Volkswagen AG

(Condensed, in accordance with the German Commercial Code)

Production and unit sales stable at 2016 level,
sales revenue and earnings up on prior-year figures.

ANNUAL RESULT

Special items recognized in fiscal year 2017 were exclusively attributable to the diesel issue, mainly due to higher expenses for the buyback/retrofit programs for 2.0 l TDI vehicles in North America and higher legal risks. These special items had an impact of €–2.0 (–0.8) billion on cost of sales and of €–0.9 (–4.5) billion on other operating income. Moreover, special items of €–0.4 billion had affected distribution expenses in the previous year.

In fiscal year 2017, sales were 1.9% higher than in the previous year, at €76.7 billion. Sales generated abroad accounted for a share of 62.5 (61.2)%. The cost of sales increased by 4.5% to €73.4 billion.

Gross profit fell to €3.4 (5.1) billion.

At €7.1 billion, selling, general and administrative expenses were down €1.2 billion on the prior-year figure.

The net other operating result improved by €1.9 billion to €–0.2 (–2.0) billion.

At €8.6 (8.7) billion, the financial result stood at the prior-year level.

Including the income tax expense of €–0.4 (–0.7) billion, net income for the year amounted to €4.4 billion in the year under review, compared with €2.8 billion in the previous year.

INCOME STATEMENT OF VOLKSWAGEN AG

€ million	2017	2016
Sales	76,729	75,310
Cost of sales	–73,355	–70,180
Gross profit on sales	**3,375**	**5,131**
Selling, general and administrative expenses	–7,104	–8,352
Net other operating result	–154	–2,035
Financial result[1]	8,644	8,725
Taxes on income	–409	–670
Earnings after tax	**4,353**	**2,799**
Net income for the fiscal year	**4,353**	**2,799**
Retained profits brought forward	2	2
Appropriations to revenue reserves	–2,174	–1,399
Net retained profits	**2,181**	**1,402**

1 Including write-downs of financial assets.

BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

€ million	2017	2016
Fixed assets	113,703	101,973
Inventories	4,889	4,387
Receivables[1]	32,303	26,386
Cash-in-hand and bank balances	5,798	9,117
Total assets	**156,693**	**141,863**
Equity	30,438	27,100
Special tax-allowable reserves	21	23
Long-term debt	33,060	26,457
Medium-term debt	33,415	30,082
Short-term debt	59,759	58,200

1 Including prepaid expenses.

NET ASSETS AND FINANCIAL POSITION

Total assets amounted to €156.7 billion at December 31, 2017, up €14.8 billion on the prior-year figure. Investments in tangible and intangible fixed assets declined to €1.7 (2.0) billion. Additions to financial assets rose by €11.4 billion to €33.8 billion. This was offset by depreciation and amortization charges and write-downs as well as by asset disposals totaling to €23.8 (17.3) billion. Fixed assets accounted for a share of 72.6 (71.9)% of total assets.

Current assets (including prepaid expenses) amounted to €43.0 (39.9) billion in 2017.

At €30.4 billion, equity increased due in particular to the improved net income for the year at the end of the reporting period. The equity ratio was 19.4 (19.1)%.

Other provisions decreased by €8.7 billion to €22.1 (30.8) billion, due primarily to the utilization of provisions in connection with the diesel issue. Provisions for pensions and similar obligations rose by €0.7 billion to €14.4 billion, primarily as a result of a change in the interest rate, while provisions for taxes decreased by €0.5 billion to €3.5 billion.

The €20.0 billion rise in total liabilities (including deferred income) to €86.3 billion is, above all, attributable to higher liabilities to affiliated companies.

Volkswagen AG's cash funds, comprising cash instruments with a maturity of less than three months, less bank and cash pooling liabilities repayable on demand, declined year-on-year from €–6.2 billion to €–8.5 billion. The interest-bearing portion of debt amounted to €74.0 (55.1) billion. In our assessment, the economic position of Volkswagen AG is just as positive overall as that of the Volkswagen Group.

DIVIDEND PROPOSAL

In fiscal year 2017, net retained profits amounted to €2.2 billion. The Board of Management and Supervisory Board are proposing to pay a total dividend of €2.0 billion, i.e. €3.90 per ordinary share and €3.96 per preferred share.

PROPOSAL ON THE APPROPRIATION OF NET PROFIT

€	2017
Dividend distribution on subscribed capital (€1,283 million)	1,967,423,852.40
of which on: ordinary shares	1,150,850,290.20
preferred shares	816,573,562.20
Appropriation to other revenue reserves	210,000,000.00
Balance (carried forward to new account)	3,299,970.81
Net retained profits	**2,180,723,823.21**

EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG

€ million	2017	%	2016	%
Direct pay including cash benefits	7,637	70.7	7,138	71.2
Social security contributions	1,361	12.6	1,337	13.3
Compensated absence	1,161	10.7	1,099	11.0
Retirement benefits	640	5.9	456	4.6
Total expense	**10,799**	**100.0**	**10,030**	**100.0**

VEHICLE SALES

Volkswagen AG sold a total of 2,584,375 (2,632,144) vehicles in fiscal year 2017. Vehicles sold abroad accounted for a share of 70.0 (69.7)%.

PRODUCTION

Volkswagen AG produced a total of 1,224,609 vehicles at its vehicle production plants in Wolfsburg, Hanover and Emden in the reporting period (–1.3%). Volkswagen AG's average daily production was 5,370 (5,423) units.

EMPLOYEES

As of December 31, 2017, a total of 117,420 (113,928) people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. Of this figure, 4,953 (4,999) were vocational trainees. 4,380 (2,936) employees were in the passive phase of their partial retirement.

Female employees accounted for 17.1 (17.0)% of the workforce. Volkswagen AG employed 5,069 (4,721) part-time workers. The percentage of foreign employees was 6.1 (6.1)%. 83.4 (83.5)% of the employees in Volkswagen AG's production area had completed vocational or additional training in the reporting period. The proportion of graduates was 18.9 (18.8)% in the same period. The average age of employees in fiscal year 2017 was 43.6 (43.2) years.

RESEARCH AND DEVELOPMENT

Research and development costs for Volkswagen AG under the German Commercial Code increased to €4.8 (4.7) billion in the reporting period. 12,332 (12,380) people were employed in this area at the end of the reporting period.

EXPENDITURE ON ENVIRONMENTAL PROTECTION

When measuring expenditure on environmental protection, a distinction is made between investments and operating costs for production-related environmental protection measures. Of our total investments, only those that are spent exclusively or primarily on environmental protection are included in environmental protection investments. We distinguish here between additive and integrated investments. Additive environmental protection measures are separate and independent of other measures relating to the production process. They can be upstream or downstream of the production process. In contrast to additive environmental protection measures, integrated measures reduce the environmental impact already during the production process. In 2017 we invested primarily in soil and water pollution control.

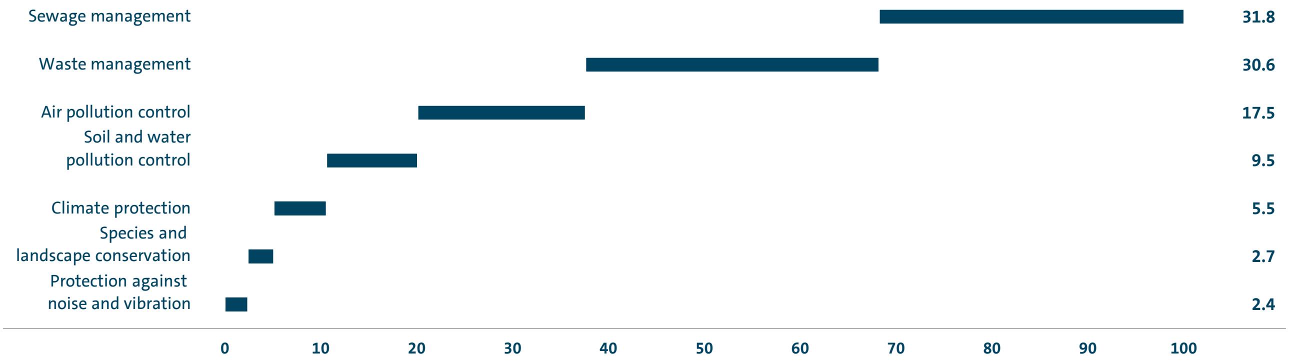
The operating costs recognized for environmental protection relate exclusively to production-related measures that protect the environment against harmful factors by avoiding, reducing, or eliminating emissions by the Company. Resources are also conserved. For example, these include expenditures incurred to operate equipment that protects the environment as well as expenditures for measures not relating to such equipment. As in the previous year, the emphasis in 2017 was on sewage and waste management.

VOLKSWAGEN AG EXPENDITURE ON ENVIRONMENTAL PROTECTION

€ million	2017	2016	2015	2014	2013
Investments	17	11	21	19	14
Operating costs	227	223	244	226	224

OPERATING COSTS FOR ENVIRONMENTAL PROTECTION AT VOLKSWAGEN AG 2017

Share of environmental protection areas in percent



BUSINESS DEVELOPMENT RISKS AND OPPORTUNITIES AT VOLKSWAGEN AG

The business development of Volkswagen AG is exposed to essentially the same risks and opportunities as the Volkswagen Group. These risks and opportunities are explained in the Report on Risks and Opportunities on pages 164 to 189 of this annual report.

RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risks for Volkswagen AG arising from the use of financial instruments are the same as those to which the Volkswagen Group is exposed. An explanation of these risks can be found on pages 187 to 188 of this annual report.

DEPENDENT COMPANY REPORT

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

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

The Annual Financial Statements of Volkswagen AG (in accordance with the HGB) can be accessed from the electronic companies register at www.unternehmensregister.de.