

# Shares and Bonds

**Volkswagen AG's ordinary and preferred shares underperformed the market as a whole in 2016 in a volatile market environment.**

## EQUITY MARKETS

Prices on the international equity markets experienced volatility in the reporting period. The DAX recorded a slight increase overall. In particular, recurring concerns about the economic performance of important industrialized nations, whether the United Kingdom would remain in the EU, the development of the oil price and the central banks' monetary policy caused considerable volatility in the markets.

The beginning of the first quarter saw capital market participants become more unsettled due to the low oil price and falling prices on the Chinese stock market in response to a slowdown in Chinese economic growth. In mid-January, prices were temporarily propped up by hopes that the European Central Bank (ECB) would further loosen its monetary policy, but subsequently continued their downward trend in the wake of negative economic data from China. In mid-February, the DAX began to recover on the strength of an expected stabilization in the oil price and positive economic data from the USA. Concerns about whether the United Kingdom would remain in the EU caused prices to drop temporarily. Prices recovered over the further course of the first quarter as the ECB expanded its bond-buying program and cut its key interest rate.

Fears of an appreciation of the euro and deteriorating corporate data from Germany caused prices to decline at the beginning of the second quarter. The German benchmark index staged a temporary recovery in mid-April on the back of the rising oil price, which is usually regarded as a positive indicator for global economic growth, and favorable economic data from China. May saw prices move sideways before rising late in the month, buoyed by a further oil price increase.

Despite uncertainty over the United Kingdom's continued membership of the EU, the DAX was propped up for a time in June by hopes that the US Federal Reserve would continue its loose monetary policy. The referendum at the end of June, which resulted in the British public voting to leave the EU, led to sharp falls in stock prices.

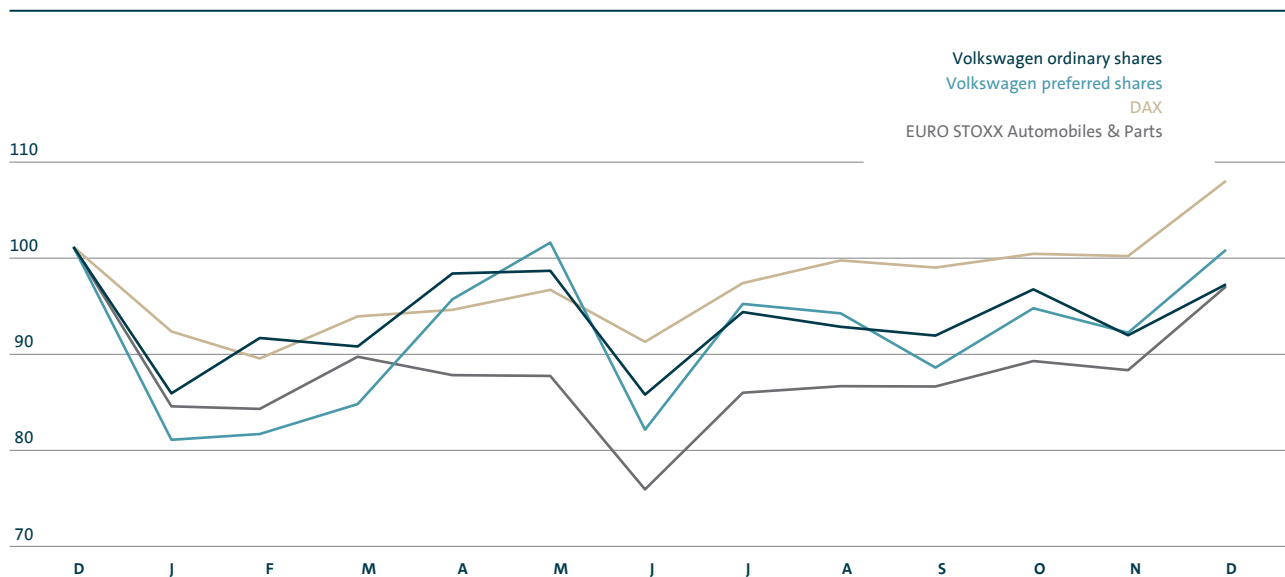
Uncertainties in the Italian banking system prompted a decline in the German benchmark index at the beginning of the third quarter. The DAX rose in mid-July on the back of speculation about rate cuts in the UK, strong labor market data in the US and rumors that the major US bank JP Morgan would prop up Italy's banking system. In August, the Bank of England cut its key interest rate and announced a program to buy up government and corporate bonds. This, along with hopes of a gradual increase in interest rates in the USA, caused share prices to rise. Following a temporary dip, prices climbed over the further course of the third quarter, buoyed by the continued loose monetary policy of the Bank of Japan and the US Federal Reserve.

Reports about the banking sector weighed on the markets at the start of the fourth quarter. Positive economic data from China caused stock prices to recover in mid-October. Further on in the quarter, uncertainty in connection with the US presidential election and the referendum on constitutional changes in Italy generated price volatility. The ECB's continuation of its expansionary monetary policy and the weak euro gave share prices a boost in December.

At the end of 2016, the DAX had reached 11,481 points, an increase of 6.9% on the previous year's figure. The EURO STOXX Automobiles & Parts closed the year at 521 points, 4.1% lower than on the last day of trading in 2015.

**SHARE PRICE DEVELOPMENT FROM DECEMBER 2015 TO DECEMBER 2016**

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

**MOVEMENTS IN THE PRICE OF VOLKSWAGEN'S SHARES**

On the whole, Volkswagen AG's ordinary and preferred shares declined in 2016 amid considerable volatility, underperforming the overall market but outperforming the automotive sector.

In the first quarter, both classes of shares lagged the downward market environment in a highly volatile environment. This was due to speculation about the impact of the diesel issue in addition to general economic data. The press release issued at the beginning of February stating that Volkswagen's operating profit before special items for fiscal year 2015 was on a level with the previous year had a stabilizing effect on share prices. In March, positive sales and business figures released by individual Group brands led the shares to gain ground, some of which was lost again towards the end of the first quarter.

In the period from April to June, Volkswagen's shares followed the market trend, which saw a decline overall. This was due to speculation about the impact of the diesel issue in addition to general economic data. In April, prices stabilized following the news that an agreement in principle in connection with the diesel issue had been reached in the USA, as well as the publication of the Volkswagen Group's annual report. In a market environment dominated by

uncertainty, prices were shored up in June by the presentation of the new TOGETHER – Strategy 2025 and the announcement that Volkswagen had reached settlement agreements in the USA.

In the third quarter, the prices of Volkswagen shares tracked the market uptrend but continued to trail the market. Speculation about further developments in the negotiations and the preliminary settlement agreements in the USA in connection with the diesel issue as well as uncertainty about additional legal risks impacted on the price performance of Volkswagen's shares.

In the fourth quarter, both classes of shares largely made up for their losses during the year to date. Strong delivery figures, approval of the settlement agreements reached in the USA, the announcement of the pact for the future and the Volkswagen Passenger Cars brand's Transform 2025+ strategy as well as expectations that the diesel issue will be clarified in relation to 3.0l diesel engines had a positive effect on stock prices.

**FURTHER INFORMATION ON VOLKSWAGEN SHARES**  
[www.volkswagenag.com/ir](http://www.volkswagenag.com/ir)

Volkswagen AG's preferred shares reached their highest daily closing price for the year of €138.80 on December 21, 2016. They recorded their lowest closing price for the reporting period of €94.00 on February 11, 2016. The Company's preferred shares closed the end of 2016 at €133.35, down 0.3% on the 2015 closing price.

Volkswagen's ordinary shares reached their highest closing price of €144.20 on December 21, 2016 as well. They also recorded their lowest daily closing price for the year (€108.95) on February 11, 2016. The ordinary shares were trading at €136.75 on the last day of trading in 2016, down 3.9% on the price at the end of 2015.

Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website at [www.volkswagenag.com/ir](http://www.volkswagenag.com/ir).

#### SHAREHOLDER STRUCTURE AT DECEMBER 31, 2016

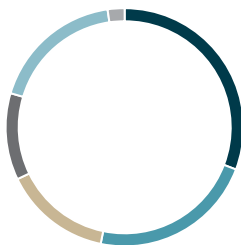
Volkswagen AG's subscribed capital amounted to €1,283,315,873.28 at the end of the reporting period. The shareholder structure of Volkswagen AG as of 31 December, 2016 is shown in the chart on this page.

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

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

#### SHAREHOLDER STRUCTURE AT DECEMBER 31, 2016

*as a percentage of subscribed capital*



Porsche Automobil Holding SE	30.8
Foreign institutional investors	22.5
Qatar Holding LLC	14.6
State of Lower Saxony	11.8
Private shareholders/Others	18.1
German institutional investors	2.3

#### DIVIDEND POLICY

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

The Board of Management and Supervisory Board of Volkswagen AG are proposing a dividend of €2.00 per ordinary share and €2.06 per preferred share. On this basis, the total dividend for fiscal year 2016 amounts to €1.0 (0.1) billion. The distribution ratio is based on the Group's earnings after tax attributable to Volkswagen AG shareholders. This amounts to 19.7% for the reporting period and was negative in the previous year. In our new Group strategy we aim to achieve a distribution ratio of 30%.

#### DIVIDEND YIELD

Based on the dividend proposal for the reporting period, the dividend yield on Volkswagen ordinary shares is 1.5 (0.1)%, measured by the closing price on the last trading day in 2016. The dividend yield on preferred shares is 1.5 (0.1)%.

The current dividend proposal can be found in the chapter entitled "Volkswagen AG (condensed, according to the German Commercial Code)", on page 137 of this annual report.

#### EARNINGS PER SHARE

Basic earnings per ordinary share were €10.24 (–3.20) in fiscal year 2016. Basic earnings per preferred share were €10.30 (–3.09). In accordance with IAS 33, the calculation is based on the weighted average number of ordinary and preferred shares outstanding in the reporting period. Since the number of basic and diluted shares is identical, basic earnings per share correspond to diluted earnings per share.

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

#### ANNUAL GENERAL MEETING

The 56th Annual General Meeting of Volkswagen AG was held at the Hanover Exhibition Center on June 22, 2016. The ordinary shareholders of Volkswagen AG accepted the proposal of the Board of Management and the Supervisory Board to pay a dividend of €0.11 per ordinary share and €0.17 per preferred share with a majority of 99.98%. With over 90% of the voting capital present, they also formally approved the actions of the Board of Management and Supervisory Board.

In addition, the ordinary shareholders of Volkswagen AG elected PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) as the auditors for the single-entity and consolidated financial statements for fiscal year 2016 and as the auditors to review the condensed consolidated financial statements and interim management report for the first six months of 2016, for the period up to September 30, 2016 and for the first quarter of fiscal year 2017.

The Annual General Meeting also rejected the motions added to the agenda concerning the appointment of a special auditor in accordance with section 142(1) of the Aktiengesetz (AktG – German Stock Corporation Act) as well as the further motions raised in the course of the meeting.

Ms. Annika Falkengren's scheduled term of office and the terms of office of the court-appointed members of the Supervisory Board – Dr. Louise Kiesling and Mr. Hans Dieter Pötsch – expired at the end of the Annual General Meeting. The Annual General Meeting elected all three members to a full term of office in the Supervisory Board. Mr. Akbar Al Baker, likewise a shareholder representative on the Supervisory Board of Volkswagen AG, stepped down from his office with effect from the end of the Annual General Meeting. The Annual General Meeting elected Dr. Hessa Sultan Al-Jaber, representing the Qatar Investment Authority (QIA), to replace him for the remainder of his term of office. With Ms. Al-Jaber, Ms. Falkengren and Dr. Kiesling, three of the ten shareholder representative seats on the supervisory body are filled by women.

#### INVESTOR RELATIONS ACTIVITIES

On the one hand, investor relations activities in fiscal year 2016 were dominated mainly by developments in connection with the diesel issue. On the other hand, focal issues were the Volkswagen Group's future program TOGETHER – Strategy 2025, the conclusion of the pact for the future and the Volkswagen Passenger Cars brand's TRANSFORM 2025+ strategy. We also briefed capital market participants on our activities in the Chinese market at the Volkswagen Group China Investor Presentation.

In fiscal year 2016, the Investor Relations team provided extensive information to investors and analysts in all key financial markets worldwide about the strategic focus, current business performance and future prospects of the Volkswagen Group.

At roughly 700 one-on-one discussions, roadshows and conferences, we maintained close contact with capital market participants in 2016. Many of these discussions involved an exchange of ideas between investors and analysts and members of the Board of Management and Group senior executives. With offices in Wolfsburg, London and Beijing and the liaison office in Herndon (USA), the work

of the Investor Relations team benefits from its presence in the most important regions for the capital markets. It allows us to keep close contact with analysts and investors locally, acquire in-depth knowledge of the respective markets and keep a finger on the pulse of operations of the Volkswagen Group.

At events held in the past year, the investor relations team also informed private shareholders about the current situation of the Group and was present at the Annual General Meeting in Hanover.

We also promptly published all presentations given in connection with events that were of interest to investors on our investor relations website.

#### VOLKSWAGEN SHARE DATA

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

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

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

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## VOLKSWAGEN SHARE KEY FIGURES

DIVIDEND DEVELOPMENT		2016	2015	2014	2013	2012
Number of no-par value shares at Dec. 31						
Ordinary shares	thousands	295,090	295,090	295,090	295,090	295,090
Preferred shares	thousands	206,205	206,205	180,641	170,148	170,143
Dividend <sup>1</sup>						
per ordinary share	€	2.00	0.11	4.80	4.00	3.50
per preferred share	€	2.06	0.17	4.86	4.06	3.56
Dividend paid <sup>1</sup>						
on ordinary shares	€ million	1,015	68	2,294	1,871	1,639
on preferred shares	€ million	425	35	878	691	606
SHARE PRICE DEVELOPMENT <sup>2</sup>		2016	2015	2014	2013	2012
Ordinary share						
Closing	€	136.75	142.30	180.10	196.90	162.75
Price performance	%	-3.9	-21.0	-8.5	+21.0	+57.0
Annual high	€	144.20	247.55	197.35	196.90	162.75
Annual low	€	108.95	101.15	150.70	132.60	106.20
Preferred share						
Closing	€	133.35	133.75	184.65	204.15	172.15
Price performance	%	-0.3	-27.6	-9.6	+18.6	+48.7
Annual high	€	138.80	255.20	203.35	204.15	172.70
Annual low	€	94.00	92.36	150.25	138.50	118.00
Beta factor <sup>3</sup>	factor	1.22	1.28	1.38	1.32	1.26
Market capitalization at Dec. 31	€ billion	67.9	69.6	86.5	92.8	77.3
Equity attributable to Volkswagen AG shareholders and hybrid capital investors at Dec. 31	€ billion	92.7	88.1	90.0	87.7	77.7 <sup>4</sup>
Ratio of market capitalization to equity	factor	0.73	0.79	0.96	1.06	1.00
KEY FIGURES PER SHARE		2016	2015	2014	2013	2012 <sup>4</sup>
Earnings per ordinary share <sup>5</sup>						
basic	€	10.24	-3.20	21.82	18.61	46.41
diluted	€	10.24	-3.20	21.82	18.61	46.41
Equity <sup>6</sup>	€	184.90	175.67	189.16	188.58	166.98
Price/earnings ratio <sup>7</sup>						
Ordinary share	factor	13.4	x	8.2	10.6	3.5
Preferred share	factor	13.0	x	8.4	10.9	3.7
Dividend yield <sup>8</sup>						
Ordinary share	%	1.5	0.1	2.7	2.0	2.2
Preferred share	%	1.5	0.1	2.6	2.0	2.1
STOCK EXCHANGE TURNOVER <sup>9</sup>		2016	2015	2014	2013	2012
Turnover of Volkswagen ordinary shares						
	€ billion	3.3	6.9	3.2	3.5	3.5
	million shares	25.4	45.4	17.8	21.4	26.8
Turnover of Volkswagen preferred shares						
	€ billion	41.1	72.4	45.1	43.0	40.9
	million shares	347.0	444.4	248.3	252.8	293.3
Volkswagen share of total DAX turnover	%	5.0	7.1	5.4	5.7	5.3

1 Figures for the years 2012 to 2015 relate to dividends paid in the following year. For 2016, the figures relate to the proposed dividend.

2 Xetra prices.

3 See page 133 for the calculation.

4 2012 figures adjusted in the 2013 annual financial statements to reflect application of IAS 19R.

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

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

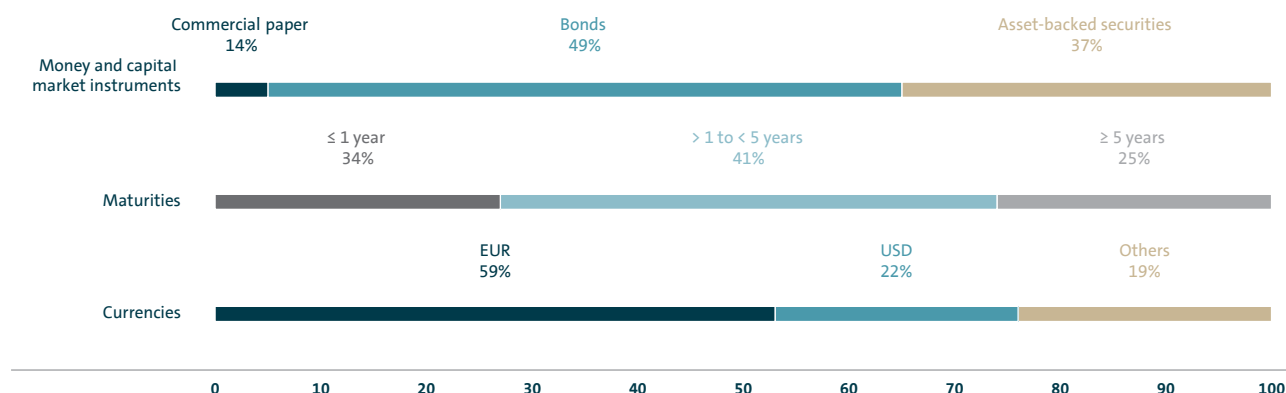
7 Ratio of year-end-closing price to earnings per share.

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

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

## REFINANCING STRUCTURE OF THE VOLKSWAGEN GROUP

as of December 31, 2016



## REFINANCING

As a result of the diesel issue, the Volkswagen Group's ability to access individual refinancing instruments in the money and capital market in 2016 was restricted. Our activities were therefore marked by diversification in certain instruments and markets. One focus was the issue of commercial paper, especially in Europe and in the currency euro.

Asset-backed securities (ABS) transactions were another important element. The Financial Services Division placed ABS transactions with a value of €4.0 billion in the eurozone. An ABS credit facility of USD 9.0 billion was entered into with a banking syndicate in the USA. The Volkswagen Group also issued other ABS transactions in Australia, China, the United Kingdom, Japan and Sweden with a value of €3.6 billion.

A bond was issued for the first time in China's local capital market. Other transactions were executed in currencies such as the Swedish krona, Russian ruble and Indian rupee.

In addition, the Automotive Division issued a public promissory note with a value of €1.1 billion.

The share of fixed-rate instruments was roughly twice as high as the share of variable-rate instruments.

In all refinancing arrangements, risks related to interest rates and currency are generally excluded by entering into derivatives contracts at the same time.

The table below shows how our money and capital market programs were utilized as of 31 December, 2016 and illustrates the financial flexibility of the Volkswagen Group:

PROGRAM	Authorized volume € billion	Amount utilized on Dec. 31, 2016 € billion
Commercial paper	26.8	13.4
Bonds	129.4	47.7
of which hybrid issues	–	7.5
Asset-backed securities	73.2	36.5

The €20.0 billion syndicated credit line for Volkswagen AG that was agreed with a banking syndicate in December 2015 was extended until June 2017. After exercising an extension option in 2015, the syndicated credit line of €5.0 billion agreed in July 2011 was extended to April 2020. Both credit lines were unused as of the end of 2016.

Syndicated credit lines worth a total of €2.4 billion at other Group companies have also not been drawn down. In addition, Group companies had arranged bilateral, confirmed credit lines with national and international banks in various other countries for a total of €8.5 billion, of which €2.6 billion was drawn down.

## RATINGS

	VOLKSWAGEN AG			VOLKSWAGEN FINANCIAL SERVICES AG			VOLKSWAGEN BANK GMBH		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
<b>Standard &amp; Poor's</b>									
Short-term	A-2	A-2	A-1	A-2	A-2	A-1	A-2	A-2	A-1
Long-term	BBB+	BBB+	A	BBB+	BBB+	A	A-	A-	A
Outlook	negative	negative	stable	negative	negative	stable	negative	negative	stable
<b>Moody's Investors Service</b>									
Short-term	P-2	P-2	P-2	P-1	P-1	P-2	P-1	P-1	P-2
Long-term	A3	A3	A3	A2	A1	A3	Aa3	A1	A3
Outlook	negative	negative	positive	negative	negative	positive	negative	negative	positive

## RATINGS

In 2016, rating agencies Standard & Poor's and Moody's Investors Service undertook their regular update of their credit ratings for Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH.

Standard & Poor's confirmed its short-term and long-term ratings for Volkswagen AG and Volkswagen Financial Services AG at A-2 and BBB+, respectively. The short-term and long-term ratings of Volkswagen Bank GmbH were also confirmed at A-2 and A- respectively. The outlook for all three companies was left unchanged at negative.

In August 2016, Moody's Investors Service downgraded its long-term rating for Volkswagen Financial Services AG by one notch, from A1 to A2. At the same time, the long-term rating of Volkswagen Bank GmbH was raised by one notch, from A1 to Aa3. This is due to a change in the perspective of the rating method introduced last year in the event of a wind-up of the two companies. The short-term rating was left unchanged for both companies at P-1. The short-term and long-term ratings for Volkswagen AG remain unchanged at P-2 and A3, respectively. The outlook for all three companies is still classified as negative.

## VOLKSWAGEN IN SUSTAINABILITY RANKINGS AND INDICES

Analysts and investors view sustainability performance as a leading indicator of forward-looking corporate governance and therefore increasingly also base their recommendations and decisions on companies' sustainability profiles. Sustainability ratings are particularly well suited to evaluating a company's environmental, social and economic performance. If a company achieves the highest scores in these ratings, this sends a clear signal to its stakeholders. It also raises its attractiveness as an employer and the motivation of its existing employees.

In sustainability rankings and indices – such as the Dow Jones Sustainability Indices, Carbon Disclosure Project (CDP), Sustainalytics, or oekom research – where we held top positions before the emissions issue, Volkswagen's ratings have been downgraded or removed.