

Report on Expected Developments

The global economy is expected to grow somewhat less strongly in 2018 than in the previous year. We assume that trends in global demand for vehicles will be mixed and that demand will increase at a slightly slower rate than in the reporting period. With its brand diversity, broad product range and pioneering technologies and services, the Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed conditions in regional markets.

In the following, we describe the expected development of the Volkswagen Group and the general framework for its business activities. Risks and opportunities that could represent a departure from the forecast trends are presented in the Report on Risks and Opportunities.

Our assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

DEVELOPMENT OF THE GLOBAL ECONOMY

In our forecasts, we assume that global economic growth will weaken slightly in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2019 to 2022.

Europe/Other Markets

In Western Europe, economic growth is expected to slow down in 2018 compared with the reporting period. Resolving structural problems poses a major challenge, as do the uncertain results and impacts of the Brexit negotiations between the EU and the United Kingdom.

For Central Europe, we estimate that growth rates in 2018 will be lower than those of the past fiscal year. In Eastern Europe, the economic situation should stabilize further, providing that the smoldering conflict between Russia and Ukraine does not worsen. Following the increase in the past fiscal year, Russia's economic output is likely to grow further.

Political uncertainty and social tensions resulting primarily from high unemployment levels will probably weigh on the South African economy in 2018 and are expected to keep growth down.

Germany

In Germany, gross domestic product (GDP) is likely to increase less strongly in 2018 than in the reporting period. However, the situation in the labor market is expected to remain stable and bolster consumer spending.

North America

We expect the economic situation in the USA to further improve in 2018. The US Federal Reserve is likely to implement additional interest rate hikes throughout the course of the year. At the same time, fiscal policy measures are intended to provide support. Growth in Canada is likely to weaken, while remaining nearly unchanged in Mexico.

South America

The economy in Brazil is very likely to stabilize further in 2018 and record somewhat higher growth than in the reporting period. Despite sustained high inflation, Argentina should achieve a similar increase in GDP to that recorded in the reporting period.

Asia-Pacific

In 2018, the Chinese economy is expected to continue growing at a relatively high level, but year-on-year this growth will lose momentum. For India, we anticipate an expansion rate at around the 2017 level. The economic situation in Japan is likely to deteriorate compared with the reporting period.

TRENDS IN THE PASSENGER CAR MARKETS

We expect trends in the passenger car markets in the individual regions to be mixed in 2018. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period.

The Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed developments in regional automotive markets. Our unique brand portfolio, our presence in all major world markets, broad and selectively expanded product range, and pioneering technologies and services place us in a good competitive position worldwide. Our goal is to offer all customers mobility and innovations suited to their needs and thus ensuring long-term success.

We expect that the growth in demand for passenger cars worldwide will continue in the years 2019 to 2022.

Europe/Other Markets

For 2018, we anticipate that unit sales volumes in Western Europe will fall slightly short of those seen in the reporting period. The level recorded before the financial and debt crisis is unlikely to be achieved again in the medium term. The uncertain outcome of the exit negotiations between the EU and United Kingdom is likely to further exacerbate the continuing uncertainty among consumers precipitated by the financial and debt crisis, putting a damper on demand. In Italy and Spain, the recovery will probably continue in 2018 but at a considerably slower pace; in the French market, we expect growth to be only slightly positive. In the United Kingdom, we expect the market volume to fall moderately short of the previous year's high level.

Passenger car demand in 2018 is expected to significantly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, the volume of demand will probably rise somewhat more strongly after the considerable recovery over the past fiscal year. We also expect to see further growth in demand in the other markets in this region.

We are projecting that the volume of demand in the South African passenger car market in 2018 will be up slightly year-on-year.

Germany

Following the positive trend of recent years, we forecast that the market volume of the German passenger car market will remain on a level with the previous year in 2018.

North America

The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole and in the USA is likely to be slightly lower in 2018 than in the prior year. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is projected to be slightly below the previous year's high level as well. In Mexico, we anticipate that demand will be unchanged year-on-year.

South America

Owing to their dependence on demand for raw materials, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. In addition, protectionist tendencies are adversely affecting the performance of the region's vehicle markets, especially in Brazil and Argentina, which have imposed restrictions on vehicle imports. Nevertheless, we expect demand in the South American markets as a whole to distinctly increase in 2018 compared with the previous year. In Brazil, South America's largest market, volume is likely to rise markedly again in 2018 after the strong increase in the past fiscal year. We anticipate that demand in the Argentinian market in 2018 will be perceptibly higher year-on-year.

Asia-Pacific

We believe that the passenger car markets in the Asia-Pacific region will continue their growth in 2018, albeit at a slower pace. In China, the increase in individual mobility requirements will push up demand, though the rate of growth is likely to be slightly slower than in the previous year. Strong demand is still forecast for attractively priced entry-level models in the SUV segment in particular. In India, we expect demand for passenger cars to moderately exceed the previous year's level. We anticipate that demand in the Japanese passenger car market will fall slightly in 2018.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we expect a slight fall in demand in 2018, and a return to the growth trajectory for the years 2019 to 2022.

Due to the uncertainty caused by the United Kingdom's European Union membership referendum in June 2016, we estimate that demand for light commercial vehicles in Western Europe in 2018 will be slightly below the previous year's level. The United Kingdom and Italy are expected to record a decline. We anticipate that registrations in Germany will be around the previous year's level.

In the Central and Eastern European markets, registrations of light commercial vehicles in 2018 will probably be perceptibly higher than in the previous year. In Russia, too, we expect the market volume to rise compared with 2017.

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.

The market volume in the Asia-Pacific region in 2018 will probably record a slight year-on-year decline. We are also expecting demand in the Chinese market to fall short of the prior-year level. For India, we are forecasting a considerably higher volume in 2018 than in the reporting period. In the Japanese market, the downward trend is likely to continue at a slower pace.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2018 are set to be slightly up on the level seen in 2017. We anticipate a slightly positive trend for the period from 2019 to 2022.

We assume that demand in Western Europe will taper off slightly year-on-year in 2018. In Germany, we expect the market to remain on a level with the previous year.

Central and Eastern European markets should record a moderate increase in demand. In Russia, we anticipate a further recovery in demand in 2018, though the growth rate seen in 2017 will not be repeated.

We believe that demand in the Brazilian market in 2018 will grow perceptibly from the low level of the previous year. This is due to the continuing economic recovery.

In the bus markets that are relevant for the Volkswagen Group, we expect to see a slight increase in demand in 2018. We anticipate that demand in Western Europe over the same period will be on a level with that seen in 2017. For Central and Eastern Europe, we are forecasting higher demand than in the previous year. In Brazil, new registrations will probably be slightly higher than the prior-year level.

For the period 2019 to 2022, we expect slight growth overall in the demand for buses in the markets that are relevant for the Volkswagen Group.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

In 2018, we expect the market environment in power engineering to remain difficult, with undiminished competitive and price pressures.

In 2018, the market volume for two-stroke engines used in merchant shipping is likely to slightly exceed the level seen in the reporting period. Calls for greater energy efficiency and

low pollutant emissions will continue to have a significant influence on ship designs in the future. We also expect sustained high demand in the market for four-stroke engines used in cruise ships, ferries, dredgers and government vessels. In the offshore segment, new order volumes look set to be very low due to existing overcapacity, despite the recent slight rise in the oil price. Overall, we expect the marine market to be slightly up on the reporting period. The competitive pressure will continue unabated.

Demand for energy correlates strongly with macroeconomic and demographic trends, especially in emerging markets. The global trend toward decentralized power stations and gas-based applications shows no sign of losing momentum. For 2018, we expect demand to be virtually steady but remain at a low level overall.

In turbomachinery, we anticipate undiminished high price and competitive pressures in 2018 due to the continuing difficult market environment. This is due to expectations that unfavorable economic and political conditions will persist in some relevant markets. We believe that the trend has already bottomed out, however, and therefore expect the market for turbomachinery to return to slight growth in 2018.

We anticipate a positive trend in the marine and power plant after-sales business for diesel engines in 2018. In turbomachinery, we expect a slight upward trend.

For the period 2019 to 2022, we expect to see growing demand in the power engineering markets. The extent and timing of this growth will vary in the individual business fields, however.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We believe that automotive financial services will be very important for vehicle sales worldwide in 2018. We expect demand to continue rising in emerging markets where market penetration has so far been low, such as China. Regions with already developed automotive financial services markets will see a continuation of the trend towards enabling mobility at the lowest possible total costs. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will become increasingly important to this. Additionally, we expect demand to increase for new forms of mobility, such as carsharing, and for integrated mobility services including parking, refueling and charging. We anticipate that this trend will also continue in the period from 2019 to 2022.

In the mid-sized and heavy commercial vehicles category, we expect rising demand for financial services products in

emerging markets. There in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In the mature markets, we foresee increased demand for telematics services and services aimed at reducing total operating costs in 2018. This trend is also expected to continue in the period 2019 to 2022.

EXCHANGE RATE TRENDS

The global economy grew at an increased pace in 2017. Average energy and commodity prices were up year-on-year but remained at a relatively low level. The euro appreciated against the US dollar over the course of the year. Sterling lost further value against the European single currency due to uncertainty surrounding the exit negotiations began between the United Kingdom and the EU and the shape of future relations. The currencies of major emerging markets lost some further ground against the euro from the start of the reporting period. For 2018, we are forecasting that the euro will remain stable against the US dollar, sterling, Chinese renminbi and other key currencies. The expectation is that the Russian ruble, Brazilian real and Indian rupee will remain relatively weak. We currently assume that these trends will continue in the period 2019 to 2022. There is still a general event risk – defined as the risk arising from unforeseen market developments.

INTEREST RATE TRENDS

Interest rates remained extremely low in fiscal year 2017 due to the continuation of expansionary monetary policy and the challenging overall economic environment. In the major Western industrialized nations, key interest rates persisted at a historic low level. While it became apparent in the USA that the extremely loose monetary policy was gradually drawing to an end, the European Central Bank continued to pursue this course. In light of further expansionary monetary policy measures in the eurozone, we therefore expect no more than a slight rise in interest rates in 2018. In the USA, however, we can expect to see a moderate increase in interest rates. For the period 2019 to 2022, we anticipate a gradual rise in interest rates, though the pace will vary from region to region.

COMMODITY PRICE TRENDS

Political and economic uncertainty in different forms caused the prices for many raw and input materials, such as crude oil, steel, cobalt and rare earths, to move sideways or upwards in 2017, amid high volatility in some cases. In light of these individual factors, we expect mixed developments in the commodity markets in 2018 with an increase in most

commodity prices. We anticipate continued volatility in the commodity markets for the period from 2019 to 2022. Forward-looking, system-based and individual procurement methods enable us to limit risks arising from this volatility in commodity prices. Long-term supply agreements ensure that the Group's needs are satisfied and thus ensure a high degree of supply reliability.

NEW MODELS IN 2018

In the course of transforming our core business, we will define the positioning of our Group brands more clearly and optimize the vehicle and drive portfolio with a view to the most attractive and fastest-growing market segments. We will unveil additional SUV models, integrate digitalization into our products even more systematically and provide important stimuli for the future with e-mobility offerings.

The Volkswagen Passenger Cars brand will continue its global product initiative in 2018. The SUV range will be expanded further with the third generation of the Touareg among other models. The GTI family is also growing: with the new Polo GTI and the up! GTI, two models are coming on the market which will set new standards in their segment in terms of driving dynamics and sportiness. One of the focal points of the product offensive in 2018 will be China, where four new SUV models will be launched, including the compact, sporty T-Roc. With the Lavalda and the Bora, important high-volume models will be revamped. These will stand alongside a series of new plug-in hybrid models and all-electric vehicles to meet the growing demand for new energy vehicles in China. In the USA, the new Jetta will come on the market. The latest generation of the US bestseller, which is now also based on the Modular Transverse Toolkit, is quite different from its predecessor, both visually and from a technological perspective. The Arteon, a saloon, will also follow in the course of the year. South America will see the rollout of the Virtus, a notchback saloon based on the Polo; the further rejuvenation and expansion of the product range is an important element of the brand's realignment in the region.

Audi will set standards in the premium segment in 2018 with the new, progressive A7 Sportback. The four-door coupé reinvents the Gran Turismo with dynamic lines, systematic digitalization, a sporty driving experience and flexible use of space. The A4 family will gain a sporty spearhead: the new Audi RS 4 Avant combines high performance with enormous everyday practicality. The versatile Audi A6 featuring a sporty design will also come on the market. Boasting the same qualities as the A7, it has a much bigger interior than its predecessor. A new segment in the premium class will be

carved out with the latest member of the Q family, the Q8. The Audi e-tron will be Audi's first SUV with an all-electric drive to go into series production.

ŠKODA will bring its updated compact car, the Fabia, to market.

The SEAT brand will continue its product offensive with a large, seven-seater SUV. The model fits perfectly into SEAT's SUV model range alongside the smaller Arona and Ateca. In addition, SEAT is establishing the new sporty line CUPRA and will launch the dynamic CUPRA Ateca at the end of the year.

Porsche is enhancing its 911 product range with the 911 Carrera T and will unveil the new 911 GT3 RS.

Bentley will begin delivery in 2018 of the third generation of the Continental GT, which sets new standards for luxury grand touring. Bentley will also present two new derivatives of the successful Bentayga: the Bentayga V8 and Bentayga Hybrid.

Lamborghini will launch a third series on the market with the Urus, a super-SUV. The Huracán Performante Spyder will also be gradually made available. The Aventador S Roadster will receive an upgrade.

Bugatti will provide additional options for its super sports car, the Chiron.

Volkswagen Commercial Vehicles will debut the Amarok V6 TDI with the new top-of-the-range engine and the battery-powered e-Crafter in 2018.

In 2018, Scania will unveil further products from its new generation of trucks along with new services.

MAN will present a new version of its Adaptive Cruise Control (ACC) for its range of trucks, featuring a stop-and-go function.

Ducati will launch five new models on the market in 2018, including the Ducati Panigale V4 and the Multistrada 1260.

STRATEGIC SALES FOCUS

The multibrand structure, comprising largely independent, differentiated brands that nevertheless achieve maximum synergies, is one of the defining features of the Volkswagen Group.

To enable Group brands to enter into new markets, we will further refine our brand positioning, particularly in the growth regions. We will also significantly enhance our customer focus. We will improve collaboration with our authorized dealers, train our staff – including with respect to the digital transformation – and invest in innovative processes and systems for seamless customer interaction in an increasingly digital environment.

Our sales strategy is especially focussed on further developing the new and used vehicle businesses, on financial services and on business with original parts and accessories. We are also adding to our range of mobility services.

TECHNICAL EXPERTISE AND MOTIVATION IN THE TRANSFORMATION PROCESS

Our staff's dedication and high level of expertise provide important prerequisites to successfully shape the transformation process to becoming one of the world's leading providers of sustainable mobility, while ensuring our professional excellence in the field of traditional automobile manufacturing.

The dual vocational training and dual study programs form the basis for professional development in the vocational groups at Volkswagen. Employees then obtain further qualifications throughout their working lives. To always meet current requirements, the broad range of training courses is continuously being enhanced. For example, employees are prepared for the changes associated with the advancing digitalization and the use of new technologies under Industry 4.0. An important principle in these efforts is the transfer of knowledge and experience from internal experts to other staff. Training is provided in the form of dual vocational training that closely integrates theoretical and practical forms of learning.

INVESTMENT AND FINANCIAL PLANNING

To continue to build on our pronounced strengths in innovation and technology, we will vigorously invest in e-mobility, autonomous driving, new mobility services and digitalization in the coming years. The largest share of the investments will be in the development of vehicles with hybrid or all-electric drives.

In our current planning for 2018, the majority of capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) will be spent on new products and the continued rollout and further development of the modular toolkit. The focus is on the electrification and digitalization of our vehicles, in particular through the development of the Modular Electric Toolkit (MEB). At the same time, primarily the SUV range will be further expanded. We expect the Automotive Division's ratio of capex to sales revenue to be in the range of 6.5–7.0%.

Besides capex, investing activities will include additions to capitalized development costs. Among other things, these reflect upfront expenditures in connection with the fulfillment of environmental standards and the electrification and updating of our model range.

The investments in our facilities and models, as well as in the development of alternative drives and modular toolkits, are laying the foundations for profitable, sustainable growth at Volkswagen. These investments also include commitments arising from decisions taken in previous fiscal years.

We aim to finance the investments in our Automotive Division from our own capital resources and expect cash flows from operating activities to exceed the Automotive Division's investment requirements. Cash outflows resulting from the diesel issue will impact on the cash flow again in 2018, but will be substantially lower than in the reporting period. Consequently, we anticipate a positive net cash flow for 2018 that will be up significantly on the prior-year figure.

These plans are based on the Volkswagen Group's current structures. They do not take into account the possible settlement payable to other shareholders associated with the control and profit and loss transfer agreement with MAN SE. Our joint ventures in China are included using the equity method and are therefore not included in the above figures. In 2018, these joint ventures plan higher investments in capex than in 2017, which will be financed from the companies' own funds.

In the Financial Services Division, we are planning slightly higher investments in 2018 than in the previous year. We expect the growth in lease assets and in receivables from leasing, customer and dealer financing to lead to funds tied up in working capital, of which around 45% will be financed from the gross cash flow. As is common in the sector, the remaining funds needed will be met primarily through unsecured bonds on the money and capital markets, asset-backed securities, customer deposits from direct banking business, as well as through the use of international credit lines.

TARGETS FOR VALUE-BASED MANAGEMENT

Based on long-term interest rates derived from the capital market and the target capital structure (fair value of equity to debt = 2:1), the minimum required rate of return on invested capital defined for the Automotive Division remains unchanged at 9%.

In spite of the adverse effects of the special items on earnings, we exceeded the minimum rate of return on invested capital in the reporting period, with a return on investment (ROI) of 12.1 (8.2)% (see also page 128). Invested capital will increase in 2018 as a result of investments in new models, in the development of alternative drives and modular toolkits and in future technologies. The return on investment will probably exceed our minimum required rate of return on invested capital and be up slightly year-on-year.

FUTURE ORGANIZATIONAL STRUCTURE OF THE GROUP

As part of our future program TOGETHER – Strategy 2025, we are establishing a new mobility solutions business with which we will drive our transformation into one of the world's leading providers of sustainable mobility. Development of mobility services is closely tied to the cutting-edge

fields of digitalization, e-mobility, networked vehicle concepts and autonomous driving, which are being driven forward by our brands independently or in partnership with others. Starting in fiscal year 2018, we will report the mobility solutions business in the Automotive Division.

SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Group's Board of Management expects the global economy to record slightly weaker growth in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further.

We expect trends in the passenger car markets in the individual regions to be mixed in 2018. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period. We anticipate that unit sales volumes in Western Europe will fall slightly short of those seen in the reporting period. In the German passenger car market, we estimate that the market volume will be on a level with the previous year. Passenger car demand is expected to substantially exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect demand in the South American markets for passenger cars and light commercial vehicles to grow perceptibly as a whole compared with the previous year. The passenger car markets in the Asia-Pacific region look set to continue their growth trajectory in 2018, albeit at a weaker pace.

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we envisage a slight dip in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2018 are set to rise slightly above the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2018.

The Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed developments in regional automotive markets. Our unique brand portfolio, our presence in all major world markets, our broad,

selectively expanded product range and pioneering technologies and services place us in a good competitive position worldwide. In the course of transforming our core business, we will define the positioning of our Group brands more clearly and optimize the vehicle and drive portfolio with a view to the most attractive and fastest-growing market segments. In addition, we are working to make even more focused use of the advantages of our multibrand group by continuously developing new technologies and our toolkits. The Group's new structure with more decentralized responsibility will strengthen our brands and regions and increase our proximity to customers. Our goal is to offer all customers mobility and innovations that are suited to their needs, ensuring long-term success. We will unveil additional SUV models, integrate digitalization into our products even more systematically and provide important stimuli for the future with e-mobility offerings.

We expect that deliveries to customers of the Volkswagen Group in 2018 will moderately exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and the diesel issue. In the EU, there is also a new, more time-consuming test procedure for determining pollutant and CO₂ emissions as well as fuel consumption in passenger cars and light commercial vehicles known as the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP).

We expect the sales revenues of the Volkswagen Group and its business areas to grow by as much as 5% year-on-year. In terms of the operating profit for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2018. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 5.0 and 6.0%. In the Power Engineering Business Area, we expect a lower operating loss than in the previous year. For the Financial Services Division, we are forecasting an operating profit at the prior-year level.

In the Automotive Division, the R&D ratio and the ratio of capex to sales revenue will fluctuate in the range of 6.5–7.0% in 2018. Cash outflows resulting from the diesel issue will negatively impact the cash flow again in 2018, but will be substantially lower than in the reporting period. Consequently, we anticipate a positive net cash flow for 2018 that will be up significantly on the prior-year figure. Net liquidity will also increase moderately as a result. The return on investment (ROI) will be slightly higher than in the previous year. Our unchanged stated goal is to continue our solid liquidity policy.

The commitment and considerable technical expertise of our staff are key prerequisites to successfully shaping the transformation into the world's leading provider of sustainable mobility. With our future program, TOGETHER – Strategy 2025, we are attaching even greater importance to our responsibility in relation to the environment, safety and society. We are also aiming for operational excellence in all business processes and intensifying our focus on profitable growth.