SETTLEMENT AGREEMENT

This Settlement Agreement (Agreement) is entered into by and between the California Air Resources Board (ARB), with its principal office at 1001 I Street, Sacramento, California, and Volkswagen Group of America, Inc. (Volkswagen) with its principal place of business at 2200 Ferdinand Porsche Drive, Herndon, Virginia.

RECITALS

1. ARB alleges that between April 2011 and February 2014, Volkswagen (d/b/a Audi of America, Inc.) manufactured for sale, offered for sale, and sold in California their Audi Active Foam Cleaner that was subject to the volatile organic compound (VOC) limit for Carpet and Upholstery Cleaner, title 17, California Code of Regulations (CCR), section 94509(a) and their Audi Wheel Rim Cleaning Gel that was subject to the volatile organic compound (VOC) limit for Tire or Wheel Cleaner, title 17, California Code of Regulations (CCR), section 94509(a).

2. ARB alleges that the Audi Active Foam Cleaner product referenced in recital paragraph 1 contained concentrations of VOCs exceeding the 5 percent VOC limit for Carpet and Upholstery Cleaner specified in title 17, CCR, section 94509(a) and the Audi Wheel Rim Cleaning Gel product referenced in recital paragraph 1 contained concentrations of VOCs exceeding the 2 percent VOC limit for Tire or Wheel Cleaner specified in title 17, CCR, section 94509(a)

3. ARB alleges that if the allegations described in recital paragraphs 1 and 2 were proven, civil penalties could be imposed against Volkswagen as provided in Health and Safety Code sections 42402 et seq. for each and every unit involved in the violation.

4. Volkswagen admits the allegations described in recital paragraphs 1 and 2, but denies any liability resulting from said allegations.

5. The parties agree to resolve this matter completely by means of this Agreement, without the need for formal litigation.

Therefore, the parties agree as follows:

TERMS AND CONDITIONS

1. Volkswagen shall not sell, supply or offer for sale for use in California any consumer products in violation of ARB consumer products regulations set forth in title 17, CCR, Section 94500 et seq. however, the terms and conditions set forth in this agreement will remain valid and enforceable notwithstanding any future violations that may occur.

2. Volkswagen in settlement of the above-described violation of title17, CCR, section 94509(a) agrees to pay a penalty to ARB in the amount of $6,000.00 to the California Air Pollution Control Fund.

4. This settlement shall apply to and be binding upon Volkswagen and its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations and upon ARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this settlement.

5. The parties stipulate that this Agreement shall be the final resolution of ARB claims regarding the above-described violation and shall have the same res judicata effect as a judgment in terms of acting as bar to any civil action by ARB against Volkswagen, its officers, directors, receivers, trustees, employees, successors and assignees, subsidiary and parent corporations. This Agreement shall be deemed the recovery of civil penalties for purposes of precluding subsequent criminal action as provided in Health and Safety Code section 42400.7(a).

6. This Agreement shall be interpreted and enforced in accordance with the laws of the State of California, without regard to California's choice of law rules.

7. This Agreement constitutes the entire agreement and understanding between ARB and Volkswagen concerning the claims and settlement in this Agreement, and this Agreement fully supersedes and replaces any and all prior negotiations and agreement of any kind or nature, whether written or oral, between the ARB and Volkswagen concerning these claims.

8. No agreement to modify, amend, extend, supersede, terminate, or discharge this Agreement, or any portion thereof, shall be valid or enforceable unless it is in writing and signed by all parties to this Agreement.

9. Each of the undersigned represents and warrants that he or she has full power and authority to enter into this Agreement.

10. **SB 1402 Statement**. California Health and Safety Code (HSC) section 39619.7 (Senate Bill 1402 - Dutton, Chapter 413, statutes of 2010) requires ARB to provide information on the basis for the penalties it seeks. This Settlement Agreement includes this information, which is also summarized here.

The provision of law the penalty is being assessed under and why that provision is most appropriate for that violation.

The penalty provision being applied is this case is HSC section 42402, et seq. because Volkswagen sold, supplied, offered for sale, or manufactured for sale consumer products for commerce in California in violation of the Consumer Products Regulations (Title 17 California Code of Regulations (CCR) section 94507, et seq.). The penalty provisions of HSC section 42402, et seq. apply to violations of the Consumer Products Regulations because the regulations were adopted under authority of HSC section 41712 which is in Part 4 of Division 26 of the Health and Safety Code. The penalty provisions of HSC section 42402, et seq. apply to requirements adopted pursuant to Part 4.

The manner in which the penalty amount was determined, including aggravating and mitigating factors and per unit or per vehicle basis for the penalty.

Penalties must be set at levels sufficient to discourage violations. ARB considered all relevant circumstances in determining penalties, including the eight factors specified in HSC section 42403.

Under HSC section 42402, et seq. the penalties for strict liability violations of the Consumer Product Regulations are a maximum of $1,000 per day of violation, with each day being a separate violation. In cases like this one involving unintentional first time violations of the Consumer Products Regulations, the ARB has sought and obtained penalties of approximately $17,000 per ton of excess emissions of VOC's attributable to the violation. This represents an average cost to retire a ton of volatile organic compound emission credits and reformulate a product to comply with the Consumer Product Regulations. However, in similar cases with extremely small amounts of excess emissions, ARB has historically obtained penalties that reflect that the violations occurred on at least three days (the day the product was purchased by ARB, the day it was supplied to the retailer, and the day it was manufactured for sale) and that the penalty includes the cost of investigating the violation. In this case the total penalty is $6,000 for both violations. The penalty in this case was reduced because Volkswagen made diligent efforts to comply, and cooperated with the investigation. Penalties in future cases might be smaller or larger on a per ton basis.

Is the penalty being assessed under a provision of law that prohibits the emission of pollution at a specified level, and, if so a quantification of the excess emissions, if it is practicable to do so.

The Consumer Product Regulations do not prohibit emissions above a specific level, but they do limit the concentration of VOCs in regulated products. In this case a quantification of the excess emissions attributable to the violation was not practicable given the minimal number of products sold in the state.

11. Volkswagen acknowledges that ARB has complied with SB1402 in investigating and settling this case. Specifically, ARB has considered all relevant facts, including those listed at HSC section 42403, has explained the manner in which the penalty amount was calculated, has identified the provision of law under which the penalty amount is being assessed and had considered and determined that while this penalty is not being assessed a provision of law that prohibits the emission of pollutants at a specified level, it is practicable for ARB to quantify the excess emissions from the alleged violations, has done so and has included this information in this Settlement Agreement.

12. Final penalties were determined based on the unique circumstances of this matter, considered together with the need to remove any economic benefit from noncompliance the goal of deterring future violations and obtaining swift compliance, the consideration of past penalties in similar negotiated cases, and the potential costs and risk associated with litigating these particular violations. The penalty reflects violations extending over a number of days resulting in quantifiable harm to the environment considered together with the complete circumstances of this case listed above. The penalty was discounted in this matter based on the fact that this was an unintentional violation and Volkswagen made diligent efforts to comply and to cooperate with the investigation. Penalties in future cases might be smaller or larger on a per ton basis.

13. The final penalty in this case was based in part on confidential business information provided by Volkswagen that is not retained by ARB in the ordinary course of business. The penalty in this case was also based on confidential settlement communications between ARB and Volkswagen that ARB does not retain in the ordinary course of business either. The penalty also, reflects ARB's assessment of the relative strength of its case against Volkswagen, the desire to avoid the uncertainty, burden and expense of litigation, obtain swift compliance with the law and remove any unfair advantage that Volkswagen may have secured from its actions.

CALIFORNIA AIR RESOURCES BOARD

Dated: 07/29/14

By: _____

James R. Ryden, Chief
Enforcement Division

VOLKSWAGEN GROUP OF AMERICA, INC.

Dated: 7/22/14

By: _____

Anthony M. Cooke, Assistant
General Counsel
Volkswagen Group of America, Inc.