

Results of operations in the Financial Services Division

The Financial Services Division generated sales revenue of €29.4 billion in fiscal year 2015. The 17.8% year-on-year increase was attributable to higher business volumes and positive exchange rate effects.

At €5.5 billion, gross profit was 4.4% higher than in the previous year despite sustained pressure on margins and higher depreciation and amortization charges.

Because of the higher volumes and in particular the need to comply with continued increase in regulatory requirements, distribution and administrative expenses increased in the year under review, although the ratios of both to sales revenue declined slightly. Other operating result amounted to €-0.5 (-0.9) billion.

The operating result at the Financial Services Division rose by 16.6% year-on-year to €2.2 billion, again making a significant contribution to the Group's result. The operating return on sales declined to 7.6 (7.7)%. At 12.2 (12.5)%, the return on equity was down on the prior-year figure.

PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

Financial management at the Volkswagen Group covers liquidity management, currency, interest rate and commodity risk management, as well as credit and country risk management. It is performed centrally for all Group companies by Group Treasury, based on internal directives and risk parameters. The MAN and Porsche Holding Salzburg subgroups are integrated into the main financial management functions, while Scania is integrated to a very limited extent. Additionally, these subgroups have their own well-established financial management structures.

The goal of liquidity management is to ensure that the Volkswagen Group remains solvent at all times and at the same time to generate an adequate return from the investment of surplus funds. We use cash pooling to optimize the use of existing liquidity between the significant companies in Europe. To do this, the – positive or negative – balances accumulating on the cash pooling accounts are swept daily into a target account at Group Treasury and thus pooled. Currency, interest rate and commodity risk management is designed to hedge the prices on which investment, production and sales plans are based using derivative financial instruments. Credit

and country risk management aims to use diversification to avoid exposing the Volkswagen Group to the risk of loss or default. To achieve this, internal limits are defined on the basis of various credit risks for the volume of business per counterparty when entering into financial transactions. These primarily focus on the capital resources of potential counterparties, as well as the ratings awarded by independent agencies. The relevant risk limits and the authorized financial instruments, hedging methods and hedging horizons are approved by the Executive Committee for Liquidity and Foreign Currency.

For additional information on the principles and goals of financial management, please refer to page 185 and to the notes to the 2015 consolidated financial statements on pages 278 to 286.

FINANCIAL POSITION

Financial position of the Group

The Volkswagen Group generated gross cash flow of €16.3 billion in fiscal year 2015, representing a 38.7% decline year-on-year. Funds tied up in working capital amounted to €2.6 billion, down €13.2 billion on the previous year. The special items had a negative impact on gross cash flow and a positive effect on the change in working capital. Cash flows from operating activities were up by €2.9 billion year-on-year and amounted to €13.7 billion.

At €15.5 (16.5) billion, the Volkswagen Group's investing activities attributable to operating activities were down year-on-year, mainly due to the sale of the Suzuki shares. Within this item, investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) increased from €12.0 billion to €13.2 billion, and capitalized development costs also rose by €0.4 billion to €5.0 billion. Net cash flow amounted to €-1.8 (5.7) billion.

Cash inflows from financing activities amounted to €9.1 (4.6) billion. This figure includes the dual-tranche hybrid notes successfully placed in March 2015, which was largely offset by dividend payments. In the previous year, the figure included the increase in the interest in Scania, a capital increase and the issuance of hybrid notes.

The Group's net liquidity amounted to €-100.5 billion on December 31, 2015, compared with €-96.5 billion as of year-end 2014.

GROUP MANAGEMENT REPORT
Results of Operations, Financial Position and Net Assets

CASH FLOW STATEMENT BY DIVISION

€ million	VOLKSWAGEN GROUP		AUTOMOTIVE ¹		FINANCIAL SERVICES	
	2015	2014	2015	2014	2015	2014
Cash and cash equivalents at beginning of period	18,634	22,009	16,010	19,285	2,624	2,724
Earnings before tax	-1,301	14,794	-3,634	12,829	2,333	1,965
Income taxes paid	-3,238	-4,040	-2,985	-3,489	-254	-552
Depreciation and amortization expense ²	19,693	16,964	13,516	12,320	6,176	4,644
Change in pension provisions	309	148	295	137	14	12
Other noncash income/expense and reclassifications ³	817	-1,317	325	-1,631	493	313
Gross cash flow	16,280	26,549	7,518	20,166	8,762	6,383
Change in working capital	-2,601	-15,764	16,278	1,427	-18,880	-17,191
Change in inventories	-3,149	-2,214	-2,706	-2,111	-444	-103
Change in receivables	-1,807	-1,433	-1,001	983	-805	-2,416
Change in liabilities	2,807	4,764	2,641	3,228	166	1,536
Change in other provisions	18,019	413	17,989	514	30	-101
Change in lease assets (excluding depreciation)	-10,808	-8,487	-765	-749	-10,043	-7,738
Change in financial services receivables	-7,663	-8,807	120	-438	-7,784	-8,370
Cash flows from operating activities	13,679	10,784	23,796	21,593	-10,117	-10,809
Cash flows from investing activities attributable to operating activities	-15,523	-16,452	-14,909	-15,476	-614	-976
of which: investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs	-13,213	-12,012	-12,738	-11,495	-476	-517
capitalized development costs	-5,021	-4,601	-5,021	-4,601	-	-
acquisition and disposal of equity investments	2,178	-242	2,361	242	-183	-485
Net cash flow⁴	-1,845	-5,668	8,887	6,117	-10,731	-11,784
Change in investments in securities and loans	-5,628	-2,647	-3,506	-1,694	-2,122	-953
Cash flows from investing activities	-21,151	-19,099	-18,415	-17,170	-2,736	-1,928
Cash flows from financing activities	9,068	4,645	-6,333	-7,945	15,401	12,590
of which: capital transactions with noncontrolling interests	-0	-6,535	-0	-6,535	-	-
Capital contributions/capital redemptions	2,457	4,932	140	2,605	2,317	2,326
Effect of exchange rate changes on cash and cash equivalents	232	294	236	248	-4	46
Net change in cash and cash equivalents	1,828	-3,375	-717	-3,275	2,544	-100
Cash and cash equivalents at Dec. 31⁵	20,462	18,634	15,294	16,010	5,168	2,624
Securities, loans and time deposits	24,613	18,893	14,812	11,424	9,801	7,468
Gross liquidity	45,075	37,527	30,105	27,435	14,969	10,092
Total third-party borrowings	-145,604	-133,980	-5,583	-9,795	-140,021	-124,184
Net liquidity	-100,530	-96,453	24,522	17,639	-125,052	-114,092

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

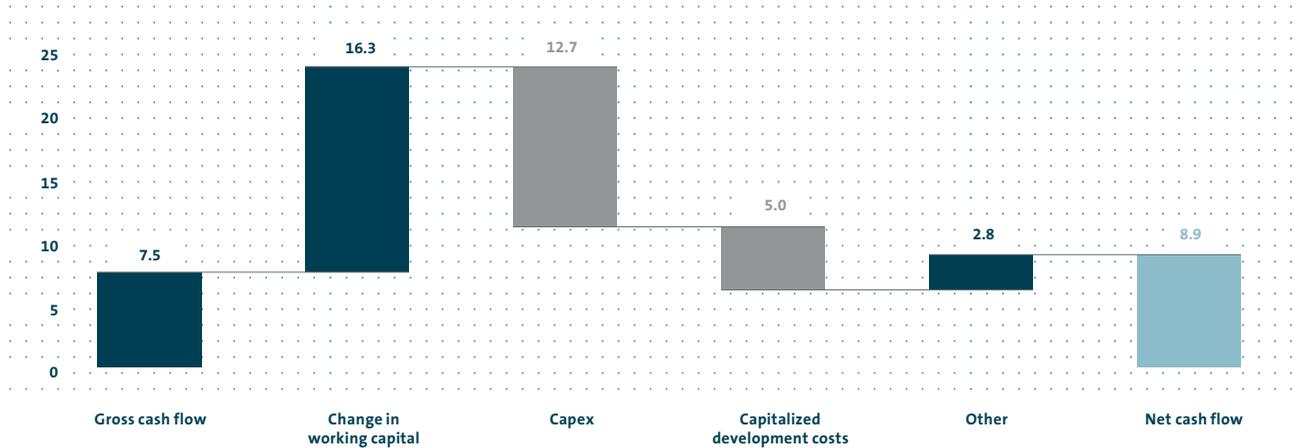
2 Net of impairment reversals.

3 These relate mainly to the fair value measurement of financial instruments, application of the equity method and reclassification of gains/losses on disposal of noncurrent assets and equity investments to investing activities.

4 Net cash flow: cash flows from operating activities, net of cash flows from investing activities attributable to operating activities.

5 Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.

AUTOMOTIVE DIVISION NET CASH FLOW
€ billion



Financial position in the Automotive Division

In fiscal year 2015, the Automotive Division generated gross cash flow of €7.5 billion; the decline of €12.6 billion compared with the 2014 figure was primarily due to the special items, which were partly offset by the positive change in the quality of earnings and higher dividend payments by the Chinese joint ventures. The change in working capital of €16.3 (1.4) billion resulted primarily from the impact of the special items, which have not yet been reflected in cash flow. Cash flows from operating activities increased by €2.2 billion to €23.8 billion.

At €14.9 (15.5) billion, investing activities attributable to operating activities in the year under review were down year-on-year. Capex rose to €12.7 (11.5) billion, producing a capex ratio of 6.9 (6.5)%. We invested mainly in our production facilities and in models that we launched in 2015 or are planning to launch in 2016. These are primarily vehicles in the Tiguan, Passat, Touran, Audi A4, Audi Q7, Audi Q5 and Audi A8 series, as well as the Porsche Panamera and the Bentley Bentayga. Other investment priorities were the ecological focus of our model range, the growing use of

electric drives and our modular toolkits. Capitalized development costs rose to €5.0 (4.6) billion. Investing activities in 2015 included a cash inflow of €3.1 billion from the sale of the Suzuki shares. The prior-year figure included the intragroup sale of MAN Finance International GmbH.

The Automotive Division's net cash flow improved by €2.8 billion to €8.9 billion.

In financing activities, the capital increases carried out by Volkswagen AG at Volkswagen Financial Services AG in fiscal year 2015 in order to finance the growth in business volumes and comply with the increase in regulatory capital requirements resulted in outflows of €2.3 billion. In May, a total dividend of €2.3 billion, €0.4 billion higher than in the previous year, was distributed to Volkswagen AG shareholders. Conversely, the successful placement of dual-tranche hybrid notes with an aggregate principal amount of €2.5 billion via Volkswagen International Finance N.V. in March resulted in a cash inflow. These consist of a €1.1 billion note that carries a coupon of 2.5% and has a first call date after seven years, and a €1.4 billion note that carries a coupon

of 3.5% and has a first call date after 15 years. Both tranches are perpetual and increase equity by the full amount, net of transaction costs, among other things. €2.5 billion of the hybrid notes was classified as a capital contribution, which increased net liquidity. The Automotive Division's financing activities also include the issuance and redemption of bonds and other financial liabilities in the total amount of €-6.3 (-7.9) billion. In the previous year, the figure included the acquisition of Scania shares, a capital increase and the issuance of hybrid notes.

The Automotive Division recorded net liquidity of €24.5 billion as of December 31, 2015; at year-end 2014, it was €17.6 billion.

FINANCIAL POSITION IN THE PASSENGER CARS BUSINESS AREA

€ million	2015	2014
Gross cash flow	4,722	17,965
Change in working capital	15,469	2,682
Cash flows from operating activities	20,191	20,647
Cash flows from investing activities attributable to operating activities	-12,434	-13,942
Net cash flow	7,757	6,705

Gross cash flow in the Passenger Cars Business Area amounted to €4.7 billion in fiscal year 2015, 73.7% lower than in the previous year. The decrease was primarily attributable to the special items, which at the same time had a positive effect on working capital. At €15.5 (2.7) billion, this increased as against the previous year. Cash flows from operating activities decreased by 2.2% to €20.2 billion. At €12.4 (13.9) billion, investing activities attributable to operating activities were down year-on-year, largely due to the sale of the Suzuki shares. Capex and capitalized development costs rose to €10.9 (10.1) billion and €4.2 (4.0) billion, respectively. Net cash flow increased by €1.1 billion to €7.8 billion.

FINANCIAL POSITION IN THE COMMERCIAL VEHICLES/ POWER ENGINEERING BUSINESS AREA

€ million	2015	2014
Gross cash flow	2,795	2,201
Change in working capital	810	-1,255
Cash flows from operating activities	3,605	946
Cash flows from investing activities attributable to operating activities	-2,475	-1,534
Net cash flow	1,129	-588

The Commercial Vehicles/Power Engineering Business Area generated gross cash flow of €2.8 billion in the reporting period, up €0.6 billion on the previous year despite the special items from restructuring expenses. €0.8 billion was released from working capital in the reporting period, after funds of €1.3 billion were tied up in the previous year. As a result, cash flows from operating activities rose to €3.6 (0.9) billion. Investing activities attributable to operating activities increased year-on-year to €2.5 (1.5) billion. The increase was due in particular to capital expenditures on the new plant in Wrzesnia, Poland, and on the successor to the Volkswagen Crafter that will be built there in the future. Net cash flow rose by €1.7 billion to €1.1 billion in the reporting period.

Financial position in the Financial Services Division

The Financial Services Division's gross cash flow rose by 37.3% year-on-year to €8.8 billion in the fiscal year due to an improvement in earnings quality. Funds tied up in working capital increased by €1.7 billion to €18.9 billion as a result of higher volumes. At €0.6 (1.0) billion, investing activities attributable to operating activities were significantly lower than in the previous year, when the figure reflected the intragroup acquisition of MAN Finance International GmbH. Volkswagen AG contributed a capital increase of €2.3 billion to the Financial Services Division's financing activities to finance the expected growth in business in existing and new markets as well as to comply with the continued increase in regulatory requirements. Cash inflows to financing activities amounted to €15.4 (12.6) billion overall.

The Financial Services Division's negative net liquidity, which is common in the industry, amounted to €-125.1 billion at the end of the reporting period, compared with €-114.1 billion on December 31, 2014.

GROUP MANAGEMENT REPORT
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FINANCIAL KEY PERFORMANCE INDICATORS

%	2015	2014	2013	2012	2011
Volkswagen Group					
Gross margin	15.9	18.0	18.1	18.2	17.6
Personnel expense ratio	17.0	16.7	16.1	15.3	15.0
Return on sales before tax	-0.6	7.3	6.3	13.2	11.9
Return on sales after tax	-0.6	5.5	4.6	11.4	9.9
Equity ratio	23.1	25.7	27.8	26.5	25.0
Dynamic gearing ¹ (years)	0.1	0.1	0.1	0.1	0.1
Automotive Division²					
Change in unit sales year-on-year ³	-2.0	+ 5.0	+ 4.1	+ 11.8	+ 14.9
Change in sales revenue year-on-year	+ 3.6	+ 1.4	+ 1.3	+ 21.6	+ 26.0
Operating result as a percentage of sales revenue	-3.4	6.1	5.6	5.7	7.0
EBITDA (in € million) ⁴	7,212	23,100	20,594	19,895	17,815
Return on investment (ROI) ⁵	-0.2	14.9	14.5	16.6	17.7
Cash flows from operating activities as a percentage of sales revenue	12.9	12.2	11.8	9.4	12.0
Cash flows from investing activities as a percentage of sales revenue	8.1	8.7	9.3	9.5	11.3
Capex as a percentage of sales revenue	6.9	6.5	6.3	5.9	5.6
Ratio of noncurrent assets to total assets ⁶	23.1	22.3	21.3	21.0	21.5
Ratio of current assets to total assets ⁷	15.2	14.3	13.4	14.3	17.4
Inventory turnover	5.8	6.2	6.5	6.4	6.9
Equity ratio	32.6	36.9	39.8	37.9	35.9
Financial Services Division					
Increase in total assets	13.9	15.1	3.9	19.5	22.5
Return on equity before tax ⁸	12.2	12.5	14.3	13.1	14
Equity ratio	11.9	11.3	10.5	10.4	10.1

1 Ratio of cash flows from operating activities to current and noncurrent financial liabilities.

2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

3 Including the Chinese joint ventures. These companies are accounted for using the equity method.

4 Operating result plus net depreciation/amortization and impairment losses/reversals of impairment losses on property, plant and equipment, capitalized development costs, lease assets, goodwill and financial assets as reported in the cash flow statement.

5 For details, see Value-based management on page 123.

6 Ratio of property, plant and equipment to total assets.

7 Ratio of inventories to total assets.

8 Earnings before tax as a percentage of average equity.