

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

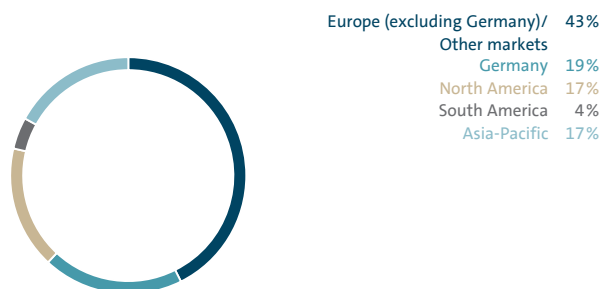
INCOME STATEMENT BY DIVISION

€ 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.

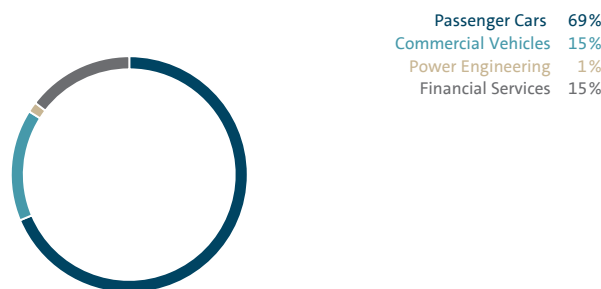
SHARE OF SALES REVENUE BY MARKET 2017

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.