

Business Development

The pace of global economic growth was slightly slower in 2016 than in the previous year. By contrast, global demand for vehicles was higher. Despite a persistently difficult environment, the Volkswagen Group delivered more than 10 million vehicles to customers.

GLOBAL ECONOMY GROWS MODERATELY

The moderate growth rate of the global economy slowed to 2.5 (2.8)% in fiscal year 2016. While economic momentum decelerated in the industrialized countries as a whole, growth rates in emerging economies remained virtually constant year-on-year. Inflation increased as a result of the expansionary monetary policies pursued by many central banks and due to rising energy and commodity prices.

Europe/Other Markets

The economy of Western Europe continued to recover in the reporting period. At 1.7 (2.0)%, growth in gross domestic product (GDP) was slightly lower than in the previous year. The picture was mixed as regards economic growth in both Northern and Southern Europe. The UK's Brexit referendum in June, when a small majority voted to leave the EU, had a dramatic effect, with direct consequences including uncertainty in the financial markets and dimmer economic prospects for the United Kingdom and Europe as a whole. The eurozone unemployment rate continued to decrease, falling to an average of 10.6 (11.3)%, though rates remained considerably higher in Greece and Spain.

Although GDP grew by a total of 1.3 (0.8)% in Central and Eastern Europe in the reporting period, it remained at a relatively low level. Whereas the comparatively high rate of growth in Central Europe weakened considerably compared with the previous year, the recessionary period of the previous year in Eastern Europe came to an end. The recovery in energy prices was the main positive factor in this trend, while the unresolved conflict between Russia and Ukraine continued to have a negative impact. The decline in economic output in Russia by 0.6 (-3.7)% was much less pronounced in the reporting period than in 2015.

South Africa's GDP expanded by just 0.4 (1.3)%, thus falling substantially short of the already low figure of the

previous year. In addition to a severe drought, ongoing structural deficits and social unrest weighed on the economy.

Germany

The German economy continued to profit from positive consumer sentiment and a good labor market, with the 1.8 (1.5)% rise in GDP being somewhat stronger than in the previous year.

North America

At 1.6 (2.6)%, economic growth in the USA was slightly lower year-on-year. The economy was supported primarily by private consumption and expansionary monetary policy, whereas private investment growth was weak. The average unemployment rate during the reporting period was 4.9 (5.3)%. The US dollar remained strong, putting domestic goods exports under pressure. At 1.3 (0.9)%, GDP growth in Canada showed only little momentum. Mexico's economic output fell to 2.1 (2.6)%.

South America

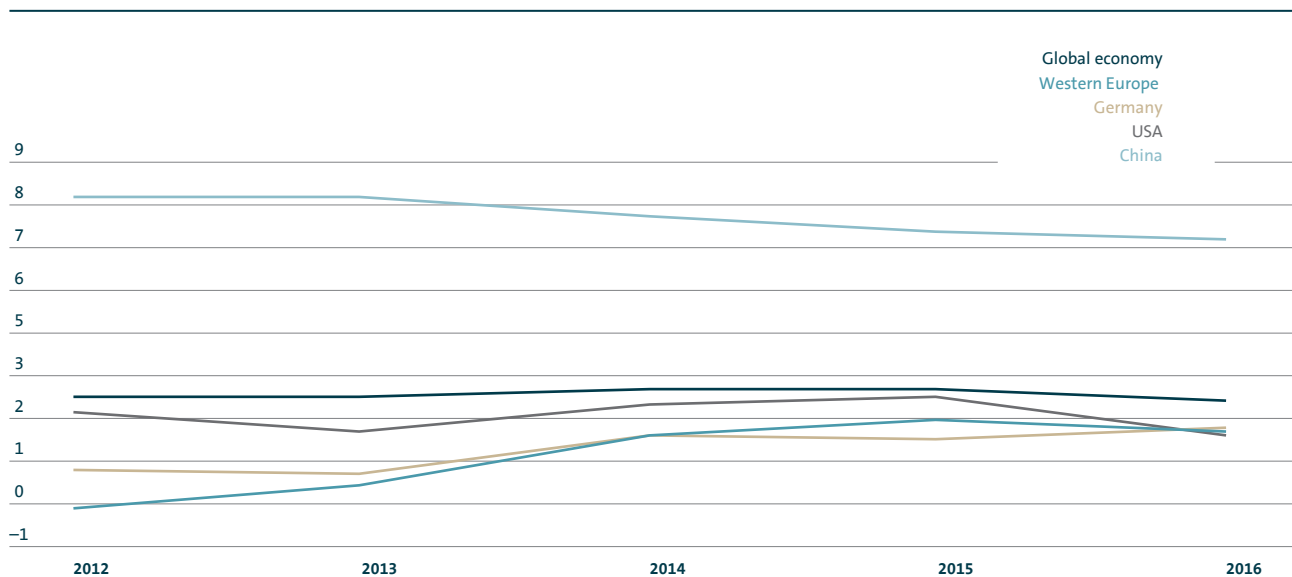
Brazil experienced its second consecutive year of recession, with economic output falling by 3.6 (-3.8)%. Weak domestic demand, continuing relatively low global commodity prices and political uncertainty weighed on the economy. Argentina's GDP declined by 2.3 (+2.6)%, with structural deficits and high inflation continuing to hamper growth.

Asia-Pacific

Economic growth in China weakened slightly in 2016, mainly due to structural changes. At 6.7 (6.9)%, however, it was still high compared with other countries worldwide. The Indian economy continued its positive trend with a gain of 6.8 (7.5)% and thereby grew somewhat more slowly than in the previous year. Japan once again posted weak GDP growth of just 1.0 (1.2)%.

ECONOMIC GROWTH

Percentage change in GDP



GLOBAL DEMAND FOR PASSENGER CARS REACHES RECORD HIGH

Worldwide, the number of new passenger car registrations increased to 81.1 million vehicles in fiscal year 2016, exceeding the previous year's record level by 5.4%. Demand rose in the Asia-Pacific, Western Europe, North America and Central Europe regions, while new passenger car registrations in South America, Eastern Europe and Africa failed to match the prior-year levels.

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 free movement of vehicles, parts and components more difficult. Protectionist tendencies were particularly evident where markets were on the decline.

Europe/Other Markets

New passenger car registrations in Western Europe rose by 5.8% in the reporting period to 14.0 million vehicles, the highest level since 2007. This better-than-expected trend was mainly attributable to the positive overall economic environment, low interest rates, low fuel prices and manufacturers' incentive programs. Double-digit growth rates were achieved in Italy (+15.4%) and Spain (+10.9%), especially due

to the release of pent-up demand for replacement vehicles. By contrast, growth in new passenger car registrations was relatively moderate in France, at 5.2%. Demand volume in the United Kingdom (+2.3%) was slightly higher than the record level of the previous year.

At 2.7 million vehicles, the number of new passenger car registrations in Central and Eastern Europe was down 2.3% year-on-year. The decline in Eastern Europe was mainly attributable to the Russian market, which contracted for the fourth year in succession (-11.7%) primarily because of the continuing weak economy and ongoing political tensions. By comparison, new passenger car registrations in the EU member states of Central Europe increased by a substantial 15.2% to 1.1 million units.

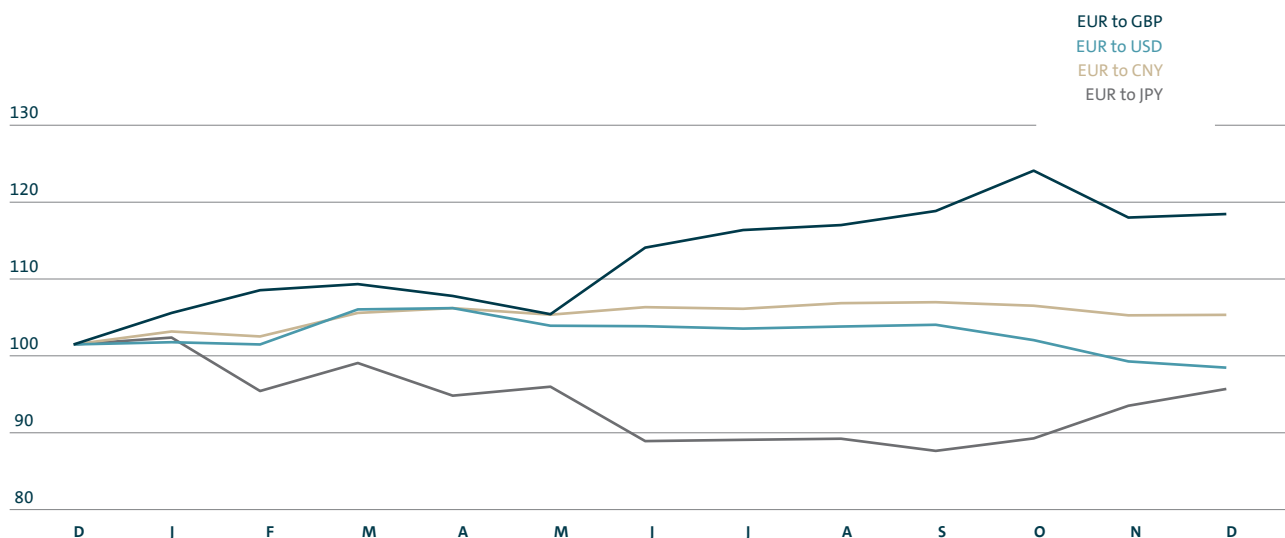
Passenger car sales in the South African market declined by 12.4% in the reporting period to 361 thousand vehicles, the lowest level since 2010. In addition to the weak economic environment, the main reasons for this decrease were low consumer confidence, high interest rates and double-digit growth in new car prices.

Germany

In Germany, 3.4 million new passenger vehicles were registered in 2016, 4.5% more than in the previous year. This positive demand trend was due in particular to higher real incomes, the strong labor market and attractive financing options. New passenger car registrations for both private (+6.8%) and commercial (+3.3%) customers contributed to this increase, which resulted in the highest passenger car

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2015 TO DECEMBER 2016

Index based on month-end prices: as of December 31, 2015 = 100



market volume since 2009. A slight increase in domestic production (up 0.7% to 5.7 million vehicles) contributed to the ongoing recovery of the German passenger car market, whereas passenger car exports (up 0.1% to 4.4 million vehicles) were on a par with the high levels of the previous year.

North America

At 21.1 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North American markets were slightly higher in 2016 (+1.8%) than the record level of the prior year. In the USA, demand reached the record set in the previous year with 17.6 million vehicles sold (+0.5%). In addition to the strong labor market, high consumer confidence, low fuel prices and attractive financing and leasing conditions were the main factors in this stable market trend. Models from the SUV, pickup and van segments were the only ones to benefit from this environment (+7.2%), whereas the passenger car segment contracted substantially (-8.1%).

In both Canada (up 2.6% to 1.9 million vehicles) and Mexico (up 18.6% to 1.6 million vehicles), sales of passenger cars and light commercial vehicles continued to grow, topping the record of the prior year in both markets.

South America

The South American markets for passenger cars and light commercial vehicles fell by a substantial 11.5% in the reporting period, to 3.7 million units. This trend was mainly

due to the prolonged slump in Brazil, where the number of new registrations fell by 19.9% to 2.0 million vehicles, the fourth successive year of decline. This, the lowest number of vehicle registrations since 2006, was chiefly due to the recessionary economic environment, characterized by rising unemployment, lower real incomes and restricted access to loans. By contrast, Brazil's vehicle exports rose by 24.7% to 520 thousand units.

In Argentina, new registrations of passenger cars and light commercial vehicles increased by 9.8% from the previous year's low level to 677 thousand vehicles. High manufacturer discounts helped to boost demand.

Asia-Pacific

The passenger car market volume in the Asia-Pacific region rose by 11.9% in the reporting period to 35.3 million units. In terms of unit numbers, this was the highest increase in new vehicle registrations worldwide. The Chinese market was by far the biggest driver of this growth. The 22.9 million vehicles sold in China (+17.9%) represented a new record. One of the factors contributing to this growth was the tax relief on the purchase of vehicles with engine sizes of up to 1.6l introduced on October 1, 2015, from which attractively priced entry-level models in the SUV segment benefited most.

The number of new vehicle registrations in the Indian passenger car market reached 2.8 million units, up 7.0% year-on-year. This trend was driven by the positive economic environment and the large number of new models.

In Japan, new passenger cars registrations fell by 1.6% to 4.1 million vehicles, mainly because of a substantial drop in the mini passenger car segment (up to an engine size of 660 cm³).

MIXED REGIONAL DEMAND FOR COMMERCIAL VEHICLES

In 2016, demand for light commercial vehicles was up slightly overall on the previous year: in total, around 9.6 (9.5) million vehicles were registered worldwide.

In Western Europe, the number of new vehicle registrations rose by 10.0% during the year to 1.8 million units, driven by the region's positive economic performance. The markets in Italy (+28.9%), Spain (+11.6%) and France (+9.4%) recorded high growth rates. In Germany, the 2015 figure was significantly exceeded by 10.2%.

The markets in Central and Eastern Europe saw significant growth on the whole with 303 (287) thousand vehicle registrations. In Russia, ongoing political and economic tensions resulted once again in a decline in demand. The other markets in the region maintained or surpassed their prior-year results, with registrations in Poland in particular rising to 61 (52) thousand units.

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.

Registrations of light commercial vehicles in the Asia-Pacific region increased to 6.6 million units in the reporting period (+1.9%). In China, the region's dominant market, demand for light commercial vehicles of 4.1 million units was up 4.4% on the prior-year figure. Tax relief for vehicles with engine sizes of up to 1.6l contributed to this growth. As a consequence of the sustained economic growth in India, more vehicles were registered than in 2015; here, 520 (481) thousand new units were registered. The market volume fell in Japan as a result of the persistently weak economic trend (-8.5%).

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was higher in fiscal year 2016 than in the previous year, with 2.3 million new vehicle registrations (+0.9%). The volume of vehicles rose by 0.5% in the markets that are relevant for the Volkswagen Group.

In Western Europe, the number of new truck registrations increased by 8.6% to a total of 280 thousand vehicles on the back of positive economic stimulus. The markets in Italy (+41.9%), France (+13.7%) and Spain (+11.6%) in particular recorded high growth rates. In Germany, Western Europe's largest market, the prior-year figure was exceeded by 3.9%.

Central and Eastern Europe saw demand rise by 10.3% to 129 thousand units. Registrations in Russia moved up 6.9% from a low prior-year level to 48 thousand vehicles, while Poland, among others, generated strong growth (+19.3%).

In North America, the slowdown in the US economy caused demand in the truck market to dwindle slightly; in this region, 488 (531) thousand mid-sized and heavy trucks were registered. The number of new registrations in the US market declined sharply.

South America saw a considerable decline in market volume compared with the previous year. Here, the number of new vehicle registrations fell by 25.0% to 95 thousand units. In Brazil, the region's largest market, demand for trucks, at 48 (68) thousand vehicles, was down substantially on the already low prior-year figure as a result of persistently weak economic output and high inflation rates. New vehicle registrations slumped in Argentina (-22.8%) due to pull-forward effects in 2015 attributable to the introduction of the Euro 5 emission standard in addition to the economic downturn.

At 545 (526) thousand new registrations, the volume of vehicles in the Asia-Pacific region – excluding the Chinese market – was higher than in 2015. Demand in India increased in the reporting period: a total of 292 thousand vehicles were registered, 9.9% more than in the previous year. This was due to the country's positive economic performance, demand for replacement vehicles and the improved investment climate. Demand in China, the world's largest truck market, surged in 2016 to a total of 600 thousand units from a weak prior-year level (+11.4%).

Demand for buses in the markets that are relevant for the Volkswagen Group was perceptibly lower than in the previous year. Negative economic trends in South America led to a marked decline in demand, though the markets in Central and Eastern Europe expanded considerably.

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 merchant shipbuilding market again experienced very muted order activity in the reporting period. Existing and further ongoing overcapacity had a negative impact on utilization levels of the entire merchant fleet. While bulk carriers were particularly affected by low freight rates, low transport rates and fierce competition triggered a further wave of consolidation in the container ship sector as

companies merged or were squeezed out of the market altogether. Despite the slight recovery in oil prices, the persistent overcapacity in the offshore sector continued to discourage investments in oil production, with the result that orders for new ships in this segment dried up almost completely. By contrast, demand for cruise ships and ferries rose. The trend toward gas-powered ships weakened somewhat in the reporting period due to the drop in liquid-fuel prices. Other reasons for this decrease were the lack of refueling infrastructure in some places and uncertainty as to future emission standards. The special market for government vessels continued on a positive trajectory. On the whole, the marine market volume was substantially lower year-on-year. China, South Korea and Japan remained the dominant shipbuilding countries, accounting for a global market share of more than 80% measured in terms of tonnage ordered. On account of reduced market volumes, all market segments are seeing considerably higher competitive pressure and a sharp drop in prices as a result.

Although demand for energy solutions continued to be strong in developing countries and emerging markets throughout the reporting period, the difficult economic environment and financing conditions led to noticeable delays in order placement. Regions such as the Middle East and Southeast Asia, and to an increasing degree South America, continue to be relevant for the regional markets for energy solutions. Overall, there was a slight year-on-year increase in demand for decentralized diesel and gas engine power plants. The shift away from oil-fired power plants toward dual-fuel and gas-fired power plants continued. The increasing pressure through competition and pricing is impacting on the earnings quality of the orders.

The market for the construction of turbomachinery is mainly dominated by investment projects in oil and gas, the processing industry and power generation. The persistently low oil price caused leading oil and gas companies to slash investment yet again, causing order placement to be further postponed or even canceled altogether. Thus far, the slight rise in oil prices recorded in the last months of the reporting period has not led to any recovery in demand. Demand for products from the processing industry and power generation remained generally weak as well. Overcapacity in some industries, such as steel-making, prevented any possible recovery in the corresponding markets. Insufficient capacity utilization at many manufacturers additionally intensified the level of competition. Overall, the market volume for turbomachinery in the reporting period was once again well below the prior-year level. Competition remains fierce and there is considerable pressure on prices.

On the whole, the after-sales market performed well. In particular, after-sales business for large-scale engines in the marine and power plant sector benefited from rising interest in long-term maintenance contracts.

DEMAND FOR FINANCIAL SERVICES

Demand for automotive-related financial services remained high in fiscal year 2016. In particular, there was an increase in demand for insurance and service products such as maintenance and servicing agreements, as customers in more advanced automotive-related financial services markets are putting greater focus on optimizing overall running costs. In the fleet segment, some customers moved beyond pure fleet operation to full mobility management using automotive financial service providers. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than ownership.

In the European market, automotive-related financial services continued to enjoy rising popularity during the reporting period. The overall market development was positive in most European countries. Sales of financial services rose especially strongly in the UK, France, Spain and Italy. The UK's decision to leave the EU has not yet had a negative impact on local demand for financial services. The financial services business in Europe was also strengthened by a positive cross-border trend in demand for after-sales products such as insurance and products relating to wear and tear.

In 2016, the German market once again recorded growth in the financing and leasing business, mainly driven by the business customer segment. Alongside traditional products, there was a particular focus on automotive services.

In South Africa, demand for financial services products was stable despite a declining market for new vehicles. However, the macroeconomic environment resulted in a slight decline in lending to private customers.

Automotive financial services were also in high demand in North America. In the United States, the overall market once again performed positively. In particular, demand for leasing through captive financial service providers remained at a consistently high level. In Mexico, sales of financial services involving products such as extended warranties continued to be high.

The difficult macroeconomic and political situation in Brazil continued in 2016. This had a negative impact on the consumer credit business for new vehicles and sales of the country-specific financial services product Consorcio, a lottery-style savings plan. However, the negative trend abated slightly in the second half of the year. Despite the reforms initiated, the economic situation in Argentina remained difficult and continued to hold back sales of automotive-related 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 stagnated in Japan and South Korea. In Australia, meanwhile, the central bank's policy of low interest rates stimulated overall demand for automotive-related financial services and service contracts.

The financial services market in the commercial vehicles business area performed positively again in Europe. Owing to the difficult economic situation in Brazil, the truck and bus business and the related financial services market declined further here. However, this negative trend tapered off slightly in the second half of the year.

NEW GROUP MODELS IN 2016

The Volkswagen Group launched a large number of attractive new models on the market in the reporting period, some of them based on the Modular Transverse Toolkit (MQB). The current product portfolio comprises 336 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. Our product portfolio is systematically geared to profitable growth and takes account of regional market and customer needs.

In 2016, the Volkswagen Passenger Cars brand launched the successor to the successful Tiguan SUV model on the market, with a striking design and technical innovations from the MQB. The Beetle family was upgraded and expanded to include the Beetle Dune with an off-road look. The popular up! and e-up! were also rejuvenated. The new flagship model Phideon celebrated its premiere in China. This locally produced luxury saloon for discerning Chinese customers impresses with its cutting-edge technology, elegant design and plush interior. The Magotan now boasts state-of-the-art MQB technology. The portfolio of vehicles offering spacious interiors was extended to include the Touran L and the Golf Sportsvan. The Lamando GTS made its first appearance with a

range of powerful engines and a sporty design. The C-Trek, which is based on the new Bora, complements the crossover portfolio. The Chinese versions of the Passat, Santana and Jetta were all updated. In South America, the product portfolio, which is tailored to the specific needs of the local market, was modernized and made even more attractive. The Voyage and Saveiro models were given an upgrade, while the TSI engine was added as an option for the up!, Golf and Tiguan models as of 2016.

The Audi brand systematically expanded its range of SUVs in 2016. The Q family was extended to include the new sporty compact entry-level model Q2, tapping into another new market segment for the brand. The robust Q7 series was supplemented by the Q7 e-tron, the world's first plug-in hybrid with quattro TDI drive. In addition, the successor to the dynamic A5 Coupé was launched. The A4 family was enhanced through the addition of the sporty S4 Saloon and S4 Avant S models, as well as the A4 allroad quattro. The revamped A3 family hit the market mid-year. In China, the A6 L – the enhanced, long-wheelbase version of the popular luxury class A6 Saloon – was unveiled in 2016. The A4 L and Q3 models produced in China were also upgraded.

ŠKODA launched the Superb Sportline on the European market in the reporting period. The Superb Combi debuted in Russia, while the brand introduced the new-generation Superb and updated Rapid in India.

SEAT started its product offensive in 2016 with the new SUV Ateca, followed in the course of the year by the particularly robust off-road version, the Ateca X-Perience.

Porsche's activities included the introduction of the Targa and Turbo versions of the new 911 generation, which boast, among other features, improved design and equipment levels. Porsche also presented the successors to the Boxster and Cayman models, as well as the second-generation Panamera, which has been redeveloped from the ground up. The dynamic Macan GTS was another model that became available as of 2016.

Bentley unveiled a new series in the reporting period, launching the Bentayga, the most luxurious SUV in the world. The Mulsanne was upgraded and a new version with a lengthened wheelbase was added. Bentley complemented its portfolio with two high-performance models – the Flying Spur V8 S and W12 S.

Super sports car manufacturer Lamborghini premiered the Huracán Spyder, which combines the technology and performance of the Huracán with the emotion of a Spyder. The Aventador Superveloce Roadster, the fastest and most exciting Lamborghini of all time, was also introduced.

Volkswagen Commercial Vehicles launched the updated version of the popular Amarok pickup in the year under review.

In 2016, Scania presented the new generation of its R-series and S-series trucks, boasting newly developed cabs and offering efficiency-enhancing services. The company also launched the automated gear-changing system Scania Opticruise for gas-powered vehicles and the Scania Interlink intercity coach.

MAN presented engines for its TG series that are considerably more fuel-efficient and high-performance, as well as the MAN EfficientLine 3, which has been optimized for efficiency. It also introduced a new modular concept for combined heat and power gas engine power plants in response to the growing demand in Europe for highly efficient, flexible power generation technologies.

Ducati launched two further versions of the Scrambler series: the Sixty2 and Flat Track Pro. The new XDiavel, Hyperstrada 939 and 959 Panigale models, among others, also debuted in 2016, as did the 1200 Enduro and 1200 Pike's Peak versions of the Multistrada series.

VOLKSWAGEN GROUP DELIVERIES

In fiscal year 2016, the Volkswagen Group increased its deliveries to customers worldwide by 3.7% and reached a new all-time high of 10,296,997 vehicles. This means that we exceeded the mark of 10 million units sold for the second time since 2014. 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

	2016	2015	%
Passenger Cars	9,635,484	9,320,687	+ 3.4
Commercial Vehicles	661,513	609,909	+ 8.5
Total	10,296,997	9,930,596	+ 3.7

¹ Deliveries for 2015 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 has a presence in all relevant automotive markets around the world. The Group's key sales markets currently include Western Europe, China, the USA, Mexico and Brazil. Our wide range of attractive and efficient vehicles gives us a strong position in a persistently challenging competitive

environment. The Group recorded encouraging growth in many key markets.

Deliveries of passenger cars to customers rose during the reporting year to 9,635,484 units amid continued difficult conditions in relevant markets such as Brazil and Russia. This was an increase of 314,797 vehicles or 3.4% on 2015. The passenger car market as a whole expanded by 5.4% in fiscal year 2016, which meant that the Volkswagen Group's share of the global market declined slightly to 11.9 (12.2)%. The Group recorded the highest absolute growth in China. Our sales figures in Brazil, Russia and other countries were impacted by low demand. The diesel issue affected the individual markets, mainly in the USA and Canada, in different ways during the reporting year, depending on the brand. Nearly all brands surpassed the previous year's delivery figures, with the Volkswagen Passenger Cars brand recording the strongest growth in absolute terms. Audi, ŠKODA, and Porsche set new records, as did Bentley and Lamborghini.

The table on page 107 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.

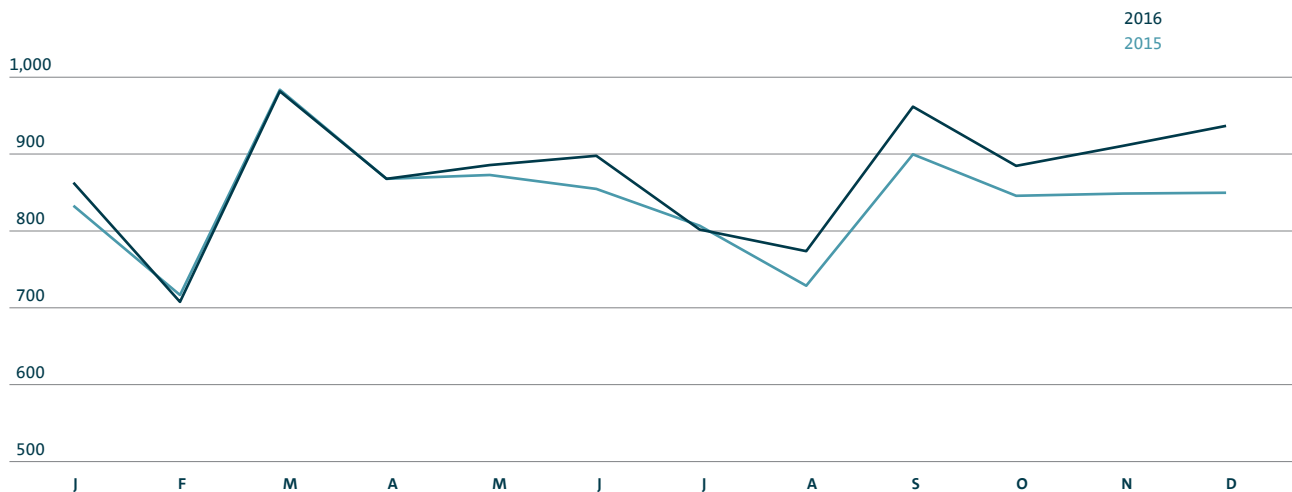
Deliveries in Europe/Other markets

In 2016, the passenger car market as a whole expanded by 5.8% in Western Europe. The Volkswagen Group handed over 3,114,030 vehicles to customers here, 1.7% more than in the previous year. Demand for Group models was up year-on-year in virtually all major markets in this region. The Touran, Audi A4, Audi Q3, Audi Q7, ŠKODA Superb as well as Porsche's Boxster and Cayman models saw the highest growth rates. The ŠKODA Fabia and Porsche Macan models were also very popular. The new Tiguan and the new SEAT Ateca were very well received by the market. The Group's first luxury SUV, the Bentley Bentayga, celebrated its successful market debut. The Group's share of the passenger car market in Western Europe was 22.3 (23.2)%.

In the passenger car markets of Central and Eastern Europe, which declined overall, we handed over 5.8% more vehicles to customers in 2016 than in the previous year. We recorded growth in almost all markets, with the highest increases recorded in Poland and the Czech Republic. In Russia, the continuing weak economic situation and political tensions caused a decline in our deliveries to customers. Demand was highest for the Polo, ŠKODA Rapid and ŠKODA Octavia models. Our share of the passenger car market in Central and Eastern Europe rose to 21.9 (20.2)%.

VOLKSWAGEN GROUP DELIVERIES BY MONTH

Vehicles in thousands



In South Africa, the number of Volkswagen Group vehicles delivered to customers fell by 13.0% year-on-year in 2016. The passenger car market as a whole declined by 12.4% in the same period. Demand was highest for the Polo.

Demand for Volkswagen Group passenger cars in the markets of the Middle East region in 2016 was up by 0.7% compared with the previous year. The Polo, Golf, Passat and ŠKODA Octavia models were particularly popular.

Deliveries in Germany

The German passenger car market continued its growth in the 2016 fiscal year, expanding by 4.5%. The Volkswagen Group handed over 1,136,971 vehicles to customers in its home market. This was slightly fewer than in the previous year (-0.9%). The Touran, Audi Q7, Audi Q5 and ŠKODA Superb models saw the highest growth rates. The Tiguan, Audi A4 and SEAT Ateca models were also very popular. In the registration statistics of the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority), eight Group models led their respective segments at the end of 2016: the up!, Polo, Golf, Tiguan, Touran, Passat, Audi A6 and Porsche 911. The Golf continued to top the list of the most popular passenger cars in Germany in terms of registrations.

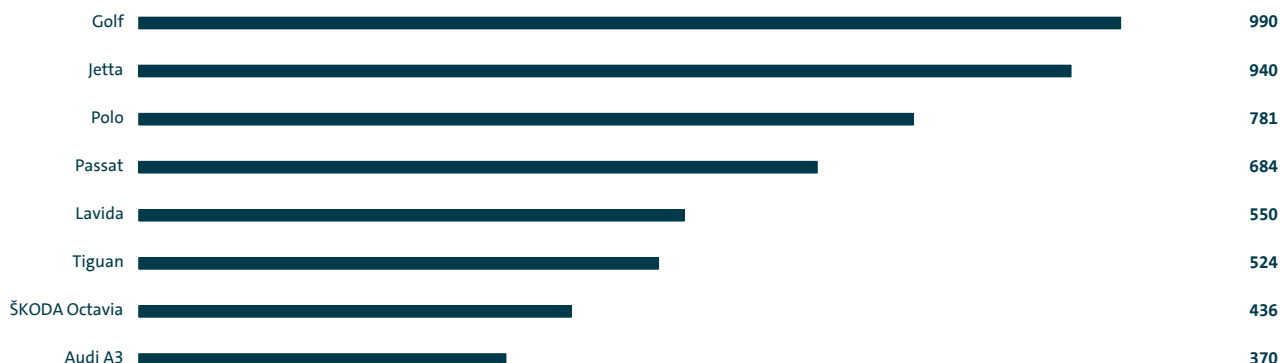
Deliveries in North America

In North America, the Volkswagen Group delivered 928,033 vehicles to customers in a slightly growing overall market for passenger cars and light commercial vehicles in the reporting year. This was 0.6% more than in the previous year. The Group's market share was 4.4 (4.5)%. The Jetta remained the Group's best-selling model in North America.

Demand for Volkswagen Group models on the US market was down 2.6% year-on-year in 2016, primarily as a result of the diesel issue. The overall market remained steady year-on-year (+0.5%) over this period. Models in the SUV and pickup segments remained in particularly high demand. The Tiguan, Audi A4, Audi Q3, Audi Q7 and Porsche Macan models, among others, registered increases in demand.

In the growing Canadian market, we handed over 5.6% fewer vehicles to customers in the reporting year than in 2015, mainly as a consequence of the diesel issue. The most sought-after Group model was the Jetta, followed by the Golf. The Audi A4, Audi Q7 and Porsche Macan models enjoyed rising demand.

In Mexico, the strong momentum of the market as whole continued in 2016. Group sales were up 12.8% year-on-year. The Vento, Jetta, Gol and SEAT Ibiza models were especially popular.

WORLDWIDE DELIVERIES OF THE GROUP'S MOST SUCCESSFUL MODEL RANGES IN 2016*Vehicles in thousands***Deliveries in South America**

Conditions in the South American markets for passenger cars and light commercial vehicles were very challenging in 2016. Amid sharp overall declines in markets in this region, the Volkswagen Group delivered 362,343 vehicles to customers, 26.0% fewer than in the already weak previous year. The Volkswagen Group's share of the passenger car market in this region declined to 10.5 (12.5)%.

In the rapidly deteriorating Brazilian market, 2016 saw demand for Group models decline by 34.6% year-on-year. The up!, Fox, Gol and Saveiro witnessed the strongest sales figures.

In Argentina, the market as a whole continued its recovery in the reporting year. The Volkswagen Group sold 5.6% fewer vehicles here than a year earlier. The Group models with the highest numbers of registrations in Argentina remained the Gol and Suran.

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 in 2016. Demand for Volkswagen Group models there increased by 9.8% year-on-year to 4,282,656 units; the market share in this region was 12.1 (12.4)%.

China, the world's largest single market, was again the growth driver of the Asia-Pacific region in the reporting year, recording the highest absolute increase. Attractively priced entry-level models in the SUV segment remained highly sought after. The Volkswagen Group delivered 12.2% more vehicles to customers in China than in the prior-year period. The Jetta, Lavida und Sagitar models were particularly popular. The Lamando, Santana, Audi A3, Audi Q3, ŠKODA Superb and Porsche Macan models also recorded encouraging growth rates. The new versions of the Bora, Touran, Magotan, Audi A4 L and Audi A6 L models and the locally produced Golf Sportsvan were successfully launched in the market.

In the growing passenger car market in India, 4.7% fewer Volkswagen Group vehicles were sold in the reporting year than in 2015. The most popular Group model in India was the Polo. The Ameo was successfully launched in the market.

In Japan, sales of Volkswagen Group vehicles were down 8.8% on the prior-year figure. The total market volume declined by 1.6% in the same period. Demand was highest for the Polo and Golf models.

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET¹

	DELIVERIES (UNITS)		CHANGE
	2016	2015	(%)
Europe/Other markets	4,062,452	4,006,105	+1.4
Western Europe	3,114,030	3,062,371	+1.7
of which: Germany	1,136,971	1,147,484	-0.9
United Kingdom	523,111	521,345	+0.3
France	249,145	252,530	-1.3
Spain	244,990	235,141	+4.2
Italy	238,537	207,821	+14.8
Central and Eastern Europe	592,275	559,946	+5.8
of which: Russia	155,672	164,653	-5.5
Czech Republic	134,926	126,886	+6.3
Poland	122,622	104,772	+17.0
Other markets	356,147	383,788	-7.2
of which: Turkey	173,965	164,787	+5.6
South Africa	78,897	90,659	-13.0
North America	928,033	922,774	+0.6
of which: USA	591,063	607,096	-2.6
Mexico	238,946	211,845	+12.8
Canada	98,024	103,833	-5.6
South America	362,343	489,636	-26.0
of which: Brazil	231,196	353,508	-34.6
Argentina	92,257	97,775	-5.6
Asia-Pacific	4,282,656	3,902,172	+9.8
of which: China	3,975,071	3,542,467	+12.2
Japan	83,109	91,153	-8.8
India	66,046	69,323	-4.7
Worldwide	9,635,484	9,320,687	+3.4
Volkswagen Passenger Cars	5,980,307	5,823,414	+2.7
Audi	1,867,738	1,803,246	+3.6
ŠKODA	1,126,477	1,055,501	+6.7
SEAT	408,703	400,037	+2.2
Bentley	11,023	10,100	+9.1
Lamborghini	3,457	3,245	+6.5
Porsche	237,778	225,121	+5.6
Bugatti	1	23	-95.7

¹ Deliveries for 2015 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 661,513 commercial vehicles to customers worldwide in 2016, 8.5% more than in the previous year. Trucks accounted for 165,806 units (+2.4%) and buses for 17,775 units (+3.7%). Sales by the Volkswagen Commercial Vehicles brand were up 10.9% on the previous year, with 477,932 vehicles delivered. The MAN brand handed over 102,235 vehicles to customers, 0.2% fewer than in 2015, while the Scania brand's deliveries were up 6.2% year-on-year at 81,346 units.

In Western Europe, deliveries were up 13.6% on the previous year at 418,931 vehicles as a result of the sustained economic recovery. Of this total, 327,225 were light commercial vehicles, 86,472 were trucks and 5,234 were buses. The Transporter and Caddy were the most sought-after Group models in Western European markets.

We handed over 65,436 vehicles to customers in Central and Eastern Europe in the period from January to December 2016. This was 18.2% more than in the previous year. Of this figure, 36,484 were light commercial vehicles, 28,184 were trucks and 768 were buses. In Russia, the region's largest market, we delivered 11,300 vehicles. This was 15.4% more than in the previous year. The Transporter and the Caddy were the Group models experiencing the highest demand in Central and Eastern Europe.

In the Other markets, deliveries of Volkswagen Group commercial vehicles fell by 5.3% to a total of 70,927 units: 51,784 light commercial vehicles, 16,227 trucks and 2,916 buses.

Deliveries in North America amounted to 11,140 vehicles (+22.4%), which were handed over almost exclusively to customers in Mexico. Of this figure, 8,479 were light commercial vehicles, 669 were trucks and 1,992 were buses.

The Volkswagen Group sold a total of 59,196 units in South America (-14.2%), of which 32,258 were light commercial vehicles, 22,828 trucks and 4,110 buses. Once again, the Amarok was particularly popular. The persistently difficult economic situation and the difficult financing conditions in Brazil led to a 27.3% decrease in deliveries; 8,441 light commercial vehicles, 16,274 trucks and 1,817 buses were handed over to customers in the country.

In the Asia-Pacific region, the Volkswagen Group delivered 35,883 vehicles to customers in the reporting period; 21,702 light commercial vehicles, 11,426 trucks and 2,755 buses. This was 8.9% more than in the previous year. The Transporter and the Amarok were the most popular Group models. In China, sales were up 14.7% on the previous year at 7,071 vehicles. Of this total, 3,980 were light commercial vehicles, 2,755 were trucks and 336 were buses.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET¹

	DELIVERIES (UNITS)		CHANGE
	2016	2015	(%)
Europe/Other markets	555,294	498,906	+11.3
Western Europe	418,931	368,622	+13.6
Central and Eastern Europe	65,436	55,348	+18.2
Other markets	70,927	74,936	-5.3
North America	11,140	9,099	+22.4
South America	59,196	68,958	-14.2
of which: Brazil	26,532	36,513	-27.3
Asia-Pacific	35,883	32,946	+8.9
of which: China	7,071	6,165	+14.7
Worldwide	661,513	609,909	+8.5
Volkswagen Commercial Vehicles	477,932	430,874	+10.9
Scania	81,346	76,561	+6.2
MAN	102,235	102,474	-0.2

¹ Deliveries for 2015 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 almost three quarters of the overall revenue volume. Eight engines were delivered for a new power plant in Nicaragua, for instance. The power plant will have an output of 140 MW once it has been completed and put into operation and will cover around 10% of Nicaragua's total energy needs.

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 2016 compared with the previous year. Incoming orders in the reporting period were 1.4% higher than in 2015. While orders received in Germany were down slightly (-1.7%), other key markets in this region contributed to this increase.

ORDERS RECEIVED FOR COMMERCIAL VEHICLES

Demand for the Volkswagen Group's light commercial vehicles in the Western European markets rose year-on-year in 2016. At 338,858 units, orders received were up 16.5% compared with the previous year.

New orders for mid-sized and heavy trucks and buses witnessed a positive trend overall in 2016, with orders received for 190,573 vehicles (+3.2%). In Western Europe, our main sales market, positive economic stimulus gave a boost to incoming orders. In South America, however, the deterioration in the economic situation had a negative impact on the order intake.

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 2016 amounted to €3.3 (3.4) billion. Engines & Marine Systems and Turbomachinery generated the most new

orders, together accounting for almost three-quarters of the order volume. For example, a Turkish energy company ordered twelve engines with a combined output of 227 MW for its floating power plants, which provide a flexible solution to energy bottlenecks. A German energy provider awarded a contract for the construction of a gas engine power plant with cogeneration. The plant will be powered by three MAN gas engines. As well as electricity, it will also generate up to 30 MW for district heating.

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.

The number of new contracts signed worldwide in the Customer Financing/Leasing and Service/Insurance areas rose by 13.1% to 7.1 million contracts in 2016. At 17.4 million, the total number of contracts at the end of 2016 exceeded the figure at the prior-year reporting date by 10.0%. The underlying contract types were modified according to their significance. The number of contracts in the Customer Financing/Leasing area was up by 6.8% to 9.5 million, while it increased by 14.1% to 8.0 million contracts in the Service/Insurance area. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets rose to 33.3 (31.5)% in the reporting period.

In Europe/Other markets, 5.2 million new contracts were signed in the reporting period, 14.1% more than in 2015. The number of contracts was up 10.4% to 12.4 million as of December 31, 2016. This included 5.9 million contracts in the Customer Financing/Leasing area, an increase of 7.2% on the figure for 2015. The share of leased or financed vehicles increased from 44.3% to 46.8% of deliveries.

The total number of contracts in the Financial Services Division in North America stood at 2.8 million (+13.0%). Of this figure, 1.8 million contracts were attributable to the Customer Financing/Leasing area, 6.1% more than in the previous year. With 988 thousand new contracts, the number of new contracts rose by 7.6% compared with the previous year. The penetration rate in North America increased to 63.3 (61.8)%.

In South America, 197 thousand new contracts were signed in the reporting period (-27.2%). The number of contracts was down 16.3% year-on-year to 647 thousand

contracts as of year-end 2016. The majority of these were attributable to the Customer Financing/Leasing area. The penetration rate in South America was 30.4 (35.5)%.

In the Asia-Pacific region, 740 thousand new contracts were signed in the reporting year, an increase of 33.6%. The total number of contracts amounted to 1.5 million (+16.6%), of which 1.2 million contracts were attributable to the Customer Financing/Leasing area (+22.5%). The share of leased or financed vehicles in the region rose from 11.6% to 15.1% of deliveries.

SALES TO THE DEALER ORGANIZATION

In the reporting period, the Volkswagen Group’s sales to the dealer organization worldwide – including the Chinese joint ventures – amounted to 10,391,113 vehicles, up 3.8% on the prior-year figure. The increase of 4.6% in unit sales outside Germany is primarily attributable to stronger demand in Western Europe and Central Europe, as well as in China. In Germany, the number of vehicles sold decreased by 1.7%. At 12.1%, the proportion of the Group’s sales accounted for by Germany was lower than in 2015 (12.8%).

The Polo, Golf, Jetta and Passat were our biggest sellers last year. The Touran, Lamando, Lavidia, Jetta and Tiguan models, the Audi A4 family, the Audi Q3, Q7, the ŠKODA Fabia, Rapid and Superb as well as the SEAT Alhambra and Ateca saw the fastest growth in demand. The Porsche Cayman, Boxster, 911 and Macan models were also very well received by the market.

PRODUCTION

The Volkswagen Group produced 10,405,092 vehicles worldwide in fiscal year 2016, 3.9% more than in the previous year. In total, our Chinese joint ventures produced 13.9% more units than in the year before. The percentage of the Group’s total production accounted for by Germany was lower than in 2015, at 25.8 (26.8)%. Our plants worldwide produced an average of 43,186 vehicles per working day, an increase of 3.1% on the prior-year level. The Volkswagen Group production figures do not include the Crafter models built in the Daimler plants.

INVENTORIES

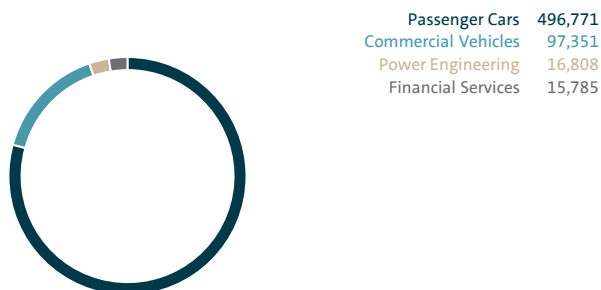
Global inventories at Group companies and in the dealer organization were higher at the end of the reporting period than at year-end 2015, mainly due to demand-induced stock building in China and Western Europe.

EMPLOYEES

Including the Chinese joint ventures, the Volkswagen Group employed an average of 619,346 people in fiscal year 2016, an increase of 2.5% year-on-year. Our companies in Germany employed 279,993 people on average in 2016; at 45.2 (45.6)%, their share of the headcount was slightly below the level of the previous year. The Volkswagen Group had 601,443 active employees (+2.8%) as of December 31, 2016. In addition, 5,782 employees were in the passive phase of their partial retirement and 19,490 young people were in vocational traineeships (+4.5%). The Volkswagen Group’s headcount was 626,715 employees (+2.7%) at the end of the reporting period. Significant factors for the increase in employees were the recruitment of specialists, particularly in Germany and China, volume-driven growth outside of Germany and the expansion of the workforce in our new plants in Mexico and Poland. A total of 281,518 people were employed in Germany (+1.0%), while 345,197 were employed abroad (+4.2%).

EMPLOYEES BY DIVISION/BUSINESS AREA

as of December 31, 2016



FIVE-YEAR REVIEW

	2016	2015	2014	2013	2012
Volume Data (thousands)					
Vehicle sales (units)	10,391	10,010	10,217	9,728	9,345
Germany	1,257	1,279	1,247	1,187	1,207
Abroad	9,135	8,731	8,970	8,541	8,137
Production (units)	10,405	10,017	10,213	9,728	9,255
Germany	2,685	2,681	2,559	2,458	2,321
Abroad	7,720	7,336	7,653	7,270	6,934
Employees (yearly average)	619	604	583	563	533
Germany	280	276	265	255	237
Abroad	339	329	318	308	296
Financial Data (in € million)					
Income Statement					
Sales revenue	217,267	213,292	202,458	197,007	192,676
Cost of sales	176,270	179,382	165,934	161,407	157,522
Gross profit	40,997	33,911	36,524	35,600	35,154
Distribution expenses	22,700	23,515	20,292	19,655	18,850
Administrative expenses	7,336	7,197	6,841	6,888	6,220
Net other operating result	-3,858	-7,267	3,306	2,613	1,415
Operating result	7,103	-4,069	12,697	11,671	11,498
Financial result	189	2,767	2,097	757	13,989
Earnings before tax	7,292	-1,301	14,794	12,428	25,487
Income tax expense	1,912	59	3,726	3,283	3,606
Earnings after tax	5,379	-1,361	11,068	9,145	21,881
Cost of materials	140,307	143,700	132,514	127,089	122,450
Personnel expenses	37,017	36,268	33,834	31,747	29,504
Balance Sheet (at December 31)					
Noncurrent assets	254,010	236,548	220,106	202,141	196,457
Current assets	155,722	145,387	131,102	122,192	113,061
Total assets	409,732	381,935	351,209	324,333	309,518
Equity	92,910	88,270	90,189	90,037	81,995
of which: noncontrolling interests	221	210	198	2,304	4,313
Noncurrent liabilities	139,306	145,175	130,314	115,672	121,996
Current liabilities	177,515	148,489	130,706	118,625	105,526
Total equity and liabilities	409,732	381,935	351,209	324,333	309,518
Cash flows from operating activities	9,430	13,679	10,784	12,595	7,209
Cash flows from investing activities attributable to operating activities	16,797	15,523	16,452	14,936	16,840
Cash flows from financing activities	9,712	9,068	4,645	8,973	13,712

SUMMARY OF BUSINESS DEVELOPMENT AND ECONOMIC POSITION

The Board of Management of Volkswagen AG considers business development and the economic position to have been satisfactory overall. In spite of the challenges resulting from the diesel issue and the persistently difficult conditions on the vehicle markets in Brazil and Russia, we were able to reach our forecast in 2016 and also set a new record, with 10.3 million vehicles delivered (+3.7%). The Group's sales revenue ultimately grew at a faster pace than expected over the course of the year and was higher than in the previous year, due among other factors to mix-related factors and the good business growth recorded by the Financial Services Division. As a result, operating profit before special items rose year-on-year to €14.6 billion and the operating return on sales before special items was 6.7%, exceeding expectations. As expected, operating profit and the operating return on sales after special items resulting in particular from the diesel issue were also clearly positive.

Sales revenue in the Passenger Cars Business Area was better than expected, exceeding the figure for 2015. Operating profit and the operating return on sales were within the fore-

cast ranges and exceeded the original expectations before special items. The Commercial Vehicles, Power Engineering and Financial Services Business Areas are confirming the current sales forecasts. The operating profit and operating return on sales recorded by the Commercial Vehicles Business Area was within the range originally forecasted, despite special items. In the Power Engineering Business Area, operating profit declined significantly because of special items. The Financial Services Division increased its operating profit markedly year-on-year.

The Automotive Division's ratio of capex to sales revenue was 6.9%, as in the previous year, and was thus inside the expected corridor. As forecast, the net cash flow in the Automotive Division was significantly lower than in the previous year, among other things because of expenses from the diesel issue. The Automotive Division's net liquidity at the end of the reporting period was a robust €27.1 billion. The return on investment (ROI) rose significantly as a result of the improved operating profit in the Automotive Division; however, the minimum rate of return on invested capital was not achieved because of the special items.

FORECAST VERSUS ACTUAL FIGURES

	Actual 2015	Original Forecast for 2016	Adjusted Forecast for 2016	Actual 2016
Deliveries to customers	9.9 million	on the prior-year level	slight increase	10.3 million
Volkswagen Group				
Sales revenue	€213.3 billion	decline up to 5%	on the prior-year level	€217.3 billion
Operating return on sales before special items	6.0%	5.0 – 6.0%	~ 6%	6.7%
Operating return on sales	-1.9%	5.0 – 6.0%	clearly positive, up to 5.0%	3.3%
Operating result before special items	€12.8 billion	within the forecast range	within the forecast range	€14.6 billion
Operating result	€-4.1 billion	within the forecast range	within the forecast range	€7.1 billion
Passenger Cars Business Area				
Sales revenue	€149.7 billion	noticeable decline	slight decline	€150.3 billion
Operating return on sales	-4.7%	5.5 – 6.5%	clearly positive, up to 5.5%	2.8%
Operating result	€-7.0 billion	within the forecast range	within the forecast range	€4.2 billion
Commercial Vehicles Business Area				
Sales revenue	€30.4 billion	on the prior-year level	moderate increase	€32.1 billion
Operating return on sales	1.9%	2.0 – 4.0%	slightly positive, up to 2%	2.2%
Operating result	€0.6 billion	within the forecast range	within the forecast range	€0.7 billion
Power Engineering Business Area				
Sales revenue	€3.8 billion	noticeable decline	noticeable decline	€3.6 billion
Operating Result	€0.1 billion	significant decline	significant decline	€-0.2 billion
Financial Services Division				
Sales revenue	€29.4 billion	on the prior-year level	noticeable increase	€31.3 billion
Operating result	€2.2 billion	on the prior-year level	noticeable increase	€2.4 billion
Capex/sales revenue in the Automotive Division	6.9%	6 – 7%	6 – 7%	6.9%
Net cash flow in the Automotive Division	€8.9 billion	significant decline	significant decline	€4.3 billion
Return on investment (RoI) in the Automotive Division	-0.2%	significant increase, > 9%	significant increase, > 9%	8.2%