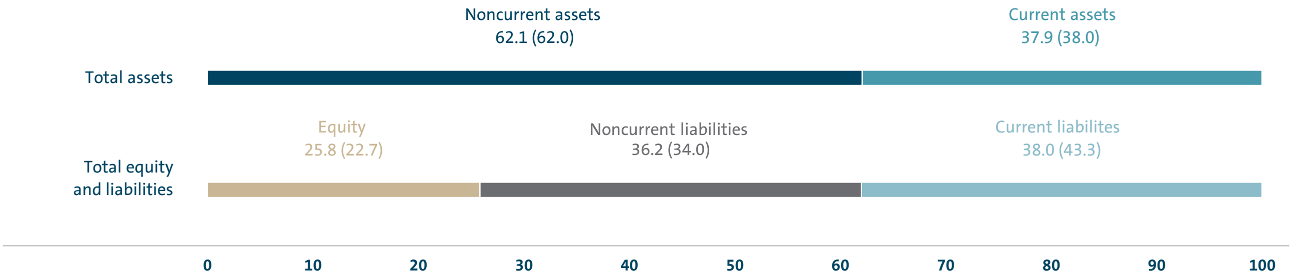
CONSOLIDATED BALANCE SHEET STRUCTURE 2017
in percent



Financial position in the Financial Services Division

The Financial Services Division's gross cash flow declined to €9.2 billion in the reporting period, €0.3 billion lower than in the previous year. Due to larger volumes, funds tied up in working capital increased by €1.7 billion to €22.1 billion. Cash flows from operating activities amounted to €–12.9 (–10.8) billion.

At €0.6 (0.9) billion, investing activities attributable to operating activities were down on the previous year, which had included the acquisition of shares in the ride-hailing service Gett.

The Financial Services Division's financing activities resulted in cash inflows of €14.1 (12.0) billion in 2017. This included a capital increase of €1.0 billion implemented by Volkswagen AG to finance expected business growth and to comply with stricter regulatory requirements.

At the end of 2017, the Financial Services Division's negative net liquidity, which is common in the industry, stood at €–141.5 billion, compared with €–135.1 billion at the end of December 2016.

NET ASSETS

Consolidated balance sheet structure

At the end of the reporting period, the Volkswagen Group's total assets amounted to €422.2 billion, 3.0% more than as of December 31, 2016. The increase, which was partially offset by exchange rate effects, was primarily due to a rise in business volumes in the Financial Services Division. The structure of the consolidated balance sheet as of the reporting date is shown in the chart on this page. The Volkswagen Group's equity increased to €109.1 billion, €16.2 billion more than at the end of the previous reporting period. The equity ratio rose to 25.8 (22.7)%.

The "assets held for sale" item contains primarily the anticipated carrying amount of some of the shares in There Holding, which are expected to be disposed of (€0.1 billion). The negotiations are still ongoing, and the disposals are expected to be finalized in the first half of 2018.

As of the end of fiscal year 2017, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €8.4 (6.8) billion, financial guarantees in the amount of €0.3 (0.2) billion and other financial obligations in the amount of €24.5 (25.9) billion. Contingent liabilities relate primarily to legal risks in connection with the diesel issue as well as potential liabilities from tax risks in the Commercial Vehicles Business Area in Brazil. The other financial obligations primarily result from purchase commitments for property, plant and equipment, obligations under long-term leasing and rental contracts and irrevocable credit commitments to customers. In addition, they include investments to which the Group has committed itself, in the infrastructure for zero-emission vehicles and in initiatives to promote access to and awareness of this technology. These commitments were made as part of the settlement agreements in the USA in connection with the diesel issue. Other financial obligations include an amount of €1.3 billion for this purpose.

Automotive Division balance sheet structure

At the end of the reporting period, the Automotive Division's intangible assets and property, plant and equipment both increased slightly year-on-year. Lease assets were down compared with the end of December 2016 as a result of the sale of part of the PGA Group. Equity-accounted investments declined slightly. The positive business results of the Chinese joint ventures, the purchase of the shares in Navistar and the remeasurement of the interest in HERE were offset by dividend payments resolved by the Chinese joint ventures, the remeasurement of investments, as well as the reclassification of some of the shares in There Holding, which are now held for sale. At €140.9 (139.0) billion, total noncurrent assets were on a level with the previous year.

Current assets amounted to €80.2 (81.1) billion and were virtually unchanged year-on-year; the inventories included in this figure increased by 3.3% for production-related reasons. Total securities stood at €13.5 (14.7) billion and total cash and cash equivalents at €13.8 (14.5) billion, both showing a decline compared with December 31, 2016.

At the end of 2017, the Automotive Division’s equity rose by 18.0% year-on-year to €81.6 billion. It was positively impacted by healthy earnings growth despite special items, as well as by effects from the measurement of derivatives recognized outside profit or loss, the hybrid notes issued in June 2017 and lower actuarial losses from the measurement of pension provisions. Currency translation effects and the dividend paid to the shareholders of Volkswagen AG led to a decline in the Automotive Division’s equity. The capital increase implemented in the Financial Services Division also reduced equity in the Automotive Division, where the deduction was recognized. The noncontrolling interests are mainly attributable to RENK AG and AUDI AG. As these were lower overall than the noncontrolling interests attributable to the Financial Services Division, the figure for the Automotive Division, where the deduction was recognized, was negative. The equity ratio increased to 36.9 (31.4)%.

Noncurrent liabilities of €69.8 (70.0) billion were on a level with December 31, 2016. Noncurrent other liabilities were down, primarily as a result of the positive effects from the measurement of derivatives. The tax reform in the USA passed at the end of the year led to a decline in deferred tax liabilities of €1.0 billion.

As of December 31, 2017, current liabilities amounted to €69.7 billion, a decline of 13.9% compared with the end of 2016. Among other things, reclassifications from noncurrent to current liabilities due to shorter remaining maturities led to an increase in current financial liabilities to €–0.5 (–1.0) billion. The figures for the Automotive Division also contain the elimination of intragroup transactions between the Automotive and Financial Services divisions. As the current financial liabilities for the primary Automotive Division were lower than the loans granted to the Financial Services Division, a negative amount was disclosed. The item “Put options and compensation rights granted to noncontrolling interest shareholders” primarily comprises the liability for the obligation to acquire the shares held by the remaining free float shareholders of MAN. Current other liabilities were down as a result of the positive effects from the measurement of derivatives. Current other provisions declined significantly due to their use in connection with the diesel issue.

At the end of 2017, the Automotive Division’s total assets amounted to €221.1 (220.1) billion and were thus on a level with the previous year.

PASSENGER CARS BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2017	Dec. 31, 2016
Noncurrent assets	111,277	109,918
Current assets	60,052	61,600
Total assets	**171,329**	**171,518**
Equity	66,449	54,789
Noncurrent liabilities	55,118	56,703
Current liabilities	49,762	60,026

As of December 31, 2017, noncurrent assets in the Passenger Cars Business Area increased by €1.4 billion to €111.3 billion. While intangible assets and property, plant and equipment were higher, equity-accounted investments declined. Lease assets decreased, primarily due to the partial sale of the PGA Group. Current assets were at the prior-year level, amounting to €60.1 (61.6) billion; the inventories included in this figure increased for production-related reasons. Total securities and cash and cash equivalents were down in the reporting period. On December 31, 2017, total assets were virtually unchanged compared with the previous year, at €171.3 (171.5) billion.

At €66.4 billion, the Passenger Cars Business Area’s equity was 21.3% higher than the prior-year figure, mainly due to earnings-related factors and the hybrid note issued in the reporting period.

Noncurrent liabilities decreased by 2.8%. The financial liabilities and other liabilities included in this item were down significantly. Deferred tax liabilities include the positive effect of the tax reform in the USA.

Current liabilities were down 17.1% year-on-year. Current other provisions declined significantly due to their use in connection with the diesel issue.

COMMERCIAL VEHICLES BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2017	Dec. 31, 2016
Noncurrent assets	27,005	26,206
Current assets	16,908	16,197
Total assets	**43,913**	**42,403**
Equity	12,194	11,185
Noncurrent liabilities	13,975	12,531
Current liabilities	17,744	18,687

In the Commercial Vehicles Business Area, intangible assets were lower and property, plant and equipment higher at the end of December 2017 than at the end of the previous reporting period. Equity-accounted investments increased because of the acquisition of the shares in Navistar. Overall, noncurrent assets grew by €0.8 billion to €27.0 billion. Higher inventories and receivables led to a 4.4% rise in current assets to €16.9 billion. At €43.9 billion, total assets exceeded the prior-year figure by 3.6%.

The 9.0% rise in equity to €12.2 billion in the reporting period was mainly attributable to improved earnings. Noncurrent liabilities increased by 11.5%; the noncurrent financial liabilities contained in this item were up significantly. Driven mainly by a marked decrease in current financial liabilities, current liabilities declined by 5.0%.

POWER ENGINEERING BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2017	Dec. 31, 2016
Noncurrent assets	2,629	2,879
Current assets	3,250	3,285
Total assets	**5,879**	**6,165**
Equity	2,963	3,157
Noncurrent liabilities	711	748
Current liabilities	2,205	2,260

At the end of the reporting period, noncurrent assets in the Power Engineering Business Area were lower than the year-end 2016 figure, driven primarily by a decrease in intangible assets. Current assets were on a level with the previous year. On December 31, 2017, the Power Engineering Business Area reported total assets of €5.9 billion, down 4.6% on the previous year.

At the end of fiscal year 2017, equity amounted to €3.0 billion, an earnings-related decline of 6.1% compared with the end of the previous year. Both noncurrent and current liabilities were slightly down year-on-year at the end of the reporting period.

Financial Services Division balance sheet structure

On December 31, 2017, total assets in the Financial Services Division of €201.1 billion exceeded the prior-year figure by 6.0%.

Noncurrent assets increased by a total of 5.4% compared with the end of 2016. Within this item, lease assets and noncurrent financial services receivables rose in line with the growth in business.

Higher volumes led to a 7.1% rise in current assets. Current financial services receivables were up €3.5 billion, at €53.8 billion. As of the balance sheet date, the Financial Services Division accounted for around 47.6 (46.3)% of the Volkswagen Group's assets.

Equity in the Financial Services Division amounted to €27.5 billion at the end of 2017, 15.5% more than on the previous year's balance sheet date. Equity was pushed up by earnings growth and by the capital increase implemented by Volkswagen AG at the beginning of the year to finance the growth in business and to meet regulatory capital requirements. The equity ratio rose to 13.7 (12.5)%.

Higher noncurrent financial liabilities to fund business growth led to an overall increase of 19.6% in noncurrent liabilities compared with December 31, 2016.

Current liabilities declined by 6.1%; the current financial liabilities contained in this item fell significantly. At €31.4 (33.3) billion, deposits from direct banking business were lower than at the end of the previous year.

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. Due to the improved operating profit before special items and lower negative special items, the value added generated by the Volkswagen Group in the reporting period was up 16.8% year-on-year. Added value per employee increased to €107.7 thousand (+13.9%) in 2017. 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	2017		2016	
Sales revenue	230,682		217,267	
Other income	18,912		17,907	
Cost of materials	−151,449		−140,307	
Depreciation and amortization	−22,165		−20,924	
Other upfront expenditures	−17,615		−23,990	
Value added	**58,364**		**49,953**	

Appropriation of funds in € million	2017	%	2016	%
to Volkswagen AG shareholders (dividend, 2017 dividend proposal)	1,967	3.4	1,015	2.0
to employees (wages, salaries, benefits)	38,950	66.7	37,017	74.1
to the state (taxes, duties)	3,433	5.9	3,486	7.0
to creditors (interest expense)	4,344	7.4	4,070	8.1
to the Company (reserves)	9,671	16.6	4,365	8.7
Value added	**58,364**	**100.0**	**49,953**	**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.

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

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 1.12 (1.22) was determined for 2017.

COST OF CAPITAL AFTER TAX AUTOMOTIVE DIVISION

%	2017	2016
Risk-free rate	1.0	0.7
MSCI World Index market risk premium	6.5	6.5
Volkswagen-specific risk premium	0.8	1.5
(Volkswagen beta factor)	(1.12)	(1.22)
Cost of equity after tax	**8.3**	**8.7**
Cost of debt	1.8	1.7
Tax	−0.6	−0.5
Cost of debt after tax	**1.3**	**1.2**
Proportion of equity	66.7	66.7
Proportion of debt	33.3	33.3
Cost of capital after tax	**6.0**	**6.2**

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 6.0 (6.2)% for 2017.

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 €11,756 (7,419) million in fiscal year 2017. The increase was due primarily to the year-on-year decline in special items, as well as to improvements in volumes and in the mix and to optimized product costs. Profit was negatively impacted by higher fixed costs as a result of expansion and by higher depreciation and amortization charges due to the large volume of capital expenditure. 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 €97,021 (91,020) million, primarily due to higher inventories as well as to additions to investments in property, plant and equipment and 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. The ROI improved year-on-year on the back of the higher operating profit and, at 12.1 (8.2)%, exceeded our minimum rate of return on invested capital of 9% in spite of the adverse effects of the special items on earnings.

At €5,821 (5,643) million, the opportunity cost of capital (invested capital multiplied by cost of capital) was up on the prior-year level due to the increase in the invested capital. Operating result after tax was negatively impacted by special items and led to a positive value contribution of €5,935 (1,775) 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	2017	2016
Operating result after tax	**11,756**	**7,419**
Invested capital (average)	97,021	91,020
Return on investment (ROI) in %	**12.1**	**8.2**
Cost of capital in %	6.0	6.2
Cost of invested capital	**5,821**	**5,643**
Value contribution	**5,935**	**1,775**

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.

SUMMARY OF BUSINESS DEVELOPMENT AND ECONOMIC POSITION

The Board of Management of Volkswagen AG considers business development and the economic position to have been positive overall. In spite of the diesel issue, which continues to keep us very busy, and the persistently challenging market conditions, we increased our deliveries to customers in 2017 as forecast. At 10.7 million vehicles we lifted deliveries to customers by 4.3% , achieving a new record. We saw growth in Europe, North and South America and the Asia-Pacific region. The higher volume was a significant factor in the 6.2% increase in the Group's sales revenue and thus confirmed the current forecast. As a consequence, operating profit before special items rose to €17.0 billion and the operating return on sales before special items, at 7.4%, was moderately higher than the range forecast at the beginning of the year of 6.0–7.0%. After deducting special items resulting exclusively from the diesel issue, the operating return on sales of 6.0% was at the lower end of this scale, as recently projected.

Research and development costs underscore the efforts made to ensure the Company's future viability; at 6.7%, the R&D ratio in the Automotive Division was inside the expected range.

The Automotive Division's ratio of capex to sales revenue was reduced to 6.4%, which put it within the forecast range as well. Owing to high cash outflows attributable to the diesel issue, the Automotive Division's net cash flow was negative, as anticipated. The Automotive Division's net liquidity fell as a result, but was still a robust €22.4 billion at the end of the reporting period.

On the back of the increase in earnings, the return on investment (ROI) in the Automotive Division improved markedly to 12.1%, thus exceeding the minimum required rate of return on invested capital.

FORECAST VERSUS ACTUAL FIGURES

	Actual 2016	Original forecast for 2017	Adjusted forecast for 2017	Actual 2017
Deliveries to customers	10.3 million	moderate increase	moderate increase	10.7 million
Volkswagen Group				
Sales revenue	€217.3 billion	increase of up to 4%	> 4%	€230.7 billion
Operating return on sales before special items	6.7%	6.0–7.0%	moderately above 7.0%	7.4%
Operating return on sales	3.3%	6.0–7.0%	~6.0%	6.0%
Operating result before special items	€14.6 billion	within the forecast range	within the forecast range	€17.0 billion
Operating result	€7.1 billion	within the forecast range	within the forecast range	€13.8 billion
Passenger Cars Business Area				
Sales revenue	€150.3 billion	increase of up to 4%	> 4%	€158.5 billion
Operating return on sales before special items	7.4%	6.5–7.5%	moderately above 7.5%	7.9%
Operating return on sales	2.8%	6.5–7.5%	slightly below 6.5%	5.9%
Operating result before special items	€11.1 billion	within the forecast range	within the forecast range	€12.5 billion
Operating result	€4.2 billion	within the forecast range	within the forecast range	€9.3 billion
Commercial Vehicles Business Area				
Sales revenue	€32.1 billion	increase of up to 4%	> 4%	€35.2 billion
Operating return on sales	2.2%	3.0–5.0%	moderately above 5.0%	5.4%
Operating result	€0.7 billion	within the forecast range	within the forecast range	€1.9 billion
Power Engineering Business Area				
Sales revenue	€3.6 billion	significant decline	significant decline	€3.3 billion
Operating result	€–0.2 billion	lower loss	lower loss	€–0.1 billion
Financial Services Division				
Sales revenue	€31.3 billion	at prior-year level	noticeable increase	€33.7 billion
Operating result	€2.4 billion	at prior-year level	noticeable increase	€2.7 billion
R&D ratio in the Automotive Division	7.3%	6.0–7.0%	6.0–7.0%	6.7%
Capex/sales revenue in the Automotive Division	6.9%	6.0–7.0%	6.0–7.0%	6.4%
Net cash flow in the Automotive Division	€4.3 billion	significant decline, negative	significant decline, negative	€–6.0 billion
Net liquidity in the Automotive Division	€27.2 billion	significant decline	significant decline	€22.4 billion
Return on investment (ROI) in the Automotive Division	8.2%	noticeable increase, > 9%	noticeable increase, > 9%	12.1%