Other disclosures

33. Cash flow statement

Cash flows are presented in the cash flow statement classified into cash flows from operating activities, investing activities and financing activities, irrespective of the balance sheet classification.

Cash flows from operating activities are derived indirectly from earnings before tax. Earnings before tax are adjusted to eliminate noncash expenditures (mainly depreciation, amortization and impairment losses) and income. Other noncash income and expense results mainly from measurement effects in connection with financial instruments and to fair value changes relating to hedging transactions (see section entitled “Other financial result”). This results in cash flows from operating activities after accounting for changes in working capital, which also include changes in lease assets and in financial services receivables.

Investing activities include additions to property, plant and equipment and equity investments, additions to capitalized development costs and investments in securities, loans and time deposits.

Financing activities include outflows of funds from dividend payments and redemption of bonds, inflows from the capital increases and issuance of bonds, and changes in other financial liabilities. Please refer to the “Equity” section for information on the inflows from the issuance of hybrid capital in March 2015 in the amount of €2,457 million contained in the capital contributions.

The changes in balance sheet items that are presented in the cash flow statement cannot be derived directly from the balance sheet, as the effects of currency translation and changes in the consolidated Group are noncash transactions and are therefore eliminated.

In 2016, cash flows from operating activities include interest received amounting to €6,364 million (previous year: €6,619 million) and interest paid amounting to €2,716 million (previous year: €2,440 million). Cash flows from operating activities also include dividend payments received from joint ventures and associates of €3,613 million (previous year: €4,704 million).

Dividends amounting to €68 million (previous year: €2,294 million) were paid to Volkswagen AG shareholders.

€ million	Dec. 31, 2016	Dec. 31, 2015
Cash, cash equivalents and time deposits as reported in the balance sheet	19,265	20,871
Time deposits	–431	–410
Cash and cash equivalents as reported in the cash flow statement	18,833	20,462

Time deposits are not classified as cash equivalents. Time deposits have a contractual maturity of more than three months. The maximum default risk corresponds to its carrying amount.

34. Financial risk management and financial instruments

1. HEDGING GUIDELINES AND FINANCIAL RISK MANAGEMENT PRINCIPLES

The principles and responsibilities for managing and controlling the risks that could arise from financial instruments are defined by the Board of Management and monitored by the Supervisory Board. General rules apply to the Group-wide risk policy; these are oriented on the statutory requirements and the “Minimum Requirements for Risk Management by Credit Institutions”.

Group Treasury is responsible for operational risk management and control of risks from the financial instruments it itself administers. The main functions of the MAN and PHS subgroups are included in Group Treasury’s operational risk management and control for risks relating to financial instruments, while the Scania subgroup is only included to a limited extent. Subgroups have their own risk management structures. The Executive Committee for Liquidity and Foreign Currency is regularly informed about current financial risks. In addition, the Group Board of Management and the Supervisory Board are regularly updated on the current risk situation.

For more information, please see the management report on page 199-200.

2. CREDIT AND DEFAULT RISK

The credit and default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the amount of the claims under carrying amounts receivable from them and the irrevocable credit commitments. The maximum potential credit and default risk is reduced by collateral held and other credit enhancements in the amount of €77,465 million (previous year: €74,115 million). The collateral held relates solely to financial assets carried at amortized cost and mainly serves to secure financial services receivables and trade receivables. Collateral comprises vehicles and assets transferred as security, as well as guarantees and real property liens. Cash collateral is also used in hedging transactions. The risk arising from nonderivative financial instruments is also accounted for by recognizing bad debt losses. Significant cash and capital investments, as well as derivatives, are only entered into with national and international banks. Risk is additionally limited by a limit system based primarily on the equity base of the counterparties concerned and on credit assessments by international rating agencies. Financial guarantees issued also give rise to credit and default risk. The maximum potential credit and default risk is calculated from the amount Volkswagen would have to pay if claims were to be asserted under the guarantees. The corresponding amounts are presented in the Liquidity risk section.

There were no material concentrations of risk at individual counterparties or counterparty groups in the past fiscal year due to the global allocation of the Group’s business activities and the resulting diversification. There was hardly any change in the concentration of credit and default risk exposures to the German public banking sector as a whole that has arisen from Group-wide cash and capital investments as well as derivatives: the portion attributable to this sector was 13.0% at the end of 2016 compared with 9.7% at the end of 2015. Any existing concentration of risk is assessed and monitored both at the level of individual counterparties or counterparty groups and with regard to the countries in which these are based, in each case using the share of all credit and default risk exposures accounted for by the risk exposure concerned.

CREDIT AND DEFAULT RISK RELATING TO FINANCIAL ASSETS BY GROSS CARRYING AMOUNT

€ million	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2016	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2015
Measured at amortized cost								
Financial services receivables	115,747	3,001	3,003	121,751	108,171	2,442	2,881	113,493
Trade receivables	9,421	2,596	607	12,624	8,508	2,503	554	11,565
Other receivables	14,391	110	162	14,663	12,368	59	279	12,705
	139,559	**5,706**	**3,772**	**149,037**	**129,047**	**5,003**	**3,713**	**137,764**

There are no past due financial instruments measured at fair value in the Volkswagen Group. In fiscal year 2016, marketable securities measured at fair value with a cost of €83 million (previous year: €15 million) were individually impaired. In addition, portfolio-based impairment losses are recognized in respect of the financial services receivables presented above that are not past due and not individually impaired, as well as of the financial services receivables presented above that are past due and not individually impaired.

CREDIT RATING OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS THAT ARE NEITHER PAST DUE NOR IMPAIRED

€ million	Risk class 1	Risk class 2	Dec. 31, 2016	Risk class 1	Risk class 2	Dec. 31, 2015
Measured at amortized cost						
Financial services receivables	99,153	16,595	115,747	91,651	16,520	108,171
Trade receivables	9,284	137	9,421	8,333	175	8,508
Other receivables	14,238	153	14,391	12,185	183	12,368
Measured at fair value	22,021	–	22,021	18,118	–	18,118
	144,694	**16,885**	**161,580**	**130,288**	**16,878**	**147,166**

The Volkswagen Group performs a credit assessment of borrowers in all loan and lease agreements, using scoring systems for the high-volume business and rating systems for corporate customers and receivables from dealer financing. Receivables rated as good are contained in risk class 1. Receivables from customers whose credit rating is not good but have not yet defaulted are contained in risk class 2.

MATURITY ANALYSIS OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS THAT ARE PAST DUE AND NOT IMPAIRED

€ million	PAST DUE BY up to 30 days	30 to 90 days	more than 90 days	GROSS CARRYING AMOUNT Dec. 31, 2015
Measured at amortized cost				
Financial services receivables	1,777	637	28	2,442
Trade receivables	1,234	671	598	2,503
Other receivables	27	10	22	59
Measured at fair value	–	–	–	–
	3,039	**1,317**	**648**	**5,003**

€ million	PAST DUE BY up to 30 days	30 to 90 days	more than 90 days	GROSS CARRYING AMOUNT Dec. 31, 2016
Measured at amortized cost				
Financial services receivables	2,205	788	8	3,001
Trade receivables	1,080	720	795	2,596
Other receivables	49	36	24	110
Measured at fair value	–	–	–	–
	3,334	**1,544**	**828**	**5,706**

Collateral that was accepted for financial assets in the current fiscal year was recognized in the balance sheet in the amount of €120 million (previous year: €90 million). This mainly relates to vehicles.

3. LIQUIDITY RISK

The solvency and liquidity of the Volkswagen Group are ensured at all times by rolling liquidity planning, a liquidity reserve in the form of cash, confirmed credit lines and the issuance of securities on the international money and capital markets. The volume of confirmed credit lines was maintained at a high level through the extension of a syndicated credit line in the amount of €20 billion.

Local cash funds in certain countries (e.g. China, Brazil, Argentina, India and South Africa) are only available to the Group for cross-border transactions subject to exchange controls. There are no significant restrictions over and above these.

The following overview shows the contractual undiscounted cash flows from financial instruments.

MATURITY ANALYSIS OF UNDISCOUNTED CASH FLOWS FROM FINANCIAL INSTRUMENTS

€ million	REMAINING CONTRACTUAL MATURITIES				REMAINING CONTRACTUAL MATURITIES			
	under one year	within one to five years	over five years	2016	under one year	within one to five years	over five years	2015
Put options and compensation rights granted to noncontrolling interest shareholders	3,382	–	–	3,382	3,406	–	–	3,406
Financial liabilities	90,044	60,603	10,955	161,602	74,217	66,347	13,377	153,941
Trade payables	22,788	6	–	22,794	20,456	4	–	20,460
Other financial liabilities	6,009	1,789	83	7,880	5,550	1,940	69	7,560
Derivatives	77,294	59,007	119	136,420	77,686	73,684	10	151,380
	199,517	**121,405**	**11,157**	**332,079**	**181,316**	**141,976**	**13,456**	**336,747**

When calculating cash outflows related to put options and compensation rights, it was assumed that shares would be tendered at the earliest possible repayment date.

Derivatives comprise both cash flows from derivative financial instruments with negative fair values and cash flows from derivatives with positive fair values for which gross settlement has been agreed. Derivatives entered into through offsetting transactions are also accounted for as cash outflows. The cash outflows from derivatives for which gross settlement has been agreed are matched in part by cash inflows. These cash inflows are not reported in the maturity analysis. If these cash inflows were also recognized, the cash outflows presented would be substantially lower. This applies in particular also if hedges have been closed with offsetting transactions.

The cash outflows from irrevocable credit commitments are presented in section entitled "Other financial obligations", classified by contractual maturities.

As of December 31, 2016, the maximum potential liability under financial guarantees amounted to €173 million (previous year: €1,638 million). Financial guarantees are assumed to be due immediately in all cases. The decrease is mainly attributable to the elimination of the pledge of claims under certificates of deposit with Bankhaus Metzler amounting to €1.3 billion to secure a loan granted to Fleet Investments B.V. by Bankhaus Metzler (see disclosures on the basis of consolidation/joint ventures).

4. MARKET RISK

4.1 Hedging policy and financial derivatives

During the course of its general business activities, the Volkswagen Group is exposed to foreign currency, interest rate, commodity price, equity price and fund price risk. Corporate policy is to limit or eliminate such risk by means of hedging. All necessary hedging transactions with the exception of the Scania, MAN and Porsche Holding GmbH (Salzburg) subgroups are executed or coordinated centrally by Group Treasury. There were no significant risk concentrations in the past fiscal year.

The following table shows the gains and losses on hedges:

€ million	2016	2015
Hedging instruments used in fair value hedges	670	779
Hedged items used in fair value hedges	–739	–700
Ineffective portion of cash flow hedges	6	–46

The ineffective portion of cash flow hedges represents the income and expenses from changes in the fair value of hedging instruments that exceed the changes in the fair value of the hedged items but that are documented to be within the permitted range of 80% to 125% overall when measuring effectiveness. Such income or expenses are recognized directly in the financial result.

In 2016, €1,222 million (previous year: €3,864 million), in both cases reducing earnings, was transferred from the cash flow hedge reserve to the other operating result, €10 million (previous year: €3 million), in both cases reducing earnings, was transferred to the financial result, and €90 million (previous year: €90 million) was transferred to cost of sales, reducing earnings.

The Volkswagen Group uses two different methods to present market risk from nonderivative and derivative financial instruments in accordance with IFRS 7. For quantitative risk measurement, interest rate and foreign currency risk in the Volkswagen Financial Services subgroup are measured using a value-at-risk (VaR) model on the basis of a historical simulation, while market risk in the other Group companies is determined using a sensitivity analysis. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from nonderivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in calculating value at risk covers a period of 1,000 trading days. The sensitivity analysis calculates the effect on equity and profit or loss by modifying risk variables within the respective market risks.

4.2 Market risk in the Volkswagen Group (excluding Volkswagen Financial Services)

4.2.1 Foreign currency risk

Foreign currency risk in the Volkswagen Group (excluding Volkswagen Financial Services) is attributable to investments, financing measures and operating activities. Currency forwards, currency options, currency swaps and cross-currency swaps are used to limit foreign currency risk. These transactions relate to the exchange rate hedging of all material payments covering general business activities that are not made in the functional currency of the respective Group companies. The principle of matching currencies applies to the Group's financing activities.

Hedging transactions entered into in 2016 as part of foreign currency risk management were primarily in Argentine pesos, Australian dollars, Brazilian real, sterling, Chinese renminbi, Hong Kong dollars, Indian rupees, Japanese yen, Canadian dollars, Mexican pesos, Norwegian kroner, Polish zloty, Russian rubles, Swedish kronor, Swiss francs, Singapore dollars, South African rand, South Korean won, Taiwan dollars, Czech koruna, Hungarian forints and US dollars.

All nonfunctional currencies in which the Volkswagen Group enters into financial instruments are included as relevant risk variables in the sensitivity analysis in accordance with IFRS 7.

If the functional currencies concerned had appreciated or depreciated by 10% against the other currencies, the exchange rates shown below would have resulted in the following effects on the hedging reserve in equity and on earnings after tax. It is not appropriate to add together the individual figures, since the results of the various functional currencies concerned are based on different scenarios.

The following table shows the sensitivities of the main currencies in the portfolio as of December 31, 2016.

€ million	DEC. 31, 2016 +10%	DEC. 31, 2016 –10%	DEC. 31, 2015 +10%	DEC. 31, 2015 –10%
Exchange rate				
EUR/USD				
Hedging reserve	1,929	–2,294	1,969	–2,160
Profit/loss after tax	–338	649	135	5
EUR/GBP				
Hedging reserve	1,202	–1,189	1,849	–1,850
Profit/loss after tax	–58	51	–46	48
EUR/CNY				
Hedging reserve	665	–662	1,015	–1,071
Profit/loss after tax	6	25	69	–21
EUR/CHF				
Hedging reserve	380	–375	439	–442
Profit/loss after tax	–9	2	–4	6
EUR/JPY				
Hedging reserve	318	–318	248	–241
Profit/loss after tax	–7	7	1	–7
EUR/CAD				
Hedging reserve	145	–154	110	–101
Profit/loss after tax	–54	63	9	–16
EUR/AUD				
Hedging reserve	178	–182	92	–92
Profit/loss after tax	–23	26	–1	1
EUR/PLN				
Hedging reserve	–107	108	–47	47
Profit/loss after tax	–21	21	–4	4
EUR/SEK				
Hedging reserve	91	–89	112	–113
Profit/loss after tax	–24	23	–78	78
GBP/USD				
Hedging reserve	106	–106	62	–62
Profit/loss after tax	2	–2	–1	1
CZK/GBP				
Hedging reserve	106	–106	170	–170
Profit/loss after tax	0	0	1	–1
BRL/USD				
Hedging reserve	–20	20	–1	1
Profit/loss after tax	82	–82	77	–77
EUR/KRW				
Hedging reserve	77	–82	158	–161
Profit/loss after tax	–8	13	–27	31
EUR/CZK				
Hedging reserve	31	–31	41	–41
Profit/loss after tax	–43	43	3	–3

4.2.2 Interest rate risk

Interest rate risk in the Volkswagen Group (excluding Volkswagen Financial Services) results from changes in market interest rates, primarily for medium- and long-term variable interest receivables and liabilities. Interest rate swaps and cross-currency swaps are entered into to hedge against this risk primarily under fair value or cash flow hedges, and depending on market conditions. Intragroup financing arrangements are mainly structured to match the maturities of their refinancing. Departures from the Group standard are subject to centrally defined limits and monitored on an ongoing basis.

Interest rate risk within the meaning of IFRS 7 is calculated for these companies using sensitivity analyses. The effects of the risk-variable market rates of interest on the financial result and on equity are presented, net of tax.

If market interest rates had been 100 bps higher as of December 31, 2016, equity would have been €60 million (previous year: €71 million) lower. If market interest rates had been 100 bps lower as of December 31, 2016, equity would have been €60 million (previous year: €69 million) higher.

If market interest rates had been 100 bps higher as of December 31, 2016, earnings after tax would have been €10 million (previous year: €81 million) higher. If market interest rates had been 100 bps lower as of December 31, 2016, earnings after tax would have been €24 million (previous year: €95 million) lower.

4.2.3 Commodity price risk

Commodity price risk in the Volkswagen Group (excluding Volkswagen Financial Services) primarily results from price fluctuations and the availability of nonferrous metals and precious metals, as well as of coal, CO_2 certificates and rubber. Forward transactions and swaps are entered into to limit these risks.

Hedge accounting in accordance with IAS 39 was applied in some cases to the hedging of commodity risk associated with aluminum and coal.

Commodity price risk within the meaning of IFRS 7 is presented using sensitivity analyses. These show the effect on earnings after tax and equity of changes in risk variables in the form of commodity prices.

If the commodity prices of the hedged nonferrous metals, coal and rubber had been 10% higher (lower) as of December 31, 2016, earnings after tax would have been €82 million (previous year: €75 million) higher (lower).

If the commodity prices of the hedges included in hedge accounting had been 10% higher (lower) as of December 31, 2016, equity would have been €48 million (previous year: €41 million) higher (lower).

4.2.4 Equity and bond price risk

The Spezialfonds (special funds) launched using surplus liquidity and the equity interests measured at fair value are subject in particular to equity price and bond price risk, which can arise from fluctuations in quoted market prices, stock exchange indices and market rates of interest. The changes in bond prices resulting from variations in the market rates of interest are quantified in sections 4.2.1 and 4.2.2, as are the measurement of foreign currency and other interest rate risks arising from the special funds and the equity interests measured at fair value. As a rule, we counter the risks arising from the special funds by ensuring a broad diversification of products, issuers and regional markets when investing funds, as stipulated by our Investment Guidelines. In addition, we use exchange rate hedges in the form of futures contracts when market conditions are appropriate.

As part of the presentation of market risk, IFRS 7 requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Potential risk variables here are in particular quoted market prices or indices, as well as interest rate changes as bond price parameters.

If share prices had been 10% higher as of December 31, 2016, equity would have been €4 million (previous year: €53 million) higher. If share prices had been 10% lower as of December 31, 2016, equity would have been €28 million (previous year: €61 million) lower.

4.3 Market risk at Volkswagen Financial Services

Exchange rate risk in the Volkswagen Financial Services subgroup is mainly attributable to assets that are not denominated in the functional currency and from refinancing within operating activities. Interest rate risk relates to refinancing without matching maturities and the varying interest rate elasticity of individual asset and liability items. The risks are limited by the use of currency and interest rate hedges.

Microhedges and portfolio hedges are used for interest rate hedging. Fixed-rate assets and liabilities included in the hedging strategy are recognized at fair value, as opposed to their original subsequent measurement at amortized cost. The resulting effects in the income statement are offset by the corresponding gains and losses on the interest rate hedging instruments (swaps). Currency hedges (currency forwards and cross-currency swaps) are used to mitigate foreign currency risk. All cash flows in foreign currency are hedged.

As of December 31, 2016, the value at risk was €95 million (previous year: €179 million) for interest rate risk and €199 million (previous year: €196 million) for foreign currency risk.

The entire value at risk for interest rate and foreign currency risk at the Volkswagen Financial Services subgroup was €197 million (previous year: €245 million).

5. METHODS FOR MONITORING HEDGE EFFECTIVENESS

In the Volkswagen Group, hedge effectiveness is assessed prospectively using the critical terms match method and using statistical methods in the form of a regression analysis. Retrospective analysis of effectiveness uses effectiveness tests in the form of the dollar offset method or a regression analysis.

Under the dollar offset method, the changes in value of the hedged item expressed in monetary units are compared with the changes in value of the hedging instrument expressed in monetary units.

Where regression analysis is used, the change in value of the hedged item is presented as an independent variable, and that of the hedging instrument as a dependent variable. Hedge relationships are classified as effective if they have sufficient coefficients of determination and slope factors.

NOTIONAL AMOUNT OF DERIVATIVES

€ million	REMAINING TERM under one year	within one to five years	over five years	TOTAL NOTIONAL AMOUNT Dec. 31, 2016	TOTAL NOTIONAL AMOUNT Dec. 31, 2015
Notional amount of hedging instruments used in cash flow hedges:					
Interest rate swaps	3,019	13,851	184	17,054	8,864
Currency forwards	38,057	46,697	–	84,754	102,587
Currency options	8,350	17,731	–	26,081	22,989
Currency swaps	1,976	319	–	2,295	7,353
Cross-currency swaps	785	1,166	–	1,951	1,762
Commodity futures contracts	346	334	–	679	771
Notional amount of other derivatives:					
Interest rate swaps	25,354	41,149	18,109	84,612	85,316
Interest rate option contracts	–	–	–	–	–
Currency forwards	24,216	4,219	1	28,436	25,383
Other currency options	33	12	–	45	45
Currency swaps	10,751	1,456	–	12,207	9,874
Cross-currency swaps	3,612	5,228	–	8,839	8,417
Commodity futures contracts	699	536	–	1,235	1,517

Both derivatives closed with offsetting transactions and the offsetting transactions themselves are included in the respective notional amount. The offsetting transactions cancel out the effects of the original hedging transactions. If the offsetting transactions were not included, the respective notional amount would be signifycantly lower. In addition to the derivatives used for hedging foreign currency, interest rate and price risk, the Group held options and other derivatives on equity instruments at the reporting date with a notional amount of €45 million (previous year: €1.4 billion) whose remaining maturity is under one year.

Existing cash flow hedges in the notional amount of €811 million (previous year: €– million) were discontinued because of a reduction in the projections. €5 million (previous year: €– million) was transferred from the cash flow hedge reserve to the financial result, reducing earnings. In addition, hedges were to be terminated due to internal risk regulations.

Items hedged under cash flow hedges are expected to be realized in accordance with the maturity buckets of the hedges reported in the table.

The fair values of the derivatives are estimated using market data at the balance sheet date as well as by appropriate valuation techniques. The following term structures were used for the calculation:

in %	EUR	CHF	CNY	CZK	GBP	JPY	KRW	SEK	USD
Interest rate for six months	–0.2512	–0.5760	3.5311	0.1515	0.3745	0.0237	1.5085	–0.4449	0.9957
Interest rate for one year	–0.2139	–0.5631	3.7798	0.1518	0.4013	0.0232	1.5060	–0.4313	1.1687
Interest rate for five years	0.0740	–0.3210	4.4050	0.5050	0.8657	0.0588	1.6750	0.2580	1.9724
Interest rate for ten years	0.6520	0.1480	4.5550	0.9650	1.2325	0.2100	1.8350	1.0980	2.3460

35. Capital management

The Group's capital management ensures that its goals and strategies can be achieved in the interests of shareholders, employees and other stakeholders. In particular, management focuses on generating the minimum return on invested assets in the Automotive Division that is required by the capital markets, and on increasing the return on equity in the Financial Services Division. In the process, it aims overall to achieve the highest possible growth in the value of the Group and its divisions for the benefit of all the Company's stakeholder groups.

In order to maximize the use of resources in the Automotive Division and to measure the success of this, we have for a number of years been using a value-based management system, with value contribution as an absolute performance measure and return on investment (ROI) as a relative indicator.

Value contribution is defined as the difference between operating profit after tax and the opportunity cost of invested capital. The opportunity cost of capital is calculated by multiplying the market cost of capital by average invested capital. Invested capital is calculated by taking the operating assets reported in the balance sheet (property, plant and equipment, intangible assets, lease assets, inventories and receivables) and deducting non-interest-bearing liabilities (trade payables and payments on account received). Average invested capital is derived from the balance at the beginning and the end of the reporting period. In spite of the charges relating to the special items recognized in the operating result, the Automotive Division disclosed a positive value contribution of €1,775 million in the reporting period which due to the improvement in the operating result before special items and the decrease in the cost of capital was higher than the prior-year figure.

The return on investment (ROI) is defined as the return on invested capital for a particular period based on the operating result after tax. If the return on investment exceeds the market cost of capital, there is an increase in the value of the invested capital and a positive value contribution. In the Group, a minimum required rate of return on invested capital of 9% is defined, which applies to both the business units and the individual products and product lines. Our goal of generating a sustained return on investment of over 15% is anchored in Strategy 2025. The return on investment therefore serves as a consistent target in operational and strategic management and is used to measure target attainment for the Automotive Division, the individual business units, and projects and products. The return on investment achieved for the Automotive Division in the reporting period was 8.2%. Due to the special items recognized in the operating result, this was lower than our minimum required rate of return of 9%, but higher than our current cost of capital of 6.2%.

Due to the specific features of the Financial Services Division, its management focuses on return on equity, a special target linked to invested capital. This measure is calculated as the ratio of earnings before tax to average equity. Average equity is calculated from the balance at the beginning and the end of the reporting period. In addition, the goals of the Financial Services Division are to meet the banking supervisory authorities' regulatory capital requirements, to procure equity for the growth planned in the coming fiscal years and to support its external rating by ensuring capital adequacy. To ensure compliance with prudential requirements at all times, a planning procedure integrated into internal reporting has been put in place at Volkswagen Financial Services, allowing the required equity to be continuously determined on the basis of actual and expected business performance. In the reporting period, this again ensured that regulatory minimum capital requirements were always met both at Group level and at the level of subordinate companies' individual, specific capital requirements.

The return on investment and value contribution in the Automotive Division as well as the return on equity and the equity ratio in the Financial Services Division are shown in the following table:

€ million	2016	2015
Automotive Division[1]		
Operating result after tax	7,419	–203
Invested capital (average)	91,020	84,289
Return on investment (RoI) in %	**8.2**	**–0.2**
Cost of capital in %	6	7
Opportunity cost of invested capital	5,643	5,732
Value contribution[2]	**1,775**	**–5,935**
Financial Services Division		
Earnings before tax	2,408	2,333
Average equity	22,342	19,140
Return on equity before tax in %	**10.8**	**12.2**
Equity ratio in %	**12.5**	**11.9**

1 Including proportionate inclusion of the Chinese joint ventures and allocation of consolidation adjustments between the Automotive and Financial Services Divisions; excluding effects on earnings and assets from purchase price allocation.
2 The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.

36. Contingent liabilities

€ million	**Dec. 31, 2016**	**Dec. 31, 2015**
Liabilities under guarantees	419	334
Liabilities under warranty contracts	75	77
Assets pledged as security for third-party liabilities	20	20
Other contingent liabilities	6,305	3,069
	6,819	**3,500**

The trust assets and liabilities of the savings and trust entities belonging to the South American subsidiaries not included in the consolidated balance sheet amount to €944 million (previous year: €702 million).
In the case of liabilities from guarantees, the Group is required to make specific payments if the debtors fail to meet their obligations.

The other contingent liabilities primarily comprise potential liabilities arising from matters relating to taxes and customs duties, as well as litigation and proceedings relating to suppliers, dealers, customers, employees and investors. The increase is due in particular to additional contingent liabilities in conjunction with lawsuits. As a general principle, they do not include any class action lawsuits and criminal investigations/misdemeanor proceedings related to the diesel issue filed outside of the USA and Canada, as well as specific portions of investor lawsuits which meet the definition of a contingent liability but could not, as a rule, be disclosed because it is impossible to measure the amount involved. These proceedings are still at a very early stage, meaning that in a number of cases the plaintiffs have so far not specified the basis of their claims and/or there is insufficient certainty about the number of plaintiffs or the amounts being claimed.

As permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Company, we have not made any further disclosures about estimates in connection with the financial effects of, and disclosures about, uncertainty regarding the timing or amount of contingent liabilities in connection with the diesel issue and investigations by the European Commission. Further information can be found under the section entitled "Litigation".

On May 5, 2016, the U.S. National Highway Traffic Safety Administration (NHTSA) announced, jointly with the Takata company, a further extension of the recall for various models from different manufacturers containing certain airbags produced by the Takata company. Recalls were also ordered by the local authorities in Canada, Japan and South Korea. The recalls also included models manufactured by the Volkswagen Group. Appropriate provisions have been recognized. Currently, the possibility of further extensions to the recalls that could also affect Volkswagen Group models cannot be ruled out. It is not possible at the moment to provide further disclosures in accordance with IAS 37.86 in relation to this matter because the technical investigations and consultations with the authorities are still being carried out.

37. Litigation

In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested become involved in a great number of legal disputes and official proceedings in Germany and internationally. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. For the companies involved, these may result in payment or other obligations. Above all in cases in particular where US customers assert claims for vehicle defects individually or by way of a class action, highly cost-intensive measures may have to be taken and substantial compensation or punitive damages paid. Corresponding risks also result from US patent infringement proceedings.

Risks may also emerge in connection with the adherence to regulatory requirements. This particularly applies in the case of regulatory vagueness that may be interpreted differently by Volkswagen and the agencies responsible for the respective regulations. In addition, legal risks can arise from the criminal activities of individual persons, which even the best compliance management system can never completely prevent.

Where transparent and economically viable, adequate insurance coverage is taken out for these risks. For the identifiable and measurable risks, provisions considered appropriate are recognized and information about contingent liabilities is disclosed. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not being covered by the insured amounts and provisions cannot be ruled out. This particularly applies to legal risk assessment regarding the diesel issue.

Diesel Issue

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines. It has been alleged that we had used undisclosed engine management software installed in certain four-cylinder diesel engines used in certain 2009 to 2015 model year vehicles to circumvent NO_x emissions testing regulations in the United States of America in order to comply with certification requirements. The US environmental authority of California – the California Air Resources Board (CARB) – announced its own enforcement investigation in this context.

Volkswagen admitted to irregularities in this context. In its ad hoc release dated September 22, 2015, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with certain diesel engines. The vast majority of these engines are Type EA 189 Euro 5 engines. On November 2, 2015, the EPA issued another "Notice of Violation" alleging that irregularities had also been discovered in the software installed in vehicles with type V6 TDI 3.0 l diesel engines. CARB also issued a letter announcing its own enforcement investigation in this context. Audi has confirmed that at least three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines are affected in the USA and Canada, where regulations governing NO_x emissions limits for vehicles are stricter than those in other parts of the world.

On January 4, 2016, the US Department of Justice (DOJ), on behalf of the EPA, filed a civil complaint against Volkswagen AG, AUDI AG and other companies of the Volkswagen Group. The claims asserted under civil law are founded on the alleged use of illegal (defeat device) software in violation of the American Clean Air Act. The complaint's allegations relate to both the four-cylinder and the six-cylinder diesel engines. On January 12, 2016, it was announced that CARB intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

In addition to internal inquiries, Volkswagen AG commissioned an external investigation by US law firm Jones Day. This is an independent and comprehensive investigation addressing the diesel issue. The Supervisory Board of Volkswagen AG is ensuring that Jones Day can carry out its clarification work independently. Jones Day is updating the Company and the DOJ on the current results of its investigation on an ongoing basis and supports Volkswagen AG in its cooperation with the judicial authorities.

The Supervisory Board of Volkswagen AG has formed a special committee to coordinate all activities in this context for the Supervisory Board.

Based on decisions dated October 15, 2015, the Kraftfahrtbundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles and SEAT brands to recall all of the diesel vehicles that had been issued with vehicle type approval by the KBA from among the 11 million affected. The recall concerns the member states of the European Union (EU28). On December 10, 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order correspond to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the remedial actions, this means that the Volkswagen Group has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU28 countries, to the service workshops since January 2016. The remedial actions differ in scope depending on the engine variant. The technical solutions cover software and in some cases hardware modifications, depending on the series and model year. The details of the remedial actions for the Volkswagen Group vehicles falling within its jurisdiction have been agreed in close cooperation with the KBA, which had to approve all fixes in advance. Only the approval of the technical solutions for 14 thousand vehicles is still outstanding.

In fiscal year 2016, the SEAT brand received approvals in principle from its respective type approval authority, the Ministry of Industry in Spain.

The type approval authority for the ŠKODA brand is the Vehicle Certification Agency in the United Kingdom. The approval process for ŠKODA vehicles is still ongoing.

In some countries outside the EU – among others Switzerland, Australia, South Korea, Taiwan and Turkey – national type approval is based on prior recognition of the EC/ECE type approval. We are also in close contact with the authorities in these countries in order to finalize the approval process. In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen's planned actions in relation to the four-cylinder and the six-cylinder diesel engines will also have to be approved. Due to considerably stricter NO_x limits in the USA and Canada, it is a greater technical challenge to refit the vehicles so that all applicable emissions limits can be met.

Potential consequences for Volkswagen's results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Criminal and administrative proceedings worldwide (excluding the USA/Canada)

In addition to the described approval processes with the responsible registration authorities, in some countries criminal investigations/misdemeanor proceedings (for example, by the public prosecutor's office in Braunschweig, Germany) and/or administrative proceedings (for example, by the Bundesanstalt für Finanzdienstleistungsaufsicht BaFin – the German Federal Financial Supervisory Authority) have been opened. The public prosecutor's office in Braunschweig is investigating the core issue of the criminal investigations. Whether this will result in fines for the Company, and if so what their amount might be, is currently subject to estimation risks. According to Volkswagen's estimates so far, the likelihood for the majority of these proceedings to be successful is less than 50%. Contingent liabilities have therefore been disclosed in cases where they can be assessed and for which the likelihood for the imposition of fines was deemed not lower than 10%.

2. Product-related lawsuits worldwide (excluding the USA/Canada)

In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany).

In this context, various lawsuits are pending against Volkswagen AG and other Volkswagen Group companies at present.

Class action proceedings against Volkswagen AG and other Volkswagen Group companies are pending in various countries such as Argentina, Australia, Belgium, Brazil, Israel, Italy, United Kingdom, Mexico, Poland, Portugal and Taiwan. The class action proceedings are lawsuits aimed among other things at asserting damages. The amount of these damages cannot yet be quantified due to the early stage of the proceedings. Volkswagen does not estimate the litigants' prospect of success to be more than 50% in any of the aforementioned proceedings aimed at monetary relief. In South Korea various mass proceedings are pending (in some of these individual lawsuits several hundred litigants have been aggregated). These lawsuits are filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Due to special circumstances in the market and specific characteristics of the South Korean legal system, Volkswagen estimates the litigants' prospects of success in the South Korean mass proceedings mentioned above to be inherently higher than in other jurisdictions outside the USA and Canada. Contingent liabilities have been disclosed for pending class action proceedings that can be assessed and for which the chance of success was deemed not implausible. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany around 1.300 individual law suits, in Italy and Spain law suits in the low three digit range and in France, Ireland and Austria individual lawsuits in the two-digit range are pending, most of which are aimed at asserting damages or rescinding the purchase contract. According to Volkswagen's estimates so far, the litigants' prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed for those lawsuits that can be assessed and for which the chance of success was deemed not implausible.

It is too early to estimate how many customers will take advantage of the option to file lawsuits in the future, beyond the existing lawsuits, or what their prospects of success will be.

Meanwhile, except for 14 thousand vehicles, the KBA has ascertained for all approved clusters (groups of vehicles) that implementation of the technical solutions would not bring about any unfavorable changes in fuel consumption, engine power, torque and noise emissions. We are now working expeditiously to implement the technical solutions in the field. The implementation of the technical modifications already started in January 2016.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)

Investors from Germany and abroad have filed claims for damages against Volkswagen AG based on purported losses due to alleged misconduct in capital market communications in connection with the diesel issue.

The vast majority of these investor lawsuits are currently pending at the District Court (Landgericht) in Braunschweig. On August 5, 2016, the District Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the District Court in Braunschweig be referred to the Higher

Regional Court (Oberlandesgericht) in Braunschweig for a binding declaratory decision pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (Kapitalanleger-Musterverfahrensgesetz). In this proceeding, common questions of law and fact relevant to these actions shall be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig. All lawsuits at the District Court in Braunschweig will be stayed pending up until resolution of the common issues, unless they can be dismissed for reasons independent of the common issues that are adjudicated in the model case proceedings. The resolution of the common issues in the model case proceedings will be binding on all pending cases in the stayed lawsuits.

At the District Court in Stuttgart, further lawsuits have been filed against Volkswagen AG and Porsche Automobil Holding SE as joint and several debtors. It is currently unclear whether model case proceedings will be initiated in respect of these lawsuits and whether they will take place at the Higher Regional Court in Stuttgart or referred to the Higher Regional Court in Braunschweig.

Further investor lawsuits have been filed at various courts in Germany as well as in Austria and the Netherlands.

Altogether, Volkswagen has so far been served with investor lawsuits, judicial applications for dunning procedures and conciliation proceedings with claims amounting to approximately € 9 billion. Volkswagen remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

4. Proceedings in the USA/Canada

Following the publication of the EPA's "Notices of Violation," Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal) and civil litigation. Volkswagen AG and other Volkswagen Group companies have received subpoenas and inquiries from state attorneys general and other governmental authorities and are responding to such investigations and inquiries.

In addition, Volkswagen AG and other Volkswagen Group companies in the USA/Canada are facing litigation on a number of different fronts relating to the matters described in the EPA's "Notices of Violation".

A large number of putative class action lawsuits by affected customers and dealers have been filed in US federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

On January 4, 2016, the DOJ, Civil Division, on behalf of the EPA, initiated a civil complaint against Volkswagen AG, AUDI AG and certain other Volkswagen Group companies. The action seeks statutory penalties under the US Clean Air Act, as well as certain injunctive relief, and has been consolidated for pretrial coordination purposes in the California multidistrict litigation.

On January 12, 2016, CARB announced that it intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

In June 2016, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements with the DOJ on behalf of the EPA, CARB and the California Attorney General; private plaintiffs represented by a Plaintiffs' Steering Committee (PSC) in the multidistrict litigation pending in California and the U.S. Federal Trade Commission (FTC). These settlement agreements will resolve certain civil claims made in relation to affected diesel vehicles with 2.0 l TDI engines from the Volkswagen Passenger Cars and Audi brands in the USA. Volkswagen AG and certain affiliates also entered into a first partial consent decree with the DOJ, EPA, CARB and the California Attorney General, which was lodged with the court on June 28, 2016. On October 18, 2016, a fairness hearing on whether final approval should be granted was held, and on October 25, 2016, the court granted final approval of the settlement agreements and the partial consent order. A number of class members have filed appeals to an US appellate court from the order approving the settlements.

The settlements provide affected customers with the option of a buyback or, for leased vehicles, early lease termination, or a free emissions modification of the vehicles, provided that EPA and CARB approve the modification. Volkswagen will also make additional cash payments to affected current owners or lessees as well as certain former owners or lessees.

Volkswagen also agreed to support environmental programs. The company will pay USD 2.7 billion over three years into an environmental trust, managed by a trustee appointed by the court, to offset excess nitrogen oxide (NO_x) emissions. Volkswagen will also invest a total of USD 2.0 billion over ten years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives.

Volkswagen AG and certain affiliates also entered into a separate partial consent decree with CARB and the California Attorney General resolving certain claims under California unfair competition, false advertising, and consumer protection laws related to both the 2.0-liter and 3.0-liter TDI vehicles, which was lodged with the court on July 7, 2016. Under the terms of the agreement, Volkswagen agreed to pay California USD 86 million. The court entered judgment on the partial consent decree on September 1, 2016 and the USD 86 million payment was made on September 28, 2016.

On December 20, 2016, Volkswagen entered into a second partial consent decree, subject to court approval, with the DOJ, EPA, CARB and the California Attorney General that resolved claims for injunctive relief under the Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0-liter TDI vehicles. Under the terms of this consent decree, Volkswagen agreed to implement a buyback and lease termination program for Generation 1 3.0-liter TDI vehicles and a free emissions recall and modification program for Generation 2 3.0-liter TDI vehicles (if the modification program for Generation 2 vehicles is not approved by the EPA and CARB, Volkswagen will be required to offer a buyback and lease termination program for those vehicles); and pay USD 225 million into the environmental mitigation trust that will be established pursuant to the first partial consent decree. The second partial consent decree was lodged with the court on December 20, 2016 and is currently in its notice and comment period.

In addition, on December 20, 2016, Volkswagen entered into an additional, concurrent second partial consent decree, subject to court approval, with CARB and the California Attorney General that resolved claims for injunctive relief under California environmental, consumer protection and false advertising laws related to the 3.0-liter TDI vehicles. Under the terms of this consent decree, Volkswagen agreed to provide additional injunctive relief to California, including the implementation of a “Green City” initiative and the introduction of three new Battery Electric Vehicle (BEV) models in California by 2020, as well as a USD 25 million payment to CARB to support the availability of BEVs in California.

On January 11, 2017, Volkswagen entered into a third partial consent decree, subject to court approval, with the DOJ and EPA that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0-liter and 3.0-liter TDI vehicles. Volkswagen agreed to pay USD 1.45 billion (plus any accrued interest) to resolve the civil penalty and injunctive relief claims under the Clean Air Act, as well as the customs claims of the US Customs and Border Protection. Under the third partial consent decree, the injunctive relief includes monitoring, auditing and compliance obligations. This consent decree, which is subject to public comment, was lodged with the court on January 11, 2017. Also on January 11, 2017, Volkswagen entered into a settlement agreement with the DOJ to resolve any claims under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and agreed to pay USD 50 million (plus any accrued interest), specifically denying any liability and expressly disputing any claims.

The DOJ also opened a criminal investigation focusing on allegations that various federal law criminal offenses were committed. On January 11, 2017, Volkswagen AG agreed to plead guilty to three federal criminal felony counts, and to pay a USD 2.8 billion criminal penalty. Pursuant to the terms of this agreement, Volkswagen will be on probation for three years and will work with an independent monitor for three years. The independent monitor will assess and oversee the company's compliance with the terms of the resolution. This includes overseeing the implementation of measures to further strengthen compliance, reporting and monitoring systems, and an enhanced ethics program. Volkswagen will also continue to cooperate with the DOJ's ongoing investigation of individual employees or former employees who may be responsible for criminal violations.

Moreover, investigations by various US regulatory and government authorities, including in areas relating to securities, financing and tax, are ongoing.

On January 31, 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement with private plaintiffs represented by the PSC in the multidistrict litigation pending in California, and a consent order with the FTC. These agreements will resolve certain civil claims made in relation to affected diesel vehicles with 3.0 l TDI engines from the Volkswagen, Audi and Porsche brands in the USA. On February 14, 2017, the court preliminarily approved the settlement agreement with private plaintiffs and scheduled a fairness hearing on whether final approval should be granted for May 11, 2017. The agreement with the FTC will also be subject to court approval.

Under the settlements, consumers' options and compensation will depend on whether their vehicles are classified as Generation 1 or Generation 2. Generation 1 (model years 2009-2012) consumers will have the option of a buyback, early lease termination, trade-in, or a free emissions modification, provided that EPA and CARB approve the modification. Additionally, Generation 1 owners and lessees, as well as certain former owners and lessees, will be eligible to receive cash payments.

Generation 2 (model years 2013-2016) consumers will receive a free emissions compliant repair to bring the vehicles into compliance with the emissions standards to which they were originally certified – provided that EPA and CARB grant approval – as well as cash payments. If Volkswagen ultimately cannot obtain EPA and CARB approval for emissions compliant repairs within the time limits set out in the settlement agreement, Generation 2 consumers will be offered the options for buyback, lease termination, trade-in or – if approved by EPA and CARB – an emissions modification that reduces the amount of emissions but does not bring the vehicles into compliance with original certification standards, in addition to cash payments. Volkswagen will also make cash payments to certain former Generation 2 owners or lessees.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of Volkswagen branded franchise dealers in the United States relating to TDI vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to USD 1.208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. On January 18, 2017, a fairness hearing on whether final approval should be granted was held, and on January 23, 2017, the court granted final approval of the settlement agreement. Certain members of the class may appeal to an US appellate court the decision to finally approve the settlement; the deadline to do so has not yet expired.

Additionally, in the USA, some putative class actions, some individual customers' lawsuits and some state or municipal claims have been filed in state courts.

Volkswagen reached separate agreements with the attorneys general of 44 US states, the District of Columbia and Puerto Rico, to resolve their existing or potential consumer protection and unfair trade practices claims – in connection with both 2.0 l TDI and 3.0 l TDI vehicles in the USA – for a settlement amount of USD 603 million. Six states did not join these settlements and still have consumer claims outstanding: Arizona, New Jersey, New Mexico, Oklahoma, Vermont and West Virginia. The attorneys general of 18 US states (Alabama, Illinois, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, New Hampshire, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Tennessee, Texas, Vermont and Wyoming) and some municipalities have also filed suits in state and federal courts – and the state of Washington has asserted a penalty claim through administrative proceedings – against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, seeking civil penalties and injunctive relief for alleged violations of environmental laws. Alabama, Illinois, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, New Hampshire, New York, Ohio, Pennsylvania, Tennessee, Texas, Washington and Wyoming participated in the state settlements described above with respect to consumer protection and unfair trade practices claims, but those settlements did not include claims for environmental penalties. In addition, although it has not yet filed an action, Delaware has entered into an agreement to toll the statute of limitations for its environmental claims through the end of February 2017. Two other states – Oregon and Wisconsin – signed agreements tolling the statute of limitations for their environmental claims through the end of 2016, but they have not requested an extension or filed actions. Another state (Connecticut) has expressed its intention to participate in environmental settlement discussions without filing suit.

In addition to lawsuits described above, for which provisions have been recognized, a putative class action has been filed on behalf of purchasers of Volkswagen AG American Depositary Receipts, alleging a drop in price purportedly resulting from the matters described in the EPA's "Notices of Violation." A putative class action has also been filed on behalf of purchasers of certain USD-denominated Volkswagen bonds, alleging that these bonds were trading at artificially inflated prices due to Volkswagen's alleged misstatements and that the value of these bonds declined after the EPA issued its "Notices of Violation."

These lawsuits have also been consolidated in the federal multidistrict litigation proceeding in the State of California described above. Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. In addition, contingent liabilities have not been disclosed as they currently cannot be measured.

In Canada, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0 l and 3.0 l engines. On December 19, 2016, Volkswagen AG and other Canadian and US Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0 l diesel vehicles. Also on December 19, 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution of its regulatory inquiry into consumer protection issues as to those vehicles. Civil consumer claims and the Commissioner's investigation with respect to 3.0 l diesel vehicles remain pending. Also, criminal enforcement related investigations by the federal environmental regulator and quasi-criminal enforcement related investigations by a provincial environmental regulator are ongoing in Canada related to 2.0 l and 3.0 l diesel vehicles. Provisions have been recognized for possible obligations stemming from pending lawsuits in Canada.

5. Risk assessment regarding the diesel issue

To protect against the currently known legal risks, including suitable expenses for defense and legal advice related to the diesel issue, existing information and assessments at the time indicated the need to recognize expenses in the reporting year to the amount of €5.1 billion (previous year: €7.0 billion). Prior-year provisions for legal risks in an amount of €0.4 billion had to be reversed through profit or loss. In addition, in relation to the diesel issue – insofar as these can be adequately measured at this stage – especially the contingent liabilities in conjunction with lawsuits filed by investors to the amount of €3.1 billion (previous year: €1.0 billion) were disclosed in the notes. The provisions recognized, the contingent liabilities disclosed and the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent and comprehensive investigations have not yet been completed.

Additional important legal cases

ARFB Anlegerschutz UG (haftungsbeschränkt), Berlin, brought an action against Porsche Automobil Holding SE, Stuttgart, Germany, and Volkswagen AG for claims for damages allegedly assigned to it in the amount of approximately €2.26 billion. The plaintiff asserts that these claims are based on alleged breaches by the defendants of legislation to protect the capital markets in connection with Porsche's acquisition of Volkswagen shares in 2008. With its April 2016 ruling, the district court of Hanover submitted numerous goals for discovery to the higher regional court in Celle in an attempt to prompt a model case decision. In all other cases, the claims were thrown out for being inadmissible. In various cases since 2010, investors initiated conciliation proceedings for other alleged damages – including claims against Volkswagen AG – that amounted to approximately €4.6 billion in total and also related to transactions at that time. In each case, Volkswagen rejected the claims asserted and refused to participate in any conciliation proceedings.

In 2011, the European Commission opened antitrust proceedings against European truck manufacturers concerning inappropriate exchange of information during the period 1997–2011 and sent a statement of objections to MAN, Scania and the other truck manufacturers concerned in November 2014. With its settlement decision as of July 19, 2016 the European Commission has fined five European truck manufacturers excluding MAN and Scania. MAN was not fined as the company had informed the EU Commission about the cartel as a key witness. With regard to Scania, the antitrust proceedings will be continued. Scania has decided to fully exercise its rights of defense in the ongoing investigation. A provision of €0.4 billion was recognized in order to cover possible fines. Furthermore, antitrust lawsuits for damages from customers were received. As is the case in any antitrust proceedings, this may result in further lawsuits for damages.

The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Volkswagen Truck & Bus GmbH (formerly Truck & Bus GmbH), a subsidiary of Volkswagen AG, in June 2013. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. It is not uncommon for noncontrolling interest shareholders to institute such proceedings. In July 2015, the Munich Regional Court ruled in the first instance that the amount of the cash settlement payable to the noncontrolling interest shareholders of MAN should be increased from €80.89 to €90.29 per share; at the same time, the amount of the cash compensation was confirmed. The assessment of liability for put options and compensation rights granted to noncontrolling interest shareholders was adjusted in 2015. Both applicants and Volkswagen Truck & Bus GmbH have appealed to the Higher Regional Court in Munich. Volkswagen continues to maintain that the results of the valuation are correct. The appropriateness of the valuation was confirmed by the audit firms engaged by the parties and by the court-appointed auditor of the agreement.

Since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles.

Additionally, thirteen putative class actions have been filed against Audi and certain affiliates alleging that defendants concealed the existence of "defeat devices" in Audi brand vehicles with automatic transmissions. A number of these putative class actions have been transferred to the federal multidistrict litigation proceeding in the State of California.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities, particularly in relation to the diesel issue and the European Commission's investigation. This is so as to not compromise the results of the proceedings or the interests of the Company.

38. Other financial obligations

€ million	PAYABLE 2016	PAYABLE 2017 – 2020	PAYABLE from 2021	TOTAL Dec. 31, 2015
Purchase commitments in respect of				
property, plant and equipment	7,214	1,169	–	8,383
intangible assets	1,163	143	–	1,306
investment property	8	–	–	8
Obligations from				
loan commitments to unconsolidated subsidiaries	558	2	–	560
irrevocable credit and lease commitments to customers	4,602	0	94	4,696
long-term leasing and rental contracts	997	2,466	2,444	5,908
Miscellaneous other financial obligations	3,290	1,059	200	4,549

€ million	PAYABLE 2017	PAYABLE 2018 – 2021	PAYABLE from 2022	TOTAL Dec. 31, 2016
Purchase commitments in respect of				
property, plant and equipment	7,170	1,585	–	8,756
intangible assets	1,243	386	–	1,629
investment property	13	–	–	13
Obligations from				
loan commitments to unconsolidated subsidiaries	126	2	–	128
irrevocable credit and lease commitments to customers	4,551	0	44	4,595
long-term leasing and rental contracts	995	2,489	2,261	5,745
Miscellaneous other financial obligations	2,569	1,416	1,072	5,056

Other financial obligations from long-term leasing and rental contracts are partly offset by expected income from subleases of €1,664 million (previous year: €989 million).

The change in miscellaneous other financial obligations is primarily attributable to the elimination of an irrevocable credit commitment in the amount of €1.3 billion to LeasePlan as well as to the investments in zero emissions vehicle infrastructure to which the Volkswagen Group had committed itself in the settlement agreements in connection with the diesel issue and in corresponding access and awareness initiatives for these technologies. Other financial obligations include an amount of €1.6 billion for this purpose. In the previous year, the matter was not included in the table due to the investments having not yet been defined in terms of content and time.

39. Total audit fees of the Group auditors

Under the provisions of the Handelsgesetzbuch (HGB – German Commercial Code), Volkswagen AG is obliged to disclose the total audit fee of the Group auditors in Germany.

€ million	2016	2015
Financial statement audit services	16	15
Other assurance services	7	6
Tax advisory services	0	0
Other services	4	6
	27	**27**

40. Total expense for the period

€ million	2016	2015
Cost of materials		
Cost of raw materials, consumables and supplies, purchased merchandise and services	140,307	143,700
Personnel expenses		
Wages and salaries	29,971	29,301
Social security, post-employment and other employee benefit costs	7,046	6,967
	37,017	**36,268**

41. Average number of employees during the year

	2016	2015
Performance-related wage-earners	236,204	230,720
Salaried staff	292,240	286,125
	528,444	**516,845**
of which in the passive phase of partial retirement	**(5,915)**	**(6,483)**
Vocational trainees	17,962	17,321
	546,406	**534,166**
Employees of Chinese joint ventures	72,940	70,221
	619,346	**604,387**

42. Events after the balance sheet date

There were no significant events after the end of fiscal year 2016.

43. Related party disclosures in accordance with IAS 24

Related parties as defined by IAS 24 are natural persons and entities that Volkswagen AG has the ability to control or on which it can exercise significant influence, or natural persons and entities that have the ability to control or exercise significant influence on Volkswagen AG, or that are influenced by another related party of Volkswagen AG.

Porsche SE reached an agreement with Suzuki Motor Corporation at the end of September 2015 to acquire 1.5% of Volkswagen AG's ordinary shares via an off-market transaction. At 52.2%, Porsche SE held the majority of the voting rights in Volkswagen AG as of the reporting date. The creation of rights of appointment for the State of Lower Saxony was resolved at the Extraordinary General Meeting of Volkswagen AG on December 3, 2009. As a result, Porsche SE cannot appoint the majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore classified as a related party as defined by IAS 24.

The contribution of Porsche SE's holding company operating business to Volkswagen AG on August 1, 2012 has the following effects on the agreements between Porsche SE, Volkswagen AG and companies of the Porsche Holding Stuttgart Group that existed prior to the contribution and were entered into on the basis of the Comprehensive Agreement and its related implementation agreements:

- Volkswagen AG continues to indemnify Porsche SE against certain financial guarantees issued by Porsche SE to creditors of the companies belonging to the Porsche Holding Stuttgart Group up to the amount of its share in the capital of Porsche Holding Stuttgart, which amounts to 100% since the contribution as of August 1, 2012. Porsche Holding Finance plc, Dublin, Ireland, was contributed to the Volkswagen Group in the course of the transfer of Porsche SE's holding company operating business. The indemnification includes financial guarantees issued by Porsche SE to creditors of Porsche Holding Finance plc in relation to interest payments on and the repayment of bonds in the aggregate amount of €250 million. As part of the contribution of Porsche SE's holding company operating business to Volkswagen AG, Volkswagen AG undertook to assume standard market liability compensation effective August 1, 2012 for guarantees issued to external creditors, whereby it is indemnified internally.
- Volkswagen AG continues to indemnify Porsche SE internally against claims by the Einlagensicherungsfonds (German deposit protection fund) after Porsche SE submitted an indemnification agreement required by the Bundesverband Deutscher Banken (Association of German Banks) to the Einlagensicherungsfonds in August 2009. Volkswagen AG has also undertaken to indemnify the Einlagensicherungsfonds against any losses caused by measures taken by the latter in favor of a bank in which Volkswagen AG holds a majority interest.
- Under certain conditions, Porsche SE continues to indemnify Porsche Holding Stuttgart, Porsche AG and their legal predecessors against tax liabilities that exceed the obligations recognized in the financial statements of those companies relating to periods up to and including July 31, 2009. In return, Volkswagen AG has undertaken to pay to Porsche SE any tax benefits or tax refunds of Porsche Holding Stuttgart, Porsche AG and their legal predecessors and subsidiaries for tax assessment periods up to July 31, 2009. Based on the results of the external tax audit for the assessment periods 2006 to 2008 that has now been completed, a compensation obligation running into the low triple-digit millions of euros would arise for Volkswagen AG. New information emerging in the future from the external tax audit that commenced at the end of 2015 for the 2009 assessment period could result in an increase or decrease in the potential compensation obligation.

Under the terms of the Comprehensive Agreement, Porsche SE and Volkswagen AG had granted each other put and call options with regard to the remaining 50.1% interest in Porsche Holding Stuttgart held by Porsche SE until the contribution of its holding company operating business to Volkswagen AG. Both Volkswagen AG (if it had exercised its call option) and Porsche SE (if it had exercised its put option) had undertaken to bear the tax burden resulting from the exercise of the options and any subsequent activities in relation to the equity investment in Porsche Holding Stuttgart (e.g. from recapture taxation on the spin-off in 2007 and/or 2009). If tax benefits had accrued to Volkswagen AG, Porsche Holding Stuttgart, Porsche AG, or their respective subsidiaries as a result of recapture taxation on the spin-off in 2007 and/or 2009, the purchase price to be paid by Volkswagen AG for the transfer of the outstanding 50.1% equity investment in Porsche Holding Stuttgart if the put option had been exercised by Porsche SE would have been increased by the present value of the tax benefit. This arrangement was taken over under the terms of the contribution agreement to the effect that Porsche SE has a claim against Volkswagen AG for payment in the amount of the present value of the realizable tax benefits from any recapture taxation of the spin-off in 2007 as a result of the contribution. It was also agreed under the terms of the contribution that Porsche SE will indemnify Volkswagen AG, Porsche Holding Stuttgart and their subsidiaries against taxes if measures taken by or not taken by Porsche SE result in recapture taxation for 2012 at these companies in the course of or following implementation of the contribution. In this case, too, Porsche SE is entitled to assert a claim for payment against Volkswagen AG in the amount of the present value of the realizable tax benefits that arise at the level of Volkswagen AG or one of its subsidiaries as a result of such a transaction.

Further agreements were entered into and declarations were issued in connection with the contribution of Porsche SE's holding company operating business to Volkswagen AG, in particular:

- Porsche SE issued various guarantees to Volkswagen AG in the course of the contribution relating to Porsche Holding Stuttgart, Porsche AG and its other transferred investees. Among other things, these relate to the proper issuance of and full payment for shares and capital contributions, and/or to the ownership of the shares of Porsche Holding Stuttgart and Porsche AG.
- Under the terms of the contribution of its holding company operating business, Porsche SE also issued guarantees to Volkswagen AG for other assets transferred and liabilities assumed. In doing so, Porsche SE guarantees that these have not been assigned and are, in principle, free from third-party rights up to the date of completion of the contribution.
- As a general principle, Porsche SE's liabilities for these guarantees are restricted to the consideration paid by Volkswagen AG.
- Porsche SE indemnifies its contributed subsidiaries, Porsche Holding Stuttgart, Porsche AG and their subsidiaries against liabilities to Porsche SE that relate to the period up to and including December 31, 2011 and that exceed the obligations recognized in the financial statements of those companies for that period.
- Porsche SE indemnifies Porsche Holding Stuttgart and Porsche AG against obligations arising from certain legal disputes; this includes the costs of an appropriate legal defense.
- Moreover, Porsche SE indemnifies Volkswagen AG, Porsche Holding Stuttgart, Porsche AG and their subsidiaries against half of the taxes (other than taxes on income) arising at those companies in conjunction with the contribution that would not have been incurred in the event of the exercise of the call option on the shares of Porsche Holding Stuttgart that continued to be held by Porsche SE until the contribution. Volkswagen AG therefore indemnifies Porsche SE against half of such taxes that it incurs. In addition, Porsche Holding Stuttgart is indemnified against half of the land transfer tax and other costs triggered by the merger.
- Additionally, Porsche SE and Porsche AG agreed to allocate any subsequent VAT receivables or liabilities from transactions in the period up to December 31, 2009 to the company entitled to the receivable or incurring the liability.
- A range of information, conduct and cooperation obligations were agreed by Porsche SE and the Volkswagen Group.

According to a notification dated January 2, 2017, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights of Volkswagen AG on December 31, 2016. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

Members of the Board of Management and Supervisory Board of Volkswagen AG are members of supervisory and management boards or shareholders of other companies with which Volkswagen AG has relations in the normal course of business. All transactions with related parties are conducted on an arm's length basis.

The following tables present the amounts of supplies and services transacted, as well as outstanding receivables and liabilities, between consolidated companies of the Volkswagen Group and related parties.

RELATED PARTIES

	SUPPLIES AND SERVICES RENDERED		SUPPLIES AND SERVICES RECEIVED	
€ million	**2016**	2015	**2016**	2015
Porsche SE	12	12	2	5
Supervisory Board members	3	7	5	4
Board of Management members	0	1	0	0
Unconsolidated subsidiaries	890	944	973	886
Joint ventures and their majority interests	13,728	11,785	1,377	1,429
Associates and their majority interests	190	126	912	826
Pension plans	4	3	0	0
Other related parties	0	0	0	0
State of Lower Saxony, its majority interests and joint ventures	6	5	6	2

	RECEIVABLES (INCLUDING COLLATERAL) FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
€ million	**Dec. 31, 2016**	Dec. 31, 2015	**Dec. 31, 2016**	Dec. 31, 2015
Porsche SE	323	334	1	110
Supervisory Board members	0	0	297	165
Board of Management members	0	0	39	81
Unconsolidated subsidiaries	1,036	1,015	1,188	1,418
Joint ventures and their majority interests	8,808	7,495	1,784	2,343
Associates and their majority interests	53	40	495	518
Pension plans	1	1	8	8
Other related parties	–	–	64	25
State of Lower Saxony, its majority interests and joint ventures	2	0	1	0

The tables above do not contain the dividend payments of €3,613 million (previous year: €4,704 million) received from joint ventures and associates and dividends of €17 million (previous year: €719 million) paid to Porsche SE.

€52 million (previous year: €148 million) of the related party receivables were impaired in the reporting period.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €112 million (previous year: €262 million).

The changes in supplies and services received from and rendered to joint ventures and their majority interests are primarily attributable to deliveries to the Chinese joint ventures.

The supplies and services received from Porsche SE relate mainly to standard market liability compensation for guarantees assumed. The supplies and services rendered to Porsche SE relate mainly to interest income on loans granted.

The receivables from Porsche SE mainly comprise loan receivables.

The decrease in obligations to joint ventures and their majority interests mainly results from the elimination of an irrevocable credit commitment in the amount of €1.3 billion to LeasePlan.

As in the previous year, obligations to members of the Supervisory Board amounting to €297 million (previous year: €165 million) relate primarily to interest-bearing bank balances of Supervisory Board members that were invested at standard market terms and conditions at Volkswagen Group companies.

Obligations to the Board of Management comprise outstanding balances for bonuses payable to Board of Management members and the fair values of the phantom shares held by Board of Management members in the amount of €26 million (previous year: €36 million). This item also includes amounts of €– million (previous year: €39 million) granted on the termination of employment relationships with Board of Management members.

In addition to the amounts shown above, the following expenses were recognized for the members of the Board of Management and Supervisory Board of the Volkswagen Group in the course of their activities as members of these bodies:

€	2016	2015
Short-term benefits	45,456,678	65,404,667
Benefits based on phantom shares	–670,296	–
Post-employment benefits	9,347,409	3,375,923
Termination benefits	–	41,132,431
	54,133,791	**109,913,021**

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance by means of phantom shares. The amount withheld led to the creation of 50,703 phantom preferred shares. In 2015, the resolution was not required to be reflected in the calculation of short-term employee benefits under IFRSs because it was only passed after the fiscal year had ended. In accordance with IFRS 2, starting in 2016 the obligations relating to these phantom shares are accounted for as a cash-settled plan and measured at fair value using a recognized valuation technique. The link between the original bonus (€5.7 million) and future share price performance resulted in a gain of €1.5 million as of April 22, 2016 that reduced the employee benefits based on phantom shares in 2016. Expenses of €0.8 million were recognized because of the share price performance in the period up to December 31, 2016. In accordance with IFRSs, these were disclosed under employee benefits based on phantom shares. The fair value of the obligation to members of the Board of Management as of December 31, 2016 amounts to €5.0 million. If all members of the Board of Management had left as of December 31, 2016, the obligation (intrinsic value) would have amounted to a total of €5.1 million.

Mr. Pötsch's waiver of a portion of his variable remuneration for fiscal year 2015 generated income of €2.3 million that has no impact on the short-term employee benefits for the reporting period. In its meeting on February 24, 2017, the Supervisory Board accepted Mr. Blessing's offer to irrevocably relinquish the top-up amount of €512.5 thousand for fiscal year 2016 to reach the minimum remuneration. Since the waiver was declared after the end of fiscal year 2016, it has no effect on the short-term benefits according to IFRS.

For further details, please refer to our disclosures in the remuneration report, which is part of the management report.

The employee representatives on the Supervisory Board are also entitled to a regular salary as set out in their employment contracts. This is based on the provisions of the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act) and represents an appropriate remuneration for their functions and activities in the Company. The same also applies to the representative of the senior executives on the Supervisory Board. The members of the Supervisory Board have declared to the Management Board that they waive their claims for all remuneration payments for fiscal year 2016. Such waiver shall apply to the extent that those claims exceed the amount that would be due if the stipulations to be resolved by the General Meeting on May 10, 2017 regarding the remuneration for the Supervisory Board for the current and future fiscal years were applied for fiscal year 2016. Since the waiver was declared after the end of fiscal year 2016, it has no effect on the values shown in the notes.

The post-employment benefits relate to additions to pension provisions for current members of the Board of Management.

The termination benefit commitments in the previous year relate to Mr. Östling, Mr. Winterkorn, Mr. Klingler and Mr. Pötsch.

Disclosures on the pension provisions for members of the Board of Management and more detailed explanations of the remuneration of the Board of Management and the Supervisory Board can be found in the section entitled "Remuneration of the Board of Management and the Supervisory Board" and in the remuneration report, which is part of the management report.

44. German Corporate Governance Code

On November 18, 2016, the Board of Management and Supervisory Board of Volkswagen AG issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) and made it permanently available to the shareholders of Volkswagen AG on the Company's website at www.volkswagenag.com/ir.
On November 24, 2016, the Board of Management and Supervisory Board of AUDI AG likewise issued their declaration of conformity with the German Corporate Governance Code and made it permanently available to the shareholders at www.audi.com/cgk-declaration.

In December 2016, the Executive Board and Supervisory Board of MAN SE issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the AktG and made it permanently available to the shareholders at www.corporate.man.eu/en.

The Executive and Supervisory Boards of RENK AG issued a declaration of conformity on December 9, 2016 and made it permanently available to the shareholders at www.renk.biz/corporated-governance.html.

45. Remuneration of the Board of Management and the Supervisory Board

€	2016	2015
Board of Management remuneration		
Non-performance-related remuneration	18,093,835	28,288,098
Performance-related remuneration	21,453,778	34,956,362
	39,547,612	**63,244,460**
Supervisory Board remuneration		
Fixed remuneration components	709,346	660,976
Variable remuneration components	4,687,220	35,977
	5,396,565	**696,953**

NON-PERFORMANCE-RELATED REMUNERATION

The non-performance-related remuneration of the Board of Management comprises fixed remuneration and fringe benefits. In addition to the basic level of remuneration, the fixed remuneration also includes differing levels of remuneration for appointments assumed at Group companies. In addition, Ms. Hohmann-Dennhardt received €6.3 million (previous year: Mr. Diess received €5.0 million and Mr. Renschler €11.5 million) to compensate for lost entitlements resulting from a change in employer. The fringe benefits result from the grant of noncash benefits and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these noncash benefits were mainly borne by Volkswagen AG.

PERFORMANCE-RELATED REMUNERATION

The performance-related remuneration comprises a business performance bonus, which relates to business performance in the reporting period and in the preceding year, and, since 2010, a Long-Term Incentive (LTI) plan, which is based on the reporting period and the previous three fiscal years. Members of the Board of Management can also be awarded bonuses that reflect their individual performance.

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance by means of phantom shares. The performance-related remuneration measured in accordance with German GAAP includes the amounts withheld from the active Board of Management members whose disposal is subject to the Company's future share price performance. These are reported at their fair value in 2015 of €4.2 million. Expenses of €0.8 million were recognized because of the share price performance in the period up to December 31, 2016. In accordance with German GAAP, these did not constitute remuneration. Furthermore, Mr. Pötsch's waiver of a portion of his variable remuneration for fiscal year 2015 generated income of €2.3 million that has no impact on the remuneration disclosed for the reporting period. In its meeting on February 24, 2017, the Supervisory Board accepted Mr. Blessing's offer to irrevocably relinquish the topup amount of €512.5 thousand for fiscal year 2016 to reach the minimum remuneration. The waiver lowered the performance-related remuneration according to German GAAP of the current fiscal year.

PENSION ENTITLEMENTS

On December 31, 2016, the pension provisions for members of the Board of Management in accordance with IFRSs amounted to €113.5 million (previous year: €86.6 million). Current pensions are index-linked in accordance with the index-linking of the highest collectively agreed salary insofar as the application of section 16 of the Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG – German Company Pension Act) does not lead to a larger increase.

Members of the Board of Management were paid interest-free advances in the amount of €– million (previous year: €0.2 million), which will be set off against performance-related remuneration in the following year.

Former members of the Board of Management and their surviving dependents received €11.1 million (previous year: €51.3 million). The figures for the previous year include amounts agreed to be paid to Mr. Östling, Mr. Winterkorn, Mr. Klingler and Mr. Pötsch in connection with their departure from the Board of Management.

Pension provisions in accordance with IFRSs for former members of the Board of Management amounted to €270.0 million (previous year: €242.7 million).

The individual remuneration of the members of the Board of Management and the Supervisory Board is explained in the remuneration report in the management report on page 67. A comprehensive assessment of the individual bonus components of the LTI can also be found there.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Wolfsburg, Febuary 24, 2017

Volkswagen Aktiengesellschaft
The Board of Management

Matthias Müller	Karlheinz Blessing	Herbert Diess
Francisco Javier Garcia Sanz	Jochem Heizmann	Andreas Renschler
Rupert Stadler	Hiltrud Dorothea Werner	Frank Witter

Auditor’s Report

On completion of our audit, we issued the following unqualified auditor’s report dated Febuary 24, 2017. This report was originally prepared in German. In case of ambiguities the German version takes precedence:

Auditor’s Report

We have audited the consolidated financial statements prepared by the VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, comprising income statement and statement of comprehensive income, the balance sheet, the statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consoledation principles used and significant estimates made by the Company´s Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements, complies with legal requirements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying our opinion, we draw attention to the information provided and statements made in section “Key events” of the notes to the consolidated financial statements and in section “Diesel Issue” of the combined management report with regard to the diesel issue, the underlying causes, the involvement of members of the board of management as well as the impact on these financial statements.

Based on the results of the various measures taken to investigate the issue presented so far, which underlie these financial statements, there is no validation that members of the board of management were aware of the deliberate manipulation of engine management software before summer 2015. Nevertheless, should as a result of the ongoing investigation new solid knowledge be obtained showing that members of the board of management were informed earlier, this could eventually have an impact on the annual and consolidated financial statements and on the combined management report for fiscal year 2016 and prior years.

The provisions for warranties and legal risks recorded so far are based on the presented state of knowledge. Due to the inevitable uncertainties associated with the current and expected litigation it cannot be excluded that a future assessment of the risks may be different.

Hanover, February 24, 2017

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Norbert Winkeljohann	Frank Hübner
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)