

**Joint Report
on the Enterprise Agreement**

between

VOLKSWAGEN AG, Wolfsburg,

and

Volkswagen Beteiligungsverwaltung GmbH, Wolfsburg

1. Introduction

VOLKSWAGEN AG (hereinafter referred to as VW AG) and Volkswagen Beteiligungsverwaltung GmbH concluded the attached control and profit and loss transfer agreement (hereinafter referred to as the Agreement) on February 6, 2017.

Before the Agreement can become effective, it must be approved by the Annual General Meeting of VW AG and the Shareholders' Meeting of Volkswagen Beteiligungsverwaltung GmbH and must be entered in the Commercial Register at the domicile of Volkswagen Beteiligungsverwaltung GmbH. Upon being entered in the Commercial Register at the domicile of Volkswagen Beteiligungsverwaltung GmbH, it shall become effective retroactively (with the exception of the right to issue instructions) for the period as of the start of the current fiscal year of Volkswagen Beteiligungsverwaltung GmbH.

In order to inform the shareholders of both companies and enable them to prepare their respective resolutions, the Board of Management of VW AG and management of Volkswagen Beteiligungsverwaltung GmbH hereby jointly submit the following report in accordance with section 293a of the German Stock Corporation Act (*Aktengesetz*, hereinafter referred to as AktG).

2. Parties

a) VW AG

VW AG, Wolfsburg, Germany, is registered in the Commercial Register of the District Court of Braunschweig under HRB 100484 and is the listed parent company of the Volkswagen Group. VW AG's share capital in accordance with its Articles of Association is €1,283,315,873.28 and is divided into 295,089,818 ordinary shares and 206,205,445 preferred shares. The shares are bearer shares. The fiscal year is the calendar year.

VW AG's purpose is the manufacture and distribution of all types of vehicle and engines, accessories for them and all systems, machines, tools and other technical products. The company is authorized to undertake all business transactions and all measures that are connected to the company's purpose or appear conducive to it directly or indirectly. As part of that, it can also establish branches, and found or acquire other companies or take a participating interest in such companies, in Germany and abroad.

The members of the Board of Management are Mr. Matthias Müller, Mr. Karlheinz Blessing, Mr. Herbert Diess, Mr. Francisco J. Garcia Sanz, Mr. Jochem Heizmann, Mr. Andreas Renschler, Mr. Rupert Stadler, Ms. Hiltrud Werner and Mr. Frank Witter.

As the parent company of the Volkswagen Group, VW AG firstly develops vehicles and components for the Group brands and secondly produces and distributes in particular passenger cars and light commercial vehicles of the Volkswagen brand. In its function as parent company, VW AG also directly or indirectly holds investments in AUDI AG, SEAT S.A., ŠKODA AUTO a.s., Scania AB, MAN SE, Dr. Ing. h.c. F. Porsche AG, Volkswagen Financial Services AG as well as numerous other companies in Germany and other countries.

b) Volkswagen Beteiligungsverwaltung GmbH

Volkswagen Beteiligungsverwaltung GmbH, Wolfsburg, Germany, is registered in the Commercial Register of the District Court of Braunschweig under HRB 206246 and is a holding company within the Volkswagen Group. Volkswagen Beteiligungsverwaltung GmbH's share capital in accordance with its Articles of Association is €25,000.00. The fiscal year is the calendar year.

Volkswagen Beteiligungsverwaltung GmbH's purpose is to hold and manage equity investments in companies, where their purpose is, or is related to, the manufacture and distribution of all types of vehicle and engines, accessories for them and all systems, machines, tools and other technical products or where this appears conducive to this purpose directly or indirectly. The company is authorized to undertake all business transactions and measures that appear conducive to the company's purpose directly or indirectly. In particular, it can found other companies in Germany and other countries, dissolve and merge them, acquire and dispose of equity investments, in particular those that provide financial services, and exercise all other rights derived from the equity investments.

Its Managing Directors are Mr. Albrecht Möhle and Mr. Kai Otto.

VW AG directly holds all the shares in Volkswagen Beteiligungsverwaltung GmbH.

3. Legal and economic reasons for concluding the control and profit and loss transfer agreement

Conclusion of the attached Agreement, which consists of a control agreement and a profit and loss transfer agreement, is necessary in order to achieve complete integration and a tax unity between VW AG and the aforesaid company. There are currently no equivalent alternatives in economic or tax-related terms.

Conclusion of a control agreement is the best means of ensuring consistent management of Volkswagen Beteiligungsverwaltung GmbH and its integration in the Volkswagen Group. The control agreement enables the Board of Management of VW AG and management of Volkswagen Beteiligungsverwaltung GmbH to issue instructions and ensure that VW AG and Volkswagen Beteiligungsverwaltung GmbH act as one. Although the Shareholders' Meeting of a German limited-liability company (GmbH) has a right to issue instructions to management, the precise scope of this right is not defined by law. The control agreement creates the legal certainty and clarity required for that. As a result, management measures can be geared better to the Group's common interests. An instruction by the Shareholders' Meeting also requires a formal resolution to be adopted by the shareholders. Consequently, the right of the Shareholders' Meeting to issue instructions is not suitable in the same way as a control agreement to the envisaged objective of ensuring consistent management of Volkswagen Beteiligungsverwaltung GmbH.

Conclusion of a profit and loss transfer agreement is, in accordance with sections 14(1) and 17 of the Corporate Income Tax Act (*Körperschaftsteuergesetz*, hereinafter referred to as KStG), absolute necessary for a corporate income tax and trade tax group between Volkswagen Beteiligungsverwaltung GmbH as the controlled entity and VW AG as the controlling entity. The corporate income tax and trade tax group means that Volkswagen Beteiligungsverwaltung GmbH as the controlled entity and VW AG as the controlling entity will be assessed for tax together. The advantage of that is that positive and negative earnings of Volkswagen Beteiligungsverwaltung GmbH can be offset at the same time with negative or positive earnings of VW AG and other companies in the consolidated tax group. As a result, the Group's tax cash flow and tax expense can be optimized. The extent of the advantages

resulting from the income tax group depends on the future earnings of Volkswagen Beteiligungsverwaltung GmbH, which cannot be forecast with reasonable assurance at present. There is no sensible economic alternative to conclusion of the profit and loss transfer agreement. In particular, the envisaged corporate income tax and trade tax group cannot be achieved – pursuant to the mandatory provisions of the KStG – solely by concluding the control agreement or another enterprise agreement within the meaning of section 292 AktG.

4. Explanation of the control and profit and loss transfer agreement

The Agreement essentially contains the following provisions:

- a) Management of Volkswagen Beteiligungsverwaltung GmbH is subordinated to VW AG in accordance with section 1 of the Agreement. That means VW AG is authorized to issue instructions, in particular on matters related to managing the company and running its business, to management of Volkswagen Beteiligungsverwaltung GmbH. Management of Volkswagen Beteiligungsverwaltung GmbH is obliged to obey VW AG's instructions. The right to issue instructions only applies toward management, but not toward the Shareholders' Meeting, the Supervisory Board or employees of Volkswagen Beteiligungsverwaltung GmbH or toward subsidiaries of Volkswagen Beteiligungsverwaltung GmbH. In principle, instructions that are disadvantageous to Volkswagen Beteiligungsverwaltung GmbH are also permissible, if they serve the interests of VW AG or the Volkswagen Group. Management of Volkswagen Beteiligungsverwaltung GmbH is not authorized to refuse to obey an instruction if it believes the instruction does not serve the interests of VW AG or Volkswagen Group, unless the instruction obviously does not serve such interests. No special form is required to issue an instruction. The legal representatives of VW AG must apply the due care and diligence of a prudent and conscientious manager in issuing instructions to Volkswagen Beteiligungsverwaltung GmbH. Instructions to modify, continue, cancel or terminate the Agreement (section 299 AktG), instructions that, if obeyed, would violate mandatory statutory regulations or provisions in the Articles of Association of Volkswagen Beteiligungsverwaltung GmbH, and instructions that would jeopardize the existence of Volkswagen Beteiligungsverwaltung GmbH are not permissible.
- b) Under section 2(1) of the Agreement, Volkswagen Beteiligungsverwaltung GmbH is obliged to transfer its entire profit to VW AG. Pursuant to the reference made in section 2(1) of the Agreement, the profit is calculated in accordance with section 3 of the Agreement, i.e. the profit must be calculated in accordance with the requirements of German commercial law, in particular the regulations on payout blocks and in compliance with the provisions applicable to corporate income tax. In addition, section 2(2) to (4) of the Agreement must be observed as regards the transfer of profits.

Under section 2(2) of the Agreement, Volkswagen Beteiligungsverwaltung GmbH may – with the approval of VW AG – set up reserves from its net income for the year, where this is economically necessary on the basis of a reasonable commercial assessment and is also permissible under German commercial law. Other reserves that are set up during the term of the Agreement must be released at the request of VW AG, where this is justified on the basis of a reasonable commercial assessment, and used to settle any net loss for the year or transferred as profit to VW AG. The provision reflects the regulation in section 14(1) sentence 1 number 4 KStG, under which reserves that have been set up are only recognized for tax purposes if they are economically justified on the basis of a reasonable commercial assessment.

Transfer of income from the release of other reserves set up before the Agreement commenced is excluded in accordance with section 2(3) of the Agreement. Although this can be deduced indirectly by means of argumentum a contrario from section 301 sen-

tence 2 AktG, the explicit arrangement in section 2(3) of the Agreement ensures legal clarity and certainty.

Under section 2(4) of the Agreement, the provisions of sections 291 ff. AktG, in particular sections 300 number 1 and 301 AktG, must be observed. In accordance with section 300 number 1 AktG, the amount, after adding any capital reserve, which is required in order to fill up, within the first five fiscal years commencing during the term of the Agreement or after completion of a capital increase, the legal reserve in equal installments to one-tenth of the share capital or a higher proportion specified by the Articles of Association, but in any event not less than the amount specified section 300 number 2 AktG, must be transferred to the legal reserve. In accordance with section 301 sentence 1 AktG, a company may – irrespective of any agreements made regarding the calculation of the profit to be transferred – in no event transfer as profit an amount exceeding the annual net profit accruing without such profit transfer, after deducting any loss carried forward from the previous year, the amount to be transferred to the legal reserve pursuant to section 300 AktG and the undistributable, restricted amount pursuant to section 268(8) of the German Commercial Code (hereinafter referred to as HGB). If amounts have been transferred to other profit reserves during the term of the Agreement, such amounts may be withdrawn from the other profit reserves in accordance with section 301 sentence 2 AktG and transferred as profit.

- c) Section 3 of the Agreement specifies that the profit and loss of Volkswagen Beteiligungsverwaltung GmbH must be calculated in accordance with the requirements of German commercial law, in particular the regulations on payout blocks and in compliance with the provisions applicable to corporate income tax. The dynamic reference ensures that, even in the event of changes to the provisions of the KStG, the provisions of relevance to the Agreement must be heeded.
- d) Under section 4(1) of the Agreement, VW AG is obliged to compensate any losses of Volkswagen Beteiligungsverwaltung GmbH occurring during the term of the Agreement in accordance with the applicable version of section 302 AktG. This obligation does not apply if the loss can be compensated by amounts that were transferred to the other profit reserves in accordance with section 272(3) HGB during the term of the Agreement being withdrawn from the other profit reserves. This obligation to compensate losses ensures that equity existing at the beginning of the Agreement is not reduced during its term. As a result, the financial interests of Volkswagen Beteiligungsverwaltung GmbH, its shareholders and its creditors are protected.

Under section 4(2) of the Agreement, the applicable version of sections 291 ff. AktG must also be complied with. The dynamic reference ensures that, even in the event of changes to sections 291 ff. AktG, the provisions of relevance to the Agreement apply.

- e) Under section 5 sentence 1 of the Agreement, VW AG is authorized at any time to inspect books and other business documents of Volkswagen Beteiligungsverwaltung GmbH. Pursuant to section 5 sentence 2 of the Agreement, management of Volkswagen Beteiligungsverwaltung GmbH must provide all information on the affairs of its company as and when requested by VW AG. In principle, this right of VW AG to obtain information already exists as a product of the right to issue instructions in accordance with section 1 of the Agreement and is necessary to enable VW AG to exercise its right to issue instructions effectively. The arrangement in section 5 of the Agreement serves to clarify and concretely specify and flesh out the right of VW AG to obtain information and the obligation of Volkswagen Beteiligungsverwaltung GmbH to provide information.
- f) In accordance with section 6(1), the Agreement becomes effective retroactively as of the start of the current fiscal year of Volkswagen Beteiligungsverwaltung GmbH upon being entered in the Commercial Register at the domicile of Volkswagen Beteiligungsverwal-

tung GmbH. That ensures in particular that the arrangement on transfer of profits applies as of the beginning of fiscal year 2017. However, the retroactive effect of the Agreement does not extend to the right to issue instructions described in a), since a right to issue instructions cannot be agreed with retroactive effect. It is instead the case, pursuant to section 6(2) of the Agreement, that the right to issue instructions only comes into effect when the Agreement has been entered in the Commercial Register at the domicile of Volkswagen Beteiligungsverwaltung GmbH.

Pursuant to section 6(3) sentences 1 and 2 of the Agreement, the Agreement is concluded for an indefinite period of time and cannot be terminated before ten years have elapsed after the end of the current fiscal year. That ensures that the requirements for the envisaged tax unity are met, since the Agreement must be concluded for at least five years in accordance with section 14(1) sentence 1 number 3 KStG. Since VW AG and Volkswagen Beteiligungsverwaltung GmbH also regard their group affiliation as a long-term relationship, a shorter minimum term motivated purely by tax considerations has been dispensed with and a minimum term of a total of ten fiscal years has been agreed. VW AG and Volkswagen Beteiligungsverwaltung GmbH cannot terminate the Agreement ordinarily during this minimum term.

In accordance with section 6(3) sentences 3 and 4, the Agreement can be terminated in writing when the minimum term ends with a period of notice of three months effective the end of the respective fiscal year of Volkswagen Beteiligungsverwaltung GmbH. In accordance with section 6(3) sentence 5 of the Agreement, the time the notice of termination is received by the other company determines whether this deadline has been observed. Termination effective the end of the fiscal year is intended to ensure that the Agreement has the same term as the respective fiscal year. The requirement for written form, like the arrangement under section 6(3) sentence 5 of the Agreement on the time at which the notice of termination is received, serves to clarify the procedure to be observed and so create legal certainty for VW AG and Volkswagen Beteiligungsverwaltung GmbH.

Apart from the right to terminate the Agreement ordinarily, there is also a right under the law to terminate it for cause in accordance with section 297 AktG. That means VW AG and Volkswagen Beteiligungsverwaltung GmbH can terminate the Agreement for an important reason without notice. An important reason exists if, taking into account all the circumstances, the Party wishing to terminate the Agreement can no longer be reasonably expected to continue the contractual relationship. That is the case, for example, if it is likely that VW AG will not be able to fulfill its obligations arising from the Agreement. Notice of termination for cause must be given in writing.

If the Agreement ends, section 6(4) of the Agreement stipulates that VW AG must provide the creditors of Volkswagen Beteiligungsverwaltung GmbH with security in accordance with section 303 AktG. The obligation to provide security exists in accordance with section 303 AktG toward creditors whose claims had arisen before registration of the end of the Agreement in the Commercial Register had been announced in accordance with section 10 HGB, provided that the creditors have applied to VW AG for such purpose within six months from the date of announcement of such registration. Creditors who, in the case of insolvency proceedings, have a right to preferential satisfaction from a fund that has been established pursuant to statutory provisions for their protection and is subject to governmental supervision shall not have the right to demand security. In lieu of security, VW AG may guarantee the claim, in which case section 349 HGB, which excludes the benefit of discussion, shall not apply.

5. No compensation and no settlement, no auditing of the Agreement

VW AG directly holds all the shares in Volkswagen Beteiligungsverwaltung GmbH. There are no outside shareholders. Consequently, no compensation payments or settlements must be granted to outside shareholders in accordance with sections 304 and 305 AktG. In addition, no auditing of the Agreement in accordance with section 293b(1) AktG and no audit report in accordance with section 293e AktG is required. Since no compensation payments and settlements have to be made, there is also no need to assess the value of the contracting companies in order to determine reasonable compensation or a reasonable settlement.

6. Consequences for the stake of shareholders

Pursuant to the Agreement, Volkswagen Beteiligungsverwaltung GmbH subordinates management of its company to VW AG, which is thus authorized to issue instructions to management of Volkswagen Beteiligungsverwaltung GmbH. In accordance with the Agreement, Volkswagen Beteiligungsverwaltung GmbH also undertakes to transfer its entire profit to VW AG. On the other hand, VW AG is obliged to compensate any net loss for the year that otherwise arises at Volkswagen Beteiligungsverwaltung GmbH during the term of the agreement. Apart from that, there are no special consequences for the shareholders of VW AG, in particular because there are no outside shareholders of Volkswagen Beteiligungsverwaltung GmbH and so no compensation or settlement is owed.

Wolfsburg, February 21, 2017

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Wolfsburg February, 21, 2017

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Attachment: Control and profit and loss transfer agreement