Business Development

The global economy grew more strongly in fiscal year 2017 than in the previous year. However, global demand for vehicles did not rise as sharply as in the year before. Amid challenging market conditions, the Volkswagen Group delivered 10.7 million vehicles to customers for the first time.

DEVELOPMENTS IN THE GLOBAL ECONOMY

Global gross domestic product (GDP) rose by 3.2 (2.5)% in 2017. Economic momentum accelerated in both advanced economies and emerging markets year-on-year. Consumer prices increased at a slower pace worldwide than in the previous year, with persistently low interest rates and rising energy and commodity prices.

Europe/Other Markets

GDP growth in Western Europe edged up slightly during the year to 2.3 (1.8)%, with the majority of the countries in this region seeing higher growth rates. The start of the Brexit negotiations between the United Kingdom and the European Union generated uncertainty, as did the question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 9.6 (10.6)%, though rates remained considerably higher in Greece and Spain.

The Central and Eastern Europe region recorded a relatively strong increase in GDP in the reporting period with an increase of 3.8 (1.8)%. In Central Europe, the general uptrend gained traction, and in Eastern Europe the economy also grew at a considerably stronger pace than in the previous year. Higher energy prices led to a stabilization of the economic situation in the countries from this region that export raw materials. A growth rate of 1.6 (–0.4)% marked the end of the recessionary period in Russia.

South Africa's GDP rose by just 0.9 (0.3)%, only slightly higher than the low figure for the previous year. Ongoing structural deficits, social unrest and political challenges weighed on the economy.

Germany

The German economy continued to profit from optimistic consumer sentiment and a good labor market, which led to a sharper year-on-year increase in GDP to 2.5 (1.9)% in 2017.

North America

Economic growth in the USA was faster than in the previous year, at 2.2 (1.5)%. The economy was supported mainly by private consumption and the expansionary monetary policy. Private gross investments also developed positively. The average unemployment rate was 4.4 (4.9)%. The US dollar was somewhat weaker than in the previous year. At 3.0 (1.4)%, GDP growth in Canada accelerated significantly. The growth rate of Mexico's economic output fell somewhat to 2.2 (2.7)%.

South America

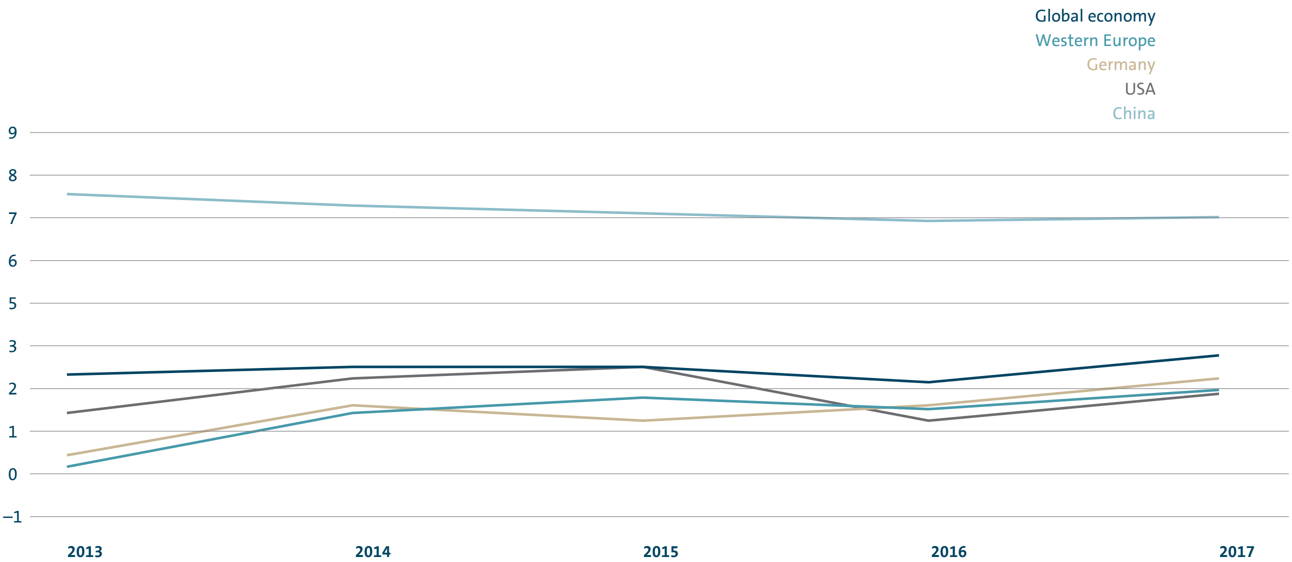
In the reporting period, Brazil left behind the economic downswing, with economic output increasing by 1.0 (–3.5)%. The situation in South America's largest economy nevertheless remained tense, due to political uncertainty, among other things. Argentina's GDP rose by 2.8 (–2.2)% in spite of structural deficits and persistently high inflation.

Asia-Pacific

The Chinese economy expanded at the previous year's high level with a growth rate of 6.9 (6.7)%. The Indian economy continued its positive trend but, with a gain of 6.5 (7.1)%, grew somewhat less strongly than in the previous year. The Introduction of reform measures had a temporary dampening effect here. Japan registered solid GDP growth of 1.8 (0.9)%.

ECONOMIC GROWTH

Percentage change in GDP



TRENDS IN THE PASSENGER CAR MARKETS

In fiscal year 2017, the global market volume of passenger cars rose by 2.9% to 83.5 million vehicles, achieving a record figure for the seventh time in a row. While demand rose in the Asia-Pacific, South America, Western Europe and Central and Eastern Europe regions, the market volume in North America, the Middle East and Africa fell short of the prior-year figures.

Sector-specific environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed substantially to the mixed trends in sales volumes in the markets last year. The instruments used were tax cuts or increases, incentive programs and sales incentives, as well as import duties.

In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the movement of vehicles, parts and components more difficult.

Europe/Other Markets

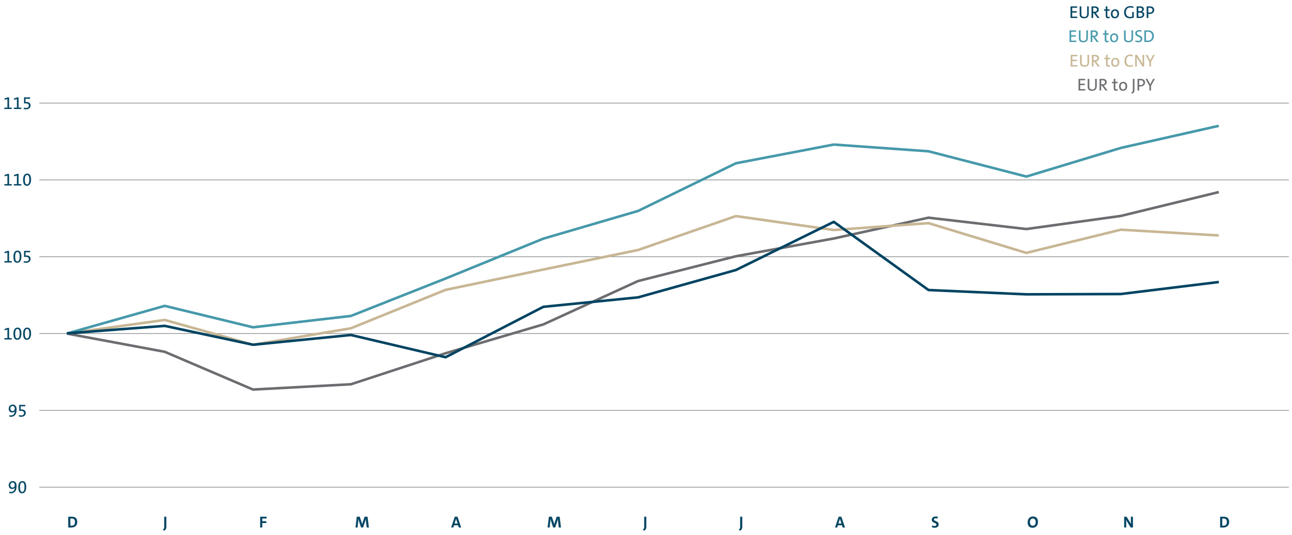
In Western Europe, new passenger car registrations rose by 2.5% to 14.3 million vehicles, the highest level in the past ten years. The positive performance was underpinned in particular by the strong macroeconomic environment, consumer confidence and low interest rates. In Italy (+8.1%) and Spain (+7.7%), the level of demand benefited from demand for replacement vehicles and particularly from significant growth in sales to commercial customers. The rate of growth in the French passenger car market was lower, at 4.8%. In the United Kingdom, the volume of demand fell 5.7% short of the record level seen in the previous year – due among other things to the change in vehicle taxation as of April 1, 2017. The number of diesel vehicles (passenger cars) in Western Europe slipped to 44.4 (49.5)% in the reporting year.

The passenger car market volume in the Central and Eastern European region in fiscal year 2017 was up considerably on the prior-year figure, with an increase of 12.6% to 3.0 million vehicles. New passenger car registrations in the EU member states of Central Europe increased by 12.5% to 1.3 million units. Passenger car sales in Eastern Europe also achieved a double-digit growth rate (+12.6%), starting from a very low level. The main growth driver in the region was the Russian market, which, with an increase of 12.3% to 1.5 million vehicles, saw demand increase again for the first time after four years of decline.

At a rate of change of 2.4%, the number of new passenger cars registered in South Africa in the reporting period (370 thousand vehicles) was slightly higher than the comparatively low level seen the previous year. Despite the weak overall economic environment, incentive programs and lower interest rates were the principal causes of this increase.

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2016 TO DECEMBER 2017

Index based on month-end prices: as of December 31, 2016 = 100



Germany

In fiscal year 2017, demand for passenger cars in Germany exceeded the prior-year figure by 2.7% at 3.4 million units. The fact that this was the highest level since 2009 was attributable not only to the buoyant macroeconomic environment but also to manufacturer discounts in the form of a trade-in bonus for older diesel models as well as to an environmental bonus for electric-powered vehicles (all-electric and plug-in hybrid drives). New registrations for both retail customers (+4.4%) and business customers (+1.7%) increased as a result.

However, domestic production and exports fell short of the comparable prior-year figures in 2017. Passenger car production declined by 1.7% to 5.6 million vehicles. Passenger car exports fell by 0.9% to 4.4 million vehicles; this was mainly due to the fact that the volume of exports to North America was significantly lower because of shifts in production accompanied by a weakening of the North American market.

North America

At 20.8 million vehicles (–1.4%) in fiscal year 2017, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region were just under the record level seen in the previous year. In the US market, demand diminished compared with the high level in 2016 by 1.8% to 17.2 million units. A favorable labor market, high consumer confidence and generous manufacturer incentive programs were unable to stop the downward tendency. The trend in demand towards SUV and pickup models (+5.7%) continued, accompanied by a simultaneous decline in sales of traditional passenger cars (–10.9%).

The Canadian automotive market again recorded growth (+4.6% to 2.0 million vehicles), exceeding the record figure of the previous year. By contrast, sales of passenger cars and light commercial vehicles in Mexico were down on the record volumes achieved in the prior-year period (–4.6% to 1.5 million units).

South America

In South America, demand for passenger cars and light commercial vehicles rose from the previously low level by a significant 12.6% to 4.2 million units in the reporting period. After four years of declining new vehicle registrations, growth of 9.4% to 2.2 million vehicles was recorded again for the first time in the Brazilian automotive market. However, the market volume was still around a quarter lower than the average for the last ten years. Brazil's vehicle exports saw a marked increase in 2017, climbing 46.5% to 762 thousand units to exceed the all-time high recorded in 2005. Exports benefited in particular from the dynamic development of the market in Argentina, where demand increased by 26.2% year-on-year to 855 thousand passenger cars and light commercial vehicles. The second-highest number of new registrations in the region's history was primarily driven by price reductions and attractive financing models offered by the manufacturers.

Asia-Pacific

The market volume in the Asia-Pacific region rose by 4.7% in the past fiscal year to 37.0 million units; this was the highest absolute increase in new vehicle registrations worldwide. Once again, the main growth driver was the Chinese passenger car market, although the growth rate was low compared with previous years, with an increase of 4.5% to 23.9 million vehicles. This was mainly because customers brought forward purchases at the end of 2016 in anticipation of a rise in the tax rate on vehicles of up to 1.6 l at the beginning of 2017.

The number of passenger cars sold in India grew 9.3% year-on-year to 3.1 million units, topping the 3 million mark for the first time ever. This was due not only to high consumer confidence, a wealth of new models and attractive financing products, but especially to the goods and services tax introduced on July 1, 2017, which resulted in part in improved purchasing conditions for the consumer.

The Japanese passenger car market showed a substantial improvement over the low prior-year level with sales of 4.4 million vehicles in the reporting period (+6.1%). The main reasons for the positive trend were the market success of new models and the continued government support for fuel-efficient, low-emission vehicles.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Overall demand for light commercial vehicles in fiscal year 2017 was slightly lower than in the previous year. A total of 9.1 (9.3) million vehicles were registered worldwide.

In Western Europe, the number of new vehicle registrations rose by 4.7% during the year to 1.9 million units, driven by the region's continued positive economic performance. The markets in Italy, France and Spain recorded moderate to high growth rates, while the United Kingdom registered a decline. In Germany, the comparative figure for 2016 was exceeded by 3.6%.

Central and Eastern European markets recorded perceptible growth on the whole with 326 (306) thousand vehicle registrations. In Russia alone, 123 (116) thousand light commercial vehicles were registered. There, market performance benefited from the ruble's recovery and the drop in inflation. Most of the markets in this region succeeded in maintaining or exceeding their prior-year results.

In North and South America, the light vehicle market is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles.

Registration volumes of light commercial vehicles in the Asia-Pacific region decreased to 6.0 million units in the reporting period (–3.1%). In China, the region's dominant market, demand for light commercial vehicles of 3.4 million units was down a substantial 8.2% on the prior-year figure. This decline is mainly due to the shift in demand for micro vans towards more cost-effective MPVs and SUVs. As a consequence of the sustained economic growth in India, considerably more vehicles were registered than in 2016; here, 560 (510) thousand new units were registered. The market volume fell in Japan as a result of the persistently weak economic trend (–5.0%).

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in fiscal year 2017 than in the previous year, with 547 thousand new vehicle registrations (+7.4%).

In Western Europe, the number of new truck registrations remained level with the previous year at a total of 289 thousand vehicles. While the market in Spain remained at the previous year's level, in Italy it expanded. Demand in the United Kingdom and the Netherlands declined. New registrations in Germany, Western Europe's largest market, were on a level with the previous year.

Central and Eastern Europe saw demand rise by 17.7% to 153 thousand units on the back of the positive economic performance. This growth was attributable to the Russian market; here, registrations moved up 47.7% from a low prior-year level to 72 thousand vehicles. Reasons for this were the incipient recovery of the economy, declining inflation rates and demand for replacement vehicles.

South America saw a significant increase in market volume compared with the previous year. Here, the number of new vehicle registrations rose by 11.8% to 105 thousand units. In Brazil, the region's largest market, demand for trucks was up 2.9% on the low prior-year figure. This reflected a recovery of the market once the difficult economic climate improved. There was a very sharp increase in new vehicle registrations in Argentina (+78,7%), buoyed by the political reforms and stimulus from the agricultural sector.

Demand for buses in the markets that are relevant for the Volkswagen Group was considerably higher than in the previous year. The markets in Central and Eastern Europe as well as South America contributed in particular to this growth.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

The markets for power engineering are subject to differing regional and economic factors. Consequently, their business growth trends are generally independent of each other.

The number of orders for merchant vessels remained very low in the first half of 2017. Construction of new bulk carriers and container ships in particular fell short of expectations on account of overall low freight rates. In the second half of 2017, however, the market volume in merchant shipping stood at a higher level overall and a slightly positive trend in new orders for ships became apparent. Yet, despite the ongoing recovery in oil prices, existing overcapacity in the offshore sector continued to curb investment in oil production. As a result, new ship construction came to a virtual standstill here. By contrast, a stable uptrend was again recorded in demand for cruise ships, ferries, fishing vessels and dredgers. The special market for government vessels also continued on a positive trajectory. In spite of the still low liquid fuel prices, the somewhat positive trend towards gas-powered ships stabilized in expectation of stricter emission standards. As a whole, the marine market showed slight growth at a low level in 2017 compared with the previous year. China, South Korea and Japan remained the dominant shipbuilding countries, accounting for a global market share of more than 75% measured in terms of the number of ships. On account of low market volumes, all market segments are seeing considerable competition and a sharp drop in prices as a result.

Demand for energy solutions in emerging economies increased slightly once again in 2017. The Middle East, Southeast Asia, Africa and South America regions continue to be relevant markets for energy solutions. Particularly on larger projects, order placement is being delayed due to ongoing muted growth in key emerging markets and persistently difficult financing conditions for customers. Overall, there was a slight year-on-year increase in demand for decentralized diesel and gas engine power plants in 2017. The shift away from oil-fired power plants towards dual-fuel and gas-fired power plants intensified further. Nevertheless, nearly all projects continue to be subject to intense competition and pressure on prices, which has a negative impact on the earnings quality of orders.

The market for the construction of turbomachinery is mainly dominated by investment projects in oil and gas, the processing industry and power generation. In spite of a modest recovery, oil prices remained low on the whole in 2017. As a result, leading oil and gas companies kept capital expenditure at a low level. Planned projects were postponed again or canceled. Demand for products from the processing industry and power generation remained generally weak in 2017. Failure to reduce overcapacity in some industries, such as steel-making, prevented any recovery in the corresponding markets. Insufficient capacity utilization at many manufacturers intensified the level of competition. Overall, the market volume for turbomachinery in the reporting period was marginally higher than in the prior-year period. Competition and pressure on prices remain fierce.

The marine and power plant after-sales business for diesel engines generally performed positively and benefited from a continued increase in interest in long-term maintenance contracts and retrofit solutions. The after-sales market for turbomachinery showed a slight uptrend.

TRENDS IN THE MARKET FOR FINANCIAL SERVICES

Demand for automotive financial services was high once again in 2017, due above all to the expansion of the overall market for passenger cars and low key interest rates in the main currency areas. Particularly insurance and service products such as maintenance and servicing agreements were especially popular, as customers in more advanced automotive financial services markets are putting greater focus on optimizing overall running costs. In the fleet segment, some customers consulted automotive financial service providers in order to optimise their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than ownership.

In Europe, sales of financial services climbed further in the reporting period, strengthened by higher vehicle sales and demand for after-sales products such as servicing, maintenance and spare parts agreements as well as automotive-related insurance. Demand developed positively in most countries; in the United Kingdom, France, Spain and Italy in particular, automotive financial services products continued to enjoy rising popularity. The UK's decision to leave the EU has not yet had a negative impact on local demand for financial services.

In Germany, the share of loan-financed or leased vehicles remained stable at a high level in 2017. Alongside traditional products, mobility services and after-sales products were particularly popular.

In South Africa, structural deficits and political uncertainty curbed economic growth, which also impacted on the automotive industry. Demand for automotive financial services products remained stable.

Sales of automotive financial services in North America remained at a high level in the fiscal year now ended. In the USA, the overall market for financial services products once again performed positively. In particular, demand for leasing through captive financial service providers was consistently high. In Mexico, demand for automotive financial services products continued at a high level.

The macroeconomic and political situation in Brazil remained tense in 2017 and had a negative impact on the consumer credit business for new vehicles as well as on sales of the country-specific financial services product Consorcio, a lottery-style savings plan. The negative trend tapered off slightly in the second half of the year, however. Argentina's automotive industry was helped in 2017 by price reductions and attractive financing models from manufacturers. The above-average demand for vehicles was the basis for a good year for automotive financial services.

The performance of markets in the Asia-Pacific region during the reporting period was mixed. In China, the proportion of loan-financed vehicle purchases rose. Despite increasing restrictions on registrations in metropolitan areas, there is still considerable potential to acquire new customers for automotive-related financial services, particularly in the interior of the country. Demand for automotive financial services in Japan and Korea was stable on the whole. In Australia, the central bank's continued policy of low interest rates stimulated demand for automotive-related financial services and service contracts.

In the commercial vehicles segment, the European market for financial services again performed positively; demand also rose in China. The tense economic situation in Brazil once again put pressure on the truck and bus business and the related financial services market, though this negative trend weakened somewhat in the second half of the year.

NEW GROUP MODELS IN 2017

The Volkswagen Group launched a large number of attractive new models on the market in fiscal year 2017. The current product portfolio comprises 355 models. It covers almost all key segments and body types, with offerings from small cars to super sports cars in the passenger car segment, and from pickups to heavy trucks and buses in the commercial vehicles segment, as well as motorcycles.

The Volkswagen Passenger Cars brand kicked off its global product initiative in 2017, starting with the new Golf. The updated bestseller not only features improved design and new engines, but also a large number of new digital driver assistance systems and an innovative infotainment system. The range of the all-electric e-Golf was extended to 300 km. The Arteon, the brand's new top-of-the-range saloon, celebrated its world premiere. The elegant and dynamic five-door vehicle with the proportions of a Gran Turismo and coupé lines is impressively spacious and comfortable. The new Polo, which is now based on the Modular Transverse Toolkit (MQB) too, brings technological innovations to the small car segment that were previously available only in higher vehicle classes. The Polo is ushering in a new era in Brazil, where it is setting new standards in terms of quality, driving dynamics and digital innovations. In 2017, Volkswagen Passenger Cars substantially expanded its range of vehicles in the SUV segment. The new T-Roc is a young, sporty crossover model with which the brand hopes to kindle enthusiasm among new groups of customers. A long version of the Tiguan, the successful compact SUV, was also launched on the market. This version is available in Europe as the Tiguan Allspace as well as in China and the USA. Of the large SUVs, the Teramont came on the market in China and the Atlas in the USA. This means that the brand is now represented in four of the five largest vehicle segments in the USA.

The Audi brand launched the new Q5 in 2017. The sporty, progressive A5 family was also supplemented by the revamped A5 Sportback and A5 Cabriolet. At the same time, Audi expanded its range of environmentally friendly models with the A4 Avant g-tron and A5 Sportback g-tron. The brand's flagship, the new Audi A8, was developed as the world's first production model designed for highly automated driving. With a new design language, an innovative touch control interface and systematic electrification of the drive, the A8 is once again a reflection of the slogan "Vorsprung durch Technik". Audi also launched its fastest open-top production model, the R8 Spyder V10 plus, on the market. In China, the locally built Audi A3 was revamped.

ŠKODA began its SUV drive in 2017: the self-confident, powerful Kodiaq, which is based on the MQB platform, has carved out a new segment for the brand. It features all of the brand's strengths: sophisticated functionality, effortless spaciousness, cutting-edge technology and outstanding value for money. The compact SUV Karoq followed during the year. The completely redeveloped model stands out from the crowd thanks to its emotional and dynamic design as well as a wealth of innovations. The popular Octavia received an upgrade. The Citigo, the Rapid and the Rapid Spaceback were also given a face-lift.

The SEAT brand continued its major product initiative in the reporting period with the revitalized Leon. The fifth generation of the Ibiza also came onto the market. SEAT made its debut in the crossover segment with the Arona. The Ateca's younger brother combines the special merits of a compact city car with the robust features of an SUV.

In 2017, Porsche supplemented the second generation of the Panamera by adding several model variants, including the Panamera 4 E-Hybrid and Panamera Turbo S E-Hybrid, the Executive models and the Sport Turismo. In the 911 model series, Porsche launched the GTS models, the new 911 GT3 and the 911 GT2 RS – the sporty vanguard of the model series. Porsche also celebrated the world premiere of the new Cayenne. The successful model, which has been redeveloped from the ground up, combines more than ever before the performance typical of a Porsche with utmost everyday practicality.

In 2017, Bentley rolled out the Bentayga Diesel, the first of the brand's models with a diesel engine and also the world's fastest diesel SUV. The Continental GT Supersports also celebrated its market debut.

Lamborghini launched the new Huracán RWD Spyder on the market and the Huracán Performante, along with the upgraded Aventador in the versions S Coupé and S Roadster.

Bugatti began 2017 with deliveries of the 1,500 PS super sports car Chiron, which is limited to 500 vehicles.

In the reporting period, the Volkswagen Commercial Vehicles brand launched the fully re-engineered Crafter on the market, which has been designed systematically with a strong focus on customer needs.

Scania presented a new generation of trucks for the construction and forestry industries, new engines and cabs as well as new services. With the latest generation of Euro 6 V8 engines, Scania is setting new standards in terms of fuel efficiency.

MAN entered the world of vans for the first time in 2017 with the TGE. In the bus segment, the new Lion's Coach celebrated its premiere. This marks the beginning of a new design language for buses. In the high-performance diesel engine segment, MAN Power Engineering presented the successor to the 48/60CR, the latest addition to its 4x line.

Ducati rolled out a total of seven new models in 2017: the Ducati SuperSport, the Monster 797 and 1200, the Multistrada 950, two new Scrambler models and the limited 1299 Superleggera.

VOLKSWAGEN GROUP DELIVERIES

In fiscal year 2017, the Volkswagen Group increased its deliveries to customers worldwide by 4.3% year-on-year and once again achieved a new record of 10,741,455 vehicles. The chart on the next page shows how deliveries changed from month to month and compares each monthly figure to the same month of the previous year. Deliveries of passenger cars and commercial vehicles are reported separately in the following.

VOLKSWAGEN GROUP DELIVERIES[1]

	2017	2016	%
Passenger Cars	10,038,650	9,635,486	+4.2
Commercial Vehicles	702,805	661,555	+6.2
Total	**10,741,455**	**10,297,041**	**+4.3**

1 Deliveries for 2016 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

PASSENGER CAR DELIVERIES WORLDWIDE

With its passenger car brands, the Volkswagen Group is present in all relevant automotive markets around the world. The Group's key sales markets currently include Western Europe, China, the USA, Brazil and Mexico. The Group recorded encouraging growth in many key markets.

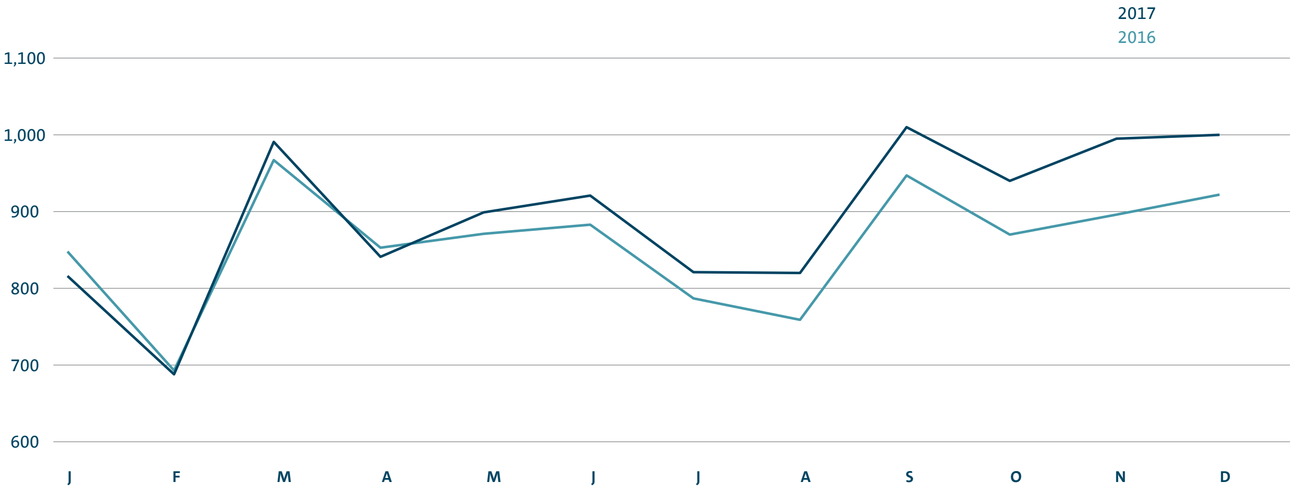
During the reporting period, deliveries of passenger cars to Volkswagen Group customers worldwide rose to 10,038,650 units amid partly difficult conditions in some relevant markets such as the United Kingdom and the USA. This was an increase of 403,164 vehicles or 4.2% on the previous year. Since the passenger car market as a whole expanded by 2.9% in the same period, the Volkswagen Group's share of the global market rose slightly to 12.1 (11.9)%. The Group recorded the highest absolute growth in China. Sales figures in Germany and Mexico, among others, were down on the previous year. All Volkswagen Group brands lifted delivery volumes year-on-year. The Volkswagen Passenger Cars brand recorded the strongest growth in absolute terms, setting new records, as did Audi, ŠKODA, Porsche, Bentley and Lamborghini.

The table on page 104 gives an overview of passenger car deliveries to customers of the Volkswagen Group in the regions and the key individual markets. The demand trends for Group models in these markets and regions are described in the following sections.

Deliveries in Europe/Other markets

In 2017, the passenger car market as a whole expanded by 2.5% in Western Europe. Deliveries to customers of the Volkswagen Group there rose less pronouncedly, by 1.4% to 3,157,107 vehicles. Among other factors, this trend was due to the Golf and Polo model change, the fact that customer confidence has not yet been fully restored following the diesel issue and to customer uncertainty generated by the public discussion on driving bans for diesel vehicles. However, demand for Group models was up year-on-year in virtually all major markets in this region, with the Tiguan, Audi Q2 and SEAT Ateca models seeing the highest increases. The Audi A5 Sportback and Porsche Macan models were also very popular. The new Polo, T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq and Kodiaq, and the SEAT Arona and Ibiza were very well received by the market. The Group's share of the passenger car market in Western Europe was 22.0 (22.3)%.

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



In the Central and Eastern Europe regions, where passenger car markets have grown considerably, the Volkswagen Group delivered 12.9% more vehicles to customers in the reporting period than in the previous year. The Czech Republic and Poland continued to see strong growth in demand for Group models, and in Russia we also registered a marked upsurge in unit sales. Demand for the Golf, Tiguan, Audi Q2, ŠKODA Fabia, ŠKODA Rapid and ŠKODA Octavia models was very encouraging. In addition, the new ŠKODA Karoq and Kodiaq models and the SEAT Ateca models were exceedingly popular. The Volkswagen Group's share of the passenger car market in Central and Eastern Europe improved slightly to 22.1 (22.0)%.

In South Africa, demand for Volkswagen Group vehicles in 2017 increased by 1.4% compared with the previous year. The passenger car market as a whole grew by 2.4% in the same period. The best-selling Group model in South Africa was the Polo.

In the markets of the Middle East region, which are seeing a modest decline, we sold 6.6% fewer vehicles in the past fiscal year than in the year before. The Polo, Golf, Passat and ŠKODA Octavia models saw the highest demand.

Deliveries in Germany

The German passenger car market continued its growth in fiscal year 2017, expanding by 2.7%. The Volkswagen Group delivered 1,131,414 passenger cars to customers in its home market, a slight decrease on the prior-year level (–0.5%). This was due in particular to the fact that customer confidence has not yet been fully restored following the diesel issue as well as to customer uncertainty generated by the public discussion on driving bans for diesel vehicles. The Tiguan, Audi Q2, Audi A4 Avant, Audi A5 Sportback and SEAT Ateca models saw the strongest growth in demand. The new T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the new ŠKODA Karoq and Kodiaq models, the new SEAT Arona and Ibiza models and the Porsche Macan were also very popular. In the registration statistics of the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority), seven Group models led their respective segments at the end of 2017: the up!, Polo, Golf, Tiguan, Touran, Passat, and Porsche 911. The Golf continued to top the list of the most popular passenger cars in Germany in terms of registrations.

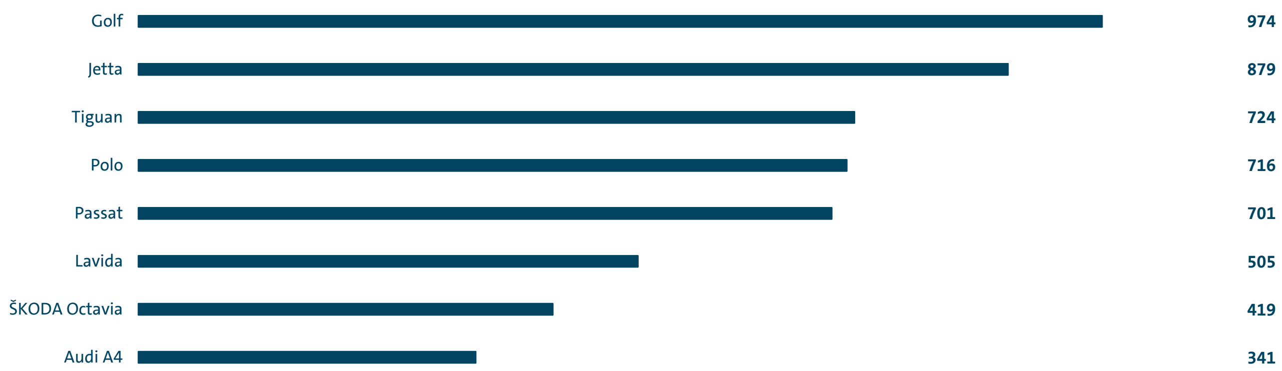
Deliveries in North America

The Volkswagen Group handed over 962,980 vehicles to customers in North America during the reporting period in a slightly declining overall market for passenger cars and light commercial vehicles. This was 3.8% more than in the previous year. The Group's market share was 4.7 (4.4)%. The Jetta remained the Group's best-selling model in North America.

In the US market, demand for Volkswagen Group models rose by 5.8% compared with the previous year. The market as a whole declined by 1.8% in this period. Models in the SUV and pickup segments remained particularly popular. The Golf Estate, Audi A5, Audi Q5, Audi Q7 and Porsche Macan models enjoyed an encouraging rise in demand. The new SUV Atlas, the Tiguan Allspace from the Volkswagen Passenger Cars brand and the Audi A5 Sportback were well received by the market.

WORLDWIDE DELIVERIES OF THE GROUP'S MOST SUCCESSFUL GROUP MODEL RANGE IN 2017

Vehicles in thousands



In Canada, we delivered 16.6% more vehicles to customers in the reporting period than in the previous year in a growing overall market. Demand for the Golf Estate, Audi A4, Audi Q5 and Porsche Macan models developed particularly encouragingly. The new SUV Atlas and Tiguan with extended wheelbase were also very popular.

In the Mexican market, which is declining on the whole, the Group's sales fell by 6.4% compared with the previous year. The Vento, Jetta, Gol and SEAT Ibiza models were particularly popular.

Deliveries in South America

The markets for passenger cars and light commercial vehicles in South America witnessed a clear surge in demand in 2017 (+12.6%). In this region, the Volkswagen Group handed over 445,636 vehicles to customers, an increase of 23.0% on the weak previous year. The Volkswagen Group's share of the passenger car market in this region rose to 11.5 (10.5)%.

The Brazilian market also recovered in the reporting period. We delivered 17.7% more vehicles to customers there than in the previous year. The Gol, Voyage and Saveiro models saw the highest increases. Demand was also strong for the new Polo.

Group sales were up 35.7% year-on-year in Argentina. The market as a whole grew at a somewhat weaker pace at 26.2%. The Gol was the best-selling vehicle in Argentina. The Suran and Amarok models were also very popular.

Deliveries in the Asia-Pacific region

The passenger car markets in the Asia-Pacific region experienced the largest growth in absolute terms of any world region again in 2017. Demand for Volkswagen Group models rose in this region by 4.2% year-on-year to 4,462,387 units. The market share in this region was unchanged at 12.1 (12.1)%.

China, the world's largest single market, was again the main growth driver of the Asia-Pacific region in the reporting year, recording the highest absolute increase. Above all, there was continued strong demand for attractively priced entry-level models in the SUV segment. Deliveries to customers of the Volkswagen Group in China exceeded the prior-year figure by 5.0%. The successfully concluded negotiations by the Audi brand for the strategic further development of its business in China contributed to this positive result in the second half of the year. The Bora, Magotan and Passat models recorded encouraging growth rates. Demand was likewise high for the new Phideon, the Audi A4 and the Porsche Cayenne. The new C-Trek, the new version of the Tiguan with extended wheelbase, and the new ŠKODA Octavia Combi were successfully launched on the market, as were new SUV Teramont and the ŠKODA Kodiaq.

The Indian passenger car market grew further during the reporting year. The Volkswagen Group delivered 9.7% more vehicles to customers there in this period than in the previous year. The most popular Group model in India was the Polo; the new Ameo from the Volkswagen Passenger Cars brand and the ŠKODA Rapid were also very popular.

Passenger car deliveries to the Group's customers in Japan in the past fiscal year exceeded the prior-year figure by 2.1%. The total market volume grew at a somewhat stronger pace in the same period. The Polo, Golf and Audi A3 were the most sought-after Group models.

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET[1]

	DELIVERIES (UNITS)		CHANGE
	2017	2016	(%)
Europe/Other markets	**4,167,647**	**4,062,454**	**+2.6**
Western Europe	**3,157,107**	**3,114,032**	**+1.4**
of which: Germany	1,131,414	1,136,971	−0.5
United Kingdom	531,592	523,111	+1.6
Spain	270,645	244,990	+10.5
Italy	259,920	238,537	+9.0
France	256,712	249,146	+3.0
Central and Eastern Europe	**668,522**	**592,275**	**+12.9**
of which: Russia	173,384	155,672	+11.4
Poland	145,024	122,622	+18.3
Czech Republic	142,842	134,926	+5.9
Other markets	**342,018**	**356,147**	**−4.0**
of which: Turkey	158,523	173,965	−8.9
South Africa	79,968	78,897	+1.4
North America	**962,980**	**928,033**	**+3.8**
of which: USA	625,128	591,063	+5.8
Mexico	223,548	238,946	−6.4
Canada	114,304	98,024	+16.6
South America	**445,636**	**362,343**	**+23.0**
of which: Brazil	272,231	231,196	+17.7
Argentina	125,153	92,257	+35.7
Asia-Pacific	**4,462,387**	**4,282,656**	**+4.2**
of which: China	4,173,834	3,975,071	+5.0
Japan	84,827	83,109	+2.1
India	72,467	66,046	+9.7
Worldwide	**10,038,650**	**9,635,486**	**+4.2**
Volkswagen Passenger Cars	6,230,229	5,980,309	+4.2
Audi	1,878,105	1,867,738	+0.6
ŠKODA	1,200,535	1,126,477	+6.6
SEAT	468,431	408,703	+14.6
Bentley	11,089	11,023	+0.6
Lamborghini	3,815	3,457	+10.4
Porsche	246,375	237,778	+3.6
Bugatti	71	1	x

1 Deliveries for 2016 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

COMMERCIAL VEHICLE DELIVERIES

The Volkswagen Group delivered a total of 702,805 commercial vehicles to customers worldwide in 2017 (+6.2%). Trucks accounted for 183,481 units (+10.7%) and buses for 19,218 units (+8.1%). Sales of light commercial vehicles increased by 4.6% year-on-year to 500,106 units.

In Western Europe, deliveries were up by 1.9% on the previous year at 426,774 vehicles as a result of the sustained economic recovery; of this total, 334,087 were light commercial vehicles, 87,258 were trucks and 5,429 were buses. The Transporter and Caddy were the most sought-after Group models in the Western European markets.

We handed over 76,054 vehicles to customers in the markets in Central and Eastern Europe in the period from January to December 2017 (+16.3%); of this figure, 41,291 were light commercial vehicles, 33,613 were trucks and 1,150 were buses. The Transporter and the Caddy were the Group models experiencing the highest demand. In Russia, the region's largest market, sales climbed 61.9% year-on-year to 18,291 units on the back of the incipient economic recovery, demand for replacement vehicles and falling inflation rates.

In the Other markets, deliveries of Volkswagen Group commercial vehicles fell by 5.3% to a total of 67,155 units: 46,678 light commercial vehicles, 17,050 trucks and 3,427 buses.

Deliveries in North America amounted to 13,416 vehicles (+20.4%), which were handed over almost exclusively to customers in Mexico. In this region, we handed over 10,432 light commercial vehicles, 1,042 trucks and 1,942 buses to customers.

The Volkswagen Group sold a total of 75,949 units (+28.3%) in South America. Of the units delivered, 41,331 were light commercial vehicles, 29,589 were trucks and 5,029 were buses. The Transporter and the Amarok were particularly popular. In Brazil, deliveries rose by 34.9% once the difficult economic climate improved; here, 12,633 light commercial vehicles, 20,363 trucks and 2,785 buses were handed over to customers.

In the Asia-Pacific region, the Volkswagen Group delivered 43,457 vehicles to customers in the reporting period; 26,287 light commercial vehicles, 14,929 trucks and 2,241 buses. This was 20.8% more than in the previous year. The Transporter and the Amarok were the most popular Group models. In China, sales were up 47.2% on the previous year at 10,408 vehicles. Of this total, 5,566 were light commercial vehicles, 4,532 were trucks and 310 were buses.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET[1]

	DELIVERIES (UNITS)		CHANGE
	2017	2016	(%)
Europe/Other markets	**569,983**	**555,255**	**+2.7**
Western Europe	426,774	418,931	+1.9
Central and Eastern Europe	76,054	65,396	+16.3
Other markets	67,155	70,928	−5.3
North America	**13,416**	**11,140**	**+20.4**
South America	**75,949**	**59,196**	**+28.3**
of which: Brazil	35,781	26,532	+34.9
Asia-Pacific	**43,457**	**35,964**	**+20.8**
of which: China	10,408	7,071	+47.2
Worldwide	**702,805**	**661,555**	**+6.2**
Volkswagen Commercial Vehicles	497,894	477,974	+4.2
Scania	90,777	81,346	+11.6
MAN	114,134	102,235	+11.6

1 Deliveries for 2016 have been updated to reflect subsequent statistical trends.

DELIVERIES IN THE POWER ENGINEERING SEGMENT

Orders in the Power Engineering segment are usually part of major investment projects. Lead times typically range from just under one year to several years, and partial deliveries as construction progresses are common. Accordingly, there is a time lag between incoming orders and sales revenue from the new construction business.

Sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated well over two-thirds of overall sales revenue.

ORDERS RECEIVED IN THE PASSENGER CARS SEGMENT IN WESTERN EUROPE

Due to the positive development of the Western European markets, demand for passenger cars increased in fiscal year 2017 compared with the previous year. Incoming orders in the reporting period were 6.0% higher than in 2016. At the same time, incoming orders rose in Germany (+6.7%), just as in other significant markets throughout the region.

ORDERS RECEIVED FOR COMMERCIAL VEHICLES

Orders received for light commercial vehicles of the Volkswagen Group in Western Europe were 2.7% higher than in the previous year at 347,964 units.

New orders for mid-sized and heavy trucks and buses witnessed a positive trend in 2017, with orders received for 225,813 vehicles (+18.5%). In Western Europe, our main sales market, ongoing positive economic stimulus gave a boost to incoming orders. The order intake in South America rose after the difficult economic climate improved, especially in Brazil.

ORDERS RECEIVED IN THE POWER ENGINEERING SEGMENT

The long-term performance of the Power Engineering business is determined by the macroeconomic environment. Individual major orders lead to fluctuations in incoming orders during the year that do not correlate with these long-term trends.

Orders received in the Power Engineering segment in 2017 amounted to €3.7 (3.3) billion. Engines & Marine Systems and Turbomachinery generated around two-thirds of the order volume in a persistently difficult market environment. The power plant business performed positively. For example, a Turkish energy company ordered 38 engines with a combined output of 754 MW for its floating power plants, which provide a flexible solution to pressing energy shortages. The Company was also successful in the Indonesian market, securing orders for 25 engines with an aggregate output of 314 MW.

VOLKSWAGEN GROUP FINANCIAL SERVICES

The Financial Services Division combines the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania, Porsche and Porsche Holding Salzburg.

Demand for the Financial Services Division's products and services remained strong in fiscal year 2017. At 7.3 (7.1) million, the number of new financing, leasing, service and insurance contracts signed worldwide was above the previous year's level. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets rose to 33.4 (33.3)% in the reporting period. As of December 31, 2017, the total number of contracts was 18.4 million, up 5.7% as against the end of 2016. The number of contracts in the Customer financing/Leasing area rose by 6.3% to 10.1 million, while it increased by 5.0% to 8.4 million in the Service/Insurance area.

In the Europe/Other markets region, the number of new contracts signed in the past fiscal year climbed 3.7% to 5.4 million. At the end of the reporting period, the total number of contracts was 13.4 million, up 8.0% year-on-year. Of this figure, 6.4 million contracts were attributable to the Customer financing/Leasing area (+8.6%). The penetration rate improved to 47.6 (46.8)%.

The number of contracts in North America as of December 31, 2017 declined to 2.7 million, 4.7% fewer than in the previous year. The Customer financing/Leasing area accounted for 1.8 million contracts (–3.4%). The number of new contracts signed amounted to 874 thousand, a decrease of 11.6% versus the previous year. The ratio of leased or financed vehicles to Group deliveries in North America fell to 60.5 (63.3)%.

In South America, 205 (197) thousand new contracts were signed in 2017. The total number of contracts at the end of the reporting period was 538 thousand, down 16.9% compared to the end of the previous year. The contracts mainly related to the Customer financing/Leasing area. At 26.6 (30.4)%, the penetration rate was lower than in 2016.

In the Asia-Pacific region, the number of new contracts signed rose by 12.7% to 834 thousand units. At the end of 2017, the total number of contracts was 1.8 million, up 15.9% year-on-year. The Customer financing/Leasing area accounted for 1.5 million contracts (+20.8%). The ratio of leased or financed vehicles to Group deliveries in this region was 16.1 (15.1)%.

SALES TO THE DEALER ORGANIZATION

The Volkswagen Group's sales to the dealer organization increased by 3.7% to 10,777,048 units (including the Chinese joint ventures) in the reporting year. This was due to higher demand in Asia-Pacific, especially China, in South America and North America, and in Europe. Outside Germany, the unit sales volume rose by 4.1%. In Germany, we increased unit sales by 0.6%. At 11.7%, the proportion of the Group's sales accounted for by Germany was lower than in 2016 (–12.1%).

The Golf, Polo, Jetta, Lavida and Tiguan were our biggest sellers last year. The largest increases in demand were recorded by the Tiguan, Gol and Atlas/Teramont models from the Volkswagen Passenger Cars brand, the Audi Q2 and the A5 family, and the ŠKODA Kodiaq and SEAT Ateca. The Porsche Panamera achieved a strong growth rate.

PRODUCTION

The Volkswagen Group produced 10,875,000 vehicles worldwide in fiscal year 2017, 4.5% more than in the previous year. In total, our Chinese joint ventures manufactured 3.7% more units than in the year before. The percentage of the Group's total production accounted for by Germany was lower than in 2016, at 23.7 (25.8)%. Our plants worldwide produced an average of 44,170 vehicles per working day, an increase of 2.3% on the prior-year level. Starting in 2017, the Crafter is included in the Volkswagen Group's production figures.

INVENTORIES

Global inventories at Group companies and in the dealer organization were higher at the end of the reporting period than at year-end 2016, mainly due to demand-induced stock building.

EMPLOYEES

Including the Chinese joint ventures, the Volkswagen Group employed an average of 634,396 people (excluding trainees) in fiscal year 2017, an increase of 2.4% year-on-year. Our companies in Germany employed 284,734 people on average in 2017; at 44.9 (45.2)%, their share of the headcount was slightly below the level of the previous year.

The Volkswagen Group had 615,081 active employees (+2.3%) as of December 31, 2017. In addition, 8,004 employees were in the passive phase of their partial retirement and 19,207 young people were in vocational traineeships. The Volkswagen Group's headcount was 642,292 employees (+2.5%) at the end of the reporting period. The production-related expansion, the recruitment of specialists within and outside Germany and the expansion of the workforce in the new plants in Mexico, China and Poland were offset by the reduction of around 9,800 employees as a result of the disposal of part of the PGA Group SAS. A total of 287,480 people were employed in Germany (+2.1%), while 354,812 were employed abroad (+2.8%).

EMPLOYEES BY DIVISION/BUSINESS AREA
as of December 31, 2017