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Group Management Report

(Combined Management Report of the Volkswagen Group and Volkswagen AG)

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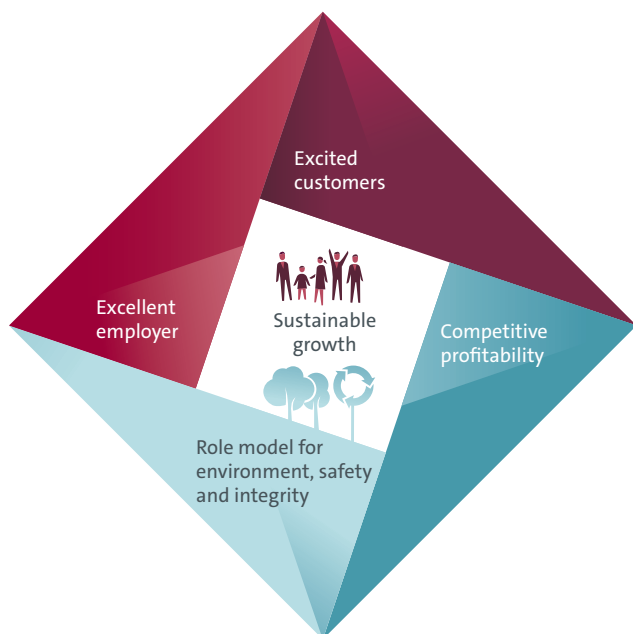
Goals and Strategies

We are striving for lasting success in tomorrow's world of mobility and intend to be one of the world's leading providers of sustainable mobility. This is the reason we have anchored the future program TOGETHER – Strategy 2025 in the Group.

The future program TOGETHER – Strategy 2025, the biggest change process in the history of Volkswagen, was launched in 2016. With the future program, we are making the Volks-

wagen Group more focused, efficient, innovative, customer-oriented and sustainable, and more systematically geared to generating profitable growth. The program creates the framework and lays the cornerstones for us to achieve our vision of being one of the world's leading providers of sustainable mobility.

FUTURE PROGRAM TOGETHER – STRATEGY 2025



The time horizon until 2025 shows that our thoughts and actions are long-term and future-oriented. The term TOGETHER describes the mindset that will be even more vital to the Volkswagen Group's long-term success going forward. Our intention with the new Group strategy is for everyone in the Volkswagen Group to join us in producing exciting vehicles and forward-looking, tailor-made mobility solutions that will continue to inspire our customers, meeting their diverse needs with a portfolio of strong brands. Every day, we actively assume and exercise responsibility in relation to the environment, society and safety, and we wish to be a role model in these areas. Integrity, reliability, quality and passion thus form the basis for our work. In this way, we will aim for technological leadership in the industry, ensure our competitive profitability and remain an excellent, reliable and secure employer at the same time.

The Code of Collaboration formulated as part of the future program is the foundation on which the Group strategy rests. This Code describes how collaboration is to take place within the Group and between individuals in their day-to-day work. Its core values are encapsulated in the terms "genuine", "straightforward", "open-minded", "as equals" and "united".

**FOUR BUILDING BLOCKS OF THE FUTURE PROGRAM
TOGETHER – STRATEGY 2025**

Our Group strategy comprises a raft of far-reaching strategic decisions and specific initiatives essentially aimed at safeguarding the Group’s long-term future and generating profitable growth. It is composed of four building blocks which cover a total of 16 strategic Group initiatives.

The first of these is the transformation of the core automotive business. Developing, building and selling vehicles will remain essential for the Volkswagen Group going forward. However, there will be far-reaching and lasting changes to this business in the future. That is the reason why we are comprehensively restructuring our core business to face this new era of mobility.

The second key building block in our Group strategy is establishing a new mobility solutions business. In this business, we are developing innovative and efficient, attractive yet profitable mobility services that are tailored to customer requirements with the goal of being one of the leading providers in this growth market in the future.

With the third key building block, we are intensifying our traditionally excellent innovative strength and placing it on an even broader footing. This is necessary both for the transformation of our core business and for the establishment of the new mobility solutions business. To this end, we are pushing ahead with the digital transformation in all parts of the Company.

Becoming one of the world’s leading providers of sustainable mobility calls for substantial capital expenditure.

This will be financed in particular through efficiency gains along the entire value chain – from product development and procurement through to production and distribution as well as in the central supporting areas. Additional funds for future investments can also be generated by optimizing the existing portfolio of brands and equity investments. Through the fourth key building block of the Group strategy we will safeguard the financing of the Volkswagen Group and place it on a solid basis.

GOALS AND KEY PERFORMANCE INDICATORS OF THE GROUP’S STRATEGY

The strategic initiatives describe how we intend to achieve our vision of being one of the world’s leading providers of sustainable mobility. For this purpose, we have defined four target dimensions – excited customers, excellent employer, role model for the environment, safety and integrity, and competitive profitability – which are designed to help us grow sustainably.

Although these target dimensions apply throughout the Group, the strategic KPIs that we will use in the future to measure how well we have implemented our Group strategy, depend on the business model. After all, the business model for our passenger car-producing brands is different from that for trucks and buses and also from that of our Power Engineering Business Area and our services business.

BUILDING BLOCKS AND STRATEGIC GROUP INITIATIVES

 TRANSFORM CORE BUSINESS · Sharpen positioning of brands · Develop successful vehicle and drivetrain portfolio · Partner with regional players to win in economy segment · Streamline modular toolkits · Implement model line organization · Realign “Components” business · Develop battery technology as new core competency · Develop self-driving system for autonomous vehicles and artificial intelligence · Develop best-in-class user experience across brands and customer touchpoints	 BUILD MOBILITY SOLUTIONS BUSINESS · Establish mobility solutions business · Develop and expand attractive and profitable smart mobility offering	 SECURE FUNDING · Improve operational excellence · Optimize business portfolio · Integrate strategy and planning process
 STRENGTHEN INNOVATION POWER · Drive digital transformation · Create organization 4.0		

In the following, we describe the Group's strategic goals attached to these target dimensions.

The strategic KPIs of the competitive profitability target dimension have been defined and anchored uniformly in the Group. As the new Group strategy has yet to be specified in detail, the content of some strategic KPIs in the other target dimensions is still being determined. We report on the already defined nonfinancial strategic KPIs in the "Corporate Governance Report" and "Sustainable Value Enhancement" sections.

Target dimension: excited customers

This target dimension focuses on the diverse needs of our customers and on tailor-made mobility solutions. We aspire to exceed our customers' expectations, generating maximum benefit for them. That calls not only for the best products, the most efficient solutions and the best service, but also for flawless quality and an outstanding image. We want to excite our existing customers, win over new ones and retain their loyalty in the long term – because only loyal and faithful customers will recommend us to others.

The strategic KPIs consist of the net promoter score, the conquest rate and KPIs pertaining to loyalty, customer satisfaction and quality.

Target dimension: excellent employer

Skilled and dedicated employees are one of the keys to sustainable success. We wish to promote their satisfaction and motivation by means of equal opportunities, an attractive and modern working environment, and a forward-looking organization of work. Exemplary leadership and corporate culture forms the foundation for this, enabling us to retain our core workforce and attract new talent.

The strategic KPIs of this target dimension cover internal employer attractiveness determined by means of the opinion survey, external employer attractiveness, an external employer ranking as well as a KPI pertaining to cross-brand exchange and rotation and the diversity index.

Target dimension: role model for the environment, safety and integrity

Every day, we at the Volkswagen Group assume and exercise responsibility in relation to the environment, safety and society. This is reflected in our thoughts and actions and in all our decisions in equal measure.

We pay particular attention to the use of resources and the emissions of our product portfolio as well as those of our sites and plants, with the goal of continuously improving our carbon footprint and lowering pollutant emissions. Through

our innovations and outstanding quality, we aim for maximum product safety. The most important principles in this process include compliance with laws and regulations, the establishment of secure processes, and dealing openly with mistakes so that they can be avoided or rectified in the future. In terms of integrity, Volkswagen aims to become a role model for a modern, transparent and successful enterprise.

The strategic KPIs of this target dimension include the decarbonization index and KPIs pertaining to emissions figures, compliance, process reliability and a culture of dealing openly with mistakes.

Target dimension: competitive profitability

Investors judge us by whether we are able to meet our obligations as regards interest payments and debt repayments. As equity holders, they expect appropriate dividends and a long-term increase in the value of their shares.

We make investments with a view to achieving profitable growth and strengthening our competitiveness, thus keeping the Volkswagen Group on a firm footing and ensuring it remains an attractive investment option.

The goals we have set ourselves are operational excellence in all business processes and becoming the benchmark for the entire industry.

The strategic KPIs are operationalized for internal management purposes: target and actual data are derived from Volkswagen Group figures.

STRATEGIC KPIs: COMPETITIVE PROFITABILITY

	2015	2025
Operating return on sales ¹	6.0%	7 to 8%
Research and development ratio (R&D ratio) in the Automotive Division	7.4%	~6%
Capex/sales revenue in the Automotive Division	6.9%	~6%
Net cash flow in the Automotive Division	€8,887 million	Positive, to allow a distribution ratio of 30%
Net liquidity in the Automotive Division	€24,522 million, 11.5%	~10% of consolidated sales revenue
Return on investment (ROI) in the Automotive Division	-0.2%	>15%

1 2015 before special items

Internal Management System and Key Performance Indicators

This chapter describes, on the basis of the Group strategy, how the Volkswagen Group is managed and the key performance indicators used for this purpose. In addition to financial measures, our management system also contains nonfinancial key performance indicators.

The Volkswagen Group's performance and success can be measured by both financial and nonfinancial key performance indicators. With the operational excellence Group initiative, we aim to improve these indicators throughout all areas and along the entire value chain.

In the following, we first describe the internal management process and then explain the Volkswagen Group's core performance indicators.

INTERNAL MANAGEMENT PROCESS IN THE VOLKSWAGEN GROUP

The "Integrate strategy and planning process" Group initiative is focused on continuity and even closer dovetailing of the Group and brand strategies with the operational planning process. This enhances transparency when it comes to the financial assessment and the evaluation of directional decisions. The operational planning that is conducted once a year and generally covers a period of five years is incorporated into the strategic planning as a key management element of the Group.

Medium-term planning forms the core of our operational planning and is used to formulate and safeguard the requirements for realizing strategic projects designed to meet Group targets in both technical and economic terms – and particularly in relation to earnings, cash flow and liquidity effects. In addition, it is used to coordinate all business areas with respect to the strategic action areas concerned: functions/processes, products and markets.

When planning the Company's future, the individual planning components are determined on the basis of the timescale involved:

- › the long-term unit sales plan, which sets out market and segment growth and then derives the Volkswagen Group's delivery volumes from them,
- › the product program as the strategic, long-term factor determining corporate policy,
- › capacity and utilization planning for the individual sites.

The coordinated results of the upstream planning processes are used as the basis for the medium-term financial planning: the Group's financial planning, including the brands and business fields, comprises the income statement, cash flow and balance sheet planning, profitability and liquidity, as well as the upfront investments needed for alternative products and the implementation of strategic options. The first year of the medium-term planning period is fixed and a budget drawn up for the individual months. This is planned in detail down to the level of the operating cost centers.

The budget is reviewed each month throughout the year to establish the degree to which the targets have been met. Key internal management instruments comprise target/actual comparisons, prior-year comparisons, variance analyses and, where necessary, action plans to ensure targets are met. For the current fiscal year, detailed revolving monthly forecasts are prepared for the coming three months and the full year, taking into account the current risks and opportunities. The focus of intrayear internal management is therefore on adapting ongoing operations. At the same time, the current forecast serves as a potential, ongoing corrective to the medium-term and budget planning that follows on from it.

CORE PERFORMANCE INDICATORS IN THE VOLKSWAGEN GROUP

The Volkswagen Group's internal management system is based on nine core performance indicators, which are derived from our strategic goals. Two of these indicators were added in fiscal year 2017 under the future program TOGETHER – Strategy 2025:

- › Deliveries to customers
- › Sales revenue
- › Operating result
- › Operating return on sales
- › Research and development ratio (R&D ratio) in the Automotive Division (from 2017)
- › Capex/sales revenue in the Automotive Division
- › Net cash flow in the Automotive Division
- › Net liquidity in the Automotive Division (from 2017)
- › Return on investment (ROI) in the Automotive Division

Deliveries to customers are defined as handovers of new vehicles to the end customer. This figure shows the popularity of our products and is the measure we use to determine our competitive position in various markets. Deliveries are closely related to our targets of exciting our customers, being a role model in terms of the environment, safety and integrity, and being an excellent employer. One of the most important prerequisites for the Company's long-term success is a strong brand portfolio that – on the basis of outstanding quality – offers tailor-made mobility solutions with safe, resource-efficient vehicles, thus meeting the diverse needs of customers. Demand for our products guarantees not only unit sales and production, but also full utilization of our sites and the jobs of our employees. The goals we are striving for cannot be achieved without a skilled, dedicated workforce and a consensus on shared values.

Sales revenue, which does not include the figures for our equity-accounted Chinese joint ventures, reflects our market success in financial terms. Following adjustment for our use of resources, the operating result reflects the Company's actual business activity and documents the economic success of our core business. The operating return on sales is the ratio of the operating result to sales revenue.

The research and development ratio (R&D ratio) in the Automotive Division shows total research and development costs in relation to sales revenue. Research and development costs comprise a range of expenses, from futurology through to the development of marketable products. Particular emphasis is placed on the environmentally friendly orientation of

our product portfolio. The R&D ratio underscores the efforts made to ensure the Company's future viability: the goal of competitive profitability geared to sustainable growth.

The ratio of capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) to sales revenue in the Automotive Division reflects both our innovative power and our future competitiveness. It shows our capital expenditure – largely for modernizing and expanding our product range and for environmentally friendly drivetrains, as well as for adjusting the production capacity and improving production processes – in relation to the Automotive Division's sales revenue.

Net cash flow in the Automotive Division represents the excess funds from operating activities available for dividend payments, for example. It is calculated as cash flows from operating activities less cash flows from investing activities attributable to operating activities.

Net liquidity in the Automotive Division is the total of cash, cash equivalents, securities, loans and time deposits not financed by third-party borrowings. To safeguard our business activities, we have formulated the strategic target that net liquidity in the Automotive Division should amount to approximately 10% of the consolidated sales revenue.

We use the return on investment (ROI) to calculate the return on invested capital for a particular period in the Automotive Division, including the Chinese joint ventures on a proportionate basis, by calculating the ratio of the operating result after tax to average invested capital. If the return on investment (ROI) exceeds the market cost of capital, the value of the Company has increased. This is how we measure the financial success of our brands, locations and vehicle projects.

You can find information on and explanations of the sales figures and the Volkswagen Group's financial key performance indicators on pages 101 to 107 and on pages 114 to 129, respectively.

Detailed descriptions of our activities and additional nonfinancial key performance indicators in the areas of sustainability, research and development, procurement, production, sales and marketing, quality assurance, employees, information technology and the environment can be found in the chapter entitled "Sustainable Value Enhancement" beginning on page 134 of this annual report. Nonfinancial key performance indicators related to compliance are described in the "Corporate Governance Report" on page 65.

Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2017 with respect to equity investments.

OUTLINE OF THE LEGAL STRUCTURE OF THE GROUP

Volkswagen AG is the parent company of the Volkswagen Group. It develops vehicles and components for the Group's brands, but also produces and sells vehicles, in particular passenger cars and light commercial vehicles for the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands. In its capacity as parent company, Volkswagen AG holds indirect or direct interests in AUDI AG, SEAT S.A., ŠKODA AUTO a.s., Dr. Ing. h.c. F. Porsche AG, Scania AB, MAN SE, Volkswagen Financial Services AG, Volkswagen Bank GmbH and a large number of other companies in Germany and abroad. More detailed disclosures are contained in the list of shareholdings in accordance with sections 285 and 313 of the Handelsgesetzbuch (HGB – German Commercial Code), which can be accessed at www.volkswagenag.com/ir and is part of the annual financial statements.

Volkswagen AG is a vertically integrated energy supply company as defined by section 3 no. 38 of the Energiewirtschaftsgesetz (EnWG – German Energy Industry Act) and is therefore subject to the provisions of the EnWG. In the electricity sector, Volkswagen AG generates, sells and distributes electricity together with a Group subsidiary.

Volkswagen AG's Board of Management is the ultimate body responsible for managing the Group. The Supervisory Board appoints, monitors and advises the Board of Management; it is consulted directly on decisions that are of fundamental significance for the Company.

ORGANIZATIONAL STRUCTURE OF THE GROUP

The Volkswagen Group is one of the leading multibrand groups in the automotive industry. The Company's business activities comprise the Automotive and Financial Services divisions. All brands within the Automotive Division – with the exception of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands – are independent legal entities.

The Automotive Division comprises the Passenger Cars, Commercial Vehicles and Power Engineering business areas. The Passenger Cars Business Area essentially consolidates the Volkswagen Group's passenger car brands. Activities focus on the development of vehicles and engines, the production and sale of passenger cars, and the genuine parts business. The product portfolio ranges from fuel-efficient compact cars to luxury vehicles and also includes motorcycles, and will gradually be supplemented by mobility solutions.

The Commercial Vehicles Business Area primarily comprises the development, production and sale of light commercial vehicles, trucks and buses from the Volkswagen Commercial Vehicles, Scania and MAN brands, the corresponding genuine parts business and related services. The collaboration between the MAN and Scania commercial vehicle brands is managed and coordinated under the umbrella of Volkswagen Truck & Bus GmbH. The commercial vehicles portfolio ranges from pickups to heavy trucks and buses.

The Power Engineering Business Area combines the large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses.

The activities of the Financial Services Division comprise dealer and customer financing, vehicle leasing, banking and insurance activities, as well as fleet management and mobility offerings.

With its brands, the Volkswagen Group is present in all relevant markets around the world. The Group's key sales markets currently include Western Europe, China, the USA, Brazil and Mexico.

Volkswagen AG and the Volkswagen Group are managed by the Volkswagen AG's Board of Management in accordance with the Volkswagen AG Articles of Association and the rules of procedure for Volkswagen AG's Board of Management issued by the Supervisory Board.

Each brand in the Volkswagen Group is managed by a board of management, which ensures its independent and self-contained development and business operations. The Group targets and requirements laid down by the Board of Management of Volkswagen AG must be complied with to the extent permitted by law. This allows Group-wide interests to be pursued, while at the same time safeguarding and reinforcing each brand's specific characteristics. Matters that are of importance to the Group as a whole are submitted to the Group Board of Management in order to reach agreement between the parties involved, to the extent permitted by law. The rights and obligations of the statutory bodies of the relevant brand company remain unaffected.

The companies of the Volkswagen Group are managed separately by their respective managements. In addition to the interests of their own companies, the management of each individual company takes into account the interests of the Group and of the individual brands in accordance with the framework laid down by law.

At Group level, committees also address key strategic issues, for example relating to product planning, investments and management issues.

To continue to enhance the Group's leadership and management model, we redesigned the portfolio of these committees and the regulation landscape at Group level in the reporting period. Among other things, a Committee for Digital Transformation was created and the Committee for Liquidity and Foreign Currency was replaced by the Group Board of Management Committee for Risk Management. These changes have reduced complexity and reinforced governance within the Group. In addition, the Group functions have continued to focus on leveraging substantial synergies across all brands and business fields, pooling competencies and making these available to the brands.

Operational fine-tuning at Group level has also been reduced further and, at the same time, greater entrepreneurial responsibility assigned to the brands and regions, making the Group more agile and speeding up decision-making processes. The Group Board of Management can concentrate more on strategy and the management of major areas in which synergies can be created, for example joint creation of a digitalization architecture, brand positioning, product strategy, development and use of platforms and modules, procurement and plant capacity utilization.

With our future program TOGETHER – Strategy 2025, the Organization 4.0 Group initiative also supports the Company's transformation and is making the Group's organization fit for the future. The aim of this initiative is to connect activities across divisions, initiate new organizational

approaches and anchor these in the Group for the long term. This will not only enable but will actively create holistic stimulus for innovations, entrepreneurship and change, ensuring that the Group remains agile and competitive in future.

MATERIAL CHANGES IN EQUITY INVESTMENTS

The control and profit and loss transfer agreement between MAN SE, as the controlled company, and Volkswagen Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, as the controlling company, came into force upon its entry in the commercial register on July 16, 2013. The conclusion of the control and profit and loss transfer agreement replaced the group based on the de facto exercise of management control by a contractual group, permitting considerably more efficient and less bureaucratic cooperation between the MAN Group and the rest of the Volkswagen Group. Noncontrolling interest shareholders of MAN SE have the right to tender MAN ordinary and preferred shares in Volkswagen Truck & Bus GmbH during and two months after the conclusion of the award proceedings instituted in July 2013 to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. The Munich Regional Court ruled in the first instance at the end of July 2015 that the settlement payable to the shareholders should be increased from €80.89 to €90.29 per share. Both Volkswagen Truck & Bus GmbH and a number of the noncontrolling interest shareholders have appealed to the Higher Regional Court in Munich. At the end of December 2017, Volkswagen Truck & Bus GmbH held 75.73% of the ordinary shares and 46.95% of the preferred shares of MAN SE.

At the beginning of September 2016, Volkswagen Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, and the US-based commercial vehicle manufacturer Navistar International Corporation (Navistar), announced that they had signed an agreement to forge a wide-ranging alliance. The transaction was closed on February 28, 2017. Volkswagen Truck & Bus acquired 16.6% of the shares in Navistar through a capital increase. The interest held was increased to 16.9% by the end of 2017. Navistar is a holding company whose subsidiaries produce trucks, coaches, commercial and school buses, diesel engines and service parts. The alliance includes framework agreements for a strategic technology and supply cooperation and for the joint venture Global Truck & Bus Procurement LLC, based in Lisle (Illinois), which will pursue joint global procurement opportunities. The partnership will focus on developing common powertrain systems, but may

also entail collaboration in other areas of commercial vehicle development and procurement. Opportunities to cooperate in the fields of autonomous driving, alternative fuel technologies and connectivity will also be examined. The aim is to jointly create new synergies and to achieve greater independence from the cycles in the industry.

Part of the PGA Group SAS, Paris, France, was sold by POFIN Financial Services Verwaltungs GmbH, Freilassing, to the Emil Frey Group on June 1, 2017. The sale is in connection with the strategic development of Porsche Holding Salzburg's dealer network and the corresponding focus on dealerships exclusively selling Volkswagen Group brand vehicles. The transaction encompasses dealerships in Poland, the Netherlands, Belgium and in some cases also in France.

With the "Optimize business portfolio" Group initiative, the Board of Management intends to ensure the Volkswagen Group's competitiveness and financial performance as a forward-looking mobility provider by focusing on its core business and using its capital to the best advantage. To this

end, we are continuously monitoring and analyzing our portfolio and can respond in a timely manner by making any necessary purchases or sales.

LEGAL FACTORS INFLUENCING BUSINESS

Like other international companies, Volkswagen companies are affected by numerous laws in Germany and abroad. In particular, there are legal requirements relating to development, products, production and distribution, as well as, among other things, to supervisory, data protection, financial, company, commercial, capital market, anti-trust and tax regulations and regulations relating to labor, banking, state aid, energy, environmental and insurance law.

 **VOLKSWAGEN AG SHAREHOLDINGS**
www.volkswagenag.com/ir

Corporate Governance Report

Corporate governance is defined as responsible, transparent corporate management and supervision that aims to add long-term value. For us, good corporate governance not only forms the basis for lasting success; it is also an important prerequisite for strengthening the trust of our stakeholders in our work.

THE GERMAN CORPORATE GOVERNANCE CODE – A BLUEPRINT FOR SUCCESSFUL CORPORATE GOVERNANCE

Corporate governance provides the regulatory framework for corporate management and supervision. This includes a company's organization and values, and the principles and guidelines for its business policy. The German Corporate Governance Code (the Code) contains recommendations and suggestions for sound, responsible corporate management and supervision. It was prepared by a dedicated government commission on the basis of the material provisions and nationally and internationally accepted standards of corporate governance. The government commission regularly reviews the Code in light of current developments and updates it as necessary. The Board of Management and the Supervisory Board of Volkswagen AG base their work on the recommendations and suggestions of the German Corporate Governance Code. We consider good corporate governance to be a key prerequisite for achieving a lasting increase in the Company's value. It helps strengthen the trust of our shareholders, customers, employees, business partners and investors in our work and meet the steadily increasing demand for information from national and international stakeholders.

DECLARATIONS OF CONFORMITY (VALID AS OF THE DATE OF THE RELEVANT DECLARATION)

On November 17, 2017, the Board of Management and the Supervisory Board of Volkswagen AG issued the annual declaration of conformity with the Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) with the following wording:

"The Board of Management and the Supervisory Board declare the following:

1. The recommendations of the Government Commission of the German Corporate Governance Code in the version dated 5 May 2015 (the Code) that were published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 12 June 2015 were complied

with in the period from the last Declaration of Conformity dated 18 November 2016 until the amended version of the Code dated 7 February 2017 came into effect on 24 April 2017, with the exception of the following numbers listed below with their stated reasons.

› a) 4.2.3(4) (severance cap)

A severance cap will be included in new contracts concluded with members of the Board of Management, but not in contracts concluded with Board of Management members entering their third term of office or beyond, provided a cap did not form part of the initial contract. Grandfather rights have been applied accordingly.

› b) 5.3.2 sentence 3 (independence of the chair of the Audit Committee)

It is unclear from the wording of this recommendation whether the Chairman of the Audit Committee is "independent" within the meaning of number 5.3.2 sentence 3 of the Code. Such independence could be considered lacking in view of his seat on the Supervisory Board of Porsche Automobil Holding SE, kinship with other members of the Supervisory Board of the company and of Porsche Automobil Holding SE, his indirect minority interest in Porsche Automobil Holding SE, and business relations with other members of the Porsche and Piëch families who also have an indirect interest in Porsche Automobil Holding SE. However, in the opinion of the Supervisory Board and the Board of Management, these relationships do not constitute a conflict of interest nor do they interfere with his duties as the Chairman of the Audit Committee. This exception is therefore being declared purely as a precautionary measure.

› c) 5.4.1(5 to 7) (disclosure regarding election recommendations)

With regard to recommendation number 5.4.1(5) to (7) of the Code stating that certain circumstances must be disclosed by the Supervisory Board when making election recommendations to the Annual General Meeting, the stipulations of the Code are vague and the definitions

unclear. Purely as a precautionary measure, the Board of Management and the Supervisory Board therefore declare a deviation from the Code in this respect. Notwithstanding this, the Supervisory Board will make every effort to satisfy the requirements of the recommendation.

- d) 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board)

Until the amendment to article 17(1) of the Articles of Association adopted by the Annual General Meeting on 10 May 2017 that came into effect on 1 June 2017, Supervisory Board remuneration was linked in part to the dividends. We therefore assumed that we had complied with the Code and that the variable compensation component was oriented toward the sustainable growth of the company as defined in number 5.4.6(2) sentence 2 of the Code. However, as it could not be ruled out that other views would be taken in this respect, a deviation from this recommendation in the Code is being declared as a precautionary measure.

2. The recommendations of the Government Commission of the German Corporate Governance Code in the version dated 7 February 2017 (the 2017 Code) that were published by the German Ministry of Justice on 24 April 2017 in the official section of the Federal Gazette (Bundesanzeiger) were complied with in the period from when this version came into effect on 24 April 2017 and will continue to be complied with, with the exception of the numbers listed below and their stated reasons.

- a) 4.2.3(4) (severance cap)
- b) 5.3.2(3) sentence 2 (independence of the chair of the Audit Committee)
- c) 5.4.1(6 to 8) (disclosure regarding election recommendations)

The reasons for exceptions a) to c) are listed above in the details under point 1.

- d) 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board)

Until the amendment to article 17(1) of the Articles of Association adopted by the Annual General Meeting on 10 May 2017 that came into effect on 1 June 2017, Supervisory Board remuneration was linked in part to the dividends. We therefore assumed that we had indeed complied with the Code and that the variable compensation component was oriented toward the sustainable growth of the company as defined in number 5.4.6(2) sentence 2 of the 2017 Code. However, as it could not be ruled out that other views would be taken in this respect, a deviation from this recommendation in the Code was declared as a precautionary measure. The amendment to the Articles of Association that came into effect on 1 June 2017 introduced fixed remuneration retroactively as of 1 January 2017, so that the recommendation has definitely been complied with since 1 June 2017.

- e) 4.2.3(2) sentence 3 (variable remuneration package in principle future-oriented)

The recommendation that the variable remuneration components based on a multi-year assessment should essentially be forward-looking has been recently added to the Code. The corresponding remuneration components for the members of the Board of Management were in the former system essentially based on the results of the past fiscal year and would therefore not be suitable for this recommendation. In February 2017, the Supervisory Board adopted a new system for the Board of Management remuneration in which the multi-year variable remuneration components were essentially future-oriented. The new remuneration system was fully implemented with retroactive effect to 1 January.

- f) 5.4.1(2) sentence 1 (objectives regarding the composition of the Supervisory Board; profile of skills and expertise)

This recommendation concerning the specification of concrete objectives for the composition of the Supervisory Board was supplemented when the 2017 Code came into force to the effect that the Supervisory Board should also prepare a profile of skills and expertise for the entire committee in addition to specifying objectives for its composition. This recommendation, more specifically the supplement, has not been complied with from when the amended version of the recommendation took effect until today due to the new addition. Following consultations and specifications on the part of the Supervisory Board, this recommendation will be complied with in full as of today.

- g) 5.4.1(5) sentence 2 (curriculum vitae of the members of the Supervisory Board)

The recommendation to publish updated curriculum vitae of all members of the Supervisory Board on the company website every year, including an overview of the main ancillary activities, has been newly added to the 2017 Code. The curriculum vitae of members of the Supervisory Board were published on 1 August 2017; this included an overview of their main ancillary activities beyond their Supervisory Board mandates. The recommendation has been complied with since that time."

The current declaration of conformity is also published on our website, www.volkswagenag.com/ir.

With the exception of number 4.2.3(2) sentence 9 (no early disbursements of variable remuneration components) and number 5.1.2(2) sentence 1 (duration of first-time appointments to the Board of Management), the suggestions in the current version of the Code have been complied with. Provision is made to some extent for the early disbursement of multiple-year, variable remuneration components in the event that one member of the Board of Management retires (early) from the Board; independently of this, such remuneration components could be disbursed early. The Supervisory Board will decide the duration of each first-time

appointment to the Board of Management on an individual basis, taking the best interests of the Company into account. The suggestion made in number 2.3.2 sentence 2 (accessibility of the voting proxy during the Annual General Meeting) was implemented at the 2017 Annual General Meeting in such a manner that the shareholders were able to reach the voting proxies named by the Company to exercise their voting rights until 1:00 pm, also by electronic means. The suggestion made in number 2.3.3 (broadcast of the Annual General Meeting) was implemented at the 2017 Annual General Meeting so that the introductory remarks by the Chairman of the Supervisory Board and the speech of the Chairman of the Board of Management were broadcast.

Our listed subsidiaries AUDI AG, MAN SE and Renk AG have also issued declarations of conformity with the German Corporate Governance Code.

The declarations of conformity of our listed subsidiaries can be accessed at the websites shown on this page.

COOPERATION BETWEEN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

The Supervisory Board advises and monitors the Board of Management with regard to the management of the Company and is directly involved in decisions of fundamental importance to the Company. The Board of Management and the Supervisory Board of Volkswagen AG consult closely on the strategic orientation of the Volkswagen Group. The two bodies jointly assess, at regular intervals, the progress made in implementing the corporate strategy. The Board of Management reports to the Supervisory Board regularly, promptly and comprehensively in both written and oral form on all issues of relevance for the Company with regard to strategy, planning and the situation of the Company, the development of the business, the risk situation, risk management and compliance.

More information on cooperation between the Board of Management and the Supervisory Board of Volkswagen AG and on the work and structure of the committees of the Supervisory Board can be found in the Report of the Supervisory Board on pages 12 to 17 of this annual report.

Information on the members of the Board of Management and Supervisory Board, as well as on the Supervisory Board committees can be found on pages 84 to 87.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT AS WELL AS SENIOR EXECUTIVE POSITIONS

In view of the Company's specific situation, its purpose, its size and the extent of its international activities, the Supervisory Board of Volkswagen AG strives to achieve a composition that takes the Company's ownership structure and the following aspects into account:

- › At least three members of the Supervisory Board should be persons who embody the criterion of internationality to a particularly high degree.
- › At least four shareholder representative members of the Supervisory Board should be persons without potential conflicts of interest, particularly conflicts of interest that could arise from an advisory or board position at customers, suppliers, lenders, or other third parties.
- › In addition, at least four of the shareholder representatives must be persons who are independent as defined in number 5.4.2 of the German Corporate Governance Code.
- › At least three of the seats on the Supervisory Board should be held by people who make a special contribution to the diversity of the Board.
- › Furthermore, proposals for elections should not normally include persons who will have reached the age of 75 on the date of the election or who will have been members of the Supervisory Board for more than 15 years on the date of the election.

The above criteria have been met.

In addition, the Supervisory Board has decided on the following profile of skills and expertise for the full Board:

The Supervisory Board as a whole must collectively have the knowledge, skills, and professional expertise required to properly perform its supervisory function and assess and monitor the business that the Company conducts. For this, the members of the Supervisory Board must collectively be familiar with the sector in which the Company operates. The key skills and requirements of the Supervisory Board as a whole include, in particular:

- › Knowledge of or experience in the manufacture and sale of all types of vehicles and engines or other technical products,
- › Knowledge of the automotive industry, the business model and the market, as well as product expertise,
- › Knowledge in the field of research and development, particularly of technologies with relevance for the Company,
- › Experience in corporate leadership positions or in the supervisory bodies of large companies,
- › Knowledge in the areas of governance, law or compliance,

i DECLARATION OF CONFORMITY OF VOLKSWAGEN AG
www.volkswagenag.com/ir

i DECLARATION OF CONFORMITY OF AUDI AG
www.audi.com/cgk-declaration

i DECLARATION OF CONFORMITY OF MAN SE
www.corporate.man.eu

i DECLARATION OF CONFORMITY OF RENK AG
www.renk.biz/corporated-governance.html

- › Detailed knowledge in the areas of finance, accounting, or auditing,
- › Knowledge of the capital markets,
- › Knowledge in the areas of controlling/risk management and the internal control system,
- › Human resources expertise (particularly the search for and selection of members of the Board of Management, and the succession process) and knowledge of incentive and remuneration systems for the Board of Management,
- › Detailed knowledge or experience in the areas of codetermination, employee matters and the working environment in the Company.

The current composition of the Supervisory Board is also in line with this profile of skills and expertise. The independent members of the Supervisory Board within the meaning of article 5.4.2 of the Code are or were Ms. Hessa Sultan Al-Jaber, Ms. Marianne Heiß, Ms. Louise Kiesling, Mr. Hussain Ali Al-Abdulla, Mr. Bernd Althusmann and Mr. Stephan Weil, as well as Ms. Annika Falkengren and Mr. Olaf Lies, who have since left the Supervisory Board. The curriculum vitae of the members of the Supervisory Board are available online at www.volkswagenag.com/ir.

The statutory quota of at least 30% women and at least 30% men has applied to new appointments to the Supervisory Board of Volkswagen AG since January 1, 2016 as required by the Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst (FührposGleichberG – Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors). Shareholder and employee representatives have resolved that each side will meet this quota separately. The shareholder representatives have met the quota of at least 30% women and at least 30% men since the 56th Annual General Meeting on June 22, 2016. In the election of employee representatives to the Supervisory Board of Volkswagen AG on April 6, 2017, Ms. Ulrike Jakob, Ms. Bertina Murkovic and Mr. Athanasios Stimoniaris were elected to the Supervisory Board for the first time. The remaining employee representatives on the Supervisory Board were reappointed. The term of office began at the end of the Annual General Meeting on May 10, 2017. This means that the legally prescribed proportion of at least 30% women and at least 30% men is also complied with on the employee side of the board. Both the shareholder and the employee representatives fulfilled the quota on December 31, 2017.

For the proportion of female members on the Board of Management that the Supervisory Board was required to set in accordance with the FührposGleichberG, the Supervisory Board set a target quota of 11.1% for the period after December 31, 2016. The new deadline set for achievement of this target is December 31, 2021. The appointment of Ms. Hiltrud Dorothea Werner, the Group Board of Management member responsible for Integrity and Legal Matters since February 1, 2017, brings the percentage of female members on the Group Board of Management to 11.1%. The target quota was thus fulfilled on December 31, 2017.

For the proportion of women in management in accordance with the FührposGleichberG, Volkswagen AG has set itself the target of 13.0% women in the first level of management and 16.9% women in the second level of management for the period up to the end of 2021. As of December 31, 2017, the proportion of women in the active workforce at the first level of management was 10.4 (9.8)% and at the second level of management it was 14.0 (13.5)%.

REMUNERATION REPORT

Extensive explanations of the remuneration system and the individual remuneration of the members of the Board of Management and the Supervisory Board can be found in the Remuneration Report on pages 67 to 83 of the management report, in the notes to the consolidated financial statements on page 313, and on page 63 of the notes to the annual financial statements of Volkswagen AG.

GROUP CORPORATE GOVERNANCE DECLARATION

The Group corporate governance declaration forms part of the combined management report and is permanently available at www.volkswagenag.com/ir. It also contains the description of the diversity concepts for the Board of Management and Supervisory Board of Volkswagen AG.

i GROUP CORPORATE GOVERNANCE DECLARATION
www.volkswagenag.com/ir

COMPLIANCE

Acting with integrity and compliant and ethical behavior are essential prerequisites for the success of the Volkswagen Group. For this reason, compliance with national and international laws and regulations, internal rules and voluntary commitments is among our Company's guiding principles. We are striving to strengthen the trust of our customers, our business partners and stakeholders in our Group through fair treatment. Compliant behavior is the basis for this and must be a matter of course for all Group employees. One of our Company's main tasks at the present time is to further enhance awareness of this.

Commitment to compliance at the highest level

At the Global Management Meeting in March 2017, Matthias Müller, Chairman of the Board of Management of Volkswagen AG, underlined that integrity and compliant behavior are the responsibility of each individual in the Group: "Compliance and integrity are not something that can be delegated to another department or a single person – everyone must play their part."

At the presentation of the new Code of Conduct for the Volkswagen Group in September 2017, Hiltrud Dorothea Werner, member of the Board of Management responsible for Integrity and Legal Matters, said: "It is our shared responsibility to bring the concept of integrity to life at Volkswagen. In practice, this involves us all being familiar with the rules in place, acting responsibly and making the right decisions. The new Code of Conduct provides the basis for this."

Strengthening the compliance organization

In light of the growing relevance of the topic of compliance, the Group's compliance organization was restructured in the reporting period. Since April 2017, Group Compliance has been a separate unit, with the Group Chief Compliance Officer reporting directly to the Board Member for Integrity and Legal Affairs; he also reports to the Audit Committee of the Supervisory Board.

The structures, responsibilities and processes within this unit have also been honed and reinforced. The Volkswagen Group's compliance organization has been set up with divisional and regional compliance offices. This enables central corporate functions to be supported to an even greater extent and advised by their own compliance contacts. Additional centers of competence develop and manage key compliance issues for the entire Group. The heads of the centers of competence and the divisional and regional compliance offices report directly to the Group Chief Compliance Officer. Communication between the Group and brand compliance officers and networking were enhanced and

intensified in the reporting period through regular meetings and team conferences.

In the reporting period, there was direct communication on compliance issues at meetings of the Supervisory Board, the Board of Management and the Works Council, particularly by the Board Member for Integrity and Legal Affairs and the Group Chief Compliance Officer.

The Group Compliance Committee chaired by the Board Member for Integrity and Legal Affairs was formed at top management level in 2017. This committee ensures that compliance and integrity standards are uniformly applied and communicated on a cross-divisional and cross-brand basis. The core compliance team, which concentrates expertise on compliance issues from different departments, remained unchanged.

Compliance management system

Our compliance management system is based on national and international standards. Its objective is to encourage and reinforce compliant behavior in the Group. The new Code of Conduct is the key element for strengthening awareness among staff of correct behavior and finding the right contact person in cases of doubt.

Where laws and regulations have been seriously violated, our restructured whistleblower system is a suitable tool for taking appropriate action.

We place value on communication and training seminars to permanently anchor compliance-related content among the workforce.

The basis of compliance work in the Volkswagen Group is a systematic process of risk identification and reporting in accordance with the IDW standard AsS 980. We used 2017 to review the content of and the process for the existing compliance risk analysis. The objective is to obtain transparency at Group level of the risk exposure of all Group companies included in the compliance scope.

However, we are also aware that even the best compliance management system can never entirely prevent the criminal actions of individuals.

Code of Conduct and guidelines

The Volkswagen Group Code of Conduct was completely overhauled in the reporting period and approved by the Group Board of Management. All Group companies are required to introduce the new Code of Conduct. This was completed at the brand level by December 31, 2017.

Based on the 2010 Code of Conduct (for instance on the topic of environmental protection) the content was updated and new content added (such as product conformity). Readability and practical relevance were enhanced through a clear

structure, simpler language and specific examples. It emphasizes each individual employee's responsibility as regards compliant behavior.

The introduction of the new Code of Conduct was accompanied by an intensive internal communication drive in digital and print media.

The Code of Conduct is a key component of compliance training and is also integrated into operating processes. For example, all new employment contracts for employees of Volkswagen AG include a reference to the Code of Conduct and the obligation to comply with it. In addition, compliance with the Code of Conduct remained a component of our employees' annual reviews in the reporting period and was thus taken into account when calculating their variable, performance-related remuneration.

In addition to the Code of Conduct, the Volkswagen Group's compliance framework incorporates the anti-corruption guidelines among others, including checklists and the express prohibition of facilitation payments, as well as guidelines on competition, antitrust law and anti-money laundering. Organizational instructions on dealing with gifts and invitations as well as on making donations also apply across the Group.

Employees have access to the compliance rules and regulations in particular via the compliance pages on the Company intranet.

Whistleblower system

In the Volkswagen Group, the whistleblower system refers to the internal and external contact points, where employees and third parties can report potentially serious violations of laws and internal regulations by employees of the Volkswagen Group, in addition to the committees that support and monitor the work of these contact points.

The Company has had a system for reporting any breaches of the law or regulations already since 2006. In 2017, the whistleblower system was improved and partially reorganized. The processes were optimized further as of November 1, 2017 to be able to follow up on reports even faster and in a fairer and more transparent manner. Among other things, a central Investigation Office was set up in the Compliance department at the beginning of the year, which is responsible for coordinating the whistleblower system in the

Volkswagen Group and for processing information received concerning Volkswagen AG and its subsidiaries – with the exception of AUDI AG, Dr. Ing. h.c. F. Porsche AG and Volkswagen Truck & Bus GmbH. These companies have separate investigative offices for themselves and their subsidiaries.

The whistleblower system uses defined processes to investigate reports on breaches and to penalize misconduct where appropriate. Protection of both the whistleblower and the party affected has top priority in the applicable procedural principles and guarantees. In addition, a Group Guideline sets out the responsibilities in the Group and the specific procedure for the processing of reports.

Information on misconduct can be submitted in any of the major languages used by the Group and are treated confidentially. The people providing the information need not fear any sanctions from the Company for their actions. They can decide for themselves whether they wish to give their names. For this reason, a specially protected online reporting channel was additionally set up in 2017 through which anonymized reports from whistleblowers can be sent to the Investigation Office. We also continue to rely on existing tried-and-tested channels such as ombudspersons (counsels of trust).

As the whistleblower system was enhanced, reporting was reorganized, for example to ensure standard Group-wide handling. A total of 1,489 reports were registered throughout the Group in 2017. All substantiated reports have been, or will be, investigated, and any misconduct penalized.

Communication, training and advice

Providing information to employees at all levels on compliance and offering them advice is a core component of our compliance activities.

The compliance organization regularly briefs the workforce on compliance-related issues using the internal Group-wide communication platform called "Group Connect". Content on compliant behavior is also made public through the internal communication channels of the Group and its brands. Focal points of compliance communication in the reporting period were the introduction of the revised Code of Conduct and the further development of the whistleblower system.

CODE OF CONDUCT OF THE VOLKSWAGEN GROUP

www.volkswagenag.com/presence/konzern/documents/Code_of_Conduct_2017_VW_Konzern_deutsch.pdf

WHISTLEBLOWER SYSTEM

www.volkswagenag.com/de/group/compliance-and-risk-management/whistleblowersystem.html
e-mail: io@volkswagen.de

Furthermore, the topic of compliant behavior was intensely discussed at employee events and works meetings.

In 2017, approximately 219,000 employees across the Group participated in various forms of training courses on compliance-related topics. Following a risk-based approach, mandatory compliance training is conducted for specific target groups. In addition to traditional lectures and online tutorials, case studies, role-playing games and other interactive formats form a part of the training provided to employees and managers. Another event held in 2017 was the Volkswagen Convention – Integrity, Culture and Compliance, which was attended by more than 7,300 executives and works council members from Volkswagen AG, Volkswagen Sachsen and Volkswagen Osnabrück. The Convention was aimed at driving the change process forward at Volkswagen.

Employees can use special e-mail addresses to solicit advice on compliance issues.

Compliance key performance indicators

To measure the level of target achievement, we defined a strategic indicator for the major brands that manufacture passenger cars:

- › Compliance, process reliability and a zero-defect culture.

This indicator is based on an evaluation of the answers to three questions in the opinion survey relating to compliance with regulations and processes, transparency and monitoring, and dealing with risks and errors. In the case of adverse deviations, the departments will develop and implement measures. The indicator improved to 79.53 (79.03)% during the reporting year.

We have also defined a strategic indicator for the Financial Services Division – the compliance and governance indicator. In addition to achieving our economic objectives, we are also striving to ensure compliance with legislation and legal requirements and are working towards a culture shaped by compliance and integrity. To this end, we have established a compliance function within the individual companies to accompany the implementation of suitable and effective compliance standards for fields of law that have been identified as significant. To evaluate the effectiveness thereof, we will consult examination and inspection findings from both the internal and external auditing, risk management and compliance, as well as the timely processing of the measures defined by these control units.

Strengthening compliance in company processes

The act to transpose the Fourth EU Money Laundering Directive into German law presented new challenges for Volkswagen AG as a company that is bound by the Gesetz über das Aufspüren von Gewinnen aus schweren Straftaten (GWG –

Law on Tracing Profits from Serious Criminal Offences). A Group Directive, which already exists in draft form, will define the minimum standard to be implemented by all Group companies.

A concept for a new sales-related business partner check was drawn up in the reporting period. A key objective of this new process is the creation of transparency within the Volkswagen Group to prevent Group companies from entering into business relationships with business partners which other Group companies have classified as not acting with integrity. The sales-related business partner check will be gradually introduced in the Group from 2019.

New business models are constantly being considered in the Volkswagen Group as part of the TOGETHER – Strategy 2025 program. Areas on which these focus in particular are digitalization, automation and electrification, but also the development of and involvement in mobility concepts. Group Compliance helps the strategic business units to implement their forward-looking projects through individual risk assessments and recommendations based on these.

In addition, compliance will become anchored in mergers and acquisitions and real estate transactions to a greater extent.

Effectiveness review

Independent reviews by the Group Internal Audit function at the corporate units and the regular exchange of information with external bodies help ensure continuous improvement of the compliance management system. There are no indications that our current compliance management system was ineffective in 2017.

INTEGRITY

Volkswagen AG is undergoing the most far-reaching process of change in the Company's history. Particularly the loss of trust as a result of the diesel issue clearly showed that, in terms of integrity, Volkswagen must become a role model for a modern, transparent and successful enterprise. This plan is one of the strategic goals of TOGETHER – Strategy 2025.

By setting up the new Board of Management position for Integrity and Legal Affairs on January 1, 2016, we created the organizational framework for a centralized integrity management function. This Group function is responsible for planning, preparing and implementing programs and projects aimed at raising awareness, providing explanation and intensifying a collective awareness of integrity as well as reinforcing a shared culture of integrity in the Company. A continuous exchange of ideas and discussion of issues relating to integrity are key components of the integrity management function.

Behaving with integrity is a prerequisite for commercial success and for a positive future for the Company. Only with lasting, dependable integrity will our Company gain and strengthen the trust of its staff, customers, shareholders, business partners and the general public. Volkswagen will enhance the culture of integrity in the Company, thus creating a collective Group awareness for integrity. To this end, we launched an integrity program in 2016 that addresses all of the Company's employees.

INDEPENDENT MONITOR

In June 2017, Larry D. Thompson was appointed as the Independent Compliance Monitor at Volkswagen under the terms of the Plea Agreement with the United States Department of Justice announced on January 11, 2017 and confirmed by a US federal court on April 21, 2017. He will also work as Independent Compliance Auditor under the Third Partial Consent Decree concluded separately with the US Environmental Protection Agency (EPA) and the Third California Partial Consent Decree agreed with the State of California and the environmental authority California Air Resources Board, CARB (for more information on these agreements, please see the Litigation section starting on page 178). Mr. Thompson will assess and oversee Volkswagen's compliance with the terms of the Plea Agreement and Consent Decrees for a period of three years, which includes taking measures to further strengthen the Company's compliance, reporting and monitoring mechanisms and the implementation of an enhanced compliance and ethics program.

RISK MANAGEMENT, AUDIT

Carefully managing potential risks to the Company is a key component of our daily work. Volkswagen Group's risk management system is oriented toward identifying, assessing, communicating and managing risks at an early stage. This system is reviewed on an ongoing basis and adjusted if and when conditions change. A detailed description of the risk management system and our accounting-related internal control system can be found in the Risk Report on pages 164 to 167 of this annual report.

The Supervisory Board has established an Audit Committee that in particular monitors the financial accounting, the financial accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, the audit of the financial statements and compliance. Furthermore, the Audit Committee makes a well-founded recommendation for the election of auditor to the Supervisory Board, obtains a declaration of independence from the auditor, supervises the additional services provided

by the auditor and prepares the audit engagement resolution, thereby giving consideration to the annual audit planning, the areas of emphasis for the audit, the agreed fee and the auditor's obligation to provide information.

COMMUNICATION AND TRANSPARENCY

The Volkswagen Group publishes a financial calendar listing all the relevant dates for its shareholders in its annual report and interim reports as well as on its website at www.volkswagenag.com/ir. Among other things, invitations to the shareholders' meetings as well as agendas for these meetings and any motions to be added to the agenda or counter motions received are also available on this website. At the shareholders' meetings, shareholders may exercise their voting rights themselves, have this right exercised on their behalf by a third-party proxy whom they have appointed, or use a proxy designated by the Company who votes on their behalf in accordance with their voting instructions. We also give our shareholders the opportunity to watch the introductory remarks of the Chairman of the Supervisory Board and the speech of the Chairman of the Board of Management on the internet. In addition, news and information on the Volkswagen Group are available on our website. The press releases and other information are published in both English and German.

Immediately after their publication in accordance with legal requirements, the Company's ad-hoc releases are also published on the same website under the heading "IR News, Ad-hoc Releases & Publications".

We publish managers' transactions pursuant to Article 19 of the Market Abuse Regulation or section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) under the heading "Corporate Governance", menu item "Directors' Dealings".

On the same web page – under the heading "IR News, Ad-hoc Releases & Publications", menu item "Notifications of changes in voting rights" – you can also access details of the notifications filed in the reporting period in compliance with sections 21 ff. of the WpHG as well as notifications relating to other legal issues.

The supervisory body appointments held by Board of Management members and Supervisory Board members can be found on pages 84 to 87 of this annual report. The shareholder structure is presented on page 110.

Remuneration Report

The Remuneration Report details the individualized remuneration of the Board of Management and the Supervisory Board of Volkswagen AG, broken down into components, as well as individualized pension provision disclosures for the members of the Board of Management. In addition, we explain in this chapter the main elements of the new remuneration system for the Board of Management.

PRINCIPLES OF BOARD OF MANAGEMENT REMUNERATION

The full Supervisory Board resolves on the remuneration system and the total remuneration for each individual member of Volkswagen AG's Board of Management on the basis of the Executive Committee's recommendations. The remuneration system implements the requirements of the Aktiengesetz (AktG – German Stock Corporation Act) and the recommendations of the German Corporate Governance Code (the Code). In particular, the remuneration structure is focused on ensuring sustainable business development in accordance with the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG – German Act on the Appropriateness of Executive Board Remuneration) and section 87(1) of the AktG.

At the beginning of 2017, the Supervisory Board of Volkswagen AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2017. The new system for remuneration of the Board of Management was approved by the Annual General Meeting on May 10, 2017 with 80.96% of the votes cast. The adjustment, in which the Supervisory Board was assisted by renowned, independent external remuneration and legal consultants, resulted in an alignment with the new Group strategy TOGETHER – Strategy 2025.

The level of the Board of Management remuneration should be appropriate and attractive in the context of the Company's national and international peer group. Criteria include the tasks of the individual Board of Management member, their personal performance, the economic situation, the performance of and outlook for the Company, as well as how customary the remuneration is when measured against the peer group and the remuneration structure that applies to other areas of Volkswagen. In this context, comparative studies on remuneration are conducted on a regular basis.

COMPONENTS OF BOARD OF MANAGEMENT REMUNERATION

In this section, we provide an overview of the new remuneration system before going into the components of the remuneration for the reporting period.

Overview of the new remuneration system

The new remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term. The performance share plan is linked to business development in the next three years and is thus based on a multiyear, forward-looking assessment that reflects both positive and negative developments. The non-performance-related component creates an incentive for individual members of the Board of Management to perform their duties in the interests of the Company and to fulfill their obligation to act with proper business prudence without needing to focus on merely short-term performance targets. The performance-related components, dependent among other criteria on the financial performance of the Company, serve to ensure the long-term impact of behavioral incentives.

If 100% of the respectively agreed targets are achieved, the annual target remuneration for each member of the Board of Management will amount to a total of €4,500,000 (corresponding to a basic remuneration of €1,350,000, a target amount from the annual bonus of €1,350,000 and a target amount from the performance share plan of €1,800,000). The annual target remuneration for the Chairman of the Board of Management amounts to a total of €9,000,000 (basic remuneration of €2,125,000, a target amount from the annual

bonus of €3,045,000, and a target amount from the performance share plan of €3,830,000).

Annual minimum remuneration of €3.5 million (sum of basic and variable remuneration) was contractually agreed with Mr. Blessing.

Non-performance-related remuneration

The non-performance-related remuneration comprises fixed remuneration and fringe benefits. In addition to the basic level of remuneration, the fixed remuneration also includes differing levels of remuneration for appointments assumed at Group companies. The fringe benefits result from noncash benefits and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these noncash benefits are mainly borne by Volkswagen AG.

The basic level of remuneration is reviewed regularly and adjusted if necessary.

Performance-related remuneration

The performance-related/variable remuneration consists of an annual performance-related bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (long-term incentive components) and phantom preferred shares. The components of performance-related/

variable remuneration therefore reflect both positive and negative developments.

The Supervisory Board may cap the performance-related/variable remuneration components in the event of extraordinary developments.

Annual bonus

The annual bonus is based upon the result for the respective fiscal year. Operating profit achieved by the Volkswagen Group plus the proportionate operating profit 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 will only be payable 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.

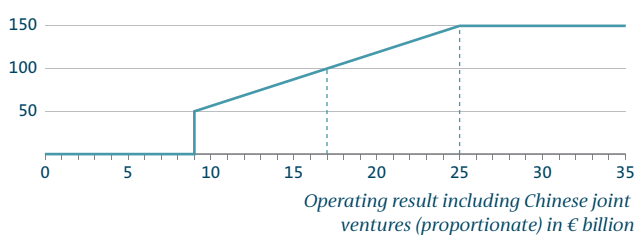
The payment amount for the annual bonus is capped at 180% of the target amount for the annual bonus. The cap arises from 150% of the maximum financial target achievement and a performance factor of a maximum of 1.2.

CALCULATION OF THE PAYMENT AMOUNT FOR THE ANNUAL BONUS

TARGET	×	TARGET ACHIEVEMENT	=	ANNUAL BONUS
		Company bonus Operational KPIs (0 – 150% target achievement)	×	Performance factor Multiplier (0.8 – 1.2)
				Payment amount

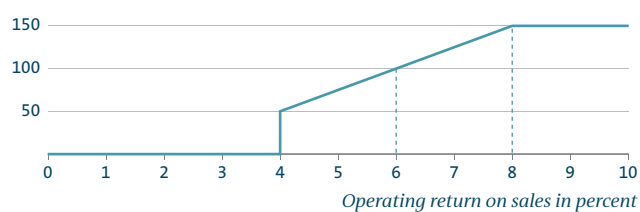
50 PERCENT COMPONENT 1

Target achievement in percent



50 PERCENT COMPONENT 2

Target achievement in percent



COMPONENT 1: OPERATING RESULT INCLUDING CHINESE JOINT VENTURES (PROPORTIONATE)

€ billion	2017
Maximum threshold	25.0
100% level of target	17.0
Minimum threshold	9.0
Actual	18.6
Target achievement (in %)	110

COMPONENT 2: OPERATING RETURN ON SALES

%	2017
Maximum threshold	8.0
100% level of target	6.0
Minimum threshold	4.0
Actual	6.0
Target achievement (in %)	100

Performance share plan – long-term incentive (LTI)

The LTI is granted to the Board of Management in the form of a performance share plan. Each performance period of the performance share plan 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 of the closing prices 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 achievement for the annual earnings per Volkswagen preferred share (EPS – earnings per share per preferred share in €). A prerequisite for this is that a threshold is reached.

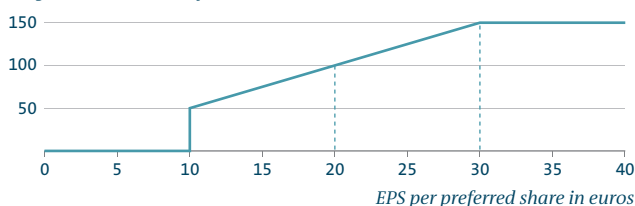
A cash settlement is made at the end of the three-year term of the performance share plan. The payment amount corresponds to the final number of determined performance shares, multiplied by the closing reference price at the end of the three-year period plus a dividend equivalent for the relevant term. The closing reference price is the unweighted average of the closing prices for Volkswagen's preferred shares for the 30 trading days preceding the last day of the three-year performance period.

€	2017
Initial reference price	127.84
Closing reference price	— ¹
Dividend equivalent	2.06

1. Determined at the end of the performance period.

EPS PERFORMANCE MEASUREMENT

Target achievement in percent



PERFORMANCE PERIOD 2017 – 2019

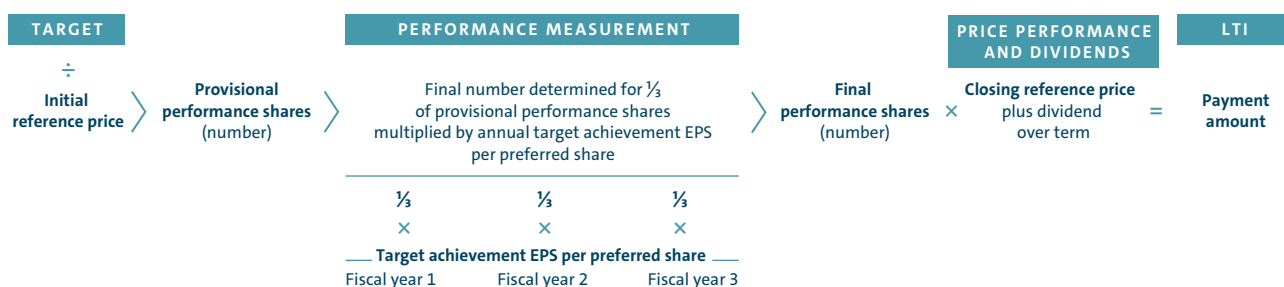
€	2017
Maximum threshold	30.00
100% level of target	20.00
Minimum threshold	10.00
Actual	22.69
Target achievement (in %)	113

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 or the R&D ratio of the last three years is smaller 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. Ms. Werner was appointed as a member of the Board of Management with effect from February 1, 2017.

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 of Management 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.

CALCULATION OF THE PAYMENT AMOUNT FROM THE PERFORMANCE SHARE PLAN



INFORMATION ON THE PERFORMANCE SHARES

€	PERFORMANCE PERIOD 2017 – 2019	
	Number of performance shares allocated at the grant date	Fair value at the grant date
Matthias Müller	29,959	4,309,602
Karlheinz Blessing	14,080	2,025,408
Herbert Diess	14,080	2,048,640
Francisco Javier Garcia Sanz	14,080	1,890,944
Jochem Heizmann	14,080	2,031,040
Andreas Renschler	14,080	1,891,648
Rupert Stadler	14,080	2,025,408
Hiltrud Dorothea Werner	12,907	1,856,672
Frank Witter	14,080	2,025,408
Total	141,426	20,104,770

€	Provision as of Dec. 31, 2017	Intrinsic value as of Dec. 31, 2017	Comprehensive income 2017 arising from performance shares
Matthias Müller	10,201,381	4,728,427	10,201,381
Karlheinz Blessing	5,202,356	2,222,245	5,202,356
Herbert Diess	3,673,623	2,222,245	3,673,623
Francisco Javier Garcia Sanz	5,405,211	2,222,245	5,405,211
Jochem Heizmann	4,102,990	2,222,245	4,102,990
Andreas Renschler	4,747,249	2,222,245	4,747,249
Rupert Stadler	4,698,709	2,222,245	4,698,709
Hiltrud Dorothea Werner	623,526	–	623,526
Frank Witter	5,128,707	2,222,245	5,128,707
Total	43,783,751	20,284,141	43,783,751

The number of performance shares includes the provisional performance shares allocated at the grant date of the performance share plan. The fair value as at the grant date was determined using a recognized valuation technique.

The provision recognized as of December 31, 2017 reflects the obligation to the members of the Board of Management. To determine its amount, the performance shares expected for future performance periods were taken into account in addition to the provisional performance shares determined or allocated for the performance period 2017 – 2019. The intrinsic value was calculated in accordance with IFRS 2 and corresponds to the amount that the members of the Board of Management would have received if they had stepped down on December 31, 2017. Only the nonforfeitable (vested) performance shares at the reporting date are included in the calculation. The intrinsic value was calculated based on the unweighted average share price for the 30 trading days (Xetra closing prices of Volkswagen's preferred shares) preceding December 31, 2017, taking the dividends paid per preferred share during the performance period into account. The net value of all amounts recognized in income for the performance shares in fiscal year 2017 is recorded in comprehensive income 2017 arising from performance shares according to IFRS.

Phantom preferred shares

The phantom preferred shares for the remuneration withheld for 2015 will form part of the Board of Management remuneration until they are paid out in 2019.

Total remuneration cap

In addition to the cap on the individual variable components of the remuneration for the members of the Board of Management, the annual benefits received according to the Code, consisting of basic remuneration and the variable remuneration components (i.e. annual bonus and performance share plan) for one fiscal year, may not exceed an amount of €10,000,000 for the Chairman of the Board of Management and of €5,500,000 for each member of the Board of Management. If the total amount is exceeded, the variable components will be reduced proportionately.

Regular review and adjustment

The Supervisory Board regularly reviews and, if necessary, adjusts the level of the total remuneration cap and the individual targets.

Other agreements

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 ⅔% and orphans' 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%, an orphan's benefit of 10% for half-orphans and an orphan's benefit of 20% for full orphans, based in each case on the former member of the Board of Management's pension.

BENEFITS BASED ON PHANTOM PREFERRED SHARES FROM THE REMUNERATION WITHHELD FOR FISCAL YEAR 2015

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance.

This is being effected by first converting the amount withheld based on the average share price for the 30 trading days preceding April 22, 2016 (initial reference price) into phantom preferred shares of Volkswagen AG with a three-year holding period and, at the same time, defining a target reference price corresponding to 125% of the initial reference price. During the holding period, the phantom preferred shares are entitled to a dividend equivalent in the amount of the dividends paid on real preferred shares. The shares will be reconverted and paid out either when the three-year holding period has expired or – in the event that members retire early from office – at the time that they do so.

To determine the payment amount, the average share price for the 30 trading days preceding the last day of the holding period, i.e. April 22, 2019, or preceding the leaving date will be calculated (closing reference price). The difference between the target reference price and the initial reference price will be deducted from the closing reference price, and the dividends distributed on one real Volkswagen preferred share during the holding period (dividend equivalent) will be added to the closing reference price. The figure thus calculated will be multiplied by the number of phantom preferred shares so as to calculate the amount to be paid to each Board of Management member. This will ensure that –

excluding any dividend equivalents accrued – the amount withheld is only paid out in full if the initial reference price of the preferred share has increased by at least 25%. Otherwise, the amount will be reduced accordingly to a minimum of €0. The amount disbursed may not be more than twice the amount originally withheld. If members of the Board of Management retire from office before the expiry of the holding period, the disbursement amount will be calculated and paid out proportionately based on the date that their contract of service ends.

The number of phantom preferred shares granted on April 22, 2016 to the members of the Board of Management who were in office at that time did not change in fiscal year 2017. The fair value as of December 31, 2017 was determined using a recognized valuation technique. The intrinsic value was calculated in accordance with IFRS 2 and corresponds to the amount that the members of the Board of Management would have received if they had stepped down on December 31, 2017. The intrinsic value was calculated based on the average share price for the 30 trading days (Xetra closing prices of Volkswagen's preferred shares) preceding December 31, 2017, taking the initial reference price and the dividends for the relevant fiscal years into account. "Comprehensive income 2017 arising from phantom preferred shares" according to with IFRSs records the net amount arising from the fair value as of December 31, 2017 and December 31, 2016. "Comprehensive income 2016 arising from phantom preferred shares" in accordance with IFRSs records the net amount withheld (nominal) on the basis of acceptance by the Supervisory Board on April 22, 2016 of the statement made by the members of the Board of Management, and the corresponding fair value as of December 31, 2016.

INFORMATION ON THE PHANTOM PREFERRED SHARES HELD IN 2017

€	Number of phantom shares	Provision Dec. 31, 2017	Provision Dec. 31, 2016	Intrinsic value Dec. 31, 2017	Intrinsic value Dec. 31, 2016	Comprehensive income 2017 arising from phantom preferred shares	Comprehensive income 2016 arising from phantom preferred shares ¹
Matthias Müller	10,583	1,462,126	1,046,032	1,520,036	1,058,194	416,094	–139,880
Herbert Diess	4,317	596,428	426,696	620,051	431,657	169,732	–57,024
Francisco Javier Garcia Sanz	8,633	1,192,718	853,293	1,239,958	863,214	339,425	–114,147
Jochem Heizmann	8,633	1,192,718	853,293	1,239,958	863,214	339,425	–114,147
Andreas Renschler	7,914	1,093,382	782,226	1,136,688	791,321	311,156	–104,594
Rupert Stadler	8,633	1,192,718	853,293	1,239,958	863,214	339,425	–114,147
Frank Witter	1,990	274,934	196,693	285,824	198,980	78,241	–26,356
Total	50,703	7,005,022	5,011,525	7,282,472	5,069,793	1,993,496	–670,296

1. Income in 2016.

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE

€	2017			Total remuneration	2016
	Non-performance-related components	Performance-related component	Long-term incentive component		Total remuneration
Matthias Müller ¹	2,317,735	3,513,207	4,309,602	10,140,544	7,251,929
Karlheinz Blessing	1,610,515	1,557,579	2,025,408	5,193,502	3,334,940
Herbert Diess	1,428,104	1,557,579	2,048,640	5,034,323	3,226,587
Francisco Javier Garcia Sanz	1,560,686	1,557,579	1,890,944	5,009,209	3,215,679
Jochem Heizmann	1,551,145	1,557,579	2,031,040	5,139,764	3,155,508
Christine Hohmann-Dennhardt (Jan. 1, 2016 – Jan. 31, 2017) ^{2,3}	109,361	–	–	109,361	10,051,621
Andreas Renschler	1,576,037	1,557,579	1,891,648	5,025,264	3,223,705
Rupert Stadler	1,419,734	1,557,579	2,025,408	5,002,721	3,050,317
Hiltrud Dorothea Werner (since Feb. 1, 2017)	1,341,819	1,427,781	1,856,672	4,626,272	–
Frank Witter	1,421,980	1,557,579	2,025,408	5,004,967	3,037,327
Total	14,337,116	15,844,041	20,104,770	50,285,927	39,547,612

1 The 2016 single-entity financial statements of Volkswagen AG reported total remuneration of €6,420,151.

2 To compensate for lost entitlements resulting from the change in employer, Ms. Hohmann-Dennhardt received €6.3 million in 2016.

3 Includes top-up amount on minimum remuneration of €3.5 million in 2016; variable remuneration determined by termination agreement.

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The amounts shown as benefits received in the Board of Management remuneration tables in accordance with the Code correspond, in principle, to the amounts paid out for the fiscal year in question.

In the introductory phase of the performance share plan (2017 to 2018), the members of the Board of Management who were Board members as of December 31, 2016 receive advances on the target amount, which in accordance with the Code are reported as benefits for the fiscal year in which the performance shares under the plan were allocated.

The amounts shown as benefits granted in the Board of Management remuneration tables in accordance with the Code are based on 100% of the targets for the annual bonus and on the fair value at the grant date for the performance share plan. Since the members of the Board of Management agreed to the new remuneration on different dates, there is an individual grant date for each Board member and, consequently, a different fair value.

The Board of Management remuneration tables in accordance with the Code, that show the benefits received, do not include any entries for the phantom preferred shares from the amount withheld for fiscal year 2015 because no payments were made to the Board of Management members in fiscal year 2017. The three-year holding period did not expire, nor did any Board members participating in the amount withheld step down in fiscal year 2017. Since the benefits based on phantom preferred shares were first agreed upon after the end of fiscal year 2015, consideration of the impact of these agreements is incorporated into the Board of Management remuneration (benefits granted) tables in accordance with the Code in the column for fiscal year 2016. The revised amount listed there is the difference between the fair value of the phantom preferred shares and the amount withheld on the date they were granted (April 22, 2016).

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

MATTHIAS MÜLLER						
Chairman of the Board of Management						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration	2,125,000	1,584,000	1,584,000	2,125,000	2,125,000	2,125,000
Fringe benefits	192,735	178,651	178,651	192,735	192,735	192,735
Total	2,317,735	1,762,651	1,762,651	2,317,735	2,317,735	2,317,735
One-year performance-related remuneration	3,513,207	1,499,278	1,313,200	3,045,000	0	5,481,000
Multiyear performance-related remuneration	3,830,000	3,990,000	6,352,610	4,309,602	0	7,660,000
LTI (performance share plan 2017 – 2019)	3,830,000	–	–	4,309,602	0	7,660,000
Business performance bonus (two-year assessment period)	–	1,335,000	3,283,000	–	–	–
LTI (four-year assessment period)	–	2,655,000	3,375,000	–	–	–
Phantom shares	–	–	–305,390	–	–	–
Total	9,660,942	7,251,929	9,428,461	9,672,337	2,317,735	15,458,735
Pension expense	612,807	526,589	526,589	612,807	612,807	612,807
Total remuneration	10,273,749	7,778,518	9,955,050	10,285,144	2,930,542	16,071,542

KARLHEINZ BLESSING						
Human Resources and Organization						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration	1,350,000	1,056,000	1,056,000	1,350,000	1,350,000	1,350,000
Fringe benefits	260,515	347,440	347,440	260,515	260,515	260,515
Total	1,610,515	1,403,440	1,403,440	1,610,515	1,610,515	1,610,515
One-year performance-related remuneration	1,557,579	250,500	492,800	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,681,000	2,732,000	2,025,408	0	3,600,000
LTI (performance share plan 2017 – 2019)	1,440,000	–	–	2,025,408	0	3,600,000
Business performance bonus (two-year assessment period)	–	501,000	1,232,000	–	–	–
LTI (four-year assessment period)	–	1,180,000	1,500,000	–	–	–
Total¹	4,608,094	3,334,940	4,628,240	4,985,923	3,760,515	7,640,515
Pension expense	686,413	742,542	742,542	686,413	686,413	686,413
Total remuneration	5,294,507	4,077,482	5,370,782	5,672,336	4,446,928	8,326,928

1 Minimum for 2017 includes a top-up amount on minimum remuneration of €3.5 million.

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

HERBERT DIESS						
Chairman of the Board of Management of Volkswagen Passenger Cars						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration	1,350,000	1,260,000	1,260,000	1,350,000	1,350,000	1,350,000
Fringe benefits	78,104	35,087	35,087	78,104	78,104	78,104
Total	1,428,104	1,295,087	1,295,087	1,428,104	1,428,104	1,428,104
One-year performance-related remuneration	1,557,579	250,500	492,800	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,681,000	2,607,461	2,048,640	0	3,600,000
LTI (performance share plan 2017 – 2019)	1,440,000	–	–	2,048,640	0	3,600,000
Business performance bonus (two-year assessment period)	–	501,000	1,232,000	–	–	–
LTI (four-year assessment period)	–	1,180,000	1,500,000	–	–	–
Phantom shares	–	–	–124,539	–	–	–
Total	4,425,683	3,226,587	4,395,348	4,826,744	1,428,104	7,458,104
Pension expense	814,654	699,856	699,856	814,654	814,654	814,654
Total remuneration	5,240,337	3,926,443	5,095,204	5,641,398	2,242,758	8,272,758

FRANCISCO JAVIER GARCIA SANZ						
Procurement						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration	1,350,000	1,079,009	1,079,009	1,350,000	1,350,000	1,350,000
Fringe benefits	210,686	205,170	205,170	210,686	210,686	210,686
Total	1,560,686	1,284,179	1,284,179	1,560,686	1,560,686	1,560,686
One-year performance-related remuneration	1,557,579	250,500	492,800	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,681,000	2,482,839	1,890,944	0	3,600,000
LTI (performance share plan 2017 – 2019)	1,440,000	–	–	1,890,944	0	3,600,000
Business performance bonus (two-year assessment period)	–	501,000	1,232,000	–	–	–
LTI (four-year assessment period)	–	1,180,000	1,500,000	–	–	–
Phantom shares	–	–	–249,161	–	–	–
Total	4,558,265	3,215,679	4,259,818	4,801,630	1,560,686	7,590,686
Pension expense	889,410	760,864	760,864	889,410	889,410	889,410
Total remuneration	5,447,675	3,976,543	5,020,682	5,691,040	2,450,096	8,480,096

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

JOCHEM HEIZMANN						
China						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration	1,351,278	1,102,017	1,102,017	1,351,278	1,351,278	1,351,278
Fringe benefits	199,867	121,991	121,991	199,867	199,867	199,867
Total	1,551,145	1,224,008	1,224,008	1,551,145	1,551,145	1,551,145
One-year performance-related remuneration	1,557,579	250,500	492,800	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,681,000	2,482,839	2,031,040	0	3,600,000
LTI (performance share plan 2017 – 2019)	1,440,000	–	–	2,031,040	0	3,600,000
Business performance bonus (two-year assessment period)	–	501,000	1,232,000	–	–	–
LTI (four-year assessment period)	–	1,180,000	1,500,000	–	–	–
Phantom shares	–	–	–249,161	–	–	–
Total	4,548,724	3,155,508	4,199,647	4,932,185	1,551,145	7,581,145
Pension expense	–	–	–	–	–	–
Total remuneration	4,548,724	3,155,508	4,199,647	4,932,185	1,551,145	7,581,145

CHRISTINE HOHMANN-DENNHARDT						
Integrity and Legal Affairs						
Joined: January 1, 2016, left: January 31, 2017						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration ¹	88,000	7,346,000	7,346,000	88,000	88,000	88,000
Fringe benefits	21,361	261,621	261,621	21,361	21,361	21,361
Total	109,361	7,607,621	7,607,621	109,361	109,361	109,361
One-year performance-related remuneration	–	0	492,800	–	–	–
Multiyear performance-related remuneration	–	0	2,732,000	–	–	–
Business performance bonus (two-year assessment period)	–	0	1,232,000	–	–	–
LTI (four-year assessment period)	–	0	1,500,000	–	–	–
Other ²	–	2,444,000	–	–	–	–
Total	109,361	10,051,621	10,832,421	109,361	109,361	109,361
Pension expense	54,091	704,657	704,657	54,091	54,091	54,091
Total remuneration	163,452	10,756,278	11,537,078	163,452	163,452	163,452

1 The previous year includes compensation of lost entitlements resulting from the change in employer in the amount of €6.3 million.

2 Includes top-up amount on minimum remuneration of €3.5 million in the previous year; variable remuneration determined by termination agreement.

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

ANDREAS RENSCHLER						
Commercial Vehicles						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration	1,350,000	1,056,000	1,056,000	1,350,000	1,350,000	1,350,000
Fringe benefits	226,037	236,205	236,205	226,037	226,037	226,037
Total	1,576,037	1,292,205	1,292,205	1,576,037	1,576,037	1,576,037
One-year performance-related remuneration	1,557,579	250,500	492,800	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,681,000	2,503,637	1,891,648	0	3,600,000
LTI (performance share plan 2017 – 2019)	1,440,000	–	–	1,891,648	0	3,600,000
Business performance bonus (two-year assessment period)	–	501,000	1,232,000	–	–	–
LTI (four-year assessment period)	–	1,180,000	1,500,000	–	–	–
Phantom shares	–	–	–228,363	–	–	–
Total	4,573,616	3,223,705	4,288,642	4,817,685	1,576,037	7,606,037
Pension expense	5,361,551	4,660,006	4,660,006	5,361,551	5,361,551	5,361,551
Total remuneration	9,935,167	7,883,711	8,948,648	10,179,236	6,937,588	12,967,588

RUPERT STADLER						
Chairman of the Board of Management of AUDI AG						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration	1,350,000	1,056,000	1,056,000	1,350,000	1,350,000	1,350,000
Fringe benefits	69,734	62,817	62,817	69,734	69,734	69,734
Total	1,419,734	1,118,817	1,118,817	1,419,734	1,419,734	1,419,734
One-year performance-related remuneration	1,557,579	250,500	492,800	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,681,000	2,482,839	2,025,408	0	3,600,000
LTI (performance share plan 2017 – 2019)	1,440,000	–	–	2,025,408	0	3,600,000
Business performance bonus (two-year assessment period)	–	501,000	1,232,000	–	–	–
LTI (four-year assessment period)	–	1,180,000	1,500,000	–	–	–
Phantom shares	–	–	–249,161	–	–	–
Total	4,417,313	3,050,317	4,094,456	4,795,142	1,419,734	7,449,734
Pension expense	829,730	665,679	665,679	829,730	829,730	829,730
Total remuneration	5,247,043	3,715,996	4,760,135	5,624,872	2,249,464	8,279,464

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

HILTRUD DOROTHEA WERNER						
Integrity and Legal Affairs						
Joined: February 1, 2017						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration	1,237,500	–	–	1,237,500	1,237,500	1,237,500
Fringe benefits	104,319	–	–	104,319	104,319	104,319
Total	1,341,819	–	–	1,341,819	1,341,819	1,341,819
One-year performance-related remuneration	1,427,781	–	–	1,237,500	0	2,227,500
Multiyear performance-related remuneration	–	–	–	1,856,672	0	3,300,000
LTI (performance share plan 2017 – 2019)	–	–	–	1,856,672	0	3,300,000
Total	2,769,600	–	–	4,435,991	1,341,819	6,869,319
Pension expense	930,689	–	–	930,689	930,689	930,689
Total remuneration	3,700,289	–	–	5,366,680	2,272,508	7,800,008

FRANK WITTER						
Finance and Controlling						
€	Benefits received		Benefits granted			
	2017	2016	2016	2017	2017 (minimum)	2017 (maximum)
Fixed remuneration	1,350,000	1,056,000	1,056,000	1,350,000	1,350,000	1,350,000
Fringe benefits	71,980	49,827	49,827	71,980	71,980	71,980
Total	1,421,980	1,105,827	1,105,827	1,421,980	1,421,980	1,421,980
One-year performance-related remuneration	1,557,579	250,500	492,800	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,681,000	2,674,522	2,025,408	0	3,600,000
LTI (performance share plan 2017 – 2019)	1,440,000	–	–	2,025,408	0	3,600,000
Business performance bonus (two-year assessment period)	–	501,000	1,232,000	–	–	–
LTI (four-year assessment period)	–	1,180,000	1,500,000	–	–	–
Phantom shares	–	–	–57,478	–	–	–
Total	4,419,559	3,037,327	4,273,149	4,797,388	1,421,980	7,451,980
Pension expense	692,743	587,216	587,216	692,743	692,743	692,743
Total remuneration	5,112,302	3,624,543	4,860,365	5,490,131	2,114,723	8,144,723

POST-EMPLOYMENT BENEFITS

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. As a departure from this principle, Mr. Renschler is able to start drawing his pension when he reaches the age of 62.

The retirement pension is calculated as a percentage of the basic level of remuneration. Starting at 50%, the individual percentage increases by two percentage points for each year of service. In the case of the Chairman of the Board of Management, increases of 4.5 percentage points as of March 1, 2017, 4.5 percentage points as of March 1, 2018 and 5.0 percentage points as of March 1, 2019 are provided for. In specific cases, credit is given for previous employment periods and retirement pensions earned. In a departure from this rule, a retirement pension entitlement of 62% of the basic level of remuneration was set for Mr. Renschler on his appointment. The Supervisory Board has capped the percentage at 70%. These benefits are not broken down any further into performance-related components and long-term incentive components. Mr. Garcia Sanz and Mr. Heizmann reached a retirement pension entitlement of 70% of their basic level of remuneration at the end of 2017 the entitlement for Mr. Renschler and Mr. Stadler is 66%. Mr. Müller had a retirement pension entitlement of 57.5% of the basic level of remuneration as of the end of 2017. The increase in the basic remuneration as a consequence of the new remuneration system in place from fiscal year 2017 is therefore not taken into account for the incumbent members of the Board of Management of Volkswagen AG with an existing occupational pension based on final remuneration.

With regard to the existing defined contribution pension schemes for the current members of the Board of Management of Volkswagen Aktiengesellschaft, the basis used to determine the pension contributions shall in each case be increased by the difference between the previous basic remuneration and the newly determined basic remuneration (at an unchanged contribution rate of 50% of the basic remuneration).

For future members of the Board of Management with a defined contribution pension scheme, a contribution rate of 40% of the basic remuneration will be credited to the pension account.

Ms. Hohmann-Dennhardt and Ms. Werner as well as Mr. Blessing, Mr. Diess and Mr. Witter received a defined contribution plan, which is based in principle on a works agreement that also applies to the employees of Volkswagen AG covered by collective agreements and includes retirement, invalidity and surviving dependents' benefits. A pension con-

tribution in the amount of 50% of the basic level of remuneration is paid to Volkswagen Pension Trust e.V. at the end of the calendar year for each year they are appointed to the Board of Management. The annual pension contributions result in modules of what is, in principle, a lifelong pension in line with the arrangements that also apply to employees covered by collective agreements. The individual pension modules vest immediately upon payment to Volkswagen Pension Trust e.V. Instead of a lifelong pension, benefits can optionally be paid out as a lump sum or in installments when the beneficiary reaches retirement age – currently 63 at the earliest. Volkswagen AG has assumed responsibility for pension entitlements due to Mr. Witter from the time before his service with the Company, although these cannot be claimed before he reaches the age of 60.

On December 31, 2017, the pension obligations for members of the Board of Management in accordance with IAS 19 amounted to €125.4 (113.5) million. €12.9 (11.7) million was added to the provision in the reporting period in accordance with IAS 19. Other benefits such as surviving dependents' pensions and the use of company cars are also factored into the measurement of pension provisions. The pension obligations measured in accordance with German GAAP amounted to €92.4 (77.2) million. Measured in accordance with German GAAP, €15.8 (7.0) million was added to the provision in the reporting period. Current pensions are index-linked in accordance with the index-linking of the highest collectively agreed salary insofar as the application of section 16 of the Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG – German Company Pension Act) does not lead to a larger increase.

Retired members of the Board of Management and their surviving dependents received €19.9 (11.1) million, or €19.9 (11.1) million measured in accordance with German GAAP, in the past year. Obligations for pensions for this group of persons measured in accordance with IAS 19 amounted to €269.0 (270.0) million, or €214.9 (205.6) million measured in accordance with German GAAP.

The following rule applies to Board of Management contracts entered into for the first term of office before August 5, 2009: the retirement pension to be granted after a member of the Board of Management leaves the Company is payable immediately if the member's contract is not renewed by the Company, and in other cases when the member reaches the age of 63. Any remuneration received from other sources until the age of 63 is deductible from the benefit entitlement up to a certain fixed amount.

The following general rule applies to contracts for the first term of office of members of the Board of Management entered into after August 5, 2009: the retirement pension to be granted after a member of the Board of Management leaves the Company is payable when the member reaches the age of 63.

EARLY TERMINATION BENEFITS

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 two years' remuneration, in accordance with the recommendation in section 4.2.3(4) of the Code (severance payment cap). 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.

The members of the Board of Management are also entitled to a pension and to a surviving dependents' pension as well as the use of company cars for the period in which they receive their pension in the event of early termination of their service on the Board of Management.

Please refer to notes 43 and 46 to the consolidated financial statements and the notes to the annual financial statements of Volkswagen AG for more detailed individual disclosures relating to members of the Board of Management who left the Company in fiscal year 2017.

PENSIONS OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN 2017 (PRIOR-YEAR FIGURES IN BRACKETS)

€	Pension expense	Present value as of December 31 ¹
Matthias Müller	612,807	30,065,068
	(526,589)	(27,254,749)
Karlheinz Blessing	686,413	1,623,275
	(742,542)	(742,542)
Herbert Diess	814,654	2,169,255
	(699,856)	(1,298,635)
Francisco Javier Garcia Sanz	889,410	22,544,823
	(760,864)	(21,752,138)
Jochem Heizmann	–	19,254,055
	–	(19,836,613)
Christine Hohmann-Dennhardt (Jan. 1, 2016 – Jan. 31, 2017)	54,091	–
	(704,657)	(704,657)
Andreas Renschler	5,361,551	16,278,653
	(4,660,006)	(11,231,016)
Rupert Stadler	829,730	22,262,176
	(665,679)	(21,530,818)
Hiltrud Dorothea Werner (since Feb. 1, 2017)	930,689	975,823
	–	–
Frank Witter	692,743	10,214,190
	(587,216)	(9,100,545)
Total	10,872,088	125,387,318
	(9,347,409)	(113,451,713)

1 The amount is reported in the total amount for defined benefit plans reported in the balance sheet (see note 29 to the consolidated financial statements).

SUPERVISORY BOARD REMUNERATION

Following its regular review of Supervisory Board remuneration, the Supervisory Board proposed a reorganization of the system of Supervisory Board remuneration to the 2017 Annual General Meeting, which was approved on May 10, 2017 with 99.98% of the votes cast. The remuneration of the members of the Supervisory Board of Volkswagen AG no longer contains any performance-related remuneration components but consists entirely of non-performance-related remuneration components. This is in line with the trend in supervisory board remuneration at DAX-listed companies, most of whose supervisory board remuneration now comprises fixed remuneration only. Compared with other large listed companies in Germany, the amount of the proposed remuneration components is also standard for the market and is appropriate. This was confirmed by a renowned, external remuneration consultant who assisted the Supervisory Board in reorganizing the remuneration system for members of the Supervisory Board. Remuneration for supervisory board work at subsidiaries continues in part to comprise a mix of non-performance-related and performance-related components.

The following applies to members of the Supervisory Board of Volkswagen AG with retroactive effect from January 1, 2017:

- › Members of the Supervisory Board receive fixed remuneration of €100,000 per fiscal year.
- › The Chairman of the Supervisory Board receives fixed remuneration of €300,000, while the Deputy Chairman receives remuneration of €200,000.

- › For their work in the Supervisory Board committees, the members of the Supervisory Board also receive additional fixed remuneration of €50,000 per committee per fiscal year provided the committee met at least once per year for the performance of its duties. Memberships of the Nomination and Mediation Committees established in accordance with section 27(3) of the Mitbestimmungsgesetz (German Codetermination Act) are not taken into account.
- › Committee chairpersons receive double this amount, while deputy chairpersons receive one-and-a-half times the committee remuneration listed above.
- › Membership of no more than two committees is taken into account, whereby the two functions with the highest remuneration are counted if this maximum number is exceeded.
- › Supervisory Board members who belonged to the Supervisory Board or one of its committees for only part of the fiscal year receive proportionate remuneration.
- › Supervisory Board members receive an attendance fee of €1,000 for attending a meeting of the Supervisory Board or one of its committees; if several meetings are held on one day, the attendance fee is paid only once.
- › The remuneration and attendance fees are each payable after the end of the fiscal year.

In fiscal year 2017, the members of the Supervisory Board received €3,786,839 (5,396,565). Of this figure, €2,000,000 related to the work of the Supervisory Board and €836,389 related to the work in the committees.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

	FIXED REMUNERA- TION	WORK IN THE COMMITTEES	OTHER ¹	TOTAL	WAIVER FOR 2016	TOTAL
				2017		2016
Hans Dieter Pötsch	–	–	–	–	65,500	585,800
Jörg Hofmann ²	200,000	75,000	20,000	295,000	31,333	330,333
Hussain Ali Al-Abdulla	100,000	–	7,000	107,000	60,167	170,167
Hessa Sultan Al-Jaber	100,000	–	11,000	111,000	31,504	89,865
Bernd Althusmann ³ (since Dec. 14, 2017)	4,583	–	–	4,583	–	–
Birgit Dietze ²	100,000	50,000	13,000	163,000	47,807	143,252
Annika Falkengren	100,000	38,750	12,000	150,750	84,250	249,250
Hans-Peter Fischer ²	100,000	–	9,000	109,000	60,167	171,167
Uwe Fritsch ² (until May 10, 2017)	35,972	17,986	9,000	62,958	70,629	214,990
Uwe Hück ²	100,000	–	80,500	180,500	60,167	234,667
Johan Järvklö ²	100,000	–	10,000	110,000	60,167	170,167
Ulrike Jakob ² (since May 10, 2017)	64,028	–	4,000	68,028	–	–
Louise Kiesling	100,000	–	11,000	111,000	60,167	171,167
Olaf Lies ³ (until Dec. 14, 2017)	95,417	47,639	20,000	163,056	80,250	250,250
Peter Mosch ²	100,000	91,007	102,100	293,107	61,250	301,850
Bertina Murkovic ² (since May 10, 2017)	64,028	32,014	6,000	102,042	–	–
Bernd Osterloh ²	100,000	98,021	28,000	226,021	19,250	251,250
Hans Michel Piëch	100,000	–	150,600	250,600	60,167	266,736
Ferdinand Oliver Porsche	100,000	150,000	147,100	397,100	54,333	417,933
Wolfgang Porsche	100,000	150,000	161,400	411,400	49,333	441,233
Athanasios Stimoniaris ² (since May 10, 2017)	64,028	–	106,750	170,778	–	–
Stephan Weil ³	100,000	50,000	24,000	174,000	75,250	250,250
Stephan Wolf ² (until May 10, 2017)	35,972	17,986	11,000	64,958	75,250	251,250
Thomas Zwiebler ² (until May 10, 2017)	35,972	17,986	7,000	60,958	81,250	251,250
Members of the Supervisory Board who retired in the previous year	–	–	–	–	–	183,739
Total	2,000,000	836,389	950,450	3,786,839	1,188,190	5,396,566

1 Attendance fees, membership of other Group bodies (non-performance-related: €257,000; performance-related: €270,450).

2 These employee representatives have stated that they will transfer their Supervisory Board remuneration to the Hans Böckler Foundation in accordance with the guidelines issued by the German Confederation of Trade Unions (DGB).

3 Under section 5(3) of the Niedersächsisches Ministergesetz (Act Governing Ministers of the State of Lower Saxony), these members of the Supervisory Board are obliged to transfer their Supervisory Board remuneration to the State of Lower Saxony as soon as and to the extent that it exceeds €6,200 per annum. Remuneration is defined for this purpose as Supervisory Board remuneration and attendance fees exceeding the amount of €200.

The remuneration disclosed for members of the Supervisory Board for 2016 shows the amounts determined on the basis of the old system of Supervisory Board remuneration. The members of the Supervisory Board declared to the Management Board that they waive the portion of their remuneration for fiscal year 2016 that exceeds the amount that would have resulted for fiscal year 2016 from implementing the system of Supervisory Board remuneration resolved by the Annual General Meeting on May 10, 2017 with retroactive effect from January 1, 2017. The total amount waived for 2016 by the members of the Supervisory Board is €1,188,190.

Mr. Pötsch additionally waived an amount of €115,700.00 of his variable remuneration for fiscal year 2016 and waived his remuneration for fiscal year 2017 in full. The reason for this waiver is the agreement made in connection with Mr. Pötsch's transfer from the Board of Management to the Supervisory Board as of October 8, 2015, it had been agreed to deduct the amount of Supervisory Board remuneration received up to December 31, 2017 from the compensation payment for his Board of Management remuneration to which he would have been entitled for the period from October 8, 2015 to December 31, 2017.

Executive Bodies

Members of the Board of Management and their appointments

Appointments: as of December 31, 2017 or the leaving date from the Board of Management of Volkswagen AG

MATTHIAS MÜLLER (64)

Chairman (since September 26, 2015)

March 1, 2015¹

Member of the Executive Board of

Porsche Automobil Holding SE

October 13, 2010¹

DR. RER. SOC. KARLHEINZ BLESSING (60)

Human Resources and Organization

January 1, 2016¹

Appointments:

○ Wolfsburg AG, Wolfsburg

DR.-ING. HERBERT DIESS (59)

Chairman of the Brand Board of Management

of Volkswagen Passenger Cars

July 1, 2015¹

Appointments:

○ Infineon Technologies AG, Neubiberg

DR. RER. POL. H.C.

FRANCISCO JAVIER GARCIA SANZ (60)

Procurement

July 1, 2001¹

Appointments:

○ Hochtief AG, Essen

⊙ Criteria CaixaHolding S.A., Barcelona

PROF. DR. RER. POL. DR.-ING. E.H.

JOCHEM HEIZMANN (65)

China

January 11, 2007¹

Appointments:

○ Lufthansa Technik AG, Hamburg

DR. JUR. CHRISTINE HOHMANN-DENNHARDT (67)

Integrity and Legal Affairs

January 1, 2016 – January 31, 2017¹

Appointments (as of January 31, 2017):

⊙ Messe Frankfurt GmbH, Frankfurt am Main

ANDREAS RENSCHLER (59)

Commercial Vehicles

February 1, 2015¹

Appointments:

○ Deutsche Messe AG, Hanover

PROF. RUPERT STADLER (54)

Chairman of the Board of Management of AUDI AG

January 1, 2010¹

Appointments:

○ FC Bayern München AG, Munich

HILTRUD DOROTHEA WERNER (51)

Integrity and Legal Affairs

February 1, 2017¹

FRANK WITTER (58)

Finance and Controlling

October 7, 2015¹

As part of their duty to manage and supervise the Group's business, the members of the Board of Management hold other offices on the supervisory boards of consolidated Group companies and other significant investees.

○ Membership of statutory supervisory boards in Germany.
⊙ Comparable appointments in Germany and abroad.

¹ Beginning or period of membership of the Board of Management.

Members of the Supervisory Board and their appointments

Appointments: as of December 31, 2017 or the leaving date from the Supervisory Board of Volkswagen AG

HANS DIETER PÖTSCH (66)

Chairman (since October 7, 2015)

Chairman of the Executive Board and

Chief Financial Officer of Porsche Automobil Holding SE
October 7, 2015¹

Appointments:

- AUDI AG, Ingolstadt
- Autostadt GmbH, Wolfsburg (Chairman)
- Bertelsmann Management SE, Gütersloh
- Bertelsmann SE & Co. KGaA, Gütersloh
- Dr. Ing. h.c. F. Porsche AG, Stuttgart
- Wolfsburg AG, Wolfsburg
- Porsche Austria Gesellschaft m.b.H., Salzburg (Chairman)
- Porsche Holding Gesellschaft m.b.H., Salzburg (Chairman)
- Porsche Retail GmbH, Salzburg (Chairman)
- VfL Wolfsburg-Fußball GmbH, Wolfsburg (Deputy Chairman)
- Volkswagen Truck & Bus GmbH, Braunschweig

JÖRG HOFMANN (62)

Deputy Chairman (since November 20, 2015)

First Chairman of IG Metall
November 20, 2015¹

Appointments:

- Robert Bosch GmbH, Stuttgart

DR. JUR. KLAUS LIESEN (86)

July 2, 1987 – May 3, 2006¹

Honorary Chairman of the Supervisory Board of Volkswagen AG (May 3, 2006 – March 30, 2017)

Dr. Liesen died on March 30, 2017.

DR. HUSSAIN ALI AL-ABDULLA (60)

Minister of State

April 22, 2010¹

Appointments:

- Gulf Investment Corporation, Safat/Kuwait
- Kirnaf Finance, Riyadh (Chairman)
- Masraf Al Rayan, Doha (Chairman)
- Qatar Holding, Doha
- Qatar Investment Authority, Doha

DR. HESSA SULTAN AL-JABER (58)

Minister of State

June 22, 2016¹

Appointments:

- Droobi Health Technology, Doha
- Malomatia, Doha
- Qatar Satellite Company, Doha
- Trio Investment, Doha

DR. BERND ALTHUSMANN (51)

Minister of Economic Affairs, Labor, Transport and Digitalization for the Federal State of Lower Saxony
December 14, 2017¹

Appointments:

- Deutsche Messe AG, Hanover
- Container Terminal Wilhelmshaven JadeWeserPort-Marketing GmbH & Co. KG, Wilhelmshaven
- JadeWeserPort Realisierungs GmbH & Co. KG, Wilhelmshaven
- JadeWeserPort Realisierungs-Beteiligungs GmbH, Wilhelmshaven
- Niedersachsen Ports GmbH & Co. KG, Oldenburg (Chairman)

BIRGIT DIETZE (44)

Secretary to the Board of IG Metall

June 1, 2016¹

ANNIKA FALKENGREN (55)

Managing Partner of

Compagnie Lombard Odier SCmA
May 3, 2011 – February 5, 2018¹

Appointments (as of February 5, 2018):

- FAM AB, Stockholm

DR. JUR. HANS-PETER FISCHER (58)

Chairman of the Board of Management of Volkswagen Management Association
January 1, 2013¹

Appointments:

- Volkswagen Pension Trust e.V., Wolfsburg

UWE FRITSCH (61)

Chairman of the Works Council of the Volkswagen AG Braunschweig plant

April 19, 2012 – May 10, 2017¹

Appointments (as of May 10, 2017):

- Eintracht Braunschweig GmbH & Co KGaA, Braunschweig
- Basketball Löwen Braunschweig GmbH, Braunschweig

MARIANNE HEISS (45)

Chief Financial Officer of BBDO Group Germany GmbH, Düsseldorf

February 14, 2018¹

○ Membership of statutory supervisory boards in Germany.
○ Comparable appointments in Germany and abroad.

¹ Beginning or period of membership of the Supervisory Board.

UWE HÜCK (55)

Chairman of the General and Group Works Councils of
Dr. Ing. h.c. F. Porsche AG
July 1, 2015¹

Appointments:

- Dr. Ing. h.c. F. Porsche AG, Stuttgart
(Deputy Chairman)

JOHAN JÄRVKLO (44)

Chairman of IF Metall at Scania AB
November 22, 2015¹

Appointments:

- ⊙ Scania CV AB, Södertälje
- ⊙ Volkswagen Truck & Bus GmbH, Braunschweig

ULRIKE JAKOB (57)

Deputy Chairwoman of the Works Council of
Volkswagen AG, Kassel plant
May 10, 2017¹

DR. LOUISE KIESLING (60)

Designer and entrepreneur
April 30, 2015¹

OLAF LIES (50)

February 19, 2013 – December 14, 2017¹

Appointments (as of December 14, 2017):

- Deutsche Messe AG, Hanover
- ⊙ Container Terminal Wilhelmshaven JadeWeserPort-Marketing GmbH & Co. KG, Wilhelmshaven
- ⊙ Demografieagentur für die niedersächsische Wirtschaft GmbH, Hanover (Chairman)
- ⊙ JadeWeserPort Realisierungs GmbH & Co. KG, Wilhelmshaven
- ⊙ JadeWeserPort Realisierungs-Beteiligungs GmbH, Wilhelmshaven

PETER MOSCH (45)

Chairman of the General Works Council of AUDI AG
January 18, 2006¹

Appointments:

- AUDI AG, Ingolstadt
- Audi Pensionskasse – Altersversorgung der AUTO UNION GmbH, VVaG, Ingolstadt

BERTINA MURKOVIC (60)

Chairwoman of the Works Council of
Volkswagen Commercial Vehicles
May 10, 2017¹

BERND OSTERLOH (61)

Chairman of the General and Group Works Councils of
Volkswagen AG
January 1, 2005¹

Appointments:

- Autostadt GmbH, Wolfsburg
- Wolfsburg AG, Wolfsburg
- ⊙ Allianz für die Region GmbH, Braunschweig
- ⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
- ⊙ SEAT, S.A., Martorell
- ⊙ ŠKODA Auto a.s., Mladá Boleslav
- ⊙ VfL Wolfsburg-Fußball GmbH, Wolfsburg
- ⊙ Volkswagen Immobilien GmbH, Wolfsburg
- ⊙ Volkswagen Truck & Bus GmbH, Braunschweig

DR. JUR. HANS MICHEL PIÉCH (75)

Lawyer in private practice
August 7, 2009¹

Appointments:

- AUDI AG, Ingolstadt
- Dr. Ing. h.c. F. Porsche AG, Stuttgart
- Porsche Automobil Holding SE, Stuttgart
(Deputy Chairman)
- ⊙ Porsche Cars Great Britain Ltd., Reading
- ⊙ Porsche Cars North America Inc., Atlanta
- ⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
- ⊙ Porsche Ibérica S.A., Madrid
- ⊙ Porsche Italia S.p.A., Padua
- ⊙ Schmittenhöhebahn AG, Zell am See
- ⊙ Volksoper Wien GmbH, Vienna

DR. JUR. FERDINAND OLIVER PORSCHE (56)

Member of the Board of Management of Familie
Porsche AG Beteiligungsgesellschaft
August 7, 2009¹

Appointments:

- AUDI AG, Ingolstadt
- Dr. Ing. h.c. F. Porsche AG, Stuttgart
- Porsche Automobil Holding SE, Stuttgart
- ⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
- ⊙ Porsche Lizenz- und
Handelsgesellschaft mbH & Co. KG, Ludwigsburg
- ⊙ Volkswagen Truck & Bus GmbH, Braunschweig

DR. RER. COMM. WOLFGANG PORSCHE (74)

Chairman of the Supervisory Board of
Porsche Automobil Holding SE;
Chairman of the Supervisory Board of
Dr. Ing. h.c. F. Porsche AG
April 24, 2008¹

Appointments:

- AUDI AG, Ingolstadt
- Dr. Ing. h.c. F. Porsche AG, Stuttgart (Chairman)
- Porsche Automobil Holding SE, Stuttgart
(Chairman)
- ⊙ Familie Porsche AG Beteiligungsgesellschaft,
Salzburg (Chairman)
- ⊙ Porsche Cars Great Britain Ltd., Reading
- ⊙ Porsche Cars North America Inc., Atlanta
- ⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
- ⊙ Porsche Ibérica S.A., Madrid
- ⊙ Porsche Italia S.p.A., Padua
- ⊙ Schmittenhöhebahn AG, Zell am See

○ Membership of statutory supervisory boards in Germany.
⊙ Comparable appointments in Germany and abroad.

¹ Beginning or period of membership of the Supervisory Board.

ATHANASIOS STIMONIARIS (46)

Chairman of the Works Council and of the
General Works Council of MAN Truck & Bus AG and
Chairman of the Group Works Council of MAN SE
and of the SE Works Council
May 10, 2017¹

Appointments:

- MAN SE, Munich
- MAN Truck & Bus AG, Munich (Deputy Chairman)
- Rheinmetall MAN Military Vehicles GmbH, Munich
- ⊙ Volkswagen Truck & Bus GmbH, Braunschweig

STEPHAN WEIL (59)

Minister-President of the Federal State of
Lower Saxony
February 19, 2013¹

STEPHAN WOLF (51)

January 1, 2013 – May 10, 2017¹

Appointments (as of May 10, 2017):

- Volkswagen Financial Services AG, Braunschweig
- Wolfsburg AG, Wolfsburg
- ⊙ Volkswagen Pension Trust e.V., Wolfsburg

THOMAS ZWIEBLER (52)

May 15, 2010 – May 10, 2017¹

COMMITTEES OF THE SUPERVISORY BOARD**AS OF DECEMBER 31, 2017****Members of the Executive Committee**

Hans Dieter Pötsch (Chairman)
Jörg Hofmann (Deputy Chairman)
Peter Mosch
Bernd Osterloh
Dr. Wolfgang Porsche
Stephan Weil

Members of the Mediation Committee

established in accordance with section 27(3) of
the Mitbestimmungsgesetz (German
Codetermination Act)

Hans Dieter Pötsch (Chairman)
Jörg Hofmann (Deputy Chairman)
Bernd Osterloh
Stephan Weil

Members of the Audit Committee

Dr. Ferdinand Oliver Porsche (Chairman)
Bernd Osterloh (Deputy Chairman)
Birgit Dietze
n.n.

Members of the Nomination Committee

Hans Dieter Pötsch (Chairman)
Dr. Wolfgang Porsche
Stephan Weil

Special Committee on Diesel Engines

Dr. Wolfgang Porsche (Chairman)
Peter Mosch
Bertina Murkovic
Bernd Osterloh
Dr. Ferdinand Oliver Porsche
n.n.

○ Membership of statutory supervisory boards in Germany.
⊙ Comparable appointments in Germany and abroad.

1 Beginning or period of membership of the Supervisory Board.

Disclosures Required Under Takeover Law

This section contains the Volkswagen Group's disclosures relating to takeover law required by sections 289(4) and 315(4) of the HGB.

CAPITAL STRUCTURE

Volkswagen AG's share capital amounted to €1,283,315,873.28 (€1,283,315,873.28) on 31 December, 2017. It was composed of 295,089,818 ordinary shares and 206,205,445 preferred shares. Each share conveys a notional interest of €2.56 in the share capital.

SHAREHOLDER RIGHTS AND OBLIGATIONS

The shares convey pecuniary and administrative rights. The pecuniary rights include in particular the shareholders' right to participate in profits (section 58(4) of the Aktiengesetz (AktG – German Stock Corporation Act)), the right to participate in liquidation proceeds (section 271 of the AktG) and preemptive rights to shares in the event of capital increases (section 186 of the AktG) that can be disappplied by the Annual General Meeting with the approval of the Special Meeting of Preferred Shareholders, where appropriate. Administrative rights include the right to attend the Annual General Meeting and the right to speak there, to ask questions, to propose motions and to exercise voting rights. Shareholders can enforce these rights in particular through actions seeking disclosure and actions for avoidance.

Each ordinary share grants the holder one vote at the Annual General Meeting. The Annual General Meeting elects shareholder representatives to the Supervisory Board and elects the auditors; in particular, it resolves on the appropriation of net profit, formally approves the actions of the Board of Management and the Supervisory Board, and resolves on amendments to the Articles of Association of Volkswagen AG, capitalization measures and authorizations to purchase treasury shares; if required, it also resolves on the performance of a special audit, the removal before the end of their term of office of Supervisory Board members elected at the Annual General Meeting and the winding-up of the Company.

Preferred shareholders generally have no voting rights. However, in the exceptional case that they are granted voting rights by law (for example, when preferred share dividends were not paid in one year and not compensated for in full in the following year), each preferred share also grants the holder one vote at the Annual General Meeting. Furthermore, preferred shares entitle the holder to a €0.06 higher dividend than ordinary shares (further details on this right to preferred and additional dividends are specified in Article 27(2) of the Articles of Association of Volkswagen AG).

The Gesetz über die Überführung der Anteilsrechte an der Volkswagenwerk Gesellschaft mit beschränkter Haftung in private Hand (VW-Gesetz – Act on the Privatization of Shares of Volkswagenwerk Gesellschaft mit beschränkter Haftung) of July 21, 1960, as amended on July 30, 2009, includes various provisions in derogation of the German Stock Corporation Act, for example on the exercise of voting rights by proxy (section 3 of the VW-Gesetz) and on majority voting requirements at the Annual General Meeting (section 4(3) of the VW-Gesetz).

In accordance with the Volkswagen AG Articles of Association (Article 11(1)), 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. In addition, resolutions by the Annual General Meeting that are required by law to be adopted by a qualified majority require a majority of more than four-fifths of the share capital of the Company represented when the resolution is adopted (Article 25(2)), regardless of the provisions of the VW-Gesetz.

SHAREHOLDINGS EXCEEDING 10% OF VOTING RIGHTS

Shareholdings in Volkswagen AG that exceed 10% of voting rights are shown in the notes to the annual financial statements of Volkswagen AG, which are available online at www.volkswagenag.com/ir. The current notifications of changes in voting rights in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) are also published on this website.

COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board consists of 20 members, half of whom are shareholder representatives. In accordance with Article 11(1) of the Articles of Association of Volkswagen AG, the State of Lower Saxony is entitled to appoint two of these shareholder representatives for as long as it directly or indirectly holds at least 15% of the Company's ordinary shares. The remaining shareholder representatives on the Supervisory Board are elected by the Annual General Meeting.

The other half of the Supervisory Board consists of employee representatives elected by the employees in accordance with the Mitbestimmungsgesetz (MitbestG – German Codetermination Act). A total of seven of these employee representatives are Company employees elected by the workforce; the other three employee representatives are trade union representatives elected by the workforce.

The Chairman of the Supervisory Board is generally a shareholder representative elected by the other members of the Supervisory Board. In the event that a Supervisory Board vote is tied, the Chairman of the Supervisory Board has a casting vote in accordance with the MitbestG.

The goals for the composition of the Supervisory Board are described on page 61 of the Corporate Governance Report. Information about the composition of the Supervisory Board at the end of the reporting period can be found on pages 85 to 87 of this annual report.

STATUTORY REQUIREMENTS AND REQUIREMENTS OF THE ARTICLES OF ASSOCIATION WITH REGARD TO THE APPOINTMENT AND REMOVAL OF BOARD OF MANAGEMENT MEMBERS AND TO AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and removal of members of the Board of Management are governed by sections 84 and 85 of the AktG, which specify that members of the Board of Management are appointed by the Supervisory Board for a maximum of five years. Board of Management members may be reappointed or have their term of office extended for a maximum of five years in each case. In addition, Article 6 of the Articles of Association of Volkswagen AG states that the number of Board of Management members is stipulated by the Supervisory Board and that the Board of Management must consist of at least three persons.

The Annual General Meeting resolves amendments to the Articles of Association (section 119(1) of the AktG). In accordance with section 4(3) of the VW-Gesetz as amended on July 30, 2009 and Article 25(2) of the Articles of Association of Volkswagen AG, Annual General Meeting resolutions to amend the Articles of Association require a majority of more than four-fifths of the share capital represented.

POWERS OF THE BOARD OF MANAGEMENT, IN PARTICULAR CONCERNING THE ISSUE OF NEW SHARES AND THE REPURCHASE OF TREASURY SHARES

According to German stock corporation law, the Annual General Meeting can authorize the Board of Management, for a maximum period of five years, to issue new shares. It can also authorize the Board of Management, for a maximum period of five years, to issue bonds on the basis of which new shares are to be issued. The Annual General Meeting also decides the extent to which shareholders have preemptive rights to the new shares or bonds. The maximum amount of authorized share capital or contingent capital available for these purposes is determined by Article 4 of the Articles of Association of Volkswagen AG, as amended.

The Annual General Meeting on April 19, 2012 resolved to authorize the Board of Management, with the consent of the Supervisory Board, to increase the Company's share capital by a total of up to €110.0 million (corresponding to approximately 43 million shares) on one or more occasions up to April 18, 2017 by issuing new ordinary and/or nonvoting preferred bearer shares – including with shareholders' preemptive rights disapplying – against cash and/or noncash contributions. This authorization was partially exercised in June 2014 by way of a capital increase through the issuance of 10,471,204 new preferred shares from authorized capital against cash contributions, while disapplying shareholders' preemptive rights. This increased the share capital by €26.8 million and generated gross proceeds of €2.0 billion.

At the Annual General Meeting on May 5, 2015, a resolution was passed authorizing the Board of Management, with the consent of the Supervisory Board, to increase the Company's share capital by a total of up to €179.2 million (corresponding to 70 million shares) on one or more occasions up to May 4, 2020 by issuing new nonvoting preferred shares against cash contributions.

Further details of the authorization to issue new shares and their permitted uses may be found in the notes to the consolidated financial statements on page 256.

Opportunities to acquire treasury shares are governed by section 71 of the AktG. The Board of Management was most recently authorized to acquire treasury shares up to a maximum of 10% of the share capital at the Annual General Meeting on April 19, 2012. This authorization applied until April 18, 2017 and has not been exercised.

MATERIAL AGREEMENTS OF THE PARENT COMPANY IN THE EVENT OF A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

A banking syndicate granted Volkswagen AG a syndicated line of credit amounting to €5.0 billion that runs until April 2020. The syndicate members were granted the right to call their portion of the syndicated line of credit if Volkswagen AG is merged with a third party or becomes a subsidiary of another company. However, this call right does not apply in the event of a merger by absorption of Porsche Holding SE, one of its subsidiaries, or one of its holding companies and Volkswagen AG in which Volkswagen AG is the acquiring legal entity.

In addition, Volkswagen AG agreed a supplementary syndicated line of credit of up to €20.0 billion with a banking syndicate, initially running until December 2016 and since extended until June 2017. The syndicate members were granted the right to call their portion of the syndicated line of credit if Volkswagen AG is merged with a third party or group of third parties, or becomes a subsidiary of another company or group of other companies. Exceptions to this call right were agreed with regard to various combinations involving the current majority shareholders. This line of credit was terminated in June 2017 as per the contractual agreement.

Diesel Issue

During the fiscal year, we reached extensive settlement agreements in the USA. The technical measures for all affected vehicles with type EA 189 engines in the European Union were approved without exception, and implemented in most cases. We also continued to work on resolving the diesel issue. Further special items amounting to €3.2 billion had to be accounted for in the fiscal year.

IRREGULARITIES CONCERNING NO_x EMISSIONS

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. In this context, Volkswagen AG announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On November 2, 2015, the EPA issued a “Notice of Violation” alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines.

Numerous court and governmental proceedings were subsequently initiated in the USA and the rest of the world. During the reporting period, we succeeded in ending most significant court and governmental proceedings in the USA by concluding settlement agreements. This includes, in particular, settlements with the US Department of Justice (DOJ). Outside the USA, we also reached agreements with regard to the implementation of technical measures with numerous authorities. Detailed information on the individual settlement agreements as well as on the pending court and governmental proceedings can be found in the Report on Risks and Opportunities, starting on page 178.

EXTENSIVE INVESTIGATIONS INITIATED BY VOLKSWAGEN AG

After the first “Notice of Violation” was issued, Volkswagen AG immediately initiated its own internal inquiries and an external investigation.

The Supervisory Board of Volkswagen AG formed a special committee that coordinates the activities relating to the diesel issue for the Supervisory Board.

The global law firm Jones Day was instructed by Volkswagen AG to carry out an extensive investigation of the diesel issue in light of the DOJ’s and the Braunschweig public prosecutor’s criminal investigation as well as other investigations and proceedings which were expected at that time.

Jones Day was instructed by Volkswagen AG to present factual evidence to the DOJ. To resolve US-criminal law charges, Volkswagen AG and the DOJ entered into a Plea Agreement, which includes a Statement of Facts containing a summary of the factual allegations which the DOJ considered relevant to the settlement with Volkswagen AG. 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 USA with respect to the diesel issue. However, work in respect of the legal proceedings which are still pending in the USA and the rest of the world is ongoing and will require considerable efforts and a considerable period of time. In connection with this further work, Volkswagen AG is being advised by a number of external law firms.

Furthermore, in September 2015, Volkswagen AG filed a criminal complaint in Germany against unknown individuals as did AUDI AG. Volkswagen AG and AUDI AG are cooperating with all responsible authorities in the scope of reviewing the incidents.

The diesel issue is rooted in a modification of parts of the software of the relevant engine's control unit – which, according to Volkswagen AG's legal position, is only unlawful in the USA – for the type EA 189 diesel engines that Volkswagen AG was developing at that time. The decision to develop and install this software function was taken in late 2006, below Board of Management level. None of the members of the Board of Management had, at that time and for many years to follow, knowledge of the development and implementation of this software function in the relevant engine control unit of the type EA 189 diesel engines.

In the months after the International Council on Clean Transportation (ICCT) study was published in May 2014, the test set-ups on which the ICCT study was based were repeated in-house at Volkswagen AG and confirmed the unusually high NO_x emissions from certain type EA 189 2.0l diesel engines in the USA. The California Air Resources Board (CARB) – a part of the environmental authority of California – was informed of this result, and, at the same time, an offer was made to recalibrate the type EA 189 diesel engines in the USA as part of a service measure that was already planned in the USA. 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. There are no findings that an unlawful "defeat device" under US law was disclosed to the APS as the cause of the discrepancies or to the persons responsible for preparing the 2014 annual and consolidated financial statements. Instead, at the time the 2014 annual and consolidated financial statements were being prepared, the persons responsible for preparing the 2014 annual and consolidated financial statements remained under the impression that the issue could be solved with comparatively little effort as part of a service measure.

In the course of the summer of 2015, however, it became successively apparent to individual members of Volkswagen AG's Board of Management that the cause of the discrepancies in the USA 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 a "defeat device" to EPA and CARB on September 3, 2015. According to the assessment at that time of the responsible persons dealing with the matter, 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 controllable 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 USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. The publication of the "Notice of Violation" by the EPA on September 18, 2015, which, especially at that time came unexpectedly to the Board of Management, then presented the situation in an entirely different light.

Extensive inquiries were also conducted at AUDI AG in relation to the potential use of unlawful "defeat devices" under US law in type V6 3.0l diesel engines. The investigation conducted by Jones Day for Volkswagen AG also comprehensively covered this issue.

The AUDI AG Board of Management members in office back at the relevant time have stated that they had no knowledge of the use of unlawful "defeat device" software under US law in V6 3.0l TDI engines until they were informed by the EPA in November 2015.

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-cylinder diesel engines such as the type V6 3.0l diesel engines.

Nothing from the publications made up to the time this report was prepared or from the ongoing investigations and interviews on the diesel issue has presented the Volkswagen AG Board of Management with any conclusive findings or assessments of fact that would result in a different assessment of the associated risks (e.g. investor lawsuits).

EA 189 VEHICLES IN THE EU/REST OF THE WORLD

Outside the USA and Canada, around 10 million vehicles with type EA 189 diesel engines were affected.

During the first quarter of 2017, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) issued the final outstanding official approvals needed for technical measures of 14 thousand Volkswagen Group vehicles fitted with type EA 189 diesel engines falling within its remit.

The KBA ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO₂ emissions figures, engine power, maximum torque and noise emissions. Once the updates have been made, the vehicles will continue to comply with the legal requirements and the emission standards applicable in each case.

During the second quarter of 2017, the Vehicle Certification Agency in the United Kingdom issued the outstanding official approvals needed for technical measures to modify the ŠKODA and SEAT models with type EA 189 diesel engines falling within its remit.

The technical measures for all affected vehicles with type EA 189 engines in the European Union were approved without exception, and implemented in most cases.

In some countries outside the EU the technical measures have to be approved by the national authorities. With the exception of South Korea and Chile, we were able to complete the approval process in all countries. There, the majority of approvals were likewise granted; in relation to the pending approvals Volkswagen is in close contact with the authorities.

Based on current planning, implementation of the technical measures, which are free of charge for our customers, will run into 2018.

FURTHER RETROFIT PROGRAMS FOR TYPE V6/V8 ENGINES

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. A systematic review process for all engine and gear variants has been underway since 2016. This was done in close cooperation with the authorities, which were provided with detailed reports, especially the German Federal Ministry of Transport and the KBA. In this context, AUDI AG announced on July 21, 2017 that it was going to improve the emissions performance of up to 850 thousand vehicles across Europe via service measures. The retrofit package comprises voluntary measures and to a small extent measures directed by the authorities; these are measures taken within the scope of a recall, which were proposed by AUDI AG itself, reported to the KBA and taken up and ordered by the latter.

AFFECTED VEHICLES IN THE USA/CANADA

In the USA and Canada three generations of certain vehicles with 2.0 l TDI engines and two generations of certain vehicles with V6 3.0 l TDI engines are affected, which come to a total of approximately 700 thousand vehicles. Due to NO_x limits that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge here to refit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

The EPA and CARB have approved emissions modifications and issued resale approvals for the majority of the affected vehicles with 2.0 l TDI engines. The approved modifications relate to certain Generation 1 and Generation 2 vehicles, and the first part of a two-step modification for Generation 3 vehicles. The second part of this modification has been submitted for approval. We are working in close cooperation with the EPA and CARB to obtain the outstanding approval. We have withdrawn the emissions modification proposal for Generation 2 vehicles with manual transmissions.

The EPA and CARB have approved the modification measures for the Generation 2 vehicles with type V6 3.0 l TDI engines. We have submitted proposals for emissions modifications for Generation 1 vehicles with type V6 3.0 l TDI engines. These proposals are under review by the EPA and CARB.

The relevant US and Canadian companies of the Volkswagen Group have withdrawn the affected new and certified used vehicles from sale until the outstanding approvals are issued. The technical solutions that have been approved by the authorities have already been implemented.

LEGAL RISKS

Various legal risks are associated with the diesel issue. The provisions recognized for the diesel issue and the contingent liabilities disclosed as well as 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 facts have not yet been definitively clarified. Should these legal risks materialize, this could result in considerable financial charges.

A detailed description of these and other risks arising from the diesel issue as stated above can be found in the Report on Risks and Opportunities starting on page 178.

OPERATING RESULT

Special items recognized in operating profit relating to the diesel issue amounted to €-3.2 (-6.4) billion in fiscal year 2017, mainly due to higher provisions relating to the buy-back/retrofit programs.

The diesel issue led to total special items of €-25.8 billion in the years 2015 to 2017.

INDEPENDENT MONITOR

In June 2017, Larry D. Thompson was appointed as the Independent Compliance Monitor at Volkswagen under the terms of the Plea Agreement with the DOJ announced on January 11, 2017 and confirmed by a US federal court on April 21, 2017. He will also work as Independent Compliance Auditor under the Third Partial Consent Decree concluded separately with the EPA and the Third California Partial Consent Decree agreed with the State of California and CARB (for more information on these agreements, please see the Litigation section starting on page 178). Mr. Thompson will assess and oversee Volkswagen's compliance with the terms of the Plea Agreement and Consent Decrees for a period of three years, which includes taking measures to further strengthen the Company's compliance, reporting and monitoring mechanisms and the implementation of an enhanced compliance and ethics program.

TO OUR STAKEHOLDERS

The diesel issue prompted a process by which we strengthened our corporate culture, particularly in the areas of compliance and internal control mechanisms. This development led to the initiation of programs and projects designed to intensify Volkswagen's collective awareness of integrity.

We honed our internal control systems for the product development process and vehicle testing, overhauled our Code of Conduct and the whistleblower system, and increased the frequency of the training courses provided to staff on these topics.

The combination of integrity, compliance and culture is an important and indispensable part of the transformation process we are undergoing. We are renewing ourselves from the inside out and are evolving on a daily basis to merit our most important asset – the trust of our customers and stakeholders.

Business Development

The global economy grew more strongly in fiscal year 2017 than in the previous year. However, global demand for vehicles did not rise as sharply as in the year before. Amid challenging market conditions, the Volkswagen Group delivered 10.7 million vehicles to customers for the first time.

DEVELOPMENTS IN THE GLOBAL ECONOMY

Global gross domestic product (GDP) rose by 3.2 (2.5)% in 2017. Economic momentum accelerated in both advanced economies and emerging markets year-on-year. Consumer prices increased at a slower pace worldwide than in the previous year, with persistently low interest rates and rising energy and commodity prices.

Europe/Other Markets

GDP growth in Western Europe edged up slightly during the year to 2.3 (1.8)%, with the majority of the countries in this region seeing higher growth rates. The start of the Brexit negotiations between the United Kingdom and the European Union generated uncertainty, as did the question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 9.6 (10.6)%, though rates remained considerably higher in Greece and Spain.

The Central and Eastern Europe region recorded a relatively strong increase in GDP in the reporting period with an increase of 3.8 (1.8)%. In Central Europe, the general uptrend gained traction, and in Eastern Europe the economy also grew at a considerably stronger pace than in the previous year. Higher energy prices led to a stabilization of the economic situation in the countries from this region that export raw materials. A growth rate of 1.6 (–0.4)% marked the end of the recessionary period in Russia.

South Africa's GDP rose by just 0.9 (0.3)%, only slightly higher than the low figure for the previous year. Ongoing structural deficits, social unrest and political challenges weighed on the economy.

Germany

The German economy continued to profit from optimistic consumer sentiment and a good labor market, which led to a sharper year-on-year increase in GDP to 2.5 (1.9)% in 2017.

North America

Economic growth in the USA was faster than in the previous year, at 2.2 (1.5)%. The economy was supported mainly by private consumption and the expansionary monetary policy. Private gross investments also developed positively. The average unemployment rate was 4.4 (4.9)%. The US dollar was somewhat weaker than in the previous year. At 3.0 (1.4)%, GDP growth in Canada accelerated significantly. The growth rate of Mexico's economic output fell somewhat to 2.2 (2.7)%.

South America

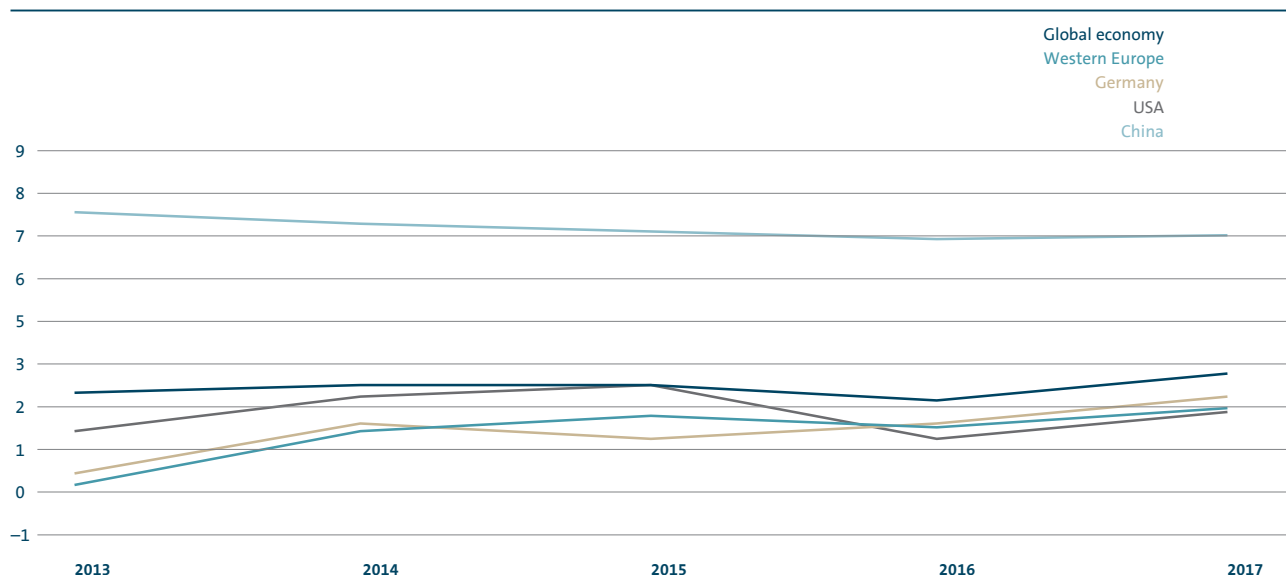
In the reporting period, Brazil left behind the economic downswing, with economic output increasing by 1.0 (–3.5)%. The situation in South America's largest economy nevertheless remained tense, due to political uncertainty, among other things. Argentina's GDP rose by 2.8 (–2.2)% in spite of structural deficits and persistently high inflation.

Asia-Pacific

The Chinese economy expanded at the previous year's high level with a growth rate of 6.9 (6.7)%. The Indian economy continued its positive trend but, with a gain of 6.5 (7.1)%, grew somewhat less strongly than in the previous year. The Introduction of reform measures had a temporary dampening effect here. Japan registered solid GDP growth of 1.8 (0.9)%.

ECONOMIC GROWTH

Percentage change in GDP



TRENDS IN THE PASSENGER CAR MARKETS

In fiscal year 2017, the global market volume of passenger cars rose by 2.9% to 83.5 million vehicles, achieving a record figure for the seventh time in a row. While demand rose in the Asia-Pacific, South America, Western Europe and Central and Eastern Europe regions, the market volume in North America, the Middle East and Africa fell short of the prior-year figures.

Sector-specific environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed substantially to the mixed trends in sales volumes in the markets last year. The instruments used were tax cuts or increases, incentive programs and sales incentives, as well as import duties.

In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the movement of vehicles, parts and components more difficult.

Europe/Other Markets

In Western Europe, new passenger car registrations rose by 2.5% to 14.3 million vehicles, the highest level in the past ten years. The positive performance was underpinned in particular by the strong macroeconomic environment, consumer confidence and low interest rates. In Italy (+8.1%) and Spain (+7.7%), the level of demand benefited from demand for

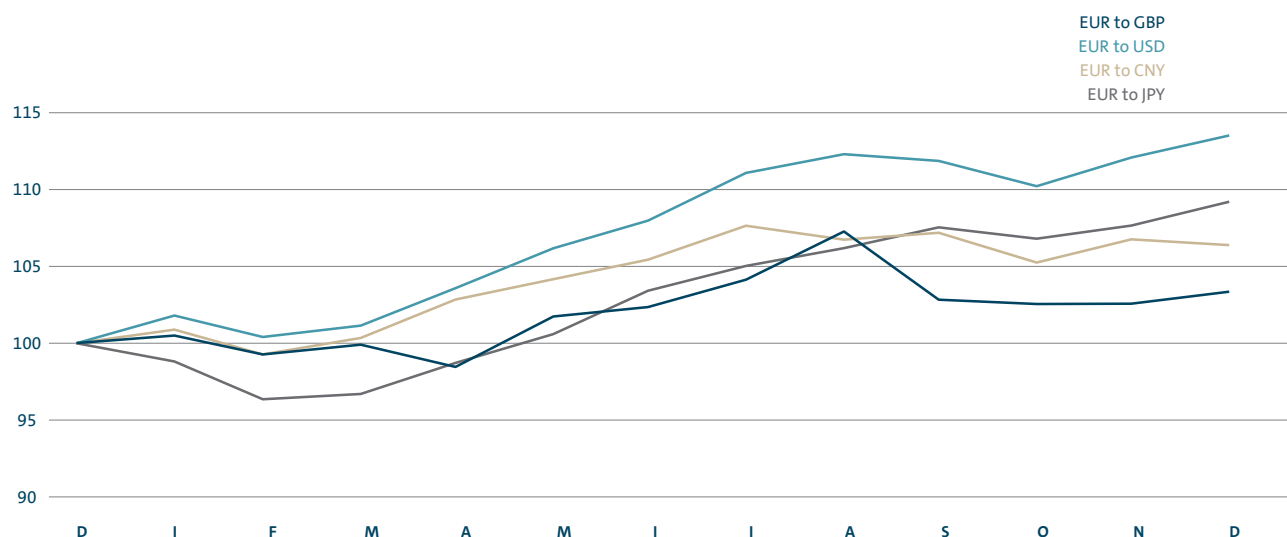
replacement vehicles and particularly from significant growth in sales to commercial customers. The rate of growth in the French passenger car market was lower, at 4.8%. In the United Kingdom, the volume of demand fell 5.7% short of the record level seen in the previous year – due among other things to the change in vehicle taxation as of April 1, 2017. The number of diesel vehicles (passenger cars) in Western Europe slipped to 44.4 (49.5)% in the reporting year.

The passenger car market volume in the Central and Eastern European region in fiscal year 2017 was up considerably on the prior-year figure, with an increase of 12.6% to 3.0 million vehicles. New passenger car registrations in the EU member states of Central Europe increased by 12.5% to 1.3 million units. Passenger car sales in Eastern Europe also achieved a double-digit growth rate (+12.6%), starting from a very low level. The main growth driver in the region was the Russian market, which, with an increase of 12.3% to 1.5 million vehicles, saw demand increase again for the first time after four years of decline.

At a rate of change of 2.4%, the number of new passenger cars registered in South Africa in the reporting period (370 thousand vehicles) was slightly higher than the comparatively low level seen the previous year. Despite the weak overall economic environment, incentive programs and lower interest rates were the principal causes of this increase.

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2016 TO DECEMBER 2017

Index based on month-end prices: as of December 31, 2016 = 100

**Germany**

In fiscal year 2017, demand for passenger cars in Germany exceeded the prior-year figure by 2.7% at 3.4 million units. The fact that this was the highest level since 2009 was attributable not only to the buoyant macroeconomic environment but also to manufacturer discounts in the form of a trade-in bonus for older diesel models as well as to an environmental bonus for electric-powered vehicles (all-electric and plug-in hybrid drives). New registrations for both retail customers (+4.4%) and business customers (+1.7%) increased as a result.

However, domestic production and exports fell short of the comparable prior-year figures in 2017. Passenger car production declined by 1.7% to 5.6 million vehicles. Passenger car exports fell by 0.9% to 4.4 million vehicles; this was mainly due to the fact that the volume of exports to North America was significantly lower because of shifts in production accompanied by a weakening of the North American market.

North America

At 20.8 million vehicles (–1.4%) in fiscal year 2017, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region were just under the record level seen in the previous year. In the US market, demand diminished compared with the high level in 2016 by 1.8% to 17.2 million units. A favorable labor market, high consumer confidence and generous manufacturer incentive

programs were unable to stop the downward tendency. The trend in demand towards SUV and pickup models (+5.7%) continued, accompanied by a simultaneous decline in sales of traditional passenger cars (–10.9%).

The Canadian automotive market again recorded growth (+4.6% to 2.0 million vehicles), exceeding the record figure of the previous year. By contrast, sales of passenger cars and light commercial vehicles in Mexico were down on the record volumes achieved in the prior-year period (–4.6% to 1.5 million units).

South America

In South America, demand for passenger cars and light commercial vehicles rose from the previously low level by a significant 12.6% to 4.2 million units in the reporting period. After four years of declining new vehicle registrations, growth of 9.4% to 2.2 million vehicles was recorded again for the first time in the Brazilian automotive market. However, the market volume was still around a quarter lower than the average for the last ten years. Brazil's vehicle exports saw a marked increase in 2017, climbing 46.5% to 762 thousand units to exceed the all-time high recorded in 2005. Exports benefited in particular from the dynamic development of the market in Argentina, where demand increased by 26.2% year-on-year to 855 thousand passenger cars and light commercial vehicles. The second-highest number of new registrations in the region's history was primarily driven by price reductions and attractive financing models offered by the manufacturers.

Asia-Pacific

The market volume in the Asia-Pacific region rose by 4.7% in the past fiscal year to 37.0 million units; this was the highest absolute increase in new vehicle registrations worldwide. Once again, the main growth driver was the Chinese passenger car market, although the growth rate was low compared with previous years, with an increase of 4.5% to 23.9 million vehicles. This was mainly because customers brought forward purchases at the end of 2016 in anticipation of a rise in the tax rate on vehicles of up to 1.61 at the beginning of 2017.

The number of passenger cars sold in India grew 9.3% year-on-year to 3.1 million units, topping the 3 million mark for the first time ever. This was due not only to high consumer confidence, a wealth of new models and attractive financing products, but especially to the goods and services tax introduced on July 1, 2017, which resulted in part in improved purchasing conditions for the consumer.

The Japanese passenger car market showed a substantial improvement over the low prior-year level with sales of 4.4 million vehicles in the reporting period (+6.1%). The main reasons for the positive trend were the market success of new models and the continued government support for fuel-efficient, low-emission vehicles.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Overall demand for light commercial vehicles in fiscal year 2017 was slightly lower than in the previous year. A total of 9.1 (9.3) million vehicles were registered worldwide.

In Western Europe, the number of new vehicle registrations rose by 4.7% during the year to 1.9 million units, driven by the region's continued positive economic performance. The markets in Italy, France and Spain recorded moderate to high growth rates, while the United Kingdom registered a decline. In Germany, the comparative figure for 2016 was exceeded by 3.6%.

Central and Eastern European markets recorded perceptible growth on the whole with 326 (306) thousand vehicle registrations. In Russia alone, 123 (116) thousand light commercial vehicles were registered. There, market performance benefited from the ruble's recovery and the drop in inflation. Most of the markets in this region succeeded in maintaining or exceeding their prior-year results.

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.

Registration volumes of light commercial vehicles in the Asia-Pacific region decreased to 6.0 million units in the reporting period (–3.1%). In China, the region's dominant market, demand for light commercial vehicles of 3.4 million units was down a substantial 8.2% on the prior-year figure.

This decline is mainly due to the shift in demand for micro vans towards more cost-effective MPVs and SUVs. As a consequence of the sustained economic growth in India, considerably more vehicles were registered than in 2016; here, 560 (510) thousand new units were registered. The market volume fell in Japan as a result of the persistently weak economic trend (–5.0%).

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in fiscal year 2017 than in the previous year, with 547 thousand new vehicle registrations (+7.4%).

In Western Europe, the number of new truck registrations remained level with the previous year at a total of 289 thousand vehicles. While the market in Spain remained at the previous year's level, in Italy it expanded. Demand in the United Kingdom and the Netherlands declined. New registrations in Germany, Western Europe's largest market, were on a level with the previous year.

Central and Eastern Europe saw demand rise by 17.7% to 153 thousand units on the back of the positive economic performance. This growth was attributable to the Russian market; here, registrations moved up 47.7% from a low prior-year level to 72 thousand vehicles. Reasons for this were the incipient recovery of the economy, declining inflation rates and demand for replacement vehicles.

South America saw a significant increase in market volume compared with the previous year. Here, the number of new vehicle registrations rose by 11.8% to 105 thousand units. In Brazil, the region's largest market, demand for trucks was up 2.9% on the low prior-year figure. This reflected a recovery of the market once the difficult economic climate improved. There was a very sharp increase in new vehicle registrations in Argentina (+78.7%), buoyed by the political reforms and stimulus from the agricultural sector.

Demand for buses in the markets that are relevant for the Volkswagen Group was considerably higher than in the previous year. The markets in Central and Eastern Europe as well as South America contributed in particular to this growth.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

The markets for power engineering are subject to differing regional and economic factors. Consequently, their business growth trends are generally independent of each other.

The number of orders for merchant vessels remained very low in the first half of 2017. Construction of new bulk carriers and container ships in particular fell short of expectations on account of overall low freight rates. In the second

half of 2017, however, the market volume in merchant shipping stood at a higher level overall and a slightly positive trend in new orders for ships became apparent. Yet, despite the ongoing recovery in oil prices, existing overcapacity in the offshore sector continued to curb investment in oil production. As a result, new ship construction came to a virtual standstill here. By contrast, a stable uptrend was again recorded in demand for cruise ships, ferries, fishing vessels and dredgers. The special market for government vessels also continued on a positive trajectory. In spite of the still low liquid fuel prices, the somewhat positive trend towards gas-powered ships stabilized in expectation of stricter emission standards. As a whole, the marine market showed slight growth at a low level in 2017 compared with the previous year. China, South Korea and Japan remained the dominant shipbuilding countries, accounting for a global market share of more than 75% measured in terms of the number of ships. On account of low market volumes, all market segments are seeing considerable competition and a sharp drop in prices as a result.

Demand for energy solutions in emerging economies increased slightly once again in 2017. The Middle East, South-east Asia, Africa and South America regions continue to be relevant markets for energy solutions. Particularly on larger projects, order placement is being delayed due to ongoing muted growth in key emerging markets and persistently difficult financing conditions for customers. Overall, there was a slight year-on-year increase in demand for decentralized diesel and gas engine power plants in 2017. The shift away from oil-fired power plants towards dual-fuel and gas-fired power plants intensified further. Nevertheless, nearly all projects continue to be subject to intense competition and pressure on prices, which has a negative impact on the earnings quality of orders.

The market for the construction of turbomachinery is mainly dominated by investment projects in oil and gas, the processing industry and power generation. In spite of a modest recovery, oil prices remained low on the whole in 2017. As a result, leading oil and gas companies kept capital expenditure at a low level. Planned projects were postponed again or canceled. Demand for products from the processing industry and power generation remained generally weak in 2017. Failure to reduce overcapacity in some industries, such as steel-making, prevented any recovery in the corresponding markets. Insufficient capacity utilization at many manufacturers intensified the level of competition. Overall, the market volume for turbomachinery in the reporting period was

marginally higher than in the prior-year period. Competition and pressure on prices remain fierce.

The marine and power plant after-sales business for diesel engines generally performed positively and benefited from a continued increase in interest in long-term maintenance contracts and retrofit solutions. The after-sales market for turbomachinery showed a slight uptrend.

TRENDS IN THE MARKET FOR FINANCIAL SERVICES

Demand for automotive financial services was high once again in 2017, due above all to the expansion of the overall market for passenger cars and low key interest rates in the main currency areas. Particularly insurance and service products such as maintenance and servicing agreements were especially popular, as customers in more advanced automotive financial services markets are putting greater focus on optimizing overall running costs. In the fleet segment, some customers consulted automotive financial service providers in order to optimise their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than ownership.

In Europe, sales of financial services climbed further in the reporting period, strengthened by higher vehicle sales and demand for after-sales products such as servicing, maintenance and spare parts agreements as well as automotive-related insurance. Demand developed positively in most countries; in the United Kingdom, France, Spain and Italy in particular, automotive financial services products continued to enjoy rising popularity. The UK's decision to leave the EU has not yet had a negative impact on local demand for financial services.

In Germany, the share of loan-financed or leased vehicles remained stable at a high level in 2017. Alongside traditional products, mobility services and after-sales products were particularly popular.

In South Africa, structural deficits and political uncertainty curbed economic growth, which also impacted on the automotive industry. Demand for automotive financial services products remained stable.

Sales of automotive financial services in North America remained at a high level in the fiscal year now ended. In the USA, the overall market for financial services products once again performed positively. In particular, demand for leasing through captive financial service providers was consistently high. In Mexico, demand for automotive financial services products continued at a high level.

The macroeconomic and political situation in Brazil remained tense in 2017 and had a negative impact on the consumer credit business for new vehicles as well as on sales of the country-specific financial services product Consorcio, a lottery-style savings plan. The negative trend tapered off slightly in the second half of the year, however. Argentina's automotive industry was helped in 2017 by price reductions and attractive financing models from manufacturers. The above-average demand for vehicles was the basis for a good year for automotive financial services.

The performance of markets in the Asia-Pacific region during the reporting period was mixed. In China, the proportion of loan-financed vehicle purchases rose. Despite increasing restrictions on registrations in metropolitan areas, there is still considerable potential to acquire new customers for automotive-related financial services, particularly in the interior of the country. Demand for automotive financial services in Japan and Korea was stable on the whole. In Australia, the central bank's continued policy of low interest rates stimulated demand for automotive-related financial services and service contracts.

In the commercial vehicles segment, the European market for financial services again performed positively; demand also rose in China. The tense economic situation in Brazil once again put pressure on the truck and bus business and the related financial services market, though this negative trend weakened somewhat in the second half of the year.

NEW GROUP MODELS IN 2017

The Volkswagen Group launched a large number of attractive new models on the market in fiscal year 2017. The current product portfolio comprises 355 models. It covers almost all key segments and body types, with offerings from small cars to super sports cars in the passenger car segment, and from pickups to heavy trucks and buses in the commercial vehicles segment, as well as motorcycles.

The Volkswagen Passenger Cars brand kicked off its global product initiative in 2017, starting with the new Golf. The updated bestseller not only features improved design and new engines, but also a large number of new digital driver assistance systems and an innovative infotainment system. The range of the all-electric e-Golf was extended to 300 km. The Arteon, the brand's new top-of-the-range saloon, celebrated its world premiere. The elegant and dynamic five-door vehicle with the proportions of a Gran Turismo and coupé lines is impressively spacious and comfortable. The new Polo, which is now based on the Modular Transverse Toolkit (MQB) too, brings technological innovations to the small car segment that were previously available only in higher vehicle classes. The Polo is ushering in a new era in Brazil, where it is setting new standards in terms of quality, driving dynamics and digital innovations. In 2017, Volkswagen Passenger Cars substantially expanded its range of vehicles in the SUV seg-

ment. The new T-Roc is a young, sporty crossover model with which the brand hopes to kindle enthusiasm among new groups of customers. A long version of the Tiguan, the successful compact SUV, was also launched on the market. This version is available in Europe as the Tiguan Allspace as well as in China and the USA. Of the large SUVs, the Teramont came on the market in China and the Atlas in the USA. This means that the brand is now represented in four of the five largest vehicle segments in the USA.

The Audi brand launched the new Q5 in 2017. The sporty, progressive A5 family was also supplemented by the revamped A5 Sportback and A5 Cabriolet. At the same time, Audi expanded its range of environmentally friendly models with the A4 Avant g-tron and A5 Sportback g-tron. The brand's flagship, the new Audi A8, was developed as the world's first production model designed for highly automated driving. With a new design language, an innovative touch control interface and systematic electrification of the drive, the A8 is once again a reflection of the slogan "Vorsprung durch Technik". Audi also launched its fastest open-top production model, the R8 Spyder V10 plus, on the market. In China, the locally built Audi A3 was revamped.

ŠKODA began its SUV drive in 2017: the self-confident, powerful Kodiaq, which is based on the MQB platform, has carved out a new segment for the brand. It features all of the brand's strengths: sophisticated functionality, effortless spaciousness, cutting-edge technology and outstanding value for money. The compact SUV Karoq followed during the year. The completely redeveloped model stands out from the crowd thanks to its emotional and dynamic design as well as a wealth of innovations. The popular Octavia received an upgrade. The Citigo, the Rapid and the Rapid Spaceback were also given a face-lift.

The SEAT brand continued its major product initiative in the reporting period with the revitalized Leon. The fifth generation of the Ibiza also came onto the market. SEAT made its debut in the crossover segment with the Arona. The Ateca's younger brother combines the special merits of a compact city car with the robust features of an SUV.

In 2017, Porsche supplemented the second generation of the Panamera by adding several model variants, including the Panamera 4 E-Hybrid and Panamera Turbo S E-Hybrid, the Executive models and the Sport Turismo. In the 911 model series, Porsche launched the GTS models, the new 911 GT3 and the 911 GT2 RS – the sporty vanguard of the model series. Porsche also celebrated the world premiere of the new Cayenne. The successful model, which has been redeveloped from the ground up, combines more than ever before the performance typical of a Porsche with utmost everyday practicality.

In 2017, Bentley rolled out the Bentayga Diesel, the first of the brand's models with a diesel engine and also the world's

fastest diesel SUV. The Continental GT Supersports also celebrated its market debut.

Lamborghini launched the new Huracán RWD Spyder on the market and the Huracán Performante, along with the upgraded Aventador in the versions S Coupé and S Roadster.

Bugatti began 2017 with deliveries of the 1,500 PS super sports car Chiron, which is limited to 500 vehicles.

In the reporting period, the Volkswagen Commercial Vehicles brand launched the fully re-engineered Crafter on the market, which has been designed systematically with a strong focus on customer needs.

Scania presented a new generation of trucks for the construction and forestry industries, new engines and cabs as well as new services. With the latest generation of Euro 6 V8 engines, Scania is setting new standards in terms of fuel efficiency.

MAN entered the world of vans for the first time in 2017 with the TGE. In the bus segment, the new Lion's Coach celebrated its premiere. This marks the beginning of a new design language for buses. In the high-performance diesel engine segment, MAN Power Engineering presented the successor to the 48/60CR, the latest addition to its 4x line.

Ducati rolled out a total of seven new models in 2017: the Ducati SuperSport, the Monster 797 and 1200, the Multistrada 950, two new Scrambler models and the limited 1299 Superleggera.

VOLKSWAGEN GROUP DELIVERIES

In fiscal year 2017, the Volkswagen Group increased its deliveries to customers worldwide by 4.3% year-on-year and once again achieved a new record of 10,741,455 vehicles. The chart on the next page shows how deliveries changed from month to month and compares each monthly figure to the same month of the previous year. Deliveries of passenger cars and commercial vehicles are reported separately in the following.

VOLKSWAGEN GROUP DELIVERIES¹

	2017	2016	%
Passenger Cars	10,038,650	9,635,486	+4.2
Commercial Vehicles	702,805	661,555	+6.2
Total	10,741,455	10,297,041	+4.3

¹ Deliveries for 2016 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

PASSENGER CAR DELIVERIES WORLDWIDE

With its passenger car brands, the Volkswagen Group is present in all relevant automotive markets around the world. The Group's key sales markets currently include Western Europe, China, the USA, Brazil and Mexico. The Group recorded encouraging growth in many key markets.

During the reporting period, deliveries of passenger cars to Volkswagen Group customers worldwide rose to 10,038,650 units amid partly difficult conditions in some relevant markets such as the United Kingdom and the USA. This was an increase of 403,164 vehicles or 4.2% on the previous year. Since the passenger car market as a whole expanded by 2.9% in the same period, the Volkswagen Group's share of the global market rose slightly to 12.1 (11.9)%. The Group recorded the highest absolute growth in China. Sales figures in Germany and Mexico, among others, were down on the previous year. All Volkswagen Group brands lifted delivery volumes year-on-year. The Volkswagen Passenger Cars brand recorded the strongest growth in absolute terms, setting new records, as did Audi, ŠKODA, Porsche, Bentley and Lamborghini.

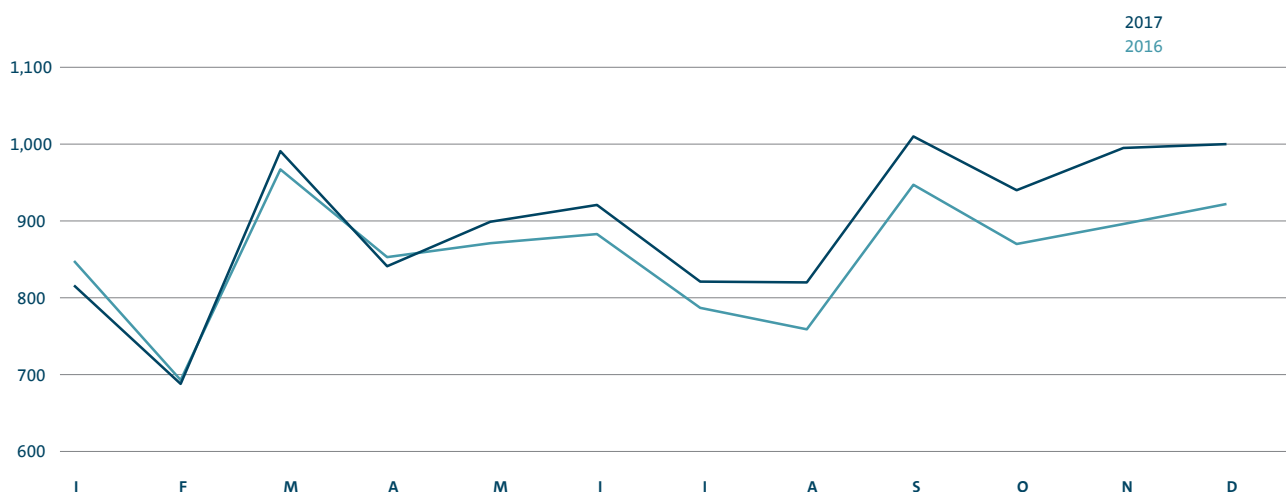
The table on page 104 gives an overview of passenger car deliveries to customers of the Volkswagen Group in the regions and the key individual markets. The demand trends for Group models in these markets and regions are described in the following sections.

Deliveries in Europe/Other markets

In 2017, the passenger car market as a whole expanded by 2.5% in Western Europe. Deliveries to customers of the Volkswagen Group there rose less pronouncedly, by 1.4% to 3,157,107 vehicles. Among other factors, this trend was due to the Golf and Polo model change, the fact that customer confidence has not yet been fully restored following the diesel issue and to customer uncertainty generated by the public discussion on driving bans for diesel vehicles. However, demand for Group models was up year-on-year in virtually all major markets in this region, with the Tiguan, Audi Q2 and SEAT Ateca models seeing the highest increases. The Audi A5 Sportback and Porsche Macan models were also very popular. The new Polo, T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq and Kodiaq, and the SEAT Arona and Ibiza were very well received by the market. The Group's share of the passenger car market in Western Europe was 22.0 (22.3)%.

VOLKSWAGEN GROUP DELIVERIES BY MONTH

Vehicles in thousands



In the Central and Eastern Europe regions, where passenger car markets have grown considerably, the Volkswagen Group delivered 12.9% more vehicles to customers in the reporting period than in the previous year. The Czech Republic and Poland continued to see strong growth in demand for Group models, and in Russia we also registered a marked upsurge in unit sales. Demand for the Golf, Tiguan, Audi Q2, ŠKODA Fabia, ŠKODA Rapid and ŠKODA Octavia models was very encouraging. In addition, the new ŠKODA Karoq and Kodiaq models and the SEAT Ateca models were exceedingly popular. The Volkswagen Group's share of the passenger car market in Central and Eastern Europe improved slightly to 22.1 (22.0)%.

In South Africa, demand for Volkswagen Group vehicles in 2017 increased by 1.4% compared with the previous year. The passenger car market as a whole grew by 2.4% in the same period. The best-selling Group model in South Africa was the Polo.

In the markets of the Middle East region, which are seeing a modest decline, we sold 6.6% fewer vehicles in the past fiscal year than in the year before. The Polo, Golf, Passat and ŠKODA Octavia models saw the highest demand.

Deliveries in Germany

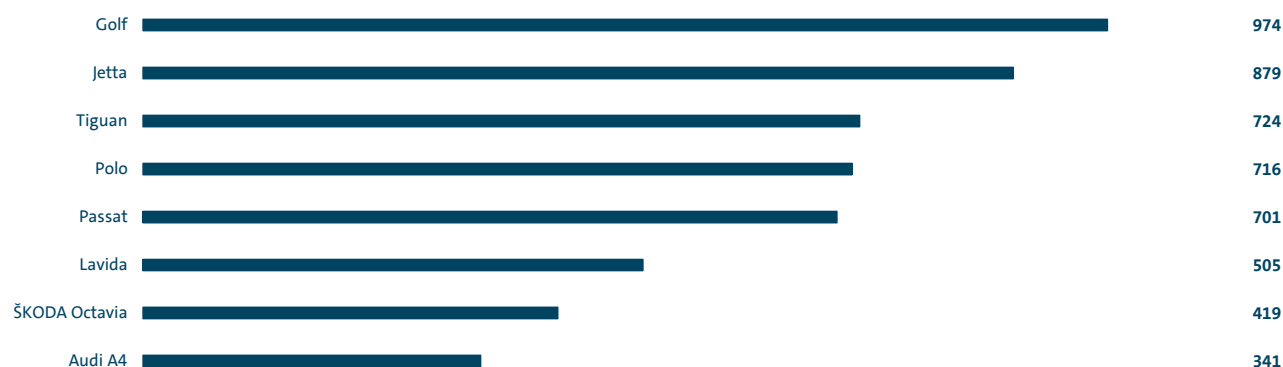
The German passenger car market continued its growth in fiscal year 2017, expanding by 2.7%. The Volkswagen Group delivered 1,131,414 passenger cars to customers in its home market, a slight decrease on the prior-year level (–0.5%). This was due in particular to the fact that customer confidence has not yet been fully restored following the diesel issue as well as to customer uncertainty generated by the public discussion

on driving bans for diesel vehicles. The Tiguan, Audi Q2, Audi A4 Avant, Audi A5 Sportback and SEAT Ateca models saw the strongest growth in demand. The new T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the new ŠKODA Karoq and Kodiaq models, the new SEAT Arona and Ibiza models and the Porsche Macan were also very popular. In the registration statistics of the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority), seven Group models led their respective segments at the end of 2017: the up!, Polo, Golf, Tiguan, Touran, Passat, and Porsche 911. The Golf continued to top the list of the most popular passenger cars in Germany in terms of registrations.

Deliveries in North America

The Volkswagen Group handed over 962,980 vehicles to customers in North America during the reporting period in a slightly declining overall market for passenger cars and light commercial vehicles. This was 3.8% more than in the previous year. The Group's market share was 4.7 (4.4)%. The Jetta remained the Group's best-selling model in North America.

In the US market, demand for Volkswagen Group models rose by 5.8% compared with the previous year. The market as a whole declined by 1.8% in this period. Models in the SUV and pickup segments remained particularly popular. The Golf Estate, Audi A5, Audi Q5, Audi Q7 and Porsche Macan models enjoyed an encouraging rise in demand. The new SUV Atlas, the Tiguan Allspace from the Volkswagen Passenger Cars brand and the Audi A5 Sportback were well received by the market.

WORLDWIDE DELIVERIES OF THE GROUP'S MOST SUCCESSFUL GROUP MODEL RANGE IN 2017*Vehicles in thousands*

In Canada, we delivered 16.6% more vehicles to customers in the reporting period than in the previous year in a growing overall market. Demand for the Golf Estate, Audi A4, Audi Q5 and Porsche Macan models developed particularly encouragingly. The new SUV Atlas and Tiguan with extended wheelbase were also very popular.

In the Mexican market, which is declining on the whole, the Group's sales fell by 6.4% compared with the previous year. The Vento, Jetta, Gol and SEAT Ibiza models were particularly popular.

Deliveries in South America

The markets for passenger cars and light commercial vehicles in South America witnessed a clear surge in demand in 2017 (+12.6%). In this region, the Volkswagen Group handed over 445,636 vehicles to customers, an increase of 23.0% on the weak previous year. The Volkswagen Group's share of the passenger car market in this region rose to 11.5 (10.5)%.

The Brazilian market also recovered in the reporting period. We delivered 17.7% more vehicles to customers there than in the previous year. The Gol, Voyage and Saveiro models saw the highest increases. Demand was also strong for the new Polo.

Group sales were up 35.7% year-on-year in Argentina. The market as a whole grew at a somewhat weaker pace at 26.2%. The Gol was the best-selling vehicle in Argentina. The Suran and Amarok models were also very popular.

Deliveries in the Asia-Pacific region

The passenger car markets in the Asia-Pacific region experienced the largest growth in absolute terms of any world

region again in 2017. Demand for Volkswagen Group models rose in this region by 4.2% year-on-year to 4,462,387 units. The market share in this region was unchanged at 12.1 (12.1)%.

China, the world's largest single market, was again the main growth driver of the Asia-Pacific region in the reporting year, recording the highest absolute increase. Above all, there was continued strong demand for attractively priced entry-level models in the SUV segment. Deliveries to customers of the Volkswagen Group in China exceeded the prior-year figure by 5.0%. The successfully concluded negotiations by the Audi brand for the strategic further development of its business in China contributed to this positive result in the second half of the year. The Bora, Magotan and Passat models recorded encouraging growth rates. Demand was likewise high for the new Phideon, the Audi A4 and the Porsche Cayenne. The new C-Trek, the new version of the Tiguan with extended wheelbase, and the new ŠKODA Octavia Combi were successfully launched on the market, as were new SUV Teramont and the ŠKODA Kodiaq.

The Indian passenger car market grew further during the reporting year. The Volkswagen Group delivered 9.7% more vehicles to customers there in this period than in the previous year. The most popular Group model in India was the Polo; the new Ameo from the Volkswagen Passenger Cars brand and the ŠKODA Rapid were also very popular.

Passenger car deliveries to the Group's customers in Japan in the past fiscal year exceeded the prior-year figure by 2.1%. The total market volume grew at a somewhat stronger pace in the same period. The Polo, Golf and Audi A3 were the most sought-after Group models.

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET¹

	DELIVERIES (UNITS)		CHANGE (%)
	2017	2016	
Europe/Other markets	4,167,647	4,062,454	+2.6
Western Europe	3,157,107	3,114,032	+1.4
of which: Germany	1,131,414	1,136,971	-0.5
United Kingdom	531,592	523,111	+1.6
Spain	270,645	244,990	+10.5
Italy	259,920	238,537	+9.0
France	256,712	249,146	+3.0
Central and Eastern Europe	668,522	592,275	+12.9
of which: Russia	173,384	155,672	+11.4
Poland	145,024	122,622	+18.3
Czech Republic	142,842	134,926	+5.9
Other markets	342,018	356,147	-4.0
of which: Turkey	158,523	173,965	-8.9
South Africa	79,968	78,897	+1.4
North America	962,980	928,033	+3.8
of which: USA	625,128	591,063	+5.8
Mexico	223,548	238,946	-6.4
Canada	114,304	98,024	+16.6
South America	445,636	362,343	+23.0
of which: Brazil	272,231	231,196	+17.7
Argentina	125,153	92,257	+35.7
Asia-Pacific	4,462,387	4,282,656	+4.2
of which: China	4,173,834	3,975,071	+5.0
Japan	84,827	83,109	+2.1
India	72,467	66,046	+9.7
Worldwide	10,038,650	9,635,486	+4.2
Volkswagen Passenger Cars	6,230,229	5,980,309	+4.2
Audi	1,878,105	1,867,738	+0.6
ŠKODA	1,200,535	1,126,477	+6.6
SEAT	468,431	408,703	+14.6
Bentley	11,089	11,023	+0.6
Lamborghini	3,815	3,457	+10.4
Porsche	246,375	237,778	+3.6
Bugatti	71	1	x

¹ Deliveries for 2016 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

COMMERCIAL VEHICLE DELIVERIES

The Volkswagen Group delivered a total of 702,805 commercial vehicles to customers worldwide in 2017 (+6.2%). Trucks accounted for 183,481 units (+10.7%) and buses for 19,218 units (+8.1%). Sales of light commercial vehicles increased by 4.6% year-on-year to 500,106 units.

In Western Europe, deliveries were up by 1.9% on the previous year at 426,774 vehicles as a result of the sustained economic recovery; of this total, 334,087 were light commercial vehicles, 87,258 were trucks and 5,429 were buses. The Transporter and Caddy were the most sought-after Group models in the Western European markets.

We handed over 76,054 vehicles to customers in the markets in Central and Eastern Europe in the period from January to December 2017 (+16.3%); of this figure, 41,291 were light commercial vehicles, 33,613 were trucks and 1,150 were buses. The Transporter and the Caddy were the Group models experiencing the highest demand. In Russia, the region's largest market, sales climbed 61.9% year-on-year to 18,291 units on the back of the incipient economic recovery, demand for replacement vehicles and falling inflation rates.

In the Other markets, deliveries of Volkswagen Group commercial vehicles fell by 5.3% to a total of 67,155 units:

46,678 light commercial vehicles, 17,050 trucks and 3,427 buses.

Deliveries in North America amounted to 13,416 vehicles (+20.4%), which were handed over almost exclusively to customers in Mexico. In this region, we handed over 10,432 light commercial vehicles, 1,042 trucks and 1,942 buses to customers.

The Volkswagen Group sold a total of 75,949 units (+28.3%) in South America. Of the units delivered, 41,331 were light commercial vehicles, 29,589 were trucks and 5,029 were buses. The Transporter and the Amarok were particularly popular. In Brazil, deliveries rose by 34.9% once the difficult economic climate improved; here, 12,633 light commercial vehicles, 20,363 trucks and 2,785 buses were handed over to customers.

In the Asia-Pacific region, the Volkswagen Group delivered 43,457 vehicles to customers in the reporting period; 26,287 light commercial vehicles, 14,929 trucks and 2,241 buses. This was 20.8% more than in the previous year. The Transporter and the Amarok were the most popular Group models. In China, sales were up 47.2% on the previous year at 10,408 vehicles. Of this total, 5,566 were light commercial vehicles, 4,532 were trucks and 310 were buses.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET¹

	DELIVERIES (UNITS)		CHANGE (%)
	2017	2016	
Europe/Other markets	569,983	555,255	+2.7
Western Europe	426,774	418,931	+1.9
Central and Eastern Europe	76,054	65,396	+16.3
Other markets	67,155	70,928	-5.3
North America	13,416	11,140	+20.4
South America	75,949	59,196	+28.3
of which: Brazil	35,781	26,532	+34.9
Asia-Pacific	43,457	35,964	+20.8
of which: China	10,408	7,071	+47.2
Worldwide	702,805	661,555	+6.2
Volkswagen Commercial Vehicles	497,894	477,974	+4.2
Scania	90,777	81,346	+11.6
MAN	114,134	102,235	+11.6

¹ Deliveries for 2016 have been updated to reflect subsequent statistical trends.

DELIVERIES IN THE POWER ENGINEERING SEGMENT

Orders in the Power Engineering segment are usually part of major investment projects. Lead times typically range from just under one year to several years, and partial deliveries as construction progresses are common. Accordingly, there is a time lag between incoming orders and sales revenue from the new construction business.

Sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated well over two-thirds of overall sales revenue.

ORDERS RECEIVED IN THE PASSENGER CARS SEGMENT IN WESTERN EUROPE

Due to the positive development of the Western European markets, demand for passenger cars increased in fiscal year 2017 compared with the previous year. Incoming orders in the reporting period were 6.0% higher than in 2016. At the same time, incoming orders rose in Germany (+6.7%), just as in other significant markets throughout the region.

ORDERS RECEIVED FOR COMMERCIAL VEHICLES

Orders received for light commercial vehicles of the Volkswagen Group in Western Europe were 2.7% higher than in the previous year at 347,964 units.

New orders for mid-sized and heavy trucks and buses witnessed a positive trend in 2017, with orders received for 225,813 vehicles (+18.5%). In Western Europe, our main sales market, ongoing positive economic stimulus gave a boost to incoming orders. The order intake in South America rose after the difficult economic climate improved, especially in Brazil.

ORDERS RECEIVED IN THE POWER ENGINEERING SEGMENT

The long-term performance of the Power Engineering business is determined by the macroeconomic environment. Individual major orders lead to fluctuations in incoming orders during the year that do not correlate with these long-term trends.

Orders received in the Power Engineering segment in 2017 amounted to €3.7 (3.3) billion. Engines & Marine Systems and Turbomachinery generated around two-thirds of the

order volume in a persistently difficult market environment. The power plant business performed positively. For example, a Turkish energy company ordered 38 engines with a combined output of 754 MW for its floating power plants, which provide a flexible solution to pressing energy shortages. The Company was also successful in the Indonesian market, securing orders for 25 engines with an aggregate output of 314 MW.

VOLKSWAGEN GROUP FINANCIAL SERVICES

The Financial Services Division combines the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania, Porsche and Porsche Holding Salzburg.

Demand for the Financial Services Division's products and services remained strong in fiscal year 2017. At 7.3 (7.1) million, the number of new financing, leasing, service and insurance contracts signed worldwide was above the previous year's level. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets rose to 33.4 (33.3)% in the reporting period. As of December 31, 2017, the total number of contracts was 18.4 million, up 5.7% as against the end of 2016. The number of contracts in the Customer financing/Leasing area rose by 6.3% to 10.1 million, while it increased by 5.0% to 8.4 million in the Service/Insurance area.

In the Europe/Other markets region, the number of new contracts signed in the past fiscal year climbed 3.7% to 5.4 million. At the end of the reporting period, the total number of contracts was 13.4 million, up 8.0% year-on-year. Of this figure, 6.4 million contracts were attributable to the Customer financing/Leasing area (+8.6%). The penetration rate improved to 47.6 (46.8)%.

The number of contracts in North America as of December 31, 2017 declined to 2.7 million, 4.7% fewer than in the previous year. The Customer financing/Leasing area accounted for 1.8 million contracts (-3.4%). The number of new contracts signed amounted to 874 thousand, a decrease of 11.6% versus the previous year. The ratio of leased or financed vehicles to Group deliveries in North America fell to 60.5 (63.3)%.

In South America, 205 (197) thousand new contracts were signed in 2017. The total number of contracts at the end of the reporting period was 538 thousand, down 16.9% compared to the end of the previous year. The contracts mainly related to the Customer financing/Leasing area. At 26.6 (30.4)%, the penetration rate was lower than in 2016.

In the Asia-Pacific region, the number of new contracts signed rose by 12.7% to 834 thousand units. At the end of 2017, the total number of contracts was 1.8 million, up 15.9% year-on-year. The Customer financing/Leasing area accounted for 1.5 million contracts (+20.8%). The ratio of leased or financed vehicles to Group deliveries in this region was 16.1 (15.1)%.

SALES TO THE DEALER ORGANIZATION

The Volkswagen Group's sales to the dealer organization increased by 3.7% to 10,777,048 units (including the Chinese joint ventures) in the reporting year. This was due to higher demand in Asia-Pacific, especially China, in South America and North America, and in Europe. Outside Germany, the unit sales volume rose by 4.1%. In Germany, we increased unit sales by 0.6%. At 11.7%, the proportion of the Group's sales accounted for by Germany was lower than in 2016 (-12.1%).

The Golf, Polo, Jetta, Lavalida and Tiguan were our biggest sellers last year. The largest increases in demand were recorded by the Tiguan, Gol and Atlas/Teramont models from the Volkswagen Passenger Cars brand, the Audi Q2 and the A5 family, and the ŠKODA Kodiaq and SEAT Ateca. The Porsche Panamera achieved a strong growth rate.

PRODUCTION

The Volkswagen Group produced 10,875,000 vehicles worldwide in fiscal year 2017, 4.5% more than in the previous year. In total, our Chinese joint ventures manufactured 3.7% more units than in the year before. The percentage of the Group's total production accounted for by Germany was lower than in 2016, at 23.7 (25.8)%. Our plants worldwide produced an average of 44,170 vehicles per working day, an increase of 2.3% on the prior-year level. Starting in 2017, the Crafter is included in the Volkswagen Group's production figures.

INVENTORIES

Global inventories at Group companies and in the dealer organization were higher at the end of the reporting period than at year-end 2016, mainly due to demand-induced stock building.

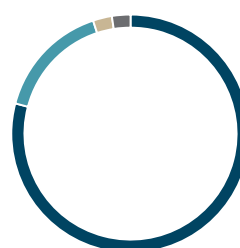
EMPLOYEES

Including the Chinese joint ventures, the Volkswagen Group employed an average of 634,396 people (excluding trainees) in fiscal year 2017, an increase of 2.4% year-on-year. Our companies in Germany employed 284,734 people on average in 2017; at 44.9 (45.2)%, their share of the headcount was slightly below the level of the previous year.

The Volkswagen Group had 615,081 active employees (+2.3%) as of December 31, 2017. In addition, 8,004 employees were in the passive phase of their partial retirement and 19,207 young people were in vocational traineeships. The Volkswagen Group's headcount was 642,292 employees (+2.5%) at the end of the reporting period. The production-related expansion, the recruitment of specialists within and outside Germany and the expansion of the workforce in the new plants in Mexico, China and Poland were offset by the reduction of around 9,800 employees as a result of the disposal of part of the PGA Group SAS. A total of 287,480 people were employed in Germany (+2.1%), while 354,812 were employed abroad (+2.8%).

EMPLOYEES BY DIVISION/BUSINESS AREA

as of December 31, 2017



Passenger Cars	507,917
Commercial Vehicles	101,673
Power Engineering	16,553
Financial Services	16,149

Shares and Bonds

Volkswagen AG's ordinary and preferred shares outperformed the market as a whole in 2017 in a volatile environment. The Volkswagen Group successfully returned to the European bond market.

EQUITY MARKETS AND PERFORMANCE OF THE PRICE OF VOLKSWAGEN'S SHARES

In the period from January to December 2017, prices on the international equity markets rose amid volatile trading.

The DAX also recorded an increase compared with the end of 2016. The promising economic performance of important industrialized nations, the improved situation in the US labor market, and the outcome of the elections in some EU member states had a positive impact, as did the adopted US tax reform, which among other factors contributed to financial relief for companies. Uncertainty as regards to the economic policy of the new US government, the election results in Europe, the monetary policy of the US Federal Reserve as well as the European Central Bank, the strong euro and international crises also had a negative impact on share listings at times.

In 2017, Volkswagen AG's preferred and ordinary shares surpassed the rising market trend amid high volatility. Positive stimulus was generated by settlement agreements in the USA in connection with the diesel issue, strong corporate earnings, sizeable cash flow and the successful performance of the Volkswagen Passenger Cars brand. Share prices were

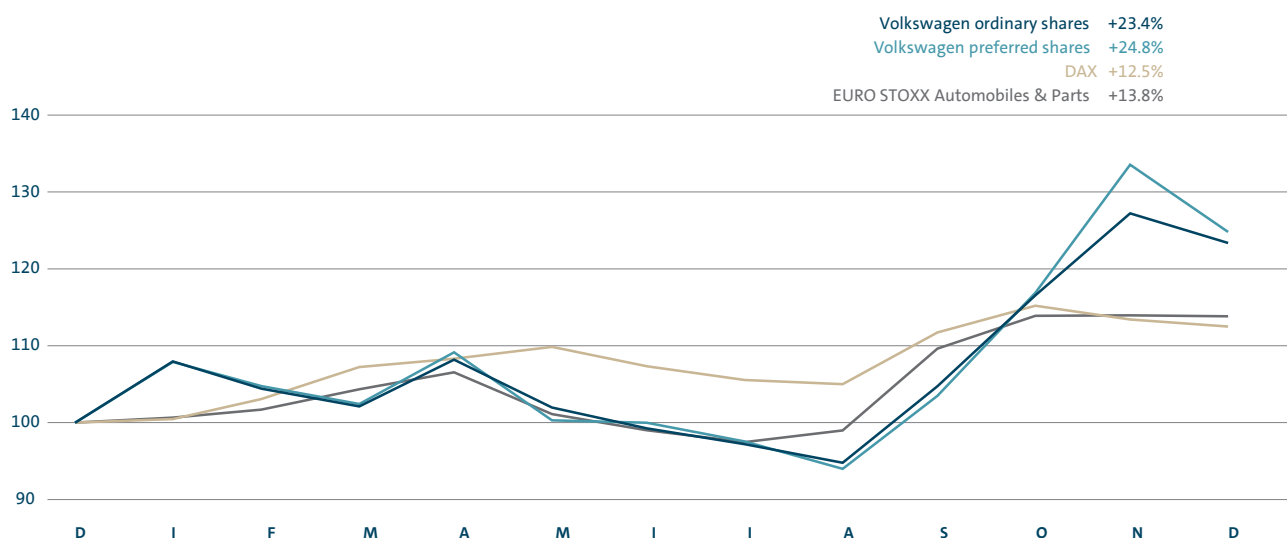
negatively impacted by the provisions required in connection with the diesel issue as well as uncertainty about further legal risks arising from the diesel issue, suspected antitrust behavior by German automotive companies and the future regulatory framework for diesel and electric vehicles.

VOLKSWAGEN KEY SHARE FIGURES AND MARKET INDICES FROM JANUARY 1 TO DECEMBER 31, 2017

		High	Low	Closing
Ordinary share	Price (€)	173.95	128.70	168.70
	Date	Nov. 30	Aug. 10	Dec. 29
Preferred share	Price (€)	178.10	125.35	166.45
	Date	Nov. 30	Aug. 31	Dec. 29
DAX	Price	13,479	11,510	12,918
	Date	Nov. 3	Feb. 6	Dec. 29
ESTX Auto & Parts	Price	610	508	593
	Date	Nov. 3	July 31	Dec. 29

PRICE DEVELOPMENT FROM DECEMBER 2016 TO DECEMBER 2017

Index based on month-end prices: December 31, 2016 = 100

**DIVIDEND POLICY**

Our dividend policy matches our financial strategy. In the interests of all stakeholders, we aim for continuous dividend growth so that our shareholders can participate appropriately in our business success. The proposed dividend amount therefore reflects our financial management objectives – in particular, ensuring a solid financial foundation as part of the implementation of our strategy.

The Board of Management and Supervisory Board of Volkswagen AG are proposing a dividend of €3.90 per ordinary share and €3.96 per preferred share. On this basis, the total dividend for fiscal year 2017 amounts to €2.0 (1.0) billion. The payout ratio is based on the Group's earnings after tax attributable to Volkswagen AG shareholders. This amounts to 17.3% for the reporting period and stood at 19.7% in the previous year. In our new Group strategy, we aim to achieve a payout ratio of 30%.

DIVIDEND YIELD

Based on the dividend proposal for the reporting period, the dividend yield on Volkswagen ordinary shares is 2.3 (1.5)%, measured by the closing price on the last trading day in 2017. The dividend yield on preferred shares is 2.4 (1.5)%.

The current dividend proposal can be found in the chapter entitled "Volkswagen AG (condensed, according to the German Commercial Code)", on page 131 of this annual report.

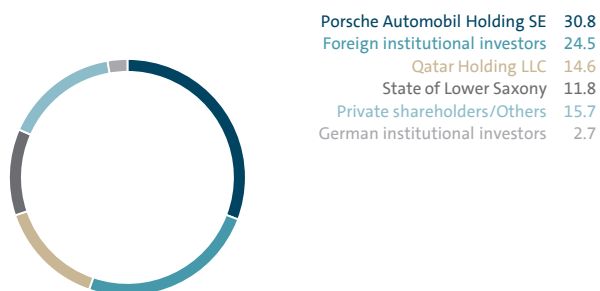
EARNINGS PER SHARE

Basic earnings per ordinary share were €22.63 (10.24) in fiscal year 2017. Basic earnings per preferred share were €22.69 (10.30). In accordance with IAS 33, the calculation is based on the weighted average number of ordinary and preferred shares outstanding in the reporting period. Since the number of basic and diluted shares is identical, basic earnings per share correspond to diluted earnings per share.

See also note 11 to the Volkswagen consolidated financial statements for the calculation of earnings per share.

SHAREHOLDER STRUCTURE AT DECEMBER 31, 2017

as a percentage of subscribed capital

**SHAREHOLDER STRUCTURE AT DECEMBER 31, 2017**

Volkswagen AG's subscribed capital amounted to €1,283,315,873.28 at the end of the reporting period. The shareholder structure of Volkswagen AG as of December 31, 2017 is shown in the chart on this page.

The distribution of voting rights for the 295,089,818 ordinary shares was as follows at the reporting date: Porsche Automobil Holding SE, Stuttgart, held 52.2% of the voting rights. The second-largest shareholder was the State of Lower Saxony, which held 20.0% of the voting rights. Qatar Holding LLC was the third-largest shareholder, with 17.0%. The remaining 10.8% of ordinary shares were attributable to other shareholders.

Notifications of changes in voting rights in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) are published on our website at www.volkswagenag.com/ir.

i OUR INVESTOR RELATIONS TEAM IS AVAILABLE FOR QUERIES AND COMMENTS AT ALL TIMES:

WOLFSBURG OFFICE (VOLKSWAGEN AG)
 Phone +49 (0) 5361 9-00
 Fax +49 (0) 5361 9-30411
 E-mail investor.relations@volkswagen.de
 Internet www.volkswagenag.com/ir

LONDON OFFICE
 Phone +44 20 3705 2045

BEIJING OFFICE
 Phone +86 106 531 4132

VOLKSWAGEN SHARE DATA

	Ordinary shares	Preferred shares
ISIN	DE0007664005	DE0007664039
WKN	766400	766403
Deutsche Börse/Bloomberg	VOW	VOW3
Reuters	VOWG.DE	VOWG_p.DE
		DAX, CDAX, EURO STOXX, EURO STOXX 50, EURO STOXX
	CDAX, Prime All Share, MSCI Euro, S&P Global 100 Index	Automobiles & Parts, Prime All Share, MSCI Euro
Primary market indices		
		Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart, Xetra, Luxembourg, New York ¹ , SIX Swiss Exchange
Exchanges		

1 Traded in the form of "sponsored unlisted American Depositary Receipts" (ADRs).
 Five ADRs correspond to one underlying Volkswagen ordinary or preferred share.

INVESTOR RELATIONS ACTIVITIES

Investor relations activities in fiscal year 2017 were dominated mainly by communications related to the Volkswagen Group's future program TOGETHER – Strategy 2025 as well as the relevant initiatives and programs launched by the Group brands and regions. One of the central activities was a Capital Markets Day held as part of the annual press and investor conference on March 14, 2017 at which detailed information on Volkswagen's strategy and financial targets was provided. The targets were firmed up at the annual planning session and communicated in November at a conference call.

In fiscal year 2017, the Investor Relations team once again provided extensive information to investors and analysts in all key financial markets worldwide about the strategic focus, current business performance and future prospects of the Volkswagen Group. At roughly 700 one-on-one discussions, road shows and conferences, we maintained close contact with capital market participants. Many of these discussions involved an exchange of ideas between investors and analysts and members of the Board of Management and Group senior executives, in addition to some discussions with the Chairman of the Supervisory Board.

Additional Volkswagen share data, as well as corporate news, reports and presentations can be downloaded from our website at www.volkswagenag.com/ir.

VOLKSWAGEN SHARE KEY FIGURES

DIVIDEND DEVELOPMENT		2017	2016	2015	2014	2013
Number of no-par value shares at Dec. 31						
Ordinary shares	thousands	295,090	295,090	295,090	295,090	295,090
Preferred shares	thousands	206,205	206,205	206,205	180,641	170,148
Dividend ¹						
per ordinary share	€	3.90	2.00	0.11	4.80	4.00
per preferred share	€	3.96	2.06	0.17	4.86	4.06
Dividend paid ¹						
on ordinary shares	€ million	1,967	1,015	68	2,294	1,871
on preferred shares	€ million	817	425	35	878	691
SHARE PRICE DEVELOPMENT ²		2017	2016	2015	2014	2013
Ordinary share						
Closing	€	168.70	136.75	142.30	180.10	196.90
Price performance	%	+23.4	-3.9	-21.0	-8.5	+21.0
Annual high	€	173.95	144.20	247.55	197.35	196.90
Annual low	€	128.70	108.95	101.15	150.70	132.60
Preferred share						
Closing	€	166.45	133.35	133.75	184.65	204.15
Price performance	%	+24.8	-0.3	-27.6	-9.6	+18.6
Annual high	€	178.10	138.80	255.20	203.35	204.15
Annual low	€	125.35	94.00	92.36	150.25	138.50
Beta factor ³	factor	1.12	1.22	1.28	1.38	1.32
Market capitalization at Dec. 31	€ billion	84.1	67.9	69.6	86.5	92.8
Equity attributable to Volkswagen AG share-holders and hybrid capital investors at Dec. 31	€ billion	108.8	92.7	88.1	90.0	87.7
Ratio of market capitalization to equity	factor	0.77	0.73	0.79	0.96	1.06
KEY FIGURES PER SHARE		2017	2016	2015	2014	2013
Earnings per ordinary share ⁴						
basic	€	22.63	10.24	-3.20	21.82	18.61
diluted	€	22.63	10.24	-3.20	21.82	18.61
Equity ⁵	€	217.13	184.90	175.67	189.16	188.58
Price/earnings ratio ⁶						
Ordinary share	factor	7.5	13.4	x	8.2	10.6
Preferred share	factor	7.3	13.0	x	8.4	10.9
Dividend yield ⁷						
Ordinary share	%	2.3	1.5	0.1	2.7	2.0
Preferred share	%	2.4	1.5	0.1	2.6	2.0
STOCK EXCHANGE TURNOVER ⁸		2017	2016	2015	2014	2013
Turnover of Volkswagen ordinary shares						
	€ billion	3.5	3.3	6.9	3.2	3.5
	million shares	23.6	25.4	45.4	17.8	21.4
Turnover of Volkswagen preferred shares						
	€ billion	45.1	41.1	72.4	45.1	43.0
	million shares	312.3	347.0	444.4	248.3	252.8
Volkswagen share of total DAX turnover	%	5.4	5.0	7.1	5.4	5.7

1 Figures for the years 2013 to 2016 relate to dividends paid in the following year. For 2017, the figures relate to the proposed dividend.

2 Xetra prices.

3 See page 127 for the calculation.

4 See note 11 to the consolidated financial statements (Earnings per share) for the calculation.

5 Based on the total number of ordinary and preferred shares on December 31 (excluding potential shares from the mandatory convertible note).

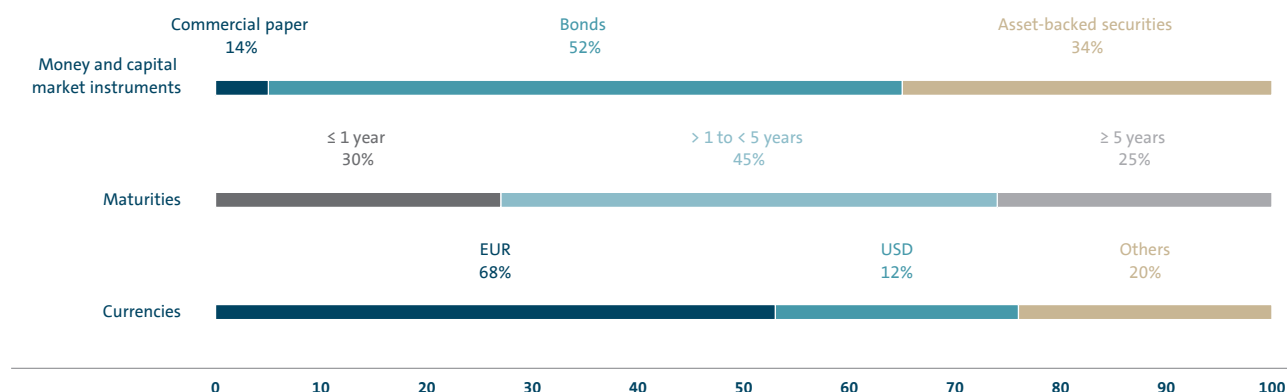
6 Ratio of year-end-closing price to earnings per share.

7 Dividend per share based on the year-end-closing price.

8 Order book turnover on the Xetra electronic trading platform (Deutsche Börse).

REFINANCING STRUCTURE OF THE VOLKSWAGEN GROUP

as of December 31, 2017



REFINANCING

In the course of 2017, the Volkswagen Group was able to increase the number of bonds issued on various money and capital markets compared with the prior year. In particular, senior and unsecured bonds were issued again in Europe, where we successfully placed a benchmark bond for the Automotive Division for the first time since 2015. This had a volume of €8.0 billion. We were also active for the Financial Services Division in this market, issuing three benchmark bonds totaling €7.75 billion. In addition to this, we issued private placements.

In June 2017, we boosted net liquidity by placing unsecured, subordinated hybrid notes with an aggregate principal amount of €3.5 billion. The perpetual notes were issued in two tranches and can only be called by the issuer. One tranche with a volume of €1.5 billion can only be called after five and a half years, while the other tranche of €2.0 billion can only be called after ten years.

A further focus of refinancing was the issue of commercial paper, especially in Europe and in euros.

Asset-backed security (ABS) transactions were another important element of our refinancing activities, amounting to over €4.1 billion in Europe.

Bonds and ABS transactions were also issued in local capital markets, including Australia, Brazil, China, India and Mexico.

In addition, the Financial Services Division issued a public promissory note with a value of €0.9 billion.

The proportion of fixed-rate instruments in the past year was roughly twice as high as the proportion of variable-rate instruments.

In all refinancing arrangements, we pursue the goal of excluding risks related to interest rates and currency by entering into derivatives contracts at the same time.

The table below shows how our money and capital market programs were utilized as of December 31, 2017, and illustrates the financial flexibility of the Volkswagen Group:

PROGRAMS	Authorized volume € billion	Amount utilized on Dec. 31, 2017 € billion
Commercial Paper	36.3	15.0
Bonds	127.6	58.1
of which hybrid issues	—	11.0
Asset-backed securities	71.2	34.9

RATINGS

	VOLKSWAGEN AG			VOLKSWAGEN FINANCIAL SERVICES AG			VOLKSWAGEN BANK GMBH		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Standard & Poor's									
short-term	A-2	A-2	A-2	A-2	A-2	A-2	A-2	A-2	A-2
long-term	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	A-	A-	A-
outlook	stable	negative	negative	stable	negative	negative	negative	negative	negative
Moody's Investors Service									
short-term	P-2	P-2	P-2	P-2	P-1	P-1	P-1	P-1	P-1
long-term	A3	A3	A3	A3	A2	A1	A3	Aa3	A1
outlook	negative	negative	negative	negative	negative	negative	negative	negative	negative

The €20.0 billion syndicated credit line for Volkswagen AG that was agreed with a banking syndicate in December 2015 was terminated in June 2017 as contractually agreed. After exercising an extension option in 2015, the syndicated credit line of €5.0 billion agreed in July 2011 was extended to April 2020. This credit facility remained unused as of the end of 2017.

Syndicated credit lines worth a total of €6.4 billion at other Group companies have also not been drawn down. In addition, Group companies had arranged bilateral, confirmed credit lines with national and international banks in various other countries for a total of €8.5 billion, of which €3.4 billion was drawn down.

RATINGS

In 2017, the rating agencies Standard & Poor's and Moody's Investors Service conducted the regular update of their credit ratings for Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH.

In November 2017, Standard & Poor's confirmed its short-term and long-term ratings of A-2 and BBB+ for Volkswagen AG and Volkswagen Financial Services AG, and of A-2 and A- for Volkswagen Bank GmbH. The outlook for Volkswagen AG and Volkswagen Financial Services AG improved from "negative" to "stable" due to the better than expected operating performance. The outlook for Volkswagen Bank GmbH was left unchanged at "negative".

Moody's Investors Service left the short-term and long-term ratings of Volkswagen AG unchanged at P-2 and A3

respectively. In September 2017, the long-term rating for Volkswagen Financial Services AG was lowered by one notch from A2 to A3. The rating for Volkswagen Bank GmbH was downgraded by three notches from Aa3 to A3. The short-term rating of Volkswagen Financial Services AG was lowered by one notch from P-1 to P-2, while that of Volkswagen Bank GmbH remained unchanged at P-1. These changes were due to the completion of the reorganization at Financial Services AG: Volkswagen Bank GmbH is now a subsidiary of Volkswagen AG. This means that the financing structures of Volkswagen Bank GmbH and Volkswagen Financial Services AG are examined separately. The outlook for all three companies is still classed as negative.

VOLKSWAGEN IN SUSTAINABILITY RANKINGS AND INDICES

Analysts and investors are basing their recommendations and decisions increasingly on companies' sustainability profiles. They draw primarily on sustainability ratings to evaluate a company's environmental, social and governance performance.

In sustainability rankings and indices such as the Dow Jones Sustainability Indices, FTSE4 Good Indices, Sustainability and oekom research, where we held top positions before the emissions issue, Volkswagen's ratings have been downgraded or removed. Volkswagen had a score of A- in the CDP (formerly Carbon Disclosure Project) and an A rating in the Water Disclosure Project (WDP).

Results of Operations, Financial Position and Net Assets

The Volkswagen Group generated significantly higher sales revenue in fiscal year 2017 than in 2016. Despite further charges and high cash outflows in connection with the diesel issue, operating profit exceeded the prior-year figure and net liquidity in the Automotive Division continued at a robust level.

The Volkswagen Group's segment reporting comprises the four reportable segments Passenger Cars, Commercial Vehicles, Power Engineering and Financial Services, in compliance with IFRS 8 and in line with the Group's internal management and reporting.

At Volkswagen, segment result is measured on the basis of the operating result.

The reconciliation column contains activities and other operations that do not by definition constitute segments. These include the unallocated Group financing activities. The reconciliation also contains consolidation adjustments between the segments (including the holding company functions). Purchase price allocation for Porsche Holding Salzburg and Porsche, Scania and MAN reflects their accounting treatment in the segments.

The Automotive Division comprises the passenger cars, commercial vehicles and power engineering segments, as well as the figures from the reconciliation. The passenger cars

segment and the reconciliation are combined to form the Passenger Cars Business Area; for commercial vehicles and power engineering, the segment is the same as the business area. The Financial Services Division corresponds to the financial services segment.

SALE OF THIRD-PARTY-BRAND DEALERSHIPS OF PORSCHE HOLDING SALZBURG

The sale of part of the PGA Group SAS to the Emil Frey Group was executed on June 1, 2017. The sale was made in connection with the strategic development of Porsche Holding Salzburg's dealer network and the corresponding focus on dealerships exclusively selling Volkswagen Group brand vehicles. This had a positive effect of €0.8 billion on the Group's net liquidity and, taking into account the disposal of the assets and liabilities, resulted in immaterial income for the Group, which was reported in other operating income.

KEY FIGURES FOR 2017 BY SEGMENT

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue	188,405	35,200	3,283	33,733	260,621	-29,939	230,682
Segment result (operating result)	12,644	1,892	-55	2,673	17,153	-3,335	13,818
as a percentage of sales revenue	6.7	5.4	-1.7	7.9			6.0
Capex, including capitalized development costs	15,713	1,915	159	421	18,208	104	18,313

SPECIAL ITEMS

Special items consist of certain items in the financial statements whose separate disclosure the Board of Management believes can enable a better assessment of our economic performance.

In fiscal year 2017, negative special items recognized in the operating profit amounted to €–3.2 (–7.5) billion. In the reporting period, these related exclusively to charges in the Passenger Cars Business Area in connection with the diesel issue, primarily due to higher expenses attributable to the buyback/retrofit programs for 2.0l and 3.0l TDI vehicles in North America and to higher legal risks. In fiscal year 2016, these items amounted to €–6.4 billion.

The prior-year period also contained additional special items in the Passenger Cars Business Area for potentially faulty airbags manufactured and supplied by Takata (€–0.3 billion), as well as for restructuring measures in the Passenger Cars (€–0.2 billion), Commercial Vehicles (€–0.1 billion) and Power Engineering (€–0.2 billion) business areas. In 2016, provisions recognized in connection with the commercial vehicles antitrust proceedings launched by the European Commission also led to special items (€–0.4 billion) in the Commercial Vehicles Business Area.

RESULTS OF OPERATIONS

Results of operations of the Group

In 2017, the Volkswagen Group's sales revenue increased by 6.2% year-on-year to €230.7 billion. In particular, higher volumes and the healthy business performance in the Financial Services Division had a positive effect, while exchange rates had a negative impact. At 80.8 (79.9)% the major share of sales revenue was recorded outside Germany.

Gross profit improved by €1.5 billion to €42.5 billion. Adjusted for special items recorded under this item in both periods, gross profit increased to €44.8 (42.5) billion. The gross margin amounted to 18.4 (18.9)%; excluding special items it was 19.4 (19.6)%.

In the reporting period, the Volkswagen Group generated an operating profit before special items of €17.0 (14.6) billion; the operating return on sales before special items rose to 7.4 (6.7)%. The increase was mainly the result of positive volume-, mix- and margin-related factors, as well as improvements in product costs, while higher fixed costs as a result of expansion and higher depreciation and amortization charges due to the large volume of capital expenditure had an offsetting effect. Negative special items weighed on operating

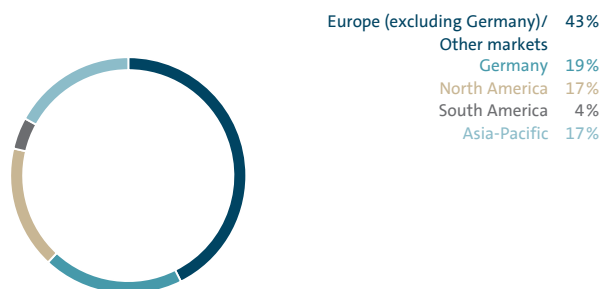
INCOME STATEMENT BY DIVISION

€ million	VOLKSWAGEN GROUP		AUTOMOTIVE ¹		FINANCIAL SERVICES	
	2017	2016	2017	2016	2017	2016
Sales revenue	230,682	217,267	196,949	186,016	33,733	31,251
Cost of sales	–188,140	–176,270	–160,614	–150,860	–27,526	–25,410
Gross profit	42,542	40,997	36,335	35,156	6,207	5,841
Distribution expenses	–22,710	–22,700	–21,353	–21,453	–1,357	–1,248
Administrative expenses	–8,254	–7,336	–6,554	–5,730	–1,700	–1,606
Net other operating result	2,240	–3,858	2,717	–3,306	–477	–552
Operating result	13,818	7,103	11,146	4,668	2,673	2,435
Operating return on sales (%)	6.0	3.3	5.7	2.5	7.9	7.8
Share of the result of equity-accounted investments	3,482	3,497	3,473	3,433	9	64
Interest result and Other financial result	–3,388	–3,308	–3,209	–3,217	–180	–91
Financial result	94	189	265	216	–171	–27
Earnings before tax	13,913	7,292	11,411	4,884	2,502	2,408
Income tax expense	–2,275	–1,912	–3,295	–1,149	1,020	–763
Earnings after tax	11,638	5,379	8,116	3,735	3,522	1,645
Noncontrolling interests	10	10	–257	–81	267	91
Earnings attributable to Volkswagen AG hybrid capital investors	274	225	274	225	–	–
Earnings attributable to Volkswagen AG shareholders	11,354	5,144	8,099	3,591	3,255	1,553

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

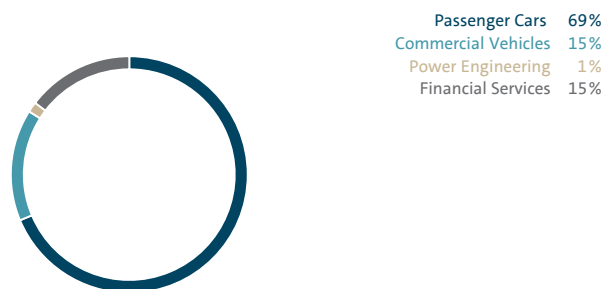
SHARE OF SALES REVENUE BY MARKET 2017

in percent



SHARE OF SALES REVENUE BY DIVISION/BUSINESS AREA 2017

in percent



profit, reducing this item by a total of €-3.2 (-7.5) billion. At €13.8 billion, the Volkswagen Group's operating profit was up €6.7 billion on the previous year. The operating return on sales rose to 6.0 (3.3)%.

The financial result declined to €0.1 (0.2) billion. Lower interest expenses and lower expenses from the measurement of derivative financial instruments at the reporting date had a positive effect, while foreign currency measurement had a negative impact. The share of the result of equity-accounted investments was at the prior-year level. This includes the gain on the remeasurement of the investment in HERE following the acquisition of shares by additional investors. In the prior-year period, the income from the sale of the LeasePlan shares had a positive effect.

The Volkswagen Group's profit before tax rose to €13.9 billion in the reporting period, up €6.6 billion on the prior-year figure. The return on sales before tax improved from 3.4% to 6.0%. Profit after tax amounted to €11.6 (5.4) billion. Although income taxes increased, the tax rate of 16.3 (26.2)% was considerably lower in the reporting period. This decline was due to the tax reform in the USA passed at the end of the year, which led to a non-recurring positive non-cash measurement effect on deferred taxes of €1.0 billion.

Results of operations in the Automotive Division

The Automotive Division's sales revenue amounted to €196.9 billion in fiscal year 2017, thus exceeding the prior-year figure by €10.9 billion. The improvement resulted primarily from higher vehicles sales, which were offset by negative exchange rate effects. As our Chinese joint ventures are accounted for using the equity method, the Group's business performance in the Chinese passenger car market is

reflected in consolidated sales revenue primarily by deliveries of vehicles and vehicle parts.

Cost of sales increased due to larger volumes; in addition, a rise in special items and higher depreciation and amortization charges had a negative impact, while improvements in product costs had a positive effect. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) declined to 6.7 (7.3)% in the reporting period as a result of higher sales revenues and lower expenses. In addition to new models, our activities focused above all on the electrification of our vehicle portfolio, a more efficient range of engines, and digitalization. Expressed as a percentage of sales revenue, cost of sales rose slightly year-on-year.

The gross profit of the Automotive Division improved to €36.3 (35.2) billion.

Distribution expenses were on a level with the previous year, which had been impacted by negative special items. Exchange rate effects weighed on the 2017 figure. The ratio of distribution expenses to sales revenue declined. Administrative expenses as well as their ratio to sales revenue increased compared with the previous year. At €2.7 billion in fiscal year 2017, the net other operating result exceeded the prior year by €6.0 billion, driven in particular by much lower negative special items in connection with the diesel issue and by exchange rate effects.

The operating profit of the Automotive Division improved by €6.5 billion to €11.1 billion. The operating return on sales stood at 5.7 (2.5)%. Negative special items contained in operating profit totaled €-3.2 (-7.5) billion. These items were exclusively attributable to the Passenger Cars Business Area in the reporting period, reflecting charges in connection with the diesel issue. Excluding the special items, the Automotive

Division's operating profit rose to €14.4 (12.2) billion. The operating return on sales before special items increased to 7.3 (6.6)%. The main contributors were improvements in volumes, the mix and margins, as well as product cost optimization; these factors were offset by higher fixed costs as a result of expansion and higher depreciation and amortization charges. Operating profit benefited from the business performance of our Chinese joint ventures primarily in the form of deliveries of vehicles and vehicle parts and of license income, as the joint ventures are accounted for using the equity method and therefore included in the financial result.

RESULTS OF OPERATIONS IN THE PASSENGER CARS BUSINESS AREA

€ million	2017	2016
Sales revenue	158,466	150,343
Operating result	9,309	4,167
Operating return on sales (%)	5.9	2.8

The Passenger Cars Business Area generated sales revenue of €158.5 billion in fiscal year 2017, thus exceeding the prior-year figure by 5.4%, mainly because of volume-related factors. Exchange rates had a negative effect. The operating profit of €9.3 billion generated in the Passenger Cars Business Area was up €5.1 billion on the previous year. Special items included in this item decreased significantly year-on-year to €-3.2 (-6.9) billion. Improvements in volumes, the mix and margins, and product cost optimization had a positive influence, while a rise in fixed costs and higher depreciation and amortization charges had a negative impact. The operating return on sales rose to 5.9 (2.8)%.

RESULTS OF OPERATIONS IN THE COMMERCIAL VEHICLES BUSINESS AREA

€ million	2017	2016
Sales revenue	35,200	32,080
Operating result	1,892	718
Operating return on sales (%)	5.4	2.2

The Commercial Vehicles Business Area recorded sales revenue of €35.2 billion in the reporting period, €3.1 billion more than in the previous year; this increase was driven mainly by larger volumes. The operating profit of the Com-

mercial Vehicles Business Area improved by €1.2 billion to €1.9 billion; the operating return on sales climbed to 5.4 (2.2)%. The increase versus the previous year, which had been negatively impacted by special items, was mainly the result of positive volume- and margin-related factors and the expansion of the service business.

RESULTS OF OPERATIONS IN THE POWER ENGINEERING BUSINESS AREA

€ million	2017	2016
Sales revenue	3,283	3,593
Operating result	-55	-217
Operating return on sales (%)	-1.7	-6.0

The Power Engineering Business Area's sales revenue of €3.3 billion in fiscal year 2017 was 8.6% lower than in the previous year. The operating loss declined by €0.2 billion to €-0.1 billion. Lower volumes were offset by positive mix effects. Special items had a negative impact in the previous year. The operating return on sales improved from -6.0% to -1.7%.

Results of operations in the Financial Services Division

In the Financial Services Division, sales revenue increased by 7.9% year-on-year to €33.7 billion in fiscal year 2017, due mainly to the growth in business volumes.

As a result, gross profit went up by €0.4 billion to €6.2 billion.

Both distribution and administrative expenses increased year-on-year; in addition to higher volumes, the rise in expenses was attributable in particular to digitalization. The ratio of distribution and administrative expenses to sales revenue was unchanged. The net other operating result amounted to €-0.5 (-0.6) billion.

The 9.8% year-on-year increase in operating profit to €2.7 billion reflects the Financial Services Division's sustained contribution to the Group's success. The operating return on sales improved to 7.9 (7.8)%. The return on equity before tax was 9.8%, compared with 10.8% in the previous year.

PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

Financial management at the Volkswagen Group covers liquidity management, currency, interest rate and commodity risk management, as well as credit and country risk management. It is performed centrally for all Group companies by Group Treasury, based on internal directives and risk parameters. The main areas of the MAN and Porsche Holding Salzburg subgroups are integrated into the financial management of the Group, while Scania is covered to a limited extent. Additionally, these subgroups have their own financial management structures.

The goal of liquidity management is to ensure that the Volkswagen Group remains solvent at all times and at the same time to generate an adequate return from the investment of surplus funds. We use cash pooling to optimize the use of existing liquidity between the significant companies in Europe. To do this, the balances, either positive or negative, accumulating in the cash pooling accounts are swept daily into a target account at Group Treasury and thus pooled. Currency, interest rate and commodity risk management is designed to hedge the prices on which investment, production and sales plans are based using derivative financial instruments. Credit and country risk management aims to limit the Volkswagen Group's exposure to the risk of loss or default by means of diversification. To achieve this, internal limits are defined on the basis of various credit risks for the volume of business per counterparty when entering into financial transactions. These primarily focus on the capital resources of potential counterparties, as well as the ratings awarded by independent agencies. The relevant risk limits and the authorized financial instruments, hedging methods and hedging horizons are approved by the Group Board of Management Committee for Risk Management, which replaced the Group Board of Management Committee for Liquidity and Foreign Currency in the reporting period.

For additional information on the principles and goals of financial management, please refer to page 187 and to the notes to the 2017 consolidated financial statements on pages 282 to 291.

FINANCIAL POSITION

Financial position of the Group

The Volkswagen Group's gross cash flow amounted to €32.7 billion in fiscal year 2017, 25.5% more than in the previous year. At €-33.8 (-16.6) billion, the change in working capital was significantly negative. As expected, there were high cash outflows in connection with the diesel issue in the reporting period, primarily resulting from vehicle recalls and legal risks. As a result, cash flows from operating activities decreased by €10.6 billion to €-1.2 billion. The new special items recognized in the reporting period had a negative impact on gross cash flow and a positive effect on the change in working capital.

The Volkswagen Group's investing activities attributable to operating activities rose to €18.2 billion, 8.5% more than in the previous year. In the reporting period, the "Acquisition and disposal of equity investments" item particularly includes the acquisition of shares in Navistar as well as the sale of part of the PGA Group. The figure for the previous year had mainly been influenced by the cash inflow from the sale of the shares in LeasePlan.

Cash inflows from financing activities amounted to €17.6 (9.7) billion. These primarily include the issuance and redemption of bonds and other financial liabilities. The dual-tranche hybrid notes (€3.5 billion), successfully placed in June 2017, increased net liquidity; this was offset by the dividend paid to the shareholders of Volkswagen AG (€1.0 billion).

At the end of the reporting period, the Volkswagen Group's cash and cash equivalents as reported in the cash flow statement amounted to €18.0 (18.8) billion and were thus down on the prior-year reporting date.

The Volkswagen Group's net liquidity as of December 31, 2017 was €-119.1 (-107.9) billion.

CASH FLOW STATEMENT BY DIVISION

€ million	VOLKSWAGEN GROUP		AUTOMOTIVE ¹		FINANCIAL SERVICES	
	2017	2016	2017	2016	2017	2016
Cash and cash equivalents at beginning of period	18,833	20,462	14,125	15,294	4,709	5,168
Earnings before tax	13,913	7,292	11,411	4,884	2,502	2,408
Income taxes paid	-3,664	-3,315	-3,514	-3,526	-149	211
Depreciation and amortization expense ²	22,165	20,924	14,948	14,331	7,218	6,593
Change in pension provisions	468	235	452	224	15	11
Other noncash income/expense and reclassifications ³	-231	871	121	556	-352	316
Gross cash flow	32,651	26,007	23,418	16,468	9,233	9,539
Change in working capital	-33,836	-16,576	-11,732	3,803	-22,104	-20,379
Change in inventories	-4,198	-3,637	-3,784	-3,313	-414	-324
Change in receivables	-1,660	-2,155	-937	-1,876	-724	-280
Change in liabilities	5,302	5,048	4,168	4,474	1,134	574
Change in other provisions	-9,910	5,732	-10,079	5,616	169	116
Change in lease assets (excluding depreciation)	-11,478	-12,074	-1,115	-1,157	-10,363	-10,917
Change in financial services receivables	-11,891	-9,490	15	58	-11,906	-9,547
Cash flows from operating activities	-1,185	9,430	11,686	20,271	-12,871	-10,840
Cash flows from investing activities attributable to operating activities	-18,218	-16,797	-17,636	-15,941	-583	-856
of which: investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs	-13,052	-13,152	-12,631	-12,795	-421	-357
capitalized development costs	-5,260	-5,750	-5,260	-5,750	-	-
acquisition and disposal of equity investments	-317	1,754	-124	2,283	-193	-528
Net cash flow⁴	-19,404	-7,367	-5,950	4,330	-13,454	-11,696
Change in investments in securities, loans and time deposits	1,710	-3,882	2,333	-3,125	-622	-757
Cash flows from investing activities	-16,508	-20,679	-15,303	-19,066	-1,205	-1,613
Cash flows from financing activities	17,625	9,712	3,562	-2,298	14,063	12,009
of which: capital transactions with noncontrolling interests	-	-3	-	-3	-	-
Capital contributions/capital redemptions	3,473	-	2,400	-1,454	1,073	1,454
Effect of exchange rate changes on cash and cash equivalents	-727	-91	-641	-76	-86	-15
Net change in cash and cash equivalents	-796	-1,628	-696	-1,169	-99	-460
Cash and cash equivalents at Dec. 31⁵	18,038	18,833	13,428	14,125	4,609	4,709
Securities, loans and time deposits	26,291	28,036	15,201	17,911	11,090	10,125
Gross liquidity	44,329	46,869	28,630	32,036	15,699	14,833
Total third-party borrowings	-163,472	-154,819	-6,251	-4,856	-157,221	-149,963
Net liquidity⁶	-119,143	-107,950	22,378	27,180	-141,522	-135,130

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

2 Net of impairment reversals.

3 These relate mainly to the fair value measurement of financial instruments, application of the equity method and the reclassification of gains/losses on disposal of noncurrent assets and equity investments to investing activities.

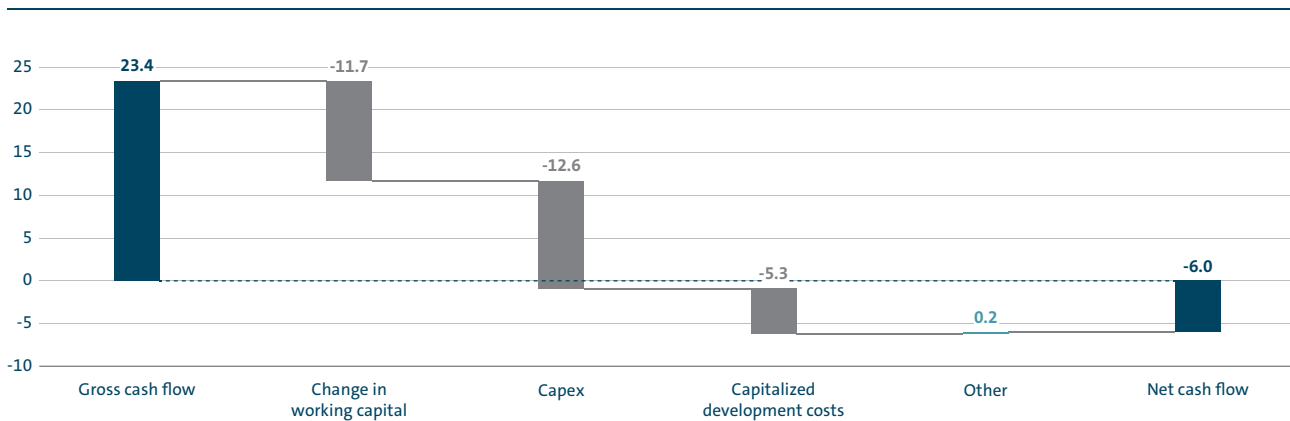
4 Net cash flow: cash flows from operating activities, net of cash flows from investing activities attributable to operating activities (investing activities excluding change in investments in securities, loans and time deposits).

5 Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.

6 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).

AUTOMOTIVE DIVISION NET CASH FLOW 2017

in € billion

**Financial position of the Automotive Division**

The Automotive Division's gross cash flow was €23.4 billion in fiscal year 2017, thus exceeding the prior-year figure by €6.9 billion. The increase in operating profit before special items and the year-on-year decline in special items had a positive effect. At €-11.7 (3.8) billion, the change in working capital was significantly negative. As expected, there were high cash outflows in the reporting period related to the diesel issue, primarily for vehicle recalls and legal risks. As a result, cash flows from operating activities amounted to €11.7 billion, €8.6 billion less than in 2016. The new special items recognized in fiscal year 2017 had a negative impact on gross cash flow and a positive effect on the change in working capital.

Investing activities attributable to operating activities increased by €1.7 billion to €17.6 billion. At €12.6 (12.8) billion, investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) were on a level with the previous year. The ratio of capex to sales revenue declined to 6.4 (6.9)% due primarily to the rise in sales revenue. We invested mainly in our production facilities and in models that we launched in the reporting period or are planning to launch next year. These are primarily vehicles in the Polo, Tiguan, Audi A6, Audi A8 and Audi e-tron series, as well as the Audi A4, Porsche Cayenne, Porsche 911 and the Bentley Continental family. Other investment priorities included the ecological focus of our model range, drivetrain electrification and our modular

toolkits. At €5.3 (5.8) billion, capitalized development costs were lower than in the previous year. In the reporting period, the "Acquisition and disposal of equity investments" item mainly includes the acquisition of shares in Navistar and the sale of part of the PGA Group. In the prior-year period, the sale of the shares in LeasePlan had a significantly positive effect on this item.

The Automotive Division's net cash flow reflects the division's strong operating performance, although it declined by €10.3 billion to €-6.0 billion driven, as expected, by high cash outflows attributable to the diesel issue.

A capital increase carried out by Volkswagen AG at Volkswagen Financial Services AG at the beginning of 2017 in order to finance the growth in business volumes and comply with regulatory capital requirements resulted in outflows of €1.0 billion in the Automotive Division's financing activities. In May 2017, a dividend totaling €1.0 billion was distributed to the shareholders of Volkswagen AG, €0.9 billion more than in the previous year. The successful placement of dual-tranche hybrid notes with an aggregate principal amount of €3.5 billion via Volkswagen International Finance N.V. in June 2017 resulted in a cash inflow. The notes consist of a €1.5 billion note that carries a coupon of 2.7% and has a first call date after five and a half years, and a €2.0 billion note that carries a coupon of 3.875% and has a first call date after ten years. Both tranches are perpetual and increase equity, net of transaction costs, among other factors. The cash inflows from the hybrid notes were classified as a capital contribution,

which increased net liquidity. In addition, financing activities include the issuance and redemption of bonds and other financial liabilities. They amounted to €3.6 billion in 2017, €5.9 billion more than in the prior-year period.

On December 31, 2017, the Automotive Division's net liquidity was again at a robust level of €22.4 billion, compared with €27.2 billion at the end of 2016. The Automotive Division's net liquidity represents 9.7 (12.5)% of consolidated sales revenue in the reporting period.

FINANCIAL POSITION IN THE PASSENGER CARS BUSINESS AREA

€ million	2017	2016
Gross cash flow	19,410	13,920
Change in working capital	-10,122	3,454
Cash flows from operating activities	9,289	17,374
Cash flows from investing activities attributable to operating activities	-15,337	-13,353
Net cash flow	-6,048	4,021

In the reporting period, the Passenger Cars Business Area recorded gross cash flow of €19.4 billion, up €5.5 billion on the prior-year figure, mainly due to earnings-related factors; a significant year-on-year decline in negative special items also had a positive effect. The change in working capital was significantly negative, decreasing by €13.6 billion year-on-year to €-10.1 billion. As expected, there were high cash outflows related to the diesel issue in fiscal year 2017, primarily for vehicle recalls and legal risks. Consequently, cash flows from operating activities decreased by 46.5% to €9.3 billion. The new special items recognized in the reporting period had a negative impact on gross cash flow and a positive effect on the change in working capital. Investing activities attributable to operating activities resulted in cash outflows of €15.3 (13.4) billion in the reporting period. The year-on-year increase in capex of €0.3 billion to €11.2 billion was more than offset by the €0.4 billion decline in capitalized development costs to €4.6 billion. The item included the sale of part of the PGA Group in the reporting period; in the prior-year period, the sale of the LeasePlan shares had a significantly positive impact. Net cash flow amounted to €-6.0 (4.0) billion.

FINANCIAL POSITION IN THE COMMERCIAL VEHICLES BUSINESS AREA

€ million	2017	2016
Gross cash flow	3,739	2,496
Change in working capital	-1,320	238
Cash flows from operating activities	2,419	2,734
Cash flows from investing activities attributable to operating activities	-2,122	-2,407
Net cash flow	297	327

The Commercial Vehicles Business Area generated gross cash flow of €3.7 billion in the reporting period, €1.2 billion above the prior-year figure due to earnings-related factors. At €-1.3 (0.2) billion, the change in working capital was significantly negative. In the prior-year period, the special items recognized had a negative impact on gross cash flow and a positive effect on the change in working capital. Cash flows from operating activities were slightly down on the 2016 figure, declining to €2.4 (2.7) billion. Despite the acquisition of shares in Navistar and investments in a new cab generation at Scania, investing activities attributable to operating activities were down year-on-year, amounting to €2.1 (2.4) billion; the previous year had been affected by investments in the new plant for light commercial vehicles in Wrzesnia in Poland. At €0.3 (0.3) billion, net cash flow was on a level with the previous year.

FINANCIAL POSITION IN THE POWER ENGINEERING BUSINESS AREA

€ million	2017	2016
Gross cash flow	268	52
Change in working capital	-290	111
Cash flows from operating activities	-22	163
Cash flows from investing activities attributable to operating activities	-177	-182
Net cash flow	-199	-19

In fiscal year 2017, the Power Engineering Business Area's gross cash flow improved to €0.3 (0.1) billion. Funds tied up in working capital increased by €0.4 billion to €-0.3 billion. The comparison with the prior-year period has to take special items into account. Cash flows from operating activities were down on the previous year, breaking even in the reporting period. At €0.2 (0.2) billion, investing activities attributable to operating activities were on a level with the previous year. Net cash flow declined to €-0.2 (0.0) billion.

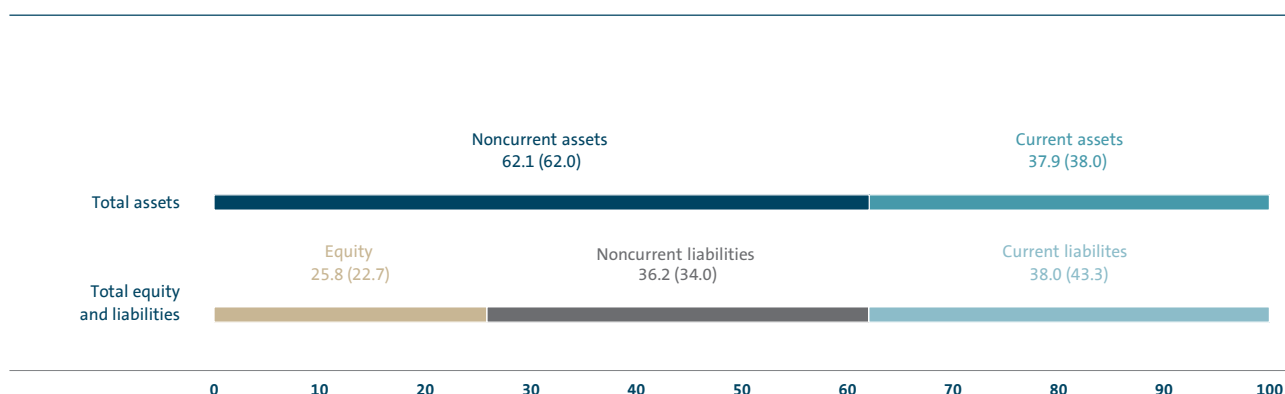
CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31

€ million	VOLKSWAGEN GROUP		AUTOMOTIVE ¹		FINANCIAL SERVICES	
	2017	2016	2017	2016	2017	2016
Assets						
Noncurrent assets	262,081	254,010	140,912	139,003	121,169	115,007
Intangible assets	63,419	62,599	63,211	62,372	208	227
Property, plant and equipment	55,243	54,033	52,503	51,415	2,739	2,619
Lease assets	39,254	38,439	3,140	3,385	36,114	35,054
Financial services receivables	73,249	68,402	–7	9	73,256	68,393
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	30,916	30,537	22,065	21,822	8,851	8,715
Current assets	160,112	155,722	80,210	81,083	79,902	74,640
Inventories	40,415	38,978	36,113	34,947	4,302	4,031
Financial services receivables	53,145	49,673	–686	–660	53,832	50,333
Other receivables and financial assets	32,040	30,286	17,354	17,561	14,686	12,726
Marketable securities	15,939	17,520	13,512	14,703	2,427	2,817
Cash, cash equivalents and time deposits	18,457	19,265	13,826	14,532	4,632	4,733
Assets held for sale	115	–	90	–	24	–
Total assets	422,193	409,732	221,121	220,085	201,071	189,647
Equity and liabilities						
Equity	109,077	92,910	81,605	69,130	27,472	23,780
Equity attributable to Volkswagen AG shareholders	97,761	85,122	70,857	61,714	26,904	23,408
Equity attributable to Volkswagen AG hybrid capital investors	11,088	7,567	11,088	7,567	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	108,849	92,689	81,945	69,281	26,904	23,408
Noncontrolling interests	229	221	–339	–151	568	373
Noncurrent liabilities	152,726	139,306	69,805	69,982	82,921	69,324
Financial liabilities	81,628	66,358	6,709	5,876	74,919	60,483
Provisions for pensions	32,730	33,012	32,189	32,464	540	549
Other liabilities	38,368	39,936	30,906	31,643	7,462	8,293
Current liabilities	160,389	177,515	69,711	80,973	90,678	96,542
Put options and compensation rights granted to noncontrolling interest shareholders	3,795	3,849	3,795	3,849	–	–
Financial liabilities	81,844	88,461	–458	–1,019	82,302	89,481
Trade payables	23,046	22,794	20,497	20,753	2,548	2,041
Other liabilities	51,705	62,411	45,877	57,391	5,828	5,021
Total equity and liabilities	422,193	409,732	221,121	220,085	201,071	189,647

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions, primarily intragroup loans.

CONSOLIDATED BALANCE SHEET STRUCTURE 2017

in percent

**Financial position in the Financial Services Division**

The Financial Services Division's gross cash flow declined to €9.2 billion in the reporting period, €0.3 billion lower than in the previous year. Due to larger volumes, funds tied up in working capital increased by €1.7 billion to €22.1 billion. Cash flows from operating activities amounted to €-12.9 (-10.8) billion.

At €0.6 (0.9) billion, investing activities attributable to operating activities were down on the previous year, which had included the acquisition of shares in the ride-hailing service Gett.

The Financial Services Division's financing activities resulted in cash inflows of €14.1 (12.0) billion in 2017. This included a capital increase of €1.0 billion implemented by Volkswagen AG to finance expected business growth and to comply with stricter regulatory requirements.

At the end of 2017, the Financial Services Division's negative net liquidity, which is common in the industry, stood at €-141.5 billion, compared with €-135.1 billion at the end of December 2016.

NET ASSETS**Consolidated balance sheet structure**

At the end of the reporting period, the Volkswagen Group's total assets amounted to €422.2 billion, 3.0% more than as of December 31, 2016. The increase, which was partially offset by exchange rate effects, was primarily due to a rise in business volumes in the Financial Services Division. The structure of the consolidated balance sheet as of the reporting date is shown in the chart on this page. The Volkswagen Group's equity increased to €109.1 billion, €16.2 billion more than at the end of the previous reporting period. The equity ratio rose to 25.8 (22.7)%.

The "assets held for sale" item contains primarily the anticipated carrying amount of some of the shares in There

Holding, which are expected to be disposed of (€0.1 billion). The negotiations are still ongoing, and the disposals are expected to be finalized in the first half of 2018.

As of the end of fiscal year 2017, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €8.4 (6.8) billion, financial guarantees in the amount of €0.3 (0.2) billion and other financial obligations in the amount of €24.5 (25.9) billion. Contingent liabilities relate primarily to legal risks in connection with the diesel issue as well as potential liabilities from tax risks in the Commercial Vehicles Business Area in Brazil. The other financial obligations primarily result from purchase commitments for property, plant and equipment, obligations under long-term leasing and rental contracts and irrevocable credit commitments to customers. In addition, they include investments to which the Group has committed itself, in the infrastructure for zero-emission vehicles and in initiatives to promote access to and awareness of this technology. These commitments were made as part of the settlement agreements in the USA in connection with the diesel issue. Other financial obligations include an amount of €1.3 billion for this purpose.

Automotive Division balance sheet structure

At the end of the reporting period, the Automotive Division's intangible assets and property, plant and equipment both increased slightly year-on-year. Lease assets were down compared with the end of December 2016 as a result of the sale of part of the PGA Group. Equity-accounted investments declined slightly. The positive business results of the Chinese joint ventures, the purchase of the shares in Navistar and the remeasurement of the interest in HERE were offset by dividend payments resolved by the Chinese joint ventures, the remeasurement of investments, as well as the reclassification of some of the shares in There Holding, which are

now held for sale. At €140.9 (139.0) billion, total noncurrent assets were on a level with the previous year.

Current assets amounted to €80.2 (81.1) billion and were virtually unchanged year-on-year; the inventories included in this figure increased by 3.3% for production-related reasons. Total securities stood at €13.5 (14.7) billion and total cash and cash equivalents at €13.8 (14.5) billion, both showing a decline compared with December 31, 2016.

At the end of 2017, the Automotive Division's equity rose by 18.0% year-on-year to €81.6 billion. It was positively impacted by healthy earnings growth despite special items, as well as by effects from the measurement of derivatives recognized outside profit or loss, the hybrid notes issued in June 2017 and lower actuarial losses from the measurement of pension provisions. Currency translation effects and the dividend paid to the shareholders of Volkswagen AG led to a decline in the Automotive Division's equity. The capital increase implemented in the Financial Services Division also reduced equity in the Automotive Division, where the deduction was recognized. The noncontrolling interests are mainly attributable to RENK AG and AUDI AG. As these were lower overall than the noncontrolling interests attributable to the Financial Services Division, the figure for the Automotive Division, where the deduction was recognized, was negative. The equity ratio increased to 36.9 (31.4)%.

Noncurrent liabilities of €69.8 (70.0) billion were on a level with December 31, 2016. Noncurrent other liabilities were down, primarily as a result of the positive effects from the measurement of derivatives. The tax reform in the USA passed at the end of the year led to a decline in deferred tax liabilities of €1.0 billion.

As of December 31, 2017, current liabilities amounted to €69.7 billion, a decline of 13.9% compared with the end of 2016. Among other things, reclassifications from noncurrent to current liabilities due to shorter remaining maturities led to an increase in current financial liabilities to €-0.5 (-1.0) billion. The figures for the Automotive Division also contain the elimination of intragroup transactions between the Automotive and Financial Services divisions. As the current financial liabilities for the primary Automotive Division were lower than the loans granted to the Financial Services Division, a negative amount was disclosed. The item "Put options and compensation rights granted to noncontrolling interest shareholders" primarily comprises the liability for the obligation to acquire the shares held by the remaining free float

shareholders of MAN. Current other liabilities were down as a result of the positive effects from the measurement of derivatives. Current other provisions declined significantly due to their use in connection with the diesel issue.

At the end of 2017, the Automotive Division's total assets amounted to €221.1 (220.1) billion and were thus on a level with the previous year.

PASSENGER CARS BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2017	Dec. 31, 2016
Noncurrent assets	111,277	109,918
Current assets	60,052	61,600
Total assets	171,329	171,518
Equity	66,449	54,789
Noncurrent liabilities	55,118	56,703
Current liabilities	49,762	60,026

As of December 31, 2017, noncurrent assets in the Passenger Cars Business Area increased by €1.4 billion to €111.3 billion. While intangible assets and property, plant and equipment were higher, equity-accounted investments declined. Lease assets decreased, primarily due to the partial sale of the PGA Group. Current assets were at the prior-year level, amounting to €60.1 (61.6) billion; the inventories included in this figure increased for production-related reasons. Total securities and cash and cash equivalents were down in the reporting period. On December 31, 2017, total assets were virtually unchanged compared with the previous year, at €171.3 (171.5) billion.

At €66.4 billion, the Passenger Cars Business Area's equity was 21.3% higher than the prior-year figure, mainly due to earnings-related factors and the hybrid note issued in the reporting period.

Noncurrent liabilities decreased by 2.8%. The financial liabilities and other liabilities included in this item were down significantly. Deferred tax liabilities include the positive effect of the tax reform in the USA.

Current liabilities were down 17.1% year-on-year. Current other provisions declined significantly due to their use in connection with the diesel issue.

COMMERCIAL VEHICLES BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2017	Dec. 31, 2016
Noncurrent assets	27,005	26,206
Current assets	16,908	16,197
Total assets	43,913	42,403
Equity	12,194	11,185
Noncurrent liabilities	13,975	12,531
Current liabilities	17,744	18,687

In the Commercial Vehicles Business Area, intangible assets were lower and property, plant and equipment higher at the end of December 2017 than at the end of the previous reporting period. Equity-accounted investments increased because of the acquisition of the shares in Navistar. Overall, noncurrent assets grew by €0.8 billion to €27.0 billion. Higher inventories and receivables led to a 4.4% rise in current assets to €16.9 billion. At €43.9 billion, total assets exceeded the prior-year figure by 3.6%.

The 9.0% rise in equity to €12.2 billion in the reporting period was mainly attributable to improved earnings. Non-current liabilities increased by 11.5%; the noncurrent financial liabilities contained in this item were up significantly. Driven mainly by a marked decrease in current financial liabilities, current liabilities declined by 5.0%.

POWER ENGINEERING BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2017	Dec. 31, 2016
Noncurrent assets	2,629	2,879
Current assets	3,250	3,285
Total assets	5,879	6,165
Equity	2,963	3,157
Noncurrent liabilities	711	748
Current liabilities	2,205	2,260

At the end of the reporting period, noncurrent assets in the Power Engineering Business Area were lower than the year-end 2016 figure, driven primarily by a decrease in intangible assets. Current assets were on a level with the previous year. On December 31, 2017, the Power Engineering Business Area

reported total assets of €5.9 billion, down 4.6% on the previous year.

At the end of fiscal year 2017, equity amounted to €3.0 billion, an earnings-related decline of 6.1% compared with the end of the previous year. Both noncurrent and current liabilities were slightly down year-on-year at the end of the reporting period.

Financial Services Division balance sheet structure

On December 31, 2017, total assets in the Financial Services Division of €201.1 billion exceeded the prior-year figure by 6.0%.

Noncurrent assets increased by a total of 5.4% compared with the end of 2016. Within this item, lease assets and non-current financial services receivables rose in line with the growth in business.

Higher volumes led to a 7.1% rise in current assets. Current financial services receivables were up €3.5 billion, at €53.8 billion. As of the balance sheet date, the Financial Services Division accounted for around 47.6 (46.3)% of the Volkswagen Group's assets.

Equity in the Financial Services Division amounted to €27.5 billion at the end of 2017, 15.5% more than on the previous year's balance sheet date. Equity was pushed up by earnings growth and by the capital increase implemented by Volkswagen AG at the beginning of the year to finance the growth in business and to meet regulatory capital requirements. The equity ratio rose to 13.7 (12.5)%.

Higher noncurrent financial liabilities to fund business growth led to an overall increase of 19.6% in noncurrent liabilities compared with December 31, 2016.

Current liabilities declined by 6.1%; the current financial liabilities contained in this item fell significantly. At €31.4 (33.3) billion, deposits from direct banking business were lower than at the end of the previous year.

VALUE ADDED STATEMENT

The value added statement indicates the added value generated by a company in the past fiscal year as its contribution to the gross domestic product of its home country, and how it is appropriated. Due to the improved operating profit before special items and lower negative special items,

the value added generated by the Volkswagen Group in the reporting period was up 16.8% year-on-year. Added value per employee increased to €107.7 thousand (+13.9%) in 2017. Employees in the passive phase of their partial retirement as well as vocational trainees are not included in the calculation.

VALUE ADDED GENERATED BY THE VOLKSWAGEN GROUP

Source of funds in € million	2017		2016	
Sales revenue	230,682		217,267	
Other income	18,912		17,907	
Cost of materials	-151,449		-140,307	
Depreciation and amortization	-22,165		-20,924	
Other upfront expenditures	-17,615		-23,990	
Value added	58,364		49,953	

Appropriation of funds in € million	2017	%	2016	%
to Volkswagen AG shareholders (dividend, 2017 dividend proposal)	1,967	3.4	1,015	2.0
to employees (wages, salaries, benefits)	38,950	66.7	37,017	74.1
to the state (taxes, duties)	3,433	5.9	3,486	7.0
to creditors (interest expense)	4,344	7.4	4,070	8.1
to the Company (reserves)	9,671	16.6	4,365	8.7
Value added	58,364	100.0	49,953	100.0

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION

The Volkswagen Group's financial target system centers on continuously and sustainably increasing the value of the Company. In order to ensure the efficient use of resources in the Automotive Division and to measure the success of this, we have been using a value-based management system for a number of years, with return on investment (ROI) as a relative indicator and value contribution¹, a key performance indicator linked to the cost of capital, as an absolute performance measure.

The return on investment serves as a consistent target in strategic and operational management. If the return on investment exceeds the market cost of capital, there is an increase in the value of the invested capital and a positive value contribution. The concept of value-based management allows the success of the Automotive Division and individual business units to be evaluated. It also enables the earnings power of our products, product lines and projects – such as new plants – to be measured.

Components of value contribution

Value contribution is calculated on the basis of the operating result after tax and the opportunity cost of invested capital. The operating result shows the economic performance of the Automotive Division and is initially a pre-tax figure.

Using the various international income tax rates of the relevant companies, we assume an overall average tax rate of 30% when calculating the operating result after tax.

The cost of capital is multiplied by the average invested capital to give the opportunity cost of capital. Invested capital is calculated as total operating assets reported in the balance sheet (property, plant and equipment, intangible assets, lease assets, inventories and receivables) less non-interest-bearing liabilities (trade payables and payments on account received). Average invested capital is derived from the balance at the beginning and the end of the reporting period.

As the concept of value-based management only comprises our operating activities, assets relating to investments in subsidiaries and associates and the investment of cash funds are not included when calculating invested capital. Interest charged on these assets is reported in the financial result.

¹ The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.

Determining the current cost of capital

The cost of capital is the weighted average of the required rates of return on equity and debt. The cost of equity is determined using the Capital Asset Pricing Model (CAPM).

This model uses the yield on long-term risk-free Bunds, increased by the risk premium attaching to investments in the equity market. The risk premium comprises a general market risk and a specific business risk.

The general risk premium of 6.5% reflects the general risk of a capital investment in the equity market and is oriented on the Morgan Stanley Capital International (MSCI) World Index.

The specific business risk – price fluctuations in Volkswagen preferred shares – has been modeled in comparison to the MSCI World Index when calculating the beta factor. The MSCI World Index is a global capital market benchmark for investors.

The analysis period for the beta factor calculation spans five years with annual beta figures on a daily basis and an average subsequently being calculated. A beta factor of 1.12 (1.22) was determined for 2017.

COST OF CAPITAL AFTER TAX AUTOMOTIVE DIVISION

%	2017	2016
Risk-free rate	1.0	0.7
MSCI World Index market risk premium	6.5	6.5
Volkswagen-specific risk premium	0.8	1.5
(Volkswagen beta factor)	(1.12)	(1.22)
Cost of equity after tax	8.3	8.7
Cost of debt	1.8	1.7
Tax	–0.6	–0.5
Cost of debt after tax	1.3	1.2
Proportion of equity	66.7	66.7
Proportion of debt	33.3	33.3
Cost of capital after tax	6.0	6.2

The cost of debt is based on the average yield for long-term debt. As borrowing costs are tax-deductible, the cost of debt is adjusted to account for the tax rate of 30%.

A weighting on the basis of a fixed ratio for the fair values of equity and debt gives an effective cost of capital for the Automotive Division of 6.0 (6.2)% for 2017.

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION IN THE REPORTING PERIOD

The operating result after tax of the Automotive Division, including the proportionate operating result of the Chinese joint ventures, was €11,756 (7,419) million in fiscal year 2017. The increase was due primarily to the year-on-year decline in special items, as well as to improvements in volumes and in the mix and to optimized product costs. Profit was negatively impacted by higher fixed costs as a result of expansion and by higher depreciation and amortization charges due to the large volume of capital expenditure. Effects on earnings and assets from purchase price allocation are not taken into account as they cannot be influenced operationally by management.

Invested capital rose to €97,021 (91,020) million, primarily due to higher inventories as well as to additions to investments in property, plant and equipment and capitalized development costs.

The return on investment (ROI) is the return on invested capital for a particular period based on the operating result after tax. The ROI improved year-on-year on the back of the higher operating profit and, at 12.1 (8.2)%, exceeded our minimum rate of return on invested capital of 9% in spite of the adverse effects of the special items on earnings.

At €5,821 (5,643) million, the opportunity cost of capital (invested capital multiplied by cost of capital) was up on the prior-year level due to the increase in the invested capital. Operating result after tax was negatively impacted by special items and led to a positive value contribution of €5,935 (1,775) million after the opportunity cost of invested capital.

More information on value-based management is contained in our publication entitled “Financial Control System of the Volkswagen Group”, which can be downloaded from our Investor Relations website: www.volkswagen.com/ir.

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION IN THE AUTOMOTIVE DIVISION¹

€ million	2017	2016
Operating result after tax	11,756	7,419
Invested capital (average)	97,021	91,020
Return on investment (ROI) in %	12.1	8.2
Cost of capital in %	6.0	6.2
Cost of invested capital	5,821	5,643
Value contribution	5,935	1,775

¹ Including proportionate inclusion of the Chinese joint ventures (including the relevant sales and component companies) and allocation of consolidation adjustments between the Automotive and Financial Services divisions.

SUMMARY OF BUSINESS DEVELOPMENT AND ECONOMIC POSITION

The Board of Management of Volkswagen AG considers business development and the economic position to have been positive overall. In spite of the diesel issue, which continues to keep us very busy, and the persistently challenging market conditions, we increased our deliveries to customers in 2017 as forecast. At 10.7 million vehicles we lifted deliveries to customers by 4.3% , achieving a new record. We saw growth in Europe, North and South America and the Asia-Pacific region. The higher volume was a significant factor in the 6.2% increase in the Group's sales revenue and thus confirmed the current forecast. As a consequence, operating profit before special items rose to €17.0 billion and the operating return on sales before special items, at 7.4%, was moderately higher than the range forecast at the beginning of the year of 6.0–7.0%. After deducting special items resulting exclusively

from the diesel issue, the operating return on sales of 6.0% was at the lower end of this scale, as recently projected.

Research and development costs underscore the efforts made to ensure the Company's future viability; at 6.7%, the R&D ratio in the Automotive Division was inside the expected range.

The Automotive Division's ratio of capex to sales revenue was reduced to 6.4%, which put it within the forecast range as well. Owing to high cash outflows attributable to the diesel issue, the Automotive Division's net cash flow was negative, as anticipated. The Automotive Division's net liquidity fell as a result, but was still a robust €22.4 billion at the end of the reporting period.

On the back of the increase in earnings, the return on investment (ROI) in the Automotive Division improved markedly to 12.1%, thus exceeding the minimum required rate of return on invested capital.

FORECAST VERSUS ACTUAL FIGURES

	Actual 2016	Original forecast for 2017	Adjusted forecast for 2017	Actual 2017
Deliveries to customers	10.3 million	moderate increase	moderate increase	10.7 million
Volkswagen Group				
Sales revenue	€217.3 billion	increase of up to 4%	> 4%	€230.7 billion
Operating return on sales before special items	6.7%	6.0–7.0%	moderately above 7.0%	7.4%
Operating return on sales	3.3%	6.0–7.0%	~6.0%	6.0%
Operating result before special items	€14.6 billion	within the forecast range	within the forecast range	€17.0 billion
Operating result	€7.1 billion	within the forecast range	within the forecast range	€13.8 billion
Passenger Cars Business Area				
Sales revenue	€150.3 billion	increase of up to 4%	> 4%	€158.5 billion
Operating return on sales before special items	7.4%	6.5–7.5%	moderately above 7.5%	7.9%
Operating return on sales	2.8%	6.5–7.5%	slightly below 6.5%	5.9%
Operating result before special items	€11.1 billion	within the forecast range	within the forecast range	€12.5 billion
Operating result	€4.2 billion	within the forecast range	within the forecast range	€9.3 billion
Commercial Vehicles Business Area				
Sales revenue	€32.1 billion	increase of up to 4%	> 4%	€35.2 billion
Operating return on sales	2.2%	3.0–5.0%	moderately above 5.0%	5.4%
Operating result	€0.7 billion	within the forecast range	within the forecast range	€1.9 billion
Power Engineering Business Area				
Sales revenue	€3.6 billion	significant decline	significant decline	€3.3 billion
Operating result	€–0.2 billion	lower loss	lower loss	€–0.1 billion
Financial Services Division				
Sales revenue	€31.3 billion	at prior-year level	noticeable increase	€33.7 billion
Operating result	€2.4 billion	at prior-year level	noticeable increase	€2.7 billion
R&D ratio in the Automotive Division	7.3%	6.0–7.0%	6.0–7.0%	6.7%
Capex/sales revenue in the Automotive Division	6.9%	6.0–7.0%	6.0–7.0%	6.4%
Net cash flow in the Automotive Division	€4.3 billion	significant decline, negative	significant decline, negative	€–6.0 billion
Net liquidity in the Automotive Division	€27.2 billion	significant decline	significant decline	€22.4 billion
Return on investment (ROI) in the Automotive Division	8.2%	noticeable increase, > 9%	noticeable increase, > 9%	12.1%

Volkswagen AG

(Condensed, in accordance with the German Commercial Code)

Production and unit sales stable at 2016 level,
sales revenue and earnings up on prior-year figures.

ANNUAL RESULT

Special items recognized in fiscal year 2017 were exclusively attributable to the diesel issue, mainly due to higher expenses for the buyback/retrofit programs for 2.0l TDI vehicles in North America and higher legal risks. These special items had an impact of €-2.0 (-0.8) billion on cost of sales and of €-0.9 (-4.5) billion on other operating income. Moreover, special items of €-0.4 billion had affected distribution expenses in the previous year.

In fiscal year 2017, sales were 1.9% higher than in the previous year, at €76.7 billion. Sales generated abroad accounted

for a share of 62.5 (61.2)%. The cost of sales increased by 4.5% to €73.4 billion.

Gross profit fell to €3.4 (5.1) billion.

At €7.1 billion, selling, general and administrative expenses were down €1.2 billion on the prior-year figure.

The net other operating result improved by €1.9 billion to €-0.2 (-2.0) billion.

At €8.6 (8.7) billion, the financial result stood at the prior-year level.

Including the income tax expense of €-0.4 (-0.7) billion, net income for the year amounted to €4.4 billion in the year under review, compared with €2.8 billion in the previous year.

INCOME STATEMENT OF VOLKSWAGEN AG

€ million	2017	2016
Sales	76,729	75,310
Cost of sales	-73,355	-70,180
Gross profit on sales	3,375	5,131
Selling, general and administrative expenses	-7,104	-8,352
Net other operating result	-154	-2,035
Financial result ¹	8,644	8,725
Taxes on income	-409	-670
Earnings after tax	4,353	2,799
Net income for the fiscal year	4,353	2,799
Retained profits brought forward	2	2
Appropriations to revenue reserves	-2,174	-1,399
Net retained profits	2,181	1,402

1 Including write-downs of financial assets.

BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

€ million	2017	2016
Fixed assets	113,703	101,973
Inventories	4,889	4,387
Receivables ¹	32,303	26,386
Cash-in-hand and bank balances	5,798	9,117
Total assets	156,693	141,863
Equity	30,438	27,100
Special tax-allowable reserves	21	23
Long-term debt	33,060	26,457
Medium-term debt	33,415	30,082
Short-term debt	59,759	58,200

1 Including prepaid expenses.

NET ASSETS AND FINANCIAL POSITION

Total assets amounted to €156.7 billion at December 31, 2017, up €14.8 billion on the prior-year figure. Investments in tangible and intangible fixed assets declined to €1.7 (2.0) billion. Additions to financial assets rose by €11.4 billion to €33.8 billion. This was offset by depreciation and amortization charges and write-downs as well as by asset disposals totaling to €23.8 (17.3) billion. Fixed assets accounted for a share of 72.6 (71.9)% of total assets.

Current assets (including prepaid expenses) amounted to €43.0 (39.9) billion in 2017.

At €30.4 billion, equity increased due in particular to the improved net income for the year at the end of the reporting period. The equity ratio was 19.4 (19.1)%.

Other provisions decreased by €8.7 billion to €22.1 (30.8) billion, due primarily to the utilization of provisions in connection with the diesel issue. Provisions for pensions and similar obligations rose by €0.7 billion to €14.4 billion, primarily as a result of a change in the interest rate, while provisions for taxes decreased by €0.5 billion to €3.5 billion.

The €20.0 billion rise in total liabilities (including deferred income) to €86.3 billion is, above all, attributable to higher liabilities to affiliated companies.

Volkswagen AG's cash funds, comprising cash instruments with a maturity of less than three months, less bank and cash pooling liabilities repayable on demand, declined year-on-year from €-6.2 billion to €-8.5 billion. The interest-bearing portion of debt amounted to €74.0 (55.1) billion. In our assessment, the economic position of Volkswagen AG is just as positive overall as that of the Volkswagen Group.

DIVIDEND PROPOSAL

In fiscal year 2017, net retained profits amounted to €2.2 billion. The Board of Management and Supervisory Board are proposing to pay a total dividend of €2.0 billion, i.e. €3.90 per ordinary share and €3.96 per preferred share.

PROPOSAL ON THE APPROPRIATION OF NET PROFIT

€	2017
Dividend distribution on subscribed capital (€1,283 million)	1,967,423,852.40
of which on: ordinary shares	1,150,850,290.20
preferred shares	816,573,562.20
Appropriation to other revenue reserves	210,000,000.00
Balance (carried forward to new account)	3,299,970.81
Net retained profits	2,180,723,823.21

EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG

€ million	2017	%	2016	%
Direct pay including cash benefits	7,637	70.7	7,138	71.2
Social security contributions	1,361	12.6	1,337	13.3
Compensated absence	1,161	10.7	1,099	11.0
Retirement benefits	640	5.9	456	4.6
Total expense	10,799	100.0	10,030	100.0

VEHICLE SALES

Volkswagen AG sold a total of 2,584,375 (2,632,144) vehicles in fiscal year 2017. Vehicles sold abroad accounted for a share of 70.0 (69.7)%.

PRODUCTION

Volkswagen AG produced a total of 1,224,609 vehicles at its vehicle production plants in Wolfsburg, Hanover and Emden in the reporting period (-1.3%). Volkswagen AG's average daily production was 5,370 (5,423) units.

EMPLOYEES

As of December 31, 2017, a total of 117,420 (113,928) people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. Of this figure, 4,953 (4,999) were vocational trainees. 4,380 (2,936) employees were in the passive phase of their partial retirement.

Female employees accounted for 17.1 (17.0)% of the workforce. Volkswagen AG employed 5,069 (4,721) part-time workers. The percentage of foreign employees was 6.1 (6.1)%. 83.4 (83.5)% of the employees in Volkswagen AG's production area had completed vocational or additional training in the reporting period. The proportion of graduates was 18.9 (18.8)% in the same period. The average age of employees in fiscal year 2017 was 43.6 (43.2) years.

RESEARCH AND DEVELOPMENT

Research and development costs for Volkswagen AG under the German Commercial Code increased to €4.8 (4.7) billion in the reporting period. 12,332 (12,380) people were employed in this area at the end of the reporting period.

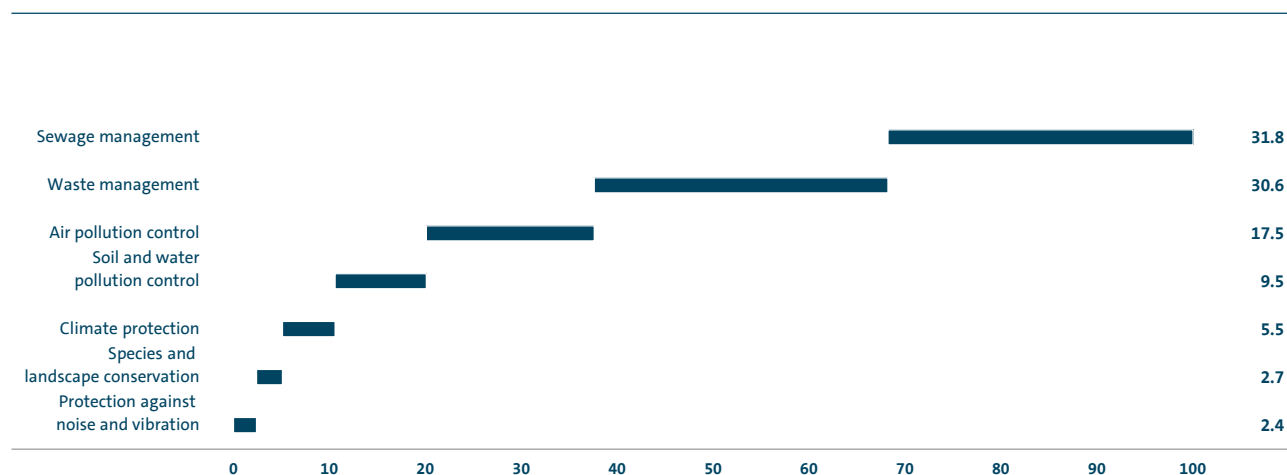
EXPENDITURE ON ENVIRONMENTAL PROTECTION

When measuring expenditure on environmental protection, a distinction is made between investments and operating costs for production-related environmental protection measures. Of our total investments, only those that are spent exclusively or primarily on environmental protection are included in environmental protection investments. We distinguish here between additive and integrated investments. Additive environmental protection measures are separate and independent of other measures relating to the production process. They can be upstream or downstream of the production process. In contrast to additive environmental protection measures, integrated measures reduce the environmental impact already during the production process. In 2017 we invested primarily in soil and water pollution control.

The operating costs recognized for environmental protection relate exclusively to production-related measures that protect the environment against harmful factors by avoiding, reducing, or eliminating emissions by the Company. Resources are also conserved. For example, these include expenditures incurred to operate equipment that protects the environment as well as expenditures for measures not relating to such equipment. As in the previous year, the emphasis in 2017 was on sewage and waste management.

VOLKSWAGEN AG EXPENDITURE ON ENVIRONMENTAL PROTECTION

€ million	2017	2016	2015	2014	2013
Investments	17	11	21	19	14
Operating costs	227	223	244	226	224

OPERATING COSTS FOR ENVIRONMENTAL PROTECTION AT VOLKSWAGEN AG 2017*Share of environmental protection areas in percent***BUSINESS DEVELOPMENT RISKS AND OPPORTUNITIES AT VOLKSWAGEN AG**

The business development of Volkswagen AG is exposed to essentially the same risks and opportunities as the Volkswagen Group. These risks and opportunities are explained in the Report on Risks and Opportunities on pages 164 to 189 of this annual report.

RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risks for Volkswagen AG arising from the use of financial instruments are the same as those to which the Volkswagen Group is exposed. An explanation of these risks can be found on pages 187 to 188 of this annual report.

DEPENDENT COMPANY REPORT

The Board of Management of Volkswagen AG has submitted to the Supervisory Board the report required by section 312 of the AktG and issued the following concluding declaration:

“We declare that, based on the circumstances known to us at the time when the transactions with affiliated companies within the meaning of section 312 of the German Stock Corporation Act (AktG) were entered into, our Company received appropriate consideration for each transaction. No transactions with third parties or measures were either undertaken or omitted on the instructions of or in the interests of Porsche or other affiliated companies in the reporting period.”

Sustainable Value Enhancement

Our goal is to run our business responsibly along the entire value chain. Everyone should benefit from this – our customers, our employees, the environment and society. Our future program TOGETHER – Strategy 2025 represents the biggest change process in the Company's history. The starting point is our vision of being one of the world's leading providers of sustainable mobility.

The main financial key performance indicators for the Volkswagen Group are described in the "Results of Operations, Financial Position and Net Assets" chapter. Nonfinancial key performance indicators also attest to the efficiency of our Company's value drivers. These include the processes in the areas of research and development, procurement, production, marketing and sales, information technology and quality assurance. In all of these processes, we are aware of our responsibility towards our customers, our employees, the environment and society. In this chapter we provide examples of how we are increasing the value of our Company in a sustainable way.

SUSTAINABILITY

The Volkswagen Group is committed to sustainable, transparent and responsible corporate governance. The biggest challenge we face in implementing this at all levels and at every step in the value chain is the complexity of our Company, with its twelve brands, more than 642 thousand employees and 120 production locations. In order to tackle this challenge in the best way possible, we follow the Sustainable Development Goals (SDGs) formulated by the United Nations and the recommendations of the German Corporate Governance Code. In addition, we coordinate our sustainability activities across the entire Group. We have also put in place a forward-looking system of risk management and a clear framework for dealing with environmental issues in a future-oriented manner, for employee responsibility and for social commitment across our brands and in the regions in which we operate.

For us, sustainability means simultaneously striving for economic, social and environmental goals in a way that gives them equal priority. The future program TOGETHER – Strategy 2025 places sustainable growth at the heart of our strategic

target dimensions: we want to be an excellent employer and a role model for the environment, safety and integrity, to excite customers and to ensure that we achieve competitive profitability. By 2025, we aim to make the Volkswagen Group the world's number one in e-mobility. We will therefore set new priorities with Roadmap E. We also want to ensure that we recognize opportunities and risks in the areas of environment, society and governance at an early stage at every step along the value chain. Our corporate social responsibility (CSR) activities will contribute toward enhancing our Company's reputation and value in the long term.

Management and Coordination

The Volkswagen Group has created a clear management structure to coordinate the Group's activities as regards sustainability and CSR. Its highest committee is the Group Board of Management, which acts as the Sustainability Board at the same time. It is regularly briefed by the Group Sustainability steering group on issues related to the topics of sustainability and corporate responsibility. The members of the Group Sustainability steering group include executives from central Board of Management business areas and representatives of the Group Works Council and the brands. The steering group's tasks include identifying the key action areas, making decisions on the strategic sustainability goals, monitoring by means of indicators the extent to which these goals are being met and approving the sustainability report.

The sustainability office supports the steering group. Its duties include coordinating all sustainability activities within the Group and the brands. It is also responsible for stakeholder dialog at Group level, for example with sustainability-driven analysts and investors. In addition, CSR project teams work across business areas on topics such as reporting, stakeholder management and sustainability in supplier

VOLKSWAGEN GROUP'S KEY ACTION AREAS



relationships. This coordination and working structure is also largely established across the brands and is constantly expanding. Since 2009, the Sustainability & CSR coordinators for all brands and regions have come together once a year to promote communication across the Group, create uniform structures and learn from one another. This Group CSR meeting has proven its worth as an integral part of the Group-wide coordination structure.

Sustainability Council

As part of its efforts to continuously improve and expand its sustainability management, the Volkswagen Group appointed an international Sustainability Council in 2016 made up of renowned experts from the academic world, politics and society. The members of the council establish their own working methods and areas of focus independently and consult with the Board of Management, senior managers and the employee representatives regularly for the purposes of consultation, exchanging information and initiating action.

The key issues in 2017 were the challenges created by global CO₂ emissions and the regulatory requirements to be met post-2025, as well as the Company's transformation process. The Volkswagen Group is initially providing €20 million in funding for projects proposed and promoted by the Sustainability Council for the years 2017 and 2018. The first projects relate to innovation and cultural change in the area of sustainable mobility, an international crisis prevention initia-

tive as a result of climate change and an academic study on the future shape of the transport and climate policy framework.

Materiality analysis

Two developments in 2017 continued to influence the detailed analysis as to which issues are material to the Volkswagen Group: the realignment of the Group via the future program TOGETHER – Strategy 2025, and dealing with the consequences of the diesel issue.

After analyzing and identifying topics that are material to the Company, we derived 18 key action areas that we will use to achieve our goal of being one of the world's leading providers of sustainable mobility. The analysis was based on external studies, industry analyses and stakeholder surveys carried out by our brands, internal guidelines such as our corporate strategy and Group environmental strategy, and key factors identified by the Volkswagen Group's strategy committee.

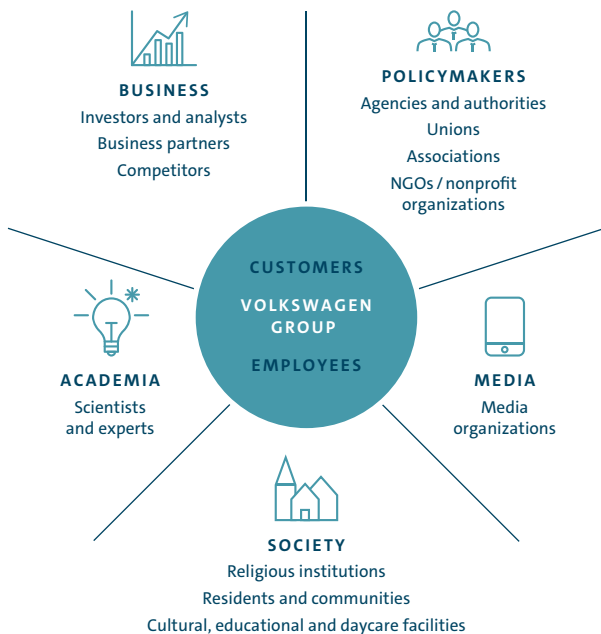
As the details of the new Group strategy have not yet been finalized, we are still in the process of specifying the content of the key action areas and defining corresponding values, targets and indicators. As an enterprise with global operations, we also take account of the options available to us for influencing and implementing the SDGs formulated by the United Nations.

Principles and guidelines

Voluntary commitments and principles that apply throughout the Group form the basis and backbone of our strategic sustainability goals. In addition, our sustainability model provides the framework for sustainable and responsible action. The Volkswagen Group's revised Code of Conduct published in 2017 applies to the entire Group and helps managers and employees alike to deal with legal and ethical challenges in their day-to-day work.

We expressly support the United Nations Global Compact, an agreement between the UN and the business world aimed at enhancing the social and ecological aspects of globalization. As long ago as 2002, the Volkswagen Group made a commitment to promoting human rights, labor standards, environmental protection and combating corruption. In 2013, this commitment was extended to include the so-called CEO Water Mandate, the aim of which is to ensure the careful management of water resources. Since the emergence of the diesel issue, we have agreed on a temporary suspension of our membership. Our objective is to ensure that our actions are in line with the declarations of the International Labor Organization (ILO), the principles and conventions of the Organisation for Economic Co-operation and Development (OECD) and the international covenants of the United Nations on basic rights and freedom.

STAKEHOLDERS OF THE VOLKSWAGEN GROUP



We have also established our own internal guidelines in the shape of the Volkswagen Social Charter, the Charter on Labor Relations, the Charter on Vocational Education and Training, and the Charter on Temporary Work, all of which apply to the Group as a whole. Environmental protection activities are shaped both by the environmental policy and by the principles for products and production, which apply throughout the Group.

Strategic stakeholder management

Our stakeholders are individuals, groups, or organizations who materially influence or are influenced by the way in which the Group reaches its corporate decisions and the implications of those decisions. The role of stakeholder management is to manage the many demands placed upon us

such that the Group can integrate them into its decision-making processes. This includes sharing knowledge, jointly developing solutions for the problems we face and using transparent criteria to make decisions.

Our customers and our employees are our key stakeholders. Around this core, we have defined twelve types of stakeholders in five clusters. This classification is the product of a stakeholder assessment in which we regularly identify the Group's key stakeholder groups.

The aim is to open up decision-making processes and systematically enhance the Group's sustainability management through constructive criticism. In this context, we take a holistic approach to stakeholder management.

RESEARCH AND DEVELOPMENT

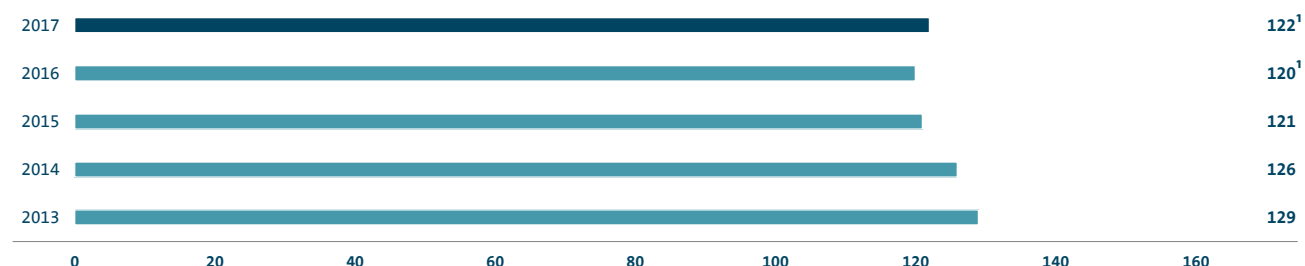
Forward-looking mobility solutions with brand-defining products and services would be unthinkable without technological innovations. This makes our research and development work essential for sustainably increasing the value of the Company.

Together with our Group brands, we have formulated a strategy for networking development activities across the Group and launched numerous initiatives based on our future program TOGETHER – Strategy 2025. At the heart of this is an efficient, cross-brand development alliance characterized by a close network of experts, collaboration on an equal footing, an innovative working environment and the pooling of development activities. With this alliance, we aim to make use of synergy effects across the Group and act as a role model for the environment, safety and integrity. The alliance is playing a major part in the Volkswagen Group's transformation into a leading provider of sustainable mobility and helping to make the Group fit for the future.

Based on this strategic focus, we concentrated in the reporting year on continuing to develop promising mobility solutions, establishing technological expertise to strengthen our competitiveness, expanding our range of products and services and improving the functionality, quality, safety and environmental compatibility of our products and services.

CO₂ EMISSIONS OF THE VOLKSWAGEN GROUP'S EUROPEAN (EU28) NEW PASSENGER CAR FLEET

in grams per kilometer



1 Subject to official publication by the European Commission in the annual CO₂ fleet monitoring report.

Fuel and drivetrain strategy

The Volkswagen Group's new passenger car fleet in the EU (excluding Lamborghini and Bentley) emitted an average of 122 g CO₂/km¹ in the reporting period and was thus well below the 2017 European limit of 130 g CO₂/km. The small year-on-year increase is mainly attributable to the new measurement techniques to be applied and the decline in the proportion of diesel vehicles included in deliveries. 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.

As part of a Group-wide initiative – and with a view to the legal regulations on emissions – we are currently developing a forward-looking vehicle and drivetrain portfolio: to achieve our goal of sustainable mobility, we have set ourselves the objective of increasing drive system efficiency with each new model generation – irrespective of whether the means of propulsion is a combustion engine, a hybrid, a plug-in hybrid, a purely electric drive, or a fuel cell drive system.

We anticipate that by as early as 2025, one in four new Volkswagen Group vehicles worldwide will have a purely electric drive; depending on the market development, this could be up to three million electric vehicles a year. The Volkswagen Group has launched a comprehensive electrification offensive in the form of Roadmap E. By 2025, we plan to offer our customers around the world more than 80 new electric models, including some 50 purely battery-driven vehicles and 30 plug-in hybrids. By 2030, the Volkswagen Group aims to electrify its entire model portfolio – from high-volume models to premium vehicles. This will mean

offering at least one electric version of each of our approximately 300 models across all Group brands. We are therefore planning to invest more than €20 billion in industrializing e-mobility by 2030, involving, amongst other things, the development of two new electric platforms for vehicles with a range of up to 600 km. Examples include the Volkswagen I.D. family of concept vehicles, the Audi e-tron and Porsche's Mission E.

To enable sustainable, affordable mobility for as many people as possible, we will continue to offer the full range of drivetrains – from conventional combustion engines to pure electric drive. From today's perspective, the combustion engine looks set to serve as the broad basis for drive technology in the coming years. In the interest of using resources responsibly, it is therefore essential for combustion engines to be further optimized. We use clean technologies to purify exhaust gases. All our new diesel vehicles are now fitted with an SCR catalyst as standard. From 2018, all our petrol engine cars will have particulate filters.

In addition to electric drives and more efficient combustion engines, renewable, reduced-CO₂ fuels (in gas or liquid form) will also play an ever-greater role. We are committed to expanding the natural gas (CNG) infrastructure and are extending our model range accordingly. We are also intensively researching options for producing fuels from renewable electricity, enabling carbon-neutral operation of combustion engines. Projects such as Audi e-gas (power-to-gas) and SEAT's SMART Green Gas (waste-to-gas) are examples of our commitment in this area.

Last but not least, we are working under Audi's leadership to make fuel cell technology ready for market.

It is more important to us than ever to rigorously pursue our modular approach. We are reducing the number of individual modules so that we can make a large product portfolio economically viable. Over the long term, we will reduce the number of versions of conventional combustion engines in the Group by more than a third, for example.

This will create capacity for developing and producing new hybrid and electric drives.

Life cycle engineering and recycling

Innovations and new technologies for reducing fuel consumption are not enough on their own to minimize the effect of vehicles on the environment. That is why we examine the entire product life cycle of our vehicles – from the extraction of raw materials to the production of components and the provision of fuel and energy during vehicle use to their final disposal. We identify the stages of the life cycle at which improvements will have the greatest effect and develop appropriate solutions. We call this life cycle engineering. Recycling, for example, is an important means of reducing environmental impact and conserving resources. When developing new vehicles, we therefore pay attention to the recyclability of the required materials, use high-quality recycled material and avoid pollutants. At the end of their lives, our vehicles are 85% recyclable and 95% recoverable. In implementing the Aluminum Closed Loop project in 2017, we created a closed circuit for aluminum beyond our Company boundaries for the first time. Aluminum scrap was returned directly from our press shops to the supplier for reuse in vehicles.

Leveraging synergies increases efficiency

When developing vehicles, we cooperate closely with our brands to leverage synergies. The strategy formulated by our development alliance aims, for example, to make the Group more competitive in the long term by deploying resources more effectively and efficiently in the research and development of new mobility-related technologies, products and services. In our Group-wide development alliance, the brands not only work with each other, but also for each other on key technologies, forming broad networks of expertise to address the topics of the future. In the reporting year, we consolidated the Group's activities and responsibility for the development, procurement and quality assurance of all battery cells in the Center of Excellence under the umbrella of the Volkswagen Passenger Cars brand. Pilot production will also start here, with the aim of building up manufacturing expertise for our Group.

Our modules are also managed centrally to reduce costs, capital expenditure and complexity. With the aid of a Group

initiative, we are seeking to reduce expenditure in the toolkits while at the same time implementing a wide-reaching electrification offensive and focusing on autonomous systems. We will achieve this through a considerable reduction in complexity using streamlined, non-overlapping yet synergistic platforms. The individual Group brands are using the modular toolkits, thus creating synergies between the various models of a model line and across model lines. The streamlined toolkits are creating the financial leeway for development work on the future trends of digitalization and autonomous driving. As part of the TOGETHER – Strategy 2025 program, the high-volume passenger car brands have introduced model line organization through a Group initiative, consequently strengthening the brands' responsibility for the success of vehicle projects, improving project work across different business areas, accelerating decision-making and improving the result-orientation of projects.

Under the umbrella of Volkswagen Truck & Bus, MAN and Scania are continuing to work together on core drivetrain components based on the lead engineering principle. They have expanded their development work in the fields of electrification and autonomous driving.

We are also creating synergy effects by continuing to closely share best practices, for instance in virtual development and testing. Finally, the centralized development and consolidation of IT systems is helping to promote cooperation across brands, make development activities more comparable and reduce the Group's IT costs.

Sustainable mobility, connectivity and automated driving

Mobility is a prerequisite for economic growth. But while the need for constant mobility is rising, natural resources are dwindling. This calls for holistic mobility concepts to minimize environmental impact. Such solutions need to be efficient, sustainable, customer-oriented and accessible anytime and anywhere.

We are researching and developing such pioneering concepts and solutions in our Group-wide alliance. In shaping the future of mobility, we are looking not only at the automobile but at all modes of transport and transport infrastructures, at people's mobility habits and at other relevant factors. Innovative technologies such as connectivity and automated driving are enabling us to take completely new problem-solving approaches. We want to take advantage of these to contribute to a comprehensive mobility system of the future and to help shape our industry's digital transformation.

Another initiative of our future program TOGETHER – Strategy 2025 is the establishment of a cross-brand mobility solutions business. Our mobility business MOIA, which we founded in 2016, is to become one of the leading providers of innovative transport services and will develop profitable, globally applicable business models over the next few years. Strategic investments and partnerships are also being sought. In the reporting year, MOIA conducted service tests for its ride-pooling concept – an organized ride-sharing system with a driver – among other products in Hanover over several months with selected participants, gathering valuable experience. These and other activities will help to make Volkswagen one of the world's leading providers of efficient and convenient smart mobility services by 2025, with a portfolio encompassing all brands and both “mobility-on-demand” and “vehicle-on-demand” services.

In December 2017, Volkswagen Truck & Bus launched the digital brand RIO. This cloud-based, multi-vendor platform serves the entire transport and logistics ecosystem. For the first time, everyone in the supply chain – shippers, forwarders, carriers, loaders, dispatchers, drivers and recipients – will be connected. RIO will offer digital solutions for all the players involved in the transport system. It will work closely with customers to tailor solutions to the needs and demands of the market and continuously enhance them.

On the road to autonomous driving, the Volkswagen Group has further improved its assistance systems and automated driving functions in 2017 and fitted them in vehicles. The strategic objective is to market highly automated driving functions for private vehicles, shared mobility systems and commercial mobility providers as a core competency of the Group from 2021. With the presentation of the Sedric concept vehicle and a look ahead at the Sedric family – from fully autonomous city vehicles to luxurious long-distance mobility, spectacular sports cars, self-driving urban delivery vehicles and heavy trucks – the Volkswagen Group has introduced

its vision of an autonomous mobility system. Particularly in cities, these vehicles will enable completely new forms of individual mobility – even for user groups that have so far been excluded. A balanced combination of different vehicle sizes will also reduce the space required for parking and optimize urban transport as a whole.

Autonomous driving in the complex urban environment places heavy demands on technology. We are dedicated to meeting these challenges. Led by Audi, the Volkswagen Group founded Autonomous Intelligent Driving GmbH in 2017. This new company will develop a Group-wide system for self-driving vehicles. The reporting year also saw the presentation of the Audi A8 – an innovation highlight with up to 41 driver assistance systems. The AI Traffic Jam Pilot – the first automated driving function in a production vehicle – deserves special mention. In traffic jam situations on multi-lane highways it enables Level 3 automated driving as defined by international standards at speeds of up to 60 km/h. This means that drivers no longer need to continuously monitor the system. Depending on national legislation, the driver may also perform other permitted tasks while the vehicle is in motion. This results in a high degree of convenience and safety. Audi will gradually introduce the AI Traffic Jam Pilot into series production in various countries: its introduction requires clarification of the respective national legal framework and adjustment and testing of the system accordingly; different national approval processes and deadlines must also be complied with.

Using the new AI functions, Porsche is working on improving active driving safety as well as the acceptance of assistance systems and automated driving functions among car drivers. Its current focus is on Grip Prediction, a technical solution to predict how much grip the road surface will offer and adjust driving speed for longitudinal and lateral movement. Vehicle data from prototypes, combined with local weather data, is the basis for this.

Pooling strengths with strategic alliances

The future program TOGETHER – Strategy 2025 plans to transform our core business and to establish a new mobility solutions business area at the same time. It is decisive to the success of this plan that we place our great innovative strength on even broader foundations.

Growth in the mobility sector is currently a global phenomenon, above all in the economy segment. As part of a Group initiative, Volkswagen is therefore increasingly entering local partnerships to develop and offer economy products in line with the market. This is helping us to identify regional customer needs more precisely, to adjust our product range accordingly and to establish competitive cost structures. In future, we will therefore concentrate to a greater extent on partnerships, acquisitions and venture capital investments, and will manage investment selection centrally so as to generate maximum value for the Group and its brands.

Developing battery technology as a core competency has also been defined as a strategic initiative of the Volkswagen Group. The battery accounts for 20 to 30% of the cost of materials in electric vehicles; in future, it will be one of the most important components for differentiating between products. We have already pooled our in-house expertise in battery cells in a Center of Excellence and also plan to accelerate the development of expertise and technological change through intelligent partnerships. We anticipate that our own electric fleet with lithium-ion batteries will require a battery capacity of more than 150 GWh a year in the period to 2025. To cover this enormous demand, we are inviting tenders for long-term strategic partnerships in China, Europe and the USA with a global order volume of more than €50 billion in the period to 2025. Looking ahead, we are already preparing for the next generation: together with partners, we aim to develop solid-state batteries to market maturity with ranges of more than 1,000 km.

In 2017, MAN and the Austrian Council for Sustainable Logistics consortium signed an agreement to jointly develop

and test fully electric-powered trucks. The results will feed into the series development of electric trucks for urban delivery traffic.

Our mobility business MOIA is currently working with Hamburger Hochbahn AG to develop a new, environmentally friendly mobility service for Hamburg: a shuttle-on-demand service with environmentally friendly electric vehicles is due to launch in 2018 to complement public transport and as an alternative to the private car.

We are actively involved in public projects to help shape the framework conditions for the approval and introduction of our own self-driving system. The experience we are gathering here will benefit the Group brands and thus also our customers.

As part of the joint involvement of our Group brands Volkswagen Passenger Cars, Audi and Porsche in the pan-European High-Power Charging (HPC) joint venture IONITY, a comprehensive charging infrastructure is being built to safeguard long-distance mobility: by 2020, it is planned to jointly build and operate fast-charging stations at 400 locations along major transport arteries in Europe.

Volkswagen Commercial Vehicles launched the Urban Logistics project initiative in the reporting year together with universities and businesses. The project partners are bringing together a wealth of promising ideas – such as intelligent connectivity, smart mobility solutions, digital communication and control technologies and the use of electric-powered delivery vehicles – to create practical solutions for districts or whole cities.

Our Material Research team plays a major role in the Open Hybrid LabFactory, a public-private partnership in which various industry and research partners work together to develop lightweight construction solutions for mass production. Given the growing importance of e-mobility, automotive lightweight construction is a key technology for future competitiveness. Less vehicle weight increases the range of electric vehicles.

Key R&D figures

In fiscal year 2017, we filed 6,566 (6,465) patent applications worldwide for employee inventions, around half of them in Germany. The fact that an increasing share of these patents is for cutting-edge fields impressively underscores our Company's innovative power. These fields include driver assistance systems and automation, connectivity, alternative drive systems and lightweight construction.

The Automotive Division's total research and development costs in the reporting year were 3.9% lower than in the previous year; their percentage of the Automotive Division's

sales revenue – the R&D ratio – came to 6.7 (7.3)%. Along with new models, the main focus was on the electrification of our vehicle portfolio, a more efficient range of engines and digitalization. The capitalization ratio was 40.0 (42.1)%. Research and development expenditure recognized in profit or loss in accordance with IFRSs increased to €11.6 (11.5) billion.

As of December 31, 2017, our Research and Development departments – including the equity-accounted Chinese joint ventures – employed 49,316 people (+2.6%) Group-wide or 7.7% of the total headcount.

RESEARCH AND DEVELOPMENT COSTS IN THE AUTOMOTIVE DIVISION

€ million	2017	2016
Total research and development costs	13,135	13,672
of which capitalized development costs	5,260	5,750
Capitalization ratio in %	40.0	42.1
Amortization of capitalized development costs	3,734	3,587
Research and development costs recognized in profit or loss	11,609	11,509
Sales revenue	196,949	186,016
Total research and development costs	13,135	13,672
R&D ratio	6.7	7.3

PROCUREMENT

In fiscal year 2017, the main task for Procurement was once again to safeguard the necessary supplies and to help create competitive, innovative products and optimize cost structures. We also continued to digitalize procurement processes and expand cooperation with suppliers under the Volkswagen FAST (Future Automotive Supply Tracks) initiative.

Procurement strategy

The Group-wide procurement strategy with the vision, TOGETHER – best in customer value and cost, was put into operation in 2017. Six goals were agreed in consultation with the brands and regions:

- > Access to supplier innovations
- > Active cost structures
- > Forward-looking structures
- > People, expertise and attractiveness
- > Supply chain excellence
- > Group-wide synergies

To achieve these goals, more than 100 measures had already been drawn up by the end of 2017 as part of the following initiatives and are now being implemented:

- > “Value sourcing” aims to systematically integrate suppliers into the development process from an early stage.
- > “Greenfield costs” refers to commercial and technical activities to optimize component costs.
- > “Innovation & partnerships” ensures that procurement is an integral part of the processes and decisions related to both topics.
- > “Software” is driving the necessary changes to processes, structures and competencies resulting from the purchase of software and its increasing importance to the Group’s added value.
- > “Digital supply chain” encompasses an IT system integrating all core procurement processes into a single solution and forming the basis for a digital network including all procurement partners.
- > “Sustainability” supports the Group’s objective of leading the automotive industry in this area, including the supply chain.
- > “Employees, strong team, organization” directs attention inward and lays the foundation for the strategy’s success with flat hierarchies, freedom for employees and a culture of respect and trust.

The first successes of these initiatives are already apparent. Integrating suppliers into several vehicle projects at an early stage, for example, has enabled faster achievement of material cost targets whilst also improving quality from the market and customer perspective. We have also ordered implementation of specific innovations for our products from

several suppliers to enable customers to take advantage of them at an early stage. In addition, it was decided to separate hardware and software in the procurement processes and establish a new organizational division, Connectivity Procurement. The first pilot projects with new IT solutions were launched in 2017 as part of the “Digital supply chain” initiative. These are gradually being rolled out throughout the Group. Pilot projects to factor sustainability aspects into the contract award process have also already been initiated.

Volkswagen FAST – Supplier network as the basis for success

FAST is the central initiative of Group procurement, introduced in 2015 with the aim of making the Volkswagen Group and its supply network future-proof. The goal of FAST is to successfully implement the key topics of innovation and globalization by involving suppliers at an earlier stage and more intensively. The FAST initiative enhances the quality and speed of collaboration with our key partners, and thus enables us to coordinate global strategies and points of technological focus even more closely. The common goal is to make impressive technologies available to our customers more quickly and to implement worldwide vehicle projects more effectively and efficiently.

From 55 FAST suppliers in 2016, the network grew to 64 suppliers over the past fiscal year. We presented the Group’s key topics and projects at the FAST Summit, which took place in the reporting year for the third time. In addition, at the FAST Forum, relevant decision makers discussed how FAST can be made even more effective for Volkswagen and suppliers.

Digitalization of supply

We are working systematically to implement a completely digitalized supply chain. This will help us to ensure supply, leverage synergies throughout the Group and become a leader in cost and innovation. We are therefore creating a shared database and using innovative technologies to enable efficient, networked collaboration in real time – both within the Group and with our partners. Since the successful launch of our new Group business platform ONE KBP in April 2017, we have been working together with our suppliers on one platform. A cloud-based, Group-wide data strategy was also agreed in 2017. This will enable us to identify supply risks in the supply chain even faster in future.

Structure of key procurement markets

Our procurement is organized at global level, with a presence in the key markets around the world. This ensures that production materials, investments in property, plant and equipment, and services can be procured worldwide to the quality required on the best possible terms. Networking of

the brands' procurement organizations enables us to leverage synergies across the Group in the various procurement markets.

In addition to the brands' procurement units, the Volkswagen Group operates eight regional offices. In emerging markets, we identify and train local suppliers to generate cost advantages for all the Group's production sites. In familiar and established markets, the regional offices support access to the latest technologies and innovations.

Supply situation for purchase parts and upstream materials

Systematic avoidance of bottlenecks was a constant focus of procurement. Natural disasters such as earthquakes and tornadoes impacted the availability of upstream materials. We were able to avoid adverse impacts on the Group's production thanks to Group-wide management of capacity and demand.

Management of purchase parts and suppliers

Purchase parts management is a core component of the global procurement organization. With our experts in tools and industrialization, along with standardized processes and approaches, purchase parts management makes a substantial contribution to ensuring successful production start-ups for vehicles and powertrains all around the world. Against the backdrop of increased complexity in the automotive industry, we also help to safeguard supplies for series production. As part of the pre-production process, we simulate series production at suppliers to identify any gaps in production or quality at an early stage and take countermeasures. Purchase Parts Management works closely with Quality Assurance at the production sites and conducts multi-stage performance testing.

Sustainability in supplier relationships

Global compliance with sustainability standards in human rights, occupational safety, health and environmental protection and combating corruption is our basic requirement for successful collaboration with our suppliers. It is also a contractual stipulation of the underlying business relationship. We continuously enhanced the concept of sustainability in our supplier relationships in 2017. We have added detail to our Volkswagen Group requirements for sustainability in relations with business partners (Code of Conduct for Business Partners) concerning human rights and occupational safety and extended the reporting options for infringements by suppliers.

Another focus in 2017 was to raise awareness of sustainability risks among Procurement staff and our suppliers and to inform them on options for averting risk. By the end of the reporting period, around 29,000 supplier locations had completed our online training program. In the Asia-Pacific, South America and European regions, among others, we also trained more than 700 employees at 356 suppliers in face-to-face events on the topic of sustainability and informed them about region-specific challenges. In addition, we raised awareness of sustainability risks in the supply chain with face-to-face events for over 2,000 Procurement employees.

We also substantially intensified our supplier checks in the reporting year with regard to sustainability. We commissioned sustainability audits from an external service provider at 321 suppliers. In 60 cases, the findings resulted in an action plan to improve the suppliers' sustainability performance. In addition to these local audits, more than 25,000 supplier locations submitted a self-declaration on the topic of sustainability. In around 1,500 cases, their sustainability performance was improved through specific measures.

Setting the course for the future

In 2017, procurement was defined by vehicle connectivity and e-mobility, which have led to new groups of materials. The amount of software in our purchase parts is constantly increasing. Procurement is taking on an important role here with cost-effective structuring of licensing agreements and the standardization of software modules. We reacted early by pooling competencies to make our structure even more effective.

PRODUCTION

Our global, cross-brand production network safeguards the processes from the supplier to the factory and assembly line, and from the factory to dealers and customers. Enduring efficiency is a prerequisite for our competitiveness. We meet challenges of the future with holistic optimizations, pioneering innovations, flexible supply streams and structures, and an agile team. In fiscal year 2017, the global vehicle production volume surpassed the previous year's level and reached 10.9 million units. Productivity increased by around 5.9% year-on-year, despite the continuing difficult conditions in many markets.

“Intelligently networked” production strategy

Production is supporting the future program TOGETHER – Strategy 2025 with their “intelligently networked” functional area strategy. By intelligently connecting people, brands and machines, we aim to pool the strengths and potential of our global production and logistics and take advantage of the resulting synergy effects. We are guided in this by four goals:

- > Versatile production network
- > Efficient production
- > Intelligent production processes
- > Future-ready production

We have used nine initiatives to create content clusters in which expert teams work on the strategic topics relevant for production in the Group. Examples include the competitive design of our global production network, the reduction and offsetting of environmental impact throughout the production process, and digitalization with its implications for production and working processes and for collaboration. The overarching aim is to increase productivity and profitability.

With the production strategy, we have laid the foundations for the successful and sustainable enhancement of our production. We use regular reviews to ensure that we constantly adapt our activities to the current challenges.

Global production network

With twelve brands and 120 production locations, aspects such as consistent standards for product concepts, plants, operational equipment and production processes are key to forward-looking production. These standards enable us to achieve synergy effects, respond flexibly to market challenges, make optimal use of a flexible production network and realize multi-brand locations. Currently, almost half of the 40 passenger car locations are already multibrand locations. One example is the Bratislava site, which produces vehicles for the Volkswagen Passenger Cars, Audi, Porsche, SEAT and ŠKODA brands. We will add other multi-brand locations in future, for example, in Tianjin, China.

The Volkswagen Group has set itself the goal of becoming one of the world's leading providers of battery-powered vehicles (BEV) by 2025. The basis for this is the introduction of the Modular Electric Toolkit (MEB), which we will use to expand our range with a new BEV family.

In order to design multibrand projects and for e-mobility to be cost-effective in conjunction with existing concepts, it is important to make production highly flexible and efficient. Making maximum use of potential synergy effects is also a decisive factor for the success of future vehicle projects. Using common parts and concepts as well as identical production processes will enable reduced capital expenditure and provide the opportunity to better utilize existing capacities. The future will also see electric vehicle projects at multibrand locations such as Anting, China.

We are constantly enhancing our production concepts and aligning them with new technologies. The targeting process anchored in our strategy serves to realize ambitious targets in individual projects as part of a cross-divisional approach.

The “components” business is also helping to safeguard the Group's future with its own initiatives. With around 80,000 employees worldwide, it is an integral part of the Group and plays a central role particularly in the core competency of engines and transmissions. The “components” business has been reorganized within the Group as part of a Group initiative. The aim is to boost our competitiveness, optimize investment, raise our efficiency, make a major contribution to the trends of the future, enable a coordinated entry into e-mobility and develop new business areas.

Production locations

The Volkswagen Group's production network is comprised of 120 locations in which passenger cars, commercial vehicles and motorcycles, as well as powertrains and components are manufactured.

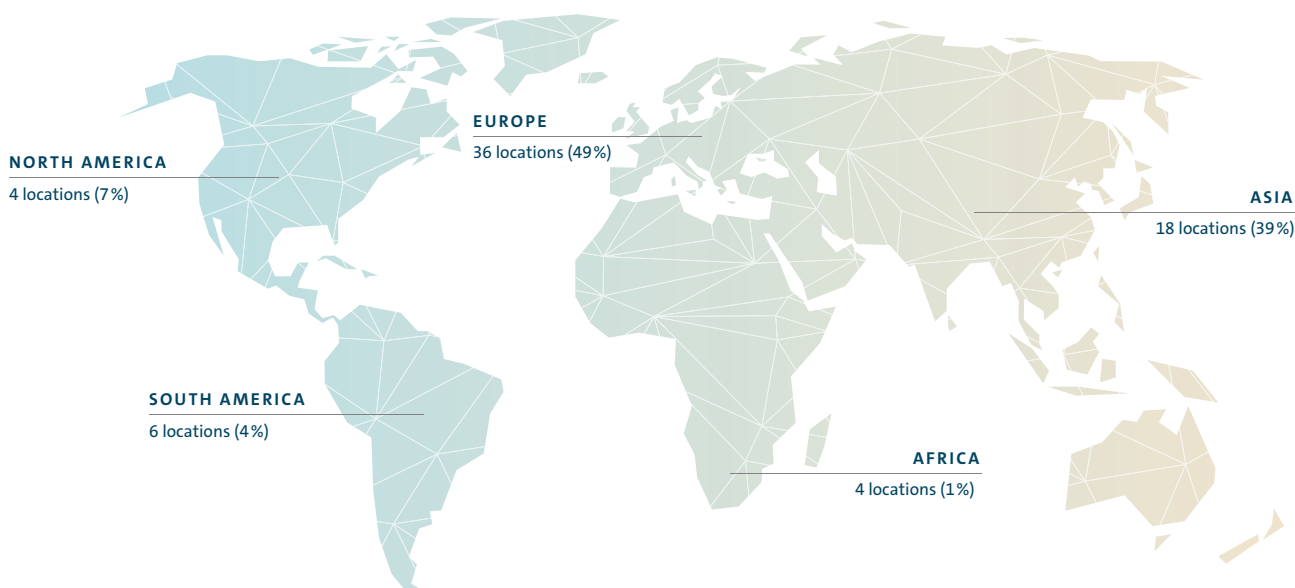
With 71 locations, Europe remains our most important production region for vehicles and components. There are 28 sites in Germany alone. The Asia-Pacific region has 31 locations. We have five locations in North America and nine in South America. The Group operates four locations in Africa.

2017 saw 62 production start-ups: 26 for new products and 36 for product upgrades and derivatives.

Capacity utilization of the locations in the Volkswagen Group's production network is further enhanced by supplying them with complete knock-down (CKD) kits for local assembly.

VEHICLE PRODUCTION LOCATIONS OF THE VOLKSWAGEN GROUP

Share of total production 2017 in percent



The Group's production system

With our global Group production system, we aim to continuously and sustainably improve our production workflow at all the brands' and regions' locations. Our goal is to ensure the excellence of processes in production and production-related environments.

We are increasing the amount of attention we give to further strengthening the Group's production system and increasing its presence. Leadership and individual responsibility are the foremost topics, embedded in a culture of appreciation and collaboration.

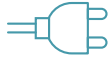
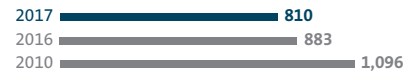
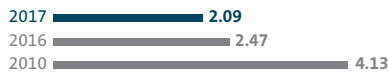
A factory must work at optimal capacity so as to continue manufacturing high-quality products that give customers maximum benefits at competitive prices. This is made possible by the standardization of production processes and operating equipment at an early stage, based on the principle of so-called "concept consistency". This ensures that common design principles, joining techniques and joining sequences, but also installation and connection concepts are applied in the brands' development and production areas. The principle of "concept consistency" is fundamental for creating efficient logistics and manufacturing processes.

New technologies and product innovations

With our manufacturing technologies, we create Group products that fulfill the highest standards of functionality, quality and design. In recent years, for example, vehicles with multicolored paintwork have become popular, particularly those with color-contrasting roofs. Until now, this two-tone paintwork has required the vehicles to pass through the paint shop twice during production. Volkswagen is working with process partners in a joint project to develop a new technology that can significantly reduce the workload for multicolored designs. This technology was implemented for the first time in 2017 at the Pamplona site, initially for the new Polo. Other vehicles and locations are set to follow.

In the foreseeable future, the Volkswagen Group will also be able to offer more individually customized paintwork than previously possible thanks to the availability of digital printing.

Where the design and introduction of new production technologies are concerned, affected staff are involved in the redesign of workplaces and processes from the outset. This is an important prerequisite if new technologies and solutions are to find the necessary acceptance.

KEY ENVIRONMENTAL INDICATORS FOR PRODUCTION IN THE VOLKSWAGEN GROUP¹**ENERGY CONSUMPTION**
in kilowatt hours per vehicle-17.9%²**CO₂ EMISSIONS**
in kilograms per vehicle-26.1%²**VOC EMISSIONS³**
in kilograms per vehicle-49.4%²**DISPOSABLE WASTE**
in kilograms per vehicle-43.3%²**FRESH WATER CONSUMPTION**
in cubic meters per vehicle-17.1%²¹ Production of passenger cars and light commercial vehicles. Prior-year figures adjusted.² Change 2017 as against 2010.³ Volatile organic compounds (VOCs).**Environmentally efficient production**

One element of the production strategy is the environmentally exemplary production initiative. This involves us working on four key issues in the period leading up to 2025:

- › Setting and achieving ambitious environmental targets for production
- › Developing a long-term vision for environmental targets in production and rolling it out across the Group
- › Strengthening employees' environmental awareness and integrating relevant environmental aspects into processes
- › Achieving top positions in renowned environmental rankings

In this context, the Volkswagen Group has set itself the goal of reducing the five key environmental indicators of energy and water consumption, waste for disposal, and CO₂ and VOC emissions in production by 45% for each vehicle produced by 2025 – starting from 2010 levels. This objective applies to all of the Group's production locations and is derived from our environmental requirements for production processes, which are anchored in the Group's environmental principles. The charts above show the development of these indicators.

We are encouraging networking and communication between the brands worldwide in order to leverage synergies. Our environmental experts meet regularly in working groups; in addition, we train our employees on the topic of environmental protection.

To identify and implement savings at the locations, the Environmental Task Force – a team from Group Research Environment – analyzes manufacturing processes, site infrastructure and resource and energy flows in production and evaluates their impact on the environment. With experience from more than 30 analyses, the team can systematically reinforce and spur on the transfer of measures.

We record and catalog environmental measures in an IT system and make these available for a Group-wide exchange of best practices. In the reporting period, around 1,600 implemented measures in the area of environment and energy were documented in this system. They serve to improve infrastructure and production processes for passenger cars and light commercial vehicles. These activities are beneficial from an environmental and economic perspective.

With a series of effective, innovative measures, we once again promoted the reduction of environmental indicators in the reporting period while at the same time improving production processes. The following examples show the extent to which the measures have contributed to strengthening production processes and achieving targets:

One important lever for reducing energy consumption is tailoring the operation of all facilities according to demand. Improving ventilation in the halls at the Bratislava site has resulted in savings of 15,000 MWh and 200 tonnes of CO₂.

Measures have also been implemented in energy generation and consumption. For example, five German locations switched to 100% CO₂-free power in the reporting period. This is saving 165,000 tonnes of CO₂ per year at the Volkswagen Passenger Cars and Porsche brands.

As part of an upgrade to the paint shop at Volkswagen de México, new electrostatic painting robots were installed. These have reduced paint consumption on the production lines by up to 19%, resulting in a VOC reduction of up to 152 tonnes per year.

Green logistics

Logistics is contributing to the Volkswagen Group's focus on the environment by analyzing the emissions of the entire transport chain. The Green Logistics initiative promotes alternative means of transport and sustainable, energy-efficient transport systems, thereby reducing greenhouse gas emissions.

Universal environmental principles were defined during the reporting period and used to create strategic guidelines and rules. These are designed to ensure that our environmental standards in logistics processes are implemented globally.

In logistics, this means, for instance, avoiding transports, shifting goods to more environmentally friendly means of transport, or improving the implementation and use of modern technology and alternative drive systems.

An important starting point for reducing CO₂ emissions is the selection of the mode of transport. One of the most efficient options in terms of transport capacity is maritime transport. To further improve the environmental sustainability of ship transport, Volkswagen Group logistics will put two charter ships powered by liquefied natural gas (LNG) into service in 2019.

In September 2017, we held an LNG Truck Day to dispel doubts and reservations regarding the new technology and actively support the expansion of the LNG fuel station network in Germany. Among others, regional freight for-

warders, gas providers and representatives from the German Federal Ministry of Transport and Digital Infrastructure and the Federal Ministry for Economic Affairs and Energy took part.

In mid-2017, Volkswagen Sachsen GmbH's Zwickau plant and the Porsche factory in Leipzig presented fully electric, 40-tonne trucks suitable for highway driving. With automated driving functions, the vehicles are intended for short-cycle, on-time transport. Two trucks were fitted with electric drive systems and batteries in the eJIT (electric-powered just-in-time mobility) research project. The e-trucks reach a speed of 85 km/h and have a range of 70 km.

SALES AND MARKETING

As part of our future program, we have developed a sales and marketing strategy aimed at exciting customers on a whole new level under the slogan "customer delight". We regard ourselves as an innovative and sustainable mobility provider for all commercial and private customers worldwide – with a unique product portfolio encompassing twelve successful brands and innovative financial services.

We will implement the TOGETHER sales strategy step by step over the coming years. In the focus area of new sales, for example, we are realizing innovative sales and service concepts together with our sales partners. In the focus area of the customer ecosystem, we are implementing platforms for a seamless and safe digital brand experience at all customer touchpoints – this is enabling us to meet ever-growing customer expectations as well as increased data protection standards. In the focus area of steering, we are optimizing how our brands capitalize profitably on market opportunities.

Optimal coverage of markets, customer segments and customer budgets are at the heart of a strategic Group initiative. To this end, we are establishing automobile-specific customer segmentation to steer the positioning of our brands. At the same time, we are examining global markets for potential revenue sources. In 2017, we rolled out this methodology in Europe and China and agreed on the region-specific, customer-oriented brand territories for product positioning. Starting in 2018, the new methodology will be applied in the Volkswagen Group's product processes; other markets will also be included.

Customer satisfaction and customer loyalty

The Volkswagen Group aims its sales activities at exciting its customers. This is our top priority, as excited customers remain loyal to our brands and recommend our products and

services to others. In addition to satisfaction with our products and services, we value our customers' emotional connection to our brands. It is important for us to retain customers and win new ones. To measure our success in this area, we collect data on and analyze three strategic indicators for the major passenger car-producing brands:

- Net promoter score. Proportion of customers who would recommend us to others minus the proportion of customers who would not recommend us. In terms of customers' willingness to recommend them, the Porsche and ŠKODA brands lead the core European markets when compared to other Group brands and competitors.
- Loyalty rate. Proportion of customers of our car brands who have bought another Group model. The loyalty of Volkswagen Passenger Cars, Audi, Porsche and ŠKODA customers has kept these brands in the upper loyalty rankings in comparison with competitors for a number of years. Compared to other manufacturer groups, the Volkswagen Group therefore holds the top spot in terms of loyalty, with a considerable margin over the competition.
- Conquest rate. Newly acquired passenger car customers as a proportion of all potential new customers. Here, too, we have a top ranking, primarily thanks to the good scores achieved by the Volkswagen Passenger Cars brand.

In the core European markets, the downward trend in brand image and brand trust at the Volkswagen Passenger Cars brand following the diesel issue did not continue in 2017. Instead, the first signs of recovery were evident. Porsche remains in top position in the image ranking.

We also use a strategic indicator to measure the satisfaction of customers with our products and services in the truck and bus business:

- Customer satisfaction. In the markets relevant for the Volkswagen Group, we aim to be one of the industry leaders in terms of the satisfaction rate for our commercial vehicle brands. To evaluate these criteria, we use customer satisfaction studies, which delivered positive satisfaction figures in line with our targets in the reporting period.

In the financial services business, we use two strategic indicators:

- Customer satisfaction. In addition to looking at customer satisfaction with our products, we measure this by examining reviews of our service staff; both aspects are an indicator for our customer and service focus. The results continued their positive trend in 2017. To achieve our goal of very high customer satisfaction throughout the financial services business by 2025, we regularly evaluate what action is needed and how ideas can be shared and implemented across different countries.

- Customer loyalty. Trust in and loyalty to our services rely on customer satisfaction with our product range and service. The loyalty scores that are regularly calculated based on product sales to our customers are currently impressive proof of customers' trust in our financial services. Ambitious targets underscore the focus on customers and on fulfilling their needs at Volkswagen Financial Services.

E-mobility and digitalization in Group Sales

By 2025, as part of our Roadmap E, we aim to offer our customers around the world more than 80 new electric models, including around 50 pure battery-driven vehicles and 30 plug-in hybrids. This campaign will be complemented by vehicle-related, customer-focused offers, such as customized charging infrastructure solutions and mobile online services. This is turning the Volkswagen Group from an automotive manufacturer into a mobility service provider, posing completely new sales challenges.

We are making highly targeted use of the opportunities of digitalization in sales. Our actions are guided by a clearly defined strategy that requires extensive cooperation between the brands to achieve the greatest possible synergies. Our aim here is to create a completely new product experience for our customers – one which impresses with its seamless customer communications, from the initial interest in purchasing a vehicle, to servicing and ultimately to the sale of the used car. In the process, we are opening up new business models and opportunities in every aspect of the connected vehicle – in particular with regard to mobility and other services. Vehicles are becoming an integral part of the customer's digital world of experience. We take great care to make all processes transparent so that customers always retain control of their own data.

We also gear our internal processes and structures to the pace of digital innovation. The result is project teams operating across different business areas, new forms of cooperation, a more intensive relationship with the international start-up scene, a consolidation of venture capital expertise – as a form of supporting innovative ideas and business models – as well as new lean systems and cloud-based IT solutions.

Fleet customer business

Our business relationships with fleet customers are often long-term partnerships. In a volatile environment, this customer group guarantees more stable vehicle sales than the private customer segment.

The Volkswagen Group has an established base of business fleet customers in Germany and the rest of Europe in

particular. Our extensive product range enables us to satisfy their individual mobility needs from a single source.

In fiscal year 2017, the share of fleet customers in total registrations in Germany remained stable at 14.1 (14.1)% amid a 2.7% growth in the market. The Volkswagen Group's share of this customer segment decreased to 44.7 (47.1)%. Outside Germany, we recorded growth in the Group's share of registrations by fleet customers in Europe to 25.2 (24.5)%. Overall, the Volkswagen Group's share in Europe remained constant at 28.9 (28.9)%. This shows that fleet customers still have considerable confidence in the Group.

After Sales and Service

In addition to individual service, the timely provision of genuine parts is essential in ensuring passenger car customer satisfaction in After Sales. The genuine parts supplied by our passenger cars brands and the expertise of the service centers represent the highest level of quality and ensure the safety and value retention of our customers' vehicles. With our global after-sales network including more than 120 of our own warehouses, we ensure that almost all our authorized service facilities around the world can be supplied within 24 hours. We regard ourselves as a complete provider of all products and services relevant to customers in the after-sales business. Together with our partners, we ensure the worldwide mobility of our customers. The partner businesses offer the entire portfolio of services in all vehicle classes. We are continuously expanding our range of tailored services in order to improve convenience for our customers and increase customer satisfaction.

Around the world, our commercial vehicles business also prides itself on products of the highest quality and on customer focus. Our range of trucks, buses and engines is complemented by services that guarantee fuel efficiency, reliability and good vehicle availability. The workshop service and service contracts offer customers a high degree of certainty, in addition to a high level of quality. We are reducing servicing times and costs with a view to reducing vehicles' total operating costs and helping them retain their value.

In the Power Engineering segment, we help our customers ensure the availability of machinery with MAN PrimeServ. The global network of more than 100 PrimeServ locations guarantees excellent customer focus and offers, among other things, replacement parts of genuine parts quality, qualified technical service and long-term maintenance contracts.

GROUP QUALITY MANAGEMENT

The quality of our products and services plays a key role in maintaining customer satisfaction. Customers are particularly satisfied and remain loyal when their expectations of a product or service are met or even exceeded. Appeal, reliability and service determine quality as it is perceived by the customer throughout the entire product experience. Our objective is to positively surprise and excite our customers in all areas and thus win them over with our outstanding quality.

Strategy of Group Quality Management

We embody outstanding quality and ensure dependable mobility for our customers worldwide – this is the strategic goal that guides the work of Group Quality Management. Along with the brands' quality organizations, Group Quality Management plays an active role at all stages of product creation and testing. Through this work, we make an important contribution to successful product start-ups, high customer satisfaction and low warranty and goodwill costs.

We have further enhanced the Group Quality Management strategy as part of our future program TOGETHER – Strategy 2025. Focal areas include digitalization, new technologies and business areas as well as uniform processes, methods and standards at all brands.

Increasing progress in digitalization is also a major challenge for the Volkswagen Group: an increasing number of digital products and services are being developed and brought to market. To continue to ensure the familiar level of quality and safety amid this diversity, we must adapt our quality measures accordingly. The increase in functional diversity and complexity of driver assistance systems, extending all the way to autonomous vehicles, means that software is growing in scope. Here we need to enhance the methods we use to support selected critical features of software development and safeguard quality requirements. We are also taking advantage of the progress in digital technology to further optimize our own processes and structures. For example, we use virtual measurement technologies or big data analyses when vehicles on the market encounter quality problems.

In this context, Group Quality Management has further developed its strategy in consultation with the Group brands. This comprises the following four goals:

- › We will excite our customers with outstanding quality by understanding the features of the quality that resonates with them and implementing these in our products.
- › We will contribute to competitive products with optimal quality costs by ensuring robust processes, thereby reducing the expense involved in testing each vehicle.
- › In critical business processes, we will reinforce the principle of multiple-party verification and monitor achievement of milestones even more closely.
- › We will become an excellent employer by promoting every single employee's personal development even more intensively.

To achieve our goals, we have been working on a total of 15 quality initiatives since mid-2016. All are focused on the topics that will be decisive to the future success of the quality organizations at the Volkswagen Group.

Contributing to the Group's strategic indicators

We use a strategic indicator to measure the contribution of Quality Management at the major passenger car-producing brands.

- › Tow-in 12 MIS. This figure shows the number of vehicles that need to be towed to a dealer per 1,000 vehicles after 12 months in service. It includes all Group vehicles categorized as tow-in by dealers in the German market. In the 2016 production year, the Volkswagen Group's tow-in statistics in the German market improved slightly compared with 2014 and 2015. Of the six brands featured, Volkswagen Passenger Cars, Audi and ŠKODA saw their performance improve, while the SEAT, Porsche and Volkswagen Commercial Vehicles brands recorded a slight downward trend.

We also use a strategic indicator to measure our success for trucks and buses:

- › Claims per vehicle 12 MIS Truck. This figure incorporates the number of claims related to liability for material defects per 1,000 vehicles after 12 months in service. MAN and Scania each collect this data for their products from across the globe. Through systematic quality management, both brands continued to exhibit a downward trend in the reporting period.

Legal and regulatory compliance

The diesel issue showed that we must check the compliance of our products more intensively. We have therefore reinforced application of the principle of multiple-party verification – which involves mutual support and control

between the divisions – and introduced important additional processes, including in software security. At the Volkswagen Passenger Cars brand, for example, the development of software will be accompanied by quality milestones from 2017: The principle of multiple-party verification safeguards the systems and components or parts that directly influence a vehicle's safety, type approval and functioning and therefore require increased vigilance. At the series production stage, we are working even harder to carry out conformity checks on our products with the participation of all business units involved and to perform assessments on this basis. This applies particularly to emissions and fuel consumption.

We are also placing greater emphasis on our quality management system than before, reinforcing the process-driven approach Group-wide across all business areas. Quality management in the Volkswagen Group is based on the ISO 9001 standard: the requirements of this standard must be met to obtain the type approval for producing and selling our vehicles. We conducted numerous system audits in the reporting period to verify that our locations and brands comply with the requirements of the standard, which was revised in 2015. The major focus was on the risk assessment for non-compliance with agreed processes. To ensure that these and other new requirements as well as official regulations are implemented and complied with, Group Quality Management is available to support the quality management consultants.

With these and other measures, Group Quality Management is helping to ensure that we not only meet all legal requirements imposed on us as a manufacturer, but that our products do as well.

Observing regional requirements

Our customers in the different regions of the world have very diverse needs as far as new vehicle models are concerned. Another important task of Group Quality Management is to identify and prioritize these regional factors so that they can be reflected in the development of new products and the production of established vehicle models – together with other important criteria such as the quality of locally available fuel, road conditions, traffic density, country-specific usage patterns and, last but not least, local legislation. We mainly use market studies and customer surveys to determine region-specific customer requirements.

The perceived quality of our vehicles must be at a level commensurate with that of our competitors. We therefore redesigned the vehicle audit during the reporting period and tailored it more closely to regional customer needs. Every brand works together with the individual regions to decide

the responsibility of the brands and enables us to invest less in features that do not resonate with customers. To make the results comparable, consistent quality benchmarks apply across all markets and regions. For more than 40 years now, auditors have therefore been deployed around the world to ensure compliance with these benchmarks by carrying out an assessment from the customer's perspective of the vehicles that are ready for delivery. We continually revise the quality benchmarks on which such audits are based to adapt them to the changing requirements.

EMPLOYEES

The Volkswagen Group is one of the world's largest employers in the private sector. As of December 31, 2017, the Group, including the Chinese joint ventures, employed 642,292 people, 2.5% more than at the end of 2016. The ratio of Group employees in Germany to those abroad remained largely stable over the past year. At the end of 2017, 44.8 (44.9)% of employees worked in Germany.

Human resources strategy and principles of the human resources policy

With the new human resources strategy "Empower to transform", the Group is continuing with key and successful approaches of its human resource management. These include the pronounced stakeholder focus in corporate governance, comprehensive participation rights for employees, outstanding training opportunities, the principle of long-term service through systematic employee retention and the aspiration to appropriately balance performance and remuneration. At the same time, the new human resources strategy is setting innovative trends. Hierarchies are being dismantled and modern forms of working such as agile working – whereby most responsibility for the work organization is transferred to the teams – are set to be expanded. In the future, cooperating robots will ease heavy physical work in factories and digital processes will simplify administration. The Company's human resources strategy is based on five overarching objectives:

- › The Volkswagen Group aims to be an excellent employer with all of its brands and companies worldwide.
- › Highly competent and dedicated employees strive for excellence in terms of innovation, added value and customer focus.
- › A sustainable work organization ensures optimal working conditions in factories and offices.
- › An exemplary corporate culture creates an open work climate that is characterized by mutual trust and collaboration.
- › The Company's human resources work is highly employee-oriented while also aiming for operational excellence and providing strategic value-added contributions.

EMPLOYEES BY CONTINENT in percent, as of December 31, 2017



To implement its human resources strategy, the Volkswagen Group will roll out a Group-wide diversity management system, among other programs, in the course of 2018. Varying cultural conditions in the global markets and growing economic momentum demand from Volkswagen an ever-broader range of experience, world views, problem solutions and product ideas. The diversity of our staff offers great potential for innovation in this area, which we aim to make better use of in future. Mandatory rules on the percentage of women in management, combined with targets for the internationalization of senior management, are at the heart of diversity management at Volkswagen.

In line with its corporate strategy, the Volkswagen Group is also driving the transformation in other fields. For example, various cultural change initiatives are concerned with reinforcing flatter hierarchies, a more open form of collaboration and a greater focus on the big picture within the Company's divisions.

The human resources development system was completely revised in 2017 and now offers more transparent paths into management based on greater individual responsibility. The Company's management principles were also revised and new criteria for appointments defined.

TOGETHER – Strategy 2025 is also accompanied by new strategic indicators.

For the passenger car-producing brands, we compile and analyze the following information:

- › Internal employer attractiveness. The indicator is determined by asking respondents, as part of the Group-wide opinion survey, whether they perceive the respective company as an attractive employer. The target for 2025 is 89.1 out of a possible total of 100 index points. A score of 85.2 index points was achieved throughout the Group in the reporting period.

- External employer attractiveness. The ability to recruit top talent is of decisive importance, particularly in view of the Company's transformation into a world-leading provider of sustainable mobility solutions and the associated development of new business units. Once a year, we check the positioning of the major passenger car-producing brands on the labor markets for graduates and young professionals using of this strategic indicator. Rankings in surveys by renowned institutions, in which we aim to achieve top scores for all Group brands, serve as the basis for this.
- Diversity index. As we establish diversity management across the Group, this strategic indicator for the active workforce is used worldwide to report the development of the proportion of women in management and the internationalization of senior management. In particular, it underpins the objective of the human resources strategy, which is aimed at contributing to an exemplary leadership and corporate culture. In 2017, the Group-wide percentage of women in management was 13.8%. We aim to achieve a target of 20.2% by 2025. We aim to increase the level of internationalization in senior management, the uppermost of our three management tiers, from 18.7% in the past fiscal year to 25.0% in 2025.

In the truck and bus business, we look at the opinion survey and cross-brand exchange of employees to identify how well strategic targets are being achieved:

- Opinion survey. The sentiment rating is used to determine the level of employee satisfaction and identification with the company. The sentiment rating is calculated as the average score from all responses regularly submitted as part of the opinion survey. The result in 2017 was in line with the previous year's level.
- Cross-brand exchange and rotation. The aim is to continuously intensify collaboration between the commercial vehicle brands. It is also designed to enable the creation of specialist and international networks. We use this indicator to analyze how many employees have worked at another brand through such rotation. An increasing number of staff took advantage of this personnel development opportunity in 2017.

One strategic indicator has been defined for the financial services business:

- External employer ranking. This involves taking part in an external benchmarking exercised every two to three years. The aim is to enhance working conditions and identify measures to become a top-20 employer by 2025, not just in Europe, but globally. Volkswagen Financial Services AG was most recently represented in various national and international best-employer rankings in 2016. In 12th place, it was among the top European employers in the "Great Place to Work" employer competition.

Training and professional development

At Volkswagen, our capacity for innovation and competitiveness depends to a large extent on the commitment and knowledge of our staff. Training at Volkswagen is organized very systematically on the basis of the so-called vocational groups. A vocational group includes all employees whose tasks are based on similar technical skills and who require related expertise in order to perform their jobs. The skills profiles lay down the functional and interdisciplinary skills for each job and serve as an orientation for training measures.

Volkswagen Group employees have access to a wide range of training measures – from advanced training on general Company-related issues, to specific training within the individual vocational groups, to personal development programs. The educational opportunities and development programs at the Volkswagen Group enable staff to continue to develop throughout their working lives and constantly deepen their knowledge. In this process, they also learn from more experienced colleagues, who act as experts in the vocational group academies – the learning centers of the vocational groups – and pass on their knowledge to others. All training is based on the dual training principle, which combines learning theoretical content with practical experience on the job and by means of specific tasks.

New technologies can usefully complement learning and the transfer of expertise. As the central training organization in the Group, the Volkswagen Group Academy incorporates this idea into different projects. One example of this is the

Education Lab, where the Volkswagen Group Academy conducts training research and analyzes training trends, tests technologies at Volkswagen together with start-ups, thereby introducing new forms of skills development at the Company.

Within the Volkswagen Group Academy, the AutoUni provides the Group with knowledge that is relevant for the future by integrating internal senior experts and collaborating with universities. Its events are offered as programs and as cooperative study modules in a blended learning format, which combines classroom training with online content, and are supplemented by lectures and conferences.

Vocational training and cooperative education

The core component of training at Volkswagen is vocational training or for young people eligible to enter university, cooperative education (dual study programs combining university studies with on-the-job training). As of the end of 2017, the Volkswagen Group had trained 19,207 young people in approximately 50 trades. Volkswagen has introduced the principle of dual vocational training at many of the Group's international locations over the past few years and is continuously working on improvements. Over three-quarters of all the Group's vocational trainees now learn their trade through dual vocational training. Once a year, Volkswagen honors its highest-achieving vocational trainees in the Group with the Best Apprentice Award.

Volkswagen continues to assist in the professional development of young people at the start of their careers even after their vocational training has been completed. Talent groups, for example, are used to promote particularly talented young specialists. These two-year development and training programs accept the highest-achieving 10% of fully qualified vocational trainees at Volkswagen AG and the Zwickau site each year. Fully qualified vocational trainees also have the option to move to a Group company outside Germany for twelve months as part of the "Wanderjahre" (Year Abroad) program. In the reporting period, 31 Volkswagen Group locations in 17 countries took part in this development program. The AGEBI+ program was designed to promote fully qualified vocational trainees who are eligible for university, thus offering students the opportunity to combine practical experience with a degree program in subjects that are critical for Volkswagen's future.

By joining the European Alliance for Apprenticeships in 2017, Volkswagen is also working to promote vocational training outside the Group. The European Alliance for Apprenticeships is a platform that brings together government departments from various countries with other key stakeholders such as businesses, social partners, professional bodies, vocational training providers and youth organizations. The common goal is to strengthen the quality, supply, image and mobility of apprenticeships in Europe.

Development of university graduates

Volkswagen offers two structured entry and development programs for university graduates and young professionals. In the StartUp Direct trainee program, graduate trainees gain an overview of the Company over a two-year period while working in their own department, and take part in supplementary training measures. University graduates interested in working internationally can participate in the 18-month StartUp Cross program. The aim of the program is to get to know the Company in all of its diversity and to build up a broad network. During the term of this program, young professionals become familiarized with several Volkswagen Passenger Cars locations in Germany and other countries by working in various functional areas. Both programs are supplemented by several weeks' experience working in production. In 2017, Volkswagen AG hired a total of 89 graduate trainees as part of these programs, 30.3% of whom were women.

Graduate trainee programs are also available at the Group's international locations such as ŠKODA in the Czech Republic or Scania in Sweden. In addition, the Volkswagen Group has been offering young engineers from Southern Europe, where unemployment especially among young academics remains a major problem, the opportunity to gain international work experience through the StartUp Europe trainee program since 2012. Volkswagen has designed this program for university graduates, who work for three months at a Group company in their home country followed by 21 months at a German Group company.

PROPORTION OF WOMEN

as of December 31

%	2017	2016
Female employees	16.3	16.0
Female vocational trainees ¹	28.8	29.5
Female graduate recruits ²	30.3	26.0
Total management ¹	11.4	11.0
Management ¹	13.2	12.8
Senior management ¹	9.2	8.7
Top-Management ¹	6.5	4.7

1 Germany, excluding Scania, MAN and Porsche.

2 Volkswagen AG

Increasing attractiveness as an employer and target-group-specific development programs

A family-friendly human resources policy is a major component of Volkswagen's appeal as an employer and makes an important contribution to achieving greater gender equality. We are therefore working continuously to develop family-friendly working-hour models and to further increase the proportion of women in management positions. In line with German law on the equal participation of women and men in leadership positions, Volkswagen AG is aiming to have a 13.0% proportion of women at the first management level and 16.9% at the second management level by the end of 2021. As of December 31, 2017, the proportion of women in the active workforce at the first level of management was 10.4 (9.8)% and at the second level of management it was 14.0 (13.5)%.

Targets have been set for every board-level division in the company to encourage women with high potential in their decision to aim for a career in management in the Company. This approach is supported by many different measures including the cross-brand mentoring programs "Mentoring Program Management", "Compass" and the "Career with Children" project.

A large number of company regulations have come into effect at the Volkswagen Group in recent years to improve balancing the demands of work and home life and to allow for individual arrangements. These include flexible working hours, variable part-time work and shift models, leave of absence programs enabling employees to care for close family members, as well as childcare facilities that are close by and/or company-owned, and mobile working.

At Volkswagen AG, which had entered into its works agreement for mobile working in 2016, more than 11,800 employees made use of this flexible working arrangement as of the end of the reporting period.

Preventive healthcare and occupational safety

Volkswagen's holistic healthcare management system extends beyond traditional preventive healthcare and occupational safety. It also covers work organization, workstation design, behavioral ergonomics, psychosocial aspects, rehabilitation and reintegration into working life as well as programs for preventing widespread diseases.

To maintain and improve employees' health, performance and fitness levels, a free and comprehensive voluntary screening, the Check-up, is provided for all employees at almost all production sites.

Another important area for action at the Volkswagen Group is the ergonomic quality of the workstations. The Company is thus highly committed to continuously improving ergonomics along the entire production chain and in all work

AGE STRUCTURE IN YEARS OF VOLKSWAGEN GROUP EMPLOYEES
as of December 31, 2017; in percent



processes. To this end, we collaborate with scientific partners to combine state-of-the-art ergonomic workstations with innovative work processes.

Employee participation

Codetermination and employee participation are important pillars of our human resources strategy. Volkswagen aims to promote high levels of expertise and a strong sense of team spirit. This includes employees' opinions, assessments and constructive criticism being heard.

With the opinion survey, a uniform, Group-wide poll, the Company regularly gathers information regarding employee satisfaction. Based on the results, we then implement follow-up processes in which proposals for improvement are developed and monitored until implementation is complete. Over 570,000 employees from 156 locations and companies in 48 countries were invited to take part in the survey. The participation rate was 79%. The average result based on all responses that are regularly received through the opinion survey – the sentiment rating – is an important parameter in the opinion survey; in 2017 it stood at 78.3 out of a possible total of 100 index points. The score achieved was thus on a par with the previous year.

Idea management is another important means of boosting employee engagement. Using their creativity, knowledge and initiative, our employees contribute their ideas for improvements to streamline workflows, further enhance ergonomics in the workplace, reduce costs and continuously increase efficiency. Idea management enables employees to participate actively in the planning and organizing of their work and is also underpinned by prizes with monetary incentives.

INFORMATION TECHNOLOGY (IT)

With digitalization and networking on the rise, all of our business processes must also be comprehensively provided with digital support. At the same time, the establishment of new locations is placing high demands on networking and coordination. A modern, tailor-made infrastructure and an efficient application landscape are needed to meet these requirements.

Our Group-wide Production, Information and Control System (FIS) enables us to produce vehicles efficiently all around the world – at the right time and with the right equipment. FIS is a key success factor for flexible, cross-brand manufacturing in the global production network.

The growing convergence of different business areas and IT is opening up new opportunities. In production, for example, big data processes help us to analyze faulty machinery and take action at an early stage. Virtual concept vehicles make the product development process even faster and more efficient. Applied research in the field of intelligent human-robot collaboration, and IT systems to control mobile assistive robotics and networked infrastructure (Internet of Things) are also important elements of the digitalization of production at the Volkswagen Group.

The Company's internal network Group Connect helps to network all employees. The platform encourages the transfer of expertise and puts experts in touch with one another.

The newly established IT City serves as the central location for the Group's own IT and digitalization expertise in Wolfsburg. The campus-style office complex has been systematically designed for agile working. In software development centers, we develop applications for a wealth of different uses, thereby maintaining comprehensive in-house expertise in the rapid, demand-oriented development of IT solutions.

Safeguarding data and systems at the Volkswagen Group is another focus of our IT. Over the past fiscal year, we have continued to set up the Information Security Management Systems (ISMS). The Group offers documents, templates and tools to all Group companies and brands in the form of an ISMS toolbox to help them implement their own ISMS. The ISO 27001 standard is one component of this. The key information security processes have been audited and successfully certified within the ISO 27001 framework. This is the most important standard for information security and extends beyond IT to cover issues such as personal security, compliance, physical security and legal requirements.

In 2015, Volkswagen AG co-founded the Deutsche Cybersicherheitsorganisation GmbH – (DCSO). DCSO aims to accu-

mulate specialist knowledge on cybersecurity and become the preferred service provider to German businesses in this field. It conducts security audits and certifies key suppliers and technologies in order to help German companies (especially small and medium-sized enterprises) detect and defend themselves against cyber-attacks and predict them in future. This work also makes our supply chain more secure.

Volkswagen is also capitalizing on digitalization at its in-house IT labs in Wolfsburg, Munich, Berlin, San Francisco and Barcelona. Specialist departments of Group IT, research institutions and technology partners are working closely together at these innovation centers on future trends in information technology, such as artificial intelligence and machine learning, quantum computing, digital ecosystems, intelligent human-robot collaboration and smart mobility. These labs act as test laboratories for the Group, as centers of expertise for these future trends and as liaison offices for start-ups. They enable Volkswagen to experiment with new technologies outside the line organization. Here, the experience and strategic expertise of a large company like Volkswagen is combined with the pragmatism and speed of young start-ups.

ENVIRONMENTAL STRATEGY

Protecting the environment is one of four goals firmly anchored in our future program TOGETHER – Strategy 2025. As a world-leading provider of sustainable mobility, we want to be a role model on environmental issues. We are working towards this goal, taking responsibility for the environment every single day. To this end, we have defined the following target areas:

- > To continuously improve our carbon footprint
- > To continuously reduce harmful emissions
- > To continuously reduce resource consumption

We use the decarbonization index (DCI) as a strategic indicator to document our progress. This measures the products' CO₂ emissions along the entire value chain. The DCI is calculated from the ratio of the carbon footprint to the number of vehicles produced. It encompasses both direct and indirect CO₂ emissions at the individual production sites (Scope 1 and 2) as well as all further CO₂ emissions over the life cycle of the vehicles sold – from the extraction of raw materials, to vehicle use and final disposal (Scope 3). The DCI thus enables transparent, comprehensive tracking of progress toward climate-friendly mobility. We are currently defining the DCI target figures for 2025 together with the Volkswagen Group brands. These targets should then contribute to the achievement of the two-degree target in the

Paris Agreement adopted at the United Nations Climate Change Conference in late 2015.

We are also calculating the environmental impact reduction production indicator. We have set a target for the Group and brands to reduce the environmental impact of production by 45% per vehicle compared with 2010 levels. This key figure includes energy and water consumption, CO₂ and VOC emissions and the volume of waste; the charts on page 146 show the development of these indicators.

In striving to achieve our goal of becoming a role model, we consider the environmental impact throughout the entire product life cycle: from manufacturing (including the supply chain) to use and disposal. In addition to the global challenges of climate change, our approach looks at other important environmental resources, particularly water, soil, air, energy and raw materials. We use major sustainability ratings as our benchmark and aim to achieve top rankings in these.

Organization of Environmental Protection

The Group Board of Management is the highest internal decision-making authority on environmental matters. Since 2012, it has simultaneously functioned as the Group's Sustainability Board. The Group-wide management of environmental protection is the responsibility of the Group Steering Committee for the Environment and Energy, which is supported by numerous specialist bodies.

The brands and companies are responsible for their own environmental organization. They base their own environmental policies on the targets, guidelines and principles that apply throughout the Group. The Group Steering Committee for the Environment and Energy coordinates the brands and companies. It reports on progress to the Board of Management.

Environmental officers from throughout the Group meet regularly for the Group Environmental Conference in order to optimize the environmental focus along the entire value chain.

Our production sites, including the central development areas, are certified in accordance with ISO 14001 or EMAS (100 of 120 production sites in 2017). Many production locations have also certified their energy management systems in accordance with ISO 50001. Since 2009, the "integration of environmental aspects into the product development at the Volkswagen brand" has also been certified in accordance with ISO TR 14062 in Development at the Volkswagen Passenger Cars brand.

Biodiversity

Biodiversity means the variety of life on our planet, and covers the variety of species, the genetic differences within species and the diversity of ecosystems. We rely on it as the basis for our continued existence: healthy food, clean water, fertile soils and a balanced climate. Due to the global decline in biodiversity, the United Nations has declared the current decade to be the "UN Decade on Biodiversity".

Volkswagen has been committed to protecting biodiversity since 2007 and is a founding member of the Biodiversity in Good Company e.V. initiative. In our mission statement, we have committed to supporting the protection of species at all of our locations. For this, we are collaborating with local suppliers. Our membership in Biodiversity in Good Company e.V. has been temporarily suspended as a result of the diesel issue.

Protecting biodiversity is an integral part of our environmental management. We contribute to achieving the targets of the UN Convention on Biological Diversity (CBD) by reducing greenhouse gas emissions and utilizing resources as efficiently as possible. Volkswagen supports networking between the various players in the fields of business, politics, society and academia with a view to increasing public awareness of biodiversity conservation and to increase knowledge of the issue.

SEPARATE NONFINANCIAL GROUP REPORT

The combined separate nonfinancial report of Volkswagen AG and the Volkswagen Group in accordance with sections 289b and 315b Handelsgesetzbuch (HGB – German Commercial Code) for fiscal year 2017 will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2017/Nichtfinanzieller_Bericht_2017_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2017/Nonfinancial_Report_2017_e.pdf in English by no later than April 30, 2018.

REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no significant events after the end of fiscal year 2017.

Report on Expected Developments

The global economy is expected to grow somewhat less strongly in 2018 than in the previous year. We assume that trends in global demand for vehicles will be mixed and that demand will increase at a slightly slower rate than in the reporting period. With its brand diversity, broad product range and pioneering technologies and services, the Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed conditions in regional markets.

In the following, we describe the expected development of the Volkswagen Group and the general framework for its business activities. Risks and opportunities that could represent a departure from the forecast trends are presented in the Report on Risks and Opportunities.

Our assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

DEVELOPMENT OF THE GLOBAL ECONOMY

In our forecasts, we assume that global economic growth will weaken slightly in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2019 to 2022.

Europe/Other Markets

In Western Europe, economic growth is expected to slow down in 2018 compared with the reporting period. Resolving structural problems poses a major challenge, as do the uncertain results and impacts of the Brexit negotiations between the EU and the United Kingdom.

For Central Europe, we estimate that growth rates in 2018 will be lower than those of the past fiscal year. In Eastern Europe, the economic situation should stabilize further, providing that the smoldering conflict between Russia and Ukraine does not worsen. Following the increase in the past fiscal year, Russia's economic output is likely to grow further.

Political uncertainty and social tensions resulting primarily from high unemployment levels will probably weigh on the South African economy in 2018 and are expected to keep growth down.

Germany

In Germany, gross domestic product (GDP) is likely to increase less strongly in 2018 than in the reporting period. However, the situation in the labor market is expected to remain stable and bolster consumer spending.

North America

We expect the economic situation in the USA to further improve in 2018. The US Federal Reserve is likely to implement additional interest rate hikes throughout the course of the year. At the same time, fiscal policy measures are intended to provide support. Growth in Canada is likely to weaken, while remaining nearly unchanged in Mexico.

South America

The economy in Brazil is very likely to stabilize further in 2018 and record somewhat higher growth than in the reporting period. Despite sustained high inflation, Argentina should achieve a similar increase in GDP to that recorded in the reporting period.

Asia-Pacific

In 2018, the Chinese economy is expected to continue growing at a relatively high level, but year-on-year this growth will lose momentum. For India, we anticipate an expansion rate at around the 2017 level. The economic situation in Japan is likely to deteriorate compared with the reporting period.

TRENDS IN THE PASSENGER CAR MARKETS

We expect trends in the passenger car markets in the individual regions to be mixed in 2018. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period.

The Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed developments in regional automotive markets. Our unique brand portfolio, our presence in all major world markets, broad and selectively expanded product range, and pioneering technologies and services place us in a good competitive position worldwide. Our goal is to offer all customers mobility and innovations suited to their needs and thus ensuring long-term success.

We expect that the growth in demand for passenger cars worldwide will continue in the years 2019 to 2022.

Europe/Other Markets

For 2018, we anticipate that unit sales volumes in Western Europe will fall slightly short of those seen in the reporting period. The level recorded before the financial and debt crisis is unlikely to be achieved again in the medium term. The uncertain outcome of the exit negotiations between the EU and United Kingdom is likely to further exacerbate the continuing uncertainty among consumers precipitated by the financial and debt crisis, putting a damper on demand. In Italy and Spain, the recovery will probably continue in 2018 but at a considerably slower pace; in the French market, we expect growth to be only slightly positive. In the United Kingdom, we expect the market volume to fall moderately short of the previous year's high level.

Passenger car demand in 2018 is expected to significantly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, the volume of demand will probably rise somewhat more strongly after the considerable recovery over the past fiscal year. We also expect to see further growth in demand in the other markets in this region.

We are projecting that the volume of demand in the South African passenger car market in 2018 will be up slightly year-on-year.

Germany

Following the positive trend of recent years, we forecast that the market volume of the German passenger car market will remain on a level with the previous year in 2018.

North America

The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole and in the USA is likely to be slightly lower in 2018 than in the prior year. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is projected to be slightly below the previous year's high level as well. In Mexico, we anticipate that demand will be unchanged year-on-year.

South America

Owing to their dependence on demand for raw materials, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. In addition, protectionist tendencies are adversely affecting the performance of the region's vehicle markets, especially in Brazil and Argentina, which have imposed restrictions on vehicle imports. Nevertheless, we expect demand in the South American markets as a whole to distinctly increase in 2018 compared with the previous year. In Brazil, South America's largest market, volume is likely to rise markedly again in 2018 after the strong increase in the past fiscal year. We anticipate that demand in the Argentinian market in 2018 will be perceptibly higher year-on-year.

Asia-Pacific

We believe that the passenger car markets in the Asia-Pacific region will continue their growth in 2018, albeit at a slower pace. In China, the increase in individual mobility requirements will push up demand, though the rate of growth is likely to be slightly slower than in the previous year. Strong demand is still forecast for attractively priced entry-level models in the SUV segment in particular. In India, we expect demand for passenger cars to moderately exceed the previous year's level. We anticipate that demand in the Japanese passenger car market will fall slightly in 2018.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we expect a slight fall in demand in 2018, and a return to the growth trajectory for the years 2019 to 2022.

Due to the uncertainty caused by the United Kingdom's European Union membership referendum in June 2016, we estimate that demand for light commercial vehicles in Western Europe in 2018 will be slightly below the previous year's level. The United Kingdom and Italy are expected to record a decline. We anticipate that registrations in Germany will be around the previous year's level.

In the Central and Eastern European markets, registrations of light commercial vehicles in 2018 will probably be perceptibly higher than in the previous year. In Russia, too, we expect the market volume to rise compared with 2017.

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 market volume in the Asia-Pacific region in 2018 will probably record a slight year-on-year decline. We are also expecting demand in the Chinese market to fall short of the prior-year level. For India, we are forecasting a considerably higher volume in 2018 than in the reporting period. In the Japanese market, the downward trend is likely to continue at a slower pace.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2018 are set to be slightly up on the level seen in 2017. We anticipate a slightly positive trend for the period from 2019 to 2022.

We assume that demand in Western Europe will taper off slightly year-on-year in 2018. In Germany, we expect the market to remain on a level with the previous year.

Central and Eastern European markets should record a moderate increase in demand. In Russia, we anticipate a further recovery in demand in 2018, though the growth rate seen in 2017 will not be repeated.

We believe that demand in the Brazilian market in 2018 will grow perceptibly from the low level of the previous year. This is due to the continuing economic recovery.

In the bus markets that are relevant for the Volkswagen Group, we expect to see a slight increase in demand in 2018. We anticipate that demand in Western Europe over the same period will be on a level with that seen in 2017. For Central and Eastern Europe, we are forecasting higher demand than in the previous year. In Brazil, new registrations will probably be slightly higher than the prior-year level.

For the period 2019 to 2022, we expect slight growth overall in the demand for buses in the markets that are relevant for the Volkswagen Group.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

In 2018, we expect the market environment in power engineering to remain difficult, with undiminished competitive and price pressures.

In 2018, the market volume for two-stroke engines used in merchant shipping is likely to slightly exceed the level seen in the reporting period. Calls for greater energy efficiency and

low pollutant emissions will continue to have a significant influence on ship designs in the future. We also expect sustained high demand in the market for four-stroke engines used in cruise ships, ferries, dredgers and government vessels. In the offshore segment, new order volumes look set to be very low due to existing overcapacity, despite the recent slight rise in the oil price. Overall, we expect the marine market to be slightly up on the reporting period. The competitive pressure will continue unabated.

Demand for energy correlates strongly with macroeconomic and demographic trends, especially in emerging markets. The global trend toward decentralized power stations and gas-based applications shows no sign of losing momentum. For 2018, we expect demand to be virtually steady but remain at a low level overall.

In turbomachinery, we anticipate undiminished high price and competitive pressures in 2018 due to the continuing difficult market environment. This is due to expectations that unfavorable economic and political conditions will persist in some relevant markets. We believe that the trend has already bottomed out, however, and therefore expect the market for turbomachinery to return to slight growth in 2018.

We anticipate a positive trend in the marine and power plant after-sales business for diesel engines in 2018. In turbomachinery, we expect a slight upward trend.

For the period 2019 to 2022, we expect to see growing demand in the power engineering markets. The extent and timing of this growth will vary in the individual business fields, however.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We believe that automotive financial services will be very important for vehicle sales worldwide in 2018. We expect demand to continue rising in emerging markets where market penetration has so far been low, such as China. Regions with already developed automotive financial services markets will see a continuation of the trend towards enabling mobility at the lowest possible total costs. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will become increasingly important to this. Additionally, we expect demand to increase for new forms of mobility, such as carsharing, and for integrated mobility services including parking, refueling and charging. We anticipate that this trend will also continue in the period from 2019 to 2022.

In the mid-sized and heavy commercial vehicles category, we expect rising demand for financial services products in

emerging markets. There in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In the mature markets, we foresee increased demand for telematics services and services aimed at reducing total operating costs in 2018. This trend is also expected to continue in the period 2019 to 2022.

EXCHANGE RATE TRENDS

The global economy grew at an increased pace in 2017. Average energy and commodity prices were up year-on-year but remained at a relatively low level. The euro appreciated against the US dollar over the course of the year. Sterling lost further value against the European single currency due to uncertainty surrounding the exit negotiations began between the United Kingdom and the EU and the shape of future relations. The currencies of major emerging markets lost some further ground against the euro from the start of the reporting period. For 2018, we are forecasting that the euro will remain stable against the US dollar, sterling, Chinese renminbi and other key currencies. The expectation is that the Russian ruble, Brazilian real and Indian rupee will remain relatively weak. We currently assume that these trends will continue in the period 2019 to 2022. There is still a general event risk – defined as the risk arising from unforeseen market developments.

INTEREST RATE TRENDS

Interest rates remained extremely low in fiscal year 2017 due to the continuation of expansionary monetary policy and the challenging overall economic environment. In the major Western industrialized nations, key interest rates persisted at a historic low level. While it became apparent in the USA that the extremely loose monetary policy was gradually drawing to an end, the European Central Bank continued to pursue this course. In light of further expansionary monetary policy measures in the eurozone, we therefore expect no more than a slight rise in interest rates in 2018. In the USA, however, we can expect to see a moderate increase in interest rates. For the period 2019 to 2022, we anticipate a gradual rise in interest rates, though the pace will vary from region to region.

COMMODITY PRICE TRENDS

Political and economic uncertainty in different forms caused the prices for many raw and input materials, such as crude oil, steel, cobalt and rare earths, to move sideways or upwards in 2017, amid high volatility in some cases. In light of these individual factors, we expect mixed developments in the commodity markets in 2018 with an increase in most

commodity prices. We anticipate continued volatility in the commodity markets for the period from 2019 to 2022. Forward-looking, system-based and individual procurement methods enable us to limit risks arising from this volatility in commodity prices. Long-term supply agreements ensure that the Group's needs are satisfied and thus ensure a high degree of supply reliability.

NEW MODELS IN 2018

In the course of transforming our core business, we will define the positioning of our Group brands more clearly and optimize the vehicle and drive portfolio with a view to the most attractive and fastest-growing market segments. We will unveil additional SUV models, integrate digitalization into our products even more systematically and provide important stimuli for the future with e-mobility offerings.

The Volkswagen Passenger Cars brand will continue its global product initiative in 2018. The SUV range will be expanded further with the third generation of the Touareg among other models. The GTI family is also growing: with the new Polo GTI and the up! GTI, two models are coming on the market which will set new standards in their segment in terms of driving dynamics and sportiness. One of the focal points of the product offensive in 2018 will be China, where four new SUV models will be launched, including the compact, sporty T-Roc. With the Lavalda and the Bora, important high-volume models will be revamped. These will stand alongside a series of new plug-in hybrid models and all-electric vehicles to meet the growing demand for new energy vehicles in China. In the USA, the new Jetta will come on the market. The latest generation of the US bestseller, which is now also based on the Modular Transverse Toolkit, is quite different from its predecessor, both visually and from a technological perspective. The Arteon, a saloon, will also follow in the course of the year. South America will see the rollout of the Virtus, a notchback saloon based on the Polo; the further rejuvenation and expansion of the product range is an important element of the brand's realignment in the region.

Audi will set standards in the premium segment in 2018 with the new, progressive A7 Sportback. The four-door coupé reinvents the Gran Turismo with dynamic lines, systematic digitalization, a sporty driving experience and flexible use of space. The A4 family will gain a sporty spearhead: the new Audi RS 4 Avant combines high performance with enormous everyday practicality. The versatile Audi A6 featuring a sporty design will also come on the market. Boasting the same qualities as the A7, it has a much bigger interior than its predecessor. A new segment in the premium class will be

carved out with the latest member of the Q family, the Q8. The Audi e-tron will be Audi's first SUV with an all-electric drive to go into series production.

ŠKODA will bring its updated compact car, the Fabia, to market.

The SEAT brand will continue its product offensive with a large, seven-seater SUV. The model fits perfectly into SEAT's SUV model range alongside the smaller Arona and Ateca. In addition, SEAT is establishing the new sporty line CUPRA and will launch the dynamic CUPRA Ateca at the end of the year.

Porsche is enhancing its 911 product range with the 911 Carrera T and will unveil the new 911 GT3 RS.

Bentley will begin delivery in 2018 of the third generation of the Continental GT, which sets new standards for luxury grand touring. Bentley will also present two new derivatives of the successful Bentayga: the Bentayga V8 and Bentayga Hybrid.

Lamborghini will launch a third series on the market with the Urus, a super-SUV. The Huracán Performante Spyder will also be gradually made available. The Aventador S Roadster will receive an upgrade.

Bugatti will provide additional options for its super sports car, the Chiron.

Volkswagen Commercial Vehicles will debut the Amarok V6 TDI with the new top-of-the-range engine and the battery-powered e-Crafter in 2018.

In 2018, Scania will unveil further products from its new generation of trucks along with new services.

MAN will present a new version of its Adaptive Cruise Control (ACC) for its range of trucks, featuring a stop-and-go function.

Ducati will launch five new models on the market in 2018, including the Ducati Panigale V4 and the Multistrada 1260.

STRATEGIC SALES FOCUS

The multibrand structure, comprising largely independent, differentiated brands that nevertheless achieve maximum synergies, is one of the defining features of the Volkswagen Group.

To enable Group brands to enter into new markets, we will further refine our brand positioning, particularly in the growth regions. We will also significantly enhance our customer focus. We will improve collaboration with our authorized dealers, train our staff – including with respect to the digital transformation – and invest in innovative processes and systems for seamless customer interaction in an increasingly digital environment.

Our sales strategy is especially focussed on further developing the new and used vehicle businesses, on financial services and on business with original parts and accessories. We are also adding to our range of mobility services.

TECHNICAL EXPERTISE AND MOTIVATION IN THE TRANSFORMATION PROCESS

Our staff's dedication and high level of expertise provide important prerequisites to successfully shape the transformation process to becoming one of the world's leading providers of sustainable mobility, while ensuring our professional excellence in the field of traditional automobile manufacturing.

The dual vocational training and dual study programs form the basis for professional development in the vocational groups at Volkswagen. Employees then obtain further qualifications throughout their working lives. To always meet current requirements, the broad range of training courses is continuously being enhanced. For example, employees are prepared for the changes associated with the advancing digitalization and the use of new technologies under Industry 4.0. An important principle in these efforts is the transfer of knowledge and experience from internal experts to other staff. Training is provided in the form of dual vocational training that closely integrates theoretical and practical forms of learning.

INVESTMENT AND FINANCIAL PLANNING

To continue to build on our pronounced strengths in innovation and technology, we will vigorously invest in e-mobility, autonomous driving, new mobility services and digitalization in the coming years. The largest share of the investments will be in the development of vehicles with hybrid or all-electric drives.

In our current planning for 2018, the majority of capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) will be spent on new products and the continued rollout and further development of the modular toolkit. The focus is on the electrification and digitalization of our vehicles, in particular through the development of the Modular Electric Toolkit (MEB). At the same time, primarily the SUV range will be further expanded. We expect the Automotive Division's ratio of capex to sales revenue to be in the range of 6.5–7.0%.

Besides capex, investing activities will include additions to capitalized development costs. Among other things, these reflect upfront expenditures in connection with the fulfillment of environmental standards and the electrification and updating of our model range.

The investments in our facilities and models, as well as in the development of alternative drives and modular toolkits, are laying the foundations for profitable, sustainable growth at Volkswagen. These investments also include commitments arising from decisions taken in previous fiscal years.

We aim to finance the investments in our Automotive Division from our own capital resources and expect cash flows from operating activities to exceed the Automotive Division's investment requirements. Cash outflows resulting from the diesel issue will impact on the cash flow again in 2018, but will be substantially lower than in the reporting period. Consequently, we anticipate a positive net cash flow for 2018 that will be up significantly on the prior-year figure.

These plans are based on the Volkswagen Group's current structures. They do not take into account the possible settlement payable to other shareholders associated with the control and profit and loss transfer agreement with MAN SE. Our joint ventures in China are included using the equity method and are therefore not included in the above figures. In 2018, these joint ventures plan higher investments in capex than in 2017, which will be financed from the companies' own funds.

In the Financial Services Division, we are planning slightly higher investments in 2018 than in the previous year. We expect the growth in lease assets and in receivables from leasing, customer and dealer financing to lead to funds tied up in working capital, of which around 45% will be financed from the gross cash flow. As is common in the sector, the remaining funds needed will be met primarily through unsecured bonds on the money and capital markets, asset-backed securities, customer deposits from direct banking business, as well as through the use of international credit lines.

TARGETS FOR VALUE-BASED MANAGEMENT

Based on long-term interest rates derived from the capital market and the target capital structure (fair value of equity to debt = 2:1), the minimum required rate of return on invested capital defined for the Automotive Division remains unchanged at 9%.

In spite of the adverse effects of the special items on earnings, we exceeded the minimum rate of return on invested capital in the reporting period, with a return on investment (ROI) of 12.1 (8.2)% (see also page 128). Invested capital will increase in 2018 as a result of investments in new models, in the development of alternative drives and modular toolkits and in future technologies. The return on investment will probably exceed our minimum required rate of return on invested capital and be up slightly year-on-year.

FUTURE ORGANIZATIONAL STRUCTURE OF THE GROUP

As part of our future program TOGETHER – Strategy 2025, we are establishing a new mobility solutions business with which we will drive our transformation into one of the world's leading providers of sustainable mobility. Development of mobility services is closely tied to the cutting-edge

fields of digitalization, e-mobility, networked vehicle concepts and autonomous driving, which are being driven forward by our brands independently or in partnership with others. Starting in fiscal year 2018, we will report the mobility solutions business in the Automotive Division.

SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Group's Board of Management expects the global economy to record slightly weaker growth in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further.

We expect trends in the passenger car markets in the individual regions to be mixed in 2018. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period. We anticipate that unit sales volumes in Western Europe will fall slightly short of those seen in the reporting period. In the German passenger car market, we estimate that the market volume will be on a level with the previous year. Passenger car demand is expected to substantially exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect demand in the South American markets for passenger cars and light commercial vehicles to grow perceptibly as a whole compared with the previous year. The passenger car markets in the Asia-Pacific region look set to continue their growth trajectory in 2018, albeit at a weaker pace.

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we envisage a slight dip in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2018 are set to rise slightly above the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2018.

The Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed developments in regional automotive markets. Our unique brand portfolio, our presence in all major world markets, our broad,

selectively expanded product range and pioneering technologies and services place us in a good competitive position worldwide. In the course of transforming our core business, we will define the positioning of our Group brands more clearly and optimize the vehicle and drive portfolio with a view to the most attractive and fastest-growing market segments. In addition, we are working to make even more focused use of the advantages of our multibrand group by continuously developing new technologies and our toolkits. The Group's new structure with more decentralized responsibility will strengthen our brands and regions and increase our proximity to customers. Our goal is to offer all customers mobility and innovations that are suited to their needs, ensuring long-term success. We will unveil additional SUV models, integrate digitalization into our products even more systematically and provide important stimuli for the future with e-mobility offerings.

We expect that deliveries to customers of the Volkswagen Group in 2018 will moderately exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and the diesel issue. In the EU, there is also a new, more time-consuming test procedure for determining pollutant and CO₂ emissions as well as fuel consumption in passenger cars and light commercial vehicles known as the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP).

We expect the sales revenues of the Volkswagen Group and its business areas to grow by as much as 5% year-on-year. In terms of the operating profit for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2018. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 5.0 and 6.0%. In the Power Engineering Business Area, we expect a lower operating loss than in the previous year. For the Financial Services Division, we are forecasting an operating profit at the prior-year level.

In the Automotive Division, the R&D ratio and the ratio of capex to sales revenue will fluctuate in the range of 6.5–7.0% in 2018. Cash outflows resulting from the diesel issue will negatively impact the cash flow again in 2018, but will be substantially lower than in the reporting period. Consequently, we anticipate a positive net cash flow for 2018 that will be up significantly on the prior-year figure. Net liquidity will also increase moderately as a result. The return on investment (ROI) will be slightly higher than in the previous year. Our unchanged stated goal is to continue our solid liquidity policy.

The commitment and considerable technical expertise of our staff are key prerequisites to successfully shaping the transformation into the world's leading provider of sustainable mobility. With our future program, TOGETHER – Strategy 2025, we are attaching even greater importance to our responsibility in relation to the environment, safety and society. We are also aiming for operational excellence in all business processes and intensifying our focus on profitable growth.

Report on Risks and Opportunities

(CONTAINS THE REPORT IN ACCORDANCE WITH SECTION 289(5) OF THE HGB)

Promptly identifying the risks and opportunities arising from our operating activities and taking a forward-looking approach to managing them is crucial to our Company's long-term success. A comprehensive risk management and internal control system help the Volkswagen Group deal with risks in a responsible manner.

In this section, we first explain the objective and structure of the Volkswagen Group's risk management system (RMS) and internal control system (ICS) and describe these systems with regard to the financial reporting process. We then outline the main risks and opportunities arising in our business activities.

OBJECTIVE OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM AT VOLKSWAGEN

Only by promptly identifying, accurately assessing and effectively and efficiently managing the risks and opportunities arising from our business activities can we ensure the Volkswagen Group's sustainable success. The aim of the RMS/ICS is to identify potential risks at an early stage so that suitable countermeasures can be taken to avert the threat of loss to the Company, and any risks that might jeopardize its continued existence can be ruled out.

Assessing the probability and extent of future events and developments is, by its nature, subject to uncertainty. We are therefore aware that even the best RMS cannot foresee all potential risks and even the best ICS can never completely prevent irregular acts.

STRUCTURE OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM AT VOLKSWAGEN

The organizational design of the Volkswagen Group's RMS/ICS is based on the internationally recognized COSO framework for enterprise risk management (COSO: Committee of Sponsoring Organizations of the Treadway Commission). Structuring the RMS/ICS in accordance with the COSO frame-

work for enterprise risk management ensures that potential risk areas are covered in full. In the reporting period, Volkswagen again took an approach to risk management that combines aspects of the ICS and the compliance management system (CMS). Uniform Group principles are used as the basis for managing risks in a standardised manner. Opportunities are not recorded.

With this approach, we not only fulfil legal requirements, particularly with regard to the financial reporting process, but are also able to manage significant risks to the Group holistically, i.e. by incorporating both tangible and intangible criteria.

The open approach to dealing with risks in the Company and the quarterly reporting on the current risk situation were focal points in the reporting period in addition to the ad hoc and annual risk assessment. We continued to reinforce the internal control system in the area of product compliance in 2017. This includes the implementation of what are known as the Golden Rules in the areas of control unit software development, emission classification and escalation management. These rules represent minimum requirements in the organization, processes and tools & systems categories. They serve to shore up governance and compliance.

Another key element of the RMS/ICS at Volkswagen is the three lines of defense model, a basic element required, among other bodies, by the European Confederation of Institutes of Internal Auditing (ECIIA). In line with this model, the Volkswagen Group's RMS/ICS has three lines of defense that are designed to protect the Company from significant risks occurring.

THE THREE LINES OF DEFENSE MODEL

**First line of defense: operational risk management**

The primary line of defense comprises the operational risk management and internal control systems at the individual Group companies and business units. The RMS/ICS is an integral part of the Volkswagen Group's structure and workflows. Events that may give rise to risk are identified and assessed locally in the divisions and at the investees. Countermeasures are introduced immediately, their effects are assessed and the information is incorporated into the planning in a timely manner. The results of the operational risk management process are incorporated into budget planning and financial control on an ongoing basis. The targets agreed in the budget planning rounds are continually reviewed in revolving planning updates.

At the same time, the results of risk mitigation measures that have already been taken are incorporated into the monthly forecasts on further business development without delay. This means that the Board of Management also has access to an overall picture of the current risk situation via the documented reporting channels during the year.

The minimum requirements for the operational risk management and internal control system are set out for the entire Group in uniform guidelines. These also include a process for the timely reporting of material risks.

Second line of defense: identifying and reporting systemic and current risks using Group-wide processes

In addition to the ongoing operational risk management, the Group Risk Management department each year sends standardized surveys on the risk situation and the effectiveness of the RMS/ICS to the significant Group companies and units worldwide (regular Governance, Risk & Compliance (GRC) process). The feedback is used to update the overall picture of the potential risk situation and assess the effectiveness of the system.

Each systemic risk reported is assessed using the expected likelihood of occurrence and various risk criteria (financial and nonfinancial). In addition, the measures taken to manage and control risk are documented at management level. This means that risks are assessed in the context of any risk management measures initiated, i.e. in a net analysis. In addition to strategic, operational and reporting risks, risks arising from potential compliance violations are also integrated into this process. Moreover, the effectiveness of key risk management and control measures is tested and any weaknesses identified in the process are reported and rectified.

All Group companies and units selected from among the entities in the consolidated Group on the basis of materiality and risk criteria were subject to the regular GRC process in fiscal year 2017.

In addition to the ad hoc and annual risk assessment, the Board of Management also receives quarterly risk reports. Similar to the annual standard GRC process, the assessment takes risk-minimizing control measures into account (net assessment). All Group brands are included in this process along with Volkswagen Financial Services AG and Volkswagen Bank GmbH.

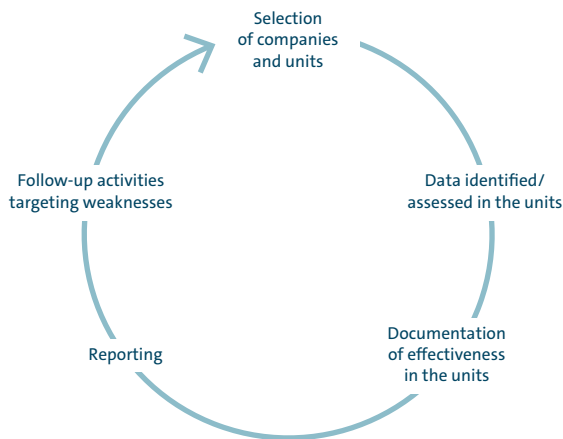
Information on relevant systemic and current risks is regularly reported to the Group Board of Management and the Audit Committee of the Supervisory Board of Volkswagen AG.

The Group Board of Management Committee for Risk Management was set up in the reporting period. The new committee has the following tasks, among others:

- to further increase transparency in relation to significant risks to the Group and their management,
- to explain specific issues where these constitute a significant risk to the Group,
- to make recommendations on the further development of the RMS/ICS,
- to support the open approach to dealing with risks and promote an open risk culture.

In the past, the Scania brand was not yet included in the Volkswagen Group's risk management system due to various provisions of Swedish company law. Scania has been integrated into quarterly risk reporting since 2016. From 2018, it will also be gradually included in the standard GRC process. Risk management and risk assessment are integral parts of Scania's corporate management. Risk areas at Scania are evaluated by the brand's Controlling department and reflected in the financial reporting.

ANNUAL STANDARD GOVERNANCE, RISK AND COMPLIANCE PROCESS

**Third line of defense: checks by Group Internal Audit**

Group Internal Audit helps the Board of Management to monitor the various divisions and corporate units within the Group. It regularly checks the risk early warning system and the structure and implementation of the RMS/ICS and the CMS as part of its independent audit procedures.

RISK EARLY WARNING SYSTEM IN LINE WITH THE KONTRAG

The Company's risk situation is ascertained, assessed and documented in accordance with the requirements of the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG – German Act on Control and Transparency in Business). The requirements for a risk early warning system are met through the elements of the RMS/ICS described above (first and second lines of defense). Independently of this, the external auditors check both the processes and procedures implemented in this respect and the adequacy of the documentation on an annual basis. The plausibility and adequacy of the risk reports are examined on a random basis in detailed interviews with the divisions and companies concerned that also involve the external auditors. The latter assessed our risk early warning system based on this volume of data and ascertained that the risks identified were presented and communicated accurately. The risk early warning system meets the requirements of the KonTraG.

In addition, scheduled examinations as part of the audit of the annual financial statements are conducted at companies in the Financial Services Division. As a credit institution, Volkswagen Bank GmbH, including its subsidiaries, is subject to supervision by the European Central Bank, while Volkswagen Leasing GmbH as a financial services institution

and Volkswagen Versicherung AG as an insurance company are subject to supervision by the relevant division of the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – the German Federal Financial Supervisory Authority). As part of the scheduled supervisory process and unscheduled audits, the competent supervisory authority assesses whether the requirements, strategies, processes and mechanisms ensure solid risk management and solid risk cover. Furthermore, the Prüfungsverband deutscher Banken (Auditing Association of German Banks) audits Volkswagen Bank GmbH from time to time.

Monitoring the effectiveness of the risk management system and the internal control system

To ensure its effectiveness, the RMS/ICS is regularly optimized as part of our continuous monitoring and improvement processes. In the process, equal consideration is given to both internal and external requirements. External experts assist in the continuous enhancement of our RMS/ICS on a case-by-case basis. The results culminate in both regular and event-driven reporting to the Board of Management and Supervisory Board of Volkswagen AG.

THE RISK MANAGEMENT AND INTEGRATED INTERNAL CONTROL SYSTEM IN THE CONTEXT OF THE FINANCIAL REPORTING PROCESS

The accounting-related part of the RMS/ICS that is relevant for the financial statements of Volkswagen AG and the Volkswagen Group as well as its subsidiaries comprises measures that are intended to ensure the complete, accurate and timely transmission of the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the combined Group management report. These measures are designed to minimize the risk of material misstatement in the accounts and in the external reporting.

Main features of the risk management and integrated internal control system relevant for the financial reporting process

The Volkswagen Group's accounting is essentially organized along decentralized lines. For the most part, accounting duties are performed by the consolidated companies themselves or entrusted to the Group's shared service centers. In principle, the audited financial statements of Volkswagen AG and its subsidiaries prepared in accordance with IFRSs and the Volkswagen IFRS accounting manual are transmitted to the Group in encrypted form. A standard market product is used for encryption.

The Volkswagen IFRS accounting manual, which has been prepared using external expert opinions in certain cases, ensures the application of uniform accounting policies based on the requirements applicable to the parent. In particular, it

includes more detailed guidance on the application of legal requirements and industry-specific issues. Components of the reporting packages required to be prepared by the Group companies are also set out in detail there and requirements established for the presentation and settlement of intragroup transactions and the balance reconciliation process that builds on this.

Control activities at Group level include analyzing and, if necessary, adjusting the data reported in the financial statements presented by the subsidiaries, taking into account the reports submitted by the auditors and the outcome of the meetings on the financial statements with representatives of the individual companies. These discussions address both the reasonableness of the single-entity financial statements and specific significant issues at the subsidiaries. Alongside reasonableness reviews, other control mechanisms applied during the preparation of the single-entity and consolidated financial statements of Volkswagen AG include the clear delineation of areas of responsibility and the application of the dual control principle.

The Group management report is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of and in consultation with the Group units and companies.

In addition, the accounting-related internal control system is independently reviewed by Group Internal Audit in Germany and abroad.

Integrated consolidation and planning system

The Volkswagen consolidation and corporate management system (VoKUs) enables the Volkswagen Group to consolidate and analyze both Financial Reporting's backward-looking data and Controlling's budget data. VoKUs offers centralized master data management, uniform reporting, an authorization concept and maximum flexibility with regard to changes to the legal environment, providing a future-proof technical platform that benefits Group Financial Reporting and Group Controlling in equal measure. To verify data consistency, VoKUs has a multi-level validation system that primarily checks content plausibility between the balance sheet, the income statement and the notes.

RISKS AND OPPORTUNITIES

In this section, we outline the significant risks and opportunities that arise in the course of our business activities. We have grouped them into categories. Unless explicitly mentioned, there were no material changes to the specific risks and opportunities compared with the previous year.

The increasing number of partnerships generates both opportunities as well as risks.

The diesel issue gives rise to its own risks for the Volkswagen Group and also has an impact on existing risks. These are described under the respective risk category.

We use competitive and environmental analyses and market studies to identify not only risks but also opportunities with a positive impact on the design of our products, the efficiency with which they are produced, their success in the market and our cost structure. Where they can be assessed, risks and opportunities that we expect to occur are already reflected in our medium-term planning and our forecast. The following therefore reports on internal and external developments as risks and opportunities that may result in a negative or positive deviation from our forecast.

Risks from the diesel issue

The Volkswagen Group has recognized provisions arising from the diesel issue, in particular for the service measures, recalls and customer-related measures as well as for legal risks, but also for residual value risks.

Further significant financial liabilities may emerge due to existing estimation risks particularly from legal risks, such as criminal, administrative and civil proceedings, technical solutions, lower market prices, repurchase obligations and customer-related measures.

Demand may decrease – possibly exacerbated by a loss of reputation or insufficient communication. Other potential consequences include lower margins in the new and used car businesses and a temporary increase in funds tied up in working capital.

The funding needed to cover the risks may lead to assets having to be sold due to the situation and equivalent proceeds for them not being achieved as a result.

As a result of the diesel issue, the ability to use refinancing instruments may possibly be restricted or precluded for the Volkswagen Group. A downgrade of the Company's rating could adversely affect the terms associated with the Volkswagen Group's borrowings.

We are cooperating with all the responsible authorities to clarify these matters completely and transparently.

Additional information about the litigation can be found on pages 93 and 178 to 185 of this annual report.

Macroeconomic risks and opportunities

We believe that the risks to continued global economic growth arise primarily from turbulence in the financial markets, protectionist tendencies and structural deficits, which

pose a threat to the performance of individual advanced economies and emerging markets. The worldwide transition from an expansionary monetary policy into a more restrictive one also presents risks for the macroeconomic environment. Moreover, uncertainty is associated with the effects of the UK's planned withdrawal from the EU. Persistently high private- and public-sector debt in many places is also clouding the outlook for growth and may cause markets to respond negatively. Declines in growth in key countries and regions often have an immediate impact on the state of the global economy and therefore pose a central risk.

The economic development of some emerging economies is being hampered primarily by dependence on energy and commodity prices, capital inflows and socio-political tensions. Corruption, inadequate government structures and a lack of legal certainty also pose risks.

Geopolitical tensions and conflicts are a further major risk to the performance of individual economies and regions. As the global economy becomes increasingly interconnected, it is also vulnerable to local developments. Any escalation of the conflicts in Eastern Europe, the Middle East, or Africa, for example, could cause upheaval on the global energy and commodity markets and exacerbate migration trends. An aggravation of the situation in East Asia could put further strain on the global economy. The same applies to armed conflicts, terrorist activities and the spread of infectious diseases, which may prompt unexpected, short-term responses from the markets.

On the whole, we do not anticipate a global recession next year. Due to the risk factors mentioned, however, a decline in global economic growth or a period of below-average growth rates is possible.

The macroeconomic environment may also give rise to opportunities for the Volkswagen Group if actual developments differ in a positive way from expected developments.

Sector-specific risks and market opportunities

The growth markets of Asia, South America, and Central and Eastern Europe are particularly important to the Volkswagen Group in terms of the global trend in demand for passenger cars and commercial vehicles. These markets harbor considerable potential; however, the underlying conditions in some countries in these regions make it difficult to increase unit sales figures there. Some have high customs barriers or minimum local content requirements for production, for example. The political crisis and its economic consequences again inhibited market development in Russia in fiscal year

2017. In South America, structural deficits continued to have a negative impact. Restrictions on vehicle registrations could enter into force in further Chinese metropolitan areas in the future. In Europe, there is a risk that some municipalities and cities will impose a driving ban on diesel vehicles in order to comply with emission limits. Also, a global economic slowdown could negatively impact consumer confidence. Furthermore, we cannot entirely rule out the possibility of freight deliveries being shifted from trucks to other means of transport, and of demand for the Group's commercial vehicles falling as a result.

At the same time, wherever the economic and regulatory situation permits, there are opportunities above and beyond current projections. These arise from faster growth in the emerging markets where vehicle densities are currently still low. The demand that built up in individual established markets during the crisis could also bring a more marked recovery in these markets if the economic environment eases more quickly than expected. Price pressure in established automotive markets due to high market saturation is a particular challenge for the Volkswagen Group as a supplier of volume and premium models. Competitive pressures are likely to remain high in the future. Individual manufacturers may respond by offering incentives in order to meet their sales targets, putting the entire sector under additional pressure, particularly in Western Europe, the USA and China.

Western Europe is one of our main sales markets. A drop in prices due to the economic climate triggered by falling demand in this region would have a particularly strong impact on the Company's earnings. We counter this risk with a clear, customer-oriented and innovative product and pricing policy. Outside Western Europe, delivery volumes are spread widely around the world, with the Chinese market accounting for a large share. In numerous existing and developing markets, we either already have a strong presence or are working hard to build one. Moreover, strategic partnerships are helping us to increase our presence in these countries and regions and cater to requirements there.

Economic performance varied from region to region in fiscal year 2017. The resulting challenges for our trading and sales companies, such as efficient inventory management and a profitable dealer network, are considerable and are being met by appropriate measures on their part. However, financing business activities through bank loans remains difficult. Our financial services companies offer dealers financing on attractive terms with the aim of strengthening their business models and reducing operational risk. We have

installed a comprehensive liquidity risk management system so that we can promptly counteract any liquidity bottlenecks at the dealers' end that could hinder smooth business operations.

We continue to approve loans for vehicle finance on the basis of the same cautious principles applied in the past, taking into account the regulatory requirements of section 25a(1) of the Kreditwesengesetz (KWG – German Banking Act).

Volkswagen may be exposed to increased competition in aftermarkets for two reasons in particular: firstly, because of the provisions of the block exemption regulations, which have applied to after-sales services since June 2010, and, secondly, because of the amendments included in EU Regulation 566/2011 of June 8, 2011 regarding access by independent market participants to technical information.

In addition, the European Commission is currently evaluating the market with regard to existing design protection. If the proposed abolition of design protection for visible replacement parts were to be approved, this could adversely affect the Volkswagen Group's genuine parts business.

The automotive industry faces a process of transformation with far-reaching changes. Electric drives, connected vehicles and autonomous driving are associated with both opportunities and risks for our sales. In particular, more rapidly evolving customer requirements, swift implementation of legislative initiatives and the market entry of new competitors from outside the industry will require changed products, a faster pace of innovation and adjustments to business models.

Below, we outline the greatest potential for growth and market opportunities for the Volkswagen Group.

China

China, the largest market in the Asia-Pacific region, continued to grow in the reporting period. The Chinese demand for vehicles will continue to rise in the coming years due to the need for individual mobility, albeit at a slower pace than in the past. Demand will also shift from the large coastal cities to the interior of the country. In order to leverage the considerable opportunities offered by the Chinese market – also with regard to e-mobility – and to defend our strong market position in China over the long term, we are continuously expanding our product range to include models that have been specially developed for this market. We are further extending our production capacity in this growing market through additional production facilities.

India

The political and economic situation in India further stabilized in 2017. The vehicle markets continued their recovery. We expect this trend to continue. Against this

backdrop, the Group is currently consolidating its activities, as India remains an important strategic future market for the Group.

USA

The volume of the US vehicle market in 2017 fell short of the strong previous year. In 2018, the market volume will probably again be lower than in the reporting period. In the USA, Volkswagen Group of America is systematically pursuing our strategy of becoming a full-fledged volume supplier. An engine plant and the further development of production capacity will allow the Group to better serve the market in the North America region. We are also pressing forward with additional products tailored specifically to the US market.

Brazil

The economic environment eased in the reporting period and the volume of demand in the vehicle market recovered perceptibly compared with the weak previous year. We anticipate a continued upturn in demand in 2018. The growing number of automobile manufacturers with local production has resulted in a sharp increase in price pressure and competition. The Brazilian market plays a key role for the Volkswagen Group. To strengthen our competitive position here, we offer vehicles that have been specially developed for this market and are locally produced, such as the Gol and the Virtus.

Russia

Russia has the potential to grow into one of the largest automotive markets in the world. Volumes in the Russian vehicle market in 2017 were up on the previous year and we are forecasting a further recovery in 2018. However, the heavy reliance on the currently low oil and gas income, a substantial fall in real incomes, high vehicle prices as a result of the weak currency, the political crisis and the related sanctions imposed by the EU and the USA continue to impact the development of demand. The market remains strategically important to the Volkswagen Group, which is why we are working intensively there.

The Middle East

Despite economic and political instability, the Middle East region offers growth opportunities. We are leveraging the potential for growth with a range of vehicles that has been specifically tailored to this market, but do not have our own production facilities.

Power Engineering

The underlying trends in the global economy, such as sustained growth and a greater international division of labor,

are set to continue, as are the resulting increase in global transport routes and volumes, the higher demand for touristic offers such as cruises, and the growing energy needs and the required forces for innovation in relation to global climate policy.

We are working systematically to leverage these market opportunities across the world. In the medium term, significant potential can be leveraged by enhancing the after-sales business through the introduction of new products and the expansion of our service network. Going forward, stricter requirements with respect to reliability, the availability of the plants that are already in operation, the increase in environmental compatibility and efficient operation, together with the large number of engines and plants, will provide the basis for growth.

As part of the capital goods industry, the Power Engineering Business Area is affected by fluctuations in the investment climate. Even minor changes in growth rates or growth forecasts, resulting from geopolitical uncertainties or volatile commodities and foreign exchange markets, for example, can lead to significant changes in demand or the cancellation of already existing orders. The measures we use to counter the considerable economic risks include flexible production concepts and cost flexibility by means of temporary employment, working time accounts and short-time work, and – if necessary – structural adjustments. In the Turbomachinery Business Area, for example, as a consequence of weak demand, industry-wide overcapacity and price pressure in 2017, we implemented sweeping structural adjustments at all major production facilities in Europe to make the business area more competitive.

Research and development risk

The automotive industry is undergoing a radical transformation process. Multinational corporations like Volkswagen are facing major challenges in the areas of customer/market, technological advances and legislation. Key aspects are the implementation of increasingly stringent emission and consumption regulations, taking new test procedures and test cycles (e.g. WLTP) into account, as well as compliance with approval processes (homologation), which are becoming increasingly more complex and time-consuming and may vary by country.

The economic success and competitiveness of the Volkswagen Group depend on how successful we are in promptly tailoring our portfolio of products and services to the changing conditions in time. Due to the intensity of the competition and the speed of technological development, identifying relevant trends at an early stage and reacting accordingly is crucial.

We therefore conduct trend analyses, customer surveys and scouting activities among other things and examine the relevance of the results for our customers. We counter the risk that it may not be possible to develop modules, vehicles or services within the specified timeframe, to the required quality standards, or in line with cost specifications by continuously and systematically monitoring the progress of all projects and analyzing third-party industrial property rights, increasingly including in relation to communication technologies. We regularly compare this progress with the project's original targets; in the event of variances, we introduce appropriate countermeasures in good time. Our end-to-end project organization supports effective cooperation among all areas involved in the process, ensuring that specific requirements are incorporated into the development process as early as possible and that their implementation is planned in good time.

Modular toolkit strategy

We are continuously expanding our successful modular toolkits, focusing on future customer requirements, legal requirements and infrastructural requirements.

The Modular Transverse Toolkit (MQB) has created an extremely flexible vehicle architecture that permits dimensions determined by the concept – such as the wheelbase, track width, wheel size and seat position – to be harmonized throughout the Group and utilized flexibly. Other dimensions, for example the distance between the pedals and the middle of the front wheels, are always the same, ensuring a uniform system in the front of the car. Based on the synergies achieved, we are able to cut both development costs and the necessary one-time expenses and manufacturing times. The toolkits also allow us to produce different models from different brands in various quantities, using the same system in a single plant. This means that our capacities can be used with greater flexibility throughout the entire Group, enabling us to achieve efficiency gains.

We are currently transferring this principle of standardization with maximum flexibility to the Modular Electrification Toolkit (MEB), a concept developed for all-electric drives. The synergy effects and efficiency gains achieved from the modular toolkit strategy will give us the opportunity to bring e-mobility into mass production manufacturing worldwide from 2020 with the use of the first MEB-based vehicle.

Opportunities and risks from partnerships

As part of our future program TOGETHER – Strategy 2025, we are stepping up our efforts to forge collaborations, both for the transformation of our core business and for the establish-

ment of the new mobility solutions business. By entering into partnerships at a local level, we aim to identify regional customer needs more precisely, establish competitive cost structures and develop and offer market-driven products. Going forward, we will concentrate to a greater extent than previously on partnerships, acquisitions and venture capital investments. This will enable us to generate maximum value for the Group and its brands and to expand our expertise, particularly in new areas of business.

Volkswagen owns a large number of patents and other industrial property rights and copyrights. Partnerships can lead to patent and licensing infringements and thus to the unauthorized disclosure of company-specific expertise. Volkswagen monitors the sales markets and will also protect its expertise with legal action if necessary.

Procurement risks and opportunities

Current trends in the automotive industry such as e-mobility and automated driving are resulting in an increased need for financing among suppliers. The Volkswagen Group's procurement risk management system assesses suppliers before they are commissioned to perform projects. Among other things, the procurement function considers the risk of insufficient competition if it concentrates on a few financially strong suppliers when awarding contracts.

The procurement risk management system continuously and globally monitors the financial situation of our suppliers and takes targeted measures to avoid supply bottlenecks.

The ongoing positive economic trend in Europe, North America and China strengthened our supplier base at an overall good level of capacity utilization and good margin situation. Consistently good financing opportunities and the attractive interest rates provided suppliers with favorable conditions. In the Russian and South American markets, demand grew for the first time in years, providing the possibility of stabilization after several years of consolidation of the supplier base.

In spite of this, the number of crises and insolvencies among suppliers worldwide increased in 2017. Specialists in restructuring and supply reliability are coordinating the measures to be taken on a Group-wide basis to safeguard production in a timely and sustainable manner.

The current trends in the automotive industry will also affect the availability of special raw materials, which are principally used in electrified vehicles. The raw material and demand trend was assessed last year to enable steps to be taken in a timely manner whenever bottlenecks arise.

Rising material prices, especially for steel, and shifts in the product mix towards petrol engines present challenges that must be overcome in conjunction with suppliers.

Quality problems may necessitate technical intervention involving a considerable financial outlay where costs cannot be passed on to the supplier or can only be passed on to a limited extent. It is not possible at the present time to rule out a potential further increase in recalls of a range of models produced by various manufacturers in which certain airbags manufactured by Takata were installed. This could also affect Volkswagen Group models.

In addition to financial difficulties, supply risks may, for example, arise as a result of fires or accidents at suppliers. Supply risks are identified without delay in the procurement function through early warning systems and mitigated immediately by applying appropriate measures.

Additional measures were taken to safeguard supply and avert future assembly line stoppages caused by suspensions of deliveries.

Monitoring of the antitrust investigations into suppliers by Risk Management on grounds of price-fixing agreements was expanded further in 2017. The effects on Volkswagen are being systematically reviewed.

Production risk

Volatile developments in the global automotive markets, accidents at suppliers, storms and earthquakes caused production volumes of some vehicle models to fluctuate at some plants. In specific markets, we also recorded a change in incoming orders: the number of orders for diesel vehicles fell, while orders for petrol engines rose. We address such fluctuations using tried-and-tested tools, such as flexible working time models. The design of the production network enables us to respond dynamically to varying changes in demand at the sites. "Turntable concepts" even out capacity utilization between production facilities. At multibrand sites, volatile demand can also be smoothed across brands.

Short-term changes in customer demand for specific equipment features in our products, and the decreasing predictability of demand, may lead to supply bottlenecks. We minimize this risk by, among other measures, continuously comparing our available resources against future demand scenarios. If we identify bottlenecks in the supply of materials, we can introduce countermeasures far enough in advance.

Production capacity is planned several years in advance for each vehicle project on the basis of expected sales trends. These are subject to market changes and generally entail a

degree of uncertainty. If forecasts are too optimistic, there is a risk that capacity will not be fully utilized. However, forecasts that are too pessimistic pose a risk of undercapacity, as a result of which it may not be possible to meet customer demand.

Particular events beyond our control such as natural disasters or other events such as fires, explosions or the leakage of substances hazardous to health and/or the environment, may adversely affect production to a significant extent. As a consequence, bottlenecks or even outages may occur, thus preventing the planned volume of production from being achieved. We address such risks with, among other things, fire protection measures and hazardous goods management, and, where financially viable, ensure that they are covered by insurance policies.

The range of our models is growing, while at the same time product life cycles are becoming shorter; the number of new vehicle start-ups at our sites worldwide is therefore increasing. The processes and technical systems we use for this are complex and there is thus a risk that vehicle deliveries may be delayed. We address this risk by drawing on experience of past start-ups and identifying weaknesses at an early stage so as to ensure that production volumes and quality standards are met during our new vehicle start-ups throughout the Group.

In order to prevent downtime in general, lost output, rejects and reworking, we use the TPM (Total Productive Maintenance) method at our production facilities. TPM is a continuous process, that involves the entire workforce. Round-the-clock maintenance of the technical facilities means that they are always operational and guaranteed to function reliably.

Risks arising from long-term production

In the case of large projects, risks may arise that are often only identified in the course of the project. They may result in particular from contract drafting errors, miscosting, post-contract changes in economic and technical conditions, weaknesses in project management, or poor performance by subcontractors. In particular, omissions or errors made at the start of a project are usually difficult to compensate for or correct, and often entail substantial additional expenses.

We endeavor to identify these risks at an even earlier stage and to take appropriate measures to eliminate or minimize them before they occur by constantly optimizing the project control process across all project phases and by using a lessons-learned process and regular project reviews. We can thus further reduce risk, particularly during the bidding and planning phase for large upcoming projects.

Risks arising from changes in demand

As a result of the diesel issue, the Volkswagen Group may experience decreases in demand, possibly exacerbated by media reports. When dealing with the issue, our highest priority is to provide customers with technical solutions. In addition, we are pressing ahead with the systematic clarification of misconduct in the Company.

Consumer demand is shaped not only by real factors such as disposable income, but also by psychological factors that cannot be planned for. Unexpected buyer reluctance, possibly further exacerbated by press reports, could stem from households' worries about the future economic situation, for example. This is particularly the case in saturated automotive markets such as Western Europe, where demand could drop as a result of owners holding on to their vehicles for longer. In the reporting period, it became evident that the effects of the eurozone debt crisis have not yet been overcome. Some automotive markets, particularly in Southern Europe, were able to further recover from their historical lows, however, and exhibited positive growth rates. We are countering the buyer reluctance with our attractive range of models and systematic customer orientation.

A combination of buyer reluctance as a result of the crisis and increases in some vehicle taxes based on CO₂ emissions – as already exist in some European countries – is driving a shift in demand towards smaller segments and engines in individual markets. We counter the risk that such a shift will negatively impact the Volkswagen Group's earnings by constantly developing new, fuel-efficient vehicles and alternative drive technologies, based on our drivetrain and fuel strategy.

Automotive markets around the world are exposed to risks from government intervention such as tax increases, which curb private consumption, or from protectionist tendencies.

Commercial vehicles are capital goods: even minor changes in growth rates or growth forecasts can significantly affect transport requirements and thus demand. The production fluctuations arising as a result require a high degree of flexibility from manufacturers. Although production volumes are significantly lower, the complexity of the trucks and buses range in fact significantly exceeds the already very high complexity of the passenger cars range. Key factors for commercial vehicle customers are total cost of ownership, vehicle reliability and the service provided. In addition, customers are increasingly interested in additional services such as freight optimization and fleet utilization, which we offer in the commercial vehicle segment through the newly established digital brand RIO, for example.

MAN Power Engineering's two-stroke engines are produced exclusively by licensees, particularly in South Korea, China and Japan. On account of volatile demand in new ship construction, there is excess capacity in the market for marine engines, which may result in a decline in license revenues and bad debt losses. Due to changes in the competitive environment, especially in China, there is also the risk of losing market share. We address these risks by constantly monitoring the markets, working closely with all licensees and introducing new technologies.

Dependence on fleet customer business

The fleet customer business is generally more stable than the business with retail customers; in 2017, it continued to be characterized by increasing concentration and internationalization.

The Volkswagen Group is well positioned with its broad portfolio of products and drive systems, as well as its target-group-focused customer care. There is no concentration of default risks at individual fleet customers or markets. The fact that the market share in Europe remained constant shows that fleet customers still have confidence in the Group.

Quality risk

Right from the product development stage, we aim to identify and rectify quality problems at the earliest possible point, so as to avoid delays to the start of production. As we are using an increasing number of modular components as part of our modular toolkit strategy, it is particularly important when malfunctions do occur to identify the cause and eliminate the malfunctions as quickly as possible. We further optimized the processes with which we can prevent these defects at our brands and improved our organizational processes during the reporting period so that we are able to counter the associated risks more effectively.

Increasing technical complexity and the use of the toolkit system in the Group mean that the need for high-grade supplier components of impeccable quality is rising. To ensure the continuity of production, it is also extremely important that our own plants and our suppliers deliver components on time. We ensure long-term quality and supply capability from the very start of the supply chain using a risk management system that we first tested internally and then introduced among suppliers. In this way, Group Quality Management contributes to fulfilling customer expectations and consequently to boosting our Company's reputation, sales figures and earnings.

Assuring quality is of fundamental importance especially in the Brazilian, Russian, Indian and Chinese markets, for

which we develop dedicated vehicles and where local manufacturers and suppliers have been established, particularly as it may be very difficult to predict the impact of regulations or official measures. We continuously analyze the conditions specific to each market and adapt quality requirements to them. We counter the local risks we identify by continuously developing measures and implementing them locally, thereby effectively preventing quality defects from arising.

Vehicle registration and operation criteria are defined and monitored by national and, in some cases, international authorities. Some countries also have special – and in some cases new – rules aimed at protecting customers in their dealings with vehicle manufacturers. With our established and revised quality assurance processes, we ensure that the Volkswagen Group brands and their products fulfill all applicable requirements and that local authorities receive timely notification of all issues requiring reporting. By doing so, we reduce the risk of customer complaints or other negative consequences.

Personnel risk

We counter economic risks as well as changes in the market and competitive situation with a range of instruments that help the Volkswagen Group to remain flexible, even with a fluctuating order situation – whether orders decline or demand for our products increases. These include time accounts which are filled when overtime is necessary and reduced through time off in quiet periods, enabling our factories to adjust their capacity to the production volume with measures such as extra shifts, closure days and flexible shift models. The use of temporary workers also allows us to plan more flexibly. All of these measures help the Volkswagen Group to generally maintain a stable permanent workforce even when orders fluctuate.

The technical expertise and individual commitment of employees are indispensable prerequisites for the success of the Volkswagen Group. Our end-to-end human resources development strategy gives all employees attractive training and development opportunities, with particular emphasis being placed on strengthening professional skills in the Company's different vocational groups. By boosting our training programs, particularly at our international locations, we are able to adequately address the challenges of technological change.

We are continuously expanding our recruitment tools. Our systematic talent relationship management, for example, enables us to make contact with talented candidates from strategically relevant target groups at an early stage and to build a long-term relationship between them and the Group.

In addition to the standard dual vocational training, programs such as our STIP integrated degree and traineeship scheme ensure a pipeline of highly qualified and motivated employees. We counter the risk that knowledge will be lost as a result of employee fluctuation and retirement with intensive, department-specific training. By systematically increasing our attractiveness as an employer, we gain talented people in the future-critical areas of IT, design and social media. We have also established a base of senior experts in the Group. With this instrument, we use the valuable knowledge of our experienced specialists who have retired from Volkswagen. Organizing efficient knowledge hubs – for example the academies dedicated to the various vocational groups under the umbrella of the Volkswagen Group Academy – is becoming increasingly important, particularly where departing staff are not directly replaced by specialists. Volkswagen is working on knowledge relays to ensure experience is passed on even when the chain of succession is broken.

IT Risk

At Volkswagen, a global company geared towards further growth, the information technology (IT) used in all divisions Group-wide is assuming an increasingly important role. IT risks exist in relation to the three protection goals of confidentiality, integrity and availability, and comprise in particular unauthorized access to, modification of and extraction of sensitive electronic corporate data as well as limited systems availability as a consequence of downtime and disasters.

We address the risk of unauthorized access to, modification of, or extraction of corporate data with IT security technologies (e.g. firewall and intrusion prevention systems) and a multiple-authentication procedure. Additionally, we increase protection by restricting the allocation of access rights to systems and information and by keeping backup copies of critical data resources. We use technical resources that have been tried and tested in the market, adhering to standards applicable throughout the Company. Redundant IT infrastructures protect us against risks that occur in the event of a systems failure or natural or other disaster.

One of our focuses is on continuously enhancing our security measures. The current IT security program, for example, is built on structured rights management, optimization of IT infrastructure, application security and the IT security command center. The role of the latter is to detect cyber-attacks at an early stage and thus help to successfully defeat them using the latest tools. The command center is staffed around the clock in three regions (Europe, America, Asia). Volkswagen complements these technical measures with consistent awareness raising and training for all employees.

The high standards we set for the quality of our products also apply to the way in which we handle our customers' and employees' data. In particular, the digital services for mobility services must be secured. Our guiding principles are data security, transparency and informational self-determination.

Environmental protection regulations

The specific emission limits for all new passenger car and light commercial vehicle fleets for brands and groups in the EU for the period up to 2019 are set out in Regulation (EC) No 443/2009 on CO₂ emissions from passenger cars and Regulation (EU) No 510/2011 on light commercial vehicles of up to 3.5 tonnes, which came into effect in April 2009 and June 2011, respectively. These regulations are important components of the European climate protection policy and therefore form the key regulatory framework for product design and marketing by all vehicle manufacturers selling in the European market.

The average CO₂ emissions of manufacturers' new European passenger car fleets have not been allowed to exceed 130 g CO₂/km since 2012. Compliance with this requirement was introduced in phases; since 2015 the entire fleet has to meet this limit. Regulation (EU) No 333/2014, which was adopted in 2014, states that the average emissions of European passenger car fleets may be no higher than just 95 g CO₂/km from 2021 onwards; in 2020, this emissions limit will already apply to 95% of the fleet.

The EU's CO₂ regulation for light commercial vehicles requires limits to be met from 2014 onwards, with targets being phased in over the period to 2017. Under this regulation, the average CO₂ emissions of new vehicle registrations in Europe may not exceed 175 g CO₂/km. From 2020 onwards, the limit under Regulation (EU) No 253/2014, which was adopted in 2014, is 147 g CO₂/km.

In the fourth quarter of 2017, the European Commission published a regulatory proposal for the CO₂ regime after 2020. A reduction for the European passenger car and light commercial vehicle fleets of 15% from 2025 and 30% from 2030 are the targets currently proposed. The starting point is the fleet value in 2021. The bill is expected to be voted on conclusively at the end of 2018. Policymakers are already discussing reduction targets for the transport sector for the period to 2050, such as the 60% reduction in greenhouse gas emissions compared to 1990 levels cited in the EU White Paper on transport published in March 2011. These long-term targets can only be achieved through a high proportion of electric vehicles.

At the same time, regulations governing fleet fuel consumption are also being developed or introduced outside the EU28, for example in Brazil, Canada, China, India, Japan,

Mexico, Saudi Arabia, South Korea, Switzerland, Taiwan and the USA. Brazil has introduced a fleet efficiency target as part of a voluntary program for granting a tax advantage. To achieve a 30% tax advantage in this country, vehicle manufacturers are required to achieve, among other things, average fleet efficiency of around 1.82 megajoules/km by 2017. The fuel consumption regulations in China, which set an average fleet target of 6.9 liters/100 km for the period 2012–2015 (Phase III), were continued into Phase IV for the period 2016–2020, with a target of 5.0 liters/100 km at the end of this period. Preparations for legislation up to 2025 (Phase V) have begun. In addition to this legislation on fleet consumption, China will impose a so called “new energy vehicle quota” in the future. This means that from 2019 onwards, battery-powered vehicles, plug-in hybrids and fuel cell vehicles will have to account for a certain proportion of a manufacturer’s new passenger car fleet. Due to the extension of greenhouse gas legislation in the USA (the law was signed in 2012), uniform fuel consumption and greenhouse gas standards will continue to apply in all federal states in the period from 2017 to 2025.

The increased regulation of fleet-based CO₂ emissions and fuel consumption makes it necessary to use the latest mobility technologies in all key markets worldwide. At the same time, electrified and purely electric drives will also become increasingly common. The Volkswagen Group closely coordinates technology and product planning with its brands so as to avoid breaches of fleet fuel consumption limits, since these would entail severe financial penalties. Volkswagen continues to regard diesel technology as an important element in the fulfillment of CO₂ emissions targets.

EU legislation allows excess emissions and emission shortfalls to be offset between vehicle models within a fleet of new vehicles. Furthermore, the EU permits some flexibility in fulfilling the emissions targets, for example:

- Emission pools may be formed
- Relief opportunities may be provided for additional innovative technologies contained in the vehicle that apply outside the test cycle (eco-innovations)
- Special rules are in place for small-series producers and niche manufacturers
- Particularly efficient vehicles qualify for super-credits

Whether the Group meets its fleet targets depends crucially on its technological and financial capabilities, which are reflected in, among other things, our drivetrain and fuel strategy (see page 137).

In the EU, a new, more time-consuming test procedure – the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP) – for determining pollutant and CO₂ emissions as well as fuel consumption in passenger cars and light

commercial vehicles has applied to new vehicle types since September 2017 and will apply to all new vehicles from September 2018.

The Real Driving Emissions (RDE) regulation for passenger cars and light commercial vehicles is also one of the main European regulations. The fourth package of legislation is currently being elaborated. New, uniform limits for nitrogen oxide and particulate emissions in real road traffic have applied to new vehicle types across the EU since September 2017. This makes the RDE test procedure fundamentally different from the Euro 6 standard still in force, which stipulates that the limits on the chassis dynamometer are authoritative. The RDE regulation is intended primarily to improve air quality in urban areas and areas close to traffic. It leads to stricter requirements for exhaust gas aftertreatment in passenger cars and light commercial vehicles.

The other main EU regulations affecting the automotive industry include:

- EU Directive 2007/46/EC establishing a framework for the approval of motor vehicles
- EU Directive 2009/33/EC on the promotion of clean and energy-efficient road transport vehicles (Green Procurement Directive)
- EU Directive 2006/40/EC relating to emissions from air-conditioning systems in motor vehicles
- The Car Labeling Directive 1999/94/EC
- The Fuel Quality Directive (FQD) 2009/30/EC updating the fuel quality specifications and introducing energy efficiency specifications for fuel production
- The Renewable Energy Directive (RED) 2009/28/EC introducing sustainability criteria; the proposal for follow-up regulation (REDII) contains higher quotas for advanced biofuels and is currently being discussed in the competent EU bodies
- The revised Energy Taxation Directive 2003/96/EC updating the minimum tax rates for all energy products and power

The implementation of the above-mentioned directives by the EU member states serves to support the CO₂ regulations in Europe. These are aimed not only at vehicle manufacturers, but also at other sectors such as the mineral oil industry. Vehicle taxes based on CO₂ emissions are having a similar steering effect; many EU member states have already incorporated CO₂ elements into their rules on vehicle taxation.

There is particular momentum in the debate on the introduction of driving bans for diesel vehicles in Germany. This was triggered by the failure of some municipalities and cities to comply with the limits for nitrogen dioxide (NO₂) emissions. In many places, lawsuits have been filed arguing that only driving bans for diesel vehicles will bring about the

necessary short-term reduction in NO₂ emissions. The debates mentioned above 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. One such example are regulations in Belgium that successively bar older vehicles from larger cities. With a view to the future, large urban areas such as Paris and London are discussing banning vehicles with combustion engines.

Heavy commercial vehicles first put into operation from 2014 onwards are already subject to the stricter emission requirements of the Euro 6 standard in accordance with Regulation (EU) No 582/2011. Alongside the CO₂ legislation for passenger cars and light commercial vehicles, the EU is preparing more comprehensive regulation of CO₂ emissions in heavy commercial vehicles. Simply setting an overarching limit for these vehicles – such as that in place for passenger cars and light commercial vehicles – would require an extremely complex set of rules because of the wide range of variants. For this reason, the European Commission has worked with independent scientific institutions and the European Automobile Manufacturers' Association (ACEA) to prepare a simulation-based method called the Vehicle Energy Consumption Calculation Tool (VECTO). This can be used to determine the CO₂ emissions of heavy commercial vehicles of over 7.5 tonnes based on their typical use (short-haul, regional, distribution and long-haul trips, service on construction sites and as municipal vehicles, city buses, intercity buses and coaches). A legislative proposal for the CO₂ certification of heavy commercial vehicles and regulations on the reporting and monitoring of CO₂ figures was presented in May 2017; the legislation for the declaration of CO₂ figures for heavy commercial vehicles came into effect in January 2018. A CO₂ declaration will be compulsory for selected vehicle categories from 2019 (initially long-haul and regional distribution vehicles, later also buses and other segments), with the captured data first being used to enable the customer to compare information and for certification and monitoring purposes. Further vehicle categories are likely to be included as time progresses. As part of its strategy to decarbonize transport, the European Commission has also announced that it will be presenting a proposal regarding the introduction of CO₂ standards for heavy commercial vehicles by the end of its term of office in 2019. The European Commission is currently working on the specific embodiment of such standards and has collected data from manufacturers to define a starting point and mandatory reduction targets for the future. An initial legislative proposal on CO₂ standards for heavy commercial vehicles is expected in May 2018.

Manufacturers of heavy commercial vehicles are urging the adoption of a system for quantifying CO₂ figures that looks at the vehicle as a whole and not simply at the engine or the tractor, and thus also includes the trailers and bodywork. This transparency should increase competition for more fuel-

efficient and thus more CO₂-efficient commercial vehicles and as a result decrease CO₂ emissions.

As part of its efforts to reduce the CO₂ emissions of heavy commercial vehicles, the European Commission has also amended the provisions regarding the maximum permissible dimensions and weights of trucks (Directive 1996/53/EC, the Weights and Dimensions Directive) and revised them through EU Directive 2015/719. According to these, cabs with a rounded shape and air conduction devices at the rear of the vehicle will make it possible to improve aerodynamics in future. At the same time, the driver's field of vision is to be extended by increasing the length of the cab in order to improve safety. In addition, the legislators increased the overall weight permitted for vehicles with alternative drive technologies by up to one tonne. The specific technical requirements for the development of aerodynamic and safe cabs are currently being examined.

The European commercial vehicles industry supports the goals of reducing CO₂ emissions and improving transport safety. However, it is not just the vehicles themselves that affect future CO₂ emissions; individual components also play an important role, such as reduced rolling resistance tires or the aerodynamic trim of the trailer, as do driving behavior, alternative fuels including the required filling stations, transport infrastructure and transport conditions. As part of a field trial that took place up to the end of 2016, longer and heavier vehicles that can decrease fuel consumption and thus CO₂ emissions by up to 25% according to scientific studies by the Federal Highway Research Institute, were also driving on German roads. Since the beginning of 2017, these longer vehicles have been used in regular operations on a certified road network.

Networking and digitalizing the transport system will also eliminate existing inefficiencies such as inadequate utilization of available load capacities, empty trips or unnetworked route planning; vehicles that move in networked, intermodal transport systems in which flows of traffic are optimized through the use of artificial intelligence save fuel and hence reduce CO₂ emissions. Automated driving also presents considerable potential for more sustainable organization of goods transport in road traffic, for example through platooning, in which the driver of the first truck in a convoy of networked, partially self-driving trucks specifies the direction and speed. Driving in the slipstream of other trucks on motorways allows fuel consumption to be reduced considerably. However, platooning requires changes in the legal framework and establishment of the necessary infrastructure.

In the Power Engineering segment, the International Maritime Organization (IMO) has introduced the International Convention for the Prevention of Pollution from Ships (MARine POLLution – MARPOL), with which limits on emissions from marine engines will be lowered in phases. A reduction of the sulfur content in marine fuel has been

confirmed with effect from January 1, 2020. In addition, the IMO has decided on a number of emission control areas in Europe and in the USA/Canada that will be subject to special environmental regulations. Expansion to further regions such as the Mediterranean or Japan is already being planned; other regions such as the Black Sea, Alaska, Australia or South Korea are also in discussion. In addition, emission limits also apply, for example, under Regulation (EU) 2016/1628 and in accordance with the regulations of the US Environmental Protection Agency (EPA). As regards stationary equipment, there are a number of national rules in place worldwide that limit permitted emissions. On December 18, 2008, the World Bank Group set limits for gas and diesel engines in its "Environmental, Health, and Safety Guidelines for Thermal Power Plants", which are required to be applied if individual countries have adopted no national requirements of their own, or ones that are less strict than those of the World Bank Group. These are currently being revised. In addition, the United Nations adopted the Convention on Long-range Transboundary Air Pollution back in 1979, setting limits on total emissions as well as nitrogen oxide for the signatory states (including all EU states, other countries in Eastern Europe, the USA and Canada). Enhancements to the product portfolio in the Power Engineering segment focus on improving the efficiency of the equipment and systems.

The allocation method for emissions certificates changed fundamentally when the third emissions trading period (2013–2020) began. As a general rule, all emission allowances for power generators have been sold at auction since 2013. For the manufacturing industry and certain power generation installations (e.g. combined heat and power installations), a portion of the certificates are allocated free of charge on the basis of benchmarks applicable throughout the EU. The portion of certificates allocated free of charge will gradually decrease as the trading period progresses: the remaining quantities required will have to be bought at auction. Furthermore, installation operators can partly fulfill their obligation to hold emission allowances using certificates from climate change projects (Joint Implementation and Clean Development Mechanism projects).

In certain (sub-)sectors of industry, there is a risk that production will be transferred to countries outside Europe due to the amended provisions governing emissions trading, a phenomenon referred to as "carbon leakage". A consistent quantity of certificates will be allocated to these sectors free of charge for the period from 2013 to 2020 on the basis of the pan-EU benchmarks. The automotive industry was included in the new carbon leakage list that came into effect in 2015. As a result, individual plants at European locations of the Volkswagen Group will receive additional certificates free of charge by the end of the third trading period.

Already back in 2013, the European Commission decided to initially withhold a portion of the certificates to be auctioned and not to release them for auction until a later date during the third trading period (backloading). The certificates will be directed into a market stability reserve, to be established in 2018.

The reserve will serve to correct any imbalance between the supply of and demand for certificates in emissions trading in the fourth trading period. Furthermore, the European Commission is planning further modifications in emissions trading when the fourth trading period begins (from 2021) that may lead to a tightening of the system and thus to price increases in the certificates.

In addition to the EU member states, other countries in which the Volkswagen Group has production sites are also considering introducing an emissions trading system. Seven corresponding pilot projects are running in China, for example, although they have not so far affected the Volkswagen Group. The Chinese government officially implemented a national emissions trading system at the end of 2017. Initially, the impact will only be on the energy generation sector; a gradual expansion is being planned.

Litigation

In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested become involved in a great number of legal disputes and governmental proceedings in Germany and abroad. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. For the companies involved, these may result in payment or other obligations. Above all, in cases where US customers assert claims for vehicle defects individually or by way of a class action, highly cost-intensive measures may have to be taken and substantial compensation or punitive damages paid. Corresponding risks also result from US patent infringement proceedings.

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

Where transparent and economically viable, adequate insurance coverage was taken out for these risks. For the identifiable and measurable risks, provisions considered appropriate were recognized and information about contingent liabilities 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.

Diesel issue

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. It was alleged that Volkswagen had installed undisclosed engine management software installed in 2009 to 2015 model year 2.0 l diesel engines to circumvent NO_x emissions testing regulations in the USA in order to comply with certification requirements. The California Air Resources Board (CARB), a unit of the US environmental authority of California, announced its own enforcement investigation into this matter.

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. The vast majority of these engines were type EA 189 Euro 5 engines.

On November 2, 2015, the EPA issued a “Notice of Violation” alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines. CARB also issued a letter announcing its own enforcement investigation into this matter. AUDI AG has confirmed that at least three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines were affected in the USA and Canada, where regulations governing NO_x emissions limits for vehicles are stricter than those in other parts of the world.

Numerous court and governmental proceedings were subsequently initiated in the USA and the rest of the world. During the reporting period, we succeeded in ending most significant court and governmental proceedings in the USA by concluding settlement agreements. This includes, in particular, settlements with the US Department of Justice (DOJ). Outside the USA, we also reached agreements with regard to the implementation of the technical measures with numerous authorities.

The Supervisory Board of Volkswagen AG formed a special committee that coordinates the activities relating to the diesel issue for the Supervisory Board.

The global law firm Jones Day was instructed by Volkswagen AG to carry out an extensive investigation of the diesel issue in light of the DOJ’s and the Braunschweig public prosecutor’s criminal investigations as well as other investigations and proceedings which were expected. Jones Day was instructed by Volkswagen AG to present factual evidence to the DOJ. To resolve US criminal law charges, Volkswagen AG and the DOJ entered into a Plea Agreement, which includes a Statement of Facts containing a summary of the factual allegations which the DOJ considered relevant to the settlement with Volkswagen AG. 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 in the USA with respect to the diesel issue. However, work in respect of the legal proceedings which are still pending in the USA and the rest of the world is ongoing and will require considerable efforts and a considerable period of time. In connection with this work, Volkswagen AG is being advised by a number of external law firms.

Furthermore, in September 2015, Volkswagen AG filed a criminal complaint in Germany against unknown persons as did AUDI AG. Volkswagen AG and AUDI AG are cooperating with all responsible authorities in the scope of reviewing the incidents.

Potential consequences for Volkswagen’s results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Coordination with the authorities on technical measures
Based on decisions dated October 15, 2015, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles and SEAT brands to recall all the diesel vehicles that had been issued with vehicle type approval by the KBA from among the eleven million vehicles affected with type EA 189 engines. The recall concerns the member states of the European Union (EU28). On December 10, 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order corresponded to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the concerned remedial actions, this means that the Volkswagen Group has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU28 countries, to the service workshops since

January 2016. The remedial actions differ in scope depending on the engine variant. The technical measures cover software and in some cases hardware modifications, depending on the series and model year. The technical measures for all vehicles in the European Union have since been approved without exception. The KBA ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO₂ emissions figures, engine power, maximum torque and noise emissions. Once the modifications have been made, the vehicles will thus also continue to comply with the legal requirements and the emission standards applicable in each case. The technical measures for all affected vehicles with type EA 189 engines in the European Union were approved without exception, and implemented in most cases.

In some countries outside the EU – among others South Korea, Taiwan and Turkey – national type approval is based on prior recognition of the EC/ECE type approval; the technical measures must therefore be approved by the national authorities. With the exception of South Korea and Chile, we were able to conclude this approval process in all countries. There, the majority of approvals were likewise granted; in relation to the pending approvals, Volkswagen is in close contact with the authorities.

In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen's proposed modifications in relation to the four-cylinder and the six-cylinder diesel engines also have to be approved. Due to NO_x limits that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge here to refit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. A systematic review process for all engine and gear variants has been underway since 2016.

On June 14, 2017, based on a technical error in the parameterization of the transmission software for a limited number of specific Audi A7/A8 models that AUDI AG itself discovered and reported to the KBA, the KBA issued an order under which a correction proposed by AUDI AG will be submitted. The technical error lies in the fact that, in the cases concerned, by way of exception a specific function that is standard in all other vehicle concepts is not implemented in actual road use. In Europe, this affects around 24,800 units of certain Audi A7/A8 models. The KBA has not categorized this error as an unlawful defeat device.

On July 21, 2017, AUDI AG offered a software-based retrofit program for up to 850,000 vehicles with V6 and V8 TDI engines meeting the Euro 5 and Euro 6 emission standards in Europe and other markets except the USA and Canada. The measure will mainly serve to further improve the vehicles' emissions in real driving conditions in inner city areas beyond the legal requirements. This was done in close cooperation with the authorities, which were provided with detailed reports, especially the German Federal Ministry of Transport and the KBA. The retrofit package comprises voluntary measures and, to a small extent, measures directed by the authorities; these are measures taken within the scope of a recall, which were proposed by AUDI AG itself, reported to the KBA and taken up and ordered by the latter. The voluntary tests have already reached an advanced stage, but have not yet been completed. The measures adopted and mandated by the KBA involved the recall of different diesel vehicles with a V6 or V8 engine meeting the Euro 6 emission standard, for which the KBA categorized certain emission strategies as an unlawful defeat device. From July 2017 to January 2018, the measures proposed by AUDI AG were adopted and mandated in various decisions by the KBA on vehicle models with V6 and V8 TDI engines.

Currently, AUDI AG assumes that the total costs of the software-based retrofit program including the amount based on recalls will be manageable and has recognized corresponding balance-sheet risk provisions. Should additional measures become necessary as a result of the investigations by AUDI AG and the consultations with the KBA, AUDI AG will quickly implement these as part of the retrofit program in the interest of customers.

2. Criminal and administrative proceedings worldwide (excluding the USA/Canada)

In addition to the described approval processes with the responsible registration authorities, in some countries criminal investigations/misdemeanor proceedings (for example, by the public prosecutor's office in Braunschweig and Munich, Germany) and/or administrative proceedings (for example, by the Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin – the German Federal Financial Supervisory Authority) have been opened. The public prosecutor's offices in Braunschweig and Munich are investigating the core issue of the criminal investigations. Whether this will result in fines for the Company, and if so what their amount might be, is currently subject to estimation risks. According to Volkswagen's estimates so far, the likelihood of a sanction in the majority of these proceedings is less than 50%. Contingent liabilities have therefore been disclosed in cases where they can be assessed and for which the likelihood of a sanction was deemed not lower than 10%.

3. Product-related lawsuits worldwide (excluding the USA/Canada)

In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany). Furthermore, in a number of markets it is possible that consumer and/or environmental organizations will apply for an injunction or assert claims for a declaratory judgment or for damages.

In the context of the diesel issue, various lawsuits are currently pending against Volkswagen AG and other Volkswagen Group companies at present.

There are pending class action proceedings and lawsuits brought by consumer and/or environmental associations against Volkswagen AG and other companies of the Volkswagen Group in various countries such as Argentina, Australia, Belgium, Brazil, China, the Czech Republic, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, Switzerland, Taiwan and the United Kingdom. The class action proceedings are lawsuits aimed among other things at asserting damages or, as is the case in the Netherlands, at a declaratory judgment that customers are entitled to damages. With the exception of Brazil, where there has already been a non-binding judgment in the first instance, the amount of these damages cannot yet be quantified more precisely due to the early stage of the proceedings. Volkswagen does not estimate the litigants' prospect of success to be more than 50% in any of the class action proceedings.

In South Korea, various mass proceedings are pending (in some of these individual lawsuits several hundred litigants have been aggregated). These lawsuits have been filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Due to special circumstances in the market and specific characteristics of the South Korean legal system, Volkswagen estimates the litigants' prospects of success in the South Korean mass proceedings mentioned above to be inherently higher than in other jurisdictions outside the USA and Canada. On May 12, 2017, one first-instance judgment was delivered in these proceedings in South Korea during the fiscal year, in which the court completely dismissed an action filed to assert criminal damages over pollution. The judgment has since become binding.

Contingent liabilities have been disclosed for pending class action and mass proceedings that can be assessed and

for which the chance of success was deemed not implausible. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany, there are around 9,500 individual lawsuits. In Italy, Austria and Spain, lawsuits numbering in the low three-digit range and in France and Ireland individual lawsuits in the two-digit range are pending against Volkswagen AG and other companies of the Volkswagen Group, most of which are aimed at asserting damages or rescinding the purchase contract.

In addition, on November 29, 2017, Volkswagen AG was served with an action brought by financialright GmbH asserting the rights assigned to it by a total of approximately 15,000 customers in Germany. This action seeks the payment of around €350 million in return for restitution of the vehicles.

In Switzerland, a claim for damages was brought against Volkswagen AG in December 2017 from the assigned rights of some 6,000 customers; the stated amount in dispute is approximately 30 million Swiss francs.

According to Volkswagen's estimates so far, the litigants' prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed for those lawsuits that can be assessed and for which the chance of success was deemed not implausible.

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.

4. Lawsuits filed by investors worldwide (excluding the USA/Canada)

Investors from Germany and abroad have filed claims for damages against Volkswagen AG – in some cases along with Porsche Automobil Holding SE (Porsche 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 vast majority of these investor lawsuits are currently pending at the District Court (Landgericht) in Braunschweig. On August 5, 2016, the District Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the District Court in Braunschweig be referred to the Higher Regional Court (Oberlandesgericht) in Braunschweig for a binding declaratory decision pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (Kapitalanleger-Musterverfahrensgesetz – KapMuG). In this proceeding, common

questions of law and fact relevant to these actions shall be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig (model case proceedings). All lawsuits at the District Court in Braunschweig will be stayed pending up until resolution of the common issues, unless they can be dismissed for reasons independent of the common issues that are adjudicated in the model case proceedings. The resolution of the common questions of law and fact in the model case proceedings will be binding for all pending cases in the stayed lawsuits.

At the District Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtors. On December 6, 2017, the District Court in Stuttgart issued an order for reference to the Higher Regional Court in Stuttgart in relation to procedural issues, particularly for clarification of jurisdiction. On account of the diesel issue, model case proceedings against Porsche SE are also pending before the Higher Regional Court in Stuttgart.

Further investor lawsuits have been filed at various courts in Germany as well as in Austria and the Netherlands. In Austria, the Supreme Court ruled on July 7, 2017 that the investor lawsuits against Volkswagen AG do not fall within the jurisdiction of the Austrian courts. Consequently, all but one of the investor lawsuits that were formerly pending in Austria have been dismissed or withdrawn. The last pending lawsuit has been dismissed at first instance.

Worldwide (excluding USA and Canada), investor lawsuits, judicial applications for dunning procedures and conciliation proceedings, and claims under the KapMuG are currently pending against Volkswagen in connection with the diesel issue, with the claims totaling approximately €9 billion. Volkswagen remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

5. Proceedings in the USA/Canada

Following the publication of the EPA's "Notices of Violation", 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 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 USA/Canada are facing litigation on a num-

ber of different fronts relating to the matters described in the EPA's "Notices of Violation".

A large number of putative class action lawsuits by customers and dealers have been filed in US 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 US 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.

In June 2016, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements with the DOJ on behalf of the EPA, CARB and the California Attorney General, private plaintiffs represented by a Plaintiffs' Steering Committee (PSC) in the multidistrict litigation pending in California, and the U.S. Federal Trade Commission (FTC). These settlement agreements resolved certain civil claims made in relation to affected diesel vehicles with 2.0 l TDI engines from the Volkswagen Passenger Cars and Audi brands in the USA. Volkswagen AG and certain affiliates also entered into a First Partial Consent Decree with the DOJ, EPA, CARB and the California Attorney General, which was lodged with the court on June 28, 2016. On October 18, 2016, a fairness hearing on whether final approval should be granted was held, and on October 25, 2016, the court granted final approval of the settlement agreements and the partial consent order. A number of class members have filed appeals to an US appellate court from the order approving the settlements.

The settlements include buyback or, for leased vehicles, early lease termination, or a free emissions modification of the vehicles, provided that the EPA and CARB approve the modification. Volkswagen will also make additional cash payments to affected current owners or lessees as well as certain former owners or lessees.

Volkswagen also agreed to support environmental programs. The company will pay USD 2.7 billion over three years into an environmental trust, managed by a trustee appointed by the court, to offset excess nitrogen oxide (NO_x) emissions. Volkswagen will also invest a total of USD 2.0 billion over ten

years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives.

Volkswagen AG and certain affiliates also entered into a separate Partial Consent Decree with CARB and the California Attorney General resolving certain claims under California unfair competition, false advertising, and consumer protection laws related to both the 2.0l and 3.0l TDI vehicles, which was lodged with the court on July 7, 2016. Under the terms of the agreement, Volkswagen agreed to pay California USD 86 million. The court entered judgment on the Partial Consent Decree on September 1, 2016 and the USD 86 million payment was made on September 28, 2016.

On December 20, 2016, Volkswagen entered into a Second Partial Consent Decree, subject to court approval, with the DOJ, EPA, CARB and the California Attorney General that resolved claims for injunctive relief under the Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0l TDI vehicles. Under the terms of this Consent Decree, Volkswagen agreed to implement a buyback and lease termination program for Generation 1 3.0l TDI vehicles and a free emissions recall and modification program for Generation 2 3.0l TDI vehicles, and to pay USD 225 million into the environmental mitigation trust that has been established pursuant to the First Partial Consent Decree. The Second Partial Consent Decree was lodged with the court on December 20, 2016 and approved on May 17, 2017.

In addition, on December 20, 2016, Volkswagen entered into an additional, concurrent California Second Partial Consent Decree, subject to court approval, with CARB and the California Attorney General that resolved claims for injunctive relief under California environmental, consumer protection and false advertising laws related to the 3.0l TDI vehicles. Under the terms of this Consent Decree, Volkswagen agreed to provide additional injunctive relief to California, including the implementation of a "Green City" initiative and the introduction of three new Battery Electric Vehicle (BEV) models in California by 2020, as well as a USD 25 million payment to CARB to support the availability of BEVs in California.

On January 11, 2017, Volkswagen entered into a Third Partial Consent Decree with the DOJ and EPA that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0l and 3.0l TDI vehicles. Volkswagen agreed to pay USD 1.45 billion (plus any accrued interest) to resolve

the civil penalty and injunctive relief claims under the Clean Air Act, as well as the customs claims of the US Customs and Border Protection. Under the Third Partial Consent Decree, the injunctive relief includes monitoring, auditing and compliance obligations. This Consent Decree, which was subject to public comment, was lodged with the court on January 11, 2017 and approved on April 13, 2017. Also on January 11, 2017, Volkswagen entered into a settlement agreement with the DOJ to resolve any claims under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and agreed to pay USD 50 million (plus any accrued interest), specifically denying any liability and expressly disputing any claims.

On July 21, 2017, the federal court in the multidistrict litigation in California approved the Third California Partial Consent Decree, in which Volkswagen AG and certain affiliates agreed with the California Attorney General and CARB to pay USD 153.8 million in civil penalties and cost reimbursements. These penalties covered California environmental penalties for both the 2.0l and 3.0l TDI vehicles. An agreement in principle had been reached on January 11, 2017.

The DOJ also opened a criminal investigation focusing on allegations that various federal law criminal offenses were committed. On January 11, 2017, Volkswagen AG agreed to plead guilty to three federal criminal felony counts, and to pay a USD 2.8 billion criminal penalty. 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 will assess and oversee the company's compliance with the terms of the resolution. This includes overseeing the implementation of measures to further strengthen compliance, reporting and monitoring systems, and an enhanced ethics program. Volkswagen will also continue to cooperate with the DOJ's ongoing investigation of individual employees or former employees who may be responsible for criminal violations.

Moreover, investigations by various US regulatory and government authorities are ongoing, including in areas relating to securities, financing and tax.

On January 31, 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement with private plaintiffs represented by the

PSC in the multidistrict litigation pending in California, and a consent order with the FTC. These agreements resolved certain civil claims made in relation to affected diesel vehicles with 3.0 l TDI engines from the Volkswagen, Audi and Porsche brands in the USA. On February 14, 2017, the court preliminarily approved the settlement agreement with private plaintiffs. On May 11, 2017, the court held a fairness hearing on whether approval should be granted and on May 17, 2017, the court granted final approval of the settlement agreement and the partial stipulated consent order.

Under the settlements, consumers' options and compensation will depend on whether their vehicles are classified as Generation 1 or Generation 2. Generation 1 (model years 2009-2012) consumers will have the option of a buyback, early lease termination, trade-in, or a free emissions modification, provided that EPA and CARB approve the modification. Additionally, Generation 1 owners and lessees, as well as certain former owners and lessees, will be eligible to receive cash payments.

Generation 2 (model years 2013-2016) consumers will receive a free emissions-compliant repair to bring the vehicles into compliance with the emissions standards to which they were originally certified, as well as cash payments. Volkswagen has received approval from the EPA and CARB for emissions-compliant repairs within the time limits set out in the settlement agreement. Volkswagen will also make cash payments to certain former Generation 2 owners or lessees.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of Volkswagen branded franchise dealers in the USA relating to TDI vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to USD 1.208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. On January 18, 2017, a fairness hearing on whether final approval should be granted was held, and on January 23, 2017, the court granted final approval of the settlement agreement.

Additionally, in the USA, some putative class actions, some individual customers' lawsuits and some state or municipal claims have been filed in state courts.

Volkswagen reached separate agreements with the attorneys general of 45 US 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 USA – for a settlement amount of USD 622 million. Five states did not join these settlements and still have consumer claims outstanding: Arizona, New Mexico, Oklahoma, Vermont and West Virginia. Volkswagen has also reached separate agreements with the attorneys general of eleven US states (Connecticut, Delaware, Maine, 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 for a settlement amount of 207 million. The attorneys general of ten other US states (Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, New Mexico, Ohio, Tennessee and Texas) and some municipalities have also filed suits in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, seeking civil penalties and injunctive relief for alleged violations of environmental laws. Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, Ohio, Tennessee and Texas participated in the state settlements described above with respect to consumer protection and unfair trade practices claims, but those settlements did not include claims for environmental penalties. The environmental claims of two other states – Alabama and Wyoming – have been dismissed as preempted by federal law. Alabama has appealed this dismissal.

In addition to the lawsuits described above, for which provisions have been recognized, a putative class action has been filed on behalf of purchasers of Volkswagen AG American Depositary Receipts, alleging a drop in price purportedly resulting from the matters described in the EPA's "Notices of Violation". 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 that the value of these bonds declined after the EPA issued its "Notices of Violation".

These lawsuits have also been consolidated in the federal multidistrict litigation proceeding in the State of California described above. Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. In addition, contingent liabilities have not been disclosed as they currently cannot be measured.

In Canada, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0 l and 3.0 l TDI engines. On December 19, 2016, Volkswagen AG and other Canadian and US Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0 l diesel vehicles. Also on December 19, 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution regarding its regulatory inquiry into consumer protection issues as to those vehicles. On December 21, 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving 3.0 l diesel vehicles. The court preliminarily approved the settlement agreement on January 12, 2018, and the notice and opt out period began on January 17, 2018. Final approval hearings are scheduled in Quebec and Ontario for April 3 and 5, 2018, respectively. On January 12, 2018, Volkswagen and the Canadian Commissioner of Competition reached a resolution related to civil consumer protection issues relating to 3.0 l diesel vehicles. Also, criminal enforcement-related investigations by the federal environmental regulator and quasi-criminal enforcement-related investigations by a provincial environmental regulator are ongoing in Canada related to 2.0 l and 3.0 l diesel vehicles. On September 15, 2017, a provincial regulator in Canada, the Ontario Ministry of the Environment and Climate Change, charged Volkswagen AG under the province's environmental statute with one count alleging that it caused or permitted the operation of model year 2010–2014 Volkswagen and Audi brand 2.0 l diesel vehicles that did not comply with prescribed emission standards. Following initial court appearances on November 15, 2017 and February 7, 2018, the matter was put over to April 4, 2018 pending ongoing evidence disclosure. No trial date has been set. Provisions have been recognized for possible obligations stemming from pending lawsuits in Canada.

Moreover, in Canada, two securities class actions by investors in Volkswagen AG American Depositary Receipts and shares are pending against Volkswagen AG in the Quebec and Ontario provincial courts. These actions allege misrep-

resentations and omissions in financial reporting issued from 2009–2015 stemming from the diesel issue. The proposed class periods are for residents in the provinces who purchased the relevant securities between March 12, 2009 and September 18, 2015, and held all or some of the acquired securities until after the alleged first corrective disclosures. Discovery has not begun. In both actions, motions for certification were filed. In the Quebec matter, the motion was heard on February 5 and 6, 2018 and the court's decision is on reserve. In the Ontario matter, the motion is scheduled for hearing on July 10 and 11, 2018.

In addition, putative class action and joinder lawsuits by customers, and a certified environmental class action on behalf of residents, remain pending in certain provincial courts in Canada.

An assessment of the underlying situation is not possible at this early stage of those proceedings.

6. Additional proceedings

With its ruling from November 8, 2017, the Higher Regional Court of Celle ordered, upon the request of three US funds, the appointment of a special auditor for Volkswagen AG. The special auditor should examine whether there was a breach of duties on behalf of the members of the Board of Management and Supervisory Board of Volkswagen AG in connection with the diesel issue starting from June 22, 2006 and if this resulted in damages for Volkswagen AG. The ruling from the Higher Regional Court of Celle is formally legally binding. However, Volkswagen AG lodged a constitutional complaint toward 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, the District Court of Hanover has filed a second motion for the appointment of a special auditor for Volkswagen AG, which is also aimed at the examination of transactions in connection with the diesel issue. This proceeding will be suspended until the ruling has been announced by the Federal Constitutional Court.

7. Risk assessment regarding the diesel issue

To protect against the currently known legal risks related to the diesel issue, provisions of approximately €2.0 billion exist as of December 31, 2017 on the basis of existing information and current assessments. 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 to the aggregate amount of €4.3 billion (previous year: €3.2 billion), of which lawsuits filed by investors account for €3.4 billion (previous year: €3.1 billion), were disclosed in the notes. The provisions recognized for this matter and the contingent liabilities disclosed as well as 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, comprehensive investigations have not yet been completed.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to the diesel issue. This is so as to not compromise the results of the proceedings or the interests of the Company.

Additional important legal cases

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 based on allegedly assigned rights amounted to approximately €2.26 billion plus interest. In April 2016, the District Court in Hanover had formulated numerous objects of declaratory judgment that the cartel senate of the Higher Regional Court in Celle will decide on in model case proceedings under the KapMuG. In the first hearing on October 12, 2017, the senate indicated that it currently does not see claims against Volkswagen AG as justified, both in view of a lack of substantiated evidence and for legal reasons. Some of the desired objects of declaratory judgment on the litigants' side may also be inadmissible, it said. Volkswagen AG sees the statements of the court's senate as confirmation that the claims made against the company have absolutely no basis.

At the time (2010/2011), other investors had also asserted claims – including claims against Volkswagen AG – arising out of the same circumstances in an approximate total amount of €4.6 billion and initiated conciliation proceedings. Volkswagen AG always refused to participate in these conciliation proceedings; since then, these claims have not been pursued further.

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 then fined Scania €0.88 billion. Scania has appealed to the European Court in Luxembourg and will use all means at its disposal to defend itself. Scania had already recognized a provision of €0.4 billion in 2016.

Furthermore, antitrust lawsuits for damages from customers were received. 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.

The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Volkswagen Truck & Bus GmbH (formerly Truck & Bus GmbH), a subsidiary of Volkswagen AG, in June 2013. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. It is not uncommon for noncontrolling interest shareholders to institute such proceedings. In July 2015, the Munich Regional Court ruled in the first instance that the amount of the cash settlement payable to the noncontrolling interest shareholders of MAN should be increased from €80.89 to €90.29 per share; at the same time, the amount of the cash compensation was confirmed. The assessment of liability for put options and compensation rights granted to noncontrolling interest shareholders was adjusted in 2015. Both applicants and Volkswagen Truck & Bus GmbH have appealed to the Higher Regional Court in Munich. Volkswagen continues to maintain that the results of the valuation are correct. The appropriateness of the valuation was confirmed by the audit firms engaged by the parties and by the court-appointed auditor of the agreement.

Within the scope of the European Commission's ongoing antitrust investigations regarding German automakers, authorities examined documents in the offices of Volkswagen AG in Wolfsburg and AUDI AG in Ingolstadt as part of an announced review. The Volkswagen Group and the Group

brands concerned have been cooperating fully and for a long time with the European Commission and have submitted a corresponding application. It is currently unclear whether the European Commission will instigate formal proceedings.

In addition, a few national and international authorities have initiated antitrust investigations. Volkswagen is cooperating closely with the responsible authorities in these investigations. An assessment of the underlying situation is not possible at this early stage.

Since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles with petrol engines.

Additionally, fourteen putative class actions have been filed against Audi and certain affiliates alleging that defendants concealed the existence of “defeat devices” in Audi brand vehicles with automatic transmissions. All of these putative class actions have been transferred to the federal multidistrict litigation proceeding in the State of California, and plaintiffs filed a consolidated class action complaint on October 12, 2017, which Volkswagen AG and certain of its affiliates moved to dismiss on December 11, 2017. On January 16, 2018, plaintiffs filed an opposition to the motion to dismiss and the court has set a deadline of February 16, 2018 for defendants to file a reply. A hearing is scheduled for May 11, 2018. On December 22, 2017, a mass action on behalf of approximately 75 individual plaintiffs alleging similar claims was filed in a California state court, which was removed to the Northern District of California on January 25, 2018.

In Canada, two similar putative class actions, including a national class, have been filed in Ontario and Quebec provincial courts against AUDI AG, Volkswagen AG and US and Canadian affiliates regarding alleged CO₂ “defeat devices” in certain petrol Audi models with automatic transmissions. Both of the Canadian actions are in the pre-certification stage. Contingent liabilities have therefore been disclosed in cases where they can be assessed and for which the likelihood of a sanction was deemed not lower than 10%.

From July through November 2017, plaintiffs filed numerous complaints in various US jurisdictions on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen AG and other Group companies. These complaints assert claims

under the US Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act, state unfair competition and consumer protection statutes, and common law unjust enrichment. The complaints allege that since the 1990s, defendants engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles by agreeing to share commercially sensitive information and to reach unlawful agreements regarding technology, costs, and suppliers. Moreover, the plaintiffs allege that the defendants agreed to limit the size of AdBlue tanks to ensure that US emissions regulators did not scrutinize the emissions control systems in defendants’ vehicles, and that such an agreement for Volkswagen was the impetus for the creation of the defeat device. On September 28, 2017, a hearing before the Judicial Panel on Multidistrict Litigation (JPML) was held, and on October 4, 2017 the JPML issued its decision consolidating and transferring these cases to Judge Breyer in the Northern District of California. On December 14, 2017, co-lead counsel were appointed representing the interests of a putative class of indirect purchasers and a putative class of direct purchasers, as well as Plaintiffs’ Steering Committee. On December 20, 2017, deadlines were set for the filing of initial and responsive pleadings and an initial case status conference scheduled for April 5, 2018, and co-lead counsel were directed to file consolidated class action complaints on behalf of the two putative classes by March 15, 2018. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

From July through October 2017, plaintiffs filed claims in Ontario, Quebec and British Columbia on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Canada Inc., Audi Canada Inc., and other Group companies. The claims assert causes of action under the Competition Act, common law, and Quebec’s civil law and contain similar allegations to the US complaints described in the paragraph above. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In the tax proceedings between MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment was rendered in

administrative court proceedings, which was negative for MAN Latin America. MAN Latin America will initiate 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 €0.7 billion for the contested period from 2009 onwards, which has been stated within the contingent liabilities in the notes.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to additional important legal cases. This is so as to not compromise the results of the proceedings or the interests of the Company.

Strategies for hedging financial risks

In the course of our business activities, financial risks may arise from changes in interest rates, exchange rates, raw material prices, or share and fund prices. Management of financial and liquidity risks is the responsibility of the central Group Treasury department, which minimizes these risks using nonderivative and derivative financial instruments. The Board of Management is informed of the current risk situation at regular intervals.

We hedge 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. This also applies to financing arrangements within the Volkswagen Group.

Foreign currency risk is reduced in particular through natural hedging, i.e. by flexibly adapting our production capacity at our locations around the world, establishing new production facilities in the most important currency regions and also procuring a large percentage of components locally. We hedge the residual foreign currency risk using hedging instruments. These include currency forwards, currency options and cross-currency interest rate swaps. We use these transactions to limit the currency risk associated with forecasted cash flows from operating activities, intragroup financing and liquidity positions in currencies other than the respective functional currency, for example as a result of

restrictions on capital movements. The currency forwards and currency options can have a term of up to six years. We thus hedge our principal foreign currency risks, mostly against the euro and primarily in Argentine pesos, Australian dollars, Brazilian real, Canadian dollars, Chinese renminbi, Czech koruna, Hong Kong dollars, Hungarian forints, Indian rupees, Japanese yen, Mexican pesos, Norwegian kroner, Polish zloty, Russian rubles, Singapore dollars, South African rand, South Korean won, sterling, Swedish kronor, Swiss francs, Taiwan dollars and US dollars.

Raw materials purchasing entails risks relating to the availability of raw materials and price trends. Potential risks arising from changes in commodity and energy prices in the market are continuously analyzed so that immediate action can be taken whenever these arise. We limit these risks mainly by entering into forward transactions and swaps. We have used appropriate contracts to hedge some of our requirements for commodities such as aluminum, lead, coal, copper, platinum, palladium and rhodium over a period of up to seven years. Similar transactions have been entered into for the purpose of supplementing and improving allocations of CO₂ emission certificates.

Pages 282 to 291 of the notes to the consolidated financial statements explain our hedging policy, the hedging rules and the default and liquidity risks, and quantify the hedging transactions mentioned. Additionally, we disclose information on market risk within the meaning of IFRS 7.

Risks arising from financial instruments

Channeling excess liquidity into investments and entering into derivatives contracts gives rise to counterparty risk. Partial or complete failure by a counterparty to perform its obligation to pay interest and repay principal, for example, would have a negative impact on the Volkswagen Group's earnings and liquidity. We counter this risk through our counterparty risk management, which we describe in more detail in the section entitled "Principles and Goals of Financial Management" starting on page 118. In addition to counterparty risk, the financial instruments held for hedging purposes hedge balance sheet risks, which we limit by applying hedge accounting.

By diversifying when selecting business partners, we ensure that the impact of a default is limited and the Volkswagen Group remains solvent at all times, even in the event of a default by individual counterparties.

Risks arising from trade receivables and from financial services are explained in more detail in the notes to the consolidated financial statements, starting on page 282.

Liquidity risk

We ensure that the Company remains solvent at all times by holding liquidity reserves, through confirmed credit lines and through our money market and capital market programs. We cover the capital requirements of the financial services business mainly by raising funds at matching maturities in the national and international financial markets as well as through customer deposits from the direct banking business.

Projects are financed by, among other things, loans provided by supranational or international development banks such as the European Investment Bank (EIB), the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), or by national development banks such as Kreditanstalt für Wiederaufbau (KfW) and Banco Nacional de Desenvolvimento Econômico e Social (BNDES). Confirmed and unconfirmed lines of credit from banks supplement our broadly diversified refinancing structure.

As a result of the diesel issue, the ability to use refinancing instruments may possibly be restricted or precluded for the Volkswagen Group. A downgrade of the Company's rating could adversely affect the terms associated with the Volkswagen Group's borrowings.

Information on the ratings of Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH can be found on page 113 of this report.

Residual value risk in the financial services business

In the financial services business, we agree 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 we are able to leverage market opportunities. We evaluate the underlying lease and financing contracts at regular intervals and recognize any necessary provisions if we identify any potential risks.

Management of the residual value risk is based on a defined feedback loop ensuring the full assessment, monitoring, management and communication of risks. This process design ensures not only professional management of residual risks but also that we systematically improve and enhance our handling of residual value risks.

As part of our risk management, we use 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 diesel issue and the current debate on the possible introduction of driving bans for diesel vehicles in major European cities at a future date. In the process, we compare the contractually agreed residual values with the fair values obtainable. These are determined utilizing data from external service providers and our own marketing data. We do not take account of the upside in residual market values when making provisions for risks.

More information on residual value risk and other risks in the financial services business, such as counterparty, market and liquidity risk, can be found in the 2017 Annual Report of Volkswagen Financial Services AG and Volkswagen Bank GmbH.

Reputational risks

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. Our policy on issues such as integrity, ethics and sustainability is in the public focus. One of the basic principles of running our business is therefore to pay particular attention to compliance with legal requirements and ethical principles. However, we are aware that misconduct or criminal acts of individuals and the resulting reputational damage can never be fully prevented. In addition, media reactions can have a negative effect on the reputation of the Volkswagen Group and its brands. This impact could be amplified through insufficient crisis communication.

Moreover, the above-described individual risks that may arise in the course of our operating activities may turn into a threat to the Volkswagen Group's reputation.

Other factors

Going beyond the risks already outlined, there are other factors that cannot be predicted and whose repercussions are therefore difficult to control. Should these transpire, they could have an adverse effect on the further development of the Volkswagen Group. In particular, these factors include natural disasters, epidemics and terrorist attacks.

OVERALL ASSESSMENT OF THE RISK AND OPPORTUNITY POSITION

The Volkswagen Group's overall risk and opportunity position results from the specific risks and opportunities shown above. We have put in place a comprehensive risk management system to ensure that these risks are controlled. The most significant risks to the Group may result from a negative trend in unit sales of, and markets for, vehicles and genuine parts, from the failure to develop and produce products in line with demand and from quality problems. Risks relating to the diesel issue still remain for the Volkswagen Group which, when aggregated, are among the most significant risks. Taking into account all the information known to us at present, no risks exist which could pose a threat to the continued existence of significant Group companies or the Volkswagen Group.

This annual report contains forward-looking statements on the business development of the Volkswagen Group. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions, and in particular for the automotive industry, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. The estimates given entail a degree of risk, and actual developments may differ from those forecast. Any changes in significant parameters relating to our key sales

markets, or any significant shifts in exchange rates relevant to the Volkswagen Group, will have a corresponding effect on the development of our business. In addition, there may be departures from our expected business development if the assessments of the factors influencing sustainable value enhancement, as well as risks and opportunities, presented in this annual report develop in a way other than we are currently expecting, or if additional risks and opportunities or other factors emerge that affect the development of our business.

Prospects for 2018

The Volkswagen Group's Board of Management expects the global economy to record slightly weaker growth in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

We expect trends in the passenger car markets in the individual regions to be mixed in 2018. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period. We anticipate that unit sales volumes in Western Europe will fall slightly short of those seen in the reporting period. In the German passenger car market, we estimate that the market volume will be on a level with the previous year. Passenger car demand is expected to substantially exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect demand in the South American markets for passenger cars and light commercial vehicles to grow perceptibly as a whole compared with the previous year. The passenger car markets in the Asia-Pacific region look set to continue their growth trajectory in 2018, albeit at a weaker pace.

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we envisage a slight dip in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2018 are set to rise slightly above the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2018.

The Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed developments in regional automotive markets. Our unique brand portfolio, our presence in all major world markets, our broad, selectively expanded product range and pioneering technologies and services place us in a good competitive position worldwide. In the course of transforming our core business, we will define the positioning of our Group brands more clearly and optimize the vehicle and drive portfolio with a view to the most attractive and fastest-growing market segments. In addition, we are working to make even more focused use of the advantages of our multibrand group by continuously developing new technologies and our toolkits.

We expect that deliveries to customers of the Volkswagen Group in 2018 will moderately exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and the diesel issue. In the EU, there is also a new, more time-consuming test procedure for determining pollutant and CO₂ emissions as well as fuel consumption in passenger cars and light commercial vehicles known as the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP).

We expect the sales revenues of the Volkswagen Group and its business areas to grow by as much as 5% year-on-year. In terms of the operating profit for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2018. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 5.0–6.0%. In the Power Engineering Business Area, we expect a lower operating loss than in the previous year. For the Financial Services Division, we are forecasting an operating profit at the prior-year level.