

Volkswagen AG

(Condensed, in accordance with the German Commercial Code)

Production and unit sales at prior-year level.

Profit rises; further charges from the diesel issue, but at a lower level.

ANNUAL RESULT

Special items relating to the diesel issue, and in particular provisions for technical measures and legal risks, had an impact of €-0.8 (-7.5) billion on cost of sales and of €-4.5 (-6.7) billion on the net other operating result. In addition, special items of €-0.4 (-0.8) billion affected distribution expenses.

In fiscal year 2016, sales were 2.5% higher than in the previous year, at €75.3 billion. This includes an amount of €2.0 billion, relating in particular to rental and leasing, which had been recognized in the other operating result in the previous year. Adjusted for this amount, sales fell slightly compared with 2015. Sales generated abroad accounted for a share of 61.2 (62.1)%. Cost of sales fell by 7.3% to €70.2 billion. In deviation from the previous year, expenditure of €1.4 bil-

lion, primarily for rental and leasing, was recognized for 2016 in cost of sales. Gross profit improved to €5.1 (-2.2) billion, of which €0.6 billion was attributable to the reclassifications explained earlier.

At €8.4 billion, selling, general and administrative expenses were €1.0 billion down on the prior-year figure.

The net other operating result improved by €5.0 billion to €-2.0 (-7.1) billion.

Driven by lower net investment income, the financial result declined to €8.7 (13.8) billion.

Including the income tax expense of €0.7 (0.7) billion, net income for the year amounted to €2.8 billion in the year under review, compared with a net loss of 5.5 billion in the previous year.

INCOME STATEMENT OF VOLKSWAGEN AG

€ million	2016	2015
Sales	75,310	73,510
Cost of sales	-70,180	-75,693
Gross profit on sales	5,131	-2,184
Selling, general and administrative expenses	-8,352	-9,364
Net other operating result	-2,035	-7,084
Financial result ¹	8,725	13,813
Taxes on income	-670	-697
Earnings after tax	2,799	-5,515
Net income/net loss for the fiscal year	2,799	-5,515
Retained profits brought forward	2	5
Appropriation to/release of revenue reserves	-1,399	5,580
Net retained profits	1,402	69

1 Including write-downs of financial assets.

BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

€ million	2016	2015
Fixed assets	101,973	94,919
Inventories	4,387	4,073
Receivables ¹	26,386	26,563
Cash-in-hand and bank balances	9,117	7,941
Total assets	141,863	133,496
Equity	27,100	24,368
Special tax-allowable reserves	23	26
Long-term debt	26,457	26,973
Medium-term debt	30,082	32,003
Short-term debt	58,200	50,126

1 Including prepaid expenses.

NET ASSETS AND FINANCIAL POSITION

Total assets amounted to €141.9 billion at December 31, 2016, €8.4 billion up on the prior-year figure. Investments in tangible and intangible fixed assets declined to €2.0 (2.7) billion. At €9.1 (9.1) billion, investments in financial assets remained at the prior-year level. Fixed assets accounted for a share of 71.9 (71.1)% of total assets.

Current assets (including prepaid expenses) increased slightly compared with 2015.

Equity amounted to €27.1 billion at the end of the reporting period; the increase was due in particular to the improved net income for the year. The equity ratio was 19.1 (18.3)%.

At €30.8 (28.6) billion, other provisions remained at the previous year's high level. This was due to the previous year's increase in provisions in connection with the diesel issue, which largely continued to be recognized. Provisions for pensions and similar obligations declined by €0.7 billion to €13.6 billion, primarily as a result of a change in the interest rate, while provisions for taxes decreased by €0.7 billion to €3.9 billion.

The €4.8 billion rise in total liabilities (including deferred income) to €66.4 billion is mainly attributable to higher liabilities to affiliated companies.

Volkswagen AG's cash funds, comprising cash instruments with a maturity of less than three months, less bank and cash pooling liabilities repayable on demand, declined year-on-year from €-5.1 billion to €-6.2 billion. The interest-bearing portion of debt amounted to €55.1 (51.4) billion. In our assessment, the economic position of Volkswagen AG is just as satisfactory overall as that of the Volkswagen Group.

DIVIDEND PROPOSAL

Including net income for the year, net retained profits amounted to €1.4 billion. The Board of Management and Supervisory Board are proposing to pay a total dividend of €1.0 billion, i.e. €2.00 per ordinary share and €2.06 per preferred share.

PROPOSAL ON THE APPROPRIATION OF NET PROFIT

€	2016
Dividend distribution on subscribed capital (€1,283 million)	1,014,962,852.70
of which on: ordinary shares	590,179,636.00
preferred shares	424,783,216.70
Appropriation to other revenue reserves	385,000,000.00
Balance (carried forward to new account)	1,709,231.84
Net retained profits	1,401,672,084.54

EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG

€ million	2016	%	2015	%
Direct pay including cash benefits	7,138	71.2	7,126	71.8
Social security contributions	1,337	13.3	1,227	12.4
Compensated absence	1,099	11.0	1,108	11.2
Retirement benefits	456	4.6	461	4.6
Total expense	10,030	100.0	9,922	100.0

VEHICLE SALES

Volkswagen AG sold a total of 2,632,144 (2,676,629) vehicles in fiscal year 2016. Vehicles sold abroad accounted for a share of 69.7 (69.4)%.

PRODUCTION

Volkswagen AG produced a total of 1,241,217 vehicles at its vehicle production plants in Wolfsburg, Hanover and Emden in the reporting period (−1.2%). Volkswagen AG's average daily production was up on the previous year, at 5,423 units.

EMPLOYEES

As of December 31, 2016, a total of 113,928 people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. Of this figure, 4,999 were vocational trainees. 2,936 employees were in the passive phase of their partial retirement. The size of the workforce decreased by 0.1% as against the prior-year reporting date.

Female employees accounted for 17.0% of the workforce. Volkswagen AG employed 4,721 part-time workers (4.1%). The percentage of foreign employees was 6.1%. The proportion of employees in the production area who have completed vocational training relevant for Volkswagen was 83.5%. 18.8% of the employees were graduates. The average age of employees in fiscal year 2016 was 43.2 years.

RESEARCH AND DEVELOPMENT

Research and development costs for Volkswagen AG under the German Commercial Code declined to €4.7 (5.3) billion in the reporting period. 12,380 people were employed in this area at the end of the reporting period.

EXPENDITURE ON ENVIRONMENTAL PROTECTION

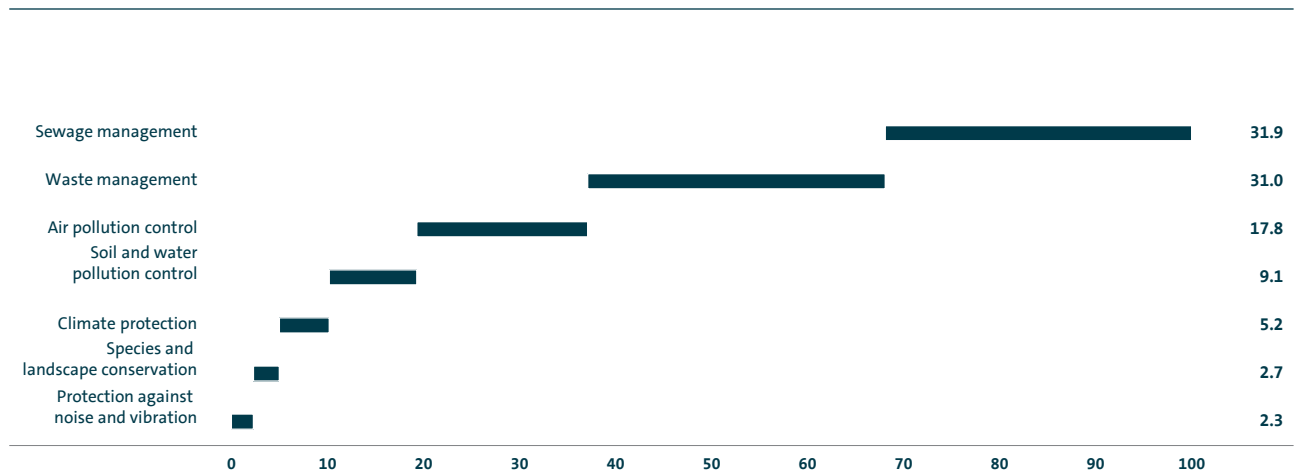
When measuring expenditure on environmental protection, a distinction is made between investments and operating costs for production-related environmental protection measures. Of our total investments, only those that are spent exclusively or primarily on environmental protection are included in environmental protection investments. We distinguish here between additive and integrated investments. Additive environmental protection measures are separate investments that are independent of other investments relating to the production process. They can be upstream or downstream of the production process. Unlike additive environmental protection measures, integrated measures involve reducing the environmental impact during the production phase. In 2016 we invested primarily in soil, water and air pollution control.

The operating costs recognized for environmental protection relate exclusively to production-related measures that protect the environment against harmful factors by avoiding, reducing, or eliminating emissions by the Company. Resources are also conserved. For example, these include expenditures incurred to operate equipment that protects the environment as well as expenditures for measures not relating to such equipment. The emphasis in 2016 was on sewage and waste management.

The fields of environmental protection were redefined in 2016 due to a change in legislation.

VOLKSWAGEN AG EXPENDITURE ON ENVIRONMENTAL PROTECTION

€ million	2016	2015	2014	2013	2012
Investments	11	21	19	14	9
Operating costs	223	244	226	224	216

OPERATING COSTS FOR ENVIRONMENTAL PROTECTION AT VOLKSWAGEN AG 2016*Share of environmental protection areas in percent***BUSINESS DEVELOPMENT RISKS AND OPPORTUNITIES AT VOLKSWAGEN AG**

The business development of Volkswagen AG is exposed to essentially the same risks and opportunities as the Volkswagen Group. These risks and opportunities are explained in the Report on Risks and Opportunities on pages 180 to 201 of this annual report.

RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risks for Volkswagen AG arising from the use of financial instruments are generally the same as those to which the Volkswagen Group is exposed. An explanation of these risks can be found on pages 199 to 200 of this annual report.

DEPENDENT COMPANY REPORT

The Board of Management of Volkswagen AG has submitted to the Supervisory Board the report required by section 312 of the AktG and issued the following concluding declaration:

“We declare that, based on the circumstances known to us at the time when the transactions with affiliated companies within the meaning of section 312 of the German Stock Corporation Act (AktG) were entered into, our Company received appropriate consideration for each transaction. No transactions with third parties or measures were either undertaken or omitted on the instructions of or in the interests of Porsche or other affiliated companies in the reporting period.”