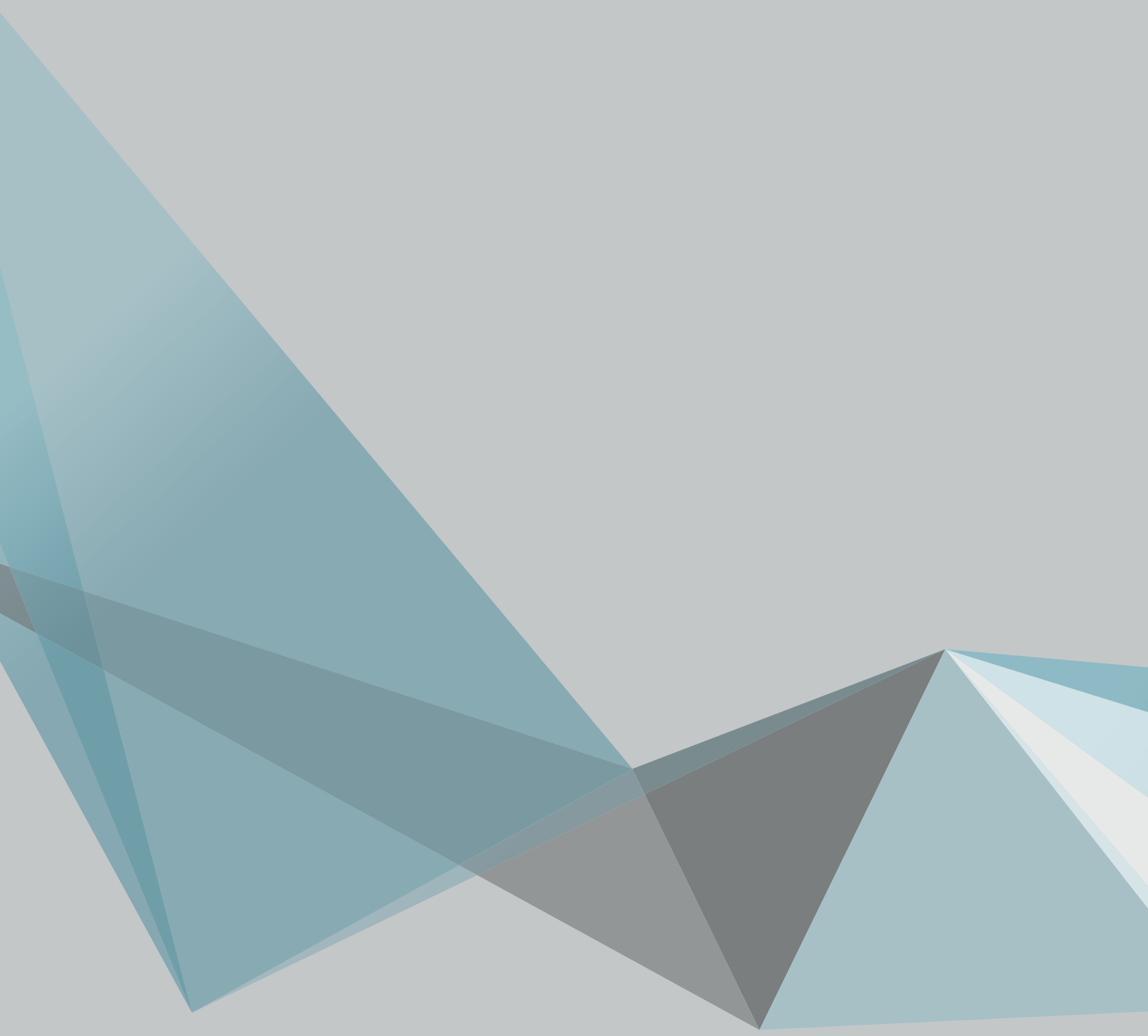




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To our  
Shareholders



**TO OUR SHAREHOLDERS**

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# Letter to our Shareholders

*Dear Shareholders,*

Life sometimes has its ironic side. For years, Volkswagen seemed to be pursuing one overriding goal: to become the world's biggest carmaker. Then the diesel scandal broke in September 2015, marking a profound turning point. And now – in spring 2017, when we are still coping with the consequences of the crisis and have long since defined new priorities for the future – the headlines read: “Volkswagen becomes the world's best-selling automaker.”

Naturally, we are pleased with this success. But much more important than the fact that we delivered a record-breaking 10.3 million vehicles last year is that this achievement testifies to the trust our customers place in us. We are thankful for that. We will continue to do everything in our power to honor this confidence – and to win back the trust of those we have let down.

Our financial key performance indicators also confirm that 2016 was a very successful year for Volkswagen in spite of all the strains: sales revenue rose further to €217.3 billion. At €7.1 billion, the operating profit, which had slipped into the red in the previous year due to the diesel crisis, was back in strongly positive territory – even though it was once again impacted significantly by negative special items amounting to €7.5 billion. Before special items, the Group's operating profit was €14.6 billion – the highest ever in the history of our company. At 6.7 percent, the operating return on sales before special items also exceeded the target we had set ourselves.

Much as it gives me pleasure to report these figures, chasing records is not what drives us. Our real mission is to make Volkswagen and its products better and better. We progressed with that in the last fiscal year. And there is another message in these figures, as well: the Volkswagen Group and its 12 brands are very solidly positioned in both operational and financial terms. All this is no coincidence, it is the result of a strong team performance: I would like to thank all colleagues in the Group for their personal commitment and hard work during last year.

We also know we asked a lot of you, our shareholders, recently. On behalf of our employees and in my own name I would like to thank you for your loyalty and support during a difficult time for your company. With this in mind and given the good development of the operating business, the Board of Management and the Supervisory Board will propose a dividend for the fiscal year 2016 of €2.00 per ordinary share and €2.06 per preferred share.

We are all aware that the Volkswagen Group still has a long way to go. Size is certainly not the only thing that counts in tomorrow's world of mobility: a world shaped by new technologies, competitors and business models. What also matters is a new, holistic approach to mobility. This is about the capability and the courage to change. A company that “only” builds fascinating cars will not be able to compete for long.

**“CHASING RECORDS IS NOT WHAT DRIVES US. OUR REAL MISSION IS TO MAKE VOLKSWAGEN AND ITS PRODUCTS BETTER AND BETTER.”**

——— Matthias Müller



Our future program TOGETHER – Strategy 2025 maps out this change and underpins it with a convincing plan. We are working to transform Volkswagen into a globally leading provider of sustainable mobility. To that end, we have forged new partnerships and entered into new participations in recent months. With MOIA, we have established our own company for new mobility solutions. We have set clear signs regarding our ambitious plans for e-mobility. By decentralizing responsibility within the Group we are making Volkswagen faster, more focused and efficient. We are doing more in terms of integrity and sustainability, too, because a company's long-term success depends on its authenticity in assuming responsibility for the environment and society. And only a company with a solid system of values and a vibrant, open culture can lay claim to a firm place at the center of society.

Notwithstanding all reforms and changes, there is one thing we will never do, and that is to abandon our definitive strengths, the essence of our company. We will continue to work with passion on the best technologies, vehicles and business models for our customers. This year, our brands will be launching around 60 new vehicles; that underscores our determination and makes us optimistic for the coming months.

The Volkswagen Group is on the move. We are leading this great company whose brands and products have always stood for innovative strength, security, enduring value and emotional design into tomorrow's world. There is no question that we have set ourselves a challenging goal. But it is most definitely worth it. And we very much hope you will remain at our side on this journey.

Sincerely,

A handwritten signature in black ink, appearing to read 'Matthias Müller', written in a cursive style.

Matthias Müller

# The Board of Management

of Volkswagen Aktiengesellschaft



**Matthias Müller**

Chairman of the Board of Management  
of Volkswagen Aktiengesellschaft



**Dr. rer. pol. h.c. Francisco Javier Garcia Sanz**  
Procurement



**Dr. rer. soc. Karlheinz Blessing**  
Human Resources and Organization



**Andreas Renschler**  
Commercial Vehicles



**Dr.-Ing. Herbert Diess**  
Chairman of the Brand Board of  
Management of Volkswagen Passenger Cars



**Frank Witter**  
Finance and Controlling



**Prof. Dr. rer. pol. Dr.-Ing. E.h. Jochem Heizmann**  
China



**Hiltrud Dorothea Werner**  
Integrity and Legal Affairs (since February 1, 2017)  
*until January 31, 2017:*  
*Dr. jur. Christine Hohmann-Dennhardt*



**Prof. Rupert Stadler**  
Chairman of the Board of Management of AUDI AG

# Report of the Supervisory Board

(in accordance with section 171(2) of the AktG)

Ladies and Gentlemen,

Fiscal year 2016 was dominated by the Volkswagen Group's realignment. The work of the Supervisory Board and its committees focused on the development of the future program TOGETHER – Strategy 2025, as well as the diesel issue and its consequences. The Supervisory Board of Volkswagen AG addressed the Company's position and development regularly and therefore with particular intensity in the reporting period. We supervised and supported the Board of Management in its running of the business and advised it on issues relating to the management of the Company in accordance with our duties under the law, the Articles of Association and the rules of procedure. We also observed the relevant recommendations and suggestions of the German Corporate Governance Code at all times. The Supervisory Board was directly involved in all decisions of fundamental importance to the Group. We additionally discussed strategic considerations with the Board of Management at regular intervals.

The Board of Management regularly, promptly and comprehensively informed the Supervisory Board in writing or orally on all matters of relevance to the Company relating to the strategy, the development of the business as well as the Company's planning and position, including the risk situation and risk management. In this respect, the Board of Management also informed it in particular of improvements to the risk and compliance management system with regard to the diesel issue. In addition, the Board of Management informed the Supervisory Board on an ongoing basis about compliance-related topics and other topical issues. In all cases we received the documents relevant to our decisions in good time for our meetings. We also received a detailed monthly report from the Board of Management on the current business position and the forecast for the current year. Any variances in performance that occurred as against the plans and targets previously drawn up were explained by the Board of Management in detail, either orally or in writing. We analyzed the reasons for the variances together with the Board of Management so as to enable countermeasures to be derived. In addition, the Board of Management presented regular reports on current developments in connection with the diesel issue at the meetings of the Special Committee on Diesel Engines.

The Chairman of the Supervisory Board also consulted with the Chairman of the Board of Management at regular intervals between meetings to discuss important current issues. Apart from the diesel issue, they included the Volkswagen Group's new strategy and planning, the development of the business, the Group's risk situation and risk management including integrity and compliance issues.

The Supervisory Board held a total of eleven meetings in fiscal year 2016. The average attendance ratio was 95.0%; all of the members of the Supervisory Board attended over half of the meetings of the Supervisory Board and the committees of which they are members. In addition, resolutions on urgent matters were adopted in writing or using electronic communications media.



#### COMMITTEE ACTIVITIES

The Supervisory Board has established five committees in order to discharge the duties entrusted to it: the Executive Committee, the Nomination Committee, the Mediation Committee in accordance with section 27(3) of the Mitbestimmungsgesetz (MitbestG – German Codetermination Act), the Audit Committee and, since October 2015, the Special Committee on Diesel Engines. The Executive Committee and the Special Committee on Diesel Engines each consist of three shareholder representatives and three employee representatives. The members of the Nomination Committee are the shareholder representatives on the Executive Committee. The remaining two committees are each composed of two shareholder representatives and two employee representatives. The members of these committees as of December 31, 2016 are given on page 87 of this annual report.

The Executive Committee met 20 times during the past fiscal year, mainly discussing current matters related to the diesel issue. The Committee also prepared the resolutions by the Supervisory Board in detail and dealt with the composition of and contractual issues concerning the Board of Management other than remuneration.

The Nomination Committee is responsible for proposing suitable candidates for the Supervisory Board to recommend for election to the Annual General Meeting. The Committee met once in the reporting period.

The Mediation Committee did not have to be convened in 2016.

The Audit Committee held six meetings in fiscal year 2016. It focused primarily on the consolidated financial statements, risk management (including the internal control system), and the work performed by the Company's compliance organization. In addition, the Audit Committee addressed the Group's quarterly reports and the half-yearly financial report as well as current financial reporting issues and their examination by the auditors.

The Special Committee on Diesel Engines is responsible for coordinating all activities relating to the diesel issue and preparing resolutions by the Supervisory Board. The Special Committee is also provided with regular information by the Board of Management to enable that. It is also entrusted with examining any consequences of the findings. The Chairman of this Committee reports regularly on its work to the Supervisory Board. The Special Committee on Diesel Engines met on ten occasions in fiscal year 2016. At its meeting on June 18, 2016, the Special Committee on Diesel Engines decided – having been delegated by the Supervisory Board with the relevant authority – to approve the conclusion of settlements with the US authorities and customers in relation to the 2.0 l engines. At its meetings on November 17, 2016 and December 19, 2016, the Special Committee on Diesel Engines decided – having been delegated by the Supervisory Board with the relevant authority – to approve the conclusion of settlements with the US authorities and customers in relation to the 3.0 l engines.

Furthermore, as a rule the shareholder and employee representatives met for separate preliminary discussions before each of the Supervisory Board meetings.

#### TOPICS DISCUSSED BY THE SUPERVISORY BOARD

The Supervisory Board's first meeting in the reporting period was held on March 14, 2016 and mainly dealt with the current state of affairs with respect to the diesel issue. On the same date, the Board of Management and the Supervisory Board of Volkswagen AG also issued, among other things, a supplement to the declaration of conformity with the German Corporate Governance Code of November 20, 2015. This supplement became necessary because, due to unanswered questions relating to the consequences of the emissions issue and the resulting assessment questions, the Board of Management and the Supervisory Board decided not to publish either the 2015 Annual Report within 90 days of the end of the fiscal year, or the interim report for the first quarter of 2016 within 45 days of the end of the quarter.

In the meeting of the Supervisory Board on April 22, 2016, we dealt in detail with the remuneration system for the Board of Management and, in this connection, issued a further supplement to the declaration of conformity with the German Corporate Governance Code of November 20, 2015, together with the Board of Management. This supplement



**Hans Dieter Pötsch**

became necessary because the performance targets and comparison parameters used to determine the variable remuneration in fiscal year 2015 were amended in agreement with some members of the Board of Management. Following a detailed examination, we also approved the consolidated financial statements and the annual financial statements of Volkswagen AG for 2015 prepared by the Board of Management, as well as the combined management report. We examined the dependent company report submitted by the Board of Management and came to the conclusion that there were no objections to be raised to the concluding declaration by the Board of Management in the report. We also discussed the current state of affairs with respect to the diesel issue and dealt intensively with the situation of the Volkswagen Passenger Cars brand. Finally, the Board of Management explained the status of development of the future program TOGETHER – Strategy 2025.

Another Supervisory Board meeting was held on May 10, 2016, in which we mainly dealt with the current state of affairs with respect to the diesel issue and, in this connection, adopted the proposed resolutions to the Annual General Meeting concerning formal approval of the actions of the members of the Board of Management and Supervisory Board for fiscal year 2015, and dealt with the Board of Management's status report on the Group's new strategy.

The Supervisory Board meeting on June 14, 2016 again focused on the Group's strategy and the current state of affairs with respect to the diesel issue. The Supervisory Board decided in particular to make the conclusion of settlements with the US authorities and customers in relation to the 2.0l engines subject to its approval and to delegate the decision to grant such approval to the Special Committee on Diesel Engines.

Two more Supervisory Board meetings were held on June 21 and 22, 2016 in the context of Volkswagen AG's 2016 Annual General Meeting. Their agenda included in particular preparations for and the post-completion analysis of the 56th Annual General Meeting of Volkswagen AG on June 22, 2016, the composition of the committees, and the current state of affairs with respect to the diesel issue.

The agenda of the Supervisory Board meeting on September 23, 2016 included a status report on the future program TOGETHER – Strategy 2025 and the current state of affairs with respect to the diesel issue. The Supervisory Board decided in particular to make the conclusion of settlements with the US Department of Justice (DOJ) subject to its approval.

The Supervisory Board additionally held a telephone conference on the current state of affairs with respect to the diesel issue on November 1, 2016. The Supervisory Board decided in particular to make the conclusion of settlements with the US authorities and customers in relation to the 3.0l engines subject to its approval and to delegate the decision to grant such approval to the Special Committee on Diesel Engines.

The Supervisory Board held a meeting on November 4, 2016, in which we discussed not only the current state of affairs with respect to the diesel issue, but also the Volkswagen Group's investment and financial planning and the situation of the Volkswagen Passenger Cars brand.

At the Supervisory Board meeting on November 18, 2016, we discussed in detail the Volkswagen Group's investment and financial planning for the period from 2017 to 2021. We also dealt with the current state of affairs with respect to the diesel issue. Furthermore, the meeting focused on the status report on the new strategy and on issuing the annual declaration of conformity with the German Corporate Governance Code.

The Supervisory Board held a further telephone conference on December 20, 2016, in which we mainly dealt with the current state of affairs with respect to the diesel issue.

In the reporting period, we approved among other things the cooperation with the US-based commercial vehicle manufacturer Navistar in resolutions that were adopted by circulating written documents.

#### CONFLICTS OF INTEREST

At its meeting on November 17, 2016, the Executive Committee of the Supervisory Board addressed major shareholder business relationships. The Executive Committee members were guided exclusively by the interests of the Company when voting. No material conflicts of interest were discernible in this respect. In this context, the Executive Committee granted approvals to transactions with the State of Lower Saxony. Executive Committee member Mr. Stephan Weil is Minister-President of the State of Lower Saxony and abstained from voting.

Mr. Hans Dieter Pötsch was a member of the Board of Management of Volkswagen AG until October 2015. His move to the Supervisory Board had already been planned irrespective of the diesel issue. In order to avoid conceivable conflicts of interest, Mr. Pötsch does not participate in adopting Supervisory Board resolutions that might relate to his conduct in connection with the diesel issue. Consequently, Mr. Pötsch also did not vote on the resolution adopted by the Supervisory Board at its meeting on May 10, 2016 on the proposed resolution to the Annual General Meeting concerning formal approval of the actions of the members of the Board of Management for fiscal year 2015.

No other conflicts of interest were reported or were discernible in the reporting period.

#### CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board meeting on November 18, 2016 focused on the implementation of the recommendations and suggestions of the German Corporate Governance Code at the Volkswagen Group. We discussed in detail the version of the German Corporate Governance Code dated May 5, 2015, as published by the relevant government commission on June 12, 2015, and issued the annual declaration of conformity with the recommendations of the German Corporate Governance Code in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) together with the Board of Management. Apart from this declaration, the Board of Management and Supervisory Board of Volkswagen AG jointly issued a supplement to the declaration of conformity of November 20, 2015 in the reporting period on March 14, 2016 and on April 22, 2016.

The joint declarations of conformity by the Board of Management and the Supervisory Board are permanently available at [www.volkswagenag.com/ir](http://www.volkswagenag.com/ir). Additional information on the implementation of the recommendations and suggestions of the German Corporate Governance Code can be found in the corporate governance report starting on page 60 and in the notes to the consolidated financial statements on page 317 of this annual report.

#### MEMBERS OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

In accordance with section 104 of the AktG, the court appointed Ms. Birgit Dietze, Secretary to the board of IG Metall trade union, to the Supervisory Board of Volkswagen AG as an employee representative effective June 1, 2016. She thus succeeded Ms. Babette Fröhlich, who stepped down from her office on the same date.

Mr. Akbar Al Baker, a shareholder representative on the Supervisory Board of Volkswagen AG, stepped down from his office with effect from the end of the 56th Annual General Meeting on June 22, 2016. The Annual General Meeting elected Dr. Hessa Sultan Al-Jaber to replace him for the remainder of his term of office.

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 56th Annual General Meeting. The Annual General Meeting elected all three members to a full term of office in the Supervisory Board of Volkswagen AG.

Dr. Karlheinz Blessing succeeded Dr. Horst Neumann as the member of the Board of Management of Volkswagen AG with responsibility for Human Resources and Organization effective January 1, 2016.

Dr. Christine Hohmann-Dennhardt, who was responsible for the newly created Integrity and Legal Affairs position on the Board of Management of Volkswagen AG with effect from January 1, 2016, left the Board of Management by mutual agreement effective January 31, 2017. The Supervisory Board thanks Dr. Hohmann-Dennhardt for helping the Group achieve key milestones with her outstanding technical expertise and experience and for supporting the Group in revising its internal directives and processes.

Ms. Hiltrud Dorothea Werner succeeded Dr. Hohmann-Dennhardt in the Integrity and Legal Affairs position on the Board of Management effective February 1, 2017.

Former Supervisory Board member Mr. Walther Leisler Kiep died on May 9, 2016 aged 90. The former Minister of Finance for the State of Lower Saxony was a member of the Supervisory Board from 1976 to 1982 and from 1983 to 1997 and accompanied the company's development with great personal commitment during that time. We will honor his memory.

#### AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Annual General Meeting of Volkswagen AG on June 22, 2016 elected PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as auditors for fiscal year 2016, in line with our proposal. The auditors audited the annual financial statements of Volkswagen AG, the consolidated financial statements of the Volkswagen Group and the combined management report, and issued unqualified audit reports in each case.

In addition, they analyzed the risk management and internal control systems, concluding that the Board of Management had taken the measures required by section 91(2) of the AktG to ensure early detection of any risks endangering the continued existence of the Company. The Report by the Board of Management on Relationships of Volkswagen AG with Affiliated Companies in Accordance with Section 312 of the AktG for the period from January 1 to December 31, 2016 (dependent company report) submitted by the Board of Management was also audited by the auditors, who issued the following opinion: "In our opinion and in accordance with our statutory audit, we certify that the factual disclosures provided in the report are correct and that the Company's consideration concerning legal transactions referred to in the report was not unduly high."

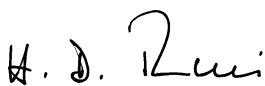
The members of the Audit Committee and the members of the Supervisory Board were provided in each case with the documentation relating to the annual financial statements, including the dependent company report, and the audit reports prepared by the auditors in good time for their meetings on February 23, 2017 and February 24, 2017, respectively. The auditors reported extensively at both meetings on the material findings of their audit and were available to provide additional information.

Taking into consideration the audit reports and the discussion with the auditors and based on its own conclusions, the Audit Committee prepared the documents for the Supervisory Board's examination of the consolidated financial statements, the annual financial statements of Volkswagen AG, the combined management report and the dependent company report and reported on these at the Supervisory Board meeting on February 24, 2017. Following this, the Audit Committee recommended that the Supervisory Board approve the annual financial statements. We examined the documents in depth in the knowledge and on the basis of the report by the Audit Committee and the audit report as well as in talks and discussions with the auditors. We came to the conclusion that they are due and proper and that the assessment of the position of the Company and the Group presented by the Board of Management in the management report corresponds to the assessment by the Supervisory Board. We therefore concurred with the auditors' findings and approved the annual financial statements prepared by the Board of Management and the consolidated financial statements at our meeting on February 24, 2017, at which the auditors also took part in discussions on the agenda items relating to the financial statements. The annual financial statements are thus adopted. Our examination of the dependent company report did not result in any objections to the concluding declaration by the Board of Management in the dependent company report. We reviewed the proposal on the appropriation of net profit submitted by the Board of Management, taking into account in particular the interests of the Company and its shareholders, and endorsed the proposal.

The trust of our customers, shareholders, partners, employees and the general public is our most important asset. The Supervisory Board will spare no effort to ensure that Volkswagen restores their trust. In doing so, we can and will set store by the qualities and strengths that have distinguished our Company and made it strong ever since it was established.

We would like to express our thanks and particular appreciation to the members of the Board of Management, the Works Council, the management and all the employees of Volkswagen AG and its affiliated companies for their work in 2016. With your resolve and loyalty, you all helped Volkswagen Group cope with the diverse challenges it faced in fiscal year 2016, rebuild trust and successfully tackle its realignment under the future program TOGETHER – Strategy 2025.

Wolfsburg, February 24, 2017



Hans Dieter Pötsch  
Chairman of the Supervisory Board