RESULTS OF OPERATIONS IN THE POWER ENGINEERING BUSINESS AREA

€ million	2016	2015
Sales revenue	3,593	3,775
Gross profit	597	770
Operating result	−217	123
Operating return on sales (%)	−6.0	3.2

The Power Engineering Business Area recorded sales revenue of €3.6 billion in fiscal year 2016, a decline of 4.8% year-on-year due to volume-related factors. Gross profit was €0.6 (0.8) billion. Operating profit declined by €0.3 billion to €–0.2 billion due to volume- and margin-related factors, as well as to the special items from restructuring measures to safeguard future viability; the operating return on sales decreased from 3.2% to −6.0%.

Results of operations in the Financial Services Division

The Financial Services Division generated sales revenue of €31.3 billion in 2016; the year-on-year increase of 6.5% was attributable primarily to the higher business volume. Exchange rate effects had a negative impact.

Despite sustained pressure on margins, a negative exchange rate trend and higher depreciation and amortization charges, the higher volumes increased gross profit to €5.8 (5.5) billion.

Distribution expenses in the reporting period were on a level with the previous year. Administrative expenses rose slightly. The ratios of both figures to sales revenue declined. The net other operating result amounted to €–0.6 (–0.5) billion.

Operating profit at the Financial Services Division increased by 8.9% year-on-year to €2.4 billion, with the division again making a significant contribution to consolidated profit. The operating return on sales rose to 7.8 (7.6)%. The return on equity before tax was 10.8 (12.2)%.

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 MAN and Porsche Holding Salzburg subgroups are integrated into the main financial management functions, while Scania is integrated 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 – positive or negative – balances accumulating on 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 use diversification to avoid exposing the Volkswagen Group to the risk of loss or default. 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 Executive Committee for Liquidity and Foreign Currency.

For additional information on the principles and goals of financial management, please refer to page 199 and to the notes to the 2016 consolidated financial statements on pages 291 to 299.

FINANCIAL POSITION

Financial position of the Group

The Volkswagen Group generated gross cash flow of €26.0 billion in fiscal year 2016, up 59.7% on the prior-year figure. Funds tied up in working capital increased by €14.0 billion to €16.6 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. Cash flows from operating activities declined by €4.2 billion to €9.4 billion.

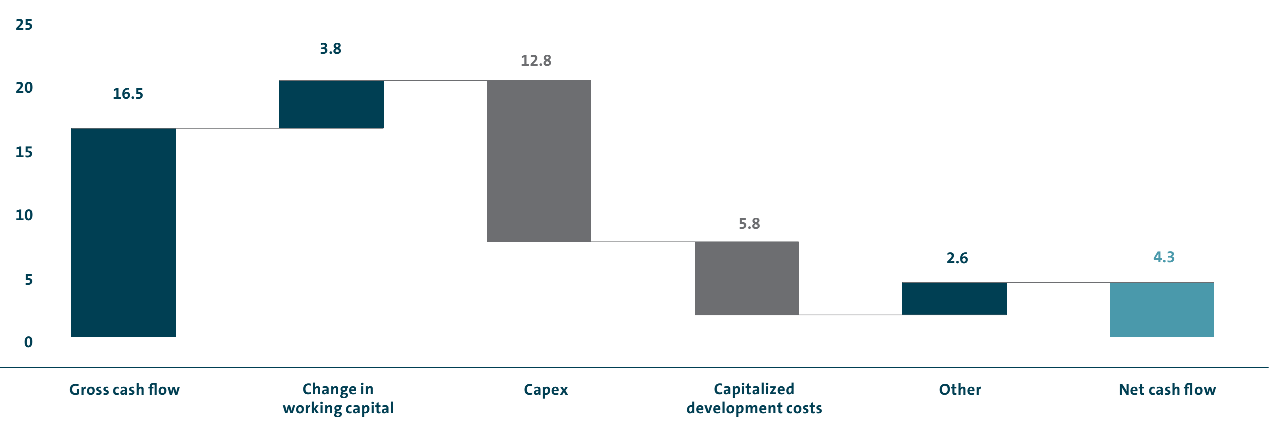
At €16.8 billion, the Volkswagen Group's investing activities attributable to operating activities in 2016 were up 8.2% on the previous year. Within this item, investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) of €13.2 (13.2) billion were on a level with the previous year, while capitalized development costs increased to €5.8 (5.0) billion. The "acquisition and disposal of equity investments" item comprises primarily the cash inflow from

CASH FLOW STATEMENT BY DIVISION

€ million	VOLKSWAGEN GROUP 2016	VOLKSWAGEN GROUP 2015	AUTOMOTIVE[1] 2016	AUTOMOTIVE[1] 2015	FINANCIAL SERVICES 2016	FINANCIAL SERVICES 2015
Cash and cash equivalents at beginning of period	**20,462**	**18,634**	**15,294**	**16,010**	**5,168**	**2,624**
Earnings before tax	7,292	−1,301	4,884	−3,634	2,408	2,333
Income taxes paid	−3,315	−3,238	−3,526	−2,985	211	−254
Depreciation and amortization expense[2]	20,924	19,693	14,331	13,516	6,593	6,176
Change in pension provisions	235	309	224	295	11	14
Other noncash income/expense and reclassifications[3]	871	817	556	325	316	493
Gross cash flow	**26,007**	**16,280**	**16,468**	**7,518**	**9,539**	**8,762**
Change in working capital	**−16,576**	**−2,601**	**3,803**	**16,278**	**−20,379**	**−18,880**
Change in inventories	−3,637	−3,149	−3,313	−2,706	−324	−444
Change in receivables	−2,155	−1,807	−1,876	−1,001	−280	−805
Change in liabilities	5,048	2,807	4,474	2,641	574	166
Change in other provisions	5,732	18,019	5,616	17,989	116	30
Change in lease assets (excluding depreciation)	−12,074	−10,808	−1,157	−765	−10,917	−10,043
Change in financial services receivables	−9,490	−7,663	58	120	−9,547	−7,784
Cash flows from operating activities	**9,430**	**13,679**	**20,271**	**23,796**	**−10,840**	**−10,117**
Cash flows from investing activities attributable to operating activities	**−16,797**	**−15,523**	**−15,941**	**−14,909**	**−856**	**−614**
of which: investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs	−13,152	−13,213	−12,795	−12,738	−357	−476
capitalized development costs	−5,750	−5,021	−5,750	−5,021	–	–
acquisition and disposal of equity investments	1,754	2,178	2,283	2,361	−528	−183
Net cash flow[4]	***−7,367***	***−1,845***	***4,330***	***8,887***	***−11,696***	***−10,731***
Change in investments in securities, loans and time deposits	−3,882	−5,628	−3,125	−3,506	−757	−2,122
Cash flows from investing activities	**−20,679**	**−21,151**	**−19,066**	**−18,415**	**−1,613**	**−2,736**
Cash flows from financing activities	**9,712**	**9,068**	**−2,298**	**−6,333**	**12,009**	**15,401**
of which: capital transactions with noncontrolling interests	−3	−0	−3	−0	–	–
Capital contributions/capital redemptions	–	2,457	−1,454	140	1,454	2,317
Effect of exchange rate changes on cash and cash equivalents	−91	232	−76	236	−15	−4
Net change in cash and cash equivalents	**−1,628**	**1,828**	**−1,169**	**−717**	**−460**	**2,544**
Cash and cash equivalents at Dec. 31[5]	**18,833**	**20,462**	**14,125**	**15,294**	**4,709**	**5,168**
Securities, loans and time deposits	28,036	24,613	17,911	14,812	10,125	9,801
Gross liquidity	**46,869**	**45,075**	**32,036**	**30,105**	**14,833**	**14,969**
Total third-party borrowings	−154,819	−145,604	−4,856	−5,583	−149,963	−140,021
Net liquidity[6]	**−107,950**	**−100,530**	**27,180**	**24,522**	**−135,130**	**−125,052**

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 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 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, loans from related parties and time deposits net of third-party borrowings (noncurrent and current financial liabilities).

AUTOMOTIVE DIVISION NET CASH FLOW 2016
€ billion



the sale of the LeasePlan shares; in the previous year, the item reflected the sale of the Suzuki shares. Net cash flow declined to €–7.4 (–1.8) billion.

Cash inflows from financing activities amounted to €9.7 (9.1) billion. These mainly include dividend payments and the issuance and redemption of bonds and other financial liabilities. In the previous year, they also included the issuance of hybrid notes.

At €18.8 (20.5) billion, the Volkswagen Group's cash and cash equivalents reported in the cash flow statement decreased year-on-year.

The Volkswagen Group recorded net liquidity of €–107.9 billion as of 31 December, 2016, compared with €–100.5 billion at year-end 2015.

Financial position in the Automotive Division

At €16.5 billion, the Automotive Division's gross cash flow was €9.0 billion higher in fiscal year 2016 than in the previous year. The increase is attributable primarily to lower special items compared with the previous year and the higher operating profit before special items, while lower dividend payments by the Chinese joint ventures were a negative factor. The change in working capital of €3.8 (16.3) billion was significantly down on the previous year. 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. Legal risks and vehicle recalls attributable to the diesel issue resulted in cash outflows in the reporting period. Cash flows from operating activities decreased by €3.5 billion to €20.3 billion.

Investing activities attributable to operating activities increased to €15.9 (14.9) billion. At €12.8 (12.7) billion, capex was on a level with the previous year. The ratio of capex to sales revenue was unchanged year-on-year, at 6.9 (6.9)%. We invested mainly in our production facilities and in models that we launched in 2016 or are planning to launch in 2017. These are primarily vehicles in the Tiguan, Atlas, Audi A4, Audi A6, Audi A8, Audi Q5, ŠKODA Kodiaq, SEAT Ibiza and SEAT Arona series, as well as the Porsche Panamera and the Porsche Cayenne. Other investment priorities were the ecological focus of our model range, growing drivetrain electrification and our modular toolkits. Capitalized development costs increased by €0.7 billion to €5.8 billion. Investing activities in the reporting period included the sale of the LeasePlan shares amounting to €2.2 billion, and in the previous year the sale of the Suzuki shares.

The Automotive Division's net cash flow of €4.3 billion was down €4.6 billion compared with 2015.

In financing activities, a capital increase carried out by Volkswagen AG at Volkswagen Financial Services AG in fiscal year 2016 to finance the growth in business volumes and comply with the increase in regulatory capital requirements resulted in outflows of €1.2 billion. At the end of June, a total dividend of €0.1 (2.3) billion, which was considerably lower than in the previous year due to the diesel issue, was distributed to the shareholders of Volkswagen AG. In addition, the Automotive Division's financing activities include the issuance and redemption of bonds and other financial liabilities and amounted to €–2.3 (–6.3) billion.

Net liquidity in the Automotive Division as of December 31, 2016 amounting to €27.2 billion was €2.7 billion higher than at the end of the previous fiscal year. This represents 12.5% of consolidated sales revenue.

FINANCIAL POSITION IN THE PASSENGER CARS BUSINESS AREA

€ million	2016	2015
Gross cash flow	13,920	4,722
Change in working capital	3,454	15,469
Cash flows from operating activities	17,374	20,191
Cash flows from investing activities attributable to operating activities	−13,353	−12,434
Net cash flow	4,021	7,757

At €13.9 billion, gross cash flow in the Passenger Cars Business Area in fiscal year 2016 was €9.2 billion higher than in the previous year. The increase was mainly attributable to higher earnings before special items and the considerable year-on-year decline in negative special items; negative factors were the lower dividends paid by the Chinese joint ventures. At €3.5 (15.5) billion, funds released from working capital were significantly lower than in the previous year. 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 diesel issue gave rise to cash outflows in the reporting period. Cash flows from operating activities decreased by 14.0% to €17.4 billion. Investing activities attributable to operating activities recorded a cash outflow of €13.4 (12.4) billion in the reporting period. At €10.9 (10.9) billion, capex was on a level with the previous year, while capitalized development costs rose by €0.8 billion to €5.0 billion. Transactions in the reporting period included the sale of the LeasePlan shares and in the previous year the sale of the Suzuki shares. Net cash flow declined by €3.7 billion to €4.0 billion.

FINANCIAL POSITION IN THE COMMERCIAL VEHICLES BUSINESS AREA

€ million	2016	2015
Gross cash flow	2,496	2,455
Change in working capital	238	786
Cash flows from operating activities	2,734	3,241
Cash flows from investing activities attributable to operating activities	−2,407	−2,285
Net cash flow	327	956

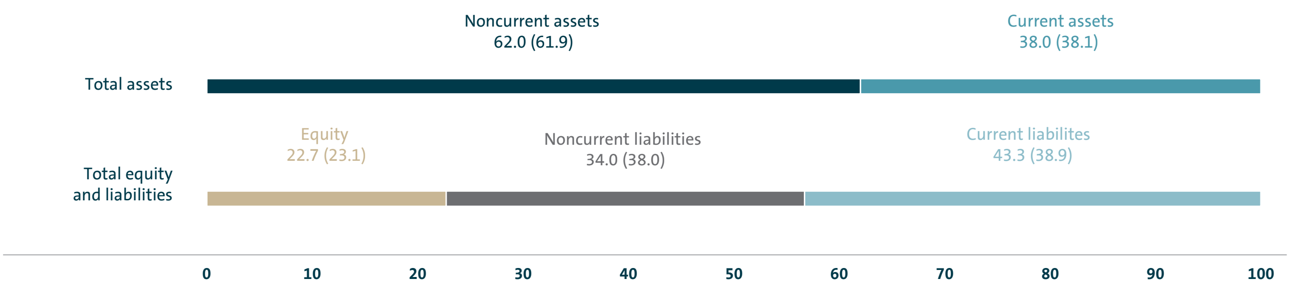
At €2.5 (2.5) billion in the fiscal year, gross cash flow in the Commercial Vehicles Business Area was on a level with the previous year. The higher earnings before special items more than offset negative special items. €0.2 (0.8) billion was released from working capital, less than in the previous year. 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. Cash flows from operating activities declined to €2.7 (3.2) billion. Investing activities attributable to operating activities recorded a cash outflow of €2.4 (2.3) billion, resulting in particular from investments for the new plant in Wrzesnia, Poland, the successor to the Volkswagen Crafter being built there starting in 2016, and the new generation of Scania trucks. At €0.3 billion, net cash flow in the reporting period was down €0.6 billion year-on-year.

FINANCIAL POSITION IN THE POWER ENGINEERING BUSINESS AREA

€ million	2016	2015
Gross cash flow	52	340
Change in working capital	111	24
Cash flows from operating activities	163	364
Cash flows from investing activities attributable to operating activities	−182	−191
Net cash flow	−19	173

The Power Engineering Business Area generated gross cash flow of €0.1 billion in the reporting period, thus falling short of the prior-year figure by €0.3 billion. The decrease was primarily attributable to the special items from restructuring expenses, which at the same time had a positive effect on working capital. At €0.1 (0.0) billion, this increased as against the previous year. Cash flows from operating activities declined to €0.2 (0.4) billion. Investing activities attributable to operating activities decreased by 4.9% to €0.2 billion. Net cash flow declined to €−0.0 (0.2) billion in the reporting period.

CONSOLIDATED BALANCE SHEET STRUCTURE 2016
in percent



Financial position in the Financial Services Division

The Financial Services Division generated gross cash flow of €9.5 (8.8) billion in the reporting period due to earnings-related factors. Funds tied up in working capital amounted to €20.4 (18.9) billion due to growth in business volumes. Cash flows from operating activities amounted to €–10.8 (–10.1) billion.

The acquisition of the interest in ride hailing service Gett amounting to €0.3 billion was one of the factors behind the increase in investing activities attributable to operating activities to €0.9 (0.6) billion.

Volkswagen AG contributed a capital increase of €1.2 billion to the Financial Services Division's financing activities in the reporting period to finance the expected growth in business in existing and new markets as well as to comply with the continued increase in regulatory requirements. Cash inflows from financing activities amounted to €12.0 (15.4) billion overall.

The Financial Services Division's negative net liquidity, which is common in the industry, amounted to €–135.1 billion at the end of the reporting period, compared with €–125.1 billion at the end of December 2015.

NET ASSETS

Consolidated balance sheet structure

At €409.7 billion, the Volkswagen Group's total assets at the end of fiscal year 2016 exceeded the prior-year figure by 7.3%, due above all to the increased business volume of the Financial Services Division. The structure of the consolidated balance sheet as of the reporting date is shown in the chart on this page. At €92.9 billion, the Volkswagen Group's equity increased by €4.6 billion compared with December 31, 2015. The equity ratio was 22.7 (23.1)%.

As of the end of the fiscal year, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €6.8 (3.5) billion, financial guarantees in the amount of €0.2 (1.6) billion and other financial obligations in the amount of €25.9 (25.4) billion. Contingent liabilities relate primarily to legal risks in connection with the diesel issue. The other financial obligations primarily result from purchase commitments for property, plant and equipment, as well as obligations under long-term leasing and rental contracts and irrevocable credit commitments to customers. In addition, as part of the settlement agreements in the USA, Volkswagen announced investments in the infrastructure for zero-emission vehicles and in initiatives to promote access to and awareness of this technology. Other financial obligations include an amount of €1.6 billion for this purpose.

Automotive Division balance sheet structure

The Automotive Division's intangible assets and its property, plant and equipment were up on the year-end 2015 figure as of December 31, 2016. Equity-accounted investments decreased, mainly as a result of the sale of the LeasePlan shares. There was a significant increase in other receivables and financial assets. Noncurrent assets rose by a total of 4.7%.

Current assets rose by a total of 9.5%; inventories contained in this item rose by 11.4% because of production-related factors. Receivables were up on year-end 2015. Marketable securities increased to €14.7 (12.3) billion as compared with December 31, 2015, while cash and cash equivalents stood at €14.5 (15.7) billion.

FINANCIAL KEY PERFORMANCE INDICATORS

%	2016	2015	2014	2013	2012
Volkswagen Group					
Gross margin	18.9	15.9	18.0	18.1	18.2
Personnel expense ratio	17.0	17.0	16.7	16.1	15.3
Operating result as a percentage of sales revenue	3.3	–1.9	6.3	5.9	6.0
Return on sales before tax	3.4	–0.6	7.3	6.3	13.2
Return on sales after tax	2.5	–0.6	5.5	4.6	11.4
Equity ratio	22.7	23.1	25.7	27.8	26.5
Dynamic gearing[1] (years)	0.1	0.1	0.1	0.1	0.1
Automotive Division[2]					
Change in unit sales year-on-year[3]	+ 3.8	–2.0	+ 5.0	+ 4.1	+ 11.8
Change in sales revenue year-on-year	+ 1.1	+ 3.6	+ 1.4	+ 1.3	+ 21.6
Research and development costs as a percentage of sales revenue	7.3	7.4	7.4	6.7	5.5
Operating result as a percentage of sales revenue	2.5	–3.4	6.1	5.6	5.7
EBITDA (in € million)[4]	18,999	7,212	23,100	20,594	19,895
Return on investment (ROI)[5]	8.2	–0.2	14.9	14.5	16.6
Cash flows from operating activities as a percentage of sales revenue	10.9	12.9	12.2	11.8	9.4
Cash flows from investing activities attributable to operating activities as a percentage of sales revenue	8.6	8.1	8.7	9.3	9.5
Capex as a percentage of sales revenue	6.9	6.9	6.5	6.3	5.9
Net liquidity as a percentage of sales revenue	12.5	11.5	8.7	8.6	5.5
Ratio of noncurrent assets to total assets[6]	23.4	23.1	22.3	21.3	21.0
Ratio of current assets to total assets[7]	15.9	15.2	14.3	13.4	14.3
Inventory turnover[8]	5.5	5.8	6.2	6.5	6.4
Equity ratio	31.4	32.6	36.9	39.8	37.9
Financial Services Division					
Increase in total assets	8.3	13.9	15.1	3.9	19.5
Return on equity before tax[9]	10.8	12.2	12.5	14.3	13.1
Equity ratio	12.5	11.9	11.3	10.5	10.4

1 Ratio of cash flows from operating activities to current and noncurrent financial liabilities.
2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
3 Including the Chinese joint ventures. These companies are accounted for using the equity method.
4 Operating result plus net depreciation/amortization and impairment losses/reversals of impairment losses on property, plant and equipment, capitalized development costs, lease assets, goodwill and financial assets as reported in the cash flow statement.
5 For details, see Value-based management on page 133.
6 Ratio of property, plant and equipment to total assets.
7 Ratio of inventories to total assets at the balance sheet date.
8 Ratio of sales revenue to average monthly inventories.
9 Earnings before tax as a percentage of average equity.