VALUE ADDED STATEMENT

The value added statement indicates the added value generated by a company in the past fiscal year as its contribution to the gross domestic product of its home country, and how it is appropriated. The value added generated by the Volkswagen Group in the year under review was up 20.6% year-on-year, mainly as a result of considerably lower negative special items in connection with the diesel issue. Added value per employee increased to €94.5 thousand (+18.0%) in 2016. Employees in the passive phase of their partial retirement as well as vocational trainees are not included in the calculation.

VALUE ADDED GENERATED BY THE VOLKSWAGEN GROUP

Source of funds in € million	2016		2015	
Sales revenue	217,267		213,292	
Other income	17,907		20,092	
Cost of materials	−140,307		−143,700	
Depreciation and amortization	−20,924		−19,693	
Other upfront expenditures	−23,990		−28,578	
Value added	**49,953**		**41,413**	

Appropriation of funds in € million	2016	%	2015	%
to shareholders (dividend, 2016 dividend proposal)	1,015	2.0	68	0.2
to employees (wages, salaries, benefits)	37,017	74.1	36,268	87.6
to the state (taxes, duties)	3,486	7.0	3,033	7.3
to creditors (interest expense)	4,070	8.1	3,472	8.4
to the Company (reserves)	4,365	8.7	−1,428	−3.4
Value added	**49,953**	**100.0**	**41,413**	**100.0**

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION

The Volkswagen Group's financial target system centers on continuously and sustainably increasing the value of the Company. In order to ensure the efficient use of resources in the Automotive Division and to measure the success of this, we have been using a value-based management system for a number of years, with return on investment (ROI) as a relative indicator and value contribution[1], a key performance indicator linked to the cost of capital, as an absolute performance measure.

The return on investment serves as a consistent target in strategic and operational management. 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. The concept of value-based management allows the success of the Automotive Division and individual business units to be evaluated. It also enables the earnings power of our products, product lines and projects – such as new plants – to be measured.

Components of value contribution

Value contribution is calculated on the basis of the operating result after tax and the opportunity cost of invested capital. The operating result shows the economic performance of the Automotive Division and is initially a pre-tax figure.

Using the various international income tax rates of the relevant companies, we assume an overall average tax rate of 30% when calculating the operating result after tax.

The cost of capital is multiplied by the average invested capital to give the opportunity cost of capital. Invested capital is calculated as total operating assets reported in the balance sheet (property, plant and equipment, intangible assets, lease assets, inventories and receivables) less 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.

As the concept of value-based management only comprises our operating activities, assets relating to investments in subsidiaries and associates and the investment of cash funds are not included when calculating invested capital. Interest charged on these assets is reported in the financial result.

Determining the current cost of capital

The cost of capital is the weighted average of the required rates of return on equity and debt. The cost of equity is determined using the Capital Asset Pricing Model (CAPM).

This model uses the yield on long-term risk-free Bunds, increased by the risk premium attaching to investments in the equity market. The risk premium comprises a general market risk and a specific business risk.

The general risk premium of 6.5% reflects the general risk of a capital investment in the equity market and is oriented on the Morgan Stanley Capital International (MSCI) World Index.

The specific business risk – price fluctuations in Volkswagen preferred shares – has been modeled in comparison to the MSCI World Index when calculating the beta factor. The MSCI World Index is a global capital market benchmark for investors.

The analysis period for the beta factor calculation spans five years with annual beta figures on a daily basis and an average subsequently being calculated. A beta factor of 1.22 (1.28) was determined for 2016.

COST OF CAPITAL AFTER TAX AUTOMOTIVE DIVISION

%	2016	2015
Risk-free rate	0.7	1.2
MSCI World Index market risk premium	6.5	6.5
Volkswagen-specific risk premium	1.5	1.8
(Volkswagen beta factor)	(1.22)	(1.28)
Cost of equity after tax	**8.7**	**9.5**
Cost of debt	1.7	2.0
Tax	−0.5	−0.6
Cost of debt after tax	**1.2**	**1.4**
Proportion of equity	66.7	66.7
Proportion of debt	33.3	33.3
Cost of capital after tax	**6.2**	**6.8**

The cost of debt is based on the average yield for long-term debt. As borrowing costs are tax-deductible, the cost of debt is adjusted to account for the tax rate of 30%.

A weighting on the basis of a fixed ratio for the fair values of equity and debt gives an effective cost of capital for the Automotive Division of 6.2 (6.8)% for 2016.

1 The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION IN THE REPORTING PERIOD

The operating result after tax of the Automotive Division, including the proportionate operating result of the Chinese joint ventures, was €7,419 (–203) million in fiscal year 2016. The increase was primarily due to the year-on-year decline in special items, as well as improvements in the mix and optimized product costs. Profit was negatively impacted by higher depreciation and amortization charges due to the high volume of capital expenditures and exchange rate effects. Effects on earnings and assets from purchase price allocation are not taken into account as they cannot be influenced operationally by management.

Invested capital rose to €91,020 (84,289) million, primarily due to increased investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex), and higher capitalized development costs.

The return on investment (ROI) is the return on invested capital for a particular period based on the operating result after tax. It rose year-on-year to 8.2 (–0.2)% as a result of the improved operating profit. We did not meet the minimum required rate of return on invested capital of 9% due to the adverse effects of the special items on earnings.

At €5,643 (5,732) million, the opportunity cost of capital (invested capital multiplied by cost of capital) was down on the prior-year level due to decreased cost of capital. Operating result after tax was negatively impacted by special items and led to a positive value contribution of €1,775 (–5,935) million after the opportunity cost of invested capital.

More information on value-based management is contained in our publication entitled "Financial Control System of the Volkswagen Group", which can be downloaded from our Investor Relations website: www.volkswagenag.com/ir.

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION IN THE AUTOMOTIVE DIVISION[1]

€ million	2016	2015
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 %	6.2	6.8
Cost of invested capital	**5,643**	**5,732**
Value contribution	**1,775**	**–5,935**

1 Including proportionate inclusion of the Chinese joint ventures (including the relevant sales and component companies) and allocation of consolidation adjustments between the Automotive and Financial Services divisions.