

Volkswagen AG:

Overview of the remuneration system of the Board of Management

2021.06.25

Volkswagen AG Deep Dive Remuneration – Framework and Articles of Association

- Matters involving the remuneration system and the total remuneration of each individual member of the Volkswagen AG Board of Management are decided on by the Supervisory Board on the basis of the Executive Committee's recommendations.
- The remuneration system reflects the targets set by the management in the corporate strategy.
- The prior version of the system dated from February 7, 2017.
- The capital stock of Volkswagen AG is divided into ordinary shares and non-voting preferred shares.
- Every ordinary shares shall carry one vote at the General Meeting. The preferred stockholders have no voting rights. If, however, the preferred stockholders are entitled to a voting right under any mandatory provisions of the law, every preferred shares shall carry one vote.

Current voting rights distribution:

– 53.3%	Porsche Automobil Holding SE, Stuttgart
– 20.0%	State of Lower Saxony
– 17.0%	Qatar Holding
– 9.7%	Others

Michael Bursee, PH.D. - Managing Partner MB Board Advisory

- MB Advisory is a global organizational consulting firm
- Specialized in working with Boards and/or Management to design appropriate executive pay and governance programs.
- Dr. Bursee is one of the leading experts in Executive Pay and Governance in Germany.
 - Before founding MB Board Advisory in 2021, Dr. Bursee has held senior partner positions at well-known global management consulting and audit companies
 - He has more than 20 years of consulting experience in that field and works with the boards of global and medium-sized corporations across all industries
 - He is a regular speaker at conferences, author of specialist publications and Professor of Human Resources at FOM University of Applied Science.



New regulatory requirements from ARUG II and GCGC required a revision of Management Board's remuneration system



Revision of remuneration system



Scope of adjustments

- The remuneration system of the Management Board from 2017 was **revised in 2020** according to the **new regulatory requirements**:
 1. New German Stock Corporation Act (Shareholder Rights Directive „**ARUG II**“)
 2. German Corporate Governance Code (**GCGC**)
 - In addition, **some further adjustments** have been made to **optimize** the remuneration system
 - Most of the changes will **come into force** for all members of the Management Board **from the 2021** financial year
 - Other adjustments will be relevant for **new contracts and contract extensions** from **2021** on
 - The new remuneration system will be submitted to the **2021 Annual General Meeting** for **resolution**
- **Definition of maximum level of compensation** including pension and fringe benefits
 - **Integration of ESG** into the **annual bonus**
 - **Extension of Performance Share Plan** period to **four years**
 - **Definition of Malus- / Clawback** clause
 - **No special bonus** without previous specification and target setting
 - Target determination **before the start of financial year**
 - Further development and disclosure of **Peer Group**
 - **Inflation adjustment** on fixed salary
 - **Simplification of fringe benefits**

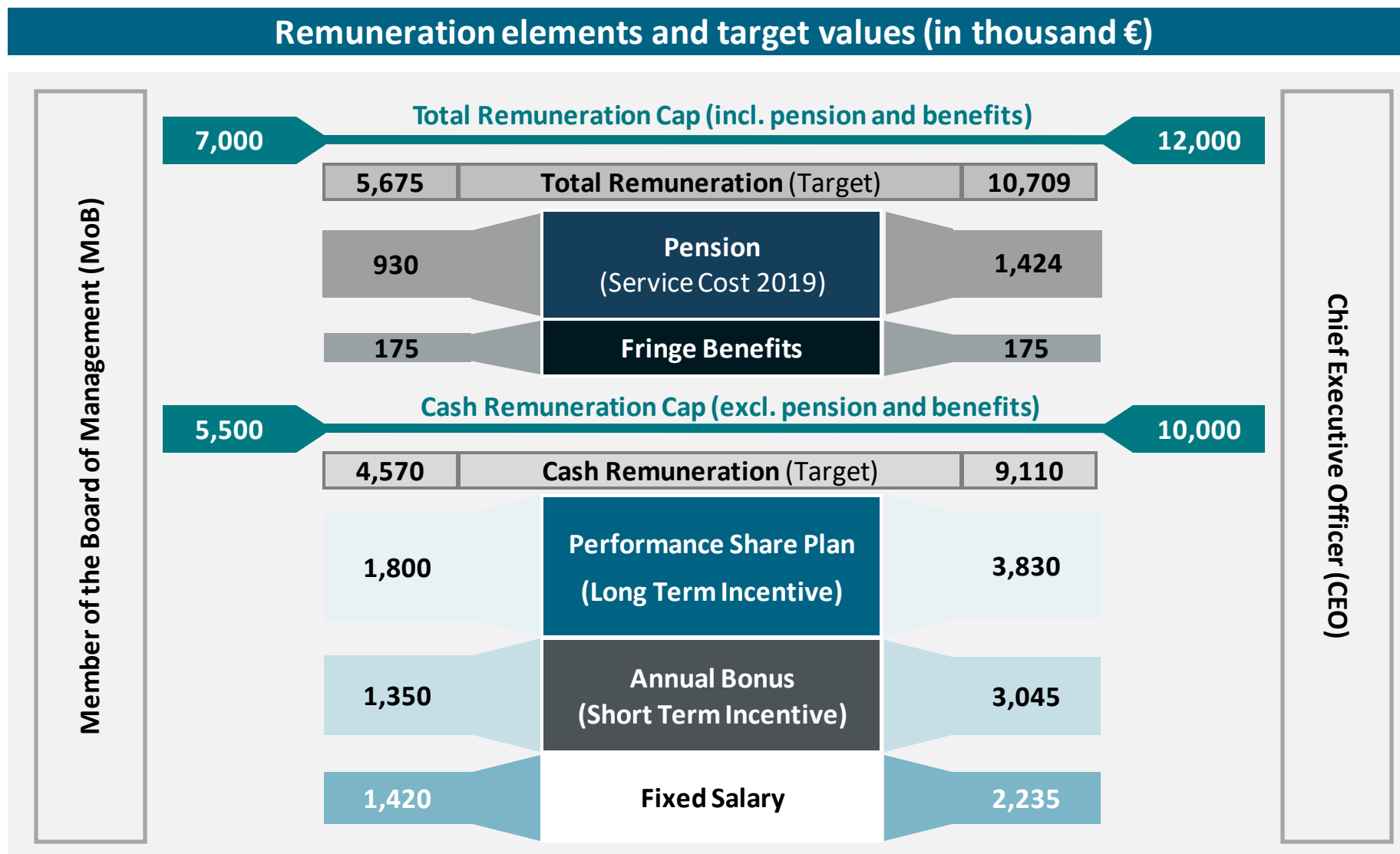
The following guidelines were decisive for the adaptation of Management Board's remuneration system

Guidelines for adjusting the Management Board's remuneration system

- **Compliance** with new regulatory provisions
- **In line** with **market practice**
 - **Remuneration levels** compared to **global Industry Peer Group**
 - **Remuneration system, caps, pensions, benefits** compared to **DAX**
- **Transparent** and **comprehensive** design
- **Standardized** und **unified** structure and elements
- Fixed and disclosed target values and **capped payouts**
- **In line** with Volkswagen AG **strategy** and transformation
- Demanding and **motivating targets**
- **Formula-based** performance measurement
- **Balance** between **financial** and **ESG-targets**
- Strong emphasis on **shareholder** interests
- **Full disclosure** of metrics and bonus functions

Remuneration structure and levels

Overview of the new remuneration structure and levels



Non-performance-related remuneration components

Non-performance-related remuneration components consist of fixed salary, pension and fringe benefits

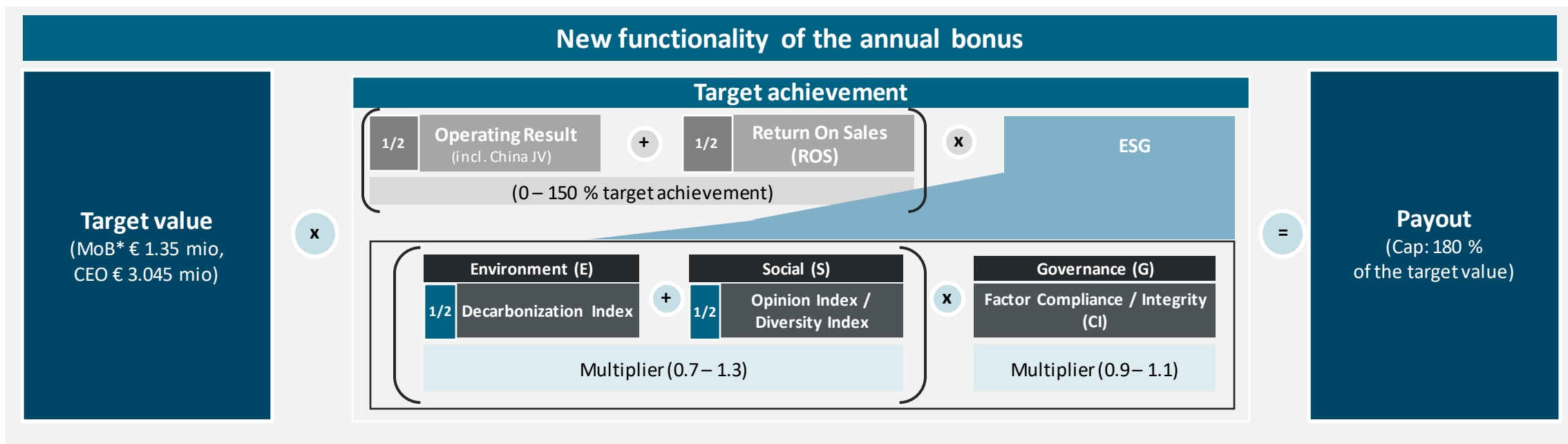
Fixed salary	Pension	Fringe benefits
<ul style="list-style-type: none"> Contractually agreed fixed compensation paid in 12 monthly instalments Annual fixed salary of the Member of the Board: € 1.42 mio Annual fixed salary of the CEO: € 2.235 mio 	<ul style="list-style-type: none"> Defined contribution scheme Level: 40% of fixed salary (existing and new contracts) For Dr. Diess and Ms. Werner 50 % of the fixed salary apply 	<ul style="list-style-type: none"> Standardized fringe benefits budget of € 175 thousand for all members of the Management Board Fringe benefits include company cars, insurance and health care Beneficiaries can choose within budget according to their preferences

Explanation

- Starting with 2021 financial year, **adjustments for inflation** on 2017 introduced levels of **fixed salary** have been made (**Member** of the **Board**: increase from € 1.35 mio to € **1.42** mio; **CEO**: increase from € 2.125 mio to € **2.235** mio)
- Starting with 2021 financial year, **simplified and unified** offer of **fringe benefits** (**focus** on very few and relevant fringe benefits; cancellation of other services)

**Performance-related remuneration components:
Annual bonus (Short Term Incentive, STI)**




Starting with 2021 financial year, ESG targets are integral part of the annual bonus



Explanation

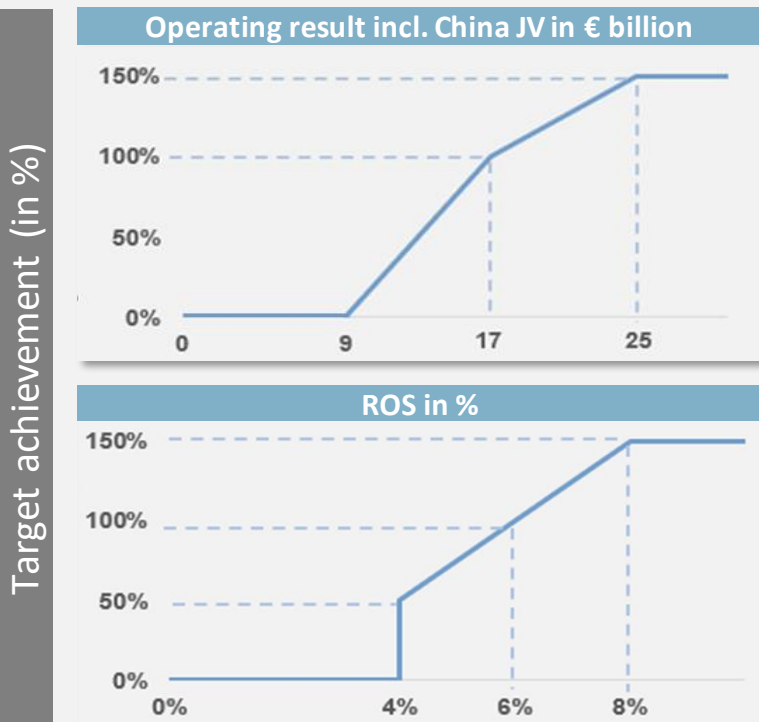
- Basic **continuation of the previous system** (introduced in 2017)
- **Starting** with **2021** financial year, **ESG multiplier** is added as new dimension
- Construction defines a **balance** between **financial key performance indicators** and **ESG targets**
- Performance measures reflect **Volkswagen's strategy** and **transformation process**
- **Target value:** MoB* € **1.35 mio**, CEO € **3.045 mio**; **Minimum payout:** € **0**; **Cap (180 %)** based on **fixed** and **disclosed** target value

From the 3 ESG dimensions, key performance indicators are selected regarding strategy and transformation and reviewed on an annual basis

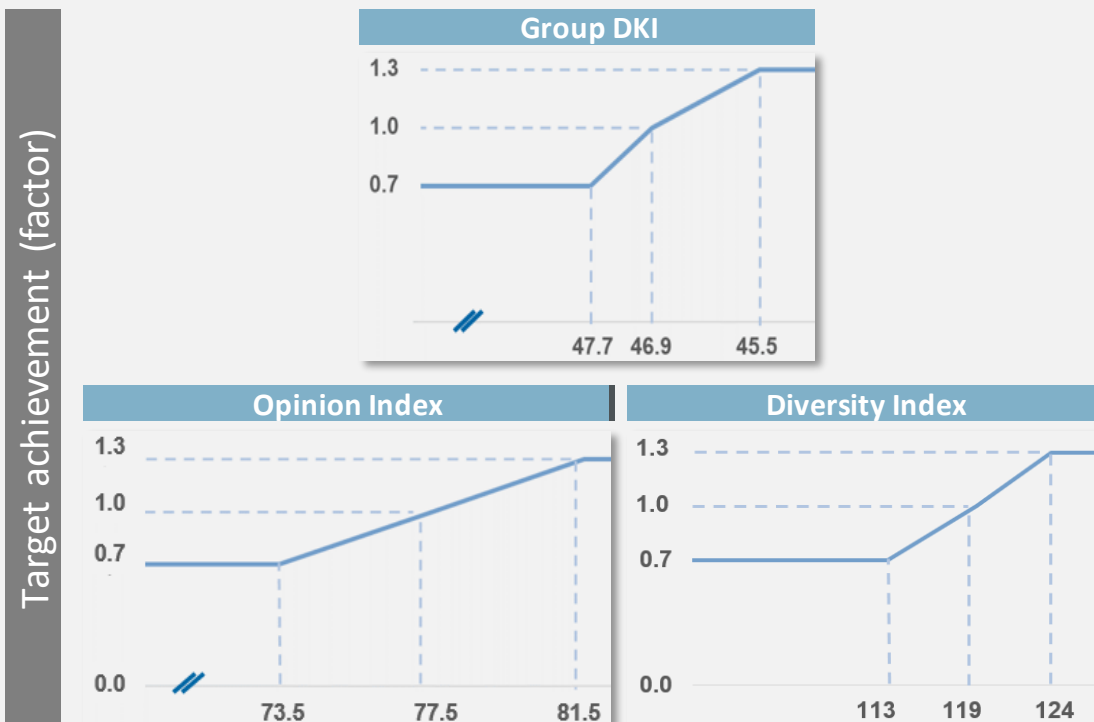
Environmental 	Social 	Governance 
Decarbonization Index (DKI)	Opinion Index / Diversity Index	Individual factor CI
<ul style="list-style-type: none"> Decarbonization highly relevant due to strategic priorities and current climate debates Volkswagen Decarbonization Index measures average CO2 and CO2 equivalents throughout the overall lifecycle of the portfolio (holistic view) Holistic view offers more starting points for action Suitable for high transparency and capital market communication Target setting and bonus functions on an annual basis <div data-bbox="155 1110 861 1289"> <p>Strategic target Decarbonization Index (DKI): 30% CO2 reduction by 2025 compared to 2015 on comparable basis</p> </div>	<p>Employee Opinion Index (50 %)</p> <ul style="list-style-type: none"> Established and well-rehearsed instrument (combination of different relevant social criteria) Employee dimension of high strategic relevance for Volkswagen <p>Diversity Index (50 %)</p> <ul style="list-style-type: none"> Diversity Index increasingly relevant and strategically important indicator Diversity Index currently includes "Share of women in management" and "Internationalization in top management" <div data-bbox="917 1110 1623 1289"> <p>Strategic target Diversity Index: Increase from 100 (2016) to 157 (2025); Women in management from 12.1% to 20.2%; Internationalization from 17.0% to 25.0%</p> </div>	<ul style="list-style-type: none"> Compliance / Integrity as integral component of annual bonus (multiplier on the other two ESG dimensions with a range of 0.9 - 1.1) Step 1: Collective assessment of the entire Board of Management in terms of compliance / integrity Step 2: Individual evaluation via test question: "Did anyone stand out (positive or negative) compared to the other Board members?" Recognition of outstanding performance through individual bonus, sanction of violations through individual discount (within a range of 0.9 - 1.1) Thus implementation of the recommendation from Monitorship

The bonus functions are derived from strategic planning and are fully disclosed

Financial key performance indicators*



ESG dimension

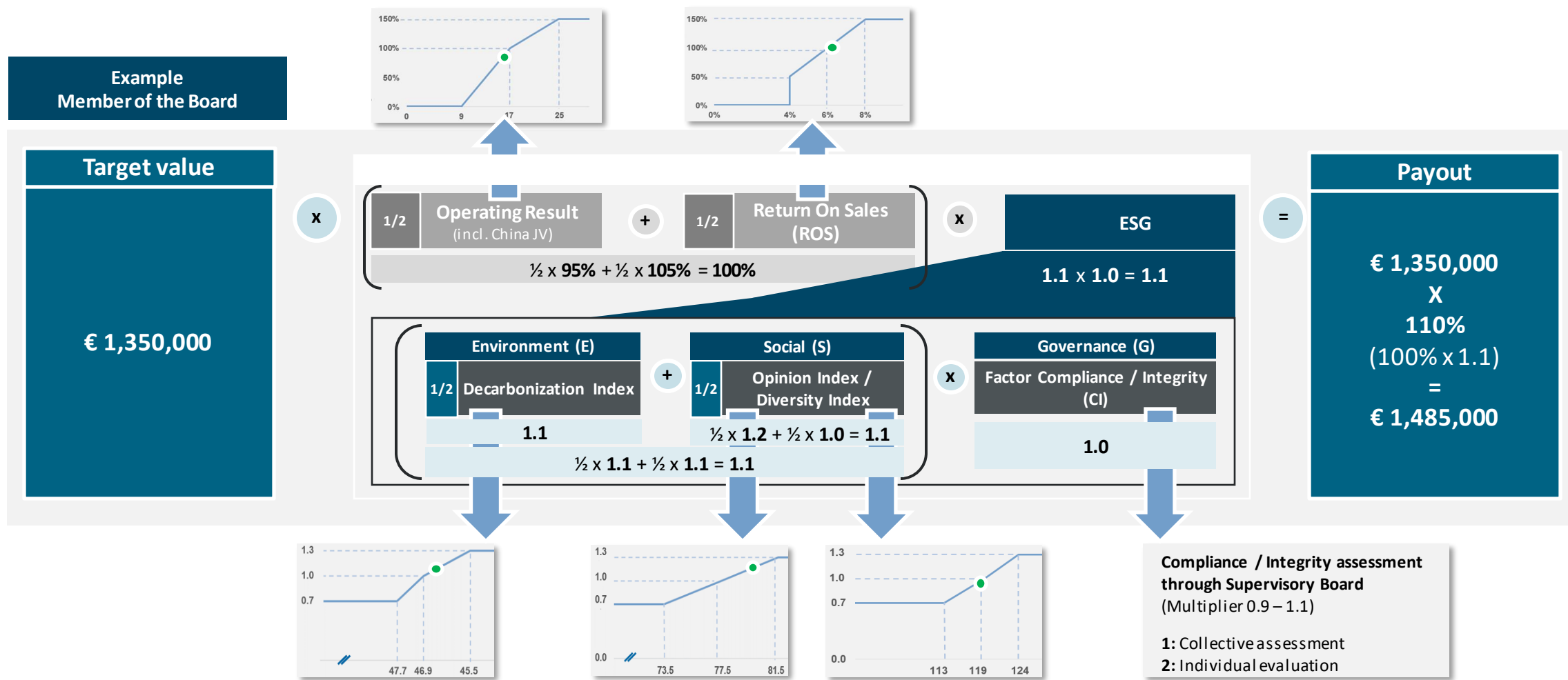


Explanation

- For **financial key performance indicators**, bonus functions based on **strategic planning** shall be kept **constant** over time (**Cap 150 %**)
- ESG targets** on an **annual basis** derived from **strategic planning** (resp. historical values for opinion index) (**Cap** at factor 1.3)

* Numbers after Special Items

Example calculation for all Members of the Board (except CEO) for annual bonus



**Performance-related remuneration components:
Performance Share Plan (Long Term Incentive, LTI)**

The duration of the Performance Share Plan is extended to 4 years for new contracts and contract extensions

(Virtual) Performance Share Plan (PSP)

Grant

Target value in €
(MoB* € 1.8 mio, CEO € 3.83 mio)

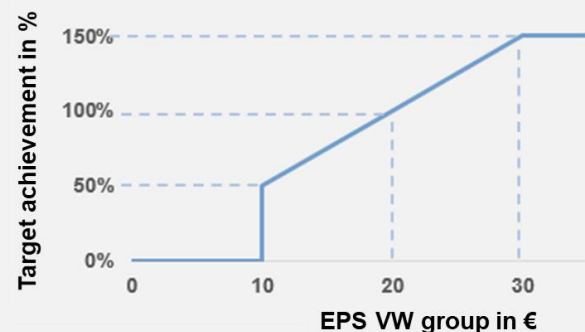
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Share price (beginning of the
performance period)

=

Preliminary number of (virtual)
performance shares

Performance Period 3 resp. 4 years



EPS** performance determines final number
of shares (Cap 150% of preliminary number)

Payment

Final number of (virtual)
performance shares

X

Share price plus dividends
(end of performance period)

=

Payment in €
(Cap 200 % of target value)

Explanation

- Volkswagen already **complied** with the new recommendation of the **German Corporate Governance Code (GCGC)** to grant variable remuneration components **mainly based on shares**
- For **new contracts** and **contract extensions**, the duration of the Performance Share Plan is **extended** from 3 to **4 years** (for existing contracts 3 years)
- Target value:** MoB* € 1.8 mio, CEO € 3.83 mio; **Minimum payout:** € 0; **Cap (200 %)** based on **fixed** and **disclosed** target value

Example LTI calculation for Members of the Board for the first tranche of the Performance Share Plan (2017-2019)

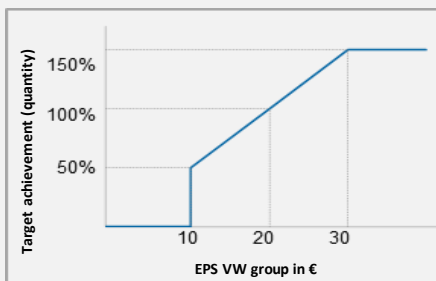
Example
Member of the Board

(Virtual) Performance Share Plan - Tranche 2017-2019

Grant Jan. 1, 2017

Target value
€ 1,800,000

Ø Share price*
€ 127.84



Calculation of final value Jan. 1, 2020**

14,080
preliminary
number of
performance
shares

x

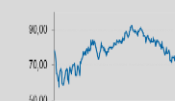
Performance period		
FY 2017	FY 2018	FY 2019
Performance measurement: EPS target achievement (%)		
113.45 %	118.15 %	133.30 %
x	x	x
4,693 ($\frac{1}{3} \times 14,080$)	4,693 ($\frac{1}{3} \times 14,080$)	4,694 ($14,080 - 9,386$)
=	=	=
5,324 shares	5,545 shares	6,257 shares
Annual lock-in of performance shares		

=

17,126
Final number of
performance
shares

x

Ø Share price*
€ 177.44



plus dividends
€ 10.88

(FY 2017: € 2.06
FY 2018: € 3.96
FY 2019: € 4.86)

= € 188.32

=

Final value of
performance shares
€ 3,225,168

* Share price corresponds to the average closing price of the last 30 trading days before January 1, 2017 resp. 2020

** Final individual payout (less advance payment, if applicable) after approval of FY 2019 Annual Report through Supervisory Board in 2020

Other contractual conditions

Overview of other contractual conditions

Change of Control	Malus / Clawback	Severance payments	Special bonus
<ul style="list-style-type: none"> The contracts do not provide for a change of control provision 	<ul style="list-style-type: none"> Malus and clawback are provided for in new contracts and contract extensions Relevant misconduct during the assessment period for the relevant variable remuneration may lead to a reduction by up to 100% Clawback is possible up to 3 years after the payment 	<ul style="list-style-type: none"> Total remuneration of the past financial year for the remaining term, for a maximum of two years, in case of revocation of the appointment No Severance payment, where there is good cause for termination Set-off against any contractual compensation or compensation payments for post-contractual non compete covenants 	<ul style="list-style-type: none"> The contracts do not provide for a special bonus provision Special bonus only possible on the basis of a separate agreement Previous specification and target setting required Only for outstanding and exceptional performance

Peer Group (Remuneration Benchmarking)

The Industry Peer Group reflects Volkswagen’s group strategy and will be disclosed in future

