiff has at least thirty days to notice any appeal. A similar class action pertaining to shares and ADRs was also filed in the Province of Ontario. On August 15, 2018, the Ontario proceeding was dismissed by the Ontario court. While an appeal from this Ontario court ruling was noticed on September 14, 2018, the appeal was resolved before a hearing and dismissed.

8.14.1.7 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. In August 2019, Volkswagen agreed with the EPA to forfeit approximately 220,000 Greenhouse Gas Emission Credits in response to the EPA's inquiry. Also in August 2019, Volkswagen and the Plaintiffs' Steering Committee announced the settlement of civil claims relating to approximately 98,000 Volkswagen, Audi, Porsche and Bentley vehicles. Volkswagen's testing of these vehicles in connection with the information requests resulted in a 1 mile per gallon change, when rounded according to EPA rules, in the fuel economy disclosed on the "Monroney label" required by US regulations. Under the settlement agreement, Volkswagen will pay approximately \$96.5 million to affected current and former owners or lessees. In February 2020, the court granted final approval of the settlement. Provisions were recognized by Volkswagen Bank GmbH and Volkswagen Leasing GmbH for possible claims in connection with financial services provided to consumers.

In addition, other mass actions were filed in the federal multidistrict litigation in California and other courts alleging similar claims with respect to the existence of "defeat devices" in Audi brand vehicles with automatic transmissions. All but one of these mass actions have now been dismissed without prejudice by agreement of the parties, and the parties are in the process of dismissing the remaining mass action.

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 Volkswagen Group affiliates. In both of the Canadian actions, the certification hearing has been deferred while the parties engage in discussions concerning further proceedings in the cases.

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 EUR 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. The Senate also held that some of the desired objects of declaratory judgment on the litigants' side may be inadmissible.

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 EUR 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. However, in the event of a settlement or an unfavorable decision in the legal proceedings, Volkswagen AG could sustain considerable losses.

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 European Commission about the cartel as a key witness. With regard to Scania, the European 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, Scania 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. In April 2019, the European Commission issued a statement of objections to Volkswagen AG, AUDI AG and Porsche AG in connection with the European Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity to comment. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of emission control technology systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. After receiving access to the investigation files starting in July 2019, Volkswagen in December 2019 filed its reply to the European Commission's statement of objections. In the same matter, the Chinese Competition Authority also issued information requests to Volkswagen AG, AUDI AG and Porsche AG, and commenced an administrative action.

Furthermore, Volkswagen has been 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 have been cooperating fully with the Federal Cartel Office and reached an agreement to settle the case in November 2019. Volkswagen agreed to pay a fine of €48.8 million.

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 January 2019, the Italian Competition Authority imposed a fine of EUR 163 million against Volkswagen AG and Volkswagen Bank GmbH. Provisions were recognized by Volkswagen Bank GmbH. Volkswagen AG and Volkswagen Bank GmbH filed an appeal against this decision in March 2019. In the same context, an antitrust class action lawsuit has furthermore been filed by customers in Italy against Volkswagen Bank GmbH, among others.

8.14.3.2 United States and Canada

In March 2020, the US District Court for the Northern District of California dismissed two putative class action complaints brought by purchasers of German luxury vehicles alleging that, since the 1990s, several automobile manufacturers, including Volkswagen AG and other Group companies conspired to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support the alleged agreements unreasonably restrained competition in violation of U.S. law. The court granted Plaintiffs leave to file amended complaints with respect to a limited subset of Plaintiffs' original claims.

Plaintiffs in Canada filed claims with similar allegations on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Group Canada Inc., Audi Canada Inc., and other Group companies.

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. Volkswagen filed a motion to dismiss the complaint, which has not yet been decided.

In July 2019 Ford Motor Co., Honda Motor Co. Ltd., BMW of North America LLC and Volkswagen Group of America, Inc. announced a voluntary agreement with the CARB regarding CARB's enforcement position on greenhouse gas emissions and fuel economy standards. In August 2019 the DOJ's Antitrust Division wrote to each of these companies to express its concern that the agreement may violate federal antitrust laws and to request information regarding the agreement. After such information was provided, the DOJ closed its investigation in February 2020.

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, as the controlled company and TRATON SE (formerly Truck & Bus GmbH, Volkswagen Truck & Bus GmbH, Volkswagen Truck & Bus AG and TRATON AG), a publicly listed and majority owned subsidiary of Volkswagen AG, as the controlling company, 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.

By ruling of June 26, 2018 (supplemented and amended by the rulings of July 30, 2018 and December 17, 2018), the Munich Higher Regional Court rendered a final decision increasing the annual compensation claim under section 304 AktG to EUR 5.47 gross per share (less any corporate income tax and any solidarity surcharge at the respective tax rate applicable to these taxes for the financial year in question). The cash settlement in the amount of EUR 90.29 per share, increased in the first instance by the Munich I Regional Court, was affirmed. The decisions by the Munich Higher Regional Court are final and were published in the German Federal Gazette on August 6, 2018 and January 10, 2019.

On 28 February 2020, TRATON SE announced that it intends to implement a merger squeeze-out of the minority shareholders of MAN SE.

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. An appeal against this decision was rejected by the Higher Regional Court in Celle in June 2018. Subsequently, the first claimant filed a complaint with the German Supreme Court (*Bundesgerichtshof*) to permit a second appeal and overrule the Regional Court's rejection of the claims. In July 2019, the German Supreme Court (*Bundesgerichtshof*) rejected the complaint.

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. The appeal was withdrawn in March 2020.

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 final 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 EUR 0.5 billion for the contested period from 2009 onwards, which has been reported within the contingent liabilities as of March 31, 2020. 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.

8.14.7 *GT Gettaxi Ltd. proceedings*

In February 2020, Volkswagen AG and another defendant were served with a lawsuit filed by GT Gettaxi Ltd. The lawsuit in particular alleges large damage claims and tortious wrongdoings by Volkswagen AG. Volkswagen will evaluate the alleged claims and defend itself against them.

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 briefly 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 Regulation, 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 of a certain good is prohibited or subject to approval 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. Specially Designated Nationals List), to 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 agreements (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-exempted 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).

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 the amendment of the Euro 5/Euro 6 legislation in form of Regulation (EC) No. 2018/858 effective September 1, 2020, Volkswagen could in the future be obliged to grant independent operators 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 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 also 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 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 (expected to be replaced by Regulation (EU) 2018/858 in 2020), 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 CO₂ emissions of their new passenger car fleet in the European Union with an average industrial target of 130g CO₂/km, based on Regulation (EC) 443/2009. The target to be achieved from 2020 onward is 95g CO₂/km. In 2021, the target setting will be recalculated to set a target with the comparable stringency level under the new drive cycle WLTP. Regulation 510/2011 setting performance standards to reduce CO₂ emissions for new light commercial vehicles became effective in 2011, supplementing the regulation on CO₂ 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 CO₂ emissions of such vehicles in category N1, phasing in to 175g CO₂/km by 2017. 147g CO₂/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. On April 17, 2019, the European Parliament and the Council adopted new Regulations both for passenger cars and for light commercial vehicles, which introduce new CO₂ emission performance standards for the period after 2020. These targets are defined as a percentage reduction from the 2021 starting points and amount to a 15% reduction for both passenger car and light commercial vehicles from 2025 on and to a 37.5% reduction for new passenger cars and to a 31% reduction for light commercial vehicles from 2030 on. A failure to meet the CO₂ 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 also enforced a CO₂ regulation for heavy-duty vehicles, starting with an initial monitoring phase.

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_x and number of particles under “real world driving” conditions on public roads. The new real-driving emissions regulation requires additional technologies and will further increase the cost of combustion engines. Compliance with real-driving emissions tests introduces additional cost pressures especially on European Union market for smaller diesel vehicles. A possible decline in diesel penetration may make fleet CO₂ 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 LEVIII 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.

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.
- 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.
- 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, the drive cycle will change from NEDC for fuel consumption to WLTP and with an average industry target of 4.6l/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 being discussed.

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). Failure to comply with provisions of the directives can lead to action from competent authorities against manufacturers. This is the case even for components supplied by third parties. Currently, competent authorities have begun assessing potential actions as a result of a finding of excessive lead content in vehicle components supplied to automotive manufacturers, including Volkswagen, by their suppliers. There is a risk that the competent authorities may impose, among other things, waste disposal orders and/or fines against Volkswagen.

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, which member states have to transpose into national law until June 30, 2021, 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**”), which will be superseded by Regulation (EC) 2019/2144 (“**GSR 2**”), 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. Beginning with July 2022, GSR 2 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.

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.

9.2.2 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 2.5% in relation to the risk weighted exposure amounts. The competent authorities may further impose a countercyclical capital buffer of up to 2.5% of total risk exposure amounts, 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. Moreover, the additional capital adequacy requirements pursuant to SREP outcome have to be considered.

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 high-quality liquid assets that cover net outflows 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 June 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.

9.2.4 *Leverage ratio requirements*

Banks are required to calculate and to report a leverage ratio to the supervisory authority. Furthermore, since 2015 all banks have to disclose their leverage ratios and its components. The new CRR II introduces a legally binding minimum leverage ratio of 3%. This regulation came into force on June 27, 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.

9.2.5 *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**”).

9.2.5.1 *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.*”

9.2.5.2 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.*”

9.2.6 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 June 7, 2019, the European Union published the finalized second BRRD and the second SRM-Regulation in the Official Journal. The main purpose of both regulatory amendments 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 amended regulations will affect many aspects of the MREL rules and still need to be transposed into national legislation and policies by the Resolution Authorities. The final requirements could contain 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, the final requirements may 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.

9.2.7 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.

9.2.8 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 (*Entschädigungseinrichtung deutscher Banken GmbH*). 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 (EUR 500,000 in specific cases).

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 in principle protects all deposits of private individuals and foundations, certain deposits of commercial enterprises, institutional investors and public-sector entities up to a limit of 15% of the liable capital of the credit institution relevant for deposit protection. The current 15% limit will be reduced to 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 that one or more special contributions shall be levied in each business year, whereby the sum of all special contributions in a given business year shall not exceed 100% of the annual contribution (not taking into account certain rebates or certain surcharges and discounts) for the respective business 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 receives notifications in accordance with the German Securities Trading Act (WpHG —*Wertpapierhandelsgesetz*) indicating shareholders that hold directly more than 3% of the ordinary voting shares of the Company. The table below shows the percentage of voting rights for the Company's significant shareholders:

<u>Shareholders subject to the notification requirement</u>	<u>Percentage of voting rights</u>
Porsche Automobil Holding SE, Stuttgart ⁽¹⁾	53.1%
State of Lower Saxony	20.0%
Qatar Holding LLC ⁽²⁾	17.0%

⁽¹⁾ 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.

⁽²⁾ 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 2019, Volkswagen rendered supplies and services to related parties totaling EUR 18,072 million (EUR 18,073 million in 2018 and EUR 15,568 million in 2017). Volkswagen's total sales revenue amounted to EUR 252,632 million in 2019 (EUR 235,849 million in 2018 and EUR 229,550 million in 2017). 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 47 to the Annual Financial Statements for 2019 and 2018.

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 53.1% 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

Various business relationships exist between the Volkswagen Group and Porsche SE companies and their subsidiaries. These relationships are largely regulated by reciprocal consulting framework agreements and, to minor extent, by other contracts.

Since 2008, the Board of Management of Volkswagen AG has represented in its annual report that Volkswagen AG received appropriate consideration in all legal transactions with affiliated companies, including Porsche SE and its subsidiaries.

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*".

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 December 31, 2019 are listed below.

Name	Age	Position at Volkswagen AG
Dr. Ing. Herbert Diess ⁽¹⁾	61	Chairman; Chairman of the Brand Board of Management of Volkswagen Passenger Cars, Volume brand group, China
Dr. Oliver Blume ⁽²⁾	51	Chairman of the Executive Board of Dr. Ing. h.c. F. Porsche AG, Sport & Luxury brand group
Gunnar Kilian ⁽³⁾	45	Human Resources and Organization
Hiltrud Dorothea Werner	54	Integrity and Legal Affairs
Andreas Renschler	62	Chairman of the Board of Management of TRATON SE, Truck & Bus brand group
Dr.-Ing. Stefan Sommer ⁽⁴⁾	57	Components and Procurement
Frank Witter	61	Finance and IT
Markus Duesmann ⁽⁵⁾	50	Chairman of the Board of Management of AUDI AG, Premium brand group

-
- ⁽¹⁾ 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. Mr. Diess also assumed responsibility of the China division from Prof. Jochem Heizmann, effective January 11, 2019.
- ⁽²⁾ 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.
- ⁽³⁾ 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.
- ⁽⁴⁾ Dr. Stefan Sommer assumed responsibility for Components and Procurement as from September 1, 2018.
- ⁽⁵⁾ Mr. Markus Duesmann has taken over the responsibility as the Chairman of the Board of Management of AUDI AG, effective April 1, 2020, replacing Mr. Abraham Schot.

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, 2019:

- FC Bayern München AG, Munich (Member of the Supervisory Board)
- 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.

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.

Mr. Kilian 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, 2019:

- Wolfsburg AG, Wolfsburg (Chairman of the Supervisory Board)

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, 2019.

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, 2019:

- Deutsche Messe AG, Hanover (Member of the Supervisory Board)

Markus Duesmann was born on June 23, 1969 in Heek, North Rhine-Westphalia. In 1991, he completed his studies of mechanical engineering at Steinfurt University of Applied Sciences with a degree in engineering. He began his career in 1992 as a design engineer for a V12 series-production engine at Mercedes-Benz in Stuttgart. In 1995, he moved to the development service provider FEV GmbH in Aachen, where he held various positions, the last of which was head of the engine mechanics division. In 2004, he took over the position of main department manager for new diesel engines at DaimlerChrysler AG in Stuttgart, and in 2005 became head of Formula 1 development at Mercedes-Benz in Brixworth in the United Kingdom. In 2007, Markus Duesmann moved to BMW AG as head of formula 1 powertrain. After holding several responsible positions at that company, he was Board of Management Member for Purchasing and Supplier Network at BMW AG from October 2016 until July 2018. The Supervisory Board of Volkswagen AG has appointed Markus Duesmann as Chairman of the Board of Management at AUDI AG effective April 1, 2020. As of the same date, he will also have Board of Management responsibility for Group Research and Development.

Mr. Duesmann was not a member of the executive, administrative, or supervisory bodies and/or a partner in any enterprises or companies as of April 1, 2020.

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, 2019.

12.1.2 Remuneration of members of the Board of Management

The following table shows the remuneration of the Board of Management members in 2019.

	Component of remuneration			Total	Pension expense
	Non-performance related ⁽¹⁾	Performance-related ⁽²⁾	Long-term incentive component ⁽³⁾		
Dr. Ing. Herbert Diess	2,212,694	4,288,002	3,350,046	9,850,742	1,354,053
Oliver Blume (since April 13, 2018)	1,418,936	1,901,085	1,574,419	4,894,440	808,544
Prof. Dr. rer. pol. Dr.-Ing. E. h. Jochem Heizmann (until January 10, 2019) ⁽⁴⁾	71,391	52,085	43,098	166,574	—
Gunnar Kilian (since April 13, 2018)	1,462,701	1,901,085	1,574,419	4,938,205	886,559
Andreas Renschler	1,609,755	1,901,085	1,574,419	5,085,259	5,025,570
Abraham Schot (since January 1, 2019)	1,810,079	1,901,085	1,574,419	5,285,583	2,222,572
Stefan Sommer (since September 1, 2018)	1,869,019	1,901,085	1,574,419	5,344,523	761,437
Hiltrud Dorothea Werner (since Feb 1, 2017)	1,465,159	1,901,085	1,574,419	4,940,663	956,364
Frank Witter	1,412,781	1,901,085	1,574,419	4,888,285	886,120
Total	13,332,515	17,647,682	14,414,075	45,394,271	12,901,219

⁽¹⁾ 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.

⁽²⁾ Includes annual bonus with a one-year assessment period.

⁽³⁾ 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 remuneration system in 2019 were recognized at their fair value at the grant date (EUR 14.41 million).

⁽⁴⁾ Prof. Jochem Heizmann is no longer a member of the Board of Management in 2019.

The annual bonus is based upon the result for the 2019 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, 2016, 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 5.5 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.

Furthermore, at its meeting on April 22, 2016, Volkswagen AG’s Supervisory Board accepted the offer of the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 of the Board of Management members active at that time and to make it subject to disposal subject to future share price, over a period of three years, i.e. ending April 22, 2019. As of December 31, 2018, there were a total of 22,854 phantom shares with an equivalent value of EUR 2,862,464.

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 60.5 million as of December 31, 2019. EUR 13.7 million was added to the pension provisions in 2019. Retired members of the Board of Management and their surviving dependents received EUR 32.7 million in 2019. Obligations for pensions for this group of persons amounted to EUR 373.7 million as of December 31, 2019.

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

As at March 8, 2019, Dr. Herbert Diess held 14,000 ordinary shares in the Company. On March 15, 2020, Dr. Diess disclosed a purchase of shares arrangement via a standing order on the basis of a voluntary commitment of acquisition of shares. The standing order began on March 15, 2020 and has an undetermined duration, needing to be cancelled in written form. The monthly volume is the equivalent value of EUR 50,000.00 (plus ancillary acquisition costs) taking the calculated quantity based on the current purchase price of Volkswagen AG ordinary share at Frankfurt stock exchange. The monthly purchase date is each 15th day of a month; trading place: Frankfurt Stock Exchange.

As of March 11, 2020, Hiltrud Dorothea Werner held 100 ordinary shares in the Company.

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 14 times during 2019.

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 2019.

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), Marianne Heiß and Conny Schönhardt. The Audit Committee met six times in 2019.

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 met on one occasion in 2019.

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 2019, the Special Committee on Diesel Engines met on two occasions to discuss, among other topics, the regulatory offense proceedings terminated by administrative fine orders issued by the public prosecutor's offices in Braunschweig and Munich II and the Supervisory Board's proposed resolutions regarding formal approval of the actions of the members of the Board of Management and Supervisory Board incumbent in 2017.

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, 2019 unless otherwise indicated.

<u>Name, Position</u>	<u>Age</u>	<u>Principal activities outside Volkswagen AG</u>
Hans Dieter Pötsch Chairman Chairman of the Executive Board and Chief Financial Officer of Porsche Automobil Holding SE	67	<ul style="list-style-type: none"> • AUDI AG, Ingolstadt⁽¹⁾ • Autostadt GmbH, Wolfsburg⁽¹⁾ • Bertelsmann Management SE, Gütersloh⁽¹⁾ • Bertelsmann SE & Co. KGaA, Gütersloh⁽¹⁾ • Dr. Ing. h.c.F. Porsche AG, Stuttgart⁽¹⁾ • TRATON SE⁽²⁾, Munich (Chairman) • Wolfsburg AG, Wolfsburg⁽¹⁾ • Porsche Austria Gesellschaft m.b.H., Salzburg (Chairman)⁽²⁾ • Porsche Holding Gesellschaft m.b.H., Salzburg (Chairman)⁽²⁾ • Porsche Retail GmbH, Salzburg (Chairman)⁽²⁾ • VfL Wolfsburg-Fußball GmbH, Wolfsburg (Deputy Chairman)⁽²⁾
Jörg Hofmann* Deputy Chairman First Chairman of IG Metall	63	<ul style="list-style-type: none"> • Robert Bosch GmbH, Stuttgart⁽¹⁾

<u>Name, Position</u>	<u>Age</u>	<u>Principal activities outside Volkswagen AG</u>
Dr. Hussain Ali Al-Abdulla Minister of State, Qatar	61	<ul style="list-style-type: none"> Gulf Investment Corporation, Safat/Kuwait⁽²⁾ Masraf Al Rayan, Doha (Chairman and Managing Director)⁽²⁾ Qatar Investment Authority, Doha⁽²⁾ Qatar Supreme Council for Economic Affairs and Investment, Doha⁽²⁾
Dr. Hessa Sultan Al-Jaber Chairwoman of the Supervisory Board of Malomatia Qatar, Doha Chairwoman of the Supervisory Board of Qatar Satellite Company (Es'hailSat), Doha Member of the Consultative Assembly (Shura Council) of the state Qatar, Doha	59	<ul style="list-style-type: none"> Malomatia, Doha (Chairwoman)⁽²⁾ MEEZA, Doha Qatar Satellite Company (Es'hailSat), Doha (Chairwoman)⁽²⁾ Trio Investment, Doha (Chairwoman)⁽²⁾
Dr. Bernd Althusmann Minister of Economic Affairs, Labor, Transport and Digitalization for the Federal State of Lower Saxony	52	<ul style="list-style-type: none"> Deutsche Messe, AG, Hanover (Deputy Chairman)⁽¹⁾ Container Terminal Wilhelmshaven JadeWeserPort-Marketing GmbH & Co. KG, Wilhelmshaven (Chairman)⁽²⁾ JadeWeserPort Realisierungs GmbH & Co. KG, Wilhelmshaven (Chairman)⁽²⁾ JadeWeserPort Realisierungs-Beteiligungs GmbH, Wilhelmshaven (Chairman)⁽²⁾ Niedersachsen Ports GmbH & Co. KG, Oldenburg (Chairman)⁽²⁾
Dr. jur. Hans-Peter Fischer* Chairman of the Board of Management of Volkswagen Management Association	59	<ul style="list-style-type: none"> Volkswagen Pension Trust e.V., Wolfsburg⁽²⁾
Marianne Heiß ⁽³⁾ Chief Financial Officer of BBDO Group Germany GmbH, Düsseldorf	46	<ul style="list-style-type: none"> AUDI AG, Ingolstadt⁽¹⁾ Porsche Automobil Holding SE, Stuttgart⁽¹⁾
Johan Järvklo* Secretary-General of the European and Global Group Works Council	45	n.a.
Ulrike Jakob* Deputy Chairwoman of the Works Council of Volkswagen AG, Kassel plant	58	n.a.
Dr. Louise Kiesling Businesswoman	61	n.a.
Peter Mosch* Chairman of the General Works Council of AUDI AG	46	<ul style="list-style-type: none"> AUDI AG, Ingolstadt (Deputy Chairman)⁽¹⁾ Audi Pensionskasse – Altersversorgung der AUTO UNION GmbH, VVaG, Ingolstadt⁽¹⁾ Audi Stiftung für Umwelt GmbH, Ingolstadt
Bertina Murkovic* Chairwoman of the Works Council of Volkswagen Commercial Vehicles	61	<ul style="list-style-type: none"> MOIA GmbH, Berlin

<u>Name, Position</u>	<u>Age</u>	<u>Principal activities outside Volkswagen AG</u>
Bernd Osterloh* Chairman of the General and Group Works Councils of Volkswagen AG	62	<ul style="list-style-type: none"> • Autostadt GmbH, Wolfsburg⁽¹⁾ • TRATON SE⁽¹⁾ • Wolfsburg AG, Wolfsburg⁽¹⁾ • Allianz für die Region GmbH, Braunschweig⁽²⁾ • Porsche Holding Gesellschaft m.b.H., Salzburg⁽²⁾ • SEAT, S.A., Martorell⁽²⁾ • ŠKODA Auto a.s., Mladá Boleslav⁽²⁾ • VfL Wolfsburg-Fußball GmbH, Wolfsburg⁽²⁾ • Volkswagen Immobilien GmbH, Wolfsburg⁽²⁾
Dr. jur. Hans Michel Piëch Lawyer in private practice	76	<ul style="list-style-type: none"> • AUDI AG, Ingolstadt⁽¹⁾ • Dr. Ing. h.c. F. Porsche AG, Stuttgart⁽¹⁾ • Porsche Automobil Holding SE, Stuttgart (Deputy Chairman)⁽¹⁾ • Porsche Cars Great Britain Ltd., Reading⁽²⁾ • Porsche Cars North America Inc., Atlanta⁽²⁾ • Porsche Greater China, consisting of: Porsche (China) Motors Limited, Shanghai Porsche Hong Kong Limited, Hong Kong • Porsche Holding Gesellschaft m.b.H., Salzburg⁽²⁾ • Schmittenhöhebahn AG, Zell am See⁽²⁾ • Volksoper Wien GmbH, Vienna⁽²⁾
Dr. jur. Ferdinand Oliver Porsche Member of the Board of Management of Familie Porsche AG Beteiligungsgesellschaft	57	<ul style="list-style-type: none"> • AUDI AG, Ingolstadt⁽¹⁾ • Dr. Ing. h.c. F. Porsche AG, Stuttgart⁽¹⁾ • Porsche Automobil Holding SE, Stuttgart⁽¹⁾ • Porsche Holding Gesellschaft m.b.H., Salzburg⁽²⁾ • Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg⁽²⁾
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	75	<ul style="list-style-type: none"> • AUDI AG, Ingolstadt⁽¹⁾ • Dr. Ing. h.c. F. Porsche AG, Stuttgart (Chairman)⁽¹⁾ • Porsche Automobil Holding SE, Stuttgart (Chairman)⁽¹⁾ • Familie Porsche AG Beteiligungsgesellschaft, Salzburg (Chairman)⁽²⁾ • Porsche Cars Great Britain Ltd., Reading⁽²⁾ • Porsche Cars North America Inc., Atlanta⁽²⁾ • Porsche Greater China, consisting of: Porsche (China) Motors Limited, Shanghai Porsche Hong Kong Limited, Hong Kong • Porsche Holding Gesellschaft m.b.H., Salzburg⁽²⁾ • Schmittenhöhebahn AG, Zell am See⁽²⁾

<u>Name, Position</u>	<u>Age</u>	<u>Principal activities outside Volkswagen AG</u>
Conny Schönhardt ^{(4)*} Secretary to the Board of IG Metall Trade Union	45	n.a.
Athanasios Stimoniaris* Chairman of the Group Works Council of MAN SE and of the SE Works Council	47	<ul style="list-style-type: none"> • MAN SE, Munich⁽¹⁾ • MAN Truck & Bus AG, Munich (Deputy Chairman)⁽¹⁾ • Rheinmetall MAN Military Vehicles GmbH, Munich⁽¹⁾ • TRATON SE (Deputy Chairman)⁽¹⁾
Stephan Weil Minister-President of the Federal State of Lower Saxony	60	n.a.
Werner Weresch ^{(5)*} Chairman of the General and Group Works Council of Dr. Ing. h.c. F. Porsche AG	57	<ul style="list-style-type: none"> • Dr. Ing. h.c. F. Porsche AG, Stuttgart

*Employee representative.

⁽¹⁾ Membership of statutory supervisory boards in Germany.

⁽²⁾ Comparable appointments in Germany and abroad.

⁽³⁾ Replaced Ms. 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.

⁽⁴⁾ Replaced Ms. Birgit Dietze as member of the Supervisory Board as of June 16, 2019. Ms. Dietze resigned her mandate as a member of the Supervisory Board of Volkswagen AG with effect from May 31, 2019.

⁽⁵⁾ Replaced Mr. Uwe Hück as member of the Supervisory Board as of February 21, 2019. Mr. Hück resigned his mandate as a member of the Supervisory Board of Volkswagen AG with effect from February 8, 2019

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 2019, the aggregate remuneration of the Supervisory Board of the Company amounted to EUR 5,327,155. 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 2,290,833 and the variable components of remuneration amounted to EUR 944,444 in 2019. The following table shows the remuneration of the Supervisory Board members in 2019.

	Component of remuneration			Total
	Fixed	Work in the Committees	Other ⁽¹⁾ (in EUR) (unaudited)	
Hans Dieter Pötsch	300,000	100,000	525,500	925,500
Jörg Hofmann ⁽²⁾	200,000	75,000	14,000	289,000
Dr. Hussain Ali Al-Abdulla	100,000	–	5,000	105,000
Dr. Hessa Sultan Al-Jaber	100,000	–	7,000	107,000
Dr. Bernd Althusmann ⁽³⁾	100,000	50,000	7,000	157,000
Birgit Dietze ⁽²⁾⁽⁴⁾	41,667	20,833	5,000	67,500
Dr. jur. Hans-Peter Fischer ⁽²⁾	100,000	–	7,000	107,000
Marianne Heiß (since February 14, 2018)	100,000	50,000	100,500	250,500
Uwe Hück ⁽²⁾⁽⁵⁾	10,278	–	4,596	14,874
Johan Järvklo ⁽²⁾	100,000	–	7,000	107,000
Ulrike Jakob ⁽²⁾	100,000	–	6,000	106,000
Dr. Louise Kiesling	100,000	–	7,000	107,000
Peter Mosch ⁽²⁾	100,000	100,000	190,500	390,500
Bertina Murkovic ⁽²⁾	100,000	50,000	7,000	157,000
Bernd Osterloh ⁽²⁾	100,000	125,000	162,000	387,000
Dr. jur. Hans Michel Piëch	100,000	–	189,000	289,000
Dr. jur. Ferdinand Oliver Porsche	100,000	150,000	185,000	435,000
Dr. rer. comm. Wolfgang Porsche	100,000	150,000	183,500	433,500
Connie Schönhardt ⁽²⁾ (since June 21, 2019)	52,778	23,611	5,000	81,389
Athanasios Stimoniaris ⁽²⁾	100,000	–	382,040	482,040
Stephan Weil ⁽³⁾	100,000	50,000	13,000	163,000
Werner Weresch ⁽²⁾ (since February 21, 2019)	86,111	–	79,241	165,352
Supervisory Board members who left in the previous year	9,444	–	–	–
Total	2,290,833	944,444	2,091,877	5,327,155

⁽¹⁾ Attendance fees, membership of other Group bodies (non-performance related: EUR 790,810; performance related: EUR 779,967).

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ Ms. Dietze resigned her mandate as a member of the Supervisory Board of Volkswagen AG with effect from May 31, 2019.

⁽⁵⁾ Mr. Hück stepped down as a member of the Supervisory Board with effect from February 8, 2019.

12.2.4 Significant shareholdings 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 through their indirect interest in Porsche Automobil Holding SE and Porsche Gesellschaft m.b.H., which collectively hold approximately 53.1% 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.\$ 1.1227 per EUR 1.00, the noon buying rate on December 31, 2019. On May 4, 2020, the euro market bid price at noon New York time and as indicated by Bloomberg Finance L.P. was EUR 0.901709 per U.S.\$1.00, which equates to U.S.\$ 1.109005 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.

<u>Year Ended December 31</u>	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period End</u>
2016	1.1516	1.0375	1.1072	1.0552
2017	1.2041	1.0416	1.1298	1.2022
2018	1.2488	1.1281	1.1817	1.1456
2019	1.1524	1.0905	1.1194	1.1227
<u>Year Ending December 31, 2020</u>	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period End</u>
First Quarter	1.1420	1.0682	1.1022	1.1016

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.\$1,500,000,000 2.900% Guaranteed Notes due 2022 (the “A Notes”), the U.S.\$1,000,000,000 3.125% Guaranteed Notes due 2023 (the “B Notes”), the U.S.\$1,000,000,000 3.350% Guaranteed Notes due 2025 (the “C Notes”) and the U.S.\$500,000,000 3.750% Guaranteed Notes due 2030 (the “D Notes” and, together with the A Notes, the B Notes and the C 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 May 13, 2020 (the “**Issue Date**”) pursuant to a fiscal and paying agency agreement dated May 7, 2020 (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, transfer agent and paying agent (the “**Fiscal Agent**”, “**Transfer Agent**” and “**Paying Agent**”, respectively) and Citigroup Global Markets Europe AG as registrar (the “**Registrar**” and, together with the Fiscal 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 May 6, 2020 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 Issuer does not intend to list the Notes 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 depository 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 anytime

(i) 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

(ii) 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) Interest Rate: Each of the A Notes, the B Notes, the C Notes and the D Notes bears interest from and including the Issue Date at a rate of 2.900% per annum in the case of the A Notes (the “**A Note Rate of Interest**”), 3.125% per annum in the case of the B Notes (the “**B Note Rate of Interest**”), 3.350% per annum in the case of the C Notes (the “**C Note Rate of Interest**”) and 3.750% per annum in the case of the D Notes (the “**D Note Rate of Interest**”), payable semi-annually in arrear on May 13 and November 13 in each year for the A Notes, C Notes and D Notes, and on May 12 and November 12 in each year for the B Notes (each, an “**Interest Payment Date**”) commencing on November 13, 2020 in the case of the A Notes, C Notes and D Notes and November 12, 2020 (short first coupon) in the case of the B notes, up to (and including) May 13, 2022 in the case of the A Notes (the “**A Note Maturity Date**”), May 12, 2023 in the case of the B Notes (the “**B Note Maturity Date**”), May 13, 2025 in the case of the C Notes (the “**C Note Maturity Date**”) and May 13, 2030 in the case of the D Notes (the “**D Note Maturity Date**”). The amount of interest payable on the Notes on a 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 or the D 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 Note divided by 1,000.

(b) 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 or the D 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 or the D 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 45 basis points for the A Notes, 45 basis points for the B Notes, 45 basis points for the C Notes and 50 basis points for the D 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 of Citigroup Global Markets Inc., Goldman Sachs & Co. LLC, Mizuho Securities USA LLC, and Morgan Stanley & Co. 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 15th day (whether or not such 15th 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:

If the date for payment of any amount in respect of any 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.

(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 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 tax 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**") 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 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 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 or any of the Tranche D 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 or any of the Tranche D 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 or any of the Tranche D Noteholders; and 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 or any of the Tranche C 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 or the D 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 or the D 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 or the D 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 and/or the Tranche D 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 or the D 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 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 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 and/or the D Notes and create and issue further A Notes, B Notes, C Notes and/or the D 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 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 or the D 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 or the D Notes, as the case may be, and references in these Conditions to the "A Notes", the "B Notes", the "C Notes" or the "D 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; and

(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.

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.\$1,500,000,000 2.900% Guaranteed Notes due 2022 (the "**A Notes**"),
U.S.\$1,000,000,000 3.125% Guaranteed Notes due 2023 (the "**B Notes**"),
U.S.\$1,000,000,000 3.350% Guaranteed Notes due 2025 (the "**C Notes**") and
U.S.\$500,000,000 3.750% Guaranteed Notes due 2030 (the "**D Notes**")
and, together with the A Notes, the B Notes and the C 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)¹.

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.

¹ 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, 2020
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 40th 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 may be 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;
- persons required for U.S. federal income tax purposes to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement;
- 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 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.

17.1.1.2 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 0.25% 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.

17.1.1.3 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.

17.1.1.4 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 advisers about any additional reporting obligations that may apply as a result of the acquisition, ownership 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, indirectly 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), 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. 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 ACQUISITION, 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.

18. CERTAIN ERISA AND RELATED 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 Title I 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” (as defined in Section 3(14) of ERISA) or “disqualified persons” (as defined in Section 4975 of the Code) 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 purchaser or transferee of any interest in the Notes will be deemed to have represented by its acquisition of any interest in the Notes that 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) 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.

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.

In this regard, each purchaser or transferee of any interest in the Notes that is a Benefit Plan Investor will be deemed to have represented by its acquisition of any interest in the Notes that (x) none of the Transaction Parties has provided any investment recommendation or investment advice to the Benefit Plan Investor or any fiduciary or other person investing on behalf of the Benefit Plan Investor, or who otherwise has discretion or control over the investment and management of “plan assets” (a “**Plan Fiduciary**”), on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire any interest in the Notes, (y) none of the Transaction Parties is acting as a “fiduciary” within the meaning of

Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor's acquisition of any interest in the Notes and (z) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction. 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 May 6, 2020 (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:

Initial Subscribers	Principal Amount of A Notes	Principal Amount of B Notes	Principal Amount of C Notes	Principal Amount of D Notes
Citigroup Global Markets Inc.	U.S.\$ 300,000,000	U.S.\$ 200,000,000	U.S.\$ 200,000,000	U.S.\$ 100,000,000
Credit Agricole Securities (USA) Inc.	U.S.\$ 300,000,000	U.S.\$ 200,000,000	U.S.\$ 200,000,000	U.S.\$ 100,000,000
Goldman Sachs & Co. LLC	U.S.\$ 300,000,000	U.S.\$ 200,000,000	U.S.\$ 200,000,000	U.S.\$ 100,000,000
Mizuho Securities USA LLC	U.S.\$ 300,000,000	U.S.\$ 200,000,000	U.S.\$ 200,000,000	U.S.\$ 100,000,000
Morgan Stanley & Co. LLC	U.S.\$ 300,000,000	U.S.\$ 200,000,000	U.S.\$ 200,000,000	U.S.\$ 100,000,000
Total	U.S.\$1,500,000,000	U.S.\$1,000,000,000	U.S.\$1,000,000,000	U.S.\$500,000,000

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 fifth 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+5"). 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 or the United Kingdom

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**") or the

United Kingdom. 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 (EU) 2016/97 (the "**Insurance Distribution 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 Regulation (EU) 2017/119 (the "**Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or the United Kingdom has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or the United Kingdom may be unlawful under the PRIIPs Regulation. This Offering Memorandum has been prepared on the basis that any offer of Notes in any Member State of the EEA or the United Kingdom will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of notes. This Offering Memorandum is not a prospectus for the purposes of the Prospectus Regulation.

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).

19.2.7 Switzerland

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes. The Notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (“FinSA”) and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Notes constitutes a prospectus pursuant to the FinSA, and neither this Offering Memorandum nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

19.2.8 Canada

Prospective Canadian investors are advised that the information contained within the Offering Memorandum has not been prepared with regard to matters that may be of particular concern to Canadian investors. Accordingly, prospective Canadian investors should consult with their own legal, financial and tax advisers concerning the information contained within the Offering Memorandums and as to the suitability of an investment in the Notes in their particular circumstances.

Each Initial Purchaser has severally represented and agreed that the Notes may only be offered or sold in the provinces of Alberta, British Columbia, Ontario and Québec or to or for the benefit of a resident of these provinces pursuant to an exemption from the requirement to file a prospectus in such province in which such offer or sale is made, and only by a dealer duly registered under the applicable securities laws of that province or by a dealer that is relying in that province on the “international dealer” exemption provided by section 8.18 of National Instrument 31-103 –*Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”). Furthermore, the Notes may only be offered or sold to or for the benefit of a resident of any such province provided that such resident is both an “accredited investor” as defined in section 1.1 of National Instrument 45-106 *Prospectus Exemptions* (“NI 45-106”) or subsection 73.3 (1) of the *Securities Act* (Ontario) and a “permitted client” as defined in NI 31-103. By purchasing any Notes and accepting delivery of a purchase confirmation a purchaser is deemed to have represented to the Initial Purchasers and the dealer from whom the purchase confirmation is received that it is an “accredited investor” and “permitted client” as defined above. The distribution of the Notes in Canada is being made on a private placement basis only and any resale of the Notes must be made in accordance with applicable Canadian securities laws, which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with prospectus and registration requirements or exemptions from the prospectus and registration requirements.

By purchasing any Notes and accepting delivery of a purchase confirmation a Canadian purchaser is deemed to have represented, warranted and acknowledged to the Initial Purchasers and the dealer from whom the purchase confirmation is received that (i) no securities commission, stock exchange or other similar regulatory authority in Canada has reviewed or in any way passed upon this Offering Memorandum or the merits of the Notes described herein, nor has any such securities commission, stock exchange or other similar regulatory authority in Canada made any recommendation or endorsement with respect to, the Notes; (ii) no person has made any representation or given any undertaking, written or oral, to such purchaser (A) that any person will resell or repurchase the Notes purchased by such purchaser; (B) that the Notes will be freely tradeable by such purchaser without any restrictions or hold periods; (C) that any person will refund the purchase price of the Notes; or (D) as to the future price or value of the Notes; (iii) that the Issuer is not a "reporting issuer" (as such term is defined under applicable Securities Laws) and is not, and may never be, a reporting issuer in any province, or territory of Canada; (iv) there currently is no public market in Canada for any of the Notes, and one may never develop; and (v) that the Notes will be subject to resale restrictions under applicable Canadian securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the Subsequent Purchaser's province or territory. Subsequent Purchasers should refer to any applicable provisions of the securities legislation of the Subsequent Purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Under Canadian securities law, National Instrument 33-105 –*Underwriting Conflicts* ("**NI 33-105**") provides disclosure requirements with respect to potential conflicts of interest between an issuer and underwriters, dealers or placement agents, as the case may be. To the extent any conflict of interest between us and any of the Underwriters (or any other placement agent acting in connection with this offering) may exist in respect of this offering, the applicable parties to this offering are relying on the exemption from these disclosure requirements provided to them by section 3A.3 of NI 33-105 (exemption based on U.S. disclosure).

The Issuer, the Guarantor and the Initial Purchasers hereby notify prospective Canadian investors that: (a) we may be required to provide personal information pertaining to the purchaser as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the aggregate purchase price of any Notes purchased) ("**personal information**"), which Form 45-106F1 may be required to be filed by us under NI 45-106, (b) such personal information may be delivered to the securities regulatory authorities in applicable provinces of Canada in accordance with NI 45-106, (c) such personal information is collected indirectly by securities regulatory authorities in Canada under the authority granted to it under the applicable Canadian securities laws, and (d) such personal information is collected for the purposes of the administration and enforcement of the securities legislation of the applicable provinces of Canada. Prospective Canadian investors that purchase Notes in this offering will be deemed to have authorized the indirect collection of the personal information by applicable securities regulatory authorities in Canada, and to have acknowledged and consented to its name, address, telephone number and other specified information, including the aggregate purchase price paid by the purchaser, being disclosed to other securities regulatory authorities in Canada, and to have acknowledged that such information may become available to the public in accordance with requirements of applicable Canadian laws.

Each purchaser of Notes in Canada hereby agrees that it is the purchaser's express wish that all documents evidencing or relating in any way to the sale of the notes be drafted in the English language only. *Chaque acheteur au Canada des valeurs mobilières reconnaît que c'est sa volonté expresse que tous les documents faisant foi ou se rapportant de quelque manière à la vente des valeurs mobilières soient rédigés uniquement en anglais.*

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, (1) none of the Transaction Parties (x) have provided any investment recommendation or investment advice to the Benefit Plan Investor or Plan Fiduciary, on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire any interest in the Note, and (y) are acting as a "fiduciary" within the meaning of Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor's acquisition of any interest in the Note and (2) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction.

(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 (e) 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, (1) none of the Transaction Parties (x) have provided any investment recommendation or investment advice to the Benefit Plan Investor or Plan Fiduciary, on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire any interest in the Note, and (y) are acting as a "fiduciary" within the meaning of Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor's acquisition of any interest in the Note and (2) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction.

(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, 2019 with comparative financial information as of and for the year ended December 31, 2018 and (b) December 31, 2018 with comparative information as of and for the year ended December 31, 2017 incorporated by reference in this Offering Memorandum have been audited by PricewaterhouseCoopers GmbH 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, 2019 as well as December 31, 2018 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 three-month period ended March 31, 2020 with comparative financial information for the three-month period ended March 31, 2019, 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 April 29, 2020 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

VOLKSWAGEN AKTIENGESELLSCHAFT

Berliner Ring 2
38440 Wolfsburg
Germany
Telephone no.: +49-5361-9-0

PRINCIPAL OFFICE OF THE ISSUER

Volkswagen Group of America Finance, LLC

2200 Ferdinand Porsche Drive
Herndon, Virginia 20171
United States of America
Telephone no.: +1-703-364-7000

JOINT BOOK-RUNNING MANAGERS

**Citigroup Global
Markets Inc.**

388 Greenwich Street
New York, NY 10013
United States of
America

**Credit Agricole
Securities (USA) Inc.**

1301 Avenue of
the Americas
New York, New York
10019
United States of
America

**Goldman Sachs
& Co. LLC**

200 West Street
New York, NY 10282
United States of
America

**Mizuho
Securities USA LLC**

1271 Avenue of
the Americas
New York, NY 10020
United States of
America

**Morgan Stanley
& Co. LLC**

1585 Broadway,
New York, NY 10036
United States of
America

**FISCAL AGENT, PRINCIPAL PAYING AGENT
AND TRANSFER AGENT**

Citibank, N.A., London Branch

Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

Citibank Global Markets Europe AG

Reuterweg 16
60323 Frankfurt am Main
Germany

LEGAL ADVISORS

To Volkswagen

As to U.S. and German law:

Clifford Chance Deutschland LLP

Mainzer Landstrasse 46
60325 Frankfurt am Main
Germany

As to English law:

Clifford Chance LLP

10 Upper Bank Street
London E14 5JJ
United Kingdom

As to Delaware law:

Richards, Layton & Finger, P.A.

920 King Street
Wilmington, Delaware 19801
United States of America

To the Joint Book-Running Managers

As to U.S. and German law:

Linklaters LLP

Taunusanlage 8
60329 Frankfurt am Main
Germany

As to English law:

Linklaters LLP

1 Silk Street
London EC2Y 8HQ
United Kingdom

AUDITORS

To the Guarantor:

**PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft**

Fuhrberger Strasse 5
30625 Hanover
Germany

VOLKSWAGEN

VOLKSWAGEN GROUP OF AMERICA FINANCE, LLC

U.S.\$4,000,000,000

consisting of

U.S.\$1,500,000,000 2.900% Guaranteed Notes due 2022,

U.S.\$1,000,000,000 3.125% Guaranteed Notes due 2023,

U.S.\$1,000,000,000 3.350% Guaranteed Notes due 2025 and

U.S.\$500,000,000 3.750% Guaranteed Notes due 2030

Each with an unconditional and irrevocable guarantee of principal
and interest from

VOLKSWAGEN AKTIENGESELLSCHAFT

OFFERING MEMORANDUM

May 6, 2020

Joint Book-Running Managers

Citigroup Credit Agricole CIB Goldman Sachs Mizuho Securities Morgan Stanley
