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Group Management Report

(COMBINED MANAGEMENT REPORT OF THE VOLKSWAGEN GROUP AND VOLKSWAGEN AG)

VOLKSWAGEN GROUP CUSTOMER DELIVERIES WORLDWIDE (in millions)

9.7 10.1 9.9

2013 2014 2015
The Emissions Issue

Providing effective technical solutions. Getting to the root of what happened and learning from it.
Taking advantage of the opportunity for a fundamental realignment.

IRREGULARITIES IN EMISSIONS

On September 18, 2015, the U.S. Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NOx) emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines. It has been alleged that we had used undisclosed engine management software installed in certain four-cylinder diesel engines used in certain 2009 to 2015 model year vehicles to circumvent NOx emissions testing regulations in the United States of America in order to comply with certification requirements. The US environmental authority of California – the California Air Resources Board (CARB) – announced its own enforcement investigation in this context. Following these announcements by EPA and CARB, authorities in various other jurisdictions worldwide commenced their own investigations. Volkswagen publicly admitted to irregularities on September 22, 2015.

On November 2, 2015, the EPA issued another “Notice of Violation” alleging that irregularities had also been discovered in the software installed in vehicles with type V6 3.0 l diesel engines. CARB also issued a letter announcing its own enforcement investigation in this context.

In the course of the internal inquiries at Volkswagen, we also encountered evidence that irregularities in the determination of the CO2 figures for vehicles’ type approvals in the EU28 countries could initially not be ruled out.

EXTENSIVE INVESTIGATIONS BY VOLKSWAGEN

Volkswagen’s reaction has been comprehensive and the Company is working intensively to clarify the irregularities. To this end, Volkswagen ordered both internal inquiries and external investigations. The external investigation is being conducted with the involvement of external lawyers in Germany and the USA. To facilitate the investigations in the course of clarifying the facts, the Group Board of Management established a cooperation program, which was in place for a limited time and was open to all employees covered by collective agreements.

The Supervisory Board of Volkswagen AG formed a special committee that coordinates all activities relating to the emissions issue for the Supervisory Board. Further information regarding the Special Committee on Diesel Engines can be found in the Report of the Supervisory Board on pages 12 to 17. Volkswagen AG retained the US law firm Jones Day to conduct an independent and comprehensive external investigation of the diesel issue. Jones Day is updating the Company on the current results of its investigation on an ongoing basis.

Furthermore, Volkswagen AG filed a criminal complaint in September 2015 with the responsible public prosecutor’s office in Braunschweig.

We are cooperating with all the responsible authorities to clarify these matters completely and transparently. Jones Day is supporting Volkswagen AG in its cooperation with the judicial authorities.
DIESEL ISSUE

Four-cylinder diesel engines

In its ad hoc release dated September 22, 2015, the Volkswagen Group announced that there were discrepancies in relation to NO\(_x\) emissions figures in vehicles with type EA 189 diesel engines. Around eleven million vehicles worldwide were affected. This is attributable to the engine management software. The vehicles remain technically safe and ready to drive.

AFFECTED FOUR-CYLINDER DIESEL ENGINES

<table>
<thead>
<tr>
<th>Engine Type</th>
<th>Number of Vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0 L TDI</td>
<td>6,608 thsd.</td>
</tr>
<tr>
<td>1.6 L TDI</td>
<td>3,665 thsd.</td>
</tr>
<tr>
<td>1.2 L TDI</td>
<td>468 thsd.</td>
</tr>
</tbody>
</table>

Technical solutions have been prepared for the three European variants of the type EA 189 engine affected. These solutions have been approved in principle by the German Kraftfahrtbundesamt (German Federal Motor Transport Authority) for Volkswagen AG and AUDI AG. The Group brands SEAT and ŠKODA also received approvals in principle each from their respective type approval authorities – the Ministry of Industry in Spain and the Vehicle Certification Agency in the United Kingdom. We are now working expeditiously to implement the technical solutions in order to ensure that all legal requirements are met in the EU28 member states. The recall of the highest-volume variant – the 2.0 L TDI engine – already began in January 2016. The recall of the 1.2 L TDI is expected to commence at the end of the second quarter. A software update is being performed for these engine versions. The implementation phase for the recall of the 1.6 L TDI engine is scheduled for the third quarter, which will provide additional lead time necessary for the hardware modification. In the 1.6 L TDI engines, a “flow transformer” will be fitted in front of the air mass sensor to improve the sensor’s measuring accuracy. Combined with updated software, this will optimize the amount of diesel injected. Based on current planning, implementation of measures will take at least the full 2016 calendar year to complete. Holders of affected vehicles will be notified by Volkswagen when their cars can have their software updated and, where appropriate, receive the modified hardware. Volkswagen guarantees that the solutions will be implemented free of charge.

In addition, Volkswagen AG has, until December 31, 2017, expressly waived citation of the statute of limitations with regard to any claims made in relation to the software installed in vehicles with engines of type EA 189 by vehicle customers outside the United States and Canada.

In some countries outside the EU – among others Switzerland, Australia and Turkey – national type approval is based on prior recognition of the EC/ECE type approval. We are also working closely with the authorities in these countries to coordinate the corresponding actions.

In North America, three variants of certain four-cylinder diesel engines are affected. Due to considerably stricter NO\(_x\) limits in the USA, it is a greater technical challenge to refit the vehicles so that all applicable emissions limits can be met. Volkswagen is currently in intensive discussions with the EPA and CARB concerning remedial measures. We will present the solution for North America as soon as it has been agreed with the responsible authorities. The respective US companies of the Volkswagen Group have withdrawn all affected new vehicles from sale in the USA and Canada.

Clarification regarding four-cylinder diesel engines advancing

Some 450 internal and external experts are involved in the work to clarify the issue, which is divided into two investigations. The Group Internal Audit function, which involved bringing together experts from various Group companies to form a task force, and focused – as instructed by the Supervisory Board and Board of Management – on reviewing relevant processes, reporting and control systems as well as the accompanying infrastructure. The Group Internal Audit function provided its findings to the external experts from Jones Day. The internationally renowned law firm has been appointed by Volkswagen AG to fully clarify the facts and responsibilities in a second investigation. Jones Day is receiving operational support from the auditing firm Deloitte.

The special investigation involves conducting briefings with employees and managers who have been identified by Jones Day as relevant sources of information in connection with the diesel issue. In addition, Jones Day is evaluating documents and data (such as e-mails) and conducting follow-up interviews based on the documents that are relevant for clarifying the facts. Relationships between the various areas under investigation will also be analyzed and the respective findings collected.
Based on the facts currently known by the Group Internal Audit function, in the past there were process deficiencies on the technical side in addition to misconduct on the part of individuals. This was true of the testing and certification processes for the engine control units, for example, which were unsuited to preventing the use of the software in question. The Group Internal Audit function proposed specific remedial measures to address the identified weaknesses, which focus on creating more clearly structured and systematic processes on the technical side. For example, the processes and structures used for approving the software for engine control units are being reorganized with more clearly defined and binding powers and responsibilities.

We have already resolved to make comprehensive changes to testing practices on the technical side as a key response to the Group Internal Audit function’s findings. Therefore, Volkswagen has decided that in the future emissions tests, in general, will be externally evaluated by independent third parties. Real-world random tests of vehicles’ emissions behavior on the road will also be introduced.

Furthermore, the internal control system has been optimized through a new set of regulations for the procedure in control unit software development, emission classification and escalation management.

While the Group Internal Audit function has already completed its analysis of the Company’s processes, the work being done by Jones Day will continue well into 2016. One reason for the different durations of the investigations is that the external investigators must screen very large volumes of data. By the end of December, over 100 terabytes of data had been secured and more than 1,500 electronic data storage devices from some 380 employees had been collected. Moreover, the external investigation is seeking to establish legal responsibility for what has occurred. This means that the findings not only need to be plausible and consistent with the evidence, but must also stand up in court.

Employees from the affected departments have been dismissed as a further direct consequence of the findings to date from the internal inquiries and external investigations.

The information that has been viewed so far has helped trace the origin and development of the diesel issue to a large extent. The starting point was the strategic decision to launch a large-scale promotion of diesel vehicles in the USA in 2005. To this end, a new diesel powertrain unit featuring high performance and cost-efficient production – the EA 189 type engine – was to be developed. The US emissions limits for emissions of pollutants are strict. Under the strictest standard in the USA at the time, only 31 mg/km of NOx were allowed to be emitted, about six times less than under the Euro 5 standard applicable in Europe at that time. When designing state-of-the-art diesel engines, technicians and engineers face the challenge that measures to reduce NOx categorically have a knock-on effect on other parameters (e.g. CO2).

In the ensuing period, in order to resolve this conflicting objective satisfactorily within the time frame and budget of the EA 189 project, according to the current state of knowledge, a group of persons – whose identity is still being determined – at levels below the Group’s Board of Management in the powertrain development division, decided to modify the engine management software. With this software modification, emissions values were generated in bench testing that differed substantially from those under real driving conditions.

As things stand, outside the group of persons mentioned above, the then and current Board of Management of Volkswagen AG had, at any rate, no knowledge of the use of unlawful engine management software at the time. Even after the International Council on Clean Transportation (ICCT) study was published in May 2014, the discrepancies were initially regarded – on the basis of the facts currently known regarding the members of the Board of Management responsible at that time – as a technical problem that did not basically differ from other everyday technical problems at an automotive company. In the exhaust measurements carried out inhouse at Volkswagen in the subsequent months, the test set-ups on which the ICCT study was based were repeated and the unusually high NOx emissions confirmed. CARB was informed of this result, and at the same time the offer was made to recalibrate the type EA 189 diesel engines as part of a service measure that was already planned in the USA. This measure was evaluated and adopted by the Ausschuss für Produktsicherheit (APS – product safety committee), which includes, among others, employees from the technical development, quality assurance, sales, production, logistics, procurement and legal departments, as part of the existing processes within the Volkswagen Group. The APS thus plays a central role in the internal control system at Volkswagen AG. There are currently no reliable findings to confirm that an unlawful software modification was reported by the APS as the cause of the discrepancies to the persons responsible for preparing the 2014 annual and consolidated financial statements. Instead, at the time that the annual and consolidated financial statements were being prepared, this group of people remained under the impression that the discrepancies could be eliminated with comparatively little effort as a part of a field measure. Based on what is currently known, the actual background of the discrepancies only became clear gradually to the members of the Board of Management dealing with the matter. It was only reliably recognized in the summer of 2015 that the cause of the discrepancies was a software modification, to be
qualified as a so-called “defeat device” as defined by US environmental law. This culminated in the disclosure of the “defeat device” to the EPA/CARB on September 3, 2015. According to the assessment at that time of the members of the Board of Management dealing with the matter, the scope of the costs expected as a result by the Volkswagen Group (recall costs, retrofitting costs and financial penalties), was basically not dissimilar to that of previous cases in which other vehicle manufacturers were involved, and therefore appeared to be controllable overall with a view to the business activities of the Volkswagen Group. This appraisal by Volkswagen AG was based on the assessment of a law firm brought in in the USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. Publication of a “Notice of Violation” by the EPA on September 18, 2015, which came as a surprise to the company, on the facts and possible financial consequences, then presented the situation in a completely different light.

Six-cylinder diesel engines
On November 2, 2015, the EPA announced that it had determined that engine management software installed in vehicles with V6 3.0 l TDI diesel engines contains “auxiliary emission control devices” (AECDs) which had not been disclosed adequately in the US type approval process. Also on November 2, and additionally on November 25, 2015, the CARB published allegations that legal requirements for NOx emissions were circumvented through the use of engine management software under test conditions.

**AFFECTED V6 TDI 3.0 L DIESEL ENGINES**

<table>
<thead>
<tr>
<th>VOLKSWAGEN PASSENGER CARS</th>
<th>AUDI</th>
<th>PORSCHE</th>
</tr>
</thead>
<tbody>
<tr>
<td>34 thsd.</td>
<td>61 thsd.</td>
<td>18 thsd.</td>
</tr>
</tbody>
</table>

After discussions with the EPA and CARB, Audi publicly announced on November 23, 2015 that it would revise the software parameters and resubmit them for approval in the USA. The technical solutions will be implemented as soon as they have been approved by the authorities. Around 113 thousand vehicles from the 2009 to 2016 model years of the Audi, Volkswagen Passenger Cars and Porsche brands are affected in the USA and Canada. The respective US companies of the Volkswagen Group have withdrawn all affected new vehicles from sale in the USA and Canada.

**Clarification regarding six-cylinder diesel engines**
Audi has confirmed that a total of three AECDs were not declared in the course of the US approval documentation.

To clarify this issue, Audi set up an internal task force, furnished committees with the necessary resources and launched a program of cooperation for employees covered by collective agreements. The law firm Jones Day is also conducting independent and comprehensive investigations into this matter.

The incumbent members of the Board of Management of AUDI AG have declared that prior to the notification by the US Environmental Protection Agency EPA in November 2015 they had no knowledge of matters concerning the V6 TDI 3.0 l engines that the authorities are now treating as infringements.

We are consistently seeking to realize organizational and procedural potential for improvement that has come to light as a result of the diesel issue.

On January 4, 2016, the U.S. Department of Justice (DOJ), on behalf of the EPA, filed a civil complaint against Volkswagen AG, AUDI AG and other companies of the Volkswagen Group. The claims asserted under civil law are founded on the alleged use of illegal (defeat device) software in violation of the American Clean Air Act. The complaint’s allegations relate to both the four-cylinder and the six-cylinder diesel engines, although technically Volkswagen AG Group-wide held internal development responsibility for the four-cylinder diesel engines within the Group, and AUDI AG for the V6 3.0 l TDI engines.

**CO2 issue**
In the course of the internal inquiries at Volkswagen of all diesel engines, we additionally found that initially we could not rule out irregularities in determining the CO2 figures for vehicle type approval in the EU28 member states. The CO2 levels, and thus also the fuel consumption figures, appeared to have been set too low in the case of some vehicle models during the CO2 certification process. On November 3, 2015, we informed the public that around 800,000 vehicles, primarily with diesel engines, could be affected. Our initial estimate put the economic risk at €2 billion.

**Clarification of the CO2 issue**
The investigations conducted into the potentially illegal manipulation of CO2 values did not bring about the adverse impact on earnings that we had expected. Just one month later, on December 9,
2015, we were able to publicly announce that clarification of the CO₂ issue had largely been completed. Following extensive internal reviews and measurement checks, we found slight discrepancies in only a very limited number of engine-transmission variants from the Volkswagen Passenger Cars brand. These variants are now being reviewed by a neutral technical service under the supervision of the authorities. The discrepancies between the stated figures and the values found during testing, on average, amount to a few grams of CO₂. No technical modifications to the vehicles are required and real-world consumption figures for customers are unchanged. The catalog figures will be adjusted for the affected variants in the course of normal processes.

**IMPACT ON THE VOLKSWAGEN GROUP**

**Operating result for 2015**

As a result of the irregularities in the software used in certain diesel engines, provisions totaling €16.2 billion were recognized and charged to operating result, primarily for pending technical modifications, for repurchases, and customer-related measures as well as legal risks.

The special items originally expected as a result of the CO₂ issue have not materialized.

We have therefore adjusted the Group’s earnings targets accordingly, and have revised investment planning and intensified the ongoing efficiency program.

**Legal risks**

Various legal risks are associated with the diesel issue. The provisions recognized for this matter in the amount of €7.0 billion are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the comprehensive, exhaustive investigations have not yet been completed. The legal risks include (detailed information on the legal risks can be found on pages 182 to 185):

- Criminal and administrative proceedings all over the world (excluding the USA/Canada)
- Product-related lawsuits worldwide (excluding the USA/Canada)
- Lawsuits filed by investors worldwide (excluding the USA/Canada)
- Proceedings in the USA/Canada

Should these legal risks materialize, this could result in considerable financial charges.

Further risks from the emissions issue can be found in the Report on Risks and Opportunities on page 173.

**Ratings and rankings**

As a result of the emissions issue, Moody’s Investors Service downgraded Volkswagen AG’s short- and long-term ratings by one notch each from P–1 to P–2 and A2 to A3 in November 2015. The long-term ratings for Volkswagen Financial Services AG and Volkswagen Bank GmbH were downgraded from Aa3 to A1. The rating agency lowered the outlook for the companies from stable to negative.

In connection with the irregularities in the software used for certain diesel engines from the Volkswagen Group, in October 2015 Standard & Poor’s initially downgraded the short-term and long-term ratings for Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH by one notch each, to A–2 and A– respectively.

In a further step in December 2015, also as a result of the emissions issue, Standard & Poor’s downgraded the long-term ratings for Volkswagen AG and Volkswagen Financial Services AG from A– to BBB+. The outlook for Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH is negative.

**Share price development**

The emergence of the news about irregularities in the software used in certain diesel engines and the resulting public speculation about possible consequences to be expected led to a sharp fall in the prices of Volkswagen AG’s ordinary and preferred shares in mid-September 2015. After reaching the lowest closing price for the year at the beginning of the fourth quarter, Volkswagen shares recovered temporarily from their sharp declines. As a result of the news that, as part of the internal inquiries at Volkswagen of all diesel engines, we also encountered evidence that irregularities in the determination of the CO₂ figures for vehicles’ type approvals in the EU28 countries could initially not be ruled out, the prices of both classes of shares trended lower again. As a result of the share price fluctuations.

**Personnel changes**

The Chairman of the Board of Management of Volkswagen AG, Prof. Dr. Martin Winterkorn, took responsibility for the irregularities that had emerged in relation to diesel engines. He stepped down on September 25, 2015.

The Supervisory Board of Volkswagen AG appointed Matthias Müller as the new Chairman of the Board of Management of Volkswagen AG with effect from September 26, 2015.
Effective January 1, 2016, Christine Hohmann-Dennhardt took up a newly created responsibility as member of the Board of Management of Volkswagen AG for Integrity and Legal Affairs. This is a clear indication of the great importance we attach to these issues.

REALIGNMENT OF THE GROUP

In late October 2015, the Group Board of Management announced a five-point plan to realign the Group. The first and most important priority is to provide technical solutions for our customers and therefore to work closely with the authorities. The second priority is to pursue and complete the investigation independently and systematically. This will involve examining the facts and analyzing how they occurred, with the aim of ensuring that such mistakes cannot occur again. The third priority is to implement the new Group structure. The Volkswagen Group’s management will be more decentralized in future, with greater independence for brands and regions. This will mean better sharing of responsibility and will encourage entrepreneurial thinking and behavior. Our decisions and processes will become leaner, faster and more efficient. The Group Board of Management will focus on its core role: pursuing major Groupwide topics for the future and working on synergies, control and strategy. The fourth point involves a realignment of culture and management practices at Volkswagen. Establishing a new way of thinking takes time. We want our work to be defined by open and honest communication, a constructive approach to dealing with mistakes and greater courage and innovation. The fifth and final point is the Group’s new objectives. In 2008 the Volkswagen Group sent a strong signal with its Strategy 2018. The cornerstones remain unchanged: satisfied customers, motivated employees, excellent quality products and services, sustainable profitability and ecological responsibility. Additionally, the “Future Tracks” initiative (see also page 132) has already laid the valuable groundwork for the realignment, enabling us to address the issues of the future such as e-mobility, the digital shift and new business models. We are developing our Strategy 2025 for the Volkswagen Group on this basis, with which we will determine our technological and strategic direction for the next ten years.

TO OUR STAKEHOLDERS

Volkswagen does not tolerate any infringements of rules or laws. The irregularities that occurred contradict everything Volkswagen stands for. The trust of our customers and the public is, and will remain, our most important asset. We are sincerely sorry that we have disappointed our stakeholders. We will do everything within our power to prevent incidents of these kinds from reoccurring and commit ourselves fully to winning back all of the trust.
The Volkswagen Group sent a strong signal with the launch of its Strategy 2018 in 2008. The clear and ambitious goals triggered significant momentum within the Company, laying the foundation for the Group’s significant success in recent years. In this context, and in light of the fundamental changes both in the automotive industry and within the Company itself, now is the time to realign the Volkswagen Group, both technologically and strategically. The basis for this realignment is our Strategy 2018, in which we defined four goals that are intended to make Volkswagen the most successful, fascinating and sustainable automaker in the world:

- **Volkswagen intends to deploy intelligent innovations and technologies to become a world leader in customer satisfaction and quality. We see high customer satisfaction as one of the key requirements for the Company’s long-term success.**

- **The goal is to generate unit sales of more than 10 million vehicles a year; in particular, Volkswagen intends to capture an above-average share of growth in the major growth markets.**

- **Volkswagen’s aim is a long-term return on sales before tax of at least 8% so as to ensure that the Group’s solid financial position is guaranteed and that it retains the ability to act even in difficult market periods.**

- **Volkswagen aims to be the most attractive employer in the automotive industry. The aim is to have the best team in the sector: highly qualified, fit and above all motivated.**

Our particular focus is on the environmentally friendly orientation and profitability of our vehicle projects so that the Volkswagen Group can achieve success even in more challenging conditions. We are selectively expanding our range of vehicles to safeguard the strong position enjoyed by our individual brands and to systematically increase our competitive advantages.

Our activities are primarily designed to set new standards in the areas of vehicles, drivetrains and lightweight construction. Our modular toolkit system, which we are enhancing on an ongoing basis, allows us to improve the Group’s production efficiency and flexibility, and thus also its profitability.

In addition, we intend to continually expand our customer base by increasing satisfaction among our existing customers and acquiring new customers around the world, particularly in the growth markets. In order to ensure this, we are increasingly adapting our products and services to the specific local requirements. We shall continue the measures we are currently taking to improve our productivity and quality regardless of the economic situation and without any time limit. These include our regional development teams and our cooperation with local suppliers, among other things. We are also continuing to standardize processes in both the direct and indirect areas and are reducing production throughput times. Together with disciplined cost and investment management, these measures play a major role in ensuring that we reach our long-term profitability targets and safeguard solid long-term liquidity.

We will only successfully meet the challenges of today and tomorrow if all employees – from vocational trainees through to the Board of Management – consistently deliver excellence. Outstanding performance, the success that comes from it and participation in its rewards are therefore at the heart of our human resources strategy.

Satisfied customers and motivated employees, excellent quality products and services, sustainable profitability and ecological responsibility are the cornerstones of the Strategy 2018, and remain unchanged. Additionally, the “Future Tracks” initiative has already laid the valuable groundwork for the realignment, enabling us to address the issues of the future such as e-mobility, the digital shift and new business models. We are developing our Strategy 2025 for the Volkswagen Group on this basis, and aim to present the results starting in mid-2016. The initial phase focuses on three issues: digitalization, integrity and legal affairs, and sustainability.
Internal Management System and Key Performance Indicators

Based on the goals set out in our Strategy 2018, this chapter describes how the Volkswagen Group is managed and the key performance indicators used for this. Alongside financial measures, our management system also contains nonfinancial key performance indicators.

The Volkswagen Group’s performance and success can be measured using both financial and nonfinancial key performance indicators. The following starts by describing the internal management process, and then explains the Volkswagen Group’s core performance indicators.

**INTERNAL MANAGEMENT PROCESS IN THE VOLKSWAGEN GROUP**

The starting point for the Volkswagen Group’s internal management is the medium-term planning conducted once a year. This generally covers a period of five years and forms the core of our operational planning. It is used to formulate and check the requirements for realizing strategic projects designed to meet Group targets in both technical and economic terms – and particularly in relation to earnings and liquidity effects. In addition, it is used to coordinate all business areas with respect to the strategic action areas concerned: functions/processes, products and markets.

When planning the Company’s future, the individual planning components are determined on the basis of the timescale involved:

- The long-term unit sales plan, which sets out market and segment growth and then derives the Volkswagen Group’s delivery volumes from them.
- The product program as the strategic, long-term factor determining corporate policy.
- Capacity and utilization planning for the individual locations.

The coordinated results of the upstream planning processes are used as the basis for the medium-term financial planning: the Group’s financial planning, including the brands and business fields, comprises the income statement, cash flow and balance sheet planning, profitability and liquidity, as well as the upfront investments needed for alternative products and the implementation of strategic options.

The first year of the medium-term planning period is then fixed and a budget drawn up for the individual months. This is planned in detail down to the level of the operating cost centers.

During the year, the budget is reviewed each month to establish the degree to which the targets have been met. In the process, target/actual comparisons, prior-year comparisons, variance analyses and, if necessary, action plans to ensure targets are met, are key instruments within the management system. For the current fiscal year, detailed revolving monthly forecasts are prepared for the coming three months and the full year. These forecasts take into account the current risks and opportunities. The focus of intrayear internal management is therefore on adapting ongoing operations. At the same time, the current forecast serves as a potential, ongoing corrective to the medium-term and budget planning that follows on from it.
The Volkswagen Group’s internal management is based on seven core performance indicators, which are derived from the goals set out in our Strategy 2018:

- Deliveries to customers
- Sales revenue
- Operating result
- Operating return on sales
- Capex/sales revenue in the Automotive Division
- Net cash flow in the Automotive Division
- Return on investment (ROI) in the Automotive Division

Deliveries to customers are defined as handovers of new vehicles to the end customer. This figure shows the popularity of our products with customers and is the measure we use to determine our competitive position in our markets. Increasing deliveries to customers is closely linked to our objectives of offering superior customer satisfaction and quality, as well as achieving unit sales of more than 10 million vehicles – including the Chinese joint ventures. High customer satisfaction, combined with and based on the outstanding quality of our vehicles, is one of the most important preconditions for the Company’s long-term success. Demand for our products is what drives our unit sales and production, and hence determines capacity utilization at our locations. Only employees who are highly qualified, fit and above all motivated can meet the goals we have set ourselves and ensure long-term financial success.

Sales revenue, which does not include the figures for our equity-accounted Chinese joint ventures, reflects our market success in financial terms. Following adjustment for our use of resources, the operating result reflects the Company’s actual business activity and documents economic output in our core business. The operating return on sales is the ratio of the operating result to sales revenue.

The ratio of capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) to sales revenue in the Automotive Division reflects both our innovative power and our competitiveness. It compares our capital expenditure – largely for modernizing and expanding our product range and environmentally friendly drive-trains, as well as for increasing capacity and improving production processes – to the Automotive Division’s sales revenue.

Net cash flow in the Automotive Division represents the excess funds from operating activities available for dividend payments, for example. It is calculated as cash flows from operating activities less cash flows from investing activities attributable to operating activities.

We use the return on investment (ROI) to calculate the return on invested capital for a particular period in the Automotive Division, including the Chinese joint ventures on a proportionate basis, by calculating the ratio of the operating result after tax to invested capital. If the return on investment (ROI) exceeds the market cost of capital, the value of the Company has increased. This is how we measure the success of our brands, locations and vehicle projects.

You can find information and explanations on the sales figures and the Volkswagen Group’s financial key performance indicators on pages 94 to 99 and on pages 109 to 125, respectively.

Detailed descriptions of our activities and additional non-financial key performance indicators in the areas of corporate social responsibility, research and development, procurement, production, sales and marketing, quality assurance, employees, information technology and environmental management can be found in the chapter entitled “Sustainable Value Enhancement” beginning on page 130 of this annual report.
Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2015 with respect to equity investments.

Outline of the Legal Structure of the Group

Volkswagen AG is the parent company of the Volkswagen Group. It develops vehicles and components for the Group’s brands, but also produces and sells vehicles, in particular passenger cars and light commercial vehicles for the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands. In its function as parent company, Volkswagen AG holds indirect or direct interests in AUDI AG, SEAT S.A., ŠKODA AUTO a.s., Dr. Ing. h.c. F. Porsche AG, Scania AB, MAN SE, Volkswagen Financial Services AG and a large number of other companies in Germany and abroad. More detailed disclosures are contained in the list of shareholdings in accordance with sections 285 and 313 of the Handelsgesetzbuch (HGB – German Commercial Code), which can be accessed at www.volkswagenag.com/ir and is part of the annual financial statements.

Volkswagen AG is a vertically integrated energy company within the meaning of section 3 No. 38 of the Energiewirtschaftsgesetz (EnWG – German Energy Industry Act) and is therefore subject to the provisions of the EnWG. In the electricity sector, Volkswagen AG performs electricity generation, sales and distribution together with a Group subsidiary.

Volkswagen AG’s Board of Management is the ultimate body responsible for managing the Group. The Supervisory Board appoints, monitors and advises the Board of Management; it is consulted directly on decisions that are of fundamental significance for the Company.

Organizational Structure of the Group

The Volkswagen Group is one of the leading multibrand groups in the automotive industry. The Company’s business activities comprise the Automotive and Financial Services divisions. All brands in the Automotive Division – with the exception of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands – are legally independent separate companies. The business activities of the various companies in the Volkswagen Group focus on developing, producing and selling passenger cars, light commercial vehicles, trucks and buses. The product portfolio ranges from motorcycles to fuel-efficient small cars and luxury vehicles. In the commercial vehicles segment, the MAN and Scania commercial vehicles brands were bundled under Volkswagen Truck & Bus GmbH in fiscal year 2015. Volkswagen Truck & Bus GmbH manages and coordinates the cooperation. Here, too, the brands continue to retain their independence. The commercial vehicles segment’s offering begins with small pickups and extends to heavy trucks and buses. Power Engineering manufactures large-bore diesel engines and special gear units, among other things. A broad range of financial services rounds off the offering. With its brands, the Volkswagen Group has a presence in all relevant markets around the world. Western Europe, China, the USA, Brazil and Mexico are currently the key sales markets for the Group.

Volkswagen AG and the Volkswagen Group are managed by Volkswagen AG’s Board of Management in accordance with the Volkswagen AG Articles of Association and the rules of procedure for Volkswagen AG’s Board of Management issued by the Supervisory Board.

Volkswagen’s strategic management is largely conducted at Group level by various committees. These committees, which are composed of representatives both of the relevant central departments and the corresponding functions in the Company’s business areas, cover the following basic functions, among other things: product planning, investment, liquidity and foreign currency, and management issues.

Each brand in the Volkswagen Group is managed by a board of management, which ensures its independent development and its business operations. The Group targets and requirements laid down by the Board of Management of Volkswagen AG must be complied with to the extent permitted by law. This allows Group-wide interests to be pursued while at the same time safeguarding and reinforcing each brand’s specific characteristics. Matters that are of importance to the Group as a whole are submitted to the Group Board of Management in order – to the extent permitted by law – to reach agreement between the parties involved. The rights and obligations of the statutory bodies of the relevant brand companies remain unaffected.
The companies of the Volkswagen Group are managed separately by their respective managements. In addition to the interests of their own companies, each individual company management takes into account the interests of the Group and of the individual brands in accordance with the framework laid down by law.

Following the announcement of the realignment of Group structures, we have been fine-tuning the management model since September 2015 and adjusting its specific structure. This involves defining the functional, divisional and regional responsibilities in greater detail and strengthening corporate responsibility within the brands and regions. The clear strategic focus of the Group functions aims to increase the Group’s decision-making speed and agility. It will allow the Group Board of Management to concentrate to a greater extent on its core tasks, which include strategy and managing major synergy levers such as modular toolkits, key technologies and procurement, as well as plant capacity utilization. The cross-brand modular toolkit and product strategy is another core task.

Further information on the Volkswagen Group’s future organizational alignment can be found in the Report on Expected Developments on page 168.

MATERIAL CHANGES IN EQUITY INVESTMENTS

The control and profit and loss transfer agreement between MAN SE, as the controlled company, and Volkswagen Truck & Bus GmbH (formerly Truck & Bus GmbH), a wholly-owned subsidiary of Volkswagen AG, as the controlling company, came into force on its entry in the commercial register on July 16, 2013. The conclusion of the control and profit and loss transfer agreement replaced the group based on the de facto exercise of management control by a “contractual group”, permitting considerably more efficient and less bureaucratic cooperation between the MAN Group and the rest of the Volkswagen Group. Noncontrolling interest shareholders of MAN SE have the right to tender MAN ordinary and preferred shares in Volkswagen Truck & Bus GmbH during and two months after the conclusion of the award proceedings instituted in July 2013 to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. The Munich Regional Court ruled in the first instance at the end of July 2015 that the settlement payable to the shareholders should be increased from €80.89 to €90.29 per share. Both Volkswagen and a number of the noncontrolling interest shareholders have appealed to the Higher Regional Court in Munich. At the end of December 2015, Volkswagen Truck & Bus GmbH held 75.56% of the ordinary shares and 46.19% of the preferred shares of MAN SE.

On March 14, 2014, Volkswagen AG made a voluntary tender offer to Scania’s shareholders for all shares not previously held by Volkswagen either directly or indirectly. Following completion of the offer, Volkswagen increased its interest in Scania’s share capital to 99.57% on November 11, 2014 the court of arbitration ruled in the squeeze-out proceedings that all Scania shares outstanding would be transferred to Volkswagen AG. Volkswagen AG has been the indirect and direct legal owner of all Scania shares since January 14, 2015, when the decision became final and unappealable. The arbitration proceedings to determine an appropriate settlement are continuing.

On August 29, 2015, the arbitration ruling was delivered to the parties in the proceedings relating to the cooperation agreement between Volkswagen AG and the Suzuki Motor Corporation. It found that Volkswagen had acted in accordance with the agreement. The arbitration court also confirmed that Suzuki was in breach of contract and, on the merits of this case, acknowledged that Volkswagen had a claim to damages. In addition, the arbitration court established that the parties had the right to give regular notice to terminate the cooperation agreement. It said that Suzuki had exercised this right, ending the partnership. According to the court, the agreements had to be interpreted in such a way that Volkswagen had to sell its equity investment in Suzuki on termination of the partnership. Volkswagen consequently sold its 19.9% equity investment in Suzuki to Suzuki on September 17, 2015 at the quoted market price of €3.1 billion. In February 2016, Volkswagen and Suzuki agreed a settlement regarding the claims for damages brought by Volkswagen.

LEGAL FACTORS INFLUENCING BUSINESS

Volkswagen companies are affected – as are other international companies – by numerous laws in Germany and abroad. In particular, there are legal requirements relating to development, production and distribution, as well as tax, company, commercial, financial and capital market regulations, and those relating to labor, banking, state aid, energy, environmental and insurance law.
Corporate Governance Report

Corporate governance stands for responsible, transparent corporate management and supervision that aims to add by long-term value. Good corporate governance is not only the basis for lasting corporate success but also a key condition for strengthening the trust of our shareholders, customers, employees and business partners, as well as the financial markets.

A BLUEPRINT FOR SUCCESSFUL CORPORATE GOVERNANCE: THE GERMAN CORPORATE GOVERNANCE CODE

Corporate governance establishes a framework for managing and supervising a company. This includes its organization and values, and the principles and guidelines for its business policy, among other things. The German Corporate Governance Code contains recommendations and suggestions for good and responsible corporate management and supervision. It was prepared by the government commission established for the purpose on the basis of the material provisions and nationally and internationally accepted standards of corporate governance. As a rule, the government commission reviews the Code annually in light of current developments and updates it as necessary. The Board of Management and the Supervisory Board of Volkswagen AG base their work on the recommendations and suggestions of the German Corporate Governance Code. We believe that good corporate governance is a key condition for sustainably increasing the Company’s value. It helps strengthen the trust of our shareholders, customers, employees, business partners and investors in our work and meet the steadily increasing demand for information from national and international stakeholders.

DECLARATIONS OF CONFORMITY (VALID AS OF THE DATE OF THE RELEVANT DECLARATION)

The Board of Management and the Supervisory Board of Volkswagen AG issued the annual declaration of conformity with the German Corporate Governance Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on November 20, 2015 with the following wording:

“The Board of Management and the Supervisory Board declare that:

1) The recommendations of the Government Commission of the German Corporate Governance Code in the version dated June 24, 2014 (the “Code”) published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on September 30, 2014 were complied with in the period from the last Declaration of Conformity dated November 21, 2014 until the entry into force on June 12, 2015 of the amended version of the Code dated May 5, 2015 with the exception of the numbers listed below for the reasons outlined therein.

a) 4.2.3 paragraph 4 (severance pay cap)
A severance pay cap will be included in new contracts concluded with members of the Board of Management, but not in contracts concluded with Board of Management members entering their third term of office or beyond, provided a cap did not form part of the initial contract. Grandfather rights have been applied accordingly.

b) 5.1.2 paragraph 2 sentence 3 (age limit for members of the Board of Management)
An age limit for members of the Board of Management is not considered to be appropriate because the ability to manage a company successfully does not necessarily cease when a specific age is reached. A rigid retirement age could also be deemed discriminatory. It may be in the interests of the company to appoint someone over the age of 65. A rigid retirement age would therefore appear to be inappropriate.

c) 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee)
It is unclear from the wording of the German Corporate Governance Code whether the Chairman of the Audit Committee is “independent” within the meaning of number 5.3.2 sentence 3 of the Code. Such independence could be considered lacking in view of his membership of the Supervisory Board of Porsche Automobil Holding SE, kinship with other members of the Supervisory Board of the company and of Porsche Automobil Holding SE, his indirect minority interest in Porsche Automobil Holding SE, and business relations with other members of the Porsche and Piëch families who also have an indirect interest in Porsche Automobil Holding SE. However, in the opinion of the Supervisory Board and the Board of Management, these relationships do not constitute a conflict of interest nor do they interfere with his duties as the Chairman of the Audit Committee.
This exception is therefore being declared purely as a precautionary measure.

> d) 5.4.1 paragraphs 4 to 6 (disclosure regarding election recommendations)

With regard to recommendation number 5.4.1 paragraphs 4 to 6 of the Code stating that certain circumstances must be disclosed by the Supervisory Board when making election recommendations to the Annual General Meeting, the stipulations of the Code are vague and the definitions unclear. Purely as a precautionary measure, the Board of Management and the Supervisory Board therefore declare a deviation from the Code in this respect. Notwithstanding this, the Supervisory Board will make every effort to satisfy the requirements of number 5.4.1 paragraphs 4 to 6.

> e) 5.4.6 paragraph 2 sentence 2 (performance-related compensation of members of the Supervisory Board)

The remuneration of members of the Supervisory Board is regulated by the shareholders in article 17(1) of the Volkswagen Articles of Association. This regulation includes the linking of remuneration to dividend distribution. We therefore assume that we have complied with the Code and that the variable compensation component is oriented toward the sustainable growth of the enterprise as defined in number 5.4.6 paragraph 2 sentence 2 of the Code. However, as it cannot be ruled out that other views will be taken in this respect, a deviation from this recommendation in the Code is being declared as a precautionary measure.


On March 14, 2016, the Board of Management and Supervisory Board of Volkswagen AG issued a supplement to the declaration of conformity with the Code as required by section 161 of the AktG with the following wording:

“The Board of Management and the Supervisory Board declare that:
1) In their Declaration of Conformity dated November 20, 2015, the Board of Management and the Supervisory Board of Volkswagen AG declared that they would fully comply with the recommendations of the Government Commission of the German Corporate Governance Code (DCGK) in the version dated May 5, 2015 that had been published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on June 12, 2015, with the exception of the following numbers:
   > a) 4.2.3 paragraph 4 (severance payment cap)
   > b) 5.1.2 paragraph 2 sentence 3 (age limit for members of the Board of Management)
   > c) 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee)
   > d) 5.4.1 paragraphs 5 to 7 (disclosure regarding election recommendations)
   > e) 5.4.6 paragraph 2 sentence 2 (performance-related remuneration of members of the Supervisory Board)

2) Due to the currently still unanswered questions relating to the consequences of the emissions issue and the resulting assessment questions, the Board of Management and the Supervisory Board have decided that the 2015 consolidated financial statements and the interim report for the first quarter of 2016 will not be made publicly accessible within 90 days of the end of the fiscal year or within 45 days of the end of the quarter. As such, the supplement to the Declaration of Conformity from November 20, 2015 will include an explanation of the deviation from number 7.1.2 sentence 4 of the German Corporate Governance Code (deadlines for publication). The deviation is limited to the publications listed and the recommendation will be complied with once again as of the 2016 Half-Yearly Financial Report.”

On April 22, 2016, the Board of Management and Supervisory Board of Volkswagen AG issued a further supplement to the declaration of conformity with the Code as required by section 161 of the AktG with the following wording:

“The Board of Management and the Supervisory Board declare the following:
1) In their Declaration of Conformity dated November 20, 2012, the Board of Management and the Supervisory Board of Volkswagen AG declared that they would comply with the recommendations of the Government Commission of the German Corporate Governance Code (the Code) in the version dated May 5, 2015 published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on June 12, 2015, with the exception of the following articles:
   > a) 4.2.3(4)(severance payment cap)
b) 5.1.2(2) sentence 3 (age limit for members of the Board of Management)

c) 5.3.2 sentence 3 (independence of the Audit Committee Chairman)

d) 5.4.1(5 to 7) (disclosure regarding election recommendations)

e) 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board)

2) In their supplement to the declaration described under 1) above, decided on March 14, 2016, the Board of Management and the Supervisory Board of Volkswagen AG further declared that an exception would be made in respect of article 7.1.2 sentence 4 of the Code (date of publication of financial statements).

3) The Supervisory Board today adjusted the performance targets and comparison parameters used to determine the variable remuneration for the members of the Board of Management in fiscal year 2015 in agreement with the individual members of the Board of Management. Article 4.2.3(2) sentence 8 of the Code excludes retroactive changes to the performance targets and comparison parameters for the variable remuneration components. However, the Supervisory Board and members of the Board of Management were of the opinion that continued adherence to the previous performance targets and comparison parameters would have led to results that do not adequately reflect the current situation of the company. A retroactive adjustment of the performance targets and comparison parameters was therefore considered advisable.

As such, a second supplement to the Declaration of Conformity dated 20 November 2015 is being issued in which the company declares that an exception will be made in respect of article 4.2.3(2) sentence 8 of the Code (exclusion of retroactive changes to the comparison parameters).”

The current declarations of conformity are also published on our website, www.volkswagenag.com/ir, under the heading “Corporate Governance”, menu item “Declarations”.

The suggestions of the current version of the German Corporate Governance Code, with the exception of the suggestion in article 5.1.2(2)sentence 1 (Appointment period for first-time appointments to the Board of Management), are complied with in full. The Supervisory Board decides the appointment period for each first-time appointment to the Board of Management on an individual basis, taking the best interests of the Company into account.
COOPERATION BETWEEN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

The Supervisory Board advises and monitors the Board of Management with regard to the management of the Company. It is directly involved in decisions of fundamental importance to the Group. The Board of Management and Supervisory Board of Volkswagen AG consult closely on the strategic orientation of the Volkswagen Group. The two boards jointly assess the progress made in implementing the strategy at regular intervals. The Board of Management reports to the Supervisory Board regularly, promptly and comprehensively in both written and oral form on all issues of relevance to strategy, planning, the development of the business, the risk situation, risk management and compliance.

More information on the cooperation between the Board of Management and the Supervisory Board of Volkswagen AG and on the work and structure of the committees of the Supervisory Board can be found in the Report of the Supervisory Board on pages 12 to 17 of this annual report.

Information on the members of the Board of Management and Supervisory Board, as well as on the Supervisory Board committees, can be found on pages 81 to 84.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD, BOARD OF MANAGEMENT AND SENIOR EXECUTIVE POSITIONS

In view of the purpose of the Company, its size and the extent of its international activities, the Supervisory Board of Volkswagen AG strives to take the following criteria into account in its composition:

> At least three members of the Supervisory Board should be persons who embody in particular the characteristic of internationality.
> At least four shareholder representative members of the Supervisory Board should be persons who do not represent potential conflicts of interest, particularly conflicts of interest that could arise through a position as a consultant or member of the governing bodies of customers, suppliers, lenders, or other third parties.
> In addition, at least four of the shareholder representatives must be persons who are independent as defined by article 5.4.2 of the German Corporate Governance Code.
> Furthermore, proposals for elections should not normally include persons who will have reached the age of 75 by the time the election takes place or who have been members of the Supervisory Board for more than 20 years by the time the election takes place.

The above criteria have been met. The statutory gender quota of at least 30% will apply to new appointments to the Supervisory Board of Volkswagen AG from January 1, 2016, based on the Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst (Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors).

The Supervisory Board of Volkswagen AG has also set itself the longer-term goal of increasing the proportion of female members on the Board of Management to 30%. The Supervisory Board did not identify any opportunity for increasing the proportion of female members on the Board of Management by the end of 2016 as of the date stipulated in the Act for determining a specific target; as a result, it resolved a target quota of zero for December 31, 2016. However, the appointment of Dr. Christine Hohmann-Dennhardt in October 2015 to take up the newly created Board of Management position for Integrity and Legal Affairs with effect from January 1, 2016 means that a female member has been appointed to the Group’s Board of Management.

Volkswagen AG has set the following target quotas to increase the proportion of women in management: the aim is for the proportion of women in the first management level to amount to 9.8% as of the end of 2016, with the figure for the second management level amounting to 13.3%.

REMUNERATION REPORT
Extensive explanations of the remuneration system and the individual remuneration of the members of the Board of Management and the Supervisory Board may be found in the Remuneration Report on pages 67 to 80 of the management report, in the notes to the consolidated financial statements on page 300 and on page 45 of the notes to the annual financial statements of Volkswagen AG.

CORPORATE GOVERNANCE DECLARATION
The corporate governance declaration is part of the combined management report and is permanently available on our website at www.volkswagenag.com/ir under the heading “Mandatory Publications”.

CORPORATE GOVERNANCE DECLARATION
www.volkswagenag.com/ir
COMPLIANCE

Compliance with international rules and the fair treatment of our business partners and competitors are among the guiding principles followed by our Company. Volkswagen’s commitment has always gone beyond statutory and internal requirements; voluntary obligations and ethical principles also form an integral part of our corporate culture. The misconduct uncovered in the fiscal year 2015 runs contrary to all of the values that Volkswagen stands for. However, our conviction remains unchanged: compliant behavior is a cornerstone of business success and must be self-evident for all Group employees.

Commitment to compliance at the highest level

This view is expressly shared by the Company’s management. The Chairman of the Board of Management of Volkswagen AG, Matthias Müller, said at a Group-wide information event for management in November 2015 that “no business in the world justifies violating legal and ethical limits. Our key currency is not unit figures or the operating result. Our key currency is credibility and trust in our brands, our products and the people who work for our Company. […] Compliance and the rule of law are central to Volkswagen rather than being onerous duties, something that is confirmed by the creation of a new Group Board of Management position for Integrity and Legal Affairs.”

Preventive compliance management system

Volkswagen has had a distinct and recognized Group-wide compliance management system for a number of years. In 2015, compliance continued to play an important role in the Governance, Risk and Compliance (GRC) organization in the Volkswagen Group (see the Report on Risks and Opportunities starting on page 170).

The Supervisory Board of Volkswagen AG resolved to create the new Board of Management position for Integrity and Legal Affairs from January 2016 as a visible reinforcement of compliance throughout the Company. Dr. Christine Hohmann-Dennhardt, a former judge at the German Federal Constitutional Court, has been appointed to this position.

Volkswagen adopts a preventive compliance approach and aims to create a corporate culture that is designed to prevent potential breaches before they occur by raising awareness and educating employees.

Group Internal Audit and Group Security regularly perform the necessary investigative activities, systematically monitor compliance and perform random checks regardless of any suspicion of infringements, as well as investigating specific suspected breaches. Responses are implemented by the Human Resources and Group Legal departments. These processes are closely interrelated, in line with the concept of a comprehensive compliance management system. Nevertheless, we are aware that even the best compliance management system can never entirely prevent the criminal actions of individuals.

The Group Chief Compliance Officer is supported by 14 Chief Compliance Officers or compliance contact persons (staff who are responsible at the brands, Volkswagen Financial Services and Porsche Holding GmbH, Salzburg). They are supported by compliance officers in the Group companies.

Various bodies support the work of the compliance organization at Group and brand company level. These include the Compliance Board at senior management level and the core Compliance team, which bundles expertise in compliance issues.

Focal points in 2015

Each year, detailed compliance risk assessments are carried out across the Group as part of the standard GRC process. The results are factored into the risk analyses performed by the Volkswagen Group, the brands and the companies, and into the Compliance Program planning.

We primarily continued to drive forward our work in China in 2015 and intensified our compliance activities at Volkswagen Group subsidiaries and second-tier subsidiaries. We reacted to events surrounding the emissions issue by adopting measures and launching campaigns: the brist response by the employees to a call to participate in a photo campaign under the motto “Together for Volkswagen, Together for Compliance” demonstrated their clear commitment to compliance. In addition, we have strengthened the product-related internal compliance control system in cooperation with internal and external experts. Cross-departmental projects on this issue were initiated in particular at Technical Development. Detailed information about the investigations into the emissions issue can be found in the special chapter on pages 49 to 54 of this Annual Report.

Communicating compliance

The GRC organization provided information on various compliance issues to the Group’s brands and companies over the year, using a wide range of traditional communication channels. These include reports in various employee magazines produced by the brands, companies and locations. Digital media such as intranet portals, smartphone and tablets apps, blogs and newsletters are also frequently used to provide compliance information.
We have communicated the Code of Conduct, including the compliance obligation, to employees at the brand companies, and this forms a key component of our compliance training. It is also integrated into our operational processes. For example, all new employment contracts entered into between Volkswagen AG on the one part and both management staff and employees covered by collective agreements on the other include a reference to the Code of Conduct and the obligation to comply with it. In addition, the Code of Conduct is part of employees’ annual reviews and therefore forms part of the calculation of variable, performance-related remuneration.

In addition to the Code of Conduct, Volkswagen’s compliance framework incorporates the anti-corruption guidelines, including checklists and the express prohibition of facilitation payments, as well as guidelines on competition and antitrust law, among other things.

Directives on dealing with gifts and invitations, as well as on making donations also apply across the Group.

Learning programs, training and advice
Providing information to employees at all levels continues to be a core component of our compliance work. In 2015, approximately 193,000 employees across the Group participated in a variety of compliance-related topics such as the Code of Conduct, anti-corruption, human rights, anti-money laundering, and competition and antitrust law. In addition to traditional lectures and e-learning programs, case studies, role-playing games and other interactive formats form an integral part of the training provided to employees and managers. Also, since December 2014 a management talk on risk management and compliance has been offered to all newly appointed senior managers in Group functions and the Volkswagen Passenger Cars brand. All new Volkswagen AG employees are required to complete an e-learning program on the Group’s Code of Conduct. The subject of human rights is an integral part of this training program. Training on competition and antitrust law is a core component of Compliance work in the Volkswagen Group. Approximately 30,000 employees received training on this issue during the reporting period. Among other things, a compliance app for smartphones and tablets is available to Volkswagen AG’s employees as a self-learning solution.

Employees of all brand companies and a large number of Group companies are able to obtain personal advice about compliance issues, usually by contacting the compliance organization via a dedicated e-mail address. An IT-based information and advisory tool is available at Volkswagen AG’s German locations.

Business partner check
We also expect our business partners to act with integrity and ensure regulatory compliance. For this reason, Volkswagen verifies the integrity of its business partners (business partner check) in a risk-oriented approach. This check allows us to find out about potential business partners before entering into a relationship with them, reducing the risk of starting a cooperation that could be damaging to the Company or its business.

Ombudsman system
The Group-wide ombudsman system can be used to report any breaches or suspicions regarding corruption, illegal economic activity, or other irregularities, such as violations of human rights and ethical misconduct, in all major Group languages to two external lawyers appointed by the Group. Since 2014, employees providing information have had the option of communicating with the ombudsmen via an additional online channel; various breaches can be reported using a technically highly secure electronic mailbox. Naturally, the people providing the information need not fear being sanctioned by the Company for doing this. After plausibility checks, the ombudsmen passed on 79 reports by people – whose details remained confidential if requested – to Volkswagen AG’s Anti-Corruption Officer in 2015. In addition, the Anti-Corruption Officer and the head of Group Internal Audit received information on a further 111 cases directly. During local internal audits of the brands and Group companies, 331 reports were submitted to the Anti-Corruption Officer. All information was or is being followed up. For all breaches of the law and violations of internal regulations, the need for sanctions is reviewed and these are applied where necessary.

In accordance with the normative standards issued by Deutsches Institut für Interne Revision e.V. (German Institute for Internal Auditing – DIIR), internal audit functions should be audited externally every five years. An external quality assessment of the Volkswagen Group’s internal audit system was carried out by an audit firm in the period between the third quarter of 2014 and the first quarter of 2015. In addition to central management and supervisory processes, this took into consideration the quality of the
brands’ and regions’ internal audit functions (sample size: Volkswagen AG, AUDI AG, SEAT S.A., Volkswagen de Mexico, Volkswagen Group China). The auditors confirmed that all of the internal audit units examined are fully compliant with the underlying DHR Standard No. 3 “Quality management in the internal audit activity” and, in many areas, use leading internal audit methodologies and practices.

Effectiveness review
We review the effectiveness of the compliance measures taken at the Volkswagen Group’s brands and companies annually using an integrated survey, which forms part of the standardized GRC process. We check the effectiveness of selected countermeasures as well as management controls used to manage compliance risks. In addition, the continuous improvement of the compliance management system is ensured through independent reviews by the Group Internal Audit function at the corporate units and the regular exchange of information with external bodies, for example.

RISK MANAGEMENT
Carefully managing potential risks to the Company is a key component of our daily work. Volkswagen Group’s risk management system is oriented toward identifying, assessing, communicating and managing risks at an early stage. This system is reviewed on an ongoing basis and adjusted in line with new conditions as necessary. A detailed description of the risk management system and our accounting-related internal control system can be found in the Risk Report on pages 170 to 173 of this annual report.

The Supervisory Board has established an Audit Committee, which monitors the financial accounting and reporting processes and the effectiveness of the internal control system, risk management, the internal audit system and compliance, in particular. It also supervises the audit of financial statements, particularly the independence of the auditors, the additional services provided by the auditors, the audit engagement, the definition of the areas of emphasis for the audit and the agreed fee.

COMMUNICATION AND TRANSPARENCY
The Volkswagen Group publishes a financial calendar listing all the relevant dates for its shareholders in its annual report and interim reports and on its website at www.volkswagenag.com/ir. Among other things, invitations to and the agendas for the shareholders’ meetings and any countermotions received are also available on this website. At the shareholders’ meetings, shareholders may exercise their voting rights themselves, have this right exercised on their behalf by a third-party proxy whom they have appointed, or use a proxy designated by the Company who will vote on their behalf in accordance with their voting instructions. In addition, we offer our shareholders the opportunity to watch the entire Annual General Meetings on the Internet.

News and information on the Volkswagen Group are available on our website at www.volkswagenag.com/ir. The releases and other information are published in both English and German.

Immediately after their publication in line with legal requirements, the Company’s ad hoc releases are also published on our website at www.volkswagenag.com/ir under the heading “Mandatory Publications”, menu item “Ad-hoc releases”.

We publish directors’ dealings (section 15a of the WpHG) at www.volkswagenag.com/ir under the heading “Mandatory Publications”, menu item “Directors’ Dealings”.

In addition, details of the notifications filed in compliance with sections 21ff. of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) during the reporting period can be found on this website under the heading “Mandatory Publications”, menu item “Reporting of voting rights according to WpHG”. Notifications relating to other legal issues may be downloaded there under the heading “Mandatory Publications”, menu item “Other legal issues”.

The supervisory body appointments held by Board of Management members and Supervisory Board members can be found on pages 81 to 84 of this annual report. The shareholder structure is presented on page 103.
Remuneration Report

The Remuneration Report details the individualized remuneration of the Board of Management and the Supervisory Board of Volkswagen AG, broken down into components, as well as individualized pension provision disclosures for the members of the Board of Management. In addition, we explain in this chapter the main elements of the variable remuneration system for the Board of Management.

PRINCIPLES OF AND CHANGES TO BOARD OF MANAGEMENT REMUNERATION

The full Supervisory Board resolves on the remuneration system and the total remuneration for each individual member of Volkswagen AG’s Board of Management on the basis of the Executive Committee’s recommendations. The remuneration of current members of the Board of Management complies with the requirements of the Aktiengesetz (AktG – German Stock Corporation Act) and the recommendations of the German Corporate Governance Code. In particular, the remuneration structure is focused on ensuring sustainable business growth in accordance with the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG – German Act on the Appropriateness of Executive Board Remuneration) and section 87(1) of the AktG.

For the first time in 2013 it was necessary to modify and realign Board of Management remuneration and the comparative parameters on which it is based. The remuneration of the Board of Management was modified with the assistance of a remuneration consultant, whose independence has been assured by the Supervisory Board and by the Company.

The level of the Board of Management remuneration should be appropriate and attractive in the context of the Company’s national and international peer group. Criteria include the tasks of the individual Board of Management member, their personal performance, the economic situation, the performance of and outlook for the Company, as well as how customary the remuneration is measured against its peer group and the remuneration structure that applies to other areas of Volkswagen. Comparative studies on remuneration are conducted on a regular basis.

COMPONENTS OF BOARD OF MANAGEMENT REMUNERATION

The remuneration of the Board of Management comprises non-performance-related and performance-related components. The non-performance-related components of the package ensure firstly a basic level of remuneration enabling the individual members of the Board of Management to perform their duties in the interests of the Company and to fulfill their obligation to act with proper business prudence without focusing on merely short-term performance targets. On the other hand, performance-related components, dependent among other criteria on the financial performance of the Company, serve to ensure the long-term impact of behavioral incentives.

Upper limits are in place for both the overall remuneration and the performance-related remuneration components.

Non-performance-related remuneration

The non-performance-related remuneration comprises fixed remuneration and fringe benefits. In addition to the basic level of remuneration, the fixed remuneration also includes differing levels of remuneration for appointments assumed at Group companies. The fringe benefits result from the grant of noncash benefits and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these noncash benefits are mainly borne by Volkswagen AG. As compensation for the loss of benefits due to the change of employer Mr. Diess received €5.0 million and Mr. Renschler received €11.5 million.

The basic level of remuneration is reviewed regularly and adjusted if necessary.

Performance-related remuneration

The performance-related/variable remuneration comprises a business performance bonus, which relates to business performance in the reporting period and in the preceding year, and, since 2010, a Long-Term Incentive (LTI) plan, which is based on the reporting period and the previous three fiscal years. Both components of performance-related/variable remuneration are therefore calculated on a multiyear basis and reflect both positive and negative developments. Members of the Board of Management can also be awarded bonuses that reflect their individual performance.

The amounts shown (including remuneration withheld) in the Board of Management table for fiscal year 2015 correspond to the amounts determined by the Supervisory Board for fiscal year 2015.
The amounts shown in the Board of Management (benefits received) tables in accordance with the German Corporate Governance Code correspond to the amounts paid out for the fiscal year in question.

The amounts shown in the Board of Management (benefits granted) tables in accordance with the German Corporate Governance Code are based on a mean probability scenario at the beginning of fiscal year 2015.

The Supervisory Board may cap the performance-related/variable remuneration components in the event of extraordinary developments.

**Bonus**

The bonus rewards the positive business development of the Volkswagen Group.

The business performance bonus is calculated on the basis of the average operating result, including the proportionate operating result in China, over a period of two years. A calculation floor below which no bonus will be paid is in place. This floor was set at €5.0 billion. In addition, a cap for extraordinary developments is explicitly provided for by limiting the maximum theoretical bonus which, subject to the individual performance-related bonus, is €6.75 million for the Chairman of the Board of Management and €2.5 million for the other members of the Board of Management. The system and the cap are regularly reviewed by the Supervisory Board to establish whether any adjustments are necessary.

Accordingly, the method resolved by the Supervisory Board in 2013 for calculating the business performance bonus for members of the Board of Management was changed for fiscal year 2015 and led to the operating result, including the proportionate operating result in China, for fiscal year 2015 that was used to calculate the business performance bonus for fiscal year 2015 being reduced to €0.

In addition, the Supervisory Board may increase the theoretical business performance bonus, which is calculated on the basis of the average operating result, by up to 50% by applying individual adjustment factors that are not linked to the theoretical cap so as to reward members of the Board of Management for extraordinary individual performance (individual performance bonus). This may take into account extraordinary performance in the area of integration, or the successful implementation of special projects, for example.

**Long-Term Incentive (LTI)**

The amount of the LTI depends on the achievement of the targets laid down in the Strategy 2018. The target areas are:

- Leader in customer satisfaction, measured using the Customer Satisfaction Index,
- Leading employer, measured using the Employee Index,
- Unit sales growth, measured using the Growth Index, and
- Increase in the return on sales, measured using the Return Index.

The Customer Satisfaction Index is calculated using indicators that quantify the overall satisfaction of our customers with the delivering dealers, new vehicles and the service operations based on the previous workshop visit.

The Employee Index is determined using the “employment” and “productivity” indicators as well as the participation rate and results of employee surveys.

The Growth Index is calculated using the “deliveries to customers” and “market share” indicators.

The Return Index is derived from the return on sales and the dividend per ordinary share.

The indices on customer satisfaction, employees and unit sales are aggregated and the result is multiplied by the Return Index. This method ensures that the LTI is only paid out if the Group is also financially successful. If the 1.5% threshold for the return on sales is not exceeded, the Return Index is zero. This would mean that the overall index for the fiscal year concerned is also zero.

The maximum LTI amount is capped at €4.5 million for the Chairman of the Board of Management and €2.0 million for the other members of the Board of Management and is based on the four-year average of the overall indices, i.e. the reporting period and the three preceding years.

An agreement was reached with Mr. Winterkorn to defer payment of 30% of his variable remuneration for fiscal year 2015 to December 31, 2016.

In a statement dated April 22, 2016, Mr. Fröhlich waived a portion of his variable remuneration for fiscal year 2015 in the amount of €2.3 million.

**Other Agreements**

Members of the Board of Management with contracts entered into or after January 1, 2010 are entitled to payment of their normal remuneration for six to twelve months in the event of illness. Contracts entered into before that date grant remuneration for six months. In the event of disability, they are entitled to the retirement pension.

Surviving dependents receive a widow’s pension of 66 2/3% and orphans’ benefits of 20% of the former member of the Board of Management’s pension. Contracts with members of the Board of Management whose first term of office begins after April 1, 2015, provide for an entitlement – in line with the principles of the works agreement that also applies to employees of Volkswagen AG covered by collective agreements – to a widow’s pension of 60%, an orphan’s benefit of 10% for half-orphans and an orphan’s benefit of 20% for full orphans, based in each case on the former member of the Board of Management’s pension.

**Withholding of variable remuneration for 2015**

At its meeting on April 22, 2016, Volkswagen AG’s Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration described above for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance.
This will be effected by first converting the amount withheld based on the average share price for the 30 trading days preceding April 22, 2016 (initial reference price) into virtual preferred shares of Volkswagen AG with a three-year holding period and, at the same time, defining a target reference price corresponding to 125% of the initial reference price. During the holding period, the virtual preferred shares will be entitled to a dividend equivalent in the amount of the dividends paid on real preferred shares.

Following the expiry of the holding period, the average share price for the 30 trading days preceding the last day of the holding period, i.e. April 22, 2019, will be determined (closing reference price). The difference between the target reference price and the initial reference price will be deducted from the closing reference price and the dividends distributed on one real Volkswagen preferred share during the holding period (dividend equivalent) will be added to the closing reference price. This ensures that – excluding any dividend equivalents accrued – the amount withheld is only paid out in full if the initial reference price of the preferred share has increased by at least 25%. Otherwise, the amount is reduced accordingly down to €0. The amount thus calculated will be disbursed to the members of the Board of Management. The amount disbursed must not be more than twice the amount originally withheld. Where members of the Board of Management retire from office before the expiry of the holding period, the disbursement amount will be calculated and paid out proportionately based on the date of termination of employment.

### Remuneration Report

#### Remuneration of the Members of the Board of Management in 2015 (Including Remuneration Withheld) in Accordance with the German Corporate Governance Code*

<table>
<thead>
<tr>
<th>€</th>
<th>Non-performance-related remuneration</th>
<th>Performance-related remuneration</th>
<th>Total remuneration</th>
<th>Of which amount withheld (fair value)</th>
<th>Number of shares</th>
<th>Amount withheld (notional)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthias Müller (since March 1, 2015)</td>
<td>1,110,274</td>
<td>3,647,650</td>
<td>4,757,924</td>
<td>880,522</td>
<td>10,583</td>
<td>1,185,912</td>
</tr>
<tr>
<td>Francisco Javier García Sanz</td>
<td>1,288,593</td>
<td>2,975,639</td>
<td>4,264,232</td>
<td>718,279</td>
<td>8,633</td>
<td>967,440</td>
</tr>
<tr>
<td>Jochem Heizmann</td>
<td>1,193,340</td>
<td>2,975,639</td>
<td>4,168,979</td>
<td>718,279</td>
<td>8,633</td>
<td>967,440</td>
</tr>
<tr>
<td>Christian Klingler (until September 25, 2015)</td>
<td>984,968</td>
<td>3,881,661</td>
<td>4,866,629</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Horst Neumann (until November 30, 2015)</td>
<td>1,202,288</td>
<td>2,956,067</td>
<td>4,158,355</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Leif Östling (until February 28, 2015)</td>
<td>220,597</td>
<td>537,467</td>
<td>758,063</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Hans Dieter Pötsch (until October 7, 2015)</td>
<td>940,089</td>
<td>4,237,331</td>
<td>5,177,420</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Andreas Renschler (since February 1, 2015)</td>
<td>12,845,658</td>
<td>2,727,703</td>
<td>15,573,361</td>
<td>658,457</td>
<td>7,914</td>
<td>886,820</td>
</tr>
<tr>
<td>Rupert Stadler</td>
<td>1,116,667</td>
<td>2,975,639</td>
<td>4,092,306</td>
<td>718,279</td>
<td>8,633</td>
<td>967,440</td>
</tr>
<tr>
<td>Martin Winterkorn (until September 25, 2015)</td>
<td>1,445,341</td>
<td>5,867,689</td>
<td>7,313,030</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Frank Witter (since October 7, 2015)</td>
<td>253,679</td>
<td>686,018</td>
<td>939,697</td>
<td>165,571</td>
<td>1,990</td>
<td>223,049</td>
</tr>
<tr>
<td>Total</td>
<td>28,288,098</td>
<td>34,956,362</td>
<td>63,244,460</td>
<td>4,218,566</td>
<td>50,703</td>
<td>5,681,821</td>
</tr>
</tbody>
</table>

1. To compensate for lost entitlements resulting from the change in employer, Mr. Diess received €5.0 million and Mr. Renschler €11.5 million.
2. Mr. Pötsch’s performance-related remuneration prior to irrevocable waiver of an amount of €2.3 million

* According to the German Corporate Governance Code.
### Remuneration of the Members of the Board of Management (Benefits Received) in Accordance with the German Corporate Governance Code*

The figures shown here as benefits received under variable remuneration correspond to the amounts paid out for the fiscal year in question.

#### MATTHIAS MÜLLER
Chairman of the Board of Management
Joined: March 1, 2015

<table>
<thead>
<tr>
<th>€</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>1,020,800</td>
<td>–</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>89,474</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>1,110,274</td>
<td>–</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>629,440</td>
<td>–</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>2,137,688</td>
<td>–</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>387,688</td>
<td>–</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,750,000</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>3,877,402</td>
<td>–</td>
</tr>
<tr>
<td>Pension expense</td>
<td>295,754</td>
<td>–</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>4,173,156</td>
<td>–</td>
</tr>
</tbody>
</table>

** Herbie Dieß
Chairman of the Brand Board of Management of Volkswagen Passenger Cars
Joined: July 1, 2015

<table>
<thead>
<tr>
<th>€</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration**</td>
<td>5,630,000</td>
<td>–</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>56,604</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>5,686,604</td>
<td>–</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>246,400</td>
<td>–</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>882,280</td>
<td>–</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>132,280</td>
<td>–</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>750,000</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>6,815,284</td>
<td>–</td>
</tr>
<tr>
<td>Pension expense</td>
<td>311,850</td>
<td>–</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>7,127,134</td>
<td>–</td>
</tr>
</tbody>
</table>

** Includes compensation of lost entitlements resulting from the change in employer of €5.0 million.

#### FRANCISCO JAVIER GARCÍA SANZ
Procurement

<table>
<thead>
<tr>
<th>€</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>1,102,017</td>
<td>1,078,017</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>186,576</td>
<td>201,469</td>
</tr>
<tr>
<td>Total</td>
<td>1,288,593</td>
<td>1,279,486</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>492,800</td>
<td>1,169,000</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>1,764,560</td>
<td>4,338,000</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>264,560</td>
<td>2,338,000</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,500,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>3,545,953</td>
<td>6,786,486</td>
</tr>
<tr>
<td>Pension expense</td>
<td>816,242</td>
<td>582,686</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>4,362,195</td>
<td>7,369,172</td>
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</tbody>
</table>

* All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE*

The figures shown here as benefits received under variable remuneration correspond to the amounts paid out for the fiscal year in question.

**JOCHEM HEIZMANN**

<table>
<thead>
<tr>
<th>€</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>1,102,017</td>
<td>1,078,017</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>91,323</td>
<td>70,750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,193,340</td>
<td>1,148,767</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>492,800</td>
<td>701,400</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>1,764,560</td>
<td>4,338,000</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>264,560</td>
<td>2,338,000</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,500,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,450,700</td>
<td>6,188,167</td>
</tr>
<tr>
<td>Pension expense</td>
<td>0</td>
<td>1,043,832</td>
</tr>
<tr>
<td><strong>Total remuneration</strong></td>
<td>3,450,700</td>
<td>7,231,999</td>
</tr>
</tbody>
</table>

**CHRISTIAN KLINGLER**

<table>
<thead>
<tr>
<th>€</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>777,333</td>
<td>1,078,017</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>207,635</td>
<td>206,318</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>984,968</td>
<td>1,284,335</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>688,411</td>
<td>935,200</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>3,193,250</td>
<td>4,338,000</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>1,721,028</td>
<td>2,338,000</td>
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<tr>
<td>LTI (four-year period)</td>
<td>1,472,222</td>
<td>2,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,866,629</td>
<td>6,557,535</td>
</tr>
<tr>
<td>Pension expense</td>
<td>890,430</td>
<td>749,097</td>
</tr>
<tr>
<td><strong>Total remuneration</strong></td>
<td>5,757,060</td>
<td>7,306,632</td>
</tr>
</tbody>
</table>

**HORST NEUMANN**

<table>
<thead>
<tr>
<th>€</th>
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<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>1,010,182</td>
<td>1,078,017</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>192,106</td>
<td>131,027</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,202,288</td>
<td>1,209,044</td>
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<tr>
<td>One-year variable remuneration</td>
<td>451,733</td>
<td>935,200</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>2,504,333</td>
<td>4,338,000</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>1,129,333</td>
<td>2,338,000</td>
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<tr>
<td>LTI (four-year period)</td>
<td>1,375,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,158,354</td>
<td>6,482,244</td>
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<tr>
<td>Pension expense</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total remuneration</strong></td>
<td>4,158,354</td>
<td>6,482,244</td>
</tr>
</tbody>
</table>

* All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
### Remuneration Report

**Remuneration of the Members of the Board of Management (Benefits Received) in Accordance with the German Corporate Governance Code**

The figures shown here as benefits received under variable remuneration correspond to the amounts paid out for the fiscal year in question.

#### Leif Östling

<table>
<thead>
<tr>
<th></th>
<th>€</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>2015</strong></td>
<td><strong>2014</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed remuneration</td>
<td>183,670</td>
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<tr>
<td>Fringe benefits</td>
<td>36,927</td>
<td>194,039</td>
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<tr>
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<td><strong>1,272,056</strong></td>
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<tr>
<td>One-year variable remuneration</td>
<td>82,133</td>
<td>935,200</td>
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<td>Multyear variable remuneration</td>
<td>455,333</td>
<td>4,338,000</td>
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<td>Business performance bonus (two-year period)</td>
<td>205,333</td>
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<tr>
<td>LTI (four-year period)</td>
<td>250,000</td>
<td>2,000,000</td>
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<td><strong>Total</strong></td>
<td><strong>758,063</strong></td>
<td><strong>6,545,256</strong></td>
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<tr>
<td>Pension expense</td>
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<td>1,140,852</td>
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<tr>
<td><strong>Total remuneration</strong></td>
<td><strong>965,076</strong></td>
<td><strong>7,686,108</strong></td>
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</table>

#### Hans Dieter Pötsch

<table>
<thead>
<tr>
<th></th>
<th>€</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>2015</strong></td>
<td><strong>2014</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed remuneration</td>
<td>812,533</td>
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<tr>
<td>Fringe benefits</td>
<td>127,556</td>
<td>214,851</td>
<td></td>
</tr>
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<td><strong>Total</strong></td>
<td><strong>940,089</strong></td>
<td><strong>1,292,868</strong></td>
<td></td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>415,068</td>
<td>1,169,000</td>
<td></td>
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<tr>
<td>Multyear variable remuneration</td>
<td>1,540,262</td>
<td>4,338,000</td>
<td></td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>830,137</td>
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<tr>
<td>LTI (four-year period)</td>
<td>710,125</td>
<td>2,000,000</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,895,420</strong></td>
<td><strong>6,799,868</strong></td>
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<tr>
<td>Pension expense</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total remuneration</strong></td>
<td><strong>2,895,420</strong></td>
<td><strong>6,799,868</strong></td>
<td></td>
</tr>
</tbody>
</table>

#### Andreas Renschler

<table>
<thead>
<tr>
<th></th>
<th>€</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td><strong>2015</strong></td>
<td><strong>2014</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed remuneration**</td>
<td>12,446,000</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>399,658</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,845,658</strong></td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>451,733</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>1,617,513</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>242,513</td>
<td>–</td>
<td></td>
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<tr>
<td>LTI (four-year period)</td>
<td>1,375,000</td>
<td>–</td>
<td></td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>14,914,904</strong></td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Pension expense</td>
<td>0</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>Total remuneration</strong></td>
<td><strong>14,914,904</strong></td>
<td>–</td>
<td></td>
</tr>
</tbody>
</table>

*All figures shown are rounded, so minor discrepancies may arise from addition of these amounts. **Includes compensation of lost entitlements resulting from the change in employer of €11.5 million.
REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE*

The figures shown here as benefits received under variable remuneration correspond to the amounts paid out for the fiscal year in question.

<table>
<thead>
<tr>
<th></th>
<th>Rupert Stadler</th>
<th>Martin Winterkorn</th>
<th>Frank Witter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td>Fixed remuneration</td>
<td>1,056,000</td>
<td>1,078,017</td>
<td>243,467</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>60,667</td>
<td>75,085</td>
<td>10,212</td>
</tr>
<tr>
<td>Total</td>
<td>1,116,667</td>
<td>1,153,102</td>
<td>253,679</td>
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<tr>
<td>One-year variable remuneration</td>
<td>492,800</td>
<td>935,200</td>
<td>–</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>1,764,560</td>
<td>4,338,000</td>
<td>113,618</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>264,560</td>
<td>2,338,000</td>
<td>–</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,500,000</td>
<td>2,000,000</td>
<td>406,829</td>
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<tr>
<td>Total</td>
<td>3,374,027</td>
<td>6,426,302</td>
<td>774,126</td>
</tr>
<tr>
<td>Pension expense</td>
<td>723,954</td>
<td>473,045</td>
<td>345,833</td>
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<tr>
<td>Total remuneration</td>
<td>4,097,981</td>
<td>6,899,347</td>
<td>904,806</td>
</tr>
<tr>
<td>Pension expense</td>
<td>0</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>4,097,981</td>
<td>6,899,347</td>
<td>904,806</td>
</tr>
</tbody>
</table>

* All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE*

The figures shown here as benefits granted under variable remuneration are based on a mean probability scenario.

<table>
<thead>
<tr>
<th>MATTHIAS MÜLLER</th>
<th>Chairman of the Board of Management</th>
<th>Joined: March 1, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>€</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed remuneration</td>
<td>– 1,020,800</td>
<td>1,020,800</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>– 89,474</td>
<td>89,474</td>
</tr>
<tr>
<td>Total</td>
<td>– 1,110,274</td>
<td>1,110,274</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>– 1,276,615</td>
<td>0</td>
</tr>
<tr>
<td>Multiyear variable remuneration</td>
<td>– 5,337,133</td>
<td>0</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>– 3,003,800</td>
<td>0</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>– 2,333,333</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>– 7,724,022</td>
<td>1,110,274</td>
</tr>
<tr>
<td>Pension expense</td>
<td>– 295,754</td>
<td>295,754</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>– 8,019,776</td>
<td>1,406,028</td>
</tr>
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</table>

**Includes compensation of lost entitlements resulting from the change in employer of €5.0 million.

<table>
<thead>
<tr>
<th>HERBERT DIESS</th>
<th>Chairman of the Brand Board of Management of Volkswagen Passenger Cars</th>
<th>Joined: July 1, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>€</strong></td>
<td></td>
<td></td>
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<tr>
<td>Fixed remuneration</td>
<td>– 5,630,000</td>
<td>5,630,000</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>– 56,604</td>
<td>56,604</td>
</tr>
<tr>
<td>Total</td>
<td>– 5,686,604</td>
<td>5,686,604</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>– 496,825</td>
<td>0</td>
</tr>
<tr>
<td>Multiyear variable remuneration</td>
<td>– 2,169,000</td>
<td>0</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>– 1,169,000</td>
<td>0</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>– 1,000,000</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>– 8,352,429</td>
<td>5,686,604</td>
</tr>
<tr>
<td>Pension expense</td>
<td>– 311,850</td>
<td>311,850</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>– 8,664,279</td>
<td>5,998,454</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FRANCISCO JAVIER GARCÍA SANZ</th>
<th>Procurement</th>
<th></th>
</tr>
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<tr>
<td><strong>€</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed remuneration</td>
<td>1,078,017</td>
<td>1,102,017</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>201,469</td>
<td>186,576</td>
</tr>
<tr>
<td>Total</td>
<td>1,279,486</td>
<td>1,288,593</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>1,116,500</td>
<td>1,169,000</td>
</tr>
<tr>
<td>Multiyear variable remuneration</td>
<td>4,053,000</td>
<td>4,338,000</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>2,233,000</td>
<td>2,338,000</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,820,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>6,448,986</td>
<td>6,795,593</td>
</tr>
<tr>
<td>Pension expense</td>
<td>582,686</td>
<td>816,242</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>7,031,672</td>
<td>7,611,835</td>
</tr>
</tbody>
</table>

* All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE*

The figures shown here as benefits granted under variable remuneration are based on a mean probability scenario.

### JOCHEN HEIZMANN

<table>
<thead>
<tr>
<th>€</th>
<th>2014</th>
<th>2015</th>
<th>2015 (Minimum)</th>
<th>2015 (Maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>1,078,017</td>
<td>1,102,017</td>
<td>1,102,017</td>
<td>1,102,017</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>70,750</td>
<td>91,323</td>
<td>91,323</td>
<td>91,323</td>
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<tr>
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<td>1,148,767</td>
<td>1,193,340</td>
<td>1,193,340</td>
<td>1,193,340</td>
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<tr>
<td>One-year variable remuneration</td>
<td>669,900</td>
<td>701,400</td>
<td>1,250,000</td>
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</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>4,053,000</td>
<td>4,338,000</td>
<td>4,500,000</td>
<td></td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>2,233,000</td>
<td>2,338,000</td>
<td>2,500,000</td>
<td></td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,820,000</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5,871,667</td>
<td>6,232,740</td>
<td>1,193,340</td>
<td>6,943,340</td>
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<tr>
<td>Pension expense</td>
<td>1,043,832</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>6,915,499</td>
<td>6,232,740</td>
<td>1,193,340</td>
<td>6,943,340</td>
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### CHRISTIAN KLINGLER

<table>
<thead>
<tr>
<th>€</th>
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<th>2015</th>
<th>2015 (Minimum)</th>
<th>2015 (Maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>1,078,017</td>
<td>777,333</td>
<td>777,333</td>
<td>777,333</td>
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<tr>
<td>Fringe benefits</td>
<td>206,318</td>
<td>207,635</td>
<td>207,635</td>
<td>207,635</td>
</tr>
<tr>
<td>Total</td>
<td>1,284,335</td>
<td>984,968</td>
<td>984,968</td>
<td>984,968</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>893,200</td>
<td>688,411</td>
<td>0</td>
<td>920,139</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>4,053,000</td>
<td>3,193,250</td>
<td>0</td>
<td>3,312,500</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>2,233,000</td>
<td>1,721,028</td>
<td>0</td>
<td>1,840,278</td>
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<td>LTI (four-year period)</td>
<td>1,820,000</td>
<td>1,472,222</td>
<td>0</td>
<td>1,472,222</td>
</tr>
<tr>
<td>Total</td>
<td>6,230,535</td>
<td>4,866,629</td>
<td>984,968</td>
<td>5,217,607</td>
</tr>
<tr>
<td>Pension expense</td>
<td>749,097</td>
<td>890,430</td>
<td>890,430</td>
<td>890,430</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>6,979,632</td>
<td>5,757,060</td>
<td>1,875,399</td>
<td>6,108,037</td>
</tr>
</tbody>
</table>

### HORST NEUMANN

<table>
<thead>
<tr>
<th>€</th>
<th>2014</th>
<th>2015</th>
<th>2015 (Minimum)</th>
<th>2015 (Maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>1,078,017</td>
<td>1,010,182</td>
<td>1,010,182</td>
<td>1,010,182</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>131,027</td>
<td>192,106</td>
<td>192,106</td>
<td>192,106</td>
</tr>
<tr>
<td>Total</td>
<td>1,209,044</td>
<td>1,202,288</td>
<td>1,202,288</td>
<td>1,202,288</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>893,200</td>
<td>857,267</td>
<td>0</td>
<td>1,145,833</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>4,053,000</td>
<td>3,976,500</td>
<td>0</td>
<td>4,125,000</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>2,233,000</td>
<td>2,143,167</td>
<td>0</td>
<td>2,291,667</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,820,000</td>
<td>1,833,333</td>
<td>0</td>
<td>1,833,333</td>
</tr>
<tr>
<td>Total</td>
<td>6,155,244</td>
<td>6,036,055</td>
<td>1,202,288</td>
<td>6,473,122</td>
</tr>
<tr>
<td>Pension expense</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>6,155,244</td>
<td>6,036,055</td>
<td>1,202,288</td>
<td>6,473,122</td>
</tr>
</tbody>
</table>

* All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS GRANTED) IN ACCORDANCE WITH THE
GERMAN CORPORATE GOVERNANCE CODE*

The figures shown here as benefits granted under variable remuneration are based on a mean probability scenario.

<table>
<thead>
<tr>
<th>LEIF ÖSTLING</th>
<th>Commercial Vehicles</th>
<th>Left: February 28, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>€</td>
<td>2014</td>
<td>2015</td>
</tr>
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<td>Fixed remuneration</td>
<td>1,078,017</td>
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<td>Fringe benefits</td>
<td>194,039</td>
<td>36,927</td>
</tr>
<tr>
<td>Total</td>
<td>1,272,056</td>
<td>220,597</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>669,900</td>
<td>155,867</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>4,053,000</td>
<td>723,000</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>2,233,000</td>
<td>389,667</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,820,000</td>
<td>333,333</td>
</tr>
<tr>
<td>Total</td>
<td>5,994,956</td>
<td>1,099,463</td>
</tr>
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<td>Pension expense</td>
<td>1,140,852</td>
<td>207,013</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>7,135,808</td>
<td>1,306,476</td>
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</table>

<table>
<thead>
<tr>
<th>HANS DIETER PÖTSCH</th>
<th>Finance and Controlling</th>
<th>Left: October 7, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>€</td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td>Fixed remuneration</td>
<td>1,078,017</td>
<td>812,533</td>
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<tr>
<td>Fringe benefits</td>
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<td>127,556</td>
</tr>
<tr>
<td>Total</td>
<td>1,292,868</td>
<td>940,089</td>
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<tr>
<td>One-year variable remuneration</td>
<td>1,116,500</td>
<td>899,481</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>4,053,000</td>
<td>3,337,850</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>2,233,000</td>
<td>1,798,961</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,820,000</td>
<td>1,538,889</td>
</tr>
<tr>
<td>Total</td>
<td>6,462,368</td>
<td>5,177,420</td>
</tr>
<tr>
<td>Pension expense</td>
<td>1,140,852</td>
<td>207,013</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>6,462,368</td>
<td>5,177,420</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ANDREAS RENSCHLER</th>
<th>Commercial Vehicles</th>
<th>Joined: February 1, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>€</td>
<td>2014</td>
<td>2015</td>
</tr>
<tr>
<td>Fixed remuneration**</td>
<td>–</td>
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</tr>
<tr>
<td>Fringe benefits</td>
<td>–</td>
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</tr>
<tr>
<td>Total</td>
<td>–</td>
<td>12,845,658</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>–</td>
<td>910,846</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>–</td>
<td>3,976,500</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>–</td>
<td>2,143,167</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>–</td>
<td>1,833,333</td>
</tr>
<tr>
<td>Total</td>
<td>–</td>
<td>17,733,004</td>
</tr>
<tr>
<td>Pension expense</td>
<td>–</td>
<td>0</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>–</td>
<td>17,733,004</td>
</tr>
</tbody>
</table>

* All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
** Includes compensation of lost entitlements resulting from the change in employer of €11.5 million.
### Remuneration Report

**Remuneration of the Members of the Board of Management (Benefits Granted) in Accordance with the German Corporate Governance Code**

The figures shown here as benefits granted under variable remuneration are based on a mean probability scenario.

<table>
<thead>
<tr>
<th>€</th>
<th>2014</th>
<th>2015</th>
<th>2015 (Minimum)</th>
<th>2015 (Maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>1,078,017</td>
<td>1,056,000</td>
<td>1,056,000</td>
<td>1,056,000</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>75,085</td>
<td>60,667</td>
<td>60,667</td>
<td>60,667</td>
</tr>
<tr>
<td>Total</td>
<td>1,153,102</td>
<td>1,116,667</td>
<td>1,116,667</td>
<td>1,116,667</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>893,200</td>
<td>935,200</td>
<td>0</td>
<td>1,250,000</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>4,053,000</td>
<td>4,338,000</td>
<td>0</td>
<td>4,500,000</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>2,233,000</td>
<td>2,338,000</td>
<td>0</td>
<td>2,500,000</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>1,820,000</td>
<td>2,000,000</td>
<td>0</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>6,099,302</td>
<td>6,389,867</td>
<td>1,116,667</td>
<td>6,866,667</td>
</tr>
<tr>
<td>Pension expense</td>
<td>473,045</td>
<td>723,954</td>
<td>723,954</td>
<td>723,954</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>6,572,347</td>
<td>7,113,821</td>
<td>1,840,621</td>
<td>7,590,621</td>
</tr>
</tbody>
</table>

**Rupert Stadler**
Chairman of the Board of Management of AUDI AG

<table>
<thead>
<tr>
<th>€</th>
<th>2014</th>
<th>2015</th>
<th>2015 (Minimum)</th>
<th>2015 (Maximum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>1,617,025</td>
<td>1,216,810</td>
<td>1,216,810</td>
<td>1,216,810</td>
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<tr>
<td>Fringe benefits</td>
<td>300,453</td>
<td>228,531</td>
<td>228,531</td>
<td>228,531</td>
</tr>
<tr>
<td>Total</td>
<td>1,917,478</td>
<td>1,445,341</td>
<td>1,445,341</td>
<td>1,445,341</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>3,001,000</td>
<td>2,317,278</td>
<td>0</td>
<td>2,484,375</td>
</tr>
<tr>
<td>Multyear variable remuneration</td>
<td>10,097,000</td>
<td>7,947,056</td>
<td>0</td>
<td>8,281,250</td>
</tr>
<tr>
<td>Business performance bonus (two-year period)</td>
<td>6,002,000</td>
<td>4,634,556</td>
<td>0</td>
<td>4,968,750</td>
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<tr>
<td>LTI (four-year period)</td>
<td>4,095,000</td>
<td>3,312,500</td>
<td>0</td>
<td>3,342,500</td>
</tr>
<tr>
<td>Total</td>
<td>15,015,478</td>
<td>11,709,674</td>
<td>1,445,341</td>
<td>12,210,966</td>
</tr>
<tr>
<td>Pension expense</td>
<td>0</td>
<td>723,954</td>
<td>723,954</td>
<td>723,954</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>15,015,478</td>
<td>11,709,674</td>
<td>1,445,341</td>
<td>12,210,966</td>
</tr>
</tbody>
</table>

**Martin Winterkorn**
Chairman of the Board of Management, Research and Development

<table>
<thead>
<tr>
<th>€</th>
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<th>2015</th>
<th>2015 (Minimum)</th>
<th>2015 (Maximum)</th>
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</thead>
<tbody>
<tr>
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<td>243,467</td>
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<tr>
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<td>10,212</td>
<td>10,212</td>
<td>10,212</td>
</tr>
<tr>
<td>Total</td>
<td>–</td>
<td>253,679</td>
<td>253,679</td>
<td>253,679</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
<td>–</td>
<td>229,092</td>
<td>0</td>
<td>288,194</td>
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<td>Multyear variable remuneration</td>
<td>–</td>
<td>1,000,150</td>
<td>0</td>
<td>1,037,500</td>
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<td>Business performance bonus (two-year period)</td>
<td>–</td>
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<td>0</td>
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<td>LTI (four-year period)</td>
<td>–</td>
<td>461,111</td>
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<tr>
<td>Total</td>
<td>–</td>
<td>1,482,920</td>
<td>253,679</td>
<td>1,579,373</td>
</tr>
<tr>
<td>Pension expense</td>
<td>–</td>
<td>130,680</td>
<td>130,680</td>
<td>130,680</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>–</td>
<td>1,613,600</td>
<td>384,359</td>
<td>1,710,053</td>
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</table>

**Frank Witter**
Finance and Controlling

<table>
<thead>
<tr>
<th>€</th>
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<th>2015</th>
<th>2015 (Minimum)</th>
<th>2015 (Maximum)</th>
</tr>
</thead>
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<td>–</td>
<td>–</td>
</tr>
<tr>
<td>One-year variable remuneration</td>
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<td>–</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Multyear variable remuneration</td>
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<td>–</td>
<td>–</td>
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<tr>
<td>Business performance bonus (two-year period)</td>
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<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>LTI (four-year period)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Pension expense</td>
<td>–</td>
<td>130,680</td>
<td>130,680</td>
<td>130,680</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>–</td>
<td>1,613,600</td>
<td>384,359</td>
<td>1,710,053</td>
</tr>
</tbody>
</table>

* All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
POST-EMPLOYMENT BENEFITS

In the event of regular termination of their service on the Board of Management, the members of the Board of Management are entitled to a pension, including a surviving dependents’ pension, as well as the use of company cars for the period in which they receive their pension. The agreed benefits are paid or made available when the Board of Management member reaches the age of 63. As a departure from this principle, Mr. Renschler is able to start drawing his pension when he reaches the age of 62.

The retirement pension is calculated as a percentage of the basic level of remuneration. Starting at 50%, the individual percentage increases by two percentage points for each year of service. In specific cases, credit is given for previous employment periods and retirement pensions earned. The Supervisory Board has defined a maximum of 70%. These benefits are not broken down any further into performance-related components and long-term incentive components. Mr. Garcia Sanz, Mr. Heizmann, Mr. Neumann, Mr. Pötsch and Mr. Winterkorn have a retirement pension entitlement of 70%, and Mr. Klingler, Mr. Renschler and Mr. Stadler have a retirement pension entitlement of 62% of their basic level of remuneration as of the end of 2015. In a departure from this rule, a retirement pension entitlement of 62% of the basic level of remuneration was set for Mr. Renschler on his appointment. This increases by two percentage points every year. Mr. Müller had an individual pension module vest immediately upon contribution to Volkswagen Pension Trust e.V. instead of a lifelong pension, benefits can optionally be paid out as a lump sum or in installments when the beneficiary reaches retirement age – currently 63 at the earliest. Volkswagen AG has assumed responsibility for pension entitlements due to Mr. Witter from the time before his service with the Company, although these cannot be claimed before he reaches the age of 60.

Mr. Östling has a pension entitlement based on the deferred compensation arrangements administered by Volkswagen Pension Trust e.V. The benefits include a retirement pension payable when the beneficiary reaches the age of 70 and a surviving dependents’ pension. Volkswagen AG provides an annual remuneration-linked company contribution for Mr. Östling, which is converted into a pension module at the end of each year.

On December 31, 2015 the pension obligations for members of the Board of Management in accordance with IAS 19 amounted to €86,601,704 (€138,046,434); €6,409,924 (€8,229,691) was added to the provision in the reporting period in accordance with IAS 19. Other benefits such as surviving dependents’ pensions and the use of company cars are also factored into the measurement of pension provisions. The pension obligations measured in accordance with German GAAP amounted to €70,161,416 (€95,992,020); €14,627,403 (€16,616,016) was added to the provision in the reporting period in accordance with German GAAP. Current pensions are index-linked using the same method as for the highest collectively agreed salary, insofar as the application of section 16 of the Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG – German Company Pension Act) does not lead to a larger increase.

Retired members of the Board of Management and their surviving dependents received €51,306,960 (€22,792,616) or €51,306,960 (€22,111,951) in accordance with German GAAP in the past year. Obligations for pensions for this group of persons measured in accordance with IAS 19 amounted to €242,675,809 (€165,668,945), or €209,868,399 (€129,456,621) measured in accordance with German GAAP.

On December 31, 2015 the pension obligations for members of the Board of Management in accordance with IAS 19 amounted to €86,601,704 (€138,046,434); €6,409,924 (€8,229,691) was added to the provision in the reporting period in accordance with IAS 19. Other benefits such as surviving dependents’ pensions and the use of company cars are also factored into the measurement of pension provisions. The pension obligations measured in accordance with German GAAP amounted to €70,161,416 (€95,992,020); €14,627,403 (€16,616,016) was added to the provision in the reporting period in accordance with German GAAP. Current pensions are index-linked using the same method as for the highest collectively agreed salary, insofar as the application of section 16 of the Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG – German Company Pension Act) does not lead to a larger increase.

Retired members of the Board of Management and their surviving dependents received €51,306,960 (€22,792,616) or €51,306,960 (€22,111,951) in accordance with German GAAP in the past year. Obligations for pensions for this group of persons measured in accordance with IAS 19 amounted to €242,675,809 (€165,668,945), or €209,868,399 (€129,456,621) measured in accordance with German GAAP.

The following rule applies to Board of Management contracts entered into for the first term of office before August 5, 2009: the retirement pension to be granted after a member of the Board of Management leaves the Company is payable immediately if the member’s contract is not renewed by the Company, and in other cases when the member reaches the age of 63. Any remuneration received from other sources until the age of 63 is deductible from the benefit entitlement up to a certain fixed amount.

The following general rule applies to contracts for the first term of office of members of the Board of Management entered into after August 5, 2009: the retirement pension to be granted after a member of the Board of Management leaves the Company is payable when the member reaches the age of 63.
EARLY TERMINATION BENEFITS
If membership of the Board of Management is terminated for cause through no fault of the Board of Management member, the claims under Board of Management contracts entered into since November 20, 2009 are limited to a maximum of two years’ remuneration, in accordance with the recommendation in section 4.2.3(4) of the German Corporate Governance Code (severance payment cap). For Board of Management members who are commencing their third or later term of office, existing rights under contracts entered into before November 20, 2009 are grandfathered.

No severance payment is made if membership of the Board of Management is terminated for a reason for which the Board of Management member is responsible.

The members of the Board of Management are also entitled to a pension and to a surviving dependents’ pension as well as the use of company cars for the period in which they receive their pension in the event of early termination of their service on the Board of Management.

Please refer to notes 43 and 45 to the consolidated financial statements for more detailed individual disclosures relating to members of the Board of Management who left the Company in fiscal year 2015.

PENSIONS OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN 2015 (PRIOR-YEAR FIGURES IN BRACKETS)¹

<table>
<thead>
<tr>
<th>€</th>
<th>Pension expense</th>
<th>Present values as of December 31²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matthias Müller (since March 1, 2015)</td>
<td>295,754</td>
<td>22,563,065</td>
</tr>
<tr>
<td>Herbert Diess (since July 1, 2015)</td>
<td>311,850</td>
<td>365,736</td>
</tr>
<tr>
<td>Francisco Javier García Sanz</td>
<td>816,242</td>
<td>17,622,337</td>
</tr>
<tr>
<td>Jochem Heizmann</td>
<td>(582,686)</td>
<td>(18,088,648)</td>
</tr>
<tr>
<td>Christian Klingler (until September 25, 2015)</td>
<td>890,430</td>
<td>(7,228,262)</td>
</tr>
<tr>
<td>Horst Neumann (until November 30, 2015)</td>
<td>(749,097)</td>
<td></td>
</tr>
<tr>
<td>Leif Östling (until February 28, 2015)</td>
<td>207,013</td>
<td>(23,654,054)</td>
</tr>
<tr>
<td>Hans Dieter Pötsch (until October 7, 2015)</td>
<td>(1,140,852)</td>
<td>(2,954,833)</td>
</tr>
<tr>
<td>Andreas Renschler (since February 1, 2015)</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Rupert Stadler</td>
<td>723,954</td>
<td>16,442,455</td>
</tr>
<tr>
<td>Martin Winterkorn (until September 25, 2015)</td>
<td>(473,045)</td>
<td>(17,209,710)</td>
</tr>
<tr>
<td>Frank Witter (since October 7, 2015)</td>
<td>130,680</td>
<td>6,582,389</td>
</tr>
<tr>
<td>Members of the Board of Management who left in the previous year</td>
<td>(420,061)</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>3,375,923</td>
<td>86,601,704</td>
</tr>
</tbody>
</table>

¹ All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
² The amount is reported in the total amount for defined benefit plans reported in the balance sheet (see note 29 to the consolidated financial statements).
SUPERVISORY BOARD REMUNERATION

Under Article 17 of Volkswagen AG’s Articles of Association, the remuneration of Volkswagen AG’s Supervisory Board is composed of a fixed component (plus attendance fees) and a variable component that depends on the amount of the dividend paid. The duties performed by the respective member on the Supervisory Board are also taken into account. Several members of the Supervisory Board are also members of the supervisory boards of subsidiaries. The remuneration received there is based on the provisions of the relevant Articles of Association and also comprises a fixed component and a variable component that is linked to the amount of the dividend paid. This remuneration is contained in the following figures. In fiscal year 2015, the members of the Supervisory Board received €696,953 (€12,149,450). Of this figure, €660,976 (€808,500) related to the fixed remuneration components (including attendance fees) and €35,977 (€11,340,950) to the variable remuneration components.

<table>
<thead>
<tr>
<th>€</th>
<th>FIXED</th>
<th>VARIABLE</th>
<th>TOTAL 2015</th>
<th>TOTAL 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hans Dieter Pötsch (since October 7, 2015)</td>
<td>13,400</td>
<td>–</td>
<td>13,400</td>
<td>–</td>
</tr>
<tr>
<td>Jörg Hofmann (since November 20, 2015)</td>
<td>3,367</td>
<td>–</td>
<td>3,367</td>
<td>–</td>
</tr>
<tr>
<td>Hussain Al Al-Abdulla</td>
<td>11,000</td>
<td>–</td>
<td>11,000</td>
<td>398,500</td>
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<tr>
<td>Akbar Al Baker (since May 5, 2015)</td>
<td>5,925</td>
<td>–</td>
<td>5,925</td>
<td>–</td>
</tr>
<tr>
<td>Ahmad Al-Sayed (until May 5, 2015)</td>
<td>4,075</td>
<td>–</td>
<td>4,075</td>
<td>397,500</td>
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<tr>
<td>Jürgen Dern (until June 30, 2015)</td>
<td>20,778</td>
<td>18,103</td>
<td>38,881</td>
<td>482,150</td>
</tr>
<tr>
<td>Annika Falkengren</td>
<td>17,000</td>
<td>–</td>
<td>17,000</td>
<td>596,250</td>
</tr>
<tr>
<td>Hans-Peter Fischer</td>
<td>14,000</td>
<td>–</td>
<td>14,000</td>
<td>399,250</td>
</tr>
<tr>
<td>Uwe Fritsch</td>
<td>14,000</td>
<td>–</td>
<td>14,000</td>
<td>399,250</td>
</tr>
<tr>
<td>Babette Fröhlich</td>
<td>17,000</td>
<td>–</td>
<td>17,000</td>
<td>596,250</td>
</tr>
<tr>
<td>Berthold Huber (until November 19, 2015)</td>
<td>37,133</td>
<td>–</td>
<td>37,133</td>
<td>937,000</td>
</tr>
<tr>
<td>Uwe Hück (since July 1, 2015)</td>
<td>44,500</td>
<td>–</td>
<td>44,750</td>
<td>–</td>
</tr>
<tr>
<td>Johan Järvklo (since November 22, 2015)</td>
<td>1,650</td>
<td>–</td>
<td>1,650</td>
<td>–</td>
</tr>
<tr>
<td>Louise Kiesling (since April 30, 2015)</td>
<td>11,017</td>
<td>–</td>
<td>11,017</td>
<td>–</td>
</tr>
<tr>
<td>Julia Kuhn-Piech (April 30, 2015 – October 1, 2015)</td>
<td>14,197</td>
<td>1,663</td>
<td>15,860</td>
<td>–</td>
</tr>
<tr>
<td>Olaf Lies</td>
<td>14,700</td>
<td>–</td>
<td>14,700</td>
<td>399,500</td>
</tr>
<tr>
<td>Hartmut Meine (until November 21, 2015)</td>
<td>12,350</td>
<td>–</td>
<td>12,350</td>
<td>399,500</td>
</tr>
<tr>
<td>Peter Mosch</td>
<td>33,000</td>
<td>–</td>
<td>33,000</td>
<td>704,750</td>
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<tr>
<td>Bernd Osterloh</td>
<td>17,000</td>
<td>–</td>
<td>17,000</td>
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</tr>
<tr>
<td>Ferdinand K. Piech (until April 25, 2015)</td>
<td>44,801</td>
<td>16,212</td>
<td>61,013</td>
<td>1,475,300</td>
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<td>Hans Michel Piech</td>
<td>80,500</td>
<td>–</td>
<td>80,500</td>
<td>546,500</td>
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<tr>
<td>Ursula Piëch (until April 25, 2015)</td>
<td>6,292</td>
<td>–</td>
<td>6,292</td>
<td>472,500</td>
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<tr>
<td>Ferdinand Oliver Porsche</td>
<td>65,500</td>
<td>–</td>
<td>65,500</td>
<td>963,500</td>
</tr>
<tr>
<td>Wolfgang Porsche</td>
<td>109,200</td>
<td>–</td>
<td>109,200</td>
<td>793,250</td>
</tr>
<tr>
<td>Stephan Weil</td>
<td>17,000</td>
<td>–</td>
<td>17,000</td>
<td>399,500</td>
</tr>
<tr>
<td>Stephan Wolf</td>
<td>17,000</td>
<td>–</td>
<td>17,000</td>
<td>399,500</td>
</tr>
<tr>
<td>Thomas Zwiebler</td>
<td>14,342</td>
<td>–</td>
<td>14,342</td>
<td>399,500</td>
</tr>
<tr>
<td>Total</td>
<td>660,976</td>
<td>35,977</td>
<td>696,953</td>
<td>12,149,450</td>
</tr>
</tbody>
</table>

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

2 These employee representatives have stated that they will transfer their Supervisory Board remuneration to the Hans Böckler Foundation in accordance with the guidelines issued by the German Confederation of Trade Unions (DGB).

3 Under section 5(3) of the Niedersächsisches Ministergesetz (Act Governing Ministers of the State of Lower Saxony), these members of the Supervisory Board are obliged to transfer their Supervisory Board remuneration to the State of Lower Saxony as soon as and to the extent that it exceeds €6,200 per annum. Remuneration is defined for this purpose as Supervisory Board remuneration and attendance fees exceeding the amount of €200.
Executive Bodies

Members of the Board of Management and their Appointments

Appointments: as of December 31, 2015 or the leaving date from the Board of Management of Volkswagen AG

MATTHIAS MÜLLER (62)
Chairman (since September 26, 2015)
March 1, 2015*
Member of the Executive Board of
Porsche Automobil Holding SE
October 13, 2010*

DR. RER. SOC. KARLHEINZ BLESSING (58)
Human Resources and Organization
January 1, 2016*

DR. ING. HERBERT DIESS (57)
Chairman of the Brand Board of Management of
Volkswagen Passenger Cars
July 1, 2015*
Appointments:
○ Infineon Technologies AG, Neubiberg

DR. RER. POL. DR.-ING. E.H.
JOCHEN HEIZMANN (63)
China
January 11, 2007*
Appointments:
○ Lufthansa Technik AG, Hamburg

DR. JUR. CHRISTINE HOHMANN-DENNARDT (65)
Integrity and Legal Affairs
January 1, 2016*

CHRISTIAN KLINGLER (47)
Sales and Marketing (until September 25, 2015)
January 1, 2010 – September 25, 2015*
Appointments (on September 25, 2015):
○ Messe Frankfurt GmbH, Frankfurt am Main

PROF. H.C. DR. RER. POL.
HORST NEUMANN (66)
Human Resources and Organization
(until November 30, 2015)
December 1, 2005 – November 30, 2015*

DR. H.C. LEIF ÖSTLING (70)
Commercial Vehicles (until January 31, 2015)
September 1, 2012 – February 28, 2015*
Appointments (on February 28, 2015):
○ SKF AB, Gothenburg
○ EQT Holdings AB, Stockholm

HANS DIETER PÖTSCH (64)
Finance and Controlling (until October 7, 2015)
January 1, 2003 – October 7, 2015*
Appointments (on October 7, 2015):
○ Bertelsmann Management SE, Gütersloh
○ Bertelsmann SE & Co. KGaA, Gütersloh

ANDREAS RENSCHLER (57)
Commercial Vehicles (since February 1, 2015)
February 1, 2015*
Appointments:
○ Deutsche Messe AG, Hanover

PROF. RUPERT STADLER (52)
Chairman of the Board of Management of AUDI AG
January 1, 2010*
Appointments:
○ FC Bayern München AG, Munich

PROF. DR. DR. H.C. MULT.
MARTIN WINTERKORN (68)
Chairman (until September 25, 2015)
Research and Development (until September 25, 2015)
July 1, 2000 – September 25, 2015*
Appointments (on September 25, 2015):
○ FC Bayern München AG, Munich

FRANK WITTER (56)
Finance and Controlling (since October 7, 2015)
October 7, 2015
Appointments:
○ LeasePlan Corporation N.V., Amsterdam (Chairman)

As part of their duty to manage and supervise the Group’s business, the members of the Board of Management hold other offices on the supervisory boards of consolidated Group companies and other significant investees.

○ Membership of statutory supervisory boards in Germany.
○ Comparable appointments in Germany and abroad.

* Beginning or period of membership of the Board of Management.
Members of the Supervisory Board and their Appointments
Appointments: as of December 31, 2015 or the leaving date from the Supervisory Board of Volkswagen AG

HANS DIETER PÖTSCH (64)
(Chairman; since October 7, 2015)
Chairman of the Executive Board and
Chief Financial Officer of Porsche Automobil Holding SE
October 7, 2015

Appointments:
〇 AUDI AG, Ingolstadt
〇 Autostadt GmbH, Wolfsburg (Chairman)
〇 Bertelsmann Management SE, Gütersloh
〇 Bertelsmann SE & Co. KGaA, Gütersloh
〇 Dr. Ing. h.c. F. Porsche AG, Stuttgart
〇 Porsche Austria Gesellschaft m.b.H., Salzburg (Chairman)
〇 Porsche Holding Gesellschaft m.b.H., Salzburg (Chairman)
〇 Porsche Retail GmbH, Salzburg (Chairman)
〇 VfL Wolfsburg-Fußball GmbH, Wolfsburg (Deputy Chairman)
〇 Volkswagen Truck & Bus GmbH, Braunschweig

JÖRG HOFMANN (60)
(Deputy Chairman; since November 20, 2015)
First Chairman of IG Metall
November 20, 2015

Appointments:
〇 Robert Bosch GmbH, Stuttgart

DR. HUSSAIN ALI AL-ABDULLA (58)
Minister of State and Board Member of
Qatar Investment Authority
April 22, 2010

Appointments:
〇 Al Ryan Investment, Doha (Chairman)
〇 Gulf Investment Corporation, Safat/Kuwait
〇 Kirnaf Finance, Riad (Chairman)
〇 Masraf Al Rayan, Doha (Chairman)
〇 Qatar Supreme Council for Economic Affairs and
Investment, Doha

AKBAR AL BAKER (55)
Minister of State and Group Chief Executive of
Qatar Airways
May 5, 2015

Appointments:
〇 Arab Air Carriers Organization, Beirut (Chairman)
〇 International Air Transport Association, Montreal
〇 Heathrow Airport Holdings Ltd., London

AHMAD AL-SAYED (39)
Minister of State, Qatar

Appointments (on May 5, 2015):
〇 Qatar National Bank, Doha

DR. JÜRGEN DORN (49)
Chairman of the Works Council at the MAN Truck &
Bus AG Munich plant, Chairman of the General Works
Council of MAN Truck & Bus AG and Chairman of the
Group Works Council and the SE Works Council of
MAN SE (until May 31, 2015)

Appointments (on June 30, 2015):
〇 MAN SE, Munich
〇 MAN Truck & Bus AG, Munich (Deputy Chairman)

ANNIKA FALKENGREN (53)
President and Group Chief Executive of
Skandinaviska Enskilda Banken AB
May 3, 2011

Appointments:
〇 FAM AB, Stockholm
〇 Scania CV AB, Södertälje
〇 Securitas AB, Stockholm

DR. JUR. HANS-PETER FISCHER (56)
Chairman of the Board of Management of
Volkswagen Management Association
January 1, 2013

Appointments:
〇 Volkswagen Pension Trust e.V., Wolfsburg

DR. JUR. KLAUS LIESEN (84)
July 2, 1987 – May 3, 2006
Honorary Chairman of the Supervisory Board of
Volkswagen AG (since May 3, 2006)

〇 Membership of statutory supervisory boards in
Germany.
〇 Comparable appointments in Germany and abroad.

* Beginning or period of membership of the
Supervisory Board.
Executive Bodies

UWE FRITSCH (59)
Chairman of the Works Council at the Volkswagen AG Braunschweig plant
April 19, 2012*
Appointments:
 Eintracht Braunschweig GmbH & Co KGaA, Braunschweig
 Basketball Löwen Braunschweig GmbH, Braunschweig

BABETTE FRÖHLICH (50)
IG Metall, Department head for coordination of Executive Board duties and planning
October 25, 2007*
Appointments:
 MTU Aero Engines AG, Munich

BERTHOLD HUBER (65)
IG Metall
May 25, 2010 – November 19, 2015*
Appointments (on November 19, 2015):
○ AUDI AG, Ingolstadt (Deputy Chairman)
○ Porsche Automobil Holding SE, Stuttgart

UWE HÜCK (53)
Chairman of the General and Group Works Councils of Dr. Ing. h.c. F. Porsche AG;
July 1, 2015*
Appointments:
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart (Deputy Chairman)
○ Porsche Automobil Holding SE, Stuttgart (Deputy Chairman)

JOHAN JÄRKLO (42)
Chairman of IF Metall at Scania AB
November 22, 2015*
Appointments:
 Scania CV AB, Södertälje

DR. LOUISE KIESLING (58)
Designer and entrepreneur
April 30, 2015*

JULIA KUHN-PiëCH (34)
Real estate manager
April 30, 2015 – October 1, 2015*
Appointments (on October 1, 2015):
○ MAN Truck & Bus AG, Munich

OLAF LIES (48)
Minister of Economic Affairs, Labor and Transport for the Federal State of Lower Saxony
February 19, 2013*
Appointments:
○ Deutsche Messe AG, Hanover (Chairman)
 Container Terminal Wilhelmshaven JadeWeserPort-Marketing GmbH & Co. KG, Wilhelmshaven (Chairman)
 Demografieagentur für die niedersächsische Wirtschaft GmbH, Hanover (Chairman)
 JadeWeserPort Realisierungs GmbH & Co. KG, Wilhelmshaven (Chairman)
 JadeWeserPort Realisierungs-Beteiligungs GmbH, Wilhelmshaven (Chairman)

HARTMUT MEINE (63)
Director of the Lower Saxony and Saxony-Anhalt Regional Office of IG Metall
December 30, 2008 – November 21, 2015*
Appointments (on November 21, 2015):
○ Continental AG, Hanover
○ KME Germany GmbH, Osnabrück

HON.-PROF. DR. TECHN. H.C. DIPL.-ING. ETH FERDINAND K. PIËCH (78)
April 16, 2002 – April 25, 2015*
Appointments (on April 25, 2015):
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ MAN SE, Munich (Chairman)
○ Porsche Automobil Holding SE, Stuttgart
○ Ducati Motor Holding S.p.A., Bologna
○ Porsche Holding Gesellschaft m.b.H., Salzburg
○ Scania AB, Södertälje
○ Scania CV AB, Södertälje

BERND OSTERLOH (59)
Chairman of the General and Group Works Councils of Volkswagen AG
January 1, 2005*
Appointments:
○ Autostadt GmbH, Wolfsburg
○ Porsche Automobil Holding SE, Stuttgart
○ Wolfsburg AG, Wolfsburg
○ Allianz für die Region GmbH, Braunschweig
○ Porsche Holding Gesellschaft m.b.H., Salzburg
○ SEAT, S.A., Martorell
○ ŠKODA AUTO a.s., Mladá Boleslav
○ VfL Wolfsburg-Fußball GmbH, Wolfsburg
○ Volkswagen Immobilien GmbH, Wolfsburg
○ Volkswagen Truck & Bus GmbH, Braunschweig

PETER MOSCH (43)
Chairman of the General Works Council of AUDI AG
January 18, 2006*
Appointments:
○ AUDI AG, Ingolstadt
○ Porsche Automobil Holding SE, Stuttgart
○ Audi Pensionskasse – Altersversorgung der AUTO UNION GmbH, VVaG, Ingolstadt

○ Membership of statutory supervisory boards in Germany.
○ Comparable appointments in Germany and abroad.
* Beginning or period of membership of the Supervisory Board.
DR. JUR. HANS MICHEL PIËCH (73)
Lawyer in private practice
August 7, 2009*

Appointments:
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ Porsche Automobil Holding SE, Stuttgart
○ Porsche Cars Great Britain Ltd., Reading
○ Porsche Cars North America Inc., Wilmington
○ Porsche Holding Gesellschaft m.b.H., Salzburg
○ Porsche Ibérica S.A., Madrid
○ Porsche Italia S.p.A., Padua
○ Schmittenhöhebahn AG, Zell am See
○ Volksoper Wien GmbH, Vienna

URSULA PIËCH (59)
Supervisory Board member of AUDI AG
April 19, 2012 – April 25, 2015*

Appointments (on April 25, 2015):
○ AUDI AG, Ingolstadt

DR. JUR. FERDINAND OLIVER PORSCHE (54)
Member of the Board of Management of Familie Porsche AG Beteiligungsgesellschaft
August 7, 2009*

Appointments:
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ Porsche Automobil Holding SE, Stuttgart
○ PGA S.A., Paris
○ Porsche Holding Gesellschaft m.b.H., Salzburg
○ Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg
○ Volkswagen Truck & Bus GmbH, Braunschweig

DR. RER. COMM. WOLFGANG PORSCHE (72)
Chairman of the Supervisory Board of Porsche Automobil Holding SE; Chairman of the Supervisory Board of Dr. Ing. h.c. F. Porsche AG
April 24, 2008*

Appointments:
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart (Chairman)
○ Porsche Automobil Holding SE, Stuttgart (Chairman)
○ Familie Porsche AG Beteiligungsgesellschaft, Salzburg (Chairman)
○ Porsche Cars Great Britain Ltd., Reading
○ Porsche Cars North America Inc., Wilmington
○ Porsche Holding Gesellschaft m.b.H., Salzburg
○ Porsche Ibérica S.A., Madrid
○ Porsche Italia S.p.A., Padua
○ Schmittenhöhebahn AG, Zell am See

STEPHAN WEIL (57)
Minister-President of the Federal State of Lower Saxony
February 19, 2013*

STEPHAN WOLF (49)
Deputy Chairman of the General and Group Works Councils of Volkswagen AG
January 1, 2013*

Appointments:
○ Volkswagen Financial Services AG, Braunschweig
○ Wolfsburg AG, Wolfsburg
○ Volkswagen Pension Trust e.V., Wolfsburg

THOMAS ZWIEBLER (50)
Chairman of the Works Council of Volkswagen Commercial Vehicles
May 15, 2010*

COMMITTEES OF THE SUPERVISORY BOARD AS OF DECEMBER 31, 2015

Members of the Executive Committee
Hans Dieter Pötsch (Chairman)
Jörg Hofmann (Deputy Chairman)
Bernd Osterloh
Dr. Wolfgang Porsche
Stephan Weil
Stephan Wolf

Members of the Mediation Committee in accordance with section 27(3) of the Mitbestimmungsgesetz (German Codetermination Act)
Hans Dieter Pötsch (Chairman)
Jörg Hofmann (Deputy Chairman)
Bernd Osterloh
Stephan Weil

Members of the Audit Committee
Dr. Ferdinand Oliver Porsche (Chairman)
Peter Mosch (Deputy Chairman)
Annika Falkengren
Babette Fröhlich

Members of the Nomination Committee
Hans Dieter Pötsch (Chairman)
Dr. Wolfgang Porsche
Stephan Weil

Special Committee on Diesel Engines
Dr. Wolfgang Porsche (Chairman)
Babette Fröhlich
Olaf Lies
Bernd Osterloh
Dr. Ferdinand Oliver Porsche
Thomas Zwiebler

○ Membership of statutory supervisory boards in Germany.
○ Comparable appointments in Germany and abroad.

* Beginning or period of membership of the Supervisory Board.
CAPITAL STRUCTURE
Volkswagen AG’s share capital amounted to €1,283,315,873.28 (€1,217,872,117.76) on December 31, 2015. It was composed of 295,089,818 ordinary shares and 206,205,445 preferred shares. This includes 27,091 preferred shares created in 2015 as a result of the voluntary exercise of the mandatory convertible note and 25,536,876 preferred shares from final conversion on the final maturity date of the convertible note. Each share conveys a notional interest of €2.56 in the share capital.

SHAREHOLDER RIGHTS AND OBLIGATIONS
The shares convey pecuniary and administrative rights. The pecuniary rights include in particular the shareholders’ right to participate in profits (section 58(4) of the Aktiengesetz (AktG – German Stock Corporation Act)), the right to participate in liquidation proceeds (section 271 of the AktG) and preemptive rights to shares in the event of capital increases (section 186 of the AktG) that can be disapplied by the Annual General Meeting with the approval of the Special Meeting of Preferred Shareholders, where appropriate. Administrative rights include the right to attend the Annual General Meeting and the right to speak there, to ask questions, to propose motions and to exercise voting rights. Shareholders can enforce these rights in particular through actions seeking disclosure and actions for avoidance.

Each ordinary share grants the holder one vote at the Annual General Meeting. The Annual General Meeting elects shareholder representatives to the Supervisory Board and elects the auditors; in particular, it resolves the appropriation of net profit, formally approves the actions of the Board of Management and the Supervisory Board, resolves amendments to the Articles of Association, capitalization measures and authorizations to purchase treasury shares; if required, it also resolves the performance of a special audit, the removal before the end of their term of office of Supervisory Board members elected at the Annual General Meeting and the winding-up of the Company.

Preferred shareholders generally have no voting rights. However, in the exceptional case that they are granted voting rights by law (for example, when preferred share dividends were not paid in one year and not compensated for in full in the following year), each preferred share also grants the holder one vote at the Annual General Meeting. Furthermore, preferred shares entitle the holder to a €0.06 higher dividend than ordinary shares (further details on this right to preferred and additional dividends are specified in Article 27(2) of the Articles of Association).

The Gesetz über die Überführung der Anteilsrechte an der Volkswagenwerk Gesellschaft mit beschränkter Haftung in private Hand (VW-Gesetz – Act on the Privatization of Shares of Volkswagenwerk Gesellschaft mit beschränkter Haftung) of July 21, 1960, as amended on July 30, 2009, includes various provisions in derogation of the German Stock Corporation Act, for example on exercising voting rights by proxy (section 3 of the VW-Gesetz) and on majority voting requirements at the Annual General Meeting (section 4(3) of the VW-Gesetz).

In accordance with the Volkswagen AG Articles of Association (Article 11(1)), the State of Lower Saxony is entitled to appoint two members of the Supervisory Board of Volkswagen AG for as long as it directly or indirectly holds at least 15% of Volkswagen AG’s ordinary shares. In addition, resolutions by the General Meeting that are required by law to be adopted by a qualified majority require a majority of more than four-fifths of the share capital of the Company represented when the resolution is adopted (Article 25(2)), regardless of the provisions of the VW-Gesetz.

SHAREHOLDINGS EXCEEDING 10% OF VOTING RIGHTS
Shareholdings in Volkswagen AG that exceed 10% of voting rights are shown in the notes to the annual financial statements of Volkswagen AG, which is available online at www.volkswagenag.com/ir. The current notifications of changes in voting rights in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) are also published on this website.
COMPOSITION OF THE SUPERVISORY BOARD
The Supervisory Board consists of 20 members, half of whom are shareholder representatives. In accordance with Article 11(1) of the Articles of Association of Volkswagen AG, the State of Lower Saxony is entitled to appoint two of these shareholder representatives for as long as it directly or indirectly holds at least 15% of the Company’s ordinary shares. The remaining shareholder representatives on the Supervisory Board are elected by the Annual General Meeting.

The other half of the Supervisory Board consists of employee representatives elected by the employees in accordance with the Mitbestimmungsgesetz (MitbestG – German Codetermination Act). A total of seven of these employee representatives are Company employees elected by the workforce; the other three employee representatives are trade union representatives elected by the workforce.

The Chairman of the Supervisory Board is generally a shareholder representative elected by the other members of the Supervisory Board. In the event that a Supervisory Board vote is tied, the Chairman of the Supervisory Board has a casting vote in accordance with the MitbestG.

The goals for the composition of the Supervisory Board are described on page 63 of the Corporate Governance Report. Information about the composition of the Supervisory Board at the end of the reporting period can be found on pages 82 to 84 of this annual report.

STATUTORY REQUIREMENTS AND REQUIREMENTS OF THE ARTICLES OF ASSOCIATION WITH REGARD TO THE APPOINTMENT AND REMOVAL OF BOARD OF MANAGEMENT MEMBERS AND TO AMENDMENTS TO THE ARTICLES OF ASSOCIATION
The appointment and removal of members of the Board of Management are governed by sections 84 and 85 of the AktG, which specify that members of the Board of Management are appointed by the Supervisory Board for a maximum of five years. Board of Management members may be reappointed or have their term of office extended for a maximum of five years in each case. In addition, Article 6 of the Articles of Association states that the number of Board of Management members is stipulated by the Supervisory Board and that the Board of Management must consist of at least three persons.

The Annual General Meeting resolves amendments to the Articles of Association (section 119(1) of the AktG). In accordance with section 4(3) of the VW-Gesetz as amended on July 30, 2009 and Article 25(2) of the Articles of Association, Annual General Meeting resolutions to amend the Articles of Association require a majority of more than four-fifths of the share capital represented.

POWERS OF THE BOARD OF MANAGEMENT, IN PARTICULAR CONCERNING THE ISSUE OF NEW SHARES AND THE REPURCHASE OF TREASURY SHARES
According to German stock corporation law, the Annual General Meeting can, for a maximum of five years, authorize the Board of Management to issue new shares. It can also authorize the Board of Management, for a maximum of five years, to issue bonds on the basis of which new shares are to be issued. The Annual General Meeting also decides the extent to which shareholders have preemptive rights to the new shares or bonds. The highest amount of authorized share capital or contingent capital available for these purposes is determined by Article 4 of the Articles of Association of Volkswagen AG, as amended.

The Annual General Meeting on April 19, 2012 resolved to authorize the Board of Management, with the consent of the Supervisory Board, to increase the Company’s share capital by a total of up to €110.0 million (corresponding to approximately 43 million shares) on one or more occasions up to April 18, 2017 by issuing new ordinary and/or nonvoting preferred bearer shares – including with shareholders’ preemptive rights disappplied – against cash and/or noncash contributions. This authorization was partially exercised in June 2014 by way of a capital increase through the issuance of 10,471,204 new preferred shares from authorized capital against cash contributions, while disapplying shareholders’ preemptive rights. This increased the share capital by €26.8 million and generated gross proceeds of €2.0 billion.

The Board of Management’s authorization to increase the share capital by up to a total of €179.4 million on one or more occasions by issuing new nonvoting preferred shares against cash contributions expired on December 2, 2014. In order to renew this capital, the General Meeting on May 5, 2015 resolved to authorize the Board of Management, with the consent of the Supervisory Board, to increase the Company’s share capital by a total of up to €179.2 million (corresponding to 70 million shares) on one or more occasions up to May 4, 2020 by issuing new nonvoting preferred shares against cash contributions.

Furthermore, it was possible for the share capital to be increased by up to €102.4 million by issuing nonvoting preferred shares, in order to settle the conversion or option rights of holders or creditors of convertible bonds or bonds with warrants issued before April 21, 2015. This authorization was partially exercised in November 2012 and in June 2013 by issuing mandatory convertible notes. The mandatory convertible notes were converted on maturity (November 9, 2015).

Further details on the authorization to issue new shares and their permitted uses may be found in the notes to the consolidated financial statements on page 253.

Opportunities to acquire treasury shares are governed by section 71 of the AktG. The Board of Management was most recently authorized to acquire treasury shares up to a maximum of 10% of the share capital at the Annual General Meeting on April 19, 2012. This authorization applies until April 18, 2017 and has not so far been exercised.
MATERIAL AGREEMENTS OF THE PARENT COMPANY IN THE EVENT OF A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

A banking syndicate granted Volkswagen AG a syndicated credit line amounting to €5.0 billion that runs until April 2020. The syndicate members were granted the right to call their portion of the syndicated credit line if Volkswagen AG is merged with a third party or becomes a subsidiary of another company. However, this call right does not apply in the event of a merger by absorption of Porsche Holding SE, one of its subsidiaries, or one of its holding companies and Volkswagen AG in which Volkswagen AG is the acquiring legal entity.

In addition, Volkswagen AG agreed a supplementary syndicated credit line of up to €20.0 billion, initially running until December 2016, with a banking syndicate. The syndicate members were granted the right to call their portion of the syndicated credit line if Volkswagen AG is merged with a third party or group of third parties, or becomes a subsidiary of another company or group of other companies. Exceptions to this call right were agreed with regard to various combinations involving the current majority shareholders.

RESTRICTIONS ON THE TRANSFER OF SHARES

As part of the cooperative agreement Volkswagen AG and Suzuki Motor Corporation agreed mutual approval and preemptive tender rights in the event that the shares held by the other contracting party were to be sold. The arbitration court established on August 29, 2015 that the parties had the right to give regular notice to terminate the cooperation agreement, had exercised this right, and that the partnership had been terminated. Volkswagen consequently sold its 19.9% equity investment in Suzuki to Suzuki on September 17, 2015 at the quoted market price of €3.1 billion. The 1.5% of ordinary Volkswagen AG shares held by Suzuki Motor Corporation were transferred to Porsche Automobil Holding SE in an off-market transaction at the end of September 2015. As a result, the mutual approval and preemptive tender rights ceased to apply.
Business Development

In fiscal year 2015, the global economy grew at a moderate rate, slightly below that of the previous year. Global demand for vehicles continued to rise. Amid increasingly difficult conditions in some relevant markets, deliveries to Volkswagen Group’s customers were down slightly year-on-year.

Global Economy Continues to See Moderate Growth

The moderate growth rate of the global economy declined to 2.5 (2.7)% in fiscal year 2015. While the economic situation in the industrialized nations improved slightly, the economic performance in many emerging economies declined in the course of the year. Overall, inflation persisted at a low level despite the expansionary monetary policies of many central banks. Although the comparatively low energy and commodity prices weighed on the economies of individual exporting countries that depend on them, their effect on the global economy as a whole was supportive.

Europe/Other Markets

In Western Europe, economic recovery continued: gross domestic product (GDP) rose by 1.6 (1.3)% year-on-year in 2015. Most Northern European countries saw solid economic growth. In most Southern European countries, the economic situation stabilized amid increasing rates of expansion. The eurozone’s unemployment rate fell to 11.5 (12.1)%, although it remained significantly above the average in Greece and Spain.

In Central and Eastern Europe, GDP growth decreased by an average of 0.7 (+1.8)% in the reporting period. While Central Europe proceeded on a positive growth path, Eastern Europe experienced a recessionary trend. In addition to the conflict between Russia and Ukraine and the resulting uncertainties, falling energy prices had a negative impact on the region overall. In Russia, economic output dropped significantly, by 3.9 (+0.6)% in the reporting period.

South Africa’s GDP expanded by 1.4 (1.5)%%, thus falling somewhat short of the relatively low figure for the previous year. The country’s economic performance continued to be negatively impacted by structural deficits and social conflicts.

Germany

The German economy benefited from positive consumer sentiment and the stable labor market in 2015. Despite the weak euro, exports failed to boost growth in any significant way. GDP expanded by 1.5 (1.6)%%, somewhat weaker than in the previous year.

North America

Following a robust first half of 2015, economic growth in the US lost some of its momentum as the year progressed. The economy was supported primarily by private consumer demand and expansionary monetary policies. The unemployment rate continued the positive trend of the previous year, falling to 5.0 (5.6)% by the end of the year. The US dollar remained strong, putting goods exports under pressure. Overall, as in the previous year, the US economy expanded by 2.4%. Canada’s GDP growth slowed significantly to a mere 1.2 (2.5)%%. The Mexican economy’s rate of growth was almost unchanged at 2.4 (2.3)%.

South America

After generating only negligible growth in the previous year, Brazil entered a recession in the reporting period. Both the country’s weak domestic demand and low global commodity prices had a negative impact on performance. Economic output declined by 3.7 (+0.1)%%. Although Argentina’s GDP stabilized, growing by 1.6 (0.5)%%, structural deficits and persistently high inflation continued to weigh on the economy.

Asia-Pacific

The Chinese economy expanded by 6.9 (7.3)% in 2015. Although losing momentum, primarily due to structural changes, it remained at a high level compared with the rest of the world. The Indian economy continued its positive trend with a gain of 7.2 (7.3)% and thereby grew as strongly as in the previous year. Growth in Japan’s GDP was relatively weak at 0.7 (–0.1)% due to weak domestic and international demand. At 4.3 (4.4)%%, growth in the ASEAN region remained at the prior-year level.
GLOBAL DEMAND FOR PASSENGER CARS REACHES NEW HIGH

Worldwide, the number of new passenger car registrations increased slightly by 2.6% to 75.6 million vehicles in fiscal year 2015, exceeding the previous year’s record level. While Western Europe, Central Europe, North America and the Asia-Pacific region recorded significant increases in some cases, volumes in the passenger car markets in Eastern Europe and South America were again down substantially on the previous year.

Sector-specific environment

The global passenger car markets turned in a very mixed performance in the reporting period: demand recovered in important sales countries in Western Europe, the Chinese market expanded somewhat more slowly than in previous years and Russia and Brazil saw considerable declines.

The sector-specific environment was to a significant extent influenced by fiscal policy measures, which contributed substantially to the mixed trends in sales volumes in the markets in the past fiscal year. The instruments used for this were tax reductions 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 free movement of vehicles, parts and components more difficult. Protectionist tendencies were particularly evident where markets were on the decline.

Europe/Other markets

The passenger car market in Western Europe continued its catch-up process in the reporting period. At 13.2 million vehicles (+9.0%), the volume of new registrations reached its highest level in six years, although – compared to the pre-crisis years from 1998 to 2007 – it was still at a low level. This development was primarily due to positive consumer sentiment, an improved macroeconomic environment, low fuel prices as well as the reduction in pent-up demand. While demand for passenger cars in Spain (+20.9%) – which benefited from government stimulus measures – and Italy (+15.5%) saw double-digit growth rates, volumes in the passenger car markets in France (+6.8%) and the UK (+6.3%) rose comparatively moderately.

In Central and Eastern Europe, the total number of new passenger car registrations fell sharply in fiscal year 2015, by 23.3%, to 2.8 million vehicles. The decline in demand in Eastern Europe was primarily attributable to the massive slump in the Russian passenger car market, which contracted for the third year in succession due to the difficult economic and political situation. By contrast, the volume of demand in the Central European EU countries rose substantially, by 10.7% to 1.0 million units.

In South Africa, the number of passenger cars sold in 2015 fell by 5.8% to 414 thousand vehicles. The main reasons were a difficult economic environment, a rise in interest rates and a lack of consumer confidence.
Germany
In Germany, 3.2 million new passenger vehicles were registered in 2015, 5.6% more than in the previous year. This development primarily resulted from positive consumer sentiment, the strong labor market as well as a decline in fuel prices and low interest rates. This market volume – the highest since 2009 – was exclusively attributable to new registrations for business customers (+8.8%), while demand from private customers stagnated (–0.1%). The increase in passenger vehicle exports (+2.4% to 4.4 million vehicles), especially to Western European markets, facilitated the increase in domestic production (+1.9% to 5.7 million vehicles).

North America
At 20.7 million vehicles (+6.1%), sales of passenger vehicles and light commercial vehicles (up to 6.35 tonnes) in North America exceeded the 20 million unit mark for the first time in the reporting period. In the USA, the market volume grew by 5.7% to 17.5 million passenger vehicles and light commercial vehicles, reaching an all-time high. The main reasons were high consumer confidence, positive employment and income development as well as favorable financing conditions. Demand was particularly strong for models in the SUV and pickup segments, which benefited additionally from the low fuel prices.

In Canada, the sales figures increased slightly by 2.6% to 1.9 million vehicles, thus beating the record set in the previous year.

Demand in the Mexican automotive market increased in fiscal year 2015. The number of passenger vehicles and light commercial vehicles sold rose significantly by 17.6% to a new record level of 1.3 million units.

South America
In South America, demand for passenger vehicles decreased for the third year in succession in fiscal year 2015, dropping by 21.2% to 3.1 million units. The significant decline of the market as a whole was primarily attributable to the massive collapse in demand in Brazil, where the number of new registrations fell by 27.4% to 1.8 million vehicles. In addition to the tax increase on industrial products implemented at the beginning of the year, the persistent economic crisis and higher interest rates were the main causes of the lowest level of new passenger vehicle registrations since 2006. The weakness of the local currency, the real, was one of the factors driving the increase in Brazilian vehicle exports, which rose by 24.8% to 417 thousand units.

In Argentina, the volume of the passenger vehicle market fell by 7.2% year-on-year to 429 thousand vehicles. High passenger car taxation, an increasing reluctance to buy because of falling real incomes and the persistent shortage of foreign currency continued to have a negative effect on demand.

Asia-Pacific
In the Asia-Pacific region, the number of new passenger car registrations continued to increase in the past fiscal year, albeit more slowly. Growth in the Chinese market also lost momentum as the economy slowed down. With a plus of 7.7% to 19.2 million units,
In the previous year, the tax increase on mini vehicles (up to 1.6 l) contributed to the increase of 4.2 million vehicles. In addition to pull-forward effects from the 2014 elections, the tax increase on mini vehicles (up to 660 cc) effective April 1, 2015 dampened domestic demand during 2015.

In the ASEAN region, passenger car sales declined by a total of 2.5% to 2.2 million units, due primarily to a slump in demand in Indonesia.

**Regional Demand for Commercial Vehicles Mixed**

In 2015, demand for light commercial vehicles was down on the previous year: in total, around 10.3 (11.3) million vehicles were registered worldwide.

In the Western European markets, demand followed a positive trend, driven by the economic recovery. Totaling 1.7 million units, the number of new vehicle registrations was 10.5% higher than in the previous year. The highest growth rates were recorded in Spain (+34.7%), Italy (+17.2%) and the United Kingdom (+15.0%). In Germany, the 2014 figure was exceeded by 4.0%.

Central and Eastern Europe, by contrast, saw a significant decline, with 278 (331) thousand vehicles registered. As a result of political tensions and their impact on the economy, demand in Russia was down sharply on the previous year. However, many smaller Central European markets continued to record growth.

For North America, the "light vehicle market" is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles up to 6.35 tonnes.

In the South American market, registrations of light commercial vehicles decreased to 1.1 million units (–13.9%) in the reporting period. This is due to the difficult economic conditions in the region. In Brazil, demand fell considerably short of the 2014 figure. In Argentina, the number of new registrations was 4.9% lower than in the previous year.

At 6.1 million units (–12.6%), demand for light commercial vehicles in the Asia-Pacific region was down on the previous year’s figure. In China, the region’s dominant market, fewer vehicles were registered than in the year before; here, 3.6 (4.4) million units were registered. The decline is primarily due to the slowdown in industrial production and to lower investments. The market volume fell in India (–7.8%). Here, the market for light commercial vehicles did not benefit from the economic reforms following the 2014 elections. In Japan, the increase in value added tax and the resulting pull-forward effects in 2014 led to a noticeable decrease in the number of registrations in the reporting period.

In the ASEAN region, demand for light commercial vehicles was mixed; the volume was down slightly on the prior-year level.

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes fell significantly short of the prior-year level in fiscal year 2015. In total, there were 2.2 million new vehicle registrations, 9.1% fewer than in 2014. The volume of vehicles dropped by 11.3% in the markets that are relevant for the Volkswagen Group.

In Western Europe, the number of truck registrations rose by 14.4% to a total of 258 thousand vehicles. Due for the most part to the low prior-year level and supported by positive economic momentum, the markets in Spain (+38.3%), the Netherlands (+32.3%) and Italy (+26.5%) in particular recorded high growth rates. In Germany, Western Europe’s largest market, the prior-year figure was exceeded by a moderate amount.

In Central and Eastern Europe, the number of new vehicle registrations decreased by 16.9% to 117 thousand units. While the markets in Central Europe expanded, Eastern Europe was on the decline. In Russia, the tense and uncertain political situation, the economic decline, currency weakness and difficult financing conditions caused the number of new registrations to come in 44.2% below the prior-year level, at 45 thousand.

In North America, public and private spending in the construction and industrial sectors as well as favorable financing conditions boosted the positive trend in demand; in this region, 531 (483) thousand mid-sized and heavy trucks (6.35 tonnes or more) were registered. In the US market, the number of new registrations increased by 10.5% to 456 thousand units.

South America saw a considerable decline in market volume. Here, the number of new vehicle registrations fell by 36.3% to 127 thousand units. In Brazil, the region’s largest market, demand, at 68 (133) thousand vehicles, was down significantly on the prior-year level as a result of declining economic output and more restrictive financing conditions. The market in Argentina expanded by 14.7% to 17 thousand vehicles, but remained at a low level because of the economic downturn.

At 521 (459) thousand registrations, the volume of vehicles in the Asia-Pacific region – excluding the Chinese market – was significantly higher than in the previous year. Demand in India increased in the reporting period: a total of 266 thousand units were registered, 32.4% more than in 2014. This was attributable to demand for replacement vehicles in the heavy truck segment, rising infrastructure spending and the improved investment climate. Demand in China, the world’s largest truck market, was down significantly in the reporting period at a total of 539 thousand units.
a year-on-year decline of 32.2%. This was due to the slower economic growth as well as the pull-forward effects in 2014 from the introduction of the C4 emission standard.

Demand for buses, both globally and in the markets that are relevant for the Volkswagen Group, was lower than in the previous year. Negative economic trends in Russia and South America led to a sharp decline in demand, but the markets in Western Europe expanded considerably.

TRENDS IN THE MARKET 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 merchant shipbuilding market again saw muted order activity in the reporting period. The slowdown in China’s economic growth and existing overcapacity had a negative impact on the entire merchant fleet. Bulk carriers in particular were affected by low freight rates. In the container ship sector, an increasing amount of capacity was decommissioned. Despite this, some new orders for ships with very high transport capacity were recorded. Because of their size, these types of vessels have lower operating costs and are primarily intended for use on fixed trade routes. The tanker segment benefited from positive market expectations and an increase in freight rates in 2015 compared with the previous year. A factor contributing to improving the income situation of shipping companies in the past year was that the currently low freight rates were offset by favorable fuel prices. On the other hand, the low oil price discourages investments in oil production in the offshore sector, which has led to a massive decline in ship building in this segment. Demand for cruise ships followed a positive trend. Gas-fueled ships were ordered for the first time last year as a means of reducing emissions and meeting environmental requirements. The special market for government vessels also continued to follow a consistently positive trend. China, Korea and Japan remained the dominant shipbuilding countries, accounting for a global market share of more than 80% measured in terms of tonnage ordered. The marine market as a whole declined significantly compared with the previous year.

Although there was continuing high demand for energy solutions in developing countries and emerging markets, the more difficult financing conditions and regional crises led to longer project lead times. Regions such as the Middle East, Africa and Southeast Asia remained relevant markets. Due to the availability of shale gas, the North American market continued to grow in importance. Demand for decentralized diesel and gas engine power plants was lower overall than in the previous year, while the shift away from oil-fired power plants towards dual-fuel and gas-fired plants continued.

The market for the construction of turbomachinery is mainly dominated by investment projects in oil and gas, the processing industry and power generation. The persistently low oil price caused leading oil and gas companies to slash investment, leading to project postponements or even cancellations. Even the processing industry suffered from low investment volumes because of the slowdown in growth in emerging markets and existing over-capacity in some industries, for example in the steel industry. Insufficient capacity utilization at many manufacturers and the low Japanese yen exchange rate led to increased competition. Overall, the market volume for turbomachinery in 2015 was below the prior-year level.

As in previous years, the market for offshore wind farms in Germany was characterized by uncertainty with regard to financing, infrastructure links and the government’s incentive policies, so that only few projects reached the award stage.

The after-sales market performed positively overall.

DEMAND FOR FINANCIAL SERVICES
Global demand for automotive-related financial services remained high in fiscal year 2015. Customers are increasingly optimizing their total spend on personal mobility, so the trend toward just using a car occasionally, rather than actually buying one, continued. Demand for new mobility services such as carsharing continued to grow.

In Europe, business with financial services products was buoyed by the good overall performance in Germany and signs of recovery in Western and Central Europe. These offset the negative effects from the declining unit sales volumes in Russia.

After-sales products such as maintenance and spare parts agreements as well as insurance agreements saw an encouraging rise in demand. Sales of financial services were bolstered by higher vehicle sales, which resulted in particular from a recovery of the Spanish and Italian markets. Demand for financial services benefited considerably from the still high penetration rates.

The finance and leasing business grew again in Germany in the fiscal year. Alongside traditional finance products, expanding the insurance and service business was a particular focus.

In North America, demand for financial services in fiscal year 2015 was also up again on the previous year. In the USA, the market for new vehicle financing registered slower growth, while the market for leasing through captive financial service providers continued to grow. In Mexico, sales volumes for financial services products reached a new all-time high, driven by increased customer interest.
In Brazil, the negative macroeconomic trend worsened further in 2015 compared with the previous year. This trend was also increasingly apparent in lending for new cars. Although the Consorcio product – a lottery-style savings plan – was very popular, it was also impacted by declining volumes in the passenger car market. In Argentina, structural deficits and very high inflation continued to dent sales of automotive-related financial services.

The Asia-Pacific region again saw growth in 2015. Many buyers used financial services to realize their wish for a car. In China, the proportion of loan-financed vehicle purchases continued to rise in the past year. 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. Australia, India, Korea and South Africa registered growth in demand for financial services, while demand in the Japanese market remained stable at a high level.

The financial services market in the commercial vehicles segment continued to see a trend towards optimizing total costs in the mid-sized and heavy commercial vehicles category in 2015. Innovative transport solutions are becoming increasingly important to customers for differentiating between providers. Demand for financial services products rose year-on-year despite declining overall demand for vehicles in the relevant markets. The significant decline in truck and bus unit sales in South America had a negative impact, particularly in the core Brazilian market. However, this was offset by positive business growth in Europe.

NEW GROUP MODELS IN 2015
The Volkswagen Group selectively expanded its model portfolio in key segments in the reporting period. In addition, successor and product upgrades were presented for important brand models, many of them based on the Modular Transverse Toolkit. The Group’s range now comprises 337 passenger car, commercial vehicle and motorcycle models, and their derivatives. The Group’s product range 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. We will continue to resolutely move into unoccupied market segments that offer profitable opportunities for us.

In fiscal year 2015, the Volkswagen Passenger Cars brand launched the successor of the popular Touran family van, whose many innovations continue the model’s success story. The new Golf and Passat Alltrack models use 4MOTION drive technology to achieve convincing performance on any terrain. The family-friendly Sharan has been enhanced by adding numerous new convenience and assistance systems as well as innovative infotainment systems. The new Passat GTE with a plug-in hybrid drive expands the range of vehicles that run on electric power. It offers modern, environmentally conscious customers maximum driving pleasure without compromising on comfort and quality. The Volkswagen Passenger Cars brand met special customer and market requirements in key regions outside Europe through product upgrades and country-specific models. China saw the launch of the dynamic and comfortable Lamando and the versatile Gran Santana, both manufactured locally. The sporty Golf GTI and Polo GTI models complement the local product range. The successful family saloons, the Sagitar and the Lavida, were upgraded, as were their derivatives, the Gran Lavida and the Cross Lavida. Moreover, imports of the innovative Golf GTE with a plug-in hybrid drive and the upgraded Touareg were launched in China in the year under review. In South America, the Golf family was expanded by adding the versatile Golf Estate. In the USA, the spacious Golf Estate and the uncompromisingly sporty Golf R were launched.

As for the Audi brand, the new generation of the popular Audi A4 and Audi A4 Avant models had their world premieres in 2015. With the new Q7 premium class SUV, Audi once again shows off its expertise in lightweight construction and efficiency technology as well as in infotainment and assistance systems. For the first time, Audi is offering a hybrid version in this segment: the Q7 e-tron 3.0 TDI quattro will be available for orders from spring 2016 onwards. The new R8 Coupé is Audi’s impressive sporty flagship model, offering racing technology in series-produced cars. The Audi RS 3 Sportback was presented as the sportiest version of the A3 series. The third generation of the TT family was expanded by adding the TT Roadster and the sporty versions TTS Coupé and TTS Roadster.

With the launch of the next generation of the Superb saloon and the Superb Combi, ŠKODA’s model portfolio entered a new era in 2015. The Fabia Combi boasts a fresh design and boot space that sets standards in its class. The sporty Octavia RS 230 is at the forefront of the RS series. At the SEAT brand, the popular Ibiza small car, the Toledo four-door coupé and the Alhambra family van were upgraded in the reporting period. The sporty Leon ST Cupra estate complements the Leon family.

In 2015, Porsche expanded its 911 series with the all-out super sports car 911 GT3 RS and the dynamic Targa 4 GTS. The new Macan series has been expanded with a sporty GTS version. In addition, the new Boxster Spyder, the new Cayman GT4 and the successor of the Cayenne Turbo S were launched.
Bentley refreshed the design and features of the Continental GT series in 2015. In addition, it boosted the performance of the Continental GT W12 to 434 kW (590 PS) while at the same time optimizing efficiency.

The Lamborghini brand presented four new super sports cars: the newly developed Aventador LP 750-4 Superveloce, the roadster version of the Aventador Superveloce, the Aventador LP 700-4 Pirelli Edition and the Lamborghini Huracán LP 610-4 Spyder.

Volkswagen Commercial Vehicles introduced the new version of the versatile, popular Multivan/Transporter in the reporting period. The Caddy, an all-rounder, was upgraded. Equipped with a 1.4 l TGI natural gas-powered drive, the successor to the popular Caddy EcoFuel was launched. The Cross Caddy has been succeeded by the Caddy Alltrack which is once again available as a passenger car or as a delivery van.

Scania presented a Euro 6 hybrid truck, a series five-cylinder in-line engine running on bioethanol and two new nine-liter engines for truck models in fiscal year 2015. Other new products were the Scania Citywide Hybrid low-floor bus and the new Scania Interlink bus series.

In the reporting period, MAN launched the new MAN Lion’s Intercity bus, which boasts safety and comfort features for intercity transport passengers and a high level of efficiency; its cockpit was rigorously designed in line with driver needs.

The third generation of the Multistrada 1200 and 1200 S has been available from Ducati since the beginning of 2015. Four versions of the Scrambler series were launched: Icon, Urban Enduro, Classic and Full Throttle. In addition, the superbike 1299 Panigale, the limited-edition Diavel Titanium and the new Naked Bike Monster 1200 R were unveiled.

### Volkswagen Group Deliveries

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<th>2015</th>
<th>2014</th>
<th>%</th>
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<td>Passenger cars</td>
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<tr>
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<td>Total</td>
<td>9,930,517</td>
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</table>

* Deliveries for 2014 updated to reflect subsequent statistical trends. Figures include the Chinese joint ventures.

With its brands, the Volkswagen Group has a presence in all relevant automotive markets around the world. Western Europe, China, the USA, Brazil and Mexico are currently the key sales markets for the Group. Thanks to our wide range of attractive and efficient vehicles, we have a strong position amid persistently challenging competition.

Under increasingly difficult conditions in relevant markets, such as Brazil, China and Russia, deliveries of passenger cars to customers amounted to 9,320,681 units in the reporting period, 1.8% fewer than in the previous year. The passenger car market as a whole expanded by 2.6% in 2015, which meant that the Volkswagen Group’s share of the global market declined to 12.3 (12.9)%. The Volkswagen Group achieved the highest growth in absolute terms in Germany. Our sales figures in Brazil, China and Russia were impacted significantly by low demand. In the fourth quarter of 2015, the emissions issue affected the individual markets in Western Europe and in the USA and Canada in different ways, depending on the brand and market. The Audi (+3.6%), ŠKODA (+1.8%), Porsche (+18.6%) and Lamborghini (+28.3%) brands increased their delivery figures year-on-year, setting new records. SEAT also recorded growth of 2.4% on the prior-year figure.

The table on page 97 gives an overview of deliveries to customers of the Volkswagen Group in the key individual markets and regions. The demand trends for Group models in these markets and regions are described in the following sections.
Deliveries in Europe/Other markets
The recovery of Western Europe’s passenger car market as a whole continued in 2015, with growth of 9.0%. The Volkswagen Group’s deliveries to customers increased by 5.1% to 3,062,368 units in this region. Demand for Group models was up year-on-year in all major markets in this region. The Golf Sportsvan, Passat and ŠKODA Fabia models recorded the highest growth rates. In addition, demand for the Polo, Golf, Tiguan, Audi A3, Audi TT, ŠKODA Octavia and Porsche Macan models was particularly strong. The new Touran, Audi A4, Audi Q7 and ŠKODA Superb models were successfully launched on the market. The Group’s share of the passenger car market in Western Europe was 24.4 (25.1)%.

In Central and Eastern Europe, we handed over – 7.7% fewer passenger cars to customers in 2015 than in the year before. This region’s market as a whole contracted by 23.3% in the same period. The Group’s sales figures in Russia and Ukraine declined massively as a result of the difficult economic and political situation in the two countries. In the Czech Republic, Poland, Hungary and Romania, meanwhile, we recorded strong growth in some cases. The Golf Sportsvan, Audi Q7, ŠKODA Fabia Combi and SEAT Leon ST models recorded the highest growth rates. The Group’s share of the passenger car market in Central and Eastern Europe increased to 20.3 (16.9)%.

In the South African passenger car market, which is still on the decline, the number of Volkswagen Group vehicles delivered to customers in 2015 was down 9.4% on the previous year. The up!, Polo, Golf and Audi A4 saloon models recorded strong demand.

Demand for Group vehicles in the Middle East region grew by 18.7% compared with the previous year. The Polo, Golf, Jetta, Passat and ŠKODA Octavia models were particularly popular.

Deliveries in Germany
The German passenger car market continued to recover in 2015, expanding by 5.6%. The Volkswagen Group’s performance in its home market was similarly positive; sales to customers increased by 5.0% year-on-year to 1,147,484 units. The highest growth rates were achieved by the Passat, Audi TT, Audi Q7, ŠKODA Fabia Combi and ŠKODA Superb saloon models. The Polo, Golf, Golf Sportsvan, Audi A4 and Porsche Macan models also enjoyed great popularity. At the end of 2015, eight Volkswagen Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: up!, Polo, Golf, Tiguan, Touran, Passat, Audi TT and Audi A6. The Golf remained the most popular passenger car in Germany in terms of registrations.
Deliveries in North America

In North America, the Volkswagen Group benefited from the market’s positive overall performance; it sold 922,774 vehicles in the reporting period, 4.3% more than in the previous year. The Group’s share of the passenger car market amounted to 4.5 (4.6)%.

The Jetta was the Group’s best-selling model in North America. In the US market, demand for Group models rose slightly in 2015, increasing by 1.2% year-on-year. The market as a whole increased by 5.7% in the same period. Models in the SUV and pickup segments remained in particularly high demand. Demand for the Golf, Tiguan, Audi A3, Audi Q3, Audi Q5 and Porsche Macan models recorded positive growth.

In the Canadian market, which saw slight growth, we delivered 8.8% more vehicles to customers in the reporting period than in the previous year. The Jetta remained the most sought-after Group model, while the Golf, Tiguan, Audi A3, Audi Q3 and Audi Q5 also recorded encouraging demand.

In the fast-growing Mexican market, the Group’s sales were up 11.9% year-on-year. The Vento and Jetta were especially popular.

Deliveries in South America

Conditions in the highly competitive South American markets were again very challenging in fiscal year 2015. In the generally sharply declining markets in this region, sales amounted to 489,636 units; this represents a decrease of 29.0% in demand for Group models compared with the previous year. The Volkswagen Group’s share of the passenger car market in this region declined to 15.7 (17.4)%.

In the Brazilian passenger car market, which has suffered massive declines, the Volkswagen Group delivered 36.3% fewer vehicles than in the year before. The best-selling models were the up!, Fox, Gol, Saveiro and Audi A3.

In Argentina, the downward trend of the market as a whole slowed in the course of 2015. Demand for Volkswagen Group models increased by 2.8% year-on-year in the same period. The Gol continued to be the most popular Group model in Argentina in terms of registrations.

Deliveries in the Asia-Pacific region

The passenger car markets in the Asia-Pacific region expanded by 4.0% in 2015, with declining momentum overall. The Volkswagen Group handed over 3,902,169 vehicles to customers there, 3.0% fewer than in the previous year.

China, the world’s largest single market, was again the growth driver of the Asia-Pacific region in 2015, recording the highest absolute increase. Attractively priced entry-level models in the SUV segment remained highly sought after. Volkswagen delivered 3.4% fewer vehicles to customers in China than in the prior-year period. The Jetta, Lavida, Sagitar, Tiguan, Audi Q5, ŠKODA Octavia saloon and Porsche Macan were popular models. The Lamando was successfully launched in the market.
In the growing Indian passenger car market, our sales declined by 1.9% year-on-year. The Polo remained the most popular Group vehicle, and there was also strong demand for the Audi A3, ŠKODA Rapid and ŠKODA Octavia saloon models.

In the Japanese passenger car market, demand for Group vehicles was down 12.5% year-on-year in the reporting period. The market as a whole contracted by 10.2% in the same period. Even so, the Passat, Audi Q3 and Porsche Macan models recorded increases.

### PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET*

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<tr>
<th></th>
<th>DELIVERIES (UNITS)</th>
<th>CHANGE (%)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2014</td>
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<tr>
<td>Europe/Other markets</td>
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<td>Western Europe</td>
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<td>Italy</td>
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<td>Bugatti</td>
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* Deliveries for 2014 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 609,836 commercial vehicles to customers worldwide in the reporting period, 5.7% fewer than in the previous year. Trucks accounted for 161,901 units (–9.9%), and buses accounted for 17,134 units (–15.5%). Sales by the Volkswagen Commercial Vehicles brand were down 3.5% on the prior-year figure, with 430,801 vehicles delivered in 2015. The MAN brand handed over 102,474 vehicles to customers, 14.7% fewer than in 2014, while the Scania brand’s deliveries were down 4.0% year-on-year at 76,561.

With the economy in Western Europe picking up, the Volkswagen Group delivered 2.0% more commercial vehicles than in the previous year, a total of 368,603 units; of this figure, 284,600 were light commercial vehicles, 79,146 were trucks and 4,857 were buses. The Transporter and Caddy models were the most sought-after models in Western European markets.

In 2015, we handed over a total of 55,295 commercial vehicles to customers (–13.7%) in Central and Eastern Europe, consisting of 31,183 light commercial vehicles, 23,243 trucks and 869 buses. In Russia, the region’s largest market, deliveries to customers declined by 56.9% to a total of 9,736 units due to the tense and uncertain political situation, the economic downturn, the low oil price, the sustained currency weakness and difficult financing conditions in the reporting period. The Transporter and the Caddy were the Group models that experienced the highest demand in this region.

In the Other markets, the Volkswagen Group increased its deliveries by 2.8% to 74,935 commercial vehicles; of this figure, 49,840 were light commercial vehicles, 22,504 were trucks and 2,591 were buses.

In North America, the Group handed over 9,099 vehicles to customers in the reporting period, an increase of 9.2% year-on-year; of this figure, 6,802 were light commercial vehicles, 474 were trucks and 1,823 were buses.

Deliveries in the South American markets declined overall to 68,958 units (–34.2%), consisting of 36,961 light commercial vehicles, 27,311 trucks and 4,686 buses. The economic slowdown and difficult financing conditions in Brazil led to a 51.3% decrease in deliveries to customers; 12,218 light commercial vehicles, 21,327 trucks and 2,968 buses were handed over to customers.

Once again, the Amarok was particularly popular in Brazil.

In the Asia-Pacific region, the Volkswagen Group handed over 32,946 vehicles to customers in the reporting period; 21,415 light commercial vehicles, 9,223 trucks and 2,308 buses: a total of 6.1% less than in the previous year. The Amarok and the Transporter were the most popular Group models. In the Chinese market, the Group delivered 6,165 units to customers; of this figure, 3,860 were light commercial vehicles, 2,068 were trucks and 237 were buses. Overall, this represents a decrease of 10.5% on the prior-year figure.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET*

<table>
<thead>
<tr>
<th></th>
<th>DELIVERIES (UNITS)</th>
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<td>2014</td>
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<td>Western Europe</td>
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<td>Central and Eastern Europe</td>
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<td>Other markets</td>
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<td>South America</td>
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<td>of which: Brazil</td>
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<td>104,728</td>
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<td></td>
<td>36,513</td>
<td>74,977</td>
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<tr>
<td>Asia-Pacific</td>
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<tr>
<td>of which: China</td>
<td>32,946</td>
<td>35,082</td>
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<td></td>
<td>6,165</td>
<td>6,887</td>
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<td>609,836</td>
<td>646,486</td>
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<td>Volkswagen Commercial Vehicles</td>
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<td>Scania</td>
<td>76,561</td>
<td>79,782</td>
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<tr>
<td>MAN</td>
<td>102,474</td>
<td>120,088</td>
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</table>

* Deliveries for 2014 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 three-quarters of the overall revenue volume. In 2015, the world’s first compressor for an underwater gas production facility was put into operation.

ORDERS RECEIVED IN THE PASSENGER CARS SEGMENT IN WESTERN EUROPE

Due to the positive development of Western European markets, demand for passenger cars increased in fiscal year 2015 compared to the previous year. This was also reflected in our orders received; these were 4.0% higher than in the year before. All key markets in the region contributed to this rise.

ORDERS RECEIVED FOR COMMERCIAL VEHICLES

Demand for the Volkswagen Group’s light commercial vehicles in the Western European markets rose year-on-year in 2015. At 290,771 vehicles, orders received were down 3.6% compared with the previous year.

Incoming orders for mid-sized and heavy trucks and buses declined overall in 2015, with orders received for 184,637 vehicles (-9.8%). In Western Europe, our main sales market, positive economic stimulus gave a boost to incoming orders. In South America, however, the deterioration in the economic situation had a negative impact on the order intake.

ORDERS RECEIVED IN THE POWER ENGINEERING SEGMENT

The long-term performance of the Power Engineering business is determined by the macroeconomic environment. Major individual 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 2015 amounted to €3.4 billion. Engines & Marine Systems and Turbomachinery generated the most new orders, together accounting for almost three-quarters of the order volume.

In addition to the order for twelve self-produced dual-fuel engines for the world’s biggest crane vessel, orders were also received for an air compressor with the world’s highest flow rate in air separation and, in China, for the first mechanical drive turbine of the new gas turbine family. In addition, a private power producer in Bangladesh ordered six engines with total power output of 111 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 (including the financial services business of MAN Finance International GmbH since January 1, 2014) and the financial services activities of Scania, Porsche and Porsche Holding Salzburg.

The number of new contracts signed worldwide in the Customer Financing/Leasing and Service/Insurance areas rose by 3.9% year-on-year in 2015 to 5.6 million. The total number of contracts was 14.4 million as of the end of 2015, surpassing the figure at the prior-year reporting date by 7.3%. The number of contracts in the Customer Financing/Leasing area was up by 6.6% to 8.9 million, while the number of contracts in the Service/Insurance area increased by 8.6% to 5.5 million. The ratio of leased or financed vehicles to Group deliveries (penetration rate) increased to 31.5 (30.7)% in the Financial Services Division’s markets.

In Europe/Other markets, 4.0 million new contracts were signed in the reporting period, 8.8% more than in the previous year. The number of contracts was up 10.0% to 10.3 million as of December 31, 2015. This included 5.5 million contracts in the Customer Financing/Leasing area, an increase of 7.3% on the figure for 2014. At the same time, the share of leased or financed vehicles increased from 43.6% to 44.3% of deliveries.

In North America, the Financial Services Division added 814 thousand new contracts, up 0.6% year-on-year. The total number of contracts stood at 2.1 million (-0.9%). Of this figure, 1.7 million were attributable to the Customer Financing/Leasing area, 8.0% more than in the previous year. The penetration rate in North America rose to 61.8 (56.8)%.

In South America, 262 thousand new contracts were signed in the reporting period (-16.7%). The number of contracts was down 8.6% year-on-year to 756 thousand contracts as of year-end 2015. The majority of these were attributable to the Customer Financing/Leasing area. The penetration rate in South America was 35.5 (33.1)%.

In the Asia-Pacific region, 530 thousand new contracts were signed during the reporting period, an 11.1% decrease on the prior-year figure. The total number of contracts amounted to 1.2 million (+12.0%), of which 996 thousand were attributable to the Customer Financing/Leasing area (+15.5%). The share of leased or financed vehicles in the region decreased from 13.1% to 11.6% of deliveries.
SALES TO THE DEALER ORGANIZATION
In 2015, the Volkswagen Group’s worldwide unit sales to the dealer organization – including the Chinese joint ventures – amounted to 10,009,605 vehicles, down 2.0% on the prior-year figure. The decrease of 2.7% in unit sales outside Germany is primarily attributable to weaker demand for Group models in Brazil, China and Russia. In Germany, the number of vehicles sold increased by 2.5%. At 12.8%, the proportion of the Group’s sales accounted for by Germany was higher than in the previous year (12.2%).

The Golf, Passat, Jetta and Polo were our biggest sellers last year. Golf, Polo, Sharan, the Audi A3 family, Audi Q5, ŠKODA Fabia, ŠKODA Octavia, the SEAT Leon family and SEAT Alhambra saw the highest rate of increase in sales. The Porsche Macan and Cayenne were also very well received by the market. In China, the Volkswagen Tiguan and Polo models as well as the Audi A3, ŠKODA Octavia and the new Volkswagen Lamando especially developed for this market were very popular with customers.

PRODUCTION
The Volkswagen Group produced 10,017,191 vehicles worldwide in fiscal year 2015, 1.9% fewer than in the previous year. Our Chinese joint ventures produced 3.1% fewer units than in the previous year. The percentage of the Group’s total production accounted for by Germany was higher than in 2014, at 26.8 (25.1)%.

INVENTORIES
Global vehicle inventories at Group companies and in the dealer organization were higher on December 31, 2015 than at year-end 2014, mainly due to demand-induced stocking in Western Europe.

EMPLOYEES
Including the Chinese joint ventures, the Volkswagen Group employed an average of 604,387 people in fiscal year 2015, an increase of 3.6% year-on-year. Our companies in Germany employed 275,857 people on average in 2015; at 45.6 (45.5)%, their share of the headcount was on a level with the previous year. The Volkswagen Group had 585,242 active employees (+3.2%) as of the 2015 reporting date. In addition, 6,183 employees were in the passive phase of their partial retirement and 18,651 young persons were in vocational traineeships (+1.0%). The Volkswagen Group’s headcount was 610,076 employees (+3.0%) at the end of the reporting period. Significant factors for the increase in employees were the expansion of the workforce in our new plants in China, Poland and Mexico and the recruitment of specialists, particularly in Germany and China. A total of 278,685 people were employed in Germany (+2.8%), while 331,391 were employed abroad (+3.1%).
EQUITY MARKETS

Prices on the international equity markets experienced volatility in the reporting period. The DAX rose moderately overall. Capital market participants were unsettled in particular by weakened economic growth in China.

The announcement by the European Central Bank (ECB) at the beginning of the first quarter of 2015 of its intention to buy sovereign bonds, together with falling oil prices, resulted in significant share price gains. The election result in Greece caused only short-term price falls. Positive economic data from the eurozone, hopes of an agreement between the eurozone countries and the Greek government, and some easing of the situation in Ukraine led to share prices rising further in February. Buoyed up by positive signals from the US labor market, good economic data from Germany and the ECB’s bond purchases, the markets rose further at the beginning of March. Towards the end of the first quarter, share prices declined slightly as expectations of a more restrictive monetary policy from the US Federal Reserve, among other things, unsettled capital market participants.

In the second quarter of 2015, the deteriorating situation in Greece and concerns about its effect on the European economy were the main triggers for falling prices. Healthy corporate results and expectations that the ECB would continue its bond-buying program and the US Federal Reserve its loose monetary policy brought about a temporary recovery in April, propelling the DAX to a new all-time high of 12,375 points. The DAX moved sideways amid significant price swings as the second quarter progressed. Investors’ hopes of a more expansionary monetary policy by the Chinese central bank and healthy labor market data from the USA supported prices, while concerns over the situation in Greece led to uncertainty. Prices declined towards the end of the second quarter amid volatility brought about by increasing fears of sovereign insolvency in Greece and growing uncertainty about whether it would remain in the eurozone.

In the third quarter, the agreement on a further rescue package for Greece and the resulting prevention of sovereign insolvency shored up prices in an environment dominated by considerable price falls on the Chinese stock markets. As the third quarter progressed, uncertainty regarding the slower growth of the Chinese economy notably contributed to a decline in prices. Prices stabilized temporarily towards the end of the third quarter, based on hopes of a key interest rate cut by China’s central bank and positive macro data from Europe, before declining once again at the end of September because of concerns regarding the slight slowdown in global economic growth.

Following the price falls towards the end of the third quarter, hopes that the ECB would expand its bond-buying program and the Chinese central bank would lower key interest rates initially drove prices higher in the last quarter. In the last few trading weeks of 2015, however, stock prices gave up some of their gains as negative economic data from China and the decline in the oil price unsettled capital market participants. The US Federal Reserve’s interest rate hike towards the end of the fourth quarter met with a positive response on the European stock exchanges.

At the end of 2015, the DAX had reached 10,743 points, up 9.6% on the previous year’s figure. The EURO STOXX Automobiles & Parts closed the year at 542 points, 13.3% higher than on the last day of trading in 2014.
MOVEMENTS IN THE PRICE OF VOLKSWAGEN’S SHARES

On the whole, Volkswagen AG’s ordinary and preferred shares declined sharply in 2015, underperforming the overall market and the automotive sector.

In the first quarter, both classes of shares clearly outperformed the upward trend on the equity markets. The above-average increase at the beginning of 2015 was driven by several factors: firstly the strong results we presented when the Company’s annual financial statements for the fiscal year 2014 were published, but above all the positive conditions on the capital markets and the depreciation of the euro against other currencies, which is advantageous for export industries.

In the second quarter, Volkswagen shares gave up some of their gains made during the first three months. With stock markets in decline, discussions about the composition of the Board of Management and the Supervisory Board of Volkswagen AG, as well as increasing concerns about slower growth in demand for passenger cars due to China’s weaker economy influenced market participants. As the quarter progressed, both classes of shares were more volatile than the market as a whole, trailing market growth.

In the course of the third quarter, ordinary and preferred shares progressively continued their downward trend, thus lagging significantly behind the market trend. Investors focusing on the automotive industry were unsettled by weaker economic growth in China, among other factors. After the emergence of irregularities in the software used in certain diesel engines and the resulting public speculations concerning possible expected consequences, both classes of shares fell considerably in mid-September 2015.

After reaching the lowest closing price for the year at the beginning of the fourth quarter, Volkswagen shares recovered temporarily from their sharp declines. As a result of the news that, as part of the internal examination of all diesel engines, we also encountered evidence that irregularities in the determination of the CO₂ figures for vehicles’ type approvals in the EU28 countries could initially not be ruled out, the prices of both classes of shares trended lower again.

As the fourth quarter progressed, the information about technical solutions for our customers in the EU28 countries to rectify the irregularities in NOx emissions, and the clarification of the CO₂ issue led to a rise in the share price amid significant fluctuations. The prices of Volkswagen shares moved sideways towards the end of the fourth quarter.

FURTHER INFORMATION ON VOLKSWAGEN SHARES

www.volkswagenag.com/ir
Volkswagen AG’s preferred shares reached their highest daily closing price for the year of €255.20 on March 16, 2015. They recorded their lowest closing price for the year of €92.36 on October 2, 2015. The Company’s preferred shares closed the end of 2015 at €133.75, down 27.6% on the prior-year figure.

Volkswagen’s ordinary shares also reached their highest closing price of €247.55 on March 16, 2015. They recorded their lowest daily closing price for the year (€101.15) on October 2, 2015. The ordinary shares were trading at €142.30 on the last day of trading in 2015, down 21.0% on the price at the end of 2014.

Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website at www.volkswagenag.com/ir.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2015

Volkswagen AG’s subscribed capital amounted to €1,283,315,873.28 at the end of the reporting period. The shareholder structure of Volkswagen AG as of December 31, 2015 is shown in the chart on this page.

The distribution of voting rights for the 295,089,818 ordinary shares was as follows at the reporting date: Porsche Automobil Holding SE, Stuttgart, held 52.2% of the voting rights. The second-largest shareholder was the State of Lower Saxony, which held 20.0% of the voting rights. Qatar Holding LLC was the third-largest shareholder, with 17.0%. The remaining 10.8% of ordinary shares were attributable to other shareholders.

Notifications of changes in voting rights in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) are published on our website at www.volkswagenag.com/ir.

DIVIDEND POLICY

Our dividend policy matches our financial strategy. In the interests of all stakeholders, we aim for continuous dividend growth so that our shareholders can participate appropriately in our business success. The proposed dividend amount therefore reflects our financial management objectives – in particular, ensuring a solid financial foundation as part of the implementation of our strategy.

The Board of Management and Supervisory Board of Volkswagen AG are proposing a dividend of €0.11 per ordinary share and €0.17 per preferred share. On this basis, the total dividend for fiscal year 2015 amounts to €0.1 (2.3) billion. The distribution ratio is based on the Group’s earnings after tax attributable to Volkswagen AG shareholders and was negative for the reporting period. In the previous year the distribution ratio amounted to 21.2%. We aim to achieve a distribution ratio of 30% in the medium term.

DIVIDEND YIELD

Based on the dividend proposal for the reporting period, the dividend yield on Volkswagen ordinary shares is 0.1 (2.7)%, measured by the closing price on the last trading day in 2015. The dividend yield on preferred shares is 0.1 (2.6)%.

The current dividend proposal can be found in the chapter entitled “Volkswagen AG (condensed, according to the German Commercial Code)”, on page 127 of this annual report.

SUCCESSFUL HYBRID NOTE PLACEMENT AND MANDATORY CONVERTIBLE NOTE SETTLEMENT

In March 2015, the Volkswagen Group successfully placed dual-tranche hybrid notes with an aggregate principal amount of €2.5 million via Volkswagen International Finance N.V. Both tranches are perpetual and increase the Group’s equity by 100%, net of transaction costs.

In 2012 and 2013, we placed two mandatory convertible notes with identical features entitling holders to subscribe for Volkswagen preferred shares totaling €3.7 billion. Mandatory conversion took place for the holders of the notes on the final maturity date (November 9, 2015). A total of 25.6 million new preferred shares were created during the term.
EARNINGS PER SHARE
Basic earnings per ordinary share were €–3.20 (21.82) in fiscal year 2015. Basic earnings per preferred share were €–3.09 (21.88).
In accordance with IAS 33, the calculation is based on the weighted average number of ordinary and preferred shares outstanding in the reporting period.

The actual number of preferred shares created from the mandatory convertible notes had to be included in full in the calculation of earnings per share for fiscal year 2015.

The year-on-year comparison has to take into account that, in accordance with IAS 33.23, all potential shares that may be issued upon the conversion of mandatory convertible notes must be accounted for as issued shares and therefore had to be included in the calculation of basic and diluted earnings per share. In accordance with IAS 33.26, the number of potential preferred shares included in the previous year had to be replaced retrospectively with the actual number of shares created as a result of voluntary and mandatory conversion in the reporting period. In addition, the new preferred shares from the capital increase have been included in the calculation since their admission to the regulated market on June 12, 2014. Since the number of basic and diluted shares is identical, basic earnings per share correspond to diluted earnings per share.

See also note 11 to the Volkswagen consolidated financial statements for the calculation of earnings per share.

ANNUAL GENERAL MEETING
The 55th Annual General Meeting of Volkswagen AG was held at the Hanover Exhibition Center on May 5, 2015. With 91.93% of the voting capital present, the ordinary shareholders of Volkswagen AG formally approved the actions of the Board of Management and the Supervisory Board and the conclusion of an intercompany agreement. They also elected PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft as the auditors for the single-entity and consolidated financial statements for fiscal year 2015 and as the auditors to review the condensed consolidated financial statements and interim management report for the first six months of 2015.

Mr. Hussain Ali Al-Abdulla’s scheduled term of office on the Supervisory Board of Volkswagen AG expired at the end of the Annual General Meeting. The Annual General Meeting elected Mr. Al-Abdulla to the Supervisory Board for a further full term of office as a shareholder representative. Mr. Ahmad Al-Sayed, likewise a shareholder representative on the Supervisory Board of Volkswagen AG, stepped down from his post as of the end of the Annual General Meeting. The Annual General Meeting elected Mr. Akbar Al Baker, Minister of State and Group Chief Executive of Qatar Airways, to replace him for the remainder of his term of office. In addition, the ordinary shareholders authorized the Board of Management to issue a total of up to 70 million new non-voting preferred bearer shares within the next five years.

The Annual General Meeting also resolved to distribute a dividend of €4.80 per ordinary share and €4.86 per preferred share for fiscal year 2014.

INVESTOR RELATIONS ACTIVITIES
In fiscal year 2015, the Investor Relations team provided extensive information to investors and analysts in all key financial markets worldwide about the strategic focus, current business performance and future prospects of the Volkswagen Group.

At the beginning of the year, the Group CFO and the CFO of AUDI AG attended investor conferences in Detroit and Frankfurt, where they provided information about general market forecasts, product innovations, the strategy and the Group-wide efficiency program. At the Annual Media and Investor Conference held in Berlin on March 12, 2015, the Group’s Board of Management looked back on a successful fiscal year in 2014 and answered questions from media representatives, analysts and investors. At the International Motor Show (IAA) in Frankfurt am Main, the Group presented its models of the future; in addition, we informed investors about the Company’s strategy at an investor conference.

In the last quarter of the year, our investor relations work was dominated by the investigations and measures to clarify the diesel and CO₂ issue as well as the associated personnel changes on the Board of Management. This included a dialogue with members of the Group’s Board of Management and senior executives, who, after a press conference on the emissions issue, informed investors about the package of measures intended and the current status of the investigations, among other things.

VOLKSWAGEN SHARE DATA

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<th>Preferred shares</th>
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<td>Reuters</td>
<td>VOWG.DE</td>
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</table>

Primary market indices

- DAX, CDAX, EURO STOXX, EURO STOXX 50
- CDAX, Prime All Share, MSCI Euro, S&P Global 100 Index
- Shares, MSCI, Euro

Exchanges

- Berlin, Düsseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart, Xetra
- Luxembourg, New York*, SIX Swiss Exchange

* Traded in the form of “sponsored unlisted American Depositary Receipts” (ADRs). Five ADRs correspond to one underlying Volkswagen ordinary or preferred share.
### VOLKSWAGEN SHARE KEY FIGURES

#### DIVIDEND DEVELOPMENT

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<tr>
<td>Number of no-par value shares at Dec. 31</td>
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<td>Dividend</td>
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<td>per ordinary share</td>
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<td>€ 4.80</td>
<td>€ 4.00</td>
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<td>per preferred share</td>
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<td>€ 4.86</td>
<td>€ 4.06</td>
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<td>Dividend paid</td>
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<td>on ordinary shares</td>
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<td>2,294</td>
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<td>on preferred shares</td>
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<td>1,416</td>
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<td><strong>SHARE PRICE DEVELOPMENT</strong></td>
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<td>Ordinary shares</td>
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<td>Closing</td>
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<td>€ 196.90</td>
<td>€ 162.75</td>
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<td>Price performance</td>
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<td>+ 57.0</td>
<td>– 2.1</td>
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<td>Annual high</td>
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<td>Annual low</td>
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<td>Preferred shares</td>
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<td>Closing</td>
<td>€ 133.75</td>
<td>€ 184.65</td>
<td>€ 204.15</td>
<td>€ 172.15</td>
<td>€ 115.75</td>
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<td>Price performance</td>
<td>% – 27.6</td>
<td>– 9.6</td>
<td>+ 18.6</td>
<td>+ 48.7</td>
<td>– 4.7</td>
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<td>Annual high</td>
<td>€ 255.20</td>
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<td>Equity attributable to Volkswagen AG shareholders and hybrid capital investors at Dec. 31</td>
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<td>Ratio of market capitalization to equity factor</td>
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<td>0.96</td>
<td>1.06</td>
<td>1.00</td>
<td>0.87</td>
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#### KEY FIGURES PER SHARE

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<td>Earnings per ordinary share</td>
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<td>basic</td>
<td>– 3.20</td>
<td>21.82</td>
<td>18.61</td>
<td>46.41</td>
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<td>46.41</td>
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<td>Operating result</td>
<td>– 8.12</td>
<td>25.59</td>
<td>23.99</td>
<td>24.59</td>
<td>24.23</td>
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<tr>
<td>Cash flows from operating activities</td>
<td>€ 27.29</td>
<td>21.74</td>
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<td>15.42</td>
<td>18.27</td>
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<td>Equity</td>
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<td>Price/earnings ratio</td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>x</td>
<td>8.2</td>
<td>10.6</td>
<td>3.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Preferred shares</td>
<td>x</td>
<td>8.4</td>
<td>10.9</td>
<td>3.7</td>
<td>3.5</td>
</tr>
<tr>
<td>Price/cash flow ratio</td>
<td>factor</td>
<td>8.3</td>
<td>7.6</td>
<td>10.6</td>
<td>5.7</td>
</tr>
<tr>
<td>Dividend yield</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>% 0.1</td>
<td>2.7</td>
<td>2.0</td>
<td>2.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Preferred shares</td>
<td>% 0.1</td>
<td>2.6</td>
<td>2.0</td>
<td>2.1</td>
<td>2.6</td>
</tr>
</tbody>
</table>

#### STOCK EXCHANGE TURNOVER

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover of Volkswagen ordinary shares</td>
<td>€ billion</td>
<td>6.9</td>
<td>3.2</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>million shares</td>
<td>45.4</td>
<td>17.8</td>
<td>21.4</td>
<td>26.8</td>
</tr>
<tr>
<td>Turnover of Volkswagen preferred shares</td>
<td>€ billion</td>
<td>72.4</td>
<td>45.1</td>
<td>43.0</td>
<td>40.9</td>
</tr>
<tr>
<td></td>
<td>million shares</td>
<td>444.4</td>
<td>248.3</td>
<td>252.8</td>
<td>293.3</td>
</tr>
<tr>
<td>Volkswagen share of total DAX turnover</td>
<td>%</td>
<td>7.1</td>
<td>5.4</td>
<td>5.7</td>
<td>5.3</td>
</tr>
</tbody>
</table>

---

1 Figures for the years 2011 to 2014 relate to dividends paid in the following year. For 2015, the figures relate to the proposed dividend.
2 Xetra prices.
3 See page 123 for the calculation.
4 2012 figures adjusted in the 2013 annual financial statements to reflect application of IAS 19R.
5 See note 11 to the consolidated financial statements (Earnings per share) for the calculation. Prior-year figures adjusted in accordance with IAS 33.26.
6 Based on the weighted average number of ordinary and preferred shares outstanding (basic), prior year adjusted in accordance with IAS 33.26.
7 Based on the total number of ordinary and preferred shares on December 31 (excluding potential shares from the mandatory convertible note).
8 Ratio of year-end-closing price to earnings per share.
9 Using year-end-closing prices of the ordinary shares.
10 Dividend per share based on the year-end-closing price.
11 Order book turnover on the Xetra electronic trading platform (Deutsche Börse).
At roughly 850 one-on-one discussions, roadshows and conferences, we maintained close contact with capital market participants in 2015. Many of these discussions involved an exchange of ideas between investors and analysts and members of the Board of Management and Group senior executives. With offices in Wolfsburg, London and Beijing and the liaison office in Herndon (USA), the investor relations team’s work benefits from its presence in the most important regions for the capital markets. It allows us to keep close contact with analysts and investors locally, acquire in-depth knowledge of the respective markets and keep a finger on the pulse of operations of the Volkswagen Group.

At events held in the past year, the investor relations team also informed private shareholders about the current situation of the Group. It had its own stand at the Annual General Meeting in Hanover.

The Internet continues to enjoy high priority in our capital market communication. It is the first source of information for many of our investors and analysts as well as interested members of the public, offering ways of getting in touch with the Company, while we use it to provide them with the latest news, important facts and publications. The Annual Media and Investor Conference held in March, the Annual General Meeting in May and the conference calls of the Volkswagen Group on the quarterly results were again broadcast live on the Internet in 2015.

We also promptly published all presentations given in connection with events that were of interest to investors on our investor relations website.

**REFINANCING**

In the refinancing activities conducted in 2015, the Volkswagen Group continued to attach great importance to instrument and market diversification. The main currencies of its prime-rated and unsecured issues were euros, US dollars, sterling and Canadian dollars; the share of fixed-rate instruments was roughly twice as high as the share of variable-rate instruments.

The need for financing was reduced as a result of the generally positive development of net liquidity in fiscal year 2015. In addition to the operating business, the sale of the shares in Suzuki was a contributing factor.

Moreover, net liquidity was boosted in March 2015 by placing unsecured subordinated hybrid notes with an aggregate principal amount of €2.5 billion. The perpetual notes were issued in two tranches and can only be called by the issuer. The first call date for the first tranche with a volume of €1.1 billion is after seven years, and the first call date for the second tranche of €1.4 billion is after 15 years.

In the European region, a benchmark bond with a value of €3.0 billion was successfully issued for the Automotive Division. We also acted in this market for the Financial Services Division, issuing two benchmark bonds with a total value of €2.75 billion and raising another €7.7 billion through ABS (asset-backed securities) transactions. The financing mix was complemented by private placements, making use of available interest rate and currency opportunities.
The Volkswagen Group was also active again in the North American capital market and was able to exploit the favorable pricing situation to its advantage. A four-tranche issue with an aggregate volume of USD 2.8 billion was placed and another USD 3.8 billion was securitized in ABS transactions. In the Canadian refinancing market, we issued bonds with a value of CAD 900 million in an attractive market environment.

The Volkswagen Group placed other securities in the ABS segment in Australia, Brazil, China, the United Kingdom, Japan and Canada.

In all refinancing arrangements, interest rate and currency risk is generally excluded by entering into derivatives contracts at the same time.

The table below shows how our money and capital market programs were utilized as of December 31, 2015 and illustrates the financial flexibility of the Volkswagen Group:

<table>
<thead>
<tr>
<th>PROGRAM</th>
<th>Authorized volume € billion</th>
<th>Amount utilized on Dec. 31, 2015 € billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial paper</td>
<td>26.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Bonds</td>
<td>126.8</td>
<td>61.3</td>
</tr>
<tr>
<td>of which hybrid issues</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td>Asset-backed securities</td>
<td>53.1</td>
<td>29.4</td>
</tr>
</tbody>
</table>

The ability to access individual refinancing instruments in the money and capital market was limited due to the current uncertainties regarding the effects of the emissions issue on the Volkswagen Group.

In December 2015, a consortium of banks granted Volkswagen AG an additional syndicated credit line amounting to £20 billion with a maturity of one year. After exercising an extension option in the reporting period, the syndicated credit line of €5.0 billion agreed in July 2011 was extended to April 2020. The credit line remains unused.

Syndicated credit lines worth a total of €3.1 billion at other Group companies have also not been drawn down. In addition, Group companies had arranged bilateral, confirmed credit lines with national and international banks in various other countries for a total of €7.3 billion, of which €2.6 billion was drawn down.

OUR INVESTOR RELATIONS TEAM IS AVAILABLE FOR QUERIES AND COMMENTS AT ALL TIMES:

WOLFSBURG OFFICE (VOLKSWAGEN AG)
Phone +49 (0) 5361 9-0
Fax +49 (0) 5361 9-30411
E-mail investor.relations@volkswagen.de
Internet www.volkswagenag.com/ir

LONDON OFFICE
Phone +44 20 3705 2045

BEIJING OFFICE
Phone +86 106 531 4132

INVESTOR RELATIONS LIAISON OFFICE
(VOLKSWAGEN GROUP OF AMERICA, INC.)
Phone +1 703 364 7220
In March 2015, rating agency Moody’s Investors Service raised its short-term and long-term ratings for Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH by one notch each from P–2 to P–1 and from A3 to A2 respectively. The primary reasons for this were the solid operating performance in 2014 and the expectation that this can be improved on over the next 12 to 18 months due to the robust brand portfolio, the market position in Western Europe and China, and the continuing efforts to increase efficiency.

In June 2015, Moody’s Investors Service raised the long-term rating of both Volkswagen Financial Services AG and Volkswagen Bank GmbH by two notches each to Aa3. The reason for this was a change in the rating method.

As a result of the emissions issue, Moody’s Investors Service lowered its short-term and long-term ratings for Volkswagen AG in November 2015 by one notch each from P–1 to P–2 and from A2 to A3 respectively. The long-term ratings for Volkswagen Financial Services AG and Volkswagen Bank GmbH were downgraded from Aa3 to A1. The rating agency lowered the outlook for the companies from stable to negative.

In connection with the irregularities in the software used for certain diesel engines from the Volkswagen Group, in October 2015 Standard & Poor’s initially downgraded the short-term and long-term ratings for Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH by one notch each, to A–2 and A–2 respectively.

In a further step in December 2015, also as a result of the emissions issue, Standard & Poor’s downgraded the long-term ratings for Volkswagen AG and Volkswagen Financial Services AG from A–2 to BBB+. The outlook for Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH has been changed to negative.

**VOLKSWAGEN IN SUSTAINABILITY RANKINGS AND INDICES**

Analysts and investors view corporate social responsibility (CSR) and sustainability performance as leading indicators of forward-looking corporate governance and therefore increasingly also base their recommendations and decisions on companies’ CSR and sustainability profiles. Sustainability ratings are particularly well suited to evaluating a company’s environmental, social and economic performance. If a company achieves the highest scores in these ratings, this sends a clear signal to its stakeholders; it also raises its attractiveness as an employer and the motivation of its existing employees.

In sustainability rankings and indices – such as the Dow Jones Sustainability Indices, CDP Carbon Disclosure Project, Sustainalytics, or oekom research – where we held top positions before the emissions issue, Volkswagen’s ratings have been downgraded or removed.

In its annual review of its sustainability ranking, the Swiss rating agency RobecoSAM selected MAN for listing in the Dow Jones Sustainability Index (DJSI) World and the DJSI Europe in the “Machinery and Electrical Equipment” sector. MAN is the only German company to be represented in both indices for the fourth consecutive year.

<table>
<thead>
<tr>
<th>RATINGS</th>
<th>VOLKSWAGEN AG</th>
<th>VOLKSWAGEN FINANCIAL SERVICES AG</th>
<th>VOLKSWAGEN BANK GMBH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard &amp; Poor’s</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>A–2</td>
<td>A–1</td>
<td>A–2</td>
</tr>
<tr>
<td>Long-term</td>
<td>BBB+</td>
<td>A</td>
<td>A–2</td>
</tr>
<tr>
<td>Outlook</td>
<td>stable</td>
<td>positive</td>
<td>negative</td>
</tr>
<tr>
<td>Moody’s Investors Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term</td>
<td>A3</td>
<td>A3</td>
<td>A3</td>
</tr>
<tr>
<td>Outlook</td>
<td>negative</td>
<td>positive</td>
<td>positive</td>
</tr>
</tbody>
</table>
Results of Operations, Financial Position and Net Assets

The Volkswagen Group’s operating result was down considerably year-on-year in 2015 due to charges in connection with the emissions issue, and restructuring measures in the trucks business and in the passenger cars area in South America. Sales revenue increased.

The Volkswagen Group’s segment reporting in compliance with IFRS 8 comprises the four reportable segments Passenger Cars, Commercial Vehicles, Power Engineering and Financial Services, in line with the Group’s internal management and reporting.

At Volkswagen, segment profit or loss is measured on the basis of the operating result.

The reconciliation column contains activities and other operations that do not by definition constitute segments. These include the unallocated Group financing activities. Consolidation adjustments between the segments (including the holding company functions) are also contained in the reconciliation. Purchase price allocation for Porsche Holding Salzburg and Porsche, as well as for Scania and MAN, reflects their accounting treatment in the segments.

The Automotive Division comprises the Passenger Cars, Commercial Vehicles and Power Engineering segments, as well as the figures from the reconciliation. The Passenger Cars segment and the reconciliation are combined to form the Passenger Cars Business Area. We report on the Commercial Vehicles and Power Engineering segments under the Commercial Vehicles/Power Engineering Business Area. The Financial Services Division corresponds to the Financial Services segment.

Activities in the Passenger Cars segment cover the development of vehicles and engines, the production and sale of passenger cars, and the genuine parts business. This segment combines the Volkswagen Group’s individual passenger car brands on a consolidated basis. It also includes the Ducati brand’s motorcycle business.

The Commercial Vehicles segment primarily comprises the development, production and sale of light commercial vehicles, trucks and buses from the Volkswagen Commercial Vehicles, Scania and MAN brands, the corresponding genuine parts business and related services.

The Power Engineering segment combines the large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses.

The activities of the Financial Services segment comprise dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings.

### KEY FIGURES FOR 2015 BY SEGMENT

<table>
<thead>
<tr>
<th>€ million</th>
<th>Passenger Cars</th>
<th>Commercial Vehicles</th>
<th>Power Engineering</th>
<th>Financial Services</th>
<th>Total segments</th>
<th>Reconciliation</th>
<th>Volkswagen Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>174,703</td>
<td>30,445</td>
<td>3,775</td>
<td>29,357</td>
<td>238,279</td>
<td>–24,987</td>
<td>213,292</td>
</tr>
<tr>
<td>Segment profit or loss (operating result)</td>
<td>–4,874</td>
<td>586</td>
<td>123</td>
<td>2,236</td>
<td>–1,929</td>
<td>–2,139</td>
<td>–4,069</td>
</tr>
<tr>
<td>as a percentage of sales revenue</td>
<td>–2.8</td>
<td>1.9</td>
<td>3.2</td>
<td>7.6</td>
<td></td>
<td></td>
<td>–1.9</td>
</tr>
<tr>
<td>Capex, including capitalized development costs</td>
<td>15,085</td>
<td>2,426</td>
<td>198</td>
<td>476</td>
<td>18,185</td>
<td>50</td>
<td>18,234</td>
</tr>
</tbody>
</table>
SPECIAL ITEMS IN THE FISCAL YEAR
On September 18, 2015, US authorities publicly announced that irregularities had been discovered in the software used for certain Volkswagen Group diesel engines. In a statement issued on September 22, 2015, the Volkswagen Group announced that there are irregularities in around 11 million vehicles worldwide with type EA 189 diesel engines. In fiscal year 2015, this resulted in exceptional charges, in particular for the technical measures planned for the diesel engines affected, repurchases, customer-related measures and legal risks. The negative special items relating to the diesel issue amounted to €16.2 billion and were recognized in the operating result.

The operating result was also impacted by special items relating to restructuring expenses in the trucks business (€0.2 billion) and in the passenger cars area in South America (€0.2 billion). The restructuring measures serve to sustainably enhance competitiveness.

Additionally, the competent authorities directed all automobile manufacturers affected to replace potentially faulty airbags manufactured and supplied by Takata, resulting in a requirement to recognize provisions. The recall and replacement of the airbags is limited to the USA and Canada. 0.9 million Volkswagen Group vehicles are affected. The special items recognized in the operating result relating to these measures amount to €–0.3 billion.

Overall, negative special items recognized in the operating result therefore amounted to €16.9 billion in fiscal year 2015.

SALE OF SUZUKI SHARES
In August 2015, the arbitration ruling in the proceedings between Suzuki Motor Corporation and Volkswagen AG was delivered to the parties. Volkswagen subsequently sold its 19.9% equity investment in Suzuki to Suzuki on September 17, 2015 at the quoted market price of €3.1 billion. The sale of the shares generated income in the amount of €1.5 billion, which was recognized in the other financial result.

SETTLEMENT PAYMENT TO NONCONTROLLING INTEREST SHAREHOLDERS OF MAN SE
In the award proceedings regarding the appropriateness of the cash settlement to be paid to the noncontrolling interest shareholders of MAN SE, the Munich Regional Court ruled in the first instance at the end of July 2015 that the settlement payment to be made to the shareholders should be increased from €80.89 to €90.29 per share. Both Volkswagen and a number of noncontrolling interest shareholders have appealed to the Higher Regional Court in Munich. Remeasurement of the put options and compensation rights resulted in an expense of €0.4 billion, which was recognized in the other financial result.

INCOME STATEMENT BY DIVISION

<table>
<thead>
<tr>
<th></th>
<th>€ million</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>213,292</td>
<td>202,458</td>
<td>183,936</td>
<td>177,538</td>
<td>29,357</td>
<td>24,920</td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>33,911</td>
<td>36,524</td>
<td>28,382</td>
<td>31,226</td>
<td>5,528</td>
<td>5,297</td>
<td></td>
</tr>
<tr>
<td>Distribution expenses</td>
<td>–23,515</td>
<td>–20,292</td>
<td>–22,81</td>
<td>–19,199</td>
<td>–1,234</td>
<td>–1,093</td>
<td></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>–7,197</td>
<td>–6,841</td>
<td>–5,646</td>
<td>–5,427</td>
<td>–1,552</td>
<td>–1,414</td>
<td></td>
</tr>
<tr>
<td>Net other operating result</td>
<td>–7,267</td>
<td>3,306</td>
<td>–6,761</td>
<td>4,180</td>
<td>–506</td>
<td>–874</td>
<td></td>
</tr>
<tr>
<td>Operating result</td>
<td>–4,069</td>
<td>12,697</td>
<td>–6,305</td>
<td>10,780</td>
<td>2,236</td>
<td>1,917</td>
<td></td>
</tr>
<tr>
<td>Operating return on sales (%)</td>
<td>–1.9</td>
<td>6.3</td>
<td>–3.4</td>
<td>6.1</td>
<td>7.6</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td>Share of profits and losses of equity-accounted investments</td>
<td>4,387</td>
<td>3,988</td>
<td>4,366</td>
<td>3,956</td>
<td>21</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>Other financial result</td>
<td>–1,620</td>
<td>–1,891</td>
<td>–1,695</td>
<td>–1,907</td>
<td>75</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Financial result</td>
<td>2,767</td>
<td>2,097</td>
<td>2,671</td>
<td>2,049</td>
<td>97</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>Earnings before tax</td>
<td>–1,301</td>
<td>14,794</td>
<td>–3,634</td>
<td>12,829</td>
<td>2,333</td>
<td>1,965</td>
<td></td>
</tr>
<tr>
<td>Earnings after tax</td>
<td>–1,361</td>
<td>11,068</td>
<td>–3,107</td>
<td>9,732</td>
<td>1,747</td>
<td>1,336</td>
<td></td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>10</td>
<td>84</td>
<td>–10</td>
<td>43</td>
<td>19</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td>Earnings attributable to Volkswagen AG hybrid capital investors</td>
<td>212</td>
<td>138</td>
<td>212</td>
<td>138</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Earnings attributable to Volkswagen AG shareholders</td>
<td>–1,582</td>
<td>10,847</td>
<td>–3,310</td>
<td>9,551</td>
<td>1,728</td>
<td>1,295</td>
<td></td>
</tr>
</tbody>
</table>

* Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
RESULTS OF OPERATIONS

Results of operations of the Group
The Volkswagen Group generated sales revenue of €213.3 billion in fiscal year 2015, 5.4% higher than in the previous year. The increase was mainly attributable to improvements in the mix, positive exchange rate effects and the positive business development in the Financial Services Division. The Group generated 80.2 (80.6)% of its sales revenue outside Germany.

At €33.9 (36.5) billion, gross profit was below the level of the previous year. The cost of sales rose by 8.1%, primarily as a result of the charges in connection with the diesel issue. In addition, higher depreciation and amortization charges as a result of the high volume of capital expenditures and higher upfront expenditures – especially for new drive concepts – had a negative effect, while optimized product costs had a positive effect. The gross margin was 15.9 (18.0)%; excluding special items it was 19.9%.

Distribution expenses rose by 15.9% in the year under review due to the diesel issue and exchange rate changes; the ratio of distribution expenses to sales revenue also increased. Administrative expenses were up 5.2% on the previous year, although the ratio of administrative expenses to sales revenue remained unchanged. The other operating result declined by €10.6 billion to €–7.3 billion, mainly as a result of negative exchange rate effects, legal risks in connection with the emissions issue and restructuring measures in the trucks business and in the passenger cars business area in South America.

Excluding the special items, the Volkswagen Group’s operating result in fiscal year 2015 was on a level with the previous year, at €12.8 billion. Lower vehicle volumes, higher depreciation and amortization charges, and higher research and development expenditures were offset in part by optimized product costs, improvements in the mix and more favorable exchange rates. The operating return on sales before special items was 6.0 (6.3)%.

Negative special items totaled €16.9 billion. As a result, the operating result declined sharply to €–4.1 (12.7) billion; the operating return on sales decreased to −1.9 (6.3%).

The Volkswagen Group’s earnings before tax amounted to €–1.3 billion in fiscal year 2015, €16.1 billion lower than in the previous year. The return on sales before tax fell from 7.3% to −0.6%. The income tax expense amounted to €0.1 (3.7) billion. Earnings after tax were down €12.4 billion on the prior-year figure, at €–1.4 billion.

Results of operations in the Automotive Division
The Automotive Division’s sales revenue rose year-on-year to €183.9 (177.5) billion in the reporting period. The increase was primarily due to positive mix effects and the exchange rate trend, which was partly offset by a decline in vehicle unit sales. As our Chinese joint ventures are accounted for using the equity method, the Group’s business growth in the Chinese passenger car market is mainly reflected in consolidated sales revenue only by deliveries of vehicles and vehicle parts.
Cost of sales was negatively impacted by increased depreciation charges as a result of high capital expenditures, increased research and development expenditures – particularly for new drive concepts – and exchange rate effects. Other items recognized here comprised the charges for technical measures and repurchases in connection with the diesel issue. Improved product costs had a positive effect. The ratio of cost of sales to sales revenue rose year-on-year. At €28.4 (31.2) billion, gross profit in the Automotive Division was below the previous year.

Distribution expenses in the reporting period were 16.1% higher than in the previous year as a result of the emissions issue and exchange rate effects. The ratio of distribution expenses to sales revenue also increased. Administrative expenses rose by 4.0% due among other things to exchange rate effects, although the ratio of administrative expenses to sales revenue remained unchanged. The other operating result declined by €10.9 billion to €–6.8 billion. The change is largely attributable to negative exchange rate effects, the special items resulting from legal risks in connection with the diesel issue and the restructuring expenses in the trucks business and in the passenger cars business area in South America.

The Automotive Division generated an operating result of €–6.3 billion in fiscal year 2015, down €17.1 billion on the previous year due in particular to the special items. The operating return on sales fell to –3.4 (6.1)%.

RESULTS OF OPERATIONS IN THE PASSENGER CARS BUSINESS AREA

<table>
<thead>
<tr>
<th>€ million</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>149,716</td>
<td>143,601</td>
</tr>
<tr>
<td>Gross profit</td>
<td>23,023</td>
<td>26,153</td>
</tr>
<tr>
<td>Operating result</td>
<td>–7,013</td>
<td>9,835</td>
</tr>
<tr>
<td>Operating return on sales (%)</td>
<td>–4.7</td>
<td>6.8</td>
</tr>
</tbody>
</table>

The Passenger Cars Business Area recorded sales revenue of €149.7 billion in fiscal year 2015, up 4.3% on the 2014 figure. Gross profit declined to €23.0 (26.2) billion. The operating result fell by €16.8 billion to €–7.0 billion; the operating return on sales decreased to –4.7 (6.8)%.

RESULTS OF OPERATIONS IN THE COMMERCIAL VEHICLES/POWER ENGINEERING BUSINESS AREA

<table>
<thead>
<tr>
<th>€ million</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>34,220</td>
<td>33,937</td>
</tr>
<tr>
<td>Gross profit</td>
<td>5,359</td>
<td>5,074</td>
</tr>
<tr>
<td>Operating result</td>
<td>709</td>
<td>945</td>
</tr>
<tr>
<td>Operating return on sales (%)</td>
<td>2.1</td>
<td>2.8</td>
</tr>
</tbody>
</table>

The Commercial Vehicles/Power Engineering Business Area generated sales revenue of €34.2 (33.9) billion in fiscal year 2015, of which €3.8 (3.7) billion was attributable to the Power Engineering segment. Gross profit rose by 5.6% to €5.4 billion. The operating result decreased to €0.7 (0.9) billion, while the operating return on sales declined from 2.8% to 2.1%. The reasons for this decline were the difficult environment in Brazil and Russia, together with the related decrease in volumes, as well as the restructuring measures in the trucks business, which could not be offset by positive exchange rate effects and the expansion of the service business. At €123 (44) million, the operating result in the Power Engineering segment exceeded the prior-year figure.
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.
CASH FLOW STATEMENT BY DIVISION

<table>
<thead>
<tr>
<th></th>
<th>VOLKSWAGEN GROUP</th>
<th>AUTOMOTIVE</th>
<th>FINANCIAL SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>18,634</td>
<td>22,009</td>
<td>16,010</td>
</tr>
<tr>
<td>Earnings before tax</td>
<td>–1,301</td>
<td>14,794</td>
<td>–3,634</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>19,693</td>
<td>16,964</td>
<td>13,516</td>
</tr>
<tr>
<td>Change in pension provisions</td>
<td>309</td>
<td>148</td>
<td>295</td>
</tr>
<tr>
<td>Other noncash income/expense and reclassifications</td>
<td>817</td>
<td>–1,317</td>
<td>325</td>
</tr>
<tr>
<td>Gross cash flow</td>
<td>16,280</td>
<td>26,549</td>
<td>7,518</td>
</tr>
<tr>
<td>Change in working capital</td>
<td>–2,601</td>
<td>–15,764</td>
<td>16,278</td>
</tr>
<tr>
<td>Change in inventories</td>
<td>–3,149</td>
<td>–2,214</td>
<td>–2,706</td>
</tr>
<tr>
<td>Change in receivables</td>
<td>–1,807</td>
<td>–1,433</td>
<td>–1,001</td>
</tr>
<tr>
<td>Change in liabilities</td>
<td>2,807</td>
<td>4,764</td>
<td>2,641</td>
</tr>
<tr>
<td>Change in other provisions</td>
<td>18,019</td>
<td>413</td>
<td>17,989</td>
</tr>
<tr>
<td>Change in lease assets (excluding depreciation)</td>
<td>–10,808</td>
<td>–8,487</td>
<td>–765</td>
</tr>
<tr>
<td>Change in financial services receivables</td>
<td>–7,663</td>
<td>–8,807</td>
<td>120</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>13,679</td>
<td>10,784</td>
<td>23,796</td>
</tr>
<tr>
<td>Cash flows from investing activities attributable to operating activities</td>
<td>–15,523</td>
<td>–16,452</td>
<td>–14,909</td>
</tr>
<tr>
<td>of which: investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs</td>
<td>–13,213</td>
<td>–12,012</td>
<td>–12,738</td>
</tr>
<tr>
<td>capitalized development costs</td>
<td>–5,021</td>
<td>–4,601</td>
<td>–5,021</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>–1,945</td>
<td>–5,668</td>
<td>8,887</td>
</tr>
<tr>
<td>Change in investments in securities and loans</td>
<td>–5,628</td>
<td>–2,647</td>
<td>–3,506</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>–21,151</td>
<td>–19,099</td>
<td>–18,415</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>9,068</td>
<td>4,645</td>
<td>–6,333</td>
</tr>
<tr>
<td>of which: capital transactions with noncontrolling interests</td>
<td>–0</td>
<td>–6,535</td>
<td>–0</td>
</tr>
<tr>
<td>Capital contributions/capital redemptions</td>
<td>2,457</td>
<td>4,932</td>
<td>140</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>232</td>
<td>294</td>
<td>236</td>
</tr>
<tr>
<td>Net change in cash and cash equivalents</td>
<td>1,828</td>
<td>–3,375</td>
<td>–717</td>
</tr>
<tr>
<td>Cash and cash equivalents at Dec. 31</td>
<td>20,462</td>
<td>18,634</td>
<td>15,294</td>
</tr>
<tr>
<td>Securities, loans and time deposits</td>
<td>24,613</td>
<td>18,893</td>
<td>14,812</td>
</tr>
<tr>
<td>Gross liquidity</td>
<td>45,075</td>
<td>37,527</td>
<td>30,105</td>
</tr>
<tr>
<td>Total third-party borrowings</td>
<td>–145,604</td>
<td>–133,980</td>
<td>–5,583</td>
</tr>
<tr>
<td>Net liquidity</td>
<td>–100,530</td>
<td>–96,453</td>
<td>24,522</td>
</tr>
</tbody>
</table>

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.
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**

<table>
<thead>
<tr>
<th>€ million</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross cash flow</td>
<td>4,722</td>
<td>17,965</td>
</tr>
<tr>
<td>Change in working capital</td>
<td>15,469</td>
<td>2,682</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>20,191</td>
<td>20,647</td>
</tr>
<tr>
<td>Cash flows from investing activities attributable to operating activities</td>
<td>–12,434</td>
<td>–13,942</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>7,757</td>
<td>6,705</td>
</tr>
</tbody>
</table>

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**

<table>
<thead>
<tr>
<th>€ million</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross cash flow</td>
<td>2,795</td>
<td>2,201</td>
</tr>
<tr>
<td>Change in working capital</td>
<td>810</td>
<td>–1,255</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>3,605</td>
<td>946</td>
</tr>
<tr>
<td>Cash flows from investing activities attributable to operating activities</td>
<td>–2,475</td>
<td>–1,534</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>1,129</td>
<td>–588</td>
</tr>
</tbody>
</table>

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.
### CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31

<table>
<thead>
<tr>
<th>€ million</th>
<th>VOLKSWAGEN GROUP</th>
<th>AUTOMOTIVE¹</th>
<th>FINANCIAL SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>236,548</td>
<td>220,106</td>
<td>132,812</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>61,147</td>
<td>59,935</td>
<td>60,918</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>50,171</td>
<td>46,169</td>
<td>47,768</td>
</tr>
<tr>
<td>Lease assets</td>
<td>33,173</td>
<td>27,585</td>
<td>2,931</td>
</tr>
<tr>
<td>Financial services receivables</td>
<td>63,185</td>
<td>57,877</td>
<td>–</td>
</tr>
<tr>
<td>Investments, equity-accounted investments and other equity investments, other receivables and financial assets</td>
<td>28,873</td>
<td>28,541</td>
<td>21,195</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>145,387</td>
<td>131,102</td>
<td>74,019</td>
</tr>
<tr>
<td>Inventories</td>
<td>35,048</td>
<td>31,466</td>
<td>31,369</td>
</tr>
<tr>
<td>Financial services receivables</td>
<td>46,888</td>
<td>44,379</td>
<td>–164</td>
</tr>
<tr>
<td>Other receivables and financial assets</td>
<td>27,572</td>
<td>25,254</td>
<td>15,315</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>15,007</td>
<td>10,861</td>
<td>12,261</td>
</tr>
<tr>
<td>Cash, cash equivalents and time deposits</td>
<td>20,871</td>
<td>19,123</td>
<td>16,499</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>381,935</td>
<td>351,209</td>
<td>206,831</td>
</tr>
<tr>
<td><strong>Equity and liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>88,270</td>
<td>90,189</td>
<td>67,366</td>
</tr>
<tr>
<td>Equity attributable to Volkswagen AG shareholders</td>
<td>80,500</td>
<td>84,950</td>
<td>59,898</td>
</tr>
<tr>
<td>Equity attributable to Volkswagen AG hybrid capital investors</td>
<td>7,560</td>
<td>5,041</td>
<td>7,560</td>
</tr>
<tr>
<td>Equity attributable to Volkswagen AG shareholders and hybrid capital investors</td>
<td>88,060</td>
<td>89,991</td>
<td>67,458</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>210</td>
<td>198</td>
<td>–92</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td>145,175</td>
<td>130,314</td>
<td>73,568</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>73,292</td>
<td>68,416</td>
<td>9,557</td>
</tr>
<tr>
<td>Provisions for pensions</td>
<td>27,535</td>
<td>29,806</td>
<td>27,119</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>44,349</td>
<td>32,092</td>
<td>36,892</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>148,489</td>
<td>130,706</td>
<td>65,898</td>
</tr>
<tr>
<td>Put options and compensation rights granted to noncontrolling interest shareholders</td>
<td>3,933</td>
<td>3,703</td>
<td>3,933</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>72,313</td>
<td>65,564</td>
<td>–3,974</td>
</tr>
<tr>
<td>Trade payables</td>
<td>20,460</td>
<td>19,530</td>
<td>18,709</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>51,783</td>
<td>41,909</td>
<td>47,229</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>381,935</td>
<td>351,209</td>
<td>206,831</td>
</tr>
</tbody>
</table>

¹ Including allocation of consolidation adjustments between the Automotive and Financial Services divisions, primarily intragroup loans.
NET ASSETS

Consolidated balance sheet structure
At €381.9 billion, the Volkswagen Group’s total assets as of December 31, 2015 exceeded the prior-year figure by 8.7%, due among other things to the increased business volume of the Financial Services Division and to currency factors. The structure of the consolidated balance sheet as of the reporting date can be seen from the chart above on this page. The Volkswagen Group’s equity amounted to €88.3 (90.2) billion at the end of fiscal year 2015. The equity ratio decreased to 23.1 (25.7)%.

As of December 31, 2015, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €3.5 (3.1) billion, financial guarantees in the amount of €1.6 (1.4) billion and other financial obligations in the amount of €25.4 (27.3) billion. The latter primarily result from purchase commitments for property, plant and equipment, as well as obligations under long-term leasing and rental contracts and irrevocable credit commitments to customers. Furthermore, negotiations regarding the diesel issue are currently being conducted with the authorities in the USA concerning possible investments in environmental projects and e-mobility. The investments are expected to amount to approximately €1.8 billion. Their content and timing have yet to be defined.

Automotive Division balance sheet structure
The Automotive Division’s intangible assets and in particular its property, plant and equipment, which reflect the high volume of capital expenditures, were up on the year-end 2014 figures as of December 31, 2015. While equity-accounted investments rose mainly as a result of the acquisition of the shares in HERE, a technology provider for maps and location services, other equity investments declined due to the sale of the shares in Suzuki. Noncurrent assets rose by a total of 3.6%.

Overall, current assets increased by 7.0% year-on-year; within this item, inventories rose by 11.0% due to production-related and exchange rate factors. Marketable securities amounted to €12.3 (9.2) billion and cash and cash equivalents declined by €0.8 billion to €15.7 billion.

The Automotive Division’s equity amounted to €67.4 billion at the end of 2015, down 7.5% on the December 31, 2014 figure. It was positively affected by healthy earnings growth before special items, the hybrid notes issued in March and lower actuarial losses from the measurement of pension provisions. Charges resulting from the special items, amounts recognized in other comprehensive income due to the measurement of derivatives and the dividend payment to Volkswagen AG shareholders had an offsetting effect. The capital increases 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. Since 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 division’s equity ratio decreased to 32.6 (36.9)%.

Noncurrent liabilities increased year-on-year to €73.6 (66.4) billion. Within this item, other liabilities were higher due to negative effects from the measurement of derivatives, while other provisions rose as a result of the special items. In contrast, pension provisions decreased following the change in the discount rate.
Current liabilities totaled €65.9 billion, up 13.3% on the year-end 2014 figure. Other liabilities increased due to the measurement of derivatives, and other provisions rose as a result of the special items. Reclassifications from noncurrent to current liabilities, in particular due to shorter remaining maturities, led to an increase in current financial liabilities. 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 for the reporting period. 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. The item was adjusted to €3.9 (3.7) billion, mainly due to the increase in the cash settlement payment from the first instance of the award proceedings.

The Automotive Division’s total assets amounted to €206.8 billion as of December 31, 2015, up 4.8% on the year-end 2014 figure.

In the Commercial Vehicles/Power Engineering Business Area, both noncurrent and current assets were up year-on-year at the end of the reporting period. Total assets rose to €44.5 (43.1) billion.

At €12.8 billion, equity was down 9.5% on the previous year. Noncurrent liabilities increased by 2.5% and current liabilities by 14.6% compared with the 2014 reporting date.

Financial Services Division balance sheet structure
The Financial Services Division’s total assets amounted to €175.1 billion on December 31, 2015, 13.9% higher than at the 2014 year-end.

At €20.9 billion, the Financial Services Division’s equity as of December 31, 2015 exceeded the prior-year figure by 20.3%. In addition to earnings growth, equity was pushed up by capital increases implemented by Volkswagen AG to finance the growth in business and meet regulatory capital requirements. The equity ratio was 11.9 (11.3)%. Noncurrent liabilities rose by 12.1% and current liabilities increased by 13.8% as against year-end 2014. In both cases, this was attributable to the funding of volume growth and exchange rate effects. At €26.5 (25.3) billion, deposits from direct banking business were higher than in the previous year. The debt to equity ratio amounted to 7:1.
### Financial Key Performance Indicators

<table>
<thead>
<tr>
<th>%</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volkswagen Group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross margin</td>
<td>15.9</td>
<td>18.0</td>
<td>18.1</td>
<td>18.2</td>
<td>17.6</td>
</tr>
<tr>
<td>Personnel expense ratio</td>
<td>17.0</td>
<td>16.7</td>
<td>16.1</td>
<td>15.3</td>
<td>15.0</td>
</tr>
<tr>
<td>Return on sales before tax</td>
<td>–0.6</td>
<td>7.3</td>
<td>6.3</td>
<td>13.2</td>
<td>11.9</td>
</tr>
<tr>
<td>Return on sales after tax</td>
<td>–0.6</td>
<td>5.5</td>
<td>4.6</td>
<td>11.4</td>
<td>9.9</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>23.1</td>
<td>25.7</td>
<td>27.8</td>
<td>26.5</td>
<td>25.0</td>
</tr>
<tr>
<td>Dynamic gearing(^1) (years)</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

| **Automotive Division**\(^2\) | | | | | |
| 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.
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. The value added generated by the Volkswagen Group in the year under review was down 20.5% year-on-year in particular as a result of the negative special items in connection with the diesel issue. Added value per employee declined to €80.1 thousand (–22.9%) in 2015. Employees in the passive phase of their partial retirement are not included in the calculation.

VALUE ADDED GENERATED BY THE VOLKSWAGEN GROUP

<table>
<thead>
<tr>
<th>Source of funds in € million</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>213,292</td>
<td>202,458</td>
</tr>
<tr>
<td>Other income</td>
<td>20,092</td>
<td>14,192</td>
</tr>
<tr>
<td>Cost of materials</td>
<td>–143,700</td>
<td>–132,514</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>–19,693</td>
<td>–16,964</td>
</tr>
<tr>
<td>Other upfront expenditures</td>
<td>–28,578</td>
<td>–15,063</td>
</tr>
<tr>
<td>Value added</td>
<td>41,413</td>
<td>52,109</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Appropriation of funds in € million</th>
<th>2015</th>
<th>%</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>to shareholders (dividend, 2015 dividend proposal)</td>
<td>68</td>
<td>0.2</td>
<td>2,294</td>
<td>4.4</td>
</tr>
<tr>
<td>to employees (wages, salaries, benefits)</td>
<td>36,268</td>
<td>87.6</td>
<td>33,834</td>
<td>64.9</td>
</tr>
<tr>
<td>to the state (taxes, duties)</td>
<td>3,033</td>
<td>7.3</td>
<td>3,817</td>
<td>7.3</td>
</tr>
<tr>
<td>to creditors (interest expense)</td>
<td>3,472</td>
<td>8.4</td>
<td>3,389</td>
<td>6.5</td>
</tr>
<tr>
<td>to the Company (reserves)</td>
<td>–1,428</td>
<td>–3.4</td>
<td>8,774</td>
<td>16.8</td>
</tr>
<tr>
<td>Value added</td>
<td>41,413</td>
<td>100.0</td>
<td>52,109</td>
<td>100.0</td>
</tr>
</tbody>
</table>
### FIVE-YEAR REVIEW

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vehicle sales (units)</strong></td>
<td>10,010</td>
<td>10,217</td>
<td>9,728</td>
<td>9,345</td>
<td>8,361</td>
</tr>
<tr>
<td>Germany</td>
<td>1,279</td>
<td>1,247</td>
<td>1,187</td>
<td>1,207</td>
<td>1,211</td>
</tr>
<tr>
<td>Abroad</td>
<td>8,731</td>
<td>8,970</td>
<td>8,541</td>
<td>8,137</td>
<td>7,150</td>
</tr>
<tr>
<td><strong>Production (units)</strong></td>
<td>10,017</td>
<td>10,213</td>
<td>9,728</td>
<td>9,255</td>
<td>8,494</td>
</tr>
<tr>
<td>Germany</td>
<td>2,681</td>
<td>2,559</td>
<td>2,458</td>
<td>2,321</td>
<td>2,640</td>
</tr>
<tr>
<td>Abroad</td>
<td>7,336</td>
<td>7,653</td>
<td>7,270</td>
<td>6,934</td>
<td>5,854</td>
</tr>
<tr>
<td><strong>Employees (yearly average)</strong></td>
<td>604</td>
<td>583</td>
<td>563</td>
<td>533</td>
<td>454</td>
</tr>
<tr>
<td>Germany</td>
<td>276</td>
<td>265</td>
<td>255</td>
<td>237</td>
<td>196</td>
</tr>
<tr>
<td>Abroad</td>
<td>329</td>
<td>318</td>
<td>308</td>
<td>296</td>
<td>258</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Data (in € million)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>213,292</td>
<td>202,458</td>
<td>197,007</td>
<td>192,676</td>
<td>159,337</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>179,382</td>
<td>165,934</td>
<td>161,407</td>
<td>157,522</td>
<td>131,371</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>33,911</td>
<td>36,524</td>
<td>35,600</td>
<td>35,154</td>
<td>27,965</td>
</tr>
<tr>
<td>Distribution expenses</td>
<td>23,515</td>
<td>20,292</td>
<td>19,655</td>
<td>18,850</td>
<td>14,582</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>7,197</td>
<td>6,841</td>
<td>6,888</td>
<td>6,220</td>
<td>4,384</td>
</tr>
<tr>
<td>Net other operating income</td>
<td>−7,267</td>
<td>3,066</td>
<td>2,613</td>
<td>1,415</td>
<td>2,271</td>
</tr>
<tr>
<td><strong>Operating result</strong></td>
<td>−4,069</td>
<td>12,697</td>
<td>11,671</td>
<td>11,498</td>
<td>11,271</td>
</tr>
<tr>
<td>Financial result</td>
<td>2,767</td>
<td>2,097</td>
<td>757</td>
<td>13,989</td>
<td>7,655</td>
</tr>
<tr>
<td><strong>Earnings before tax</strong></td>
<td>−1,301</td>
<td>14,794</td>
<td>12,428</td>
<td>25,487</td>
<td>18,926</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>59</td>
<td>3,726</td>
<td>3,283</td>
<td>3,606</td>
<td>3,126</td>
</tr>
<tr>
<td><strong>Earnings after tax</strong></td>
<td>−1,361</td>
<td>11,068</td>
<td>9,145</td>
<td>21,881</td>
<td>15,799</td>
</tr>
<tr>
<td>Cost of materials</td>
<td>143,700</td>
<td>132,514</td>
<td>127,089</td>
<td>122,450</td>
<td>104,648</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>36,268</td>
<td>33,834</td>
<td>31,747</td>
<td>29,504</td>
<td>23,854</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Balance Sheet (at December 31)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncurrent assets</td>
<td>236,548</td>
<td>220,106</td>
<td>202,141</td>
<td>196,457</td>
<td>148,129</td>
</tr>
<tr>
<td>Current assets</td>
<td>145,387</td>
<td>131,102</td>
<td>122,192</td>
<td>113,061</td>
<td>105,640</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>381,935</td>
<td>351,209</td>
<td>324,333</td>
<td>309,518</td>
<td>253,769</td>
</tr>
<tr>
<td>Equity</td>
<td>88,270</td>
<td>90,189</td>
<td>90,037</td>
<td>81,995</td>
<td>63,354</td>
</tr>
<tr>
<td>of which: noncontrolling interests</td>
<td>210</td>
<td>198</td>
<td>2,304</td>
<td>4,313</td>
<td>5,815</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>145,175</td>
<td>130,314</td>
<td>115,672</td>
<td>121,996</td>
<td>89,179</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>148,489</td>
<td>130,706</td>
<td>118,625</td>
<td>105,526</td>
<td>101,237</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>381,935</td>
<td>351,209</td>
<td>324,333</td>
<td>309,518</td>
<td>253,769</td>
</tr>
</tbody>
</table>

| Cash flows from operating activities | 13,679 | 10,784 | 12,595 | 7,209 | 8,500 |
| Cash flows from investing activities attributable to operating activities | 15,523 | 16,452 | 14,936 | 16,840 | 16,002 |
| Cash flows from financing activities | 9,068  | 4,645  | 8,973  | 13,712 | 8,316 |
**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. We have been using the return on investment (ROI) and value contribution*, a key performance indicator linked to the cost of capital, for a number of years in order to use resources in the Automotive Division efficiently and to measure the success of this.

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 invested capital to give the opportunity cost of capital. Invested capital is calculated as total operating assets (property, plant and equipment, intangible assets, lease assets, inventories and receivables) less non-interest-bearing liabilities (trade payables and payments on account received).

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.

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 1.28 (1.38) was determined for 2015.

**COST OF CAPITAL AFTER TAX AUTOMOTIVE DIVISION**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free rate</td>
<td>1.2</td>
<td>1.7</td>
</tr>
<tr>
<td>MSCI World Index market risk premium</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Volkswagen-specific risk premium</td>
<td>1.8</td>
<td>2.5</td>
</tr>
<tr>
<td>(Volkswagen beta factor)</td>
<td>(1.28)</td>
<td>(1.38)</td>
</tr>
<tr>
<td>Cost of equity after tax</td>
<td>9.5</td>
<td>10.7</td>
</tr>
<tr>
<td>Cost of debt</td>
<td>2.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Tax</td>
<td>–0.6</td>
<td>–0.7</td>
</tr>
<tr>
<td>Cost of debt after tax</td>
<td>1.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Proportion of equity</td>
<td>66.7</td>
<td>66.7</td>
</tr>
<tr>
<td>Proportion of debt</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>Cost of capital after tax</td>
<td>6.8</td>
<td>7.7</td>
</tr>
</tbody>
</table>

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 6.8 (7.7)% for 2015.

* The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.
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 €–203 (11,734) million in fiscal year 2015. The year-on-year decrease was primarily due to negative special items as a result of the diesel issue. In addition, profit was negatively impacted by declining vehicle volumes, higher depreciation and amortization charges due to the high volume of capital expenditures, higher research and development costs, and market support measures linked to the emissions issue. Optimized product costs, improvements in the mix and more favorable exchange rates had an offsetting effect. 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 €84,289 (78,889) million, primarily due to increased investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex), and higher 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. It was down significantly year-on-year, mainly as a result of the negative special items in operating result, and at –0.2 (14.9)% did not meet our minimum required rate of return of 9%.

At €5,732 (6,074) million, the opportunity cost of capital (invested capital multiplied by cost of capital) was down on the prior-year level due to decreased cost of capital. Operating result after tax was negatively impacted by special items and led to a value contribution of €–5,935 (5,660) 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*

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating result after tax</td>
<td>–203</td>
<td>11,734</td>
</tr>
<tr>
<td>Invested capital (average)</td>
<td>84,289</td>
<td>78,889</td>
</tr>
<tr>
<td>Return on investment (ROI) in %</td>
<td>–0.2</td>
<td>14.9</td>
</tr>
<tr>
<td>Cost of capital in %</td>
<td>6.8</td>
<td>7.7</td>
</tr>
<tr>
<td>Cost of invested capital</td>
<td>5,732</td>
<td>6,074</td>
</tr>
<tr>
<td>Value contribution</td>
<td>–5,935</td>
<td>5,660</td>
</tr>
</tbody>
</table>

* 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 strained. Especially the irregularities in the software used in certain diesel engines posed major challenges for the Company. In addition, the increasingly difficult conditions in the Brazilian, Chinese and Russian vehicle markets led to a decline in deliveries to customers compared with the previous year. Contrary to our original forecast, deliveries of 9.9 million vehicles (−2.0%) failed to exceed the 2014 level. Group sales revenue increased year-on-year, as forecast, and was above the forecast range – due to exchange rate effects, among other factors. In particular, the provisions recognized in connection with the diesel issue weighed on the Group’s operating result and operating return on sales; both figures were down significantly on the previous year and the forecast ranges. Excluding special items, the Group’s operating result was on a level with 2014, at €12.8 billion. The operating return on sales before special items was in the expected range, at 6.0%.

Sales revenue of the business areas was also up on the respective prior-year figure. While special items resulted in the operating result and the operating return on sales of the Passenger Cars Business Area falling short of the forecast ranges, the Commercial Vehicles/Power Engineering Business Area confirmed the forecast, despite special items from restructuring measures. The Financial Services Division’s operating result exceeded the previous year’s figure.

Although at 6.9% the ratio of capex to sales revenue in the Automotive Division was higher than in 2014, it was within the expected range. The Automotive Division’s net cash flow exceeded the prior year’s figure because of the sale of the shares in Suzuki. In addition, the successful placement of dual-tranche hybrid notes strengthened our capital base. The Automotive Division’s net liquidity was €6.9 billion higher at the end of the reporting period than at the end of December 2014. The decline in the operating result attributable to special items led to a significant decrease in the Automotive Division’s return on investment (ROI), which fell short of the minimum required rate of return on invested capital.

Volkswagen does not tolerate any infringements of rules or laws. The trust of our customers and the public is, and will remain, our most important asset. We will do everything within our power to prevent incidents of these kinds from reoccurring and commit ourselves fully to winning back all of the trust. Through our technologies, vehicles and services, we will contribute to shaping the future of mobility with courage and conviction.

The following table shows an overview of the targets set for the reporting period and the figures actually achieved.

### Forecast versus Actual Figures

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliveries to customers</td>
<td>10.1 million</td>
<td>moderate increase</td>
<td>on the prior-year level</td>
<td>€9.9 million</td>
</tr>
<tr>
<td>Volkswagen Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>€202.5 billion</td>
<td>increase up to 4%</td>
<td>increase up to 4%</td>
<td>€213.3 billion</td>
</tr>
<tr>
<td>Operating return on sales</td>
<td>6.3%</td>
<td>5.5 – 6.5%</td>
<td></td>
<td>6.0%</td>
</tr>
<tr>
<td>Operating result</td>
<td>€12.7 billion</td>
<td>within the forecast range</td>
<td>within the forecast range</td>
<td>€12.8 billion</td>
</tr>
<tr>
<td>Passenger Cars Business Area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>€143.6 billion</td>
<td>increase up to 4%</td>
<td>increase up to 4%</td>
<td>€149.7 billion</td>
</tr>
<tr>
<td>Operating return on sales</td>
<td>6.8%</td>
<td>6 – 7%</td>
<td></td>
<td>– 4.7%</td>
</tr>
<tr>
<td>Operating result</td>
<td>€9.8 billion</td>
<td>within the forecast range</td>
<td>within the forecast range</td>
<td>€ 7.0 billion</td>
</tr>
<tr>
<td>Commercial Vehicles/Power Engineering Business Area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>€33.9 billion</td>
<td>increase up to 4%</td>
<td>increase up to 4%</td>
<td>€34.2 billion</td>
</tr>
<tr>
<td>Operating return on sales</td>
<td>2.8%</td>
<td>2 – 4%</td>
<td></td>
<td>2.1%</td>
</tr>
<tr>
<td>Operating result</td>
<td>€0.9 billion</td>
<td>within the forecast range</td>
<td>within the forecast range</td>
<td>€ 0.7 billion</td>
</tr>
<tr>
<td>Financial Services Division</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>€24.9 billion</td>
<td>increase up to 4%</td>
<td>increase up to 4%</td>
<td>€29.4 billion</td>
</tr>
<tr>
<td>Operating result</td>
<td>€1.9 billion</td>
<td>on the prior-year level</td>
<td>on the prior-year level</td>
<td>€2.2 billion</td>
</tr>
<tr>
<td>Capex/sales revenue in the Automotive Division</td>
<td>6.5%</td>
<td>6 – 7%</td>
<td>6 – 7%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Net cash flow in the Automotive Division</td>
<td>€6.1 billion</td>
<td>moderate decline</td>
<td>slight increase</td>
<td>€8.9 billion</td>
</tr>
<tr>
<td>Return on investment (ROI) in the Automotive Division</td>
<td>14.9%</td>
<td>9 – 14.9%</td>
<td>significant decline</td>
<td>– 0.2%</td>
</tr>
</tbody>
</table>
ANNUAL RESULT

Special items relating to the emissions issue, and in particular provisions for technical measures and legal risks, impacted cost of sales (€7.5 billion), selling expenses (€0.8 billion) and the other operating result (€6.7 billion).

In fiscal year 2015, Volkswagen AG’s sales were 6.6% higher than in the previous year, at €73.5 billion. Sales generated abroad accounted for a share of 62.1 (62.3)%. Cost of sales increased by 15.9% to €75.7 billion; as a result, gross profit on sales declined to €–2.2 (3.7) billion.

INCOME STATEMENT OF VOLKSWAGEN AG

<table>
<thead>
<tr>
<th>€ million</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>73,510</td>
<td>68,971</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>–75,693</td>
<td>–65,293</td>
</tr>
<tr>
<td>Gross profit on sales</td>
<td>–2,184</td>
<td>3,678</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>–9,364</td>
<td>–6,428</td>
</tr>
<tr>
<td>Other operating result</td>
<td>–7,084</td>
<td>870</td>
</tr>
<tr>
<td>Financial result*</td>
<td>13,813</td>
<td>6,108</td>
</tr>
<tr>
<td>Result from ordinary activities</td>
<td>–4,819</td>
<td>4,227</td>
</tr>
<tr>
<td>Taxes on income</td>
<td>–697</td>
<td>–1,751</td>
</tr>
<tr>
<td>Net loss/net income for the fiscal year</td>
<td>–5,515</td>
<td>2,476</td>
</tr>
<tr>
<td>Retained profits brought forward</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Release of/appropriation to revenue reserves</td>
<td>5,580</td>
<td>–180</td>
</tr>
<tr>
<td>Net retained profits</td>
<td>69</td>
<td>2,299</td>
</tr>
</tbody>
</table>

* Including write-downs of financial assets.

GENERAL AND ADMINISTRATIVE EXPENSES IN THE REPORTING PERIOD AMOUNTED TO €9.4 BILLION, UP €2.9 BILLION ON THE PREVIOUS YEAR.

At €–7.1 billion, the other operating result was down €8.0 billion year-on-year. The reasons for this include considerably higher provisions for legal and litigation risks.

The financial result increased to €13.8 (6.1) billion, more than doubling compared with 2014. The increase was primarily attributable to higher net investment income.

Volkswagen AG’s result from ordinary activities declined to €–4.8 (4.2) billion. After deducting income taxes, the net loss for the year was €–5.5 billion.

BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

<table>
<thead>
<tr>
<th>€ million</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td>94,919</td>
<td>87,103</td>
</tr>
<tr>
<td>Inventories</td>
<td>4,073</td>
<td>3,932</td>
</tr>
<tr>
<td>Receivables*</td>
<td>26,563</td>
<td>16,667</td>
</tr>
<tr>
<td>Cash-in-hand and bank balances</td>
<td>7,941</td>
<td>8,434</td>
</tr>
<tr>
<td>Total assets</td>
<td>133,496</td>
<td>116,135</td>
</tr>
<tr>
<td>Equity</td>
<td>24,368</td>
<td>28,483</td>
</tr>
<tr>
<td>Special tax-allowable reserves</td>
<td>26</td>
<td>33</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>26,973</td>
<td>20,883</td>
</tr>
<tr>
<td>Medium-term debt</td>
<td>32,003</td>
<td>28,642</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>50,126</td>
<td>38,094</td>
</tr>
</tbody>
</table>

* Including prepaid expenses.

* Including prepaid expenses.
NET ASSETS AND FINANCIAL POSITION
Total assets amounted to €133.5 billion at December 31, 2015, €17.4 billion up on the prior-year figure. At €2.7 (2.8) billion, investments in tangible and intangible assets were on a level with the previous year. Investments in financial assets declined by €9.2 billion to €9.1 (18.2) billion. Fixed assets accounted for a share of 71.1 (75.0)% of total assets.

Current assets (including prepaid expenses) increased by a total of €9.5 billion to €38.6 billion, driven among other factors by lending activities and a significant rise in investment income receivable from affiliated companies.

Equity amounted to €24.4 billion at the end of the reporting period; the €4.1 billion decrease year-on-year was primarily due to the impact on earnings of the emissions issue. The capital increase resulting from the settlement of the mandatory convertible notes had a positive effect. The equity ratio was 18.3 (24.5)%.

Other provisions increased by €15.9 billion year-on-year to a total of €28.6 billion. This is primarily attributable to higher warranty provisions and provisions for legal risks resulting from the diesel issue. Due to intragroup agreements, these provisions also cover risks that arise at other Volkswagen Group brands. Provisions for pensions and similar obligations rose by €1.2 billion to €14.3 billion, primarily due to changes in the discount rate, while provisions for taxes decreased by €0.7 billion to €4.6 billion. The €5.0 billion rise in total liabilities (including deferred income) to €61.5 billion is mainly attributable to higher liabilities to banks.

At €51.4 (48.2) billion, the interest-bearing portion of debt was up on the previous year.

In our assessment, the economic position of Volkswagen AG is as strained as that of the Volkswagen Group.

DIVIDEND PROPOSAL
Following the release of revenue reserves amounting to €5.6 billion, net retained profits amount to €69.2 million. The Board of Management and Supervisory Board are proposing to pay a total dividend of €67.5 million, i.e. €0.11 per ordinary share and €0.17 per preferred share.

PROPOSAL ON THE APPROPRIATION OF NET PROFIT

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend distribution on subscribed capital (€1,283 million)</td>
<td>67,514,805.63</td>
</tr>
<tr>
<td>of which on: ordinary shares</td>
<td>32,459,879.98</td>
</tr>
<tr>
<td>preferred shares</td>
<td>35,054,925.65</td>
</tr>
<tr>
<td>Balance (carried forward to new account)</td>
<td>1,693,492.67</td>
</tr>
<tr>
<td>Net retained profits</td>
<td>69,208,298.30</td>
</tr>
</tbody>
</table>

EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG

<table>
<thead>
<tr>
<th>€ million</th>
<th>2015</th>
<th>%</th>
<th>2014</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct pay including cash benefits</td>
<td>7,126</td>
<td>71.8</td>
<td>7,292</td>
<td>73.6</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>1,227</td>
<td>12.4</td>
<td>1,234</td>
<td>12.5</td>
</tr>
<tr>
<td>Compensated absence</td>
<td>1,108</td>
<td>11.2</td>
<td>1,022</td>
<td>10.3</td>
</tr>
<tr>
<td>Retirement benefits</td>
<td>461</td>
<td>4.6</td>
<td>359</td>
<td>3.6</td>
</tr>
<tr>
<td>Total expense</td>
<td>9,922</td>
<td>100.0</td>
<td>9,907</td>
<td>100.0</td>
</tr>
</tbody>
</table>
VEHICLE SALES
Volkswagen AG sold a total of 2,676,629 vehicles in fiscal year 2015, up 2.3% on the previous year. The proportion of vehicles sold outside Germany was 69.4 (69.3)%.

PRODUCTION
Volkswagen AG produced a total of 1,255,771 vehicles at its vehicle production plants in Wolfsburg, Hanover and Emden in the reporting period, up 2.0% year-on-year. Volkswagen AG’s average daily production was up on the previous year, at 5,279 units.

EMPLOYEES
As of December 31, 2015, a total of 114,066 people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. Of this figure, 5,055 were vocational trainees. 3,373 employees were in the passive phase of their partial retirement. The workforce grew by 1.3% as against the prior-year reporting date.

Female employees accounted for 16.6% of the workforce. Volkswagen AG employed 4,255 part-time workers (3.7%). The percentage of foreign employees was 6.0%. The proportion of employees in the production area who have completed vocational training relevant for Volkswagen was 83.3%. 18.4% of the employees were graduates. The average age of employees in fiscal year 2015 was 42.9 years.

RESEARCH AND DEVELOPMENT
Research and development costs for Volkswagen AG under the German Commercial Code amounted to €5.3 (4.9) billion in 2015. 12,342 people were employed in this area at the end of the reporting period.

PURCHASING VOLUME
The purchasing volume across the six Volkswagen AG sites in Germany totaled €28.0 (27.2) billion in fiscal year 2015; the proportion attributable to German suppliers was 65.9 (67.7)%.

Of the total purchasing volume, €22.6 billion was spent on production materials and €5.4 billion on capital goods and services.

EXPENDITURE ON ENVIRONMENTAL PROTECTION
Expenditure on environmental protection measures is split between investments and operating costs for production-related environmental protection. 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 investments that are independent of other investments relating to the production process. They can be upstream or downstream of the production process. In contrast to additive environmental protection measures, the environmental impact is already reduced during the product development phase in the case of integrated measures. In 2015 we invested primarily in water pollution control and air 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. Our focus in 2015 was on water pollution control, waste management and air pollution control.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>21</td>
<td>19</td>
<td>14</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Operating costs</td>
<td>244</td>
<td>226</td>
<td>224</td>
<td>216</td>
<td>200</td>
</tr>
</tbody>
</table>
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 170 to 187 of this annual report.

RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risks for Volkswagen AG arising from the use of financial instruments are generally the same as those to which the Volkswagen Group is exposed. An explanation of these risks can be found on pages 185 to 186 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.”
Sustainable Value Enhancement

Volkswagen does not tolerate any infringements of rules or laws. We will do everything in our power to earn our Stakeholders’ trust back. We strive for a comprehensive realignment. Our goal is to run our business responsibly along the entire value chain. Everyone should benefit from this – our customers, our employees, the environment and society.

The main financial key performance indicators for the Volkswagen Group are described in the “Results of Operations, Financial Position and Net Assets” chapter. Nonfinancial key performance indicators also attest to the effectiveness of our Company’s value drivers. These include our processes in the areas of research and development, procurement, production, marketing and sales, information technology and quality assurance. In all of these processes, we are aware of our responsibility towards our customers, our employees, the environment and society. In this chapter, we show how we increase the value of our Company in a sustainable way using examples.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY
The Volkswagen Group is committed to transparent and responsible corporate governance. Implementing this across all levels and every step of the value chain is a challenge: with twelve brands, 119 production locations and more than 610,000 employees, we are one of the world’s largest companies.

For the Volkswagen Group, sustainability means simultaneously striving for economic, social and environmental goals in a way that gives them equal priority. We want to create enduring value, provide good working conditions and handle the environment and resources with care. In conjunction with the emissions issue, Volkswagen has failed to meet its own standards in a number of respects. The irregularities in our handling of emissions figures are contrary to everything Volkswagen stands for. We deeply regret this and are aware that we disappointed our stakeholders. We are doing everything in our power to make sure that the same thing never happens again. We are working urgently to live up to our own standards again and restore our customers’ and society’s confidence. We are comprehensively revising our sustainability concept. This is aimed at ensuring that we recognize risks and development opportunities in the areas of environment, society and governance at an early stage at every step along the value chain. In this way, our corporate social responsibility (CSR) activities will contribute to permanently boosting our Company’s reputation and value again in the long term.

Management and coordination
The Volkswagen Group has created a clear management structure for coordinating sustainability and CSR. Its highest committee is the Group Board of Management (Sustainability Board). It is regularly informed by the Group CSR & Sustainability steering group on the issues of sustainability and corporate responsibility. The Group CSR & Sustainability steering group’s members include executives from central Board of Management business areas and representatives of the Group Works Council and of the brands and regions. Among other things, the steering group makes decisions on the strategic sustainability goals, monitors the extent to which they are being met using management indicators, identifies key action areas and approves the sustainability report.

The CSR & Sustainability office supports the steering group. Its duties include coordinating all sustainability activities within the Group and the brands, but also coordinating the stakeholder dialog at Group level, for example with sustainability-driven analysts and investors. CSR project teams work on topics across business areas, such as reporting, stakeholder management, or sustainability in supplier relationships. This coordination and working structure is also largely established across the brands and is constantly expanding. Since 2009, the CSR & Sustainability coordinators for all brands and regions have come together once a year to promote communication across the Group, establish consistent structures and learn from one another. This Group CSR meeting has proven itself an integral part of the Group-wide coordination structure. At the end of the reporting period, in light of the diesel issue we discussed the Group’s sustainability performance based on an analysis of strengths and weaknesses. The results are being looked at in-depth in the sustainability committees and are being incorporated in the Group’s comprehensive realignment.
CODE OF CONDUCT AND GUIDELINES

Our Code of Conduct, which is applicable throughout the Group, provides guidance for our employees in the event of legal and ethical challenges in their daily work. It embodies the Group values of customer focus, top performance, creating value, renewability, respect, responsibility and sustainability. All employees are equally responsible for adhering to these principles.

International conventions, regulations and internal rules are also key guidelines for our conduct. Through the “Declaration on Social Rights and Industrial Relationships at Volkswagen” (Volkswagen Social Charter), the Charter on Labor Relations, the Charter on Temporary Work and the Charter on Vocational Education and Training, we also profess our commitment to fundamental human rights, labor standards and principles.

Strategic stakeholder management

We cannot be successful in the long term without communicating with our stakeholders and knowing their expectations. As the complexity of the Volkswagen Group increases, so do the expectations of and our network of relationships with the various stakeholders. Our communication with stakeholders therefore covers many aspects, ranging from expectation management to innovation momentum, to identifying opportunities and risks. We are open to a constructive and equitable dialog where we learn from one another. Our goal is to agree on a common solution, but at the very least each to gain a mutual understanding of the other’s initial situation and position.

Our brands in particular hold intensive dialogs with their stakeholders. We pool this communication at Group level in order to be able to discuss Group-wide issues in detail. In this context, we are also involved in organizations that concentrate on issues related to sustainable development. On an international level, for example, we are represented in CSR Europe, a leading European business network. We are putting our involvement in some organizations on hold for the time being in light of the investigation and clarification of the diesel issue. This applies to our memberships of Biodiversity in Good Company e.V., the World Business Council for Sustainable Development (WBCSD) and the UN Global Compact, and our management board activities at econsense, the Forum for Sustainable Development of German Business.

The insights we gain from dialog with our stakeholders are indispensable signposts and indicators of our Company’s future viability. We publish information about the stakeholder dialogs in our annual sustainability report so that our communication with stakeholders is understandable and transparent. Stakeholder management is steered and coordinated by the Group CSR & Sus-
CSR Projects

The Volkswagen group initiates and manages a variety of CSR projects around the world, which are based on the following key principles:

- The projects are compatible with the Group’s principles while at the same time addressing a specific local or regional issue.
- They demonstrate the diversity in the Group and in the social environment in which they are implemented.
- They are the result of close stakeholder dialog with the local players involved in implementation.
- Project management is the responsibility of the local units working on the project.

The Volkswagen Group supports the arts and culture, education, science, health and sport in a large number of projects; other initiatives serve to develop regional structures and conserve nature. These projects make CSR a learning platform for all brands and in all of the Company’s regions. Examples include our cooperation with the German Red Cross (DRK) and our efforts to help refugees.

Humanity, public spirit and responsibility – these are the values on which the work of the German Red Cross is based, and we in the Volkswagen Group share these values. We are promoting sound, balanced social development, in Germany and at our other international locations. As part of a strategic partnership, the Volkswagen Group helps the German Red Cross to find even more people who are willing to volunteer their time. This goal is central to the partnership, in conjunction with strengthening the Red Cross’s rescue service.

Under the motto “Helping Together”, we are joining in the collective task of receiving and integrating the refugees who come to Europe and Germany. This is accomplished through a wide variety of projects, starting with immediate aid in the initial accommodation facilities to local integration and education projects, on to providing vehicles and non-monetary resources. A newly created Internet platform serves as a volunteer database and a source of information to support active volunteer helpers. This is because we are convinced that with their help, the Volkswagen Group, its brands, locations and employees can not only make a humanitarian contribution, but thereby also contribute to the cohesion of society.

Our long-standing cooperation and consultancy agreement with the German Nature and Biodiversity Conservation Union (NABU) expired on December 31, 2015. Extension of the contract and further collaboration are suspended for the time being as a result of the diesel issue. We would like to continue our strategic partnership with NABU and are working intensively on creating the conditions required for this.

"FUTURE TRACKS"

The automotive industry is facing the greatest upheavals in its history. Alternative drive systems, the digitization of the entire value chain and rapidly changing global customer expectations of mobility will shape the coming years. In response, the Volkswagen Group has launched the “Future Tracks” program: we are developing solutions for the fundamental upheavals and challenges at Board of Management and senior executive level. “Future Tracks” brings together all topics, activities and measures that we are deploying now and will be deploying in the coming years to prepare for the major issues of the future – across all brands and regions and throughout the entire Group.

From a technical viewpoint, our work focuses on drive technologies, digitization and the networking of products and production. Added to this are new requirements for individual mobility and mobility-related services. Our efforts aim to ensure that the Volkswagen Group takes a leading role in shaping and influencing the new world of mobility.

A solid commercial basis is essential to be able to tackle these challenges successfully. For this reason, “Future Tracks” has been introduced not only as a forward-looking program – it also focuses on efficiency. Our intention is to continue to grow profitably, ensuring that we are always in the position to invest in the future of the Volkswagen Group. We are thus creating the foundations to shape the automotive transition and to ensure long-term success.
RESEARCH & DEVELOPMENT

The Volkswagen Group’s research and development activities in fiscal year 2015 concentrated on expanding our product portfolio and improving the functionality, quality, safety and environmental compatibility of our products.

A central challenge for Volkswagen is to recognize new developments in society, politics, technology, the environment and the economy at an early stage. These form an important basis for innovations and thus our business success. The Volkswagen Group’s research constantly addresses the latest trends and has established research offices in the key global automotive markets – including in China, Japan and the United States. They monitor technological areas relevant to the automotive industry, conduct cooperative projects with research institutions and local companies, thereby gaining enlightening new insights for the Volkswagen Group.

Fuel and drivetrain strategy

The Volkswagen Group invested €11.9 billion in research and development in fiscal year 2015. The majority of this was spent on efficiency-increasing technologies. After reviewing the CO₂ issue, the vehicles’ emissions figures of only a very limited number of engine-transmission variants have to be adjusted in the course of normal processes. The Volkswagen Group’s new passenger car fleet in the EU (excluding Lamborghini and Bentley) emitted an average of 120.8 g CO₂/km* in the reporting period and thus complied with the 2015 European limit of 130 g CO₂/km. The Lamborghini and Bentley brands each have an independent fleet for the purposes of the European CO₂ legislation and complied with their individual targets. We currently offer a total of 608 model variants (engine-transmission combinations) that emit less than 130 g CO₂/km. For 489 model variants, we are already below the threshold of 120 g CO₂/km. 145 model variants in fact remain below 100 g CO₂/km. 87 model variants are already below the European fleet target of 95 g CO₂/km valid from 2021 (see chart on page 135).

The Volkswagen Group’s fuel and drivetrain strategy is paving the way for carbon-neutral and sustainable mobility. Our goal is to increase drive system efficiency with each new model generation—irrespective of whether they are powered by combustion engines, hybrids, plug-in hybrids, pure electric drives, or potential future fuel cell drive systems. All of our mobility concepts are tailored to our customers’ needs. This will expand the portfolio of different drive systems and will lead to a future situation where there is greater coexistence of traditional drive systems and e-mobility side by side. The current modular toolkits are designed so that the full range of drive systems can be deployed and flexibly mounted on product lines across our global locations. In addition, there will be a Modular Electrification Toolkit in future that will form the backbone of upcoming electric vehicles.

From today’s perspective, the combustion engine looks set to serve as the broad basis for drive technology in the coming years. In the interest of using resources responsibly, it is therefore crucial to further optimize combustion engines. Our new generations of petrol and diesel engines satisfy this requirement. When it comes to vehicles with conventional drive systems, we have significantly reduced average fuel consumption. We achieved this in particular with the aid of efficiency-increasing measures. These include the
use of our dual clutch, lightweight construction and the improvement of aerodynamics. Natural gas engines play a key role in the drivetrain portfolio. Due to the chemical composition of the fuel, the CO₂ emissions are around 25% below those of petrol. Our customers can, for instance, experience this for themselves with the Caddy TGI, which was introduced in 2015 as the successor to the Caddy EcoFuel. With almost the same performance compared to its predecessor, the smaller engine of the Caddy TGI clearly delivers significantly better acceleration and saves up to 1.7 kg of gas per 100 km due to its turbocharger. Natural gas is also an economic and clean drive system for heavy commercial vehicles. Liquefied natural gas (LNG) must replace compressed natural gas (CNG) for these engines to be used in long-distance trucks and buses, since this is the only way the required energy density and hence the desired range can be achieved. Better infrastructure is needed for natural gas to be widely usable as a fuel. For example, natural gas filling station networks have only been sufficiently developed in a few countries. With the new P280, Scania introduced its fourth generation of commercial vehicles fueled by bioethanol and thus strengthened its position as the commercial vehicle manufacturer with the widest range of vehicles with renewable fuels. The Euro-6 trucks and buses from MAN can also be fueled by biodiesel and bio natural gas in several drive system variants.

We are expanding our traditional range of engines through drivetrain electrification. The percentage of drivers traveling predominantly short distances is growing. These include commuters and city residents, but also delivery vehicles in urban areas. The population shift towards urban areas continues unabated, and by no means is this limited to just the burgeoning megacities of Asia and South America. Purely electric vehicles like the e-up! and e-Golf are emission-free and thus of particular interest to customers whose everyday driving covers short and medium distances. Opportunities to charge privately – e.g. using a charging station installed at a customer’s location – must be supplemented by a good public recharging infrastructure in the medium to long term.

However, most customers also want to take their vehicles on longer trips. Hybrid vehicles, in particular plug-in hybrids, combine highly efficient combustion engines with zero-emission electric motors. Where this combination of drive concepts is concerned, Volkswagen sees an opportunity to offer electrified models for all mobility needs to customers of a wide range of vehicle classes, to build trust in the new technologies, and thus to help e-mobility gain acceptance. We have been offering hybrid versions in a range of vehicle classes for several years. In 2015, we introduced further plug-in hybrid models with the Passat GTE and the Audi Q7 e-tron. The Volkswagen Group’s toolkit strategy realizes substantial synergies through using modules across model series and brands. The vehicle architecture is designed so that all drive system types can be integrated flexibly and economically. This applies in particular for models that are based on the same platform; for example, they can use a single plug-in hybrid system consisting of a highly-efficient turbo petrol engine, an electric motor, our compact six-speed dual clutch and a lithium-ion battery. We have integrated the production of electrified vehicles into the manufacturing processes at our existing plants, e.g. in Wolfsburg, Emden, Bratislava, Ingolstadt and Leipzig.

The battery is the heart of an electric vehicle and its energy content is the deciding factor in determining the vehicle’s range. Currently we use lithium-ion cells for all-electric and plug-in hybrid vehicles, which we assemble to battery systems in our Braun-
schweig factory. Battery types based on solid electrolytes, which have a higher energy density and also meet stricter safety standards, are currently being researched. The industrial application of this technology is currently being reviewed. The next generation of electric and plug-in hybrid vehicles will be fitted with improved lithium-ion technology. Electric motors are manufactured at our plant in Kassel. Electric vehicles based on the Modular Longitudinal Toolkit (MLB) will be produced locally in China from 2016. Electric vehicles based on the Modular Transverse Toolkit (MQB) will follow at a later date. For models based on the MQB in particular, localization of the core components including the high-voltage battery system is planned.

Hydrogen will still not be widely available as a fuel in the medium term. Both hydrogen filling stations and renewable hydrogen production plants will have to be constructed. Volkswagen has been working on fuel cell technologies for over 15 years and has gained extensive experience operating test fleets. The decision on whether to proceed to series production will depend on market requirements and infrastructure.

Thanks to our conventional and alternative technologies and the modular toolkit strategy, which allows innovations to be incorporated rapidly into different vehicles, we are optimally positioned to meet the challenges that the future will bring. We have expanded our expertise in electric traction with the help of additional technical specialists and experts.

Lifecycle engineering
Innovations and new technologies for reducing fuel consumption alone are not enough to minimize the effect of vehicles on the environment. This is because long before the wheels of a car turn for the first time, raw materials need to be extracted and materials and components manufactured.

This means that the assessment of new vehicles, components and materials begins before they are even produced; from the first idea and design sketches, through production and the subsequent usage phase, to recycling. We therefore consider a vehicle’s impact on the environment throughout the entire product lifecycle. To achieve this, we produce lifecycle analyses in accordance with ISO standards 14040 and 14044. By applying these we can determine where improvements have the greatest effect and develop innovations that target these points directly. We call this lifecycle engineering.

We regularly inform our customers, shareholders and other interested groups about the success stories of our environmentally responsible vehicle development and lifecycle assessments. The Volkswagen Passenger Cars brand publishes so-called environmental ratings showing the ecological advances in new vehicle models compared with their immediate predecessors; Audi publishes this information under the heading of “environmental footprint”.

As we want to minimize our vehicles’ impact on the environment together with our suppliers, Volkswagen joined the CDP supply chain program in 2015. We have also carried out workshops with some suppliers in order to find common innovative approaches to environmentally optimize certain components.

In cooperation with the Technische Universität Berlin, we further developed our methods for calculating the so-called water footprint in 2015. On the basis of the environmental footprint, we calculate and analyze the amount of water consumed by a vehicle during its entire lifecycle and are thus able to take specific measures to reduce water consumption.
Recycling

Recycling makes a key contribution to reducing our products’ impact on the environment and conserving resources. It is not just a matter of recycling vehicles at the end of their service life – on the contrary, even at the development stage for new vehicles, we pay attention to the recyclability of the required materials, the use of high-quality recycled material and the avoidance of pollutants. At the same time, we factor in aspects of the use phase, for instance the treatment and disposal of service fluids or high-wear components.

Volkswagen is also constantly working on developing and enhancing recycling methods, processes and technologies. With VW-SiCon process – which has won several awards – we have developed a process that allows end-of-life vehicles to be 85% recycled and 95% recovered. This complies with the regulatory requirements that have been in force in the EU since the beginning of the reporting period. We are developing modern technologies for recycling components from electric vehicles with our partners as part of the LithoRec (lithium-ion battery recycling) and ElmoRec (electric vehicle recycling – key components in power electronics) research projects.

Last but not least in this area, we have the Volkswagen Passenger Cars brand’s Genuine Exchange Parts program. Our industrial reconditioning produces high-quality exchange parts that conserve resources and offer the same quality, functionality and warranty but are on average 40% cheaper than the corresponding new parts.

Intelligent mobility

Mobility is one of the key conditions for economic growth and sustainable development. It is thus necessary to meet the growing need for mobility despite the ever-decreasing availability of resources. Mobility must be made more efficient and waste avoided. In order to address this challenge, the “number one for intelligent mobility” target area has been included in the Group environmental strategy (see 160), Volkswagen wants to set standards with integrated, intelligent mobility solutions and innovative transport systems. To this end, we are opening up new fields of business and developing novel business models.

Given the variety of needs and local conditions for mobility, one possible solution alone will not be enough. Volkswagen is therefore working on various approaches, from innovative vehicle concepts right through to research into innovative urban developments. However, the solutions can only be fully effective if they are networked together and employed at the right time and in the right place. They require the efficient interplay of people, infrastructure, technologies and means of transport.

Since 2013, Volkswagen has been working with 14 other companies from different sectors in six cities across the world on the Sustainable Mobility Project 2.0 launched by the WBCSD. In the third and final year of the project, proposed solutions were developed for those cities that want to implement them as part of their mobility plans.

In the reporting period, the UR:BAN (Urban Space: User-oriented assistance systems and network management) research initiative also presented the results of its work after four years of research. 31 partners from the automotive and supplier industry, the electronics and software sector, research institutions and cities – and including Volkswagen Group Research and the Audi and MAN brands – were involved. Within the fields of cognitive assistance, human factors in traffic and networked traffic systems, the project participants in joint research work have developed new driver assistance and traffic management systems for complex traffic situations in urban traffic.

Digitalization and networking

Networking of the vehicle to other vehicles, the environment, infrastructure and mobile devices is advancing and increases the safety, comfort and driving enjoyment for driver and passengers. Innovations from this area are finding their way into numerous of our Group brands’ models. With the latest generation of the Modular Infotainment Toolkit, content from digital devices can be managed and played on the radio or navigation system using the App-Connect function in a large number of Volkswagen models, such as the new Touran. The “Car-Net Cam Connect” feature is also available for the first time in the new Touran: Thanks to a networked camera, the driver can now keep an eye on children, pets or sensitive loads in the rear, because the camera image is transmitted to the monitor of the infotainment system. The new Audi A4 is connected to the Internet via Audi connect using the fast LTE wireless communication standard. Passengers can use their mobile devices via the Wi-Fi hotspot. In addition, all available Audi connect services and safety features such as emergency call and online roadside assistance call are available in the vehicle, as is the MMI connect app for remote functions. An Audi tablet for entertaining the vehicle’s occupants, sound systems with 3D sound from Bang & Olufsen and Bose and the Audi Phone Box, which wirelessly connects the mobile telephone to the car’s external aerial and charges it inductively, underscore the ingenuity.

In many new Audi models, the Audi virtual cockpit displays vividly sharp and highly detailed information on driving, navigation and assistance features, for example high-resolution maps in full screen mode including Google Earth’s satellite view. The Audi virtual cockpit also provides a newly developed MMI control concept with voice command and a free text search feature.

Along with the new infotainment features and display options, we are continuously enhancing the gesture control and voice command in the vehicles. Volkswagen’s newest infotainment systems already use a proximity sensor. If a hand approaches the display, it automatically switches over from a purely informative
Lightweight body shell production remains a strategic development focus. Volkswagen uses hot-formed, high-strength steels in series models. We are also pursuing a vehicle- and platform-specific composite material approach, i.e. the use of diverse materials in a body shell. Lightweight materials such as aluminum are also used in the development of new platforms.

Audi continues to intensively work on using lightweight construction to increase the dynamics of its models and at the same time decrease consumption. The Audi Q7 body is made largely of aluminum. Thanks to the Audi Space Frame construction, the vehicle body only weighs a little more than 200 kg. In addition, large components made of carbon fiber reinforced plastic (CFRP) are integrated in the body of the Audi R8 Coupé. In the RS models, various parts of the exterior and interior are made of CFRP.

In 2015 Porsche presented a vehicle concept based on a lightweight construction design with optimum weight distribution and low center of gravity: the Study Mission E. The body consists of a functional mixture of aluminum, steel and CFRP, for example the bonnet and wheels are made of carbon fiber.

We are also researching into economical lightweight construction technologies for series production as part of the Open Hybrid LabFactory public-private partnership in collaboration with the Lower Saxony Research Center for Vehicle Technology (NFF) at the Technical University of Braunschweig, the Fraunhofer Gesellschaft and various other industry partners.

Driver assistance systems and automated driving

In fiscal year 2015, we expanded the use of innovative driver assistance systems to additional vehicles. Following their first use in the new Passat in 2014, the Trailer Assist, the Emergency Assist and the Traffic Jam Assist, for example, are also available in the latest models of Touran, Tiguan, Audi A4 and Audi Q7. If the driver is not responding, the Emergency Assist makes an escalating sequence of attempts to wake the driver before bringing the car to an emergency stop. Trailer Assist makes maneuvering a vehicle with a trailer easier by using a rear view camera to analyze the hitch articulation angle and to calculate the steering angle from this. The Traffic Jam Assist uses Adaptive Cruise Control (ACC) automated distance control and Lane Assist in order to enable partially automated driving in traffic jams. At a speed of 0 to 65 km/h, the car follows the vehicle in front, controlling the acceleration and brakes within the limits of the system and independently keeps itself within the lane.

The gradual expansion of assistance systems paves the way for automated driving and increasingly takes the pressure off the driver. Volkswagen aims for the leadership position in this area of innovation. V-Charge, an EU research project in which we are working on new technologies together with five national and international partners, offers a glimpse of the near future of automated parking. The focus is on automating the search for a parking space and charging electric vehicles. The idea is that the vehicle does not just autonomously search for a free parking space, it also finds a free spot with charging infrastructure and charges its battery inductively. Once the charging process is completed, it releases the charging spot for another vehicle and looks for a
conventional parking space. Audi is researching this in a similar project in the Boston area in the USA. With the Trained Parking function, vehicles can in future be “trained” in the process for parking at their own home.

In 2014, Audi showed what the technology can already do in the field of fully automated driving: the Audi RS 7 piloted driving concept completed a lap of the Hockenheim Grand Prix track at racing speeds – without a driver. On the Sonoma Raceway in California – one of the most challenging racetracks in the world – the latest generation of the Audi RS 7 piloted driving concept exceeded the previous top performance yet again in the year under review, making faster lap times than the racing drivers. Further successes included a 550 mile piloted trip with an Audi A7 piloted driving concept on the highway from Stanford in Silicon Valley to Las Vegas, and a piloted drive through the heavy city traffic of Shanghai. Audi will offer piloted driving for the first time in the next generation of the Audi A8.

Driver assistance systems and automated driving functions are also on the increase in heavy commercial vehicles. MAN and Scania are already working on intelligent systems that go beyond cruise control and Lane Assist. As in the passenger cars area, Traffic Jam Assist will use automation to drive the truck through a traffic jam at a speed of up to 50 km/h, thus relieving the driver of monotonous tasks such as starting up the vehicle and braking.

A further variant of the automated and networked approach is driving in a convoy, also referred to as platooning. The first vehicle of the platoon chooses the lane and sets the pace; the following vehicles each drive in the slipstream of the vehicle in front and, thanks to the reduced wind resistance, can reduce their fuel consumption and correspondingly the CO₂ emissions. While platooning, all of the vehicles are connected to each other via a wireless LAN network and constantly exchange data such as GPS position, engine speed, speed, steering angle and the positions of the brake and accelerator pedals. If the driver in front accelerates, the other drivers do too. If the front vehicle brakes, the vehicles behind brake too. Platooning ensures a consistent flow of traffic for the commercial vehicles involved. Utilization of the road can be significantly improved by this. Scania is also further developing these technologies into driverless trucks for mining uses. Corresponding prototypes are already in use in closed off areas.

Emergency brake assist has been a mandatory equipment requirement for new registrations for most types of commercial vehicles since November 2015. Already during the reporting period, MAN introduced the newest generation of emergency brake assistance with sensor fusion – the interaction of radar sensor and front camera – and the emergency brake signal. The braking performance required by law for 2018 has thus already been exceeded. The respective MAN and Scania vehicles not only have emergency brake assistance, but also Lane Assist as standard.

Studies and concept vehicles pave the way to the future
At the Geneva Motor Show 2015 the Sport Coupé Concept GTE study was among the highlights of the Volkswagen Passenger Cars brand. With its breathtakingly dynamic silhouette, the four-door coupé offers a glimpse into the brand’s progressive new design language. Driven by a plug-in hybrid system consisting of a V6 TSI powertrain and two electric motors, the Sport Coupé Concept GTE achieves a top speed of 250 km/h.

The Audi prologue Avant study was also presented in Geneva: With a successful synthesis of dynamics, form and function, it reinterprets the brand’s Avant philosophy. The five-door vehicle is positioned in the luxury class with a pioneering body concept, characterized by an elongated roof, a very flat D-pillar as well as a broad and flat front end. The prologue Avant is also powered by an innovative plug-in hybrid drive.

The Audi e-tron quattro concept SUV show car – presented at the IAA 2015 – has three electric motors and, thanks to the latest battery technology, optimal integration of the battery and excellent aerodynamics, can cover more than 500 km on a single battery charge.

Porsche showed the future of the electric sports car in 2015 with the Mission E concept car. The four-door car with four-wheel drive features an emotional design and offers the familiar Porsche driving dynamics. The Mission E has a range of more than 500 km. Thanks to Porsche’s innovative Turbo Charging system with system voltage of 800 volts, recharging the battery barely takes longer than a typical refueling stop today: The car can cover approximately 80% of its full range after about 15 minutes at a high-speed charging station.

Bentley introduced the EXP 10 Speed 6 show car in the year under review. This high performance two-seat sports car with muscular bodywork and athletic style combines the luxury brand’s strengths: advanced technology, motorsport DNA and the finest handcrafting. With its hybrid drive system, the EXP 10 Speed 6 was able to set new standards in its class and contribute toward expanding the Bentley model range.

Leveraging synergies increases efficiency
Our Technical Development department worked intensively on leveraging further synergies between the brands in fiscal year 2015. The focus here was on the efficient use of resources in developing new technologies, with the goal of ensuring the Group’s long-term competitiveness. In development centers the brands work together on core technologies and form Group-wide expertise networks for addressing future topics. The goal is to stake out high-potential fields of technology and safeguard the long-term future of the Group this way. Moreover, the individual brands are increasingly making use of the modular toolkits; this makes synergies possible both between models of the same series and across model series. The
initiative to improve cross-brand cooperation in development processes was continued and stepped up in 2015 to achieve greater increases in efficiency in methodology and system development in the future. The brands benefit here from an intensified exchange of best practice approaches, e.g. in virtual development. Furthermore, IT costs are to be reduced through the joint development of IT tools.

We are jointly developing transmissions, axles, selected cab components and driver assistance systems for mid-size and heavy commercial vehicles from Scania and MAN. Volkswagen Truck & Bus GmbH manages new developments in cooperation with the brands. The joint components form the basis for brand-specific solutions. In the long-term, joint development is focusing on the overall powertrain as a truck’s most important cost driver.

Pooling strengths with strategic alliances

In the research and further development of the high-voltage battery systems for electric and plug-in hybrid drives, we work together with experienced battery manufacturers. We continued and intensified these cooperative projects in the reporting period. VW-VM Forschungsgesellschaft mbH & Co. KG made further progress with electric vehicle batteries in 2015.

Audi will develop the battery for an all-electric SUV on the basis of powerful cell modules from the Korean suppliers LG Chem and Samsung SDI. The partners want to invest in cell technology in Europe and will supply Audi from their European plants. The new technology will give drivers of the Audi SUV a range of more than 500 km.

In 2015, AUDI AG, BMW Group and Daimler AG acquired the HERE maps and location services business from Nokia Corporation. The move aims to make HERE’s products and services available for the long term in the form of an open, independent and value-creating platform for cloud-based maps and mobility services. HERE’s digital maps form the basis for the next generation of mobility and location services. These are the foundation for new assistance systems, all the way through to fully automated driving. Highly accurate digital maps are integrated with real-time vehicle data to increase road safety and enable innovative products and services.

Scheduled to conclude in 2016, we continued our cooperation with Daimler AG to produce the Crafter, in the year under review.

Integrating external R&D expertise

In addition to the Group’s own resources, external service providers are also important for our development process. In the years ahead, they will help us to systematically advance our model rollout and to successfully complete projects with the quality we expect but in less time. The use of development service providers is being increasingly coordinated between the Group brands in order to also achieve economies of scale here. We are also constantly expanding our cooperation with subsequent series suppliers in order to be able to tap into their expertise in the development phase of modules and components, including at international development sites.

Numerous patents filed

In fiscal year 2015, we filed 6,244 (6,198) patent applications worldwide for employee inventions, more than half of them in Germany. The growth in comparison with the previous year results in particular from the increased number of applications relating to driver assistance systems, conventional and alternative drive systems and lightweight construction, and once again pays testament to the Company’s high innovative strength.

Key R&D figures

The Automotive Division’s total research and development costs were up 3.8% year-on-year in the reporting period. Along with the new models, the main focus was on the electrification of our vehicle portfolio, a more efficient range of engines, lightweight construction, digitalization and the development of toolkits. The capitalization ratio rose to 36.9 (35.1)%. Research and development costs recognized in the income statement in accordance with IFRSs increased to €11.9 (11.5) billion. This meant that their ratio to sales revenue in the Automotive Division amounted to 6.4 (6.5)%.

As of the end of 2015, the Research and Development function – including the equity-accounted Chinese joint ventures – employed 48,731 people Group-wide (+6.5%), corresponding to 8.0% of the total headcount.
The Volkswagen Commercial Vehicles Group

The Customer is at the heart of all activities

Volkswagen reorganized its commercial vehicles business in 2015. The Volkswagen Commercial Vehicles group comprises the business with light as well as mid-sized and heavy commercial vehicles. The activities of MAN Truck & Bus, MAN Latin America – whose unit sales are essentially the responsibility of Volkswagen Caminhões e Ônibus – and Scania have been combined in Volkswagen Truck & Bus GmbH so as to cater to the specific interests and needs of commercial vehicle customers in the best possible manner.

The business with trucks, buses, and transporters differs fundamentally from the passenger car business. Commercial vehicles are capital goods: they are purchased in order to earn money with them. Customers are consequently very cost-conscious. A truck covers around two million kilometers in the course of its useful life. Therefore, it is not just the purchase cost that plays a key role in the decision to buy. The lower a vehicle’s fuel consumption and the more efficiently the service, maintenance and repairs are carried out, the greater the customer’s profit margin. For this reason, the total operating costs, i.e. the costs during the vehicle’s entire useful life, are the key metric for the investment decision.

Other key factors for the customer include the reliability and availability of a commercial vehicle; a truck or bus only earns money when it is on the road. Volkswagen’s commercial vehicles brands offer services especially geared to customer requirements in order to optimize the vehicles’ operating times. Examples of the strong focus on customers, who are businesses just like ourselves, include the lease of trucks and trailers, the provision of replacement vehicles, services geared to working times, service contracts specifically tailored to customer needs, and telematic services, but also training the drivers.

The global truck and bus markets are shaped by different customer needs. For this reason, there is no one “standard vehicle” for worldwide use. Trucks and buses need to be individually adapted to different customer specifications and regional conditions. For example, freight forwarders in India have different robustness and cross-country-mobility requirements for the vehicle than those operating their vehicle fleets in Europe. The challenge is nevertheless to design as many of the vehicle’s components as possible for use worldwide through smart design.

Tractor for semitrailer, gravel tipper, fire truck, furniture van, gritting vehicle, cement truck, delivery van, refrigerated truck, or tradesman’s van – the range of possible uses of commercial vehicles and thus their possible configurations are almost unlimited and many times greater than for passenger cars; however, the production volume is significantly lower. Close cooperation with the bodybuilders is therefore highly important when we need to realize the optimum vehicle solution for our customers.

The business with city buses, intercity buses, coaches and small buses is also highly complex. Modern city bus concepts – for example based on a hybrid or electric drive – will play a part today and in the future in saving the world’s ever increasing high-density urban areas from gridlock. Long-distance buses are already used in many regions of the world as a very environmentally friendly means of transport that is inexpensive for passengers. This market is also gaining significance in Europe.

The market for capital goods, which commercial vehicles are part of, is very cyclical. In an economic upturn, the need for transport and thus the demand rises sharply, whereas in economically difficult times demand falls just as sharply. The production fluctuations arising as a result require a high degree of flexibility from manufacturers.

Global demand for commercial vehicles is expected to rise in the next few years. At the same time, the requirements placed on commercial vehicle manufacturers keep increasing. Emissions laws, safety regulations, and tax and toll models require a high degree of innovation and lead to technically highly developed and complex products. Furthermore, commercial vehicle manufacturers are increasingly evolving from pure vehicle suppliers into providers of tailored logistics services.

The key performance parameters for manufacturers are the enhancement of alternative drive systems and fuels and customer-centric connectivity features. For example, Scania has already...
handed more than 160,000 networked trucks over to customers. Subject to the operator’s consent, the vehicles transmit information about their position and their operating status such as fuel consumption and driving behavior at short intervals. This information provides additional efficiency and safety for our customers and enables the manufacturers to expand their business model and thus achieve greater independence from economic cycles. We will tackle these challenges with individual solutions based on common platforms.

Increasingly strict emissions regulations, the customer’s desire to save fuel and the interest in alternative drive systems are becoming an increasing focus. For example, natural gas is used as an economical and clean drive system for city buses from MAN and Scania. To be able to use natural gas engines for long-distance trucks and buses, however, LNG (liquefied natural gas) is required instead of CNG (compressed natural gas) because this is the only way to achieve the necessary energy density and thus the desired range. Better infrastructure is needed for natural gas to be widely used as a fuel. For instance, fuel station networks have only been sufficiently developed in a few countries. Hybrid vehicles offer savings of up to 20% of the fuel in distribution transport. Considerable potential is also becoming apparent in long-distance transport, where savings of up to 8% are possible.

A fully electric drivetrain is currently not practical due to the still high weight of the battery and the associated decrease in the payload in long-distance transport; in distribution transport we are currently testing the e-Caddy in the light commercial vehicles segment – the e-load up! is already available. Trials are also being run for mid-sized trucks. Hybrid solutions make sense in city buses due to the stop-and-go traffic. MAN, for example, introduced the full hybrid bus Lion’s City Hybrid back in 2010. Both MAN and Scania are currently developing zero-emissions fully electric city buses.

The Volkswagen Group’s commercial vehicles brands are not only working on increasing efficiency and environmental compatibility, but are also intensively developing new driver assistance systems to improve safety. Existing systems such as the emergency braking system and the lane assist system are being continuously improved. Further opportunities for safe driving arise from connectivity, for example in the field of car-to-car communication.

Cross-brand management of the commercial vehicles business field is part of the organizational structure at Volkswagen Truck & Bus GmbH. A matrix structure guarantees that our strong brands continue to be able to act independently and optimally serve their respective customer groups. At the same time, it ensures that economies of scale and synergies are achieved through cooperation in purchasing, production and development.

The strategic objective is clear: Volkswagen Truck & Bus is aiming to become a Global Champion. For us, however, it is not the sales volume that has priority, but profitability, practical innovations and the expansion of our global presence. The customer is always at the heart of all activities.

In order to achieve these objectives, the brands will work together on new business models and massively advance digitalization in the commercial vehicles business. In addition, a platform strategy is planned for mid-sized and heavy commercial vehicles in the future. Common platforms for gearboxes, axles, selected cab components and driver assistance systems for trucks and buses are currently in development. In the long-term, the focus is on the overall powertrain as a truck’s most important cost driver. In view of the long product lifecycles, it will be ten to fifteen years before the potential arising from this is fully exploited. The common components will be the platform for creating brand-specific solutions, although the brands will remain easy to differentiate for the customer. By combining activities within Volkswagen Truck & Bus, we estimate long-term additional synergy potential of at least €650 million on average.

There will also be synergies within light commercial vehicles. From a technical perspective, these vehicles are more closely related to the passenger car and bring developments in connectivity and driver assistance systems to our customers who use their vehicle commercially.
In 2015 the focus of procurement was essentially on safeguarding the provision of our needs, safeguarding vehicle start-ups and opening up new procurement markets for the best possible implementation of the procurement strategy in a targeted way and implementing our “Volkswagen FAST” initiative.

**Procurement strategy**

We are working systematically to further optimize the Volkswagen procurement organization and build on our abilities and strengths together with our suppliers. Our objective is to have the most competitive and highest performing procurement organization. This is underpinned by the four strategic procurement targets derived from the Group strategy’s corporate goals and the global trends of our procurement markets: firstly, to actively shape technical and environmental innovation processes and thus to provide market-centric top quality and innovations at competitive conditions; secondly, to meet all cost targets in order to ensure the profitability of our products over their entire lifecycle; thirdly, to safeguard the global procurement volume through the permanent availability and consistently high quality of procured components and guarantee a stable and efficient movement of goods; fourthly, to further increase the attractiveness of the business area of procurement and the satisfaction of our employees by creating optimal working conditions.

Organizational structures were created in the brands to establish defined processes and new methods. There are specific work packages and contacts at all management levels. We regularly report and review the implementation status of the measures agreed. For example, we ensure that the changes initiated contribute to reaching and permanently establishing our goals.

**Volkswagen FAST – Future Automotive Supply Tracks**

FAST is the central initiative of Group procurement for developing the Volkswagen Group and its supply network in a future proof way within the framework of Future Tracks. The goal of FAST is to successfully implement the key topics of innovation and globalization through involving suppliers earlier and more intensively. We will work even more closely and quickly with our most important partners in the FAST initiative. In addition, some processes in the field of innovation and globalization that are available to all suppliers will be revised as part of the program. After the start of the program at the beginning of 2015, the suppliers who had an excellent record in their field of expertise were selected in a systematic and standardized qualification process. Global strategies and technological focuses are coordinated even more closely with these partners, with the common goal of making impressive technologies available to our customers even faster and implementing worldwide vehicle projects more effectively and efficiently.

We continuously review these strategic partnerships and change who is included among our FAST suppliers as required. For example, suppliers not previously selected continue to have the opportunity to qualify for the initiative.

**Procurement’s process optimization program**

Since the end of 2015, almost all the Group’s brands and companies have been working within procurement with uniform and fully digital processes. In 2014, we began including external partners in our digital networks. They can access our systems at any time to receive the necessary and updated information. The goal is to connect a global standardized digital network of all procurement’s work processes with suppliers within the next four to five years. In order to optimize and completely digitalize points of contact in the work with our suppliers, the “Supplier Interaction Management” program was created.

**Supply situation for procured components and raw materials**

Because component standardization within the Volkswagen Group is increasing, the importance of global safeguarding of procured component capacities increased further in 2015. Procurement’s demand capacity management was again able to successfully manage all critical incidents and supply bottlenecks, for example brought about by production problems, fires, or natural disasters, through close, digitally supported cooperation with the suppliers in the year under review. We are driving forward digital networking, which has already reached a high level, with the latest technologies.

As a consequence of the economic slowdown in China, the global economy lost some of its momentum in the reporting period. In 2015, the commodity markets showed high sensitivity to political uncertainties. This contributed to the prices for many raw and input materials, such as crude oil, steel and rare earths, moving sideways or downwards.

The reporting period was dominated by political tensions, particularly in Russia and Ukraine, and by the depreciation of the euro. As a consequence, we were only able to benefit to a limited extent from the downward movement of commodities traded in dollars. Thanks to the use of procurement strategies individually adjusted to the commodity markets, it was possible to minimize risks arising from volatile commodity prices.

**Digitalization of supply**

The Group Business Platform as the central interface between the Volkswagen Group and its partners forms the basis for the digital network of the future. Our external partners have the opportunity to...
access the business areas’ systems and process knowledge centrally via the Group Business Platform. Every supplier, at the same time as employees in procurement, has the same view of the current supply situation regarding its parts. This is the basis for the global coordinated work for safeguarding supply in a dynamic network. This network is thus able to react to every external influence in every part of the world at the same time.

**Procured component management and supplier management assure quality within the supply process**

Procured component management, as the technical area of procurement, employs tool and process experts who safeguard new vehicle start-ups and aggregate projects worldwide in terms of both prevention and response. In addition, the experts safeguard series production. In line with the Group-wide growth strategy, procured component management is focusing in particular on knowledge transfer at the start of global projects. Procured component management is globally networked. This means that synergy effects can be achieved in both production and process optimization at suppliers.

In the “Quality in Growth” program, procurement focuses on safeguarding start-ups and on managing the subcontractor structure.

The ever-growing requirements placed on suppliers to be ready for the start of production will lead to a stronger focus in particular on the suppliers’ industrialization processes as part of a continuous further development of the organization.

In order to safeguard our vehicle start-ups, further performance tests across all business areas are carried out at suppliers at various milestones of the product development process in addition to “two-days production”. As a result, risks for vehicle start-ups can be recognized even earlier in terms of production and quality and appropriate countermeasures can be initiated.

In some production plants, start-up experts are additionally employed to further strengthen the local project organization and implement projects even more efficiently.

**Developing new procurement markets**

Procurement is organized globally and with its presence in 39 locations across 23 countries ensures that the production facilities are sustainably supplied with production materials in the required quality and quantity at competitive conditions. Access to relevant and inexpensive procurement markets is thus also guaranteed against a background of increasing globalization.

Establishing local supply streams is a core element of our growth strategy. Low logistics costs, purchase prices in line with the market, import duties levied and independence from fluctuating exchange rates all strengthen competitiveness. At the same time, people in the regions benefit. We create skilled jobs and contribute to economic development by attracting supplier businesses to the area around our production locations.

In Pune in India, for example, 69 new supplier businesses were founded and thus around 13,500 direct and indirect jobs created. Thanks to the sustainable development of partners at the Kaluga site, the plant there can now draw on more than 60 local suppliers for the models produced.

In addition to established sources of supply, the number of qualified suppliers and also suppliers able to export in the growth regions is increasing. Experience working with local suppliers will be carried over into new projects via the regional procurement organization. What is more, specially focused and cross-business-area project teams work in the emerging and inexpensive procurement markets on gradually increasing the export share of qualified local suppliers. We are thus increasing the size of our global supplier base and exploiting the relevant cost advantages.

Thanks to these approaches, procurement is able to marshal a reliable supplier base for new locations quickly and efficiently.

**Sustainability in supplier relationships**

In 2015, we continuously worked on the “sustainability in supplier relationships” concept across all brands and regions. The focus here was on expanding our third-party audit program for suppliers. We audited a total of 26 suppliers in the reporting period with our external partners.

After a walk-through of the results, action plans were developed jointly with suppliers where necessary, implementation of and compliance with which has been checked. Environmental and working conditions could thus be improved with the suppliers concerned and risks minimized.

In addition, in the reporting period we trained both our own employees and our suppliers on the topic of “sustainability in supplier relationships”. Over 1,900 new employees received training and had their awareness of the issue raised in training sessions.

In addition, as of December 31, 2015, over 19,500 of our suppliers have completed an e-learning module on sustainability on our Group Business Platform. This program is supplemented by classroom training, which in 2015 also took place in some cases in cooperation with other automotive manufacturers in India and South Africa. Our business partners provide us with information on their sustainability status. In addition to the already established questionnaire on the Group Business Platform, which had been completed by over 18,000 of our suppliers as of December 31, 2015, we began to introduce a new, more comprehensive questionnaire in 2015. We make this questionnaire, which was developed jointly with other automotive manufacturers, available to our suppliers on an external online platform.
Our actions are guided by the “Volkswagen requirements for sustainability in relations with business partners (Code of Conduct for Business Partners)”. If we discover that individual suppliers may not be complying with these requirements, a Group office initiates improvement measures in dialog with the supplier in question. The aim is to implement these improvements as part of a dialog in the spirit of partnership. For example, the “sustainability in supplier relationships” concept helps us to create the necessary conditions for fulfilling our sustainability standards together with our business partners and to secure volume flows for the long term.

**Volkswagen Group purchasing volume**

Volkswagen Group procurement mainly purchases production materials, services and capex centrally. The volume procured in the reporting period amounted to €149.1 billion (+2.5%). These figures include the figures for the Chinese joint ventures. Suppliers in Germany accounted for a share of 36.2 (36.1)%.

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<th>VOLKSWAGEN GROUP PROCUREMENT VOLUME BY BRAND AND MARKET</th>
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<td>Asia-Pacific¹</td>
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¹ Includes the Chinese joint ventures.
² Audi includes Lamborghini and Ducati.
**PRODUCTION**

In fiscal year 2015, the Volkswagen Group’s global production volume passed the ten-million mark again. Productivity increased by 3.5% year-on-year despite the continuing difficult conditions in many markets. The rising unit sales figures in Germany and Western Europe and the systematic implementation of the Group production system compensated for the decreasing volumes in the South American and Russian markets.

*“Production 2018” strategy*

The vision of our “Production 2018” strategy is to build the world’s most powerful and most fascinating automotive production system. To make this a reality, we have defined four core objectives: in all Group brands and all regions, a systematic effort was made in fiscal year 2015 to excite our customers, lift the earnings contribution, structure production capacities in line with the market and make production more attractive to employees.

In order to achieve the objectives set, we defined a total of 13 challenges and continuously worked on these. The challenges represent the key action areas in Production, such as the implementation of the modular toolkit strategy and the expansion of the global production network, and are backed up with concrete actions. Responsibility for their implementation has been assigned to Board of Management and executive management sponsorships as well as project teams from all brands and regions. In order to identify a possible need for expansion or adaptation to meet these challenges at an early stage, key future trends and their impact were discussed. The results are incorporated into the strategy work.

**Production locations**

The Group’s latest location in China, the vehicle plant in Changsha, came on stream in May 2015. The Volkswagen Group’s global production network thus had 119 locations at the end of the reporting period, of which 69 were passenger car, commercial vehicle and motorcycle locations and 50 were powertrain and component locations.

With 71 locations, Europe remains our most important production region for vehicle and component production; 28 of these sites are located in Germany alone. The Asia-Pacific region is playing an increasingly important role, with 31 locations. The number of production sites in North America (four) and South America (nine) remained unchanged in the reporting period. The Group operates four locations in Africa.

In Europe, a new plant for the Volkswagen Commercial Vehicles brand in Wrzesnia, Poland, has been under construction since the end of 2014, in addition to the existing plant in Poznan. Production of the Crafter will begin there in the second half of 2016, with an annual capacity of 100,000 vehicles.

In order to secure and expand our market position in China, a new vehicle plant in Changsha with an annual capacity of 300,000 vehicles was inaugurated in May 2015. Furthermore, the capacity at the Chengdu location is being expanded by 150,000 vehicles by 2016. The new Ningbo II vehicle plant with a capacity of 150,000 vehicles per year will be opened at the end of 2017.

Moreover, in Mexico the Audi brand’s San José Chiapa plant, which will have a capacity of 150,000 vehicles per year, will start production in mid-2016. In the US market, the product range will be supplemented from the end of 2016 by the new midsize SUV produced in Volkswagen’s Chattanooga plant. In addition, the long wheelbase Tiguan is to be produced for the US market in the North America region from 2017.

We are also expanding the production network in the engine business area. The Győr and Zuffenhausen engine plants are currently being set up for the new V6 and V8 petrol engines for cross-brand use. Production will start in the first half of 2016.

Capacity utilization of the locations in the Volkswagen Group’s production network is further enhanced by supplying them with complete knock-down (CKD) kits for local assembly.

In 2015, a CKD facility was opened at the Curitiba plant in Brazil. The Volkswagen Golf and Audi A3 saloon models are manufactured there. The pressings and assembly modules are largely supplied from the Puebla and Győr locations.

A new licensed production facility was opened in Nigeria, West Africa, in July 2015. The assembly is operated by our partner, the Stallion Group. It produces models for the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brand. Volkswagen is thus increasing its involvement in sub-Saharan Africa.

We are continuously investigating the possibility of further production locations in new markets.
New start-ups and production milestones

In 2015, the Volkswagen Group implemented a total of 59 vehicle production starts in 27 locations across 14 countries; of these, 25 are new or successor product start-ups, while the other 34 start-ups were attributable to derivatives and product upgrades.

A significant event for the Volkswagen Passenger Cars brand was the start of production of the Touran replacement in Wolfsburg, which was launched in September. In April and May, there was a generation change for two models at once at Volkswagen Commercial Vehicles at the Hanover and Poznan locations with the start-up of the T6 and the new Caddy. Production of the new A4 family began at Audi in May, initially with the saloon in Ingolstadt. This was followed by the A4 Avant in August and the start of production of the saloon in Neckarsulm in October. Production of the ŠKODA brand’s new Superb began in Kvasiny in March and production of the Combi began in June. In November, Bentley launched the Bentayga, thus adding an SUV to its product range. The SEAT brand’s whole Ibiza family received a product upgrade, as did the Porsche 911.

In addition to the numerous new production start-ups, the range of models with alternative drive systems was expanded through the addition of the natural gas-driven Caddy and the plug-in hybrid versions of the Q7 and Passat. Furthermore, production of the current models’ replacement products was started at the assembly locations in Malaysia, India and Russia.

At the engine and transmission plants, there was a large number of start-ups of new and more efficient powertrains in 2015, which also contributed to the expansion of local production facilities. For example, a new engine plant was opened in Kaluga, Russia, in summer 2015. The plant, which has an annual capacity of 150,000 units, manufactures the 1.6 liter EA 211 engine, which has been adapted to the market, for local supply of the Russian vehicle plants in Kaluga and Nizhny Novgorod. Volkswagen is thus expanding its industrial presence in Russia and fulfilling legal requirements for local value added. In São Carlos, Brazil, production of three- and four-cylinder TSI engines in the EA 211 series was started at the engine plant at this site. In the medium to long term, they will replace the previous generation produced there. In addition, the new W12 petrol engine for use in the new Bentley Bentayga has been produced at the Crewe location in the United Kingdom since the end of 2015.

The Volkswagen Group celebrated some important production anniversaries in 2015. In South Africa, production of the one millionth Polo was celebrated at the beginning of the year. At the end of April, the Taubaté location in Brazil celebrated the one hundred thousandth up!. The five millionth vehicle on the Group-wide MQB platform rolled off the production line in October. The number of these vehicles has thus doubled within a year. At the same time, ŠKODA produced the brand’s 13 millionth vehicle worldwide since joining the Group and the Kassel location celebrated production of the one millionth DQ500 dual-clutch transmission. In addition, there was a milestone in November, as the two millionth Caddy rolled off the production line in Poznan.

A production anniversary was also celebrated in China in 2015. The number of vehicles produced in China (SVW and FAW-VW) exceeded the 25 million mark in November.
Flexibility in production

The modular toolkits allow us to design our production sites to be flexible. They generate synergy effects that enable us to reduce capital expenditure and make better use of existing capacities. With these toolkits we have created the conditions for using the production sites for several brands at the same time, and are implementing these systematically in terms of plant capacity utilization. For example, the ŠKODA Kvasiny location in the Czech Republic will also produce a vehicle for the SEAT brand starting in 2016. Of the 40 passenger car locations, 19 are now already multibrand locations.

Another concept for volume flexibility is the “turntable”. This is used, among other things, to compensate for fluctuations in demand or in segment shifts. One such “turntable” is formed by Volkswagen’s sites in Emden (Passat), Zwickau (Passat and Golf) and Wolfsburg (Golf).

As the complexity of products increases, a factory must work at optimal capacity so as to continue manufacturing high-quality products that give customers maximum benefits at competitive prices. This is all made possible by the standardization of production processes and operating equipment at an early stage. The basis for this is consistent construction and design principles that are defined in the form of product standards. “Concept consistency” ensures that common design principles, joining techniques and joining sequences, but also installation and connection concepts, are applied in the brands’ development and production areas. The principle of concept consistency is a fundamental component of the creation of efficient logistics and manufacturing processes.

The Group’s production system

To help us become the world’s most powerful and most fascinating automotive production platform, we optimize and standardize our production processes. The Group’s value-driven, synchronous production system provides us with the necessary methodologies and instruments for this. Our goal is to establish the Group production system throughout the world at all brand and regional locations so as to achieve sustainable and continuous improvement. We have already made substantial progress towards this. In the future, we will increase the attention we give to further strengthening the Group’s production system and increasing its presence. As a first step in this direction we are measuring the extent to which the methodologies and instruments are being implemented at the locations. The target/actual comparisons are used to identify fields of action. These are then defined in a project plan and worked through in a structured manner in the second step. As a synchronous company, we are including all business areas so as to systematically optimize processes.

We are creating and managing a global production and logistics network in the area of material and vehicle logistics, from the supplier to the assembly line and from the factory to the dealer and the customer. Logistics services are planned across all brands from a single source, managed and, when required, purchased via the “procurement of logistics services”. It is important to us to adhere to stable and uniform processes worldwide.

The Volkswagen Group’s automotive logistics are managed across all brands, locations and models. Enduring efficiency is a prerequisite for our competitiveness. We meet challenges of the Industry 4.0 with holistic optimizations, pioneering innovations, flexible supply streams and structures and an agile team.

Our brands, regions and plants are together designing the logistics of tomorrow in a digital automotive world and using new technologies. The massive rise in the availability of information is making processes from the supplier to the production plant to the customer more and more transparent. We use animated planning tools for designing factories and supply streams and have already implemented the tracking of loaded trucks by GPS. Our production plants work in an automated and digitalized manner with driverless transport systems in logistics.

In all this, the traditional logistics objective still applies: information, material and vehicles are to be in the right place at the right time in the right quality and quantity – at the optimum cost.

Environmentally efficient production

The Volkswagen Group has set itself the goal of reducing the levels of the five key environmental indicators of energy and water consumption, waste for disposal and CO₂ and VOC emissions in production by 25% for each vehicle produced – starting from 2010 levels – by 2018. This objective applies to all of the Group’s production locations, derived from our ecological requirements for production processes that are anchored in the Group’s environmental principles. As the charts on page 148 show, we have already made considerable progress towards reducing all these key indicators.

The Volkswagen Group’s brands contribute to achieving these goals with their own frameworks that reflect the specific features of their corporate culture and their brand image. Volkswagen Passenger Cars and Volkswagen Commercial Vehicles have established “Think Blue.Factory”, Audi has its “ultra strategy”, ŠKODA calls its program “Green Factory”, SEAT calls its program “ECOMOTIVE Factory” and Bentley’s program is called “Environmental Factory”. Porsche has introduced “resource-efficient production”. Scania and MAN are giving their commitment to the environment the names “Blue Rating” and “climate strategy”, respectively.

We are encouraging close integration and communication between the brands worldwide in order to create synergies. Our environmental experts meet regularly in working groups; in addition, they train our employees on the topic of environmental
We record and catalog environmental measures in an IT system and make these available for a Group-wide exchange of best practice. In the reporting period, more than 1,900 implemented measures in the area of environment and energy were documented in this system. They serve to improve passenger car and light commercial vehicle production processes. These activities are worthwhile not just from an environmental perspective: they also lead to annual savings of around €65.9 million.

The following examples from the year under review show the extent to which the measures contribute to improvement of the production processes and achievement of the target values for the five key environmental indicators:

- **One important lever for reducing energy consumption is on-demand operation of all plants.** At our Hanover plant, by switching from two paint dryers to one load-dependent operation we reduced energy requirements by around 8,000 MWh per year; this is equivalent to annual savings of around €200,000 and 1,700 tonnes of CO₂.

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1. Production of passenger cars and light commercial vehicles. Prior-year figures adjusted.
3. Volatile organic compounds (VOCs).
We use recycling facilities at some of the Group’s locations. These process biologically precleaned waste water for reuse through the membrane process in order to reduce the consumption of fresh water. We brought a recycling facility on stream at the Salzgitter location in 2015. This facility processes half the plant’s waste water into recycled water and uses it to feed the central cooling tower. As a result of this measure, we save around 75,000 m³ of freshwater there annually; this is equivalent to around a quarter of the location’s needs.

Modernizing part of the smelter at the Hanover location enables us to save around €3 million off our annual energy and material costs and reduce CO₂ emissions by around 7,000 tonnes per year. Reduced oxide formation will additionally cut our use of materials by 70% and, as a result, also the amount of waste to recycle.

A new application technology that enables material savings is being used in the paintshop at the Spanish location of Martorell. We can thus reduce solvent emissions by 80 g per vehicle and make cost savings of €951,000 per year.

We are also reducing our CO₂ emissions through energy recovery, among other things. In 2015, MAN set up a heat recovery system at the ship engine test facility at its site in Frederikshavn, Denmark. In the reporting period, we recovered over 3,160 MWh of thermal energy, which we supplied to the municipal district heating system. This lowers the CO₂ emissions by 835 tonnes.

The natural gas-driven combined heat and power plant that came on stream in Zwickau in 2014 also makes a contribution to reducing our greenhouse gas emissions. In 2015, it generated 36% of the energy requirements at the site. By generating our own energy, we reduced our CO₂ emissions by around 19,100 tonnes and achieved savings of roughly €8.9 million.

In Pinetown, South Africa, we have installed a photovoltaic system covering 6,300 m² and thus created the MAN brand’s first climate-neutral location and South Africa’s first carbon-neutral production site. With over 300 days of sun a year we are able to generate 810 MWh and thus not only completely supply the location, but also feed the surplus power into the public electricity grid.

**Green logistics**

Logistics contributes to the Volkswagen Group’s ecological orientation. For example, we analyze the entire transport chain in respect of CO₂ emissions. The objective is to avoid transports or to shift to more environmentally friendly modes of transport and to reduce fuel consumption. We are working on measures and areas of action for optimizing the logistics processes across the brands.

In a system known as logistics process partner management, we are improving the pickup processes together with freight forwarders and suppliers in terms of cooperation, efficiency and capacity utilization in the transport network.

An important starting point for reducing CO₂ emissions is the selection of the mode of transport. One of the most efficient options here is maritime transport. The Volkswagen Group is therefore involved in the Clean Shipping Network (CSN), an association of marine cargo owners, and is represented on its management board. With the aid of the Clean Shipping Index rating tool, members of CSN can compare environmental efficiency figures, for example the emissions of individual ships on particular routes. This allows the environmental footprint of maritime transport to be analyzed and reduced.

The successful use of alternative drive technologies is of decisive importance in environmental and economic terms. E-mobility, gas and hybrid drives, fuel cells or other novel fuels offer interesting problem-solving approaches that we are examining for future use. In maritime transport, for example, the use of liquefied natural gas (LNG) is being examined because neither airborne particles nor sulfur oxide (SOx) are emitted. In addition, nitrogen oxide and CO₂ emissions are reduced.

The continuous increase in efficiency in container management also contributes to reducing emissions. Volkswagen has one of Europe’s largest pools of load boards in Europe – for example for pallets or containers. The Group’s container management continuously works on improving the packing density, weight and folded volume of new load boards and on optimizing the transport routes for empty container shipping. In the design and manufacture of new load boards, we endeavor to use recyclable materials. As a result, plastic small load boards turn completely into recyclates that can be reused in new small load boards.

Last but not least, noise pollution is also taken into account when analyzing logistics processes. In 2015, among other things, the rail wagons from TOUAX were incorporated into the Volkswagen rail network. The use of modern technology – especially the composite brake pads – allows noise when braking to be reduced by more than 75%.

**SALES AND MARKETING**

The Volkswagen Group’s unique product portfolio comprises twelve successful brands, including innovative financial services.

**Brand diversity in the Volkswagen Group**

At the Volkswagen Passenger Car brand, what the customer wishes is always the focus of what we do when it comes to developments and decisions. This way we ensure that the automotive innovations and solutions that we offer meet the needs of the customers, and are at the same time affordable. This is our competitive advantage: based on this, the Volkswagen Passenger Cars brand aims to become the most innovative volume manufacturer with the best quality in each class in the medium to long term. Against the backdrop of the emissions issue, our goal of acting responsibly and at the same time
offering innovative automobiles with intrinsic value has assumed even greater significance. We at Volkswagen are therefore doing everything in our power to restore confidence and to continue to convince our customers of German engineering and the reliability of the brand.

“Vorsprung durch Technik” is not just a slogan for Audi; it is an active brand promise that is delivered throughout the world, making Audi one of the most highly desired brands in the premium segment. Its objective is to become the most successful brand in this segment. To achieve this, Audi relies heavily on its progressive image, high-value products and sporty character. Audi’s innovative engineering solutions and emotional design language have won it numerous honors and awards.

Intelligent concepts and a good value proposition have made ŠKODA a very successful brand in Europe and China. The “Simply Clever” slogan combines forward-looking functionality with an impressive space concept that is technically simple but offers sophisticated and practical features.

Design, passion, quality and ongoing evolution – these are the distinctive characteristics of the youthful, dynamic Spanish SEAT brand that is aiming for stronger growth, particularly in Europe. SEAT’s goal of combining technological precision and superb engineering with emotional design is expressed in its “TECHNOLOGY TO ENJOY” slogan.

Sports car manufacturer Porsche’s brand values are a combination of opposites: exclusivity and acceptance, tradition and innovation, performance and suitability for everyday use, design and functionality. Porsche’s philosophy is “to achieve maximum output from minimum input”. From the very beginning, Porsche has focused on finding intelligent ways to convert performance into speed – and success – not just with more horsepower, but also with more ideas.

Exclusivity, elegance and power – these are the defining qualities of our Bentley, Bugatti and Lamborghini brands in the luxury vehicle segments. They round off the Volkswagen Group’s brand diversity in the passenger cars segment.

Volkswagen Commercial Vehicles stands for superior mobility with its three core values – reliability, economy and partnership. The brand offers a range of different transport solutions based on the highest levels of engineering. The vehicles are tailored to meet the individual transport needs of customers in trade and industry, as well as civil authorities and service providers. Private customers value the brand’s family-friendly MPVs and recreational motor homes.

The Swedish Scania brand’s core values are “customer first”, “respect for the individual” and “quality”. This successful company has been manufacturing high-performance trucks and buses featuring extremely innovative technology for over 100 years. The brand offers its customers efficient transport solutions backed by excellent service offerings and financial services.

Customer focus, enthusiasm for the product and efficiency are the core values at MAN. As well as trucks and buses, the company is a leading manufacturer of diesel engines, turbomachinery, turnkey power plants and special gear units.

Ducati is one of the most famous manufacturers of premium motorcycles. Its emotionally charged products thrill the Italian brand’s customers with their premium quality craftsmanship, uncompromising performance and challenging dynamics.

Volkswagen Financial Services provides the Volkswagen Group’s private and business customers with the right products and services across all vehicle segments. It is the key to mobility for our customers around the world.

Digitalization in Group sales
In sales too, we use the opportunities that increasing digitalization offers. Our actions are guided by a clearly defined strategy that allows extensive cooperation between the brands to create the greatest possible synergies.

Digitalization will make a decisive contribution to creating a completely new product experience for our customers characterized by seamless integration of the customer across all points of interaction. In doing so, we open up new options and business models – mobility and other services – around the connected vehicle. It will increasingly become an integral component of the customer’s digital world of experience. We take care to make all processes transparent so that customers always retain control of their own data.

Moreover, we also gear our internal processes and structures to the speed of digital innovation. The result is new forms of cooperation, a more intensive relationship with the international start-up scene, a consolidation of venture-capital expertise as a form of “development support” for innovative ideas and business models, and new lean systems and cloud-based IT solutions.

Customer satisfaction and customer loyalty
The Volkswagen Group’s sales activities focus consistently on turning our customers into even more satisfied customers – this is our top priority. With the aid of the digitalization offensive in the Group, we are putting even more emphasis on customer requirements and service; this offensive will sustainably shape our business.

The Group’s brands regularly ascertain customer satisfaction levels, focusing on products and services. They derive new measures from the survey results to achieve even greater customer satisfaction.

Measured in terms of customer satisfaction with their products, the Audi and Porsche brands are among the leaders in the core European markets in comparison to other Group brands and their competitors. The other brands in the Group also score higher than
competing brands. All Group brands achieve figures at or above the level of the competition in customer satisfaction with dealers.

Customers are loyal to our brands and trust them when we meet, or better still exceed their expectations of our products and services. The Volkswagen Passenger Cars brand, for example, has maintained a high level of customer loyalty in its core European markets for several years in a row. The loyalty of Audi, Porsche and SKODA customers has likewise kept these brands in the upper rankings in comparison with competitors for a number of years.

As a consequence of the emissions issue, studies showed a slight drop in the Volkswagen Passenger Cars brand image and customer satisfaction with the products in the fourth quarter of 2015.

The Group sales structure
The Volkswagen Group’s multibrand structure helps promote the independence of its brands. Nevertheless, we use overarching sales activities to increase sales volumes and market share, and to increase sales efficiency while cutting costs and improving earnings contributions.

In the reporting period we focused particularly on dealer profitability: this was achieved firstly with cost-cutting programs and secondly by expanding the business volume for each dealer. As part of our distribution network strategy, which calls for us to work with strong partners and leverage the potential of all business fields, but also in light of the difficult economic situation in some countries, we optimized the structure of the distribution network. The focus was on a close working relationship with dealers and their profitability. We use Group companies to manage our wholesale business in over 20 markets. A central department makes sales activities more transparent and more profitable. It creates synergies between the different brands and is key to us achieving the goals of our Strategy 2018. This makes it possible for the remaining wholesale companies to learn quickly and efficiently from the Group-wide benchmarking process and from the best practices adopted by individual companies. A focus for the reporting period was optimizing our national sales companies’ logistics costs.

Fleet customer business
The business relationships with fleet customers are often of a long-term nature. This customer group guarantees more stable vehicle sales than the private customer segment in a volatile environment. The Volkswagen Group has an established base of business fleet customers in Germany and the rest of Europe in particular. Our extensive product offering enables us to satisfy their individual mobility needs from a single source.

In 2015 the emissions issue led to uncertainty among those customers for whom CO₂ figures in particular are decisive purchase reasons. There was no reported impact on new vehicle registrations in the fleet customer business in 2015, however.

Used car business
The used car business is our dealer organization’s fourth key source of income after the new car, services and parts businesses. We ensure the profitability of the used car business by providing efficient processes and systems and highly qualified employees, as well as clear guidelines and management tools.

We focus on professional used car management at both the wholesale and retail levels. In order to be able to provide a suitable range of products and services, we are systematically expanding our demand-oriented offering of relatively new used cars. Customer-centric financial services are the basis for attractive product packages in this respect. In addition, we further strengthened our autonomous used car brands and rolled them out internationally so as to ensure that our offerings also meet our customers’ needs. Cross-brand activities enable us to implement internal examples of best practice throughout the Group, benefiting from economies of scale and leveraging synergies.

We established and standardized processes especially for used cars at all distribution levels, enhanced and increasingly harmonized the underlying IT infrastructure, and introduced uniform management performance indicators.

To ensure long-term success in our used car business, we attach considerable importance to stable residual values – in particular in light of the emissions issue. We have set up system-based reporting functions for this purpose.

After-sales and service
In after-sales, the timely provision of genuine parts and individual service are instrumental in ensuring passenger car customer satisfaction. The Volkswagen Group ensures the global supply of genuine parts through an after-sales network with over 120 of our own warehouses. Our efficient supplier organization enables supply of almost all service centers worldwide within 24 hours. Our passenger vehicle brands’ genuine parts and the expertise of our service centers represent the highest level of quality and ensure the safety and value retention of our customers’ vehicles.

The Volkswagen Group regards itself as a complete provider of all parts and services relevant to customers in the after-sales business and ensures the worldwide mobility of its customers jointly with its partners. The partner businesses offer the entire portfolio of services, for example oil and tire changes, inspection, maintenance and repair, in all vehicle classes. We are continuously expanding our range of tailored services in order to improve convenience for our customers and customer satisfaction. For example, express-service offerings and our German and non-German partner
businesses’ Clever Repair program enable time-saving repair. With some Group brands’ economy packages, our customers get an attractive complete package in line with the vehicle’s age. The dialog reception and the safety checks guarantee a comprehensive service for vehicles and customers. In the event of a flat tire or an accident, the Group brands’ mobility guarantees ensure our customers’ mobility and the repair of their vehicles.

Around the world, our commercial vehicles business also stands for products of the highest quality and for customer proximity. Fuel efficiency, maintenance and operating costs, the residual resale value of vehicles, and the purchase price – these are critical buying criteria for our customers, in addition to availability. We are continually extending both our after-sales activity and our comprehensive service offering, and these play an important role in increasing customer satisfaction.

Scania is adding services to its range of trucks, buses and engines that guarantee fuel efficiency, reliability and good vehicle availability. Among these are the Scania Rent Truck & Trailer service that helps to overcome short-term fleet capacity problems. Scania Parts and the Genuine Parts Warranty ensure that most replacement parts are available within 24 hours throughout most of Europe. Driver behavior is the key factor for operating efficiency, service life of tires and parts, as well as traffic safety. Drivers can learn to drive more efficiently and safely at the Scania Academy. Scania’s workshop service and service contracts offer customers a high degree of safety in addition to consistently high quality.

MAN provides packages with connected services optimally geared to customer requirements – under the MAN Solutions brand – in order to lower the total operating costs of the vehicles. These packages include maintenance and repair contracts, for example, in conjunction with MAN’s proactive maintenance management service, MAN ServiceCare. Active data exchange between vehicles, customers and the MAN service points is handled via the MAN TeleMatics integrated onboard module. MAN ServiceCare enables operators to schedule servicing work at the most suitable times, increasing the availability of their vehicles. The MAN services are available in a strong, global after-sales network with 1,470 highly qualified service points. In addition to its genuine parts, MAN also offers professionally prepared reconditioned parts (ecoline) and thus enables economically viable repair of the customer’s vehicle in the accustomed quality.

The e-mobility challenge for sales
The Volkswagen Group’s e-mobility strategy covers the development of customer-centric products and business models to complement its range of electric vehicles. For example, we provide specific solutions in the field of mobile online services for electric vehicle customers or offer the Charge&Fuel card via Volkswagen Financial Services AG, combining the functions of a fuel and charge card.

When selecting products and partners, we take great care to obtain the greatest possible customer benefits and generate maximum synergies for the Group, while, at the same time, reinforcing the identity of our brands.

We also provided additional sales and after-sales services to our electric vehicle customers, such as arranging for customer-specific charging infrastructure solutions and services. We are further expanding skills in retail – geared to the challenges of e-mobility. This includes the further transferal of battery repair expertise to the individual markets.

QUALITY ASSURANCE
The quality of our products and services plays a key role in maintaining customer satisfaction. Customers are particularly satisfied and remain loyal when their expectations of a product or service are met or even exceeded. Reliability, appeal and service determine quality as it is perceived by the customer throughout the entire product experience. Our objective is to positively surprise and excite our customers in all areas and thus win them over with our outstanding quality. We continued to aspire to this objective in 2015. At the same time, however, events in the reporting period showed us that we have to expand our current understanding of quality: going forward, Quality Assurance will focus more intensively than before on the compliance of our products.

As a result of the emissions issue, we will place even greater emphasis than in the past on our quality management system. A process-driven approach across all business areas will be reinforced throughout the Group. Quality management in the Volkswagen Group is based on the standard ISO 9001: the requirements of this standard must be met to obtain the operating license and type approval for producing and selling our vehicles. The standard was revised in the reporting period; one of the main substantive revisions made concerns risk assessments for non-compliant processes. To ensure that these and other revisions are uniformly implemented throughout the Group, Quality Assurance developed a concept in 2015, setting out guidelines, recommendations and tips for the quality management consultants for the individual brands, and supported them in the process of implementation.

As a further step, we have reinforced application of the dual control principle – mutual support and control between the divisions – and built up further core expertise in quality assurance. This includes setting up control mechanisms between Technical Development and Quality Assurance, and carrying out checks on the compliance of our products. A number of organizational measures were taken to establish a process of checks to be carried out by several individuals in the approval of powertrains.
Based on these and other measures, we intend to ensure within the scope of Quality Assurance that all legal requirements imposed on us as a manufacturer and on our products are met.

Observing regional requirements
Our customers’ wishes and desires in terms of new vehicle models vary in the individual regions of the world. Identifying these specific regional factors and prioritizing them is an important task for Quality Assurance, so that they can then be reflected in the development of new products and the production of established vehicle models. Factors such as the available fuel quality, road conditions, traffic density, country-specific usage patterns and, last but not least, local legislation play a key role in this process. We mainly use market studies and customer surveys to capture the region-specific customer requirements.

Product and supplier quality
In the reporting period, the large number of product start-ups made high demands on Quality Assurance. We nevertheless managed to maintain the high quality of the previous years. Our suppliers also made important contributions to this. We expect them to use sustainable practices, as well as to deliver the highest product quality and reliability of supply.

One of our central concerns is to establish innovative technologies that are installed in new vehicles in the respective markets without any complaints. We are therefore placing even greater emphasis than before on the topics of software quality and data security. Quality Assurance supports and analyzes new vehicle projects long before customers experience a new product. We consistently aim to make our products even better and even more reliable, while at the same time taking as many customer wishes as possible into consideration and factoring in regional requirements.

In addition, Quality Assurance defines high quality targets and standards for the Volkswagen Group, and monitors compliance with them. It also identifies the cause of any faults and manages the process for removing them. In 2015, we continued to standardize our fault removal process, so that we can respond even more quickly and effectively to any problems in the vehicle. As a result, we can increase customer satisfaction, and at the same time reduce warranty and ex gratia repair costs.

Service quality
We also aim to improve the quality of our service offerings worldwide. As in the previous year, we therefore further optimized our warranty and ex gratia repair instruments in 2015. As the direct interface with our customers, authorized dealers also offered us additional opportunities: we are working on identifying any problems that may be revealed in the emotional moment of vehicle handover at an early stage, and on preventing such problems from occurring. One measure taken in this respect is the introduction of “dealer plant teams” – a proven concept that we repeated for the launch of the Volkswagen Touran: employees from different work areas inspect the quality of the vehicles delivered to the local dealer and feed back details of any problems to the manufacturing plant in question.

Group quality standards
Whether they are buying a passenger car, commercial vehicle or motorcycle, our customers expect perfect quality from all vehicles of the Volkswagen Group. So for more than 40 years now, auditors have been deployed around the world to carry out an assessment from the customer’s perspective of the vehicles ready for delivery. We continually revise the quality standards applied for these vehicle audits in line with changes in requirements. In 2015, based on the guiding principles of precision and perfection, Quality Assurance prepared a truck-specific audit in conjunction with the Volkswagen Commercial Vehicles, Scania and MAN brands, and trained and certified the product auditors accordingly.

Our products stand out for their precision, perfect workmanship and high-quality appeal. Quality Assurance contributes to this with instruments such as master jigs and function cubes. This testing equipment in use at Volkswagen ensures that we meet the high quality requirements imposed on our vehicle construction processes. For vehicle interiors and exteriors, Quality Assurance assesses the overall appeal, panel gaps, looks and feel, functionality and assembly capability. Where necessary, we adjust components or make changes to their design. As the importance of appeal continues to grow in the truck segment, Quality Assurance ran a comprehensive training program in 2015, in cooperation with Scania. Employees were given training on how to correctly adjust and classify parts.

EMPLOYEES
Excellent performance, the success that comes from it and participation in its rewards are at the heart of Volkswagen’s human resources strategy. Our teams must draw on the specialist knowledge and abilities of every member if they are to perform at their peak, create excellent products and ensure our business success.

As of December 31, 2015, the Volkswagen Group, including the Chinese joint ventures, employed 610,076 people, 3.0% more than at the end of fiscal year 2014. Significant factors for the increase in employees were the expansion of the workforce at our new plants in China, Poland and Mexico and the recruitment of specialists, particularly in Germany and China. In 2015, the Volkswagen Group took a total of 3,698 temporary employees into its core workforce in Germany.

The ratio of Group employees in Germany to those abroad remained unchanged in the past year. As of the 2015 reporting date, 45.7% were employed in Germany.
Vocational group qualifications

Training at Volkswagen is organized systematically on the basis of vocational groups. A vocational group includes all employees whose work activities are based on similar technical skills and who need related expertise in order to perform their job. The skills profiles lay down the functional and interdisciplinary skills for each job. On this basis, a broad offering of qualifications is available to employees. Employees continue to develop throughout their working lives and continuously deepen their knowledge. In this process, they also learn from more experienced colleagues, who act as experts in the vocational group academies – the learning centers of the vocational groups – and pass on their knowledge to others.

Dual vocational training

Dual vocational training, where theory and practice are closely interwoven, provides the basis for first-class performance that meets the Volkswagen Group’s high standards of expertise and quality. Vocational education and training are offered based on the expertise required within each vocational group.

Volkswagen has introduced dual vocational training at many of the Group’s international locations in the past few years and is continuously working on improvements. In 2015, Volkswagen do Brasil made preparations for a three-year mechatronics engineer training program. The introduction of the program, which follows the German standard, is planned for 2016. When planning the construction of new factories – such as Audi’s Mexican plant in San José de Chiapa – dual training is included in the process right from the start. Over three-quarters of all the Group’s vocational trainees learn their trade through dual vocational training. As of December 31, 2015, the Volkswagen Group had trained 18,651 young people worldwide in approximately 60 trades and 50 dual study programs.

Once a year, Volkswagen honors its highest-achieving vocational trainees Group-wide with the “Best Apprentice Award”. In 2015, 12 young women and 33 young men at a total of 40 Group locations received this award for their excellent performance and technical expertise.

Particularly talented young specialists are supported in talent groups. The highest-achieving 10% of vocational trainees in each graduation year at Volkswagen AG and of the Volkswagen Sachsen GmbH’s location in Zwickau are admitted to these two-year development and training programs. These programs are aimed primarily at promoting the technical excellence and personal development of each participant individually.

After completing their vocational training, young people at the start of their career have the opportunity to take part in the “Wanderjahre” (Years Abroad) program, spending twelve months at one of the Group’s international locations. In the reporting period, 38 Volkswagen Group locations in 17 countries took part in this development program, including Porsche AG and Sitech GmbH for the first time. In 2015, 59 employees from Germany and 18 from nine other countries embarked on their Volkswagen Group Years Abroad program.

The “Volkswagen Group Charter on Vocational Education and Training” adopted in June 2015 shows the high value Volkswagen places on education and training. The Charter covers basic issues such as the selection process for apprentices, the duration and quality of vocational education and training, the tools and infrastructure available for teaching educational content, and the transition to post-apprenticeship employment.

The Volkswagen Group is a pioneer in the modernization of vocational education and training and is making preparations in good time for the digitalization of the working environment. Experts at Volkswagen and the Federal Institute for Vocational Education and Training (BIBB) are working to establish what adjustments need to be made to job descriptions and are drafting proposals for a forward-looking organization of vocational training – initially in Germany and later also internationally. In the reporting period, the focus was on developing a joint job profile for maintenance engineers that spells out the changed skill requirements.

The Volkswagen Group already develops and uses innovative methods in vocational education and training. They include the development of innovative learning formats in vocational training at Volkswagen and mobile learning with tablets, which Audi rolled out as a pilot project in 2015, initially at its German locations and later also at the international locations in Győr and Brussels.

Developing university graduates

Volkswagen uses a differentiated approach to ensure the loyalty of its young academic talent, which consists of two elements: the Student Talent Bank and the Academic Talent Pool.

Through the Student Talent Bank, Volkswagen supports particularly high-achieving students in both functional and interdis-
Promising young engineers were taken on in 2015. Offered permanent positions after the two-year program – 22 months at a Group company in Germany. Participants may be and was initially targeted at university graduates from Italy, Spain and Portugal. Three months at a foreign subsidiary are followed by professional development, leadership and management programs. The aim here is to persuade former interns to join the Company and, by inviting them to specialist lectures, seminars, or visits, for example, to give them the best possible preparation for entering a profession in the world of Volkswagen.

Talented young high potentials are added to the Academic Talent Pool just before they complete their degree or doctorate. This puts selected high potentials on the radar screen at the Company, allowing them to be considered for an entry-level position in one of the functional areas.

Volkswagen offers university graduates two structured trainee programs for joining the Company: StartUp Direct and StartUp Cross. In addition to working in their own department, trainees in the StartUp Direct program get a good overview of the Company and attend supplementary training seminars over a two-year period. University graduates interested in working internationally can take part in the 18-month StartUp Cross program. Over this period, they get to know Volkswagen through assignments in a variety of specialist areas throughout the value chain and, in addition, they broaden their knowledge and experience at different Volkswagen Passenger Cars locations at home and abroad. Volkswagen took on 346 trainees under one of the two programs in 2015; around 30% of them were women.

Trainee programs are also offered at the international Group locations, such as at ŠKODA in the Czech Republic and Scania in Sweden. In addition, the Volkswagen Group’s StartUp Europe trainee program has offered young engineers from Southern Europe an opportunity to gain international work experience since 2012. This Volkswagen program is designed to attract international talent and was initially targeted at university graduates from Italy, Spain and Portugal. Three months at a foreign subsidiary are followed by 21 months at a Group company in Germany. Participants may be offered permanent positions after the two-year program – 22 promising young engineers were taken on in 2015.

Professional development at university level

Within the Volkswagen Group Academy, the AutoUni ensures the availability of specialized academic knowledge. The aim is to increase the technical quality in Volkswagen’s vocational groups and to promote networking among experts. Nine institutes work in conjunction with the vocational group academies and partner universities to design development programs for the Group’s vocational group experts. In addition, a wide variety of professional development formats are designed in order to disseminate the Group’s wealth of internal knowledge as well as that of university professors and business specialists, and to generate new academic insights. The 2015 offering included professional development formats on sustainability, e-mobility and product electrification as well as an online course on materials for experts within the Group provided in cooperation with Stanford University.

The AutoUni cooperates with internationally renowned universities, institutes and research centers on a variety of research projects, dissertations and theses. At the end of 2015, more than 530 doctoral students were engaged in research at the various Volkswagen Group companies in Germany, investigating forward-looking, Company-related issues.

Knowledge Campaign on Digitalization

Business can only remain viable in the long term if it prepares itself in good time for new professions, qualifications and working methods. In 2015, Volkswagen developed the “Good Work at Factory 4.0” concept, which it presented at an international expert conference held during the Hanover Trade Fair. At the heart of the concept is work that promotes skills and has a positive impact on employees’ health in the highly automated factories of the future. Volkswagen aims to automate an increasing number of stressful or repetitive jobs in the coming years, using in particular cooperating lightweight robots. At the same time, we intend to upgrade the remaining jobs by enhancing them with complex management and maintenance tasks. This concept is also a response to demographic change, which will limit the availability of qualified specialized labor in the coming years. To facilitate these changes, Volkswagen launched the “Knowledge Campaign on Digitalization” in May 2015. The campaign is initially aimed at employees of the Volkswagen Passenger Cars and Commercial Vehicles brands in Germany in order to provide them with a basic understanding of digitalization.

In the first phase, they come into contact with the subject with the aid of short films and educational quizzes in the intranet. In the second phase, they are able to attend events in the different business areas, where they experience the use of new technologies. Programs leading to vocation-specific qualifications in Volkswagen’s vocational groups are planned for the third phase. The cross-brand and international rollout of the Knowledge Campaign on Digitalization took place at the end of 2015.
Advancement of women, family-friendly HR policies

For Volkswagen, family-friendly human resources policies are a key attribute of an attractive employer. Volkswagen intends to increase the proportion of women in the Company in a sustainable way.

The Group made its first voluntary commitment in 2011 in relation to differentiated targets for the proportion of women in the workforce. We hire the year’s best graduates in the necessary fields and take into account the proportion of female graduates in the relevant subject areas. Averaged across all fields of study relevant to Volkswagen, the individual ratios produce an overall goal of 30% women among the university graduates hired.

**PROPORTION OF WOMEN VOLKSWAGEN GROUP IN GERMANY**

*as of December 31, 2015*

<table>
<thead>
<tr>
<th>%</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total vocational trainees</td>
<td>28.3</td>
<td>28.2</td>
</tr>
<tr>
<td>Industrial vocational trainees</td>
<td>22.6</td>
<td>21.8</td>
</tr>
<tr>
<td>Commercial vocational trainees</td>
<td>57.0</td>
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<tr>
<td>Students in traineeship schemes</td>
<td>33.4</td>
<td>32.1</td>
</tr>
<tr>
<td>Total management</td>
<td>10.3</td>
<td>10.2</td>
</tr>
<tr>
<td>Management</td>
<td>11.9</td>
<td>11.7</td>
</tr>
<tr>
<td>Senior management</td>
<td>8.6</td>
<td>8.3</td>
</tr>
<tr>
<td>Top management</td>
<td>3.8</td>
<td>5.7</td>
</tr>
</tbody>
</table>

* Excluding Scania, MAN and Porsche.

Volkswagen aims to attract female students at an early stage: we use our Germany-wide Woman Driving Award and the Woman Experience Day to focus on female engineering and computer science students and graduates, so as to recruit them for technical positions with us.

This increased proportion of qualified women joining the Company will enable us to steadily lift the proportion of female executives in the coming years. To increase the proportion of women in management, Volkswagen AG has set itself the following target quotas: by the end of 2016, the proportion of women in the first management level is to be 9.8%. In the second management level, women are to account for 13.3%.

The Volkswagen Group is aiming to have 30% women at all management levels in Germany in the long term. In the reporting period, the proportion of women in management positions overall rose to 10.3%, compared with 10.2% in the previous year. We are encouraging this development with a number of different measures: for example, 2015 saw the second group to embark on the cross-brand Management Mentoring Program, designed to support women on the way to management positions, with 63 participants from the Volkswagen Group in Germany. In addition, Volkswagen offers the “Compass” program to specifically encourage women with high potential in their decision to aim for a career in management. In the reporting period, 60 women from Volkswagen AG – as well as the companies Volkswagen Sachsen GmbH, Volkswagen Financial Services AG and Autovision GmbH – took part in this program.

In addition, Volkswagen intends to raise the proportion of women among its skilled workers and master-level workers in Germany to 10%; in fiscal year 2015, the proportion of women in the Volkswagen Group in Germany (without Scania, MAN and Porsche) was 4.7%.

Volkswagen specifically targets the recruitment of talented women, for example by arranging special work experience and orientation days for young women, in order to increase the proportion of female vocational trainees in the industrial and technical area from 22.6% in 2015 to 30%. The aim of these events is to give them a taste of training in industrial and technical trades and to support them in their career choices. The Volkswagen Passenger Cars, Audi, Porsche, Volkswagen Commercial Vehicles, MAN and Volkswagen Financial Services brands have participated in the national “Girls’ Day” in Germany for years. In the year under review, they offered over 2,000 schoolgirls a behind-the-scenes look into careers in the automotive industry. On Technology Day, ŠKODA gave 300 schoolgirls the opportunity to get a taste of working in technical and scientific vocations by taking part in practical exercises.

Volkswagen has offered participation in the “Lower Saxony Technikum” at its locations in Lower Saxony, Germany, since 2012. Female high school graduates complete an internship in a specialist technical area and attend university lectures parallel to this. Since 2012, 91% of all participants – a total of 76 women – have opted for a technical degree or vocational training. Of these, 16 completed a dual course of study at Volkswagen. MAN has taken part in the Lower Saxony Technikum at its Salzgitter location since 2015.

In addition to hiring and supporting talented female employees, Volkswagen is working continuously to improve its employees’ work/life balance. The Group provides a large number of operational arrangements and options for individuals to balance professional and personal requirements. They include flexible part-time and shift models or teleworking arrangements at Volkswagen and Audi or home office working at Porsche. In addition, all brands offer programs to ease the transition back into the workforce for employees on parental leave.

Another step toward becoming a family-friendly company is the constant expansion of a range of childcare options. The Volkswagen Group has had positive experiences with near-site childcare in Germany and abroad. In addition to existing establishments, for example at Volkswagen Financial Services AG or at the Volkswagen Group of America’s Chattanooga location, two near-site daycare centers were created in the past year at locations of Volkswagen AG,
one in Hanover and the other in Emden, both in cooperation with the local municipalities. There are plans to expand childcare options at other locations as well. Childcare is also available during school vacations at all the Volkswagen Passenger Cars, Audi, Porsche, Volkswagen Commercial Vehicles and MAN locations in Germany. The number of options on offer has been increasing internationally, too: for example, holiday camps for children are also offered by Volkswagen in Shanghai, Navarra, Chattanooga and in Kaluga.

Performance incentives and bonus arrangements
Systematically encouraging and recognizing achievements and adapting remuneration systems to allow employees to share in the Company’s success for the long term are important components of our human resources strategy. Universal and uniform criteria for skills development and performance evaluation have been in place at Volkswagen AG since 2010. These criteria apply to the entire workforce – from vocational trainees to senior executives. They are underpinned by concrete incentive systems in the remuneration structure.

Volkswagen AG’s employees covered by collective pay agreements have a remuneration system that comprises three main elements:

› basic pay in the form of a competitive monthly salary;
› a performance-related pay component that additionally recognizes the achievements of each individual employee; and
› the right to a bonus arrangement anchored in the collective pay agreements.

This three-tier remuneration system has proven its worth as a tool for the workforce to participate in the Company’s success. It contributes to rewarding individual performance while maintaining competitiveness at the same time. For this reason, it is increasingly becoming standard practice in the Group – at Audi and ŠKODA, as well as at the Volkswagen Group Rus’ location in Kaluga and at Volkswagen de México, among other places.

Employee participation
Codetermination and employee participation are important pillars of our human resources strategy. Volkswagen aims to promote high levels of technical expertise and a strong team spirit among its employees. The Company invests in its people, offers employees attractive opportunities for development and promotes a good working climate. This includes employees’ opinions, assessments and constructive criticism being heard.

One tool we use to this end throughout the Group is the opinion survey, through which employees can actively help shape the Company. With this uniform, Group-wide employee survey, we regularly gather information about employee satisfaction. To fundamentally revise the work climate index, in spring 2015 we suspended Group-wide implementation of the tool. In the future, change processes that result from the work climate index will be even more sustainably implemented. The spotlight in 2015 was therefore on implementing the actions identified in the 2014 opinion survey.
The “Volkswagen Way” has been a successful tool for involving Volkswagen AG’s workforce in improving the Company’s efficiency since 2007. By using it, we aim to both increase competitiveness and safeguard employment. A continuous improvement process aimed at achieving continuous process and structure optimization in the areas of productivity and quality, ergonomics, leadership and teamwork helps to ensure these. Again, a particular focus for the “Volkswagen Way” in fiscal year 2015 was on optimizing workflows. To this end, projects were initiated and implemented across all business areas. One example is the standardization and automatic creation of correspondence for the human resources department with the ESCRIBA application system. In addition to the “Volkswagen Way”, a uniform Group-wide production system is used for all brands during production.

Employees use their creativity, knowledge and initiative to take responsibility for process and product improvement under the Ideas Management program. Employees in Germany have submitted over 2.1 million ideas since 1949 using the former suggestion program and today’s Ideas Management program, saving nearly €3.3 billion at the German locations of Volkswagen AG and Volkswagen Sachsen GmbH. Ideas Management is an important leadership and motivational instrument for line supervisors. It also contributes to improving health and safety in the Volkswagen workplace and to implementing our targets for reducing energy and water consumption, waste, VOCs and CO₂ emissions.

### IDEAS MANAGEMENT IN THE VOLKSWAGEN GROUP*

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideas suggested</td>
<td>536,081</td>
<td>463,042</td>
</tr>
<tr>
<td>Suggestions implemented</td>
<td>360,454</td>
<td>306,432</td>
</tr>
<tr>
<td>Savings in € million</td>
<td>374.9</td>
<td>324.4</td>
</tr>
<tr>
<td>Bonuses in € million</td>
<td>38.7</td>
<td>35.2</td>
</tr>
</tbody>
</table>

* 41 (31) participating production locations.

Preventive healthcare and occupational safety

Volkswagen’s holistic healthcare management system extends far beyond traditional preventive healthcare and occupational safety; it also covers aspects of work organization, ergonomics, prevention, integration and rehabilitation, leadership and prospects for all individuals.

The check-ups established as standard at the German locations help to maintain and improve employees’ health and performance and help keep them fit. It is a free and comprehensive screening for all employees. The employees appreciate its high diagnostic quality and the follow-up programs.

Check-ups are now also successfully carried out at almost all international locations. Other preventive healthcare programs have been brought into line with Group-wide standards. In some cases country-specific supplementary examinations, such as HIV and tuberculosis tests, have been added.

Healthy eating concepts and a wide variety of sports and leisure activities – from the weight loss and healthy eating campaign at Volkswagen in South Africa to internal running events at Volkswagen Commercial Vehicles in Hanover – complement the holistic approach to health management in the Volkswagen Group. In addition to the check-up, ŠKODA introduced a new Healthy Living Week in 2015. The extensive offering of different medical check-ups and special healthy living programs was very well received among the workforce. In recognition of its preventive healthcare and health promotion activities, ŠKODA received the “Health Promoting Enterprise” award from the Czech Ministry of Health.

In September 2015, SEAT became the first company in Spain’s automotive sector to be awarded the sought-after “Healthy Company” certificate by the Spanish Association for Standardization and Certification (AENOR) in recognition of the high quality of its health management system.

At the same time, Volkswagen makes improvements along the entire product development process in order to guarantee that the quality of workplaces and the strains on employees that arise as a result of production are already taken into account in the planning and design stages of vehicle models. This involves using both science and practical experience with the aim of combining state-of-the-art ergonomic workplaces with innovative work processes. By using so-called ergo assistants on the production lines, employees are given advice and instructions directly at their workstations on how they can perform their workflows more ergonomically and consequently modify their behavior.
Using the Group occupational safety management system, all Group companies covered by it analyzed their occupational safety organizations and processes. The results are available throughout the Group in a central database system. A total of seven Group audits were conducted in the reporting period. This includes the systematic exchange of examples of best practice in the Volkswagen Group.

Social benefits
Volkswagen AG tops up the benefits provided by social insurance institutions, such as sick pay, and supports dependents when an employee dies. All Volkswagen AG employees are also insured by a group accident insurance policy against accidents resulting in death or disability. Volkswagen AG also grants short-term loans to employees in exceptional cases of economic hardship.

Employees in the Group companies in Germany and abroad enjoy additional benefits. Depending on the location, these include transport and subsistence allowances, affordable housing, monthly childcare allowances as well as subsidies towards selected leisure activities. Additional preventive healthcare services or supplementary pension insurance policies round off this offering on a location-specific basis.

Volkswagen AG and its brand companies and subsidiaries operate an occupational pension system, making an important contribution to securing their employees’ retirement income. In addition to the components funded by the employer, the direct pension commitment offers employees the opportunity to provide for their own retirement income through deferred compensation.

Direct insurance is another opportunity for employees to provide for their own retirement income through deferred compensation.

Volkswagen AG’s Time Asset is an instrument that gives staff the opportunity to retire earlier. Since 1998, employees have been able to make contributions from their gross salary and time credits. The accumulated Time Asset credits can be used for paid early retirement.

INFORMATION TECHNOLOGY (IT)
Increasing digitalization and networking, the necessary end-to-end support for business processes and the development of new locations continually pose new challenges to the Group’s IT functions. A well-equipped, state-of-the-art infrastructure is essential in order to master these challenges.

Further developing the application landscape at the corporate locations, in business processes and in the sales network efficiently is just as vital. The IT staff are responsible not only for developing the systems at all of the Volkswagen Group’s brands, but also for supporting users in technical development, production and sales. This is how applications tailored to the exact needs of the users are created.

The growing convergence of production and IT is opening up new opportunities. Big data processes allow machine faults to be analyzed and action to be taken at an early stage. Big data makes it possible to analyze and evaluate data volumes that are too vast and too complex to be processed using manual or conventional methods. Volkswagen’s factory planners can use the “digital factory” to virtually walk through the buildings before the groundbreaking and to test out their plans, thus safeguarding product launch.
The Group-wide “Fertigungs-, Informations- und Steuerungssystem” (FIS – Production, Information and Control System) ensures that vehicles are efficiently produced – at the right time and with the right equipment – at currently 43 plants worldwide. FIS is a key success factor for enabling flexible and cross-brand production in the global production network. In the past three years, we have increased the Group-wide level of IT standardization for managing our plants to 84%.

Volkswagen is addressing the trend towards digitalization in the Group’s own IT labs. IT labs are innovation centers where new IT solutions are developed in close cooperation between departments, research institutions and technology partners. The innovation centers act as test laboratories for the Group, as advisors on questions concerning the future of information technology and as liaison offices for start-up companies.

Data:Lab in Munich is the center of expertise in topics such as big data, advanced analytics (process for systematic analysis of data in electronic form), machine learning and artificial intelligence. The team of data scientists, project managers and technology experts is supported by specialists from leading big data companies, research institutions and representatives of start-ups. Examples of Data:Lab’s successful projects include forecasting customer wishes and loyalty and a long-term and all-time forecast on planning of spare parts for the Kassel central depot. This power of innovation is recognized outside of the Group as well. Thus, since November 2015 Data:Lab officially bears the title of ‘A Place of Excellence in the Land of Ideas’. In a nationwide German competition, Data:Lab was cited from among over 1,000 research institutes, companies, start-ups and associations as the award winner in the Business category. The jury warranted its decision by stating that Data:Lab gives a convincing answer to the question of what form mobility will take in the future.

Digital:Lab is being opened in Berlin. Among other things, a digital mobility platform for the Group will be created there in order to be able to provide mobility services such as fuel price agents or parking and weather services to the end customer.

We established Smart:Production:Lab at the Wolfsburg location. This operates in the Industry 4.0 environment and is making an important contribution towards progressively turning the Volkswagen Group’s production plants into smart factories. With conscious use of agile methods and ways of working and a start-up culture, the lab’s goal is to quickly develop software and hardware pilots and prototypes for production and logistics in-house in a manner geared to application. The smart logistics watch project is one example of an implemented pilot. Based on an idea that arose at an internal hackathon (programming competition), a smart watch application was developed in the lab in collaboration with the department in a short period of time. As a result of this solution, logistics employees can be meaningfully supported and the logistics process of parts picking can be further optimized.

Strong networking is also advanced within the Group’s IT department. Group-wide hackathons or initiatives such as IT pitching days (idea competitions) create platforms on which employees can develop new ideas and software prototypes together. With internal communities such as the Agile Community and the Group Connect network, we can quickly network experts together across the Group. We are establishing these new methods, means and ways of working so that the Group’s IT department can respond quickly, flexibly and efficiently to constantly changing requirements.

CodeFEST8 and KIDS:craft 1.0 represent the close integration between school and university students and the Group’s IT department. The programming competition CodeFEST8 was jointly organized in 2015 by several of the Group’s brands and was aimed at university students studying technical subjects, particularly computer science and business information systems. As part of the competition, the participants developed software with the theme of “mobility of the future” in just 28 hours. Several hundred young people took part in the first round, which took place simultaneously at eight universities in Germany, Austria and Switzerland. CodeFEST8 was thus the largest programming competition to date in the automotive industry. The two best teams from each university campus qualified for the finals at CeBIT. At KIDS:craft 1.0, the Group’s IT summer camp, 150 children from the Wolfsburg region carried out research like future IT engineers. The aim of KIDS:craft 1.0 is to promote young talent over the long term and, in particular, get girls interested in IT, as well as to safeguard the future of the IT location in Wolfsburg and environs.

**ENVIRONMENT AND CLIMATE PROTECTION**

Stakeholders’ expectations of our Company are constantly rising, particularly with regard to global megatrends such as climate change, demand for resources, demographic changes and increasing urbanization. We are tackling this challenge and taking responsibility.

Volkswagen has set itself the goal of being the leading automotive company in environmental terms as well. To help us achieve this goal, we have bundled our environmental protection activities in the Group environmental strategy.

Our commitment centers on four major subgoals:

- **Number one for resource conservation across the lifecycle**
  - We view our products’ environmental footprint holistically across their entire lifecycle. Our central concern here is to protect the environment and in particular to conserve finite resources. The steps we have taken focus on efficient product and process design, the use of innovative environmental technologies and sustainable energy supplies.
  - A leading manufacturer of environmentally friendly products
  - Our products combine state-of-the-art technology, comfort and safety, low fuel consumption and lower CO₂ emissions. The long-term goal is CO₂-free mobility.
Environmental awareness anchored throughout the Company
The Volkswagen Group’s employees are the driving force behind its environmental strategy. They are well informed, well qualified and operate in an ecologically responsible manner. Our great strength is that, in exchanging best practice, we pool our employees’ knowledge across brands and regions and leverage this across the entire Group.

Number one for intelligent mobility
We understand intelligent mobility to mean the challenge of offering mobility and comfort and at the same time protecting the environment and reducing traffic waste. This requires the efficient interplay of people, infrastructure, technologies and means of transport.
The Group environmental strategy is based on a holistic approach that is geared to the value chain and thus involves all divisions. We have set ambitious, measurable targets in these areas and are pursuing them systematically. This includes reducing CO₂ emissions from our European new car fleet and designing each new model generation to be more efficient than its predecessor. In production, we want to reduce the levels of the five key environmental indicators of energy and water consumption, waste for disposal and CO₂ and VOCs emissions by 25% for each vehicle produced by 2018, in comparison with 2010.

We can only reach our ambitious goals if we firmly entrench environmentally relevant issues in our organizational and decision-making processes. The basis for this is our environmental management system, which has been in place for many years. The Group’s environmental policy is a key component of this. It is based on the Group’s environmental principles for our products and production that are in force throughout the Company. The Technical Development department’s environmental goals are also anchored in the environmental management system. We make sure that these processes are regularly confirmed by submitting them to certification procedures and external audits, including in the reporting period.

Our energy management system, which has been introduced successively into all locations since 2010, has had ISO 50001 certification since 2012. We have taken part in a growing number of environmental certification schemes since then, with the result that our locations worldwide as well as the Technical Development department have certification under ISO 14001, and also, since 2009, under ISO/TR 14062.

The Group-wide entrenchment of environmental protection should also be reflected in our employees’ environmental thinking and actions. This, however, assumes that they are appropriately informed and trained. For this reason, we have appointed environmental management officers around the world, who are working on building a broad basis for environmental protection within the Group. In order to pool and make use of the expertise and know-how of all our brands’ and regions’ employees, cross-brand and cross-departmental steering committees and work groups take place regularly at both management and expert level.

Volkswagen welcomes the outcome of the UN’s COP 21 Climate Change Conference that was held in the reporting period. The negotiators agreed an ambitious target of limiting global warming to below 2 degrees Celsius. In advance of the conference, Scania and Audi had contributed their ideas on low carbon freight and low carbon fuel to the WBCSD’s Low Carbon Technology Partnership Initiative. The initiatives develop measures and projects to make the planned climate target a reality.

Biodiversity
Biodiversity means the variety of life on our planet, and covers the variety of species, the genetic differences within species and the diversity of ecosystems. We rely on it as the basis for our continued existence: healthy food, clean water, fertile soils and a balanced climate. Protecting biological diversity is one of the greatest societal challenges of our time. The United Nations has therefore declared the current decade to be the “UN Decade on Biodiversity”.

Volkswagen has been committed to protecting biodiversity since 2007 and is a founder member of the Biodiversity in Good Company e.V. initiative. In our mission statement, we have committed to supporting the protection of species at all locations. We primarily contribute to achieving the targets of the UN Convention on Biological Diversity by reducing greenhouse gas emissions and employing materials and resources as efficiently as possible. As a consequence of the diesel issue, we are putting our membership of the Biodiversity in Good Company e.V. initiative on hold for the time being.

Biodiversity is a component of our environmental management. We have, among other things, appointed a biodiversity officer and had external expert assessments drawn up on the risks for water, the soil and biodiversity for 32 locations of the Volkswagen Passenger Cars, Porsche and MAN brands.

One of the projects we jointly implemented with Naturschutz bund Deutschland e.V. (NABU) was a moor conservation project in Germany. NABU additionally established an International Moor Conservation Fund in 2015 with a donation from Volkswagen Financial Services AG. Volkswagen and NABU also worked together as partners on their joint “Willkommen Wolf!” wolf conservation initiative in 2015. Our longstanding cooperation agreement with NABU expired as of December 31, 2015. Following suspension of the negotiations to extend this agreement as a consequence of the diesel issue, we are working hard on achieving the requirements for continuing this strategic partnership.

At our international sites, we support the protection of nature and biodiversity with various partners. At the Urumqi location in the Chinese province of Xinjiang, we support biodiversity research. Since 2011, we have also been supporting the Dyer Island Conservation Trust in South Africa. Together with the Trust, we have been involved in the protection of penguins, dolphins, whales, seabirds and sharks, and also conduct research, education and training programs to strengthen environmental awareness. In the reporting period, the Trust opened a sanctuary for seabirds there.
External environmental awards

The Volkswagen Group’s models and its brands received numerous awards in 2015, in particular for alternative drive systems. Here are some examples:

AUTO TEST, the monthly consumer advice edition of AUTO BILD, and ÖKOTREND, the independent environmental research institution, presented awards for the most environmentally friendly cars in all classes in 2015. Two models of the Volkswagen Passenger Cars brand won in their categories: the eco-up! in the small car category and the Golf GTE in the compact class. The Porsche Cayenne S E-Hybrid was voted number one in the SUV category. Assessment criteria included the manufacturer’s commitment to the environment and social responsibility, and the environmental impact of the vehicles across their entire lifecycle.

In 2015, for the third time in a row, the Swiss Transport Club (Verkehrs Club Schweiz) gave first place awards in its 2015 environmentally friendly car list to three Volkswagen Group models with natural gas-powered drives. The Volkswagen Passenger Cars’ eco-up! and its counterparts with identical construction from SEAT and ŠKODA were able to beat the competition due to the moderate level of noise they emit and excellent climate protection figures.

In the ADAC EcoTest, the Volkswagen Passenger Cars brand’s natural gas vehicles Golf TGI BlueMotion and eco-up! and the electric vehicle e-up! scored the top rating. The overall result of the ADAC EcoTest is composed of various ratings including the testing of emissions such as carbon monoxide, hydrocarbon, nitrogen oxides and particles in realistic driving cycles – some with the air-conditioning system turned on.

In the specialist magazine Car & Driver’s “Ten best 2016” competition, 231 models available on the Brazilian market were assessed. The Volkswagen Passenger Cars brand received the highest number of awards. Due to the new TSI Total Flex engine with 1.0 liter capacity, the specialist jury selected the move up! TSI as the “most sustainable model” and the speed up! TSI as the “best hatchback”. The TSI Total Flex engine is Volkswagen do Brasil’s latest engine.

The Volkswagen Passenger Cars brand’s Lamando and the ŠKODA Octavia were awarded gold medals in the China Eco-Car Assessment Program. The environmental characteristics of a vehicle – including aspects such as interior air quality, noise, potentially harmful substances and materials – are systematically and comprehensively assessed in the test.

The e-up! won in the electricity consumption category in the environmentally friendly car list of the German Automobile Association, Verkehrsculb Deutschland e.V. (VCD). The VCD assesses more than 400 current passenger car models and aims to give car buyers a scientifically based decision-making tool.

The Green Car of the Year Award from the US specialist magazine Green Car Journal, which we had received for the Volkswagen Jetta TDI and Audi A3 TDI models in 2009 and 2010, respectively, was revoked as a result of the diesel issue.

REPORT ON POST-BALANCE SHEET DATE EVENTS

Through its 50% interest in the joint venture Global Mobility Holding B.V. (GMH), Amsterdam, the Netherlands, the Volkswagen Group held a 50% indirect stake in the joint venture’s subsidiary, LeasePlan Corporation N.V., Amsterdam, the Netherlands (LeasePlan). LeasePlan is a Dutch financial services group whose core business is leasing and fleet management.

The final approvals for the sale of LeasePlan to an international consortium of investors were issued by the competent authorities in January 2016. Legal transfer of the LeasePlan shares to the consortium was completed on March 21, 2016.

The total value of the transaction was approximately €3.7 billion plus interest in the amount of €31.5 million. In 2016, this had a positive effect of €2.2 billion on investing activities and net liquidity and, taking into account the disposal of equity-accounted investment in GMH, resulted in a low three-digit million euro range for the Volkswagen Group, which is reported in the financial result.

On completion of the transaction, the existing credit line of €1.3 billion provided by the Volkswagen Group was cancelled.
Report on Expected Developments

Growth in the global economy in 2016 is expected to be on a level with the previous year. We estimate global demand for vehicles will be mixed in 2016 and increase at a slower rate than in the reporting period. The Volkswagen Group intends to capitalize on this development by building on the strength of its brand diversity, global presence and pioneering technologies.

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.

GLOBAL ECONOMIC DEVELOPMENT

In our plans, we assume that the global economic growth in 2016 will be level with the previous year. Risks will arise from turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects continue to be hurt by geopolitical tensions and conflicts. We expect the economic upturn to continue in most industrialized nations, with moderate rates of expansion overall. As in the previous year, growth will in all probability be muted in many emerging markets. We expect the strongest rates of expansion in Asia’s emerging economies.

We anticipate that the global economy will also continue to grow in the period 2017 to 2020.

Political uncertainty and social tensions resulting primarily from high unemployment levels will probably continue to weigh on the South African economy in 2016 and keep growth down.

Germany
The German economy is expected to expand further in 2016 at slightly higher growth rates than in the reporting period. The situation in the labor market is also expected to remain stable.

North America
For North America, we anticipate that the robust economic performance will continue in 2016. Growth in the USA and in Canada is expected to remain stable compared with the previous year, while the Mexican economy is slated to expand at a slightly slower rate.

South America
Mainly because of sluggish domestic demand, Brazil will probably record negative growth again in 2016. Weighed down by persistently high inflation and the muted business climate, economic growth in Argentina is expected to be slow.

Asia-Pacific
Economic growth in China is expected to remain at a high level in 2016, but to lose further momentum compared to previous years. For India, we anticipate stable growth at comparatively high rates of expansion. In Japan, the economic situation will probably only improve slightly. In the ASEAN region, we estimate that the economy will continue to expand at approximately the same rate as in 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 2016. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period.

The Volkswagen Group is well positioned to deal with the mixed developments in the global automotive markets. Our broad, selectively expanded product range featuring the latest generation of engines as well as a variety of alternative drives puts us in a good position globally compared with our competitors. Our goal is to offer all customers the mobility and innovations they need, sustainably strengthening our competitive position in the process.

We estimate that demand for passenger cars worldwide will continue to increase in the period 2017 to 2020.

**Europe/Other markets**

For 2016, we anticipate that the demand volume in Western Europe will be in line with that of the reporting period. Pre-crisis levels are not expected to be reached, even in the medium term. The ongoing debt crisis will probably further unsettle consumers in many countries in the region and restrict their financial opportunities to buy new cars. In Spain and Italy, the recovery will probably continue in 2016 at a modest pace, while in the United Kingdom we anticipate that the market volume will be below the high level seen in the previous year. For France, we expect growth to be only slightly positive.

In the Central and Eastern European markets, demand for passenger cars in 2016 is estimated to be under the weak prior-year figure. Following significant declines in previous years, the volume of demand in Russia will probably decrease again in 2016. We expect to see further growth in demand or volumes remaining at the previous year’s level in many Central European markets.

We are projecting that the volume of the South African automotive market will be significantly below the previous year’s figure in 2016.

**Germany**

Following the positive trend of recent years, we forecast that the volume of the German passenger car market in 2016 will remain level with the prior-year figure.

**North America**

In 2016, we expect that the market for passenger cars and light commercial vehicles (up to 6.35 tonnes) in the USA will continue to benefit from favorable conditions and that the positive trend seen in the past year will endure at a weaker pace. Growth is expected to be driven mainly by the SUV and pickup segment. In the Canadian market, demand is likely to be slightly below the previous year’s high level. In Mexico, however, we anticipate that the market volume will be noticeably higher than in 2015.

**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. Furthermore, 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.

The volumes of the South American markets will probably fall considerably short of the prior-year figures in 2016. In Brazil, the largest market in South America, we are forecasting that the volume of demand will be substantially lower than the already poor figure recorded in the previous year. In Argentina, we anticipate that, in view of persistently high inflation and the challenging macroeconomic situation, demand will be noticeably down year-on-year, following significant declines in the previous two years.

**Asia-Pacific**

The passenger car markets in the Asia-Pacific region look set to continue their growth trajectory in 2016 at a similar pace. In China, the steady increase in individual mobility requirements will continue to push up demand; the rate of growth should be in line with the previous year. Tax breaks for vehicles with engine sizes of up to 1.6 l are also expected to contribute to growth. Strong demand is still forecast for attractively priced entry-level models in the SUV segment. In India, we expect demand for passenger cars to slightly exceed the previous year. We anticipate that demand in the Japanese passenger car market will decline slightly in 2016. We are forecasting positive growth rates for the markets in the ASEAN region in 2016.

**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 2016. Overall, we envisage slight growth in demand, a trend that is likely to continue in the period 2017 to 2020.

Given that the economy is expected to recover further in 2016, we estimate that demand for light commercial vehicles in Western Europe will be in line with the prior-year figure. We anticipate that new registrations in Germany will be around the previous year’s level.

In the Central and Eastern European markets, registrations of light commercial vehicles in 2016 will probably be flat on the previous year. We also expect the market volume in Russia to remain stable compared with 2015.

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 2016 will probably record a modest increase year-on-year. We are expecting demand in the Chinese market to be up on the previous year. For India we are forecasting a substantially higher volume in 2016 than in the reporting period. In the Japanese market, the downward trend is likely to continue in 2016 at a moderate pace. In the ASEAN region, we assume that the market will grow in 2016.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2016 are set to drop slightly below the prior-year level. For the period 2017 to 2020 we anticipate a positive trend, however.

We expect to see demand in Western Europe and Germany slightly edge up year-on-year in 2016.

Central and Eastern European markets should also record a slight uptick in demand. Following the significant slump in the Russian market in 2015, we are forecasting a moderate recovery in demand. Despite this backlog effect, the Russian market as a whole will remain at a low level.

As pent-up demand in the US truck market has become saturated, new registrations in North America in 2016 will probably be down appreciably on the prior-year figure.

Demand in the Brazilian market in 2016 will be substantially lower than the already weak figure recorded in the previous year. This is attributable to the economic conditions, which continue to be weighed down by the muted business climate and negative growth rates.

For China, the world’s largest truck market, the significant market decline in 2015 will result in pent-up demand, so registrations in 2016 will probably be noticeably higher than in the previous year. Nevertheless, this market will not reach the high level recorded in preceding years. In India, we expect sizable growth in the market on the strength of the positive economic climate and the implementation of numerous infrastructure measures.

In the bus markets that are relevant for the Volkswagen Group, we expect demand to decrease perceptibly in 2016. Following the sharp increase in Western Europe in 2015, we are likely to see demand dip slightly in 2016. For Central and Eastern Europe, we are forecasting that the volume of demand will be down significantly on the previous year. In South America, new registrations will probably also be substantially lower than the prior-year level.

For the period 2017 to 2020, we expect moderate growth overall in the bus markets that are relevant for the Volkswagen Group.

We expect the overall difficult market environment and thus the price pressure in the power engineering segment to persist in 2016.

We anticipate that the order volume for two-stroke engines, used in merchant shipping in 2016, will be similar to the prior-year figure. Calls for greater energy efficiency and low pollutant emissions will have a significant influence on ship designs in the future. We expect to see continuing high demand for special-purpose ships such as cruise ships and government vessels. Despite long-term positive growth factors for offshore applications, expectations are that new orders will be at a low level in 2016 because of the persistently low oil price. Overall, we estimate that the marine market will be on a level with the previous year. The competitive pressure will continue unabated.

Demand for energy correlates strongly with macroeconomic and demographic trends, especially in developing countries and emerging markets. The global trend toward decentralized power stations and gas-based applications shows no sign of slowing down. This development is supported in particular by increasing improvements in the liquid gas infrastructure. We anticipate that demand will increase slightly year-on-year in 2016, but will remain at a low overall level.

Both the processing and the oil and gas industries are expected to experience a persistently difficult market environment in fiscal year 2016, resulting in high price and competitive pressure. This is due to expectations that oil prices will remain low and unfavorable economic and political conditions will prevail in some relevant markets. We consequently envisage that in 2016 the market for turbomachinery will also settle at the previous year’s low level.

Any substantial improvement in the German market for wind farms cannot yet be expected for 2016.

For the period 2017 to 2020, demand is expected to grow in the power engineering market.

We expect automotive financial services to continue to grow in importance worldwide in 2016. We anticipate that demand for financial services will increase more strongly in those emerging markets in which market penetration is currently low, such as China. In regions with developed automotive finance markets, there will be a further shift in the offering towards enabling mobility at a manageable total cost. Integrated end-to-end solutions, comprising service modules such as insurance and innovative
packages of services, and new mobility offerings such as carsharing will become increasingly important. We also expect this trend to continue in the period 2017 to 2020.

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. We anticipate increased demand in 2016 in the developed markets for services that reduce the total cost of ownership. This trend will continue in the period 2017 to 2020.

**EXCHANGE RATE TRENDS**
The global economy lost a little of its momentum in 2015. Falling energy and commodity prices, uncertainty about the change in the Chinese growth model and the declining confidence in the economic stability of emerging markets resulted in further weakening of the currencies of those countries. The euro stabilized at a low level against the US dollar, the Chinese renminbi and sterling in the course of the year. Despite appreciating temporarily, the Russian ruble remained weak, losing substantial ground again in the second half of the year. For 2016, we are forecasting that the euro will gain some strength against the US dollar, Chinese renminbi, sterling and other key currencies. The expectation is that the Russian ruble will remain weak. We currently assume that these trends will continue in the period 2017 to 2020. There is still a general event risk – defined as the risk arising from unforeseen market developments.

**COMMODITY PRICE TRENDS**
Many commodity prices decreased further in 2015. This was principally due to increasing excess supply in the global markets, but also to weaker economic growth in China and the strong US dollar. Assuming somewhat stronger growth in the global economy, we expect prices of most exchange-traded raw materials in 2016 to fluctuate around the current level. Provided there is a further recovery, we believe that commodity prices will rise in the period 2017 to 2020.

**NEW MODELS IN 2016**
The Volkswagen Group will systematically press ahead with its model initiative in 2016, modernizing and expanding its portfolio by introducing attractive new vehicles. Priority will always be given to what our customers want. We are also successively enhancing our product portfolio by adding vehicles equipped with alternative drive systems, i.e. gas and electric versions.

The Volkswagen Passenger Cars brand will launch the replacement of the successful Tiguan SUV model in 2016. In addition, the Beetle family will be upgraded, and the Beetle Dune will be added to the range. Other product upgrades are planned for the up! and Golf Cabriolet as well as for the Gol, Voyage and Saveiro in Brazil. In China, the product program is being extended with the sporty GTS variant of the Lamando and the new luxury saloon Phideon. The locally produced successors to the popular Magotan notchback saloon, the versatile Touran and the new Golf Sportsvan will be launched there. In addition, there will be product upgrades for the locally produced Passat and Sagitar GLI models.

The Audi brand is systematically expanding its SUV range: the new sporty compact entry-level model Q2 extends the Q family. Production of the new Q5 will start up at the new plant in Mexico. The successor to the A5 Coupé will also be unveiled in 2016. The A4 family will be enhanced by adding the sporty S models S4 Saloon and S4 Avant as well as the A4 allroad quattro. Towards the end of the year, the A4 g-tron is expected to be introduced. In addition to natural gas, this car can also run on eco-friendly Audi e-gas. At the beginning of 2016, the long wheelbase version of the popular luxury class vehicle A6 L will moreover be unveiled in China, to be followed by the A6 L e-tron later in the year.

ŠKODA will launch the Superb SportLine in 2016, thus introducing a sporty element to the Superb series.
In 2016, the SEAT brand will expand its product portfolio by adding a new versatile SUV in the A segment: the Ateca. The popular Leon series will be upgraded.

Porsche will enhance the new generation of the 911 in 2016 with additions such as the all-wheel drive and Targa models and the 911 Turbo. In addition, the new generation of the Cayman and the Boxster will be unveiled.

Bentley will introduce a new series and launch the Bentayga, the world’s most luxurious and powerful SUV. The Mulsanne will be upgraded and a new variant with a lengthened wheelbase will be added.

The super sports car manufacturer Lamborghini will unveil the Huracán LP 610-4 Spyder in 2016, which combines the technology and power of the Huracán with the emotion of a Spyder.

Volkswagen Commercial Vehicles will present the successor to the Crafter. The vehicle is produced at the purpose-built Wrzesnia plant in Poland and is a key component of the growth strategy of Volkswagen Commercial Vehicles. The Amarok pickup, which has enjoyed international success, will get a comprehensive product upgrade.

At Ducati, the Scrambler series will be expanded in 2016 with, among other things, the addition of a premium lifestyle model and the Flat Track Pro. The new XDiavel will complement Ducati’s Cruiser product range. An Enduro and the sporty 1200 Pike’s Peak will be added to the Multistrada series.

**STRATEGIC SALES FOCUS**
The multibrand structure, comprising largely independent, strong brands that nevertheless achieve maximum synergies, is one of the defining features of the Volkswagen Group. The structures in the Group have been designed for managing a multibrand organization.

To facilitate the entry into new markets for more Group brands, we will further expand our multibrand structure, particularly in the growth markets. We will also strengthen our customer focus across all sales levels and in customer service, for which we are continually enhancing employee qualifications in addition to optimizing our processes and systems to reflect shifts in customer requirements as well as changing markets and technologies, in particular digitalization. The focus of our sales strategy remains the same – the integrated marketing of new and used vehicles, financial and other services, as well as genuine parts and accessories.

**TECHNICAL EXPERTISE, MOTIVATION AND HEALTH**
The central concern of the Volkswagen Group’s human resources work is to promote the expertise, motivation and health of our employees. This is the prerequisite for outstanding professional and engineering work.

The dual vocational training and a university degree are 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 offering of qualifications 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 pillar of this strategy is the transfer of knowledge and experience by experts to other staff. Qualifications are provided in the form of dual vocational training and classroom education that closely integrate theoretical and practical forms of learning.

**INVESTMENT AND FINANCIAL PLANNING**
In our current planning for 2016, investments of a total of €15 billion will be made in the Automotive Division.

Scheduled capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) will amount to approximately €12 billion, down on the figures of the previous planning round. The ratio of capex to sales revenue in 2016 will be at a level of 6 – 7%. The majority of capex will be spent on new products, the continued rollout and development of the modular toolkit and the completion of ongoing capacity expansion. These relate, for example, to product start-ups such as the next generation of the Golf and the Audi Q5, the new Crafter production facility in Poland plus upfront investments for the modular electrification toolkit. Roughly 50% of capex will be made at the Group’s 28 locations in Germany.

Besides capex, investing activities will include additions of €5 billion to capitalized development costs. Among other things, these reflect upfront expenditures in connection with compliance with environmental standards and the extension and updating of our model range. Activities will focus in particular on the rapid advancement of electric drives in the Volkswagen Passenger Cars, Audi and Porsche brands.
The investments in new 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.

In March 2016, the sale of the leasing and fleet management company LeasePlan Corporation N.V. to a syndicate of investors was concluded. This transaction resulted in a positive effect of €2.2 billion on the Automotive Division’s investing activities.

We intend to finance our investments in the Automotive Division using internally generated funds and expect cash flows from operating activities to exceed the Automotive Division’s investment requirements. As a result of the effects of the emissions issue, net cash flow in the Automotive Division will probably be significantly lower than in the previous year. This does not include cash outflows for the legal handling of the emissions issue.

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 not consolidated and are therefore also not included in the above figures. These joint ventures will invest €4 billion in capex in 2016, to be financed from the companies’ own funds.

In the Financial Services Division we are planning higher investments in 2016 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 asset-backed securities, customer deposits from direct banking business, unsecured bonds on the money and capital market 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%. Due in particular to the adverse effects of the special items on earnings, we fell considerably short of the minimum required rate of return in the reporting period, with a return on investment (ROI) of –0.2% (see also page 123). Invested capital will increase in 2016 as a result of the investments in new models and in the development of alternative drives and modular toolkits. The return on investment will be up substantially year-on-year, above the minimum required rate of return on invested capital of 9%.

FUTURE ORGANIZATIONAL STRUCTURE OF THE GROUP
At its meeting on September 25, 2015, the Supervisory Board of Volkswagen AG passed resolutions for restructuring the Company. The Group is to have a new management model, which is being implemented since the beginning of 2016. The main changes are as follows:

At Group level, the management structure will be based even more consistently on the modular toolkit system. In addition to Volkswagen Passenger Cars, SEAT and ŠKODA as the volume brands, Audi, Lamborghini and Ducati will form a brand group and Porsche will be in a brand group with Bentley and Bugatti. The commercial vehicles group with Scania and MAN as well as the Volkswagen Commercial Vehicles brand will remain in place, as will the Power Engineering and Financial Services business areas.

Furthermore, Group functions will focus on efficiency and topics for the future. For this, organizational units will be set up for, among others, digitalization, the toolkit and product strategy, new business fields, as well as cooperation and equity investments.

Existing corporate bodies, structures and processes will be streamlined at Group level, in particular by strengthening the individual brands and regions. The research and development, production and sales functions will be strategically assigned at Group level to the area for which the Chairman of the Board of Management is responsible. The existing responsibilities for these functions in the Group’s Board of Management will be transferred to the new organizational structure.

The reorganization will also result in slight changes to the financial reporting. In the Automotive Division, the Commercial Vehicles/Power Engineering Business Area will in future be presented as two separate business areas in accordance with the segment reporting: Commercial Vehicles Business Area and Power Engineering Business Area. The Automotive Division will thus have three business areas: Passenger Cars, Commercial Vehicles and Power Engineering. The Financial Services Division, which corresponds to the Financial Services segment, will remain unchanged.
SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Group’s Board of Management expects the global economy to record the same level of growth in 2016 as in the previous year. Risks will arise from turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects continue to be hurt by geopolitical tensions and conflicts. We expect the economic upturn to continue in most industrialized nations, with moderate rates of expansion overall. As in the previous year, growth will in all probability be muted in many 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. Competition in the international automotive markets is likely to intensify further.

We expect trends in the passenger car markets in the individual regions to be mixed in 2016. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period. We anticipate that the demand volume in Western Europe and the German passenger car market will be in line with the previous year. In the Central and Eastern European markets, demand for passenger cars is estimated to be under the weak prior-year figure. In North America, we expect last year’s positive trend to continue at a slightly weaker pace. The volumes of the South American markets will probably fall noticeably short of the prior-year figures. The passenger car markets in the Asia-Pacific region look set to continue their growth path at a similar pace.

Global demand for light commercial vehicles will probably see a slight increase in 2016. We expect trends to vary from region to region. In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2016 are set to drop slightly below the prior-year level, while new registrations of buses in the relevant markets will probably be noticeably lower than in the previous year.

We expect automotive financial services to continue to grow in importance worldwide in 2016.

The Volkswagen Group is well positioned to deal with the mixed developments in the global automotive markets. Our broad, selectively expanded product range featuring the latest generation of engines as well as a variety of alternative drives puts us in a good position globally compared with our competitors. The Group’s strengths include in particular its unique brand portfolio, its steadily growing presence in all major world markets and its wide selection of financial services. Our range of models span from motorcycles through compact, sports and luxury cars to heavy trucks and buses, and covers almost all segments. The Volkswagen Group’s brands will press ahead with their product initiative in 2016, modernizing and expanding their offering by introducing new models. Our goal is to offer all customers the mobility and innovations they need, sustainably strengthening our competitive position in the process.

We expect that, on the whole, deliveries to customers of the Volkswagen Group in 2016 will be on a level with the previous year amid persistently challenging market conditions, with a growing volume in China.

In addition to the emissions issue, the highly competitive environment as well as interest rate and exchange rate volatility and fluctuations in raw materials prices all pose challenges. We anticipate positive effects from the efficiency programs implemented by all brands and from the modular toolkits.

Depending on the economic conditions – particularly in South America and Russia – and the exchange rate development and in light of the emissions issue, we expect 2016 sales revenue for the Volkswagen Group to be down by as much as 5% on the prior-year figure. In terms of the Group’s operating result, we anticipate an operating return on sales of between 5.0% and 6.0% in 2016.

In the Passenger Cars Business Area we expect a sharp decrease in sales revenue, with an operating return on sales in the anticipated range of 5.5 – 6.5%. With sales revenue in the Commercial Vehicles Business Area remaining essentially unchanged, we anticipate that the operating return on sales will be between 2.0% and 4.0%. We expect sales revenue in the Power Engineering Business Area to be perceptibly lower than the prior-year figure, with a significantly reduced operating result. For the Financial Services Division, we are forecasting sales revenue and the operating result at the prior-year level.

At Group level, we still endeavor to achieve a sustainable return on sales before tax of at least 8%.

In the Automotive Division, the ratio of capex to sales revenue will fluctuate around a level of 6 – 7% in 2016. The return on investment (ROI) will be up substantially year-on-year, above the minimum required rate of return on invested capital of 9%. As a result of the effects of the emissions issue, net cash flow will probably be significantly lower than in the previous year. Our unchanged stated goal is continue our solid liquidity policy.

The Group’s new structure with more decentralized responsibility will strengthen our brands and regions and increase our proximity to customers. In addition, we are working to make even more focused use of the advantages of our multibrand group by continuously developing new technologies and toolkits. The commitment and considerable technical expertise of our staff are key prerequisites to mastering the current and future challenges facing us and to being successful. The central concern of the Volkswagen Group’s human resources work is therefore to promote the expertise and motivation of our employees. Disciplined cost and investment management and the continuous optimization of our processes are integral elements of the Volkswagen Group’s strategy.
Report on Risks and Opportunities

In this chapter, we first explain the objective and structure of the Volkswagen Group’s risk management system (RMS) and internal control system (ICS) and describe the system relevant for the financial reporting process. We then outline the main risks and opportunities arising in our business activities.

**Objective of the Risk Management System and Internal Control System at Volkswagen**

Only by promptly identifying, accurately assessing and effectively and efficiently managing the risks and opportunities arising from our business activities can we ensure the Volkswagen Group’s sustainable success. The aim of the RMS/ICS is to identify potential risks at an early stage so that suitable countermeasures can be taken to avert the threat of loss to the Company, and any risks that might jeopardize its continued existence can be ruled out.

Assessing the probability and extent of future events and developments is, by its nature, subject to uncertainty. We are therefore aware that even the best RMS cannot foresee all potential risks and even the best ICS can never completely prevent irregular acts.

**Structure of the Risk Management System and Internal Control System at Volkswagen**

The organizational design of the Volkswagen Group’s RMS/ICS is based on the internationally recognized COSO framework for enterprise risk management (COSO: Committee of Sponsoring Organizations of the Treadway Commission). In the reporting period, Volkswagen again pursued a holistic, integrated approach that combines a risk management system, an internal control system and a compliance management system (CMS) within a single management strategy (governance, risk and compliance strategy). Structuring the RMS/ICS in accordance with the COSO framework for enterprise risk management ensures that potential risks are covered in full; opportunities are not recorded. Uniform Group principles are used as the basis for managing risks in a consistent manner.

With this approach we not only fulfill legal requirements, particularly with regard to the financial reporting process, but we are also able to manage significant risks to the Group holistically, i.e. by incorporating both tangible and intangible criteria.

Another key element of the RMS/ICS at Volkswagen is the three lines of defense model, a basic element required, among others, by the European Confederation of Institutes of Internal Auditing (ECHA). In line with this model, the Volkswagen Group’s RMS/ICS has three lines of defense that are designed to protect the Company from significant risks occurring.

No significant changes were made to the RMS/ICS in 2015. In connection with the examination of the emissions issue, we started to analyze possible viable enhancements to the system in the reporting period. These include, among other things, reinforcing the internal control system in the area of product compliance.
First line of defense: operational risk management

The primary line of defense comprises the operational risk management and internal control systems at the individual Group companies and business units. The RMS/ICS is an integral part of the Volkswagen Group’s structure and workflows. Events that may give rise to risk are identified and assessed locally in the divisions and at the investees. Countermeasures are introduced immediately, their effects are assessed and the information is incorporated into the planning in a timely manner. The results of the operational risk management process are incorporated into budget planning and financial control on an ongoing basis. The targets agreed in the budget planning rounds are continually reviewed in revolving planning updates.

At the same time, the results of risk mitigation measures that have already been taken are incorporated into the monthly forecasts on further business development without delay. This means that the Board of Management also has access to an overall picture of the current risk situation via the documented reporting channels during the year.

The minimum requirements for the operational risk management and internal control system are set out for the entire Group in uniform guidelines. These also include a process for the timely reporting of material risks.

Second line of defense: identifying systemic risks using the regular Governance, Risk and Compliance process

In addition to the units’ ongoing operational risk management, the Group Governance, Risk and Compliance (GRC) department each year sends standardized surveys on the risk situation and the effectiveness of the RMS/ICS to the material Group companies and units worldwide (regular GRC process). The feedback is used to update the overall picture of the potential risk situation and assess the effectiveness of the system.

Each systemic risk reported is assessed using the expected likelihood of occurrence and various risk criteria (financial and non-financial). In addition, the measures taken to manage and control risk are documented at management level. This means that risks are assessed in the context of any risk management measures initiated, i.e. in a net analysis. In addition to strategic, operational and reporting risks, risks arising from potential compliance violations are also integrated into this process. Moreover, the effectiveness of key risk management and control measures is tested and any weaknesses identified in the process are reported and rectified.

All Group companies and units selected from among the entities in the consolidated Group on the basis of materiality and risk criteria were subject to the regular GRC process in fiscal year 2015. Only the Scania brand was excluded.

The consolidated Scania brand has not yet been included in the Volkswagen Group’s risk management system due to various provisions of Swedish company law, but its gradual inclusion is planned from 2016 onward. According to Scania’s corporate governance report, risk management and risk assessment are integral parts of corporate management. Risk areas at Scania are evaluated by the brand’s Controlling department and reflected in the financial reporting.

Third line of defense: checks by Group Internal Audit

Group Internal Audit helps the Board of Management to monitor the various divisions and corporate units within the Group. It regularly checks the risk early warning system and the structure and implementation of the RMS/ICS and the CMS as part of its independent audit procedures.
The Company's risk situation is ascertained, assessed and documented in accordance with the requirements of the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG – German Act on Control and Transparency in Business). The requirements for a risk early warning system are met through the elements of the RMS/ICS described above (first and second lines of defense). Independently of this, the external auditors check both the processes and procedures implemented in this respect and the adequacy of the documentation on an annual basis. The plausibility and adequacy of the risk reports are examined on a random basis in detailed interviews with the divisions and companies concerned that also involve the external auditors. The latter assessed our risk early warning system based on this volume of data and established that the risks identified were presented and communicated accurately. The risk early warning system therefore meets the requirements of the KonTraG.

In addition, the Financial Services Division is subject both to scheduled examinations as part of the audit of the annual financial statements and to also unscheduled audits, in particular by the Banking Supervision Committee of the European Central Bank (ECB-SSM) and by the Bundesanstalt für Finanzdienstleistungs-aufsicht (BaFin – the German Federal Financial Supervisory Authority) within the meaning of section 44 of the Kreditwesengesetz (KWG – German Banking Act), as well as examinations by the Prüfungsverband deutscher Banken (Auditing Association of German Banks).

Monitoring the effectiveness of the risk management system and the internal control system
The RMS/ICS is regularly optimized as part of our continuous monitoring and improvement processes. In the process, equal consideration is given to both internal and external requirements. External experts assist in the continuous enhancement of our RMS/ICS on a case-by-case basis. The objective of the monitoring and improvements is to ensure the effectiveness of the RMS/ICS. The results culminate in both regular and event-driven reporting to the Board of Management and Supervisory Board of Volkswagen AG.

Main features of the risk management and integrated internal control system relevant for the financial reporting process
The Volkswagen Group’s accounting is basically organized along decentralized lines. For the most part, accounting duties are performed by the consolidated companies themselves or entrusted to the Group’s shared service centers. In principle, the audited financial statements of Volkswagen AG and its subsidiaries prepared in accordance with IFRSs and the Volkswagen IFRS accounting manual are transmitted to the Group in encrypted form. A standard market product is used for encryption.

The Volkswagen IFRS accounting manual, which has been prepared using external expert opinions in certain cases, ensures the application of uniform accounting policies based on the requirements applicable to the parent. In particular, it includes more detailed guidance on the application of legal requirements and industry-specific issues. Components of the reporting packages required to be prepared by the Group companies are also set out in detail there and requirements established for the presentation and settlement of intragroup transactions and the balance reconciliation process that builds on this.
Control activities at Group level include analyzing and, if necessary, adjusting the data reported in the financial statements presented by the subsidiaries, taking into account the reports submitted by the auditors and the outcome of the meetings on the financial statements with representatives of the individual companies. These discussions address both the reasonableness of the single-entity financial statements and specific significant issues at the subsidiaries. Alongside reasonableness reviews, control mechanisms applied during the preparation of the single-entity and consolidated financial statements of Volkswagen AG include the clear delineation of areas of responsibility and the application of the dual control principle.

The Group management report is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of and in consultation with the Group units and companies.

In addition, the accounting-related internal control system is independently reviewed by Group Internal Audit in Germany and abroad.

**Integrated consolidation and planning system**

The Volkswagen consolidation and corporate management system (VoKUs) enables the Volkswagen Group to consolidate and analyze both Financial Reporting’s backward-looking data and Controlling’s budget data. VoKUs offers centralized master data management, uniform reporting, an authorization concept and maximum flexibility with regard to changes to the legal environment, providing a future-proof technical platform that benefits Group Financial Reporting and Group Controlling in equal measure. To verify data consistency, VoKUs has a multi-level validation system that primarily checks content plausibility between the balance sheet, the income statement and the notes.

**RISKS AND OPPORTUNITIES**

In this section, we outline the risks and opportunities that arise in the course of our business activities. We have grouped them into categories. Unless explicitly mentioned, there were no material changes to the specific risks and opportunities compared with the previous year.

The emissions issue gives rise to additional risks for the Volkswagen Group and also has an impact on existing risks. These are described under the respective risk category.

We use competitive and environmental analyses and market studies to identify not only risks but also opportunities with a positive impact on the design of our products, the efficiency with which they are produced, their success in the market and our cost structure. Where they can be assessed, risks and opportunities that we expect to occur are already reflected in our medium-term planning and our forecast. The following therefore reports on internal and external developments as risks and opportunities that may result in a negative or positive deviation from our forecast.

**Risks from the emissions issue**

In 2015, the Volkswagen Group recognized provisions arising from the emissions issue, in particular for the upcoming service campaigns, recalls and customer-related measures, but also for residual value risks.

Due to existing estimation risks particularly from legal risks, criminal and administrative proceedings, higher expenses for technical solutions, lower market prices, repurchase obligations and customer-related measures, further significant financial liabilities may emerge. Demand may decrease – possibly exacerbated by a loss of reputation or insufficient communication. Other potential consequences include lower margins in the new and used car businesses and a temporary increase in funds tied up in working capital.

The funding needed to cover the risks may lead to assets having to be sold due to the situation and equivalent proceeds for them not being achieved as a result.

Our ability to use refinancing instruments may possibly be restricted in the future or precluded for existing instruments due to the current uncertainties regarding the effects of the emissions issue on the Volkswagen Group. A downgrade of the Company’s rating could also adversely affect the terms associated with the Volkswagen Group’s borrowings.

We are cooperating with all the responsible authorities to clarify these matters completely and transparently.

**Macroeconomic risks and opportunities**

We believe that the risks to continued global economic growth lie primarily in turbulence in the financial markets and structural deficits, which pose a threat to the performance of some industrialized nations and emerging economies. In the southern part of the eurozone, a sustained economic recovery is being hindered by the situation of some financial institutions whose ability to withstand a crisis is still not assured. Persistently high private- and public-sector debt in many places is also clouding the outlook for growth and may cause markets to respond negatively.
Declines in growth in key countries and regions often have an immediate impact on the state of the global economy and therefore pose a central risk.

The economic development of some emerging economies is being hampered primarily by dependence on energy and commodity prices, capital inflows and socio-political tensions. Corruption, inadequate government structures and a lack of legal certainty also pose risks.

Geopolitical tensions and conflicts are a further major risk to the performance of individual economies and regions. As the global economy becomes increasingly interconnected, it is also vulnerable to local developments. Any increasing escalation of the conflicts in Eastern Europe, the Middle East or Africa, for example, could cause further upheaval on the global energy and commodity markets and exacerbate migration trends. The same goes for armed conflicts, terrorist activities, or the spread of infectious diseases, which may prompt unexpected, short-term responses from the markets.

Overall, we consider the probability of a global recession to be low. Due to the risk factors mentioned, however, the possibility of a decline in global economic growth or a period of below-average growth rates cannot be ruled out.

The macroeconomic environment may also give rise to opportunities for the Volkswagen Group if actual developments differ in a positive way from expected developments.

Sector-specific risk and market opportunities
The growth markets of Asia, South America, and Central and Eastern Europe are particularly important to the Volkswagen Group in terms of the global trend in demand for passenger cars and commercial vehicles. Although these markets harbor considerable potential, the underlying conditions in some of the countries in these regions make it difficult to increase unit sales figures there. Some have high customs barriers or minimum local content requirements for domestic production, for example. The market development in Russia was again inhibited by the political crisis and its economic consequences in fiscal year 2015. In South America, structural deficits continued to have a negative impact. Restrictions on vehicle registrations could enter into force for after-sales service since June 2010, and, secondly, a global economic slowdown could negatively impact consumer confidence. Furthermore, we cannot entirely rule out the possibility of freight deliveries being shifted from trucks to other means of transport and of demand for the Group’s commercial vehicles falling as a result.

At the same time, if the economic and regulatory situation permits, there are opportunities for faster growth above and beyond current projections in emerging markets where vehicle densities are still low. The demand that built up in some established markets during the crisis could also bring a more marked recovery in these markets if the economic environment eases more quickly than expected.

Price pressure in established automotive markets due to high market saturation is a particular challenge for the Volkswagen Group as a supplier of volume and premium models. As the global economy is still under strain, competitive pressures are likely to remain high in the future. Some manufacturers may respond by offering incentives in order to meet their sales targets, putting the entire sector under additional pressure, particularly in Western Europe, the USA and China.

Western Europe is one of our main sales markets. A drop in prices due to the economic climate triggered by falling demand in this region would have a particularly strong impact on the Company’s earnings. We counter this risk with a clear, customer-oriented and innovative product and pricing policy. Outside Western Europe, delivery volumes are widely spread around the world; the Chinese market accounts for a large share. We either already have a strong presence in numerous existing and developing markets or are working hard to build such a presence. Moreover, strategic partnerships help us to increase our presence in these countries and regions and cater to requirements there.

In fiscal year 2015, economic trends varied considerably from region to region: whereas the situation in Western Europe continued to stabilize, the growth trend in China developed at a weaker pace. The US economy expanded solidly, but market conditions in Eastern Europe and South America remained under strain. The resulting challenges for our trading and sales companies, such as efficient inventory management and a profitable dealer network, are considerable and are being met by appropriate measures on their part. However, financing business activities through bank loans remains difficult. Our financial services companies offer dealers financing on attractive terms with the aim of strengthening their business models and reducing operational risk. We have installed a comprehensive liquidity risk management system so that we can promptly counteract any liquidity bottlenecks at the dealers’ end that could hinder smooth business operations.

We continue to approve loans for vehicle finance on the basis of the same cautious principles applied in the past, taking into account the regulatory requirements of section 25a(1) of the Kreditwesengesetz (KWG – German Banking Act).

Volkswagen may be exposed to increased competition in aftermarkets for two reasons in particular: firstly, because of the provisions of the block exemption regulations, which have been in force for after-sales service since June 2010, and, secondly, because of the amendments included in EU Regulation 566/2011 of June 8, 2011, which expand independent market participants’ access to technical information.

In addition, the European Commission is currently evaluating the market with regard to existing design protection. If design protection for visible genuine parts were to be abolished as a result, this could adversely affect the Volkswagen Group’s genuine parts business.
Below, we outline the market opportunities for the Volkswagen Group. We see the greatest potential for growth in the markets of the Asia-Pacific region and in North America.

**China**

Growth in China, the largest market in the Asia-Pacific region, progressed at a slower pace in the reporting period. The demand for vehicles will continue to rise there in the coming years due to the need for individual mobility, but will shift from the large coastal cities to the interior of the country. In order to leverage the considerable opportunities offered by this market – also with regard to e-mobility – and to defend our strong market position in China over the long term, we are continuously expanding our product range to include models that have been specially developed for this market. We are further expanding our production capacity in this growing market through additional production facilities.

**India**

The political and economic situation in India further stabilized in 2015. The vehicle markets continued their recovery. We expect this to continue. The Group is currently consolidating its activities in this environment. India remains a strategically important market of the future for the Group.

**ASEAN**

The automotive markets in the ASEAN economic area are volatile, but offer substantial growth opportunities in the aggregate. The Volkswagen Group is working successively to achieve long-term penetration of these markets. High price sensitivity means that having a local manufacturing operation in the region is a condition for a competitive offering. Together with our partners in Malaysia and Indonesia, we locally assemble models from the Volkswagen Passenger Cars, Audi and Volkswagen Commercial Vehicles brands. We are also examining and assessing such opportunities in additional countries in the region. Independent of such business, we are driving forward improvements to local sales structures.

**North America**

The US vehicle market saw growth again in 2015 thanks to the encouraging economic trend and favorable financing conditions. The market’s momentum is, however, expected to decrease. North America remains a growth region for the Volkswagen Group. In the United States, Volkswagen Group of America is systematically pursuing our strategy of becoming a full-fledged volume supplier. An engine plant and the development of additional production capacity in the region will allow the Group to better serve the market in the future. The Group is also pressing forward with additional products tailored specifically to the US market, for example a large SUV. Our market success will largely depend on how transparently, thoroughly and quickly we deal with the diesel issue and restore customers’ confidence.

**Brazil**

In Brazil, the economic environment weakened again and the vehicle market slumped further. Vehicles became more expensive as inflation and interest rates rose. The anticipated recovery failed to materialize and, instead, the economic outlook continued to worsen. We expect the downturn in the vehicle market to persist in 2016. The growing number of automobile manufacturers with local production has resulted in a sharp increase in price pressure and competition. The Brazilian market plays a key role for the Volkswagen Group. To strengthen our competitive position here, we offer vehicles that have been specially developed for this market and are locally produced, such as the Gol and the Fox.

**Russia**

Russia has the potential to grow into one of the largest automotive markets in the world. However, its heavy reliance on currently lower oil revenues and the weak ruble led to a decline in the market as a whole in 2015. Demand for vehicles also continued to be impacted by the political crisis and the related sanctions imposed by the EU and the USA. The market remains of strategic importance for the Volkswagen Group, which is why we are working intensively there.

**The Middle East**

Despite economic and political instability, the Middle East region offers growth opportunities. We are leveraging the potential for sustainable growth with a range of vehicles that has been specifically tailored to this market, without operating our own production facilities.

**Power Engineering**

The underlying global economic trends will continue. These include sustained economic growth, a greater international division of labor and a resulting increase in global transport routes and volumes, a growing demand for energy and forces for innovation powered by trends in global climate policy.

We are working systematically to leverage these market opportunities at a global level. In the medium term, significant potential can be leveraged by enhancing the after-sales business by introducing new products and expanding the service network. Going forward, stricter requirements with respect to reliability, availability of the plants that are already in operation, the increase in environmental compatibility and efficient operation, together with the large number of engines and plants, will provide the basis for profitable, long-term growth.

As part of the capital goods industry, the Power Engineering Business Area is subject to fluctuations in the investment climate.
Even minor changes in growth or growth forecasts, resulting from geopolitical uncertainties or volatile commodities and foreign exchange markets, for example, can lead to significant changes in demand or the cancellation of existing orders. We counter the considerable economic risks with, for example, flexible production concepts and cost flexibility, utilizing temporary employment, working time accounts and short-time work as well as potential structural adjustments. The latter may possibly entail substantial one-time expenses.

**RESEARCH AND DEVELOPMENT RISK**

We conduct extensive trend analyses, customer surveys and scouting activities so as to reflect our customers’ requirements during product development as well as possible. This way we ensure that we identify trends at an early stage and examine their relevance for our customers in good time.

We counter the risk that it may not be possible to develop products or modules within the specified timeframe, to the required quality standards, or in line with cost specifications by continuously and systematically monitoring the progress of all projects and increasingly analyzing third-party industrial property rights, including in relation to communication technologies. We regularly compare this progress with the project’s original targets; in the event of variances, we introduce appropriate countermeasures in good time. Our end-to-end project organization supports effective cooperation among all areas involved in the process, ensuring that specific requirements are incorporated into the development process as early as possible and that their implementation is planned in good time.

**Opportunities arising from the Modular Transverse Toolkit**

The Modular Transverse Toolkit (MQB) and the Modular Production Toolkit (MPB) enable us to cut both development costs and the necessary one-time expenses and manufacturing times, as well as making usage possible over several vehicle generations. The toolkits also allow us to produce different models from different brands in various quantities, using the same system in a single plant. This means that our capacities can be used with greater flexibility throughout the entire Group, enabling us to achieve efficiency gains.

In addition to conventional petrol and diesel engines, the MQB also affords us the opportunity to integrate alternative drivetrains, such as natural gas, hybrid, or electric drives. Previously, individual, vehicle-specific adaptations were necessary for each model. The MQB has created an extremely flexible vehicle architecture that permits dimensions determined by the concept – such as the wheelbase, track width, wheel size and seat position – to be harmonized throughout the Group and utilized flexibly. Other dimensions, for example the distance between the pedals and the middle of the front wheels, are always the same and ensure a uniform system in the front of the car, enabling synergies to be achieved.

**Procurement risks and opportunities**

The procurement risk management system continuously and globally monitors the financial situation of our suppliers and takes targeted measures to avoid supply bottlenecks.

Economic recovery in Europe has contributed to the further stabilization of our supply base at an overall good level of capacity utilization and good margin situation. Large and innovative suppliers in particular have benefited from this. However, there has been an increase in the number of insolvencies globally due to highly volatile individual markets. The unfavorable economic developments in South America and Russia in 2015 led to capacity adjustments by suppliers and, in some cases, to demands for higher prices. At the same time, there was consolidation in the market.

In China, the lower economic growth and increasing competition led to a consolidation of the supplier base. We are therefore now also looking more closely at suppliers in this region from the point of view of preventive risk management.

The trend in procurement is to bundle contracts to a greater extent and to ensure worldwide availability of uniform components. This is resulting in an increased need for financing and further consolidation in the supply industry. The Volkswagen Group’s procurement risk management system therefore assesses suppliers before they are commissioned to perform projects. Among other things, the procurement function considers the risk of there being insufficient competition if it concentrates on a few financially strong suppliers when awarding contracts. Quality problems may necessitate technical measures involving a considerable financial outlay where costs cannot be passed on to the supplier or can only be passed on to a limited extent. In addition to financial difficulties, supply risks may, for example, arise as a result of fires or accidents at suppliers. The supplier risks are automatically identified without delay in the procurement function through early warning systems and mitigated immediately by applying inferred measures.

Our modular toolkit strategy enables us to bundle volumes of vehicle parts and harmonize and synchronize requests for proposals and procurement processes. We systematically enhanced this strategy in the A0 vehicle class, which allowed us to consolidate worldwide volumes into a single global request. In the process, we consider regional market requirements with the aim of maximizing customer satisfaction. This enables us to exploit transregional synergies while at the same time minimizing start-up risks within the Volkswagen Group, one-time expenses and internal process costs.

Optimum use of the possibilities of a worldwide procurement system is a central theme of the Group initiative “Future Automotive Supply Tracks – Volkswagen FAST”. To ensure that we choose the best possible suppliers, we always weigh transregional synergies and the opportunity of acquiring a qualified partner for innovative projects against the risks of dependency.
Production risk

Developments on the global automotive markets, the train strikes in Germany, fires at suppliers and storms, as well as the emissions issue towards the end of 2015, caused production volumes of several vehicle models to fluctuate at some plants. We address such fluctuations using a variety of tried-and-tested tools, such as flexible working time models. The technical design of the production network enables us to respond dynamically to changes in demand at the sites. “Turntable concepts” even out capacity utilization between production facilities. At multibrand sites, the number of which is growing in the Group, volatile demand can also be smoothed across brands.

Short-term fluctuations in customer demand for specific equipment features in our products and the decreasing predictability of demand may lead to supply bottlenecks. We minimize this risk, among other things, by continuously comparing our available resources against different future demand scenarios. If we identify potential bottlenecks in the supply of materials, we can introduce countermeasures far enough in advance.

Production capacity is planned several years in advance for each vehicle project on the basis of expected sales trends. These are subject to market changes and generally entail a degree of uncertainty. If forecasts are too optimistic, there is a risk that capacity will not be fully utilized. Forecasts that are too pessimistic pose a risk of undercapacity, as a result of which it may not be possible to meet customer demand.

Events beyond our control such as natural disasters or other events, for example fires, explosions or the leakage of substances hazardous to health and/or the environment, may adversely affect production to a significant extent. As a consequence, bottlenecks or even outages may occur, thus preventing the planned volume of production from being achieved. We address such risks with, among other things, fire protection measures and hazardous goods management and cover them – where financially viable – using insurance.

The range of our models is growing, while at the same time product lifecycles are becoming shorter; the number of new vehicle start-ups at our sites worldwide is therefore increasing. The processes and technical systems we use for this are complex and there is thus a risk that vehicle deliveries may be delayed. We address this risk by drawing on experience of past start-ups and, identifying weaknesses at an early stage, so as to ensure that production volumes and quality standards are met during our new vehicle start-ups throughout the Group.

In order to prevent downtime in general, lost output, rejects and reworking, we use the TPM (Total Productive Maintenance) method at our production facilities. TPM is a continuous process involving the entire workforce. Round-the-clock maintenance of the technical facilities means that they are always operational and guaranteed to function reliably.

Risks arising from long-term production

In the case of large projects, risks may arise that are often only identified in the course of the project. They may result in particular from contract drafting errors, miscosting, post-contract changes in economic and technical conditions, weaknesses in project management, or poor performance by subcontractors. In particular, omissions or errors made at the start of a project are usually difficult to compensate for or correct and often entail substantial additional expenses.

We endeavor to identify these risks at an even earlier stage and to take appropriate measures to eliminate or minimize them before they occur by constantly optimizing the project control process across all project phases and by using lessons learned process and regular project reviews. We can thus further reduce risk, particularly during the bidding and planning phase for large upcoming projects.

Risks arising from changes in demand

As a result of the emissions issue – possibly exacerbated by media reports – the Volkswagen Group may possibly experience decreases in demand. When dealing with the issue, our highest priority is to provide customers with solutions, both from a technical perspective and in financial matters. In addition, we are pressing ahead with the systematic clarification of the misconduct in the Company.

Consumer demand is shaped not only by real factors such as disposable income, but also by psychological factors that cannot be planned for. Unexpected buyer reluctance, possibly further exacerbated by media reports, could stem from households’ worries about the future economic situation, for example. This is particularly the case in saturated automotive markets such as Western Europe, where demand could drop as a result of owners holding on to their vehicles for longer. In the reporting period, it became evident that the effects of the eurozone debt crisis have not yet been overcome. Several automotive markets, particularly in Southern Europe, were able to further recover from their record lows, however, and exhibited positive growth rates. We are countering this buyer reluctance with our attractive range of models and systematic customer orientation.
A combination of buyer reluctance as a result of the crisis and increases in some vehicle taxes based on CO₂ emissions – as is already the case in some European countries – is driving a shift in demand towards smaller segments and engines in individual markets. We counter the risk that such a shift will negatively impact the Volkswagen Group’s earnings by constantly developing new, fuel-efficient vehicles and alternative drive technologies, based on our drivetrain and fuel strategy. Automotive markets around the world are exposed to risks from government intervention such as tax increases, which curb private consumption.

Commercial vehicles are capital goods: in an economic upturn, the need for transport and thus the demand rises sharply, whereas in economically difficult times demand falls just as sharply. The production fluctuations arising as a result require a high degree of flexibility from manufacturers. Although production volumes are significantly lower, the complexity of the trucks and buses range in fact significantly exceeds the already very high complexity of the passenger cars’ range. The priorities for commercial vehicle customers are overall running costs, vehicle reliability and the service provided.

MAN Power Engineering’s two-stroke engines are produced exclusively by licensees, particularly in Korea, China and Japan. Due to volatile demand in new ship construction and heavy investment by some licensees, there is excess capacity in the market for marine engines, resulting in risks ranging from a decline in license revenues through to bad debt losses. There is also a risk that market share will be lost as a result of Chinese state-owned licensees merging with competitors. We address these risks by constantly monitoring the markets, working closely together with licensees and carefully managing business relationships with them. This also includes receivables management in order to safeguard our license revenues.

**Dependence on fleet customer business**

The percentage of total registrations in Germany accounted for by fleet customers rose to 14.1 (13.3)% in fiscal year 2015. The Volkswagen Group’s share of this customer segment rose to 48.5 (48.4)%. Registrations by fleet customers in Europe were 11.3% higher in total than in the previous year; the Group’s share was 28.9 (29.2)%. The fleet customer business continues to be characterized by increasing concentration and internationalization. The Volkswagen Group is well positioned with its broad portfolio of products and drive systems, as well as its target-group-focused customer care. There is no concentration of default risks at individual fleet customers.

**Quality risk**

Right from the product development stage, we aim to identify and rectify quality problems at the earliest possible point, so as to avoid delays to the start of production. As we are using an increasing number of modular components as part of our modular toolkit strategy, it is very important when defects do occur to identify and eliminate the cause of the defect as quickly as possible. We further optimized the processes with which we can prevent these procedural defects at our brands and improved our organizational processes during the reporting period so that we are able to counter the associated risks more effectively.

Increasing technical complexity and the use of the toolkit system in the Group mean that the need for high-grade supplier components of impeccable quality is rising. To ensure the continuity of production, it is also extremely important that our own plants and our suppliers deliver components on time. We ensure long-term quality and supply capability from the very start of the supply chain using a risk management system that we first tested internally and then introduced among suppliers. In this way, Quality Assurance helps to fulfill customer expectations and consequently to boost our Company’s reputation, sales figures and earnings.

Assuring quality is of fundamental importance especially in the Brazilian, Russian, Indian and Chinese markets, for which we develop dedicated vehicles and where local manufacturers and suppliers have been established, particularly as it may be very difficult to estimate regulatory or official decisions. We continuously analyze the conditions specific to each market and adapt quality requirements to them. We counter the local risks we identify by continuously developing promising measures and implementing them locally, thereby effectively preventing quality defects from arising.

Vehicle registration and operation criteria are defined and monitored by national and, in some cases, international authorities. Some countries also have special, and in some cases new, rules aimed at protecting customers in their dealings with vehicle manufacturers. With our established and revised quality assurance processes, we ensure that the Volkswagen Group brands and their products fulfill all applicable requirements and that local authorities receive timely notification of all issues requiring reporting. By doing so, we reduce the risk of customer complaints, administrative fines and other negative consequences.
**Personnel Risk**

We counter economic risks as well as changes in the market and competitive situation with a range of instruments that help the Group to remain flexible, even with fluctuating order intake – whether orders decline or demand for our products increases. These include time accounts which are filled when overtime is necessary and reduced through time off in quiet periods, enabling our factories to adjust their capacity to the production volume and to “breathe” with measures such as extra shifts, closure days and flexible shift models. The use of temporary workers also allows us to plan more flexibly. All of these measures help the Volkswagen Group to maintain a stable permanent workforce as a rule even when orders fluctuate.

The technical expertise and individual commitment of employees are essential prerequisites for the success of the Volkswagen Group. Our strategic, end-to-end human resources development strategy gives all employees attractive training and development opportunities, with particular emphasis being placed on increasing technical expertise in the Company’s different vocational groups. By boosting our training programs, particularly at our international locations, we are able to adequately address the challenges of technological change.

We are continuously expanding our recruitment tools. Our systematic talent relationship management, for example, enables us to make contact with talented candidates from strategically relevant target groups at an early stage and to build a long-term relationship between them and the Group.

In addition to the standard dual vocational training, programs such as our STIP integrated degree and traineeship scheme ensure a pipeline of highly qualified and motivated employees. We counter the risk that knowledge will be lost as a result of employee fluctuation and retirement with intensive, department-specific training. We have also expanded deployment of our base of senior experts in the Group. With this additional measure we use the valuable knowledge of our experienced specialists that retired from Volkswagen.

**IT Risk**

At Volkswagen, a global company geared towards further growth, the information technology (IT) used in all divisions Group-wide is assuming an increasingly important role. IT risks include unauthorized access to sensitive electronic corporate data as well as limited systems availability as a consequence of downtime or natural disasters.

We address the risk of unauthorized access to corporate data with IT security technologies (e.g. firewall and intrusion prevention systems) and a dual authentication procedure. We achieve additional protection by restricting the allocation of access rights to systems and information and by keeping backup copies of critical data resources. We use technical resources that have been tried and tested in the market, adhering to standards applicable throughout the Company. Redundant IT infrastructures protect us against risks that occur in the event of a systems failure or natural or other disaster.

One of our focuses is on continuously enhancing our security measures. The current IT security program, for example, is built on structured rights management, optimization of IT infrastructure, application security and the IT security command center. The role of the latter is to detect cyber-attacks at an early stage and help to successfully defeat them using the latest hardware and software. The command center is staffed around the clock in three regions (Europe, America, Asia). Volkswagen complements these technical measures with consistent awareness raising and training for all employees.

Volkswagen AG, Allianz SE, BASF SE and Bayer AG have jointly founded the German cybersecurity organization, DCSO. The company aims to serve as a competence center, accumulate specialist knowledge on cybersecurity and become the preferred service provider in this field to German business. DCSO conducts security audits and certifies key suppliers and technologies in order to help German businesses detect and defend against cyber-attacks and to predict them in future. It is hoped that close exchange of information with the Federal Ministry of the Interior and the Federal Office for Information Security will aid the compilation of an anonymized status report on national cybersecurity. Small and medium-sized enterprises – including many of our suppliers – can obtain security services offered by DCSO, which they would otherwise be unable to afford. Volkswagen also benefits from this, as it makes our supply chain more secure.

The high standards we set for the quality of our products also apply to the way in which we handle our customers’ data. Our guiding principles are data security and transparency as well as informational self-determination.

**Environmental protection regulations**

The specific emission limits for all new passenger car and light commercial vehicle models and the fleet targets calculated from the individual vehicle data for brands and groups in the 28 EU member states for the period up to 2019 are set out in EC Regulation No 443/2009 on CO₂ emissions from passenger cars and EU Regulation No 510/2011 on CO₂ emissions from passenger cars and EU Regulation No 510/2011 on light commercial vehicles of up to 3.5 tonnes, in effect since April 2009 and June 2011 respectively. The regulations are an important component of European climate protection legislation and therefore form the key regulatory framework for product design and marketing by all vehicle manufacturers operating in the European markets.

From 2012 onwards, the average CO₂ emissions of manufacturers’ new European passenger car fleets may not exceed the
In principle, the EU legislation permits some flexibility. For example:

- Excess emissions and emission shortfalls may be offset between vehicle models within a fleet of new vehicles.
- Emission pools may be formed.
- Relief may be provided in the form of credits that are granted for additional innovative technologies (eco-innovations) contained in the vehicle and that apply outside the test cycle.
- Special rules are in place for small series producers and niche manufacturers.
- Particularly efficient vehicles qualify for super-credits.

Whether the Group meets its targets, however, depends crucially on its technological and financial capabilities, which are reflected, among other things, in our drivetrain and fuel strategy (see page 133).

The European Commission and UNECE (United Nations Economic Commission for Europe) are currently working to introduce a globally harmonized driving cycle.

The most important European regulations also include Real Driving Emissions (RDE) for passenger cars and light commercial vehicles. The regulation is expected to be finalized by mid-2016 and is intended to set limits for nitrogen oxide and particulate emissions in the EU effective from September 2017. These limits must be complied with in real road traffic. This means the RDE test procedure differs fundamentally from the Euro 6 standard still in force, which stipulates that the limits are compulsory for testing. The RDE regulation is intended primarily to improve air quality in urban areas and areas close to traffic. It will lead to stricter requirements for exhaust gas aftertreatment for passenger cars and light commercial vehicles.

The other main EU regulations affecting the automotive industry include:

- EU Directive 2009/33/EC on the promotion of clean and energy-efficient road transport vehicles (Green Procurement Directive).
- The Passenger car energy consumption labeling Directive 1999/94/EC.
- The Revised Energy Taxation Directive 2003/96/EC updating the minimum tax rates for all energy products and power.

The increase in fleet-based CO₂ and consumption regulations means that it is necessary to use the latest mobility technologies in all key markets worldwide. Electrified and pure-play electric drives will also become increasingly common. The Volkswagen Group closely coordinates technology and product planning with its brands so as to avoid breaches of fleet fuel consumption limits, which would entail severe sanctions. Volkswagen continues to regard diesel technology as an important element in the fulfillment of CO₂ emissions targets.
The implementation of the above-mentioned directives by the EU member states serves to support the CO₂ regulations in Europe. As well as vehicle manufacturers, they are also aimed at the mineral oil industry, for example. Vehicle taxes based on CO₂ emissions are having a similar steering effect; many EU member states have already incorporated CO₂ elements into their rules on vehicle taxation.

Heavy commercial vehicles first put into operation from 2014 onwards are already subject to the stricter emission requirements under the Euro 6 standard in accordance with EU Regulation No 582/2011. The EU is also preparing a further CO₂ regulation for heavy commercial vehicles at the same time as the CO₂ legislation for passenger cars and light commercial vehicles. Simply setting an overarching limit for these vehicles – like that in place for passenger cars and light commercial vehicles – is just one option for these vehicles and would require an extremely complex set of rules because of the wide range of variants. With the support of independent scientific institutions and the European Automobile Manufacturers’ Association (ACEA), the European Commission is currently preparing a simulation-based method called VECTO (Vehicle Energy Consumption Calculation Tool), which can be used to determine the CO₂ emissions of heavy commercial vehicles of over 7.5 tonnes based on their typical use (short-haul, regional, distribution and long-haul trips, service on construction sites and as municipal vehicles, city buses, intercity buses and coaches). This method is expected to be the basis for the European Commission’s concrete regulatory proposals, which are anticipated during 2016. Probably starting 2018 (2019 at the latest), a CO₂ declaration is expected to be compulsory for selected vehicle categories (initially long-haul and regional distribution vehicles, later also buses and other segments), with the captured data initially being used for customer information allowing comparability, for certification and for monitoring purposes. Further vehicle categories are likely to be included as time progresses.

Manufacturers of heavy commercial vehicles are urging the adoption of a system for quantifying CO₂ figures that is accessible to everyone and that looks at the vehicle as a whole and not simply at the engine or the tractor, but also at the trailers and bodywork. This transparency should increase competition for fuel and thus CO₂-efficient commercial vehicles and as a result decrease CO₂ emissions.

As part of its efforts to reduce the CO₂ emissions of heavy commercial vehicles, the European Commission has also adjusted the provisions regarding the maximum permissible dimensions and weights of trucks (Directive 1996/53/EC, the Weights and Dimensions Directive) and revised them through EU Directive 2015/719. As a consequence, cabs with a rounded shape and aerodynamic devices at the rear of the vehicle will enable future improvements in aerodynamics. At the same time, the driver’s field of vision will be extended by increasing the length of the cab in order to improve safety. In addition, the legislators increased the overall weight permitted for vehicles with alternative drive technologies by up to one tonne. The specific technical requirements for the development of aerodynamic and safer cabs have not yet been decided and will only be defined in the next two years.

The European commercial vehicles industry supports the goals of reducing CO₂ emissions and improving transport safety. However, it is not just new vehicles that matter for future CO₂ emissions; individual components are also important, such as reduced rolling resistance tires and the aerodynamic trim of the trailer, as are driving behavior, alternative fuels, transport infrastructure and transport conditions. Longer, heavier vehicles that can decrease fuel consumption and thus CO₂ emissions by up to 25% according to scientific studies by the Federal Highway Research Institute are currently also driving on German roads in a field trial.

In the Power Engineering segment, the International Maritime Organization (IMO) has implemented the International Convention for the Prevention of Pollution from Ships (MARPOL – MARine POLlution), with which limits on emissions from marine engines will be reduced in phases. Emission limits also apply, for example, under EU Directive 1997/68/EC and in accordance with the regulations of the US EPA (Environmental Protection Agency). As regards stationary equipment, there are a number of national rules in place worldwide that limit permitted emissions. On December 18, 2008, the World Bank Group set limits for gas and diesel engines in its “Environmental, Health, and Safety Guidelines for Thermal Power Plants”, which are required to be applied if individual countries have adopted no or less strict national requirements. In addition, back in 1979, the United Nations adopted the Convention on Long-range Transboundary Air Pollution, setting limits on total emissions as well as nitrogen oxide limits for the signatory states (including all EU states, other countries in Eastern Europe, the USA and Canada). Enhancements to the product portfolio in the Power Engineering segment focus on improving the efficiency of the equipment and systems.

The allocation method for emissions certificates changed fundamentally when the third emissions trading period (2013–2020) began. As a general rule, all emission allowances for power generators have been sold at auction starting in 2013. For manufacturing industry and certain power generation installations (e.g. combined heat and power installations), a portion of the certificates are allocated free of charge on the basis of benchmarks applicable throughout the EU. The portion of certificates allocated free of charge will gradually decrease as the trading period progresses: the remaining quantities required will have to be bought, and thus paid for, at auction. Furthermore, installation operators can partly fulfill their obligation to hold emission allowances using certificates from climate protection projects (Joint Implementation and Clean Development Mechanism projects).
In certain (sub-)sectors of industry, there is a risk that production will be transferred to countries outside Europe due to the amended provisions governing emissions trading (a phenomenon referred to as “carbon leakage”). In these cases a consistent quantity of certificates will be allocated free of charge for the period from 2013 to 2020 on the basis of the pan-EU benchmarks. The automotive industry was included in the new carbon leakage list that came into effect in 2015. It is still unclear to what extent the Volkswagen Group will receive additional certificates free of charge.

In 2013, the European Commission decided to initially withhold a portion of the certificates to be auctioned and to only release them for auction at a later date during the third trading period (backloading). This temporary scarcity of certificates, which could lead to a price increase, will be directed into a market stability reserve, to be established in 2018. The reserve should in future correct any imbalance between the supply of and demand for certificates in emissions trading.

As well as the European Union, other countries in which the Volkswagen Group has production sites are also considering introducing an emissions trading system. Seven pilot projects are running in China, for example, although they have not so far affected the Volkswagen Group. The Chinese government plans to expand those pilot projects into a national emissions trading system.

Litigation
In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested become involved in a great number of legal disputes and official proceedings in Germany and internationally. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. For the companies involved, these may result in payment or other obligations. Above all in cases where US customers in particular assert claims for vehicle defects individually or by way of a class action, highly cost-intensive measures may have to be taken and substantial compensation or punitive damages paid. Corresponding risks also result from US patent infringement proceedings.

Risks may also emerge in connection with the adherence to regulatory requirements. This particularly applies in the case of regulatory vagueness that may be interpreted differently by Volkswagen and the agencies responsible for the respective regulations. In addition, legal risks can arise from the criminal activities of individual persons, which even the best compliance system can never completely prevent.

Where transparent and economically viable, adequate insurance cover is taken out for these risks. For the identifiable and measurable risks, appropriate provisions are recognized and information about contingent liabilities is disclosed. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not being covered by the insured amounts and provisions cannot be ruled out. This particularly applies to legal risk assessment regarding the diesel issue.

Diesel issue
On September 18, 2015, the U.S. Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NOx) emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines. It has been alleged that we had used undisclosed engine management software installed in certain four-cylinder diesel engines used in certain 2009 to 2015 model year vehicles to circumvent NOx emissions testing regulations in the United States of America in order to comply with certification requirements. The US environmental authority of California – the California Air Resources Board (CARB) – announced its own enforcement investigation in this context.

Volkswagen admitted to irregularities in this context. In its ad hoc release dated September 22, 2015, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with certain diesel engines. The vast majority of these engines are Type EA 189 Euro 5 engines. On November 2, 2015, the EPA issued another “Notice of Violation” alleging that irregularities had also been discovered in the software installed in vehicles with type V6 TDI 3.0 l diesel engines. CARB also issued a letter announcing its own enforcement investigation in this context. Audi has confirmed that a total of three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines are affected.

On January 4, 2016, the U.S. Department of Justice (DOJ), on behalf of the EPA, filed a civil complaint against Volkswagen AG, AUDI AG and other companies of the Volkswagen Group. The claims asserted under civil law are founded on the alleged use of illegal (Defeat Device) software in violation of the American Clean Air Act. The complaint’s allegations relate to both the four-cylinder and the six-cylinder diesel engines. On January 12, 2016, it was announced that CARB intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

The allegations described are subject to extensive ongoing discussions between Volkswagen and the EPA or CARB, respectively, also including a rigorous review of relevant technical concepts. The investigations have not been completed at the present time.
In addition to internal inquiries, Volkswagen AG commissioned an official external investigation by US law firm Jones Day for this purpose. This will be an independent and comprehensive investigation that will address the diesel issue. The Supervisory Board of Volkswagen AG is ensuring that Jones Day can carry out its clarification work independently. Jones Day is updating the Company on the current results of its investigation on an ongoing basis.

The Supervisory Board of Volkswagen AG has formed a special committee to coordinate all activities in this context for the Supervisory Board.

Based on decisions dated October 15, 2015, the Kraftfahrtbundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles and SEAT brands to recall all of the diesel vehicles that had been issued with vehicle type approval by the KBA from among the 11 million affected. The recall concerns the member states of the European Union (EU28). On December 10, 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order correspond to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the remedial actions, this means that Volkswagen has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU 28 countries, to the service workshops since January 2016. Based on current knowledge, the remedial actions differ in scope depending on the engine variant. The technical solutions cover software and in some cases hardware modifications, depending on the series and model year. The details of the remedial actions will be agreed in close cooperation with the KBA, which must approve them in advance. Discussions are currently underway with the authorities in the other EU member states with the aim of ensuring that no legal actions above and beyond this will be taken in this connection by public authorities in the other member states. The Group brands SEAT and ŠKODA also received approvals in principle each from their respective type approval authorities – the Ministry of Industry in Spain and the Vehicle Certification Agency in the United Kingdom. In some countries outside the EU – among others Switzerland, Australia and Turkey – national type approval is based on prior recognition of the EC/ECE type approval. We are also in close contact with the authorities in these countries in order to coordinate the corresponding actions.

In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen’s planned actions in relation to the four-cylinder and the six-cylinder diesel engines will also have to be approved. Due to considerably stricter NOx limits in the USA, it is a greater technical challenge to refit the vehicles so that all applicable emissions limits can be met. Potential consequences for Volkswagen’s results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Criminal and administrative proceedings all over the world (excluding the USA/Canada)
In addition to the approval processes with the responsible registration authorities, criminal investigations/misdemeanour proceedings have been opened (for example, by the public prosecutor’s office in Braunschweig, Germany) and/or administrative proceedings have been announced in some countries (for example, by the Bundesanstalt für Finanzdienstleistungsaufsicht BaFin – the German Federal Financial Supervisory Authority). The public prosecutor’s office in Braunschweig is investigating the core issue of the criminal investigations. Whether this will result in fines for the Company, and if so what their amount might be, is currently subject to estimation risks. According to Volkswagen’s estimates so far, the large majority of proceedings have less than a 50% probability of success. Contingent liabilities have therefore been disclosed in cases where they can be assessed and for which the chance of success was deemed not implausible.

2. Product-related lawsuits worldwide (excluding the USA/Canada)
In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany).

In this context, various lawsuits are pending against Volkswagen AG and other Volkswagen Group companies at present.

Class action proceedings against Volkswagen AG and other Volkswagen Group companies are pending in various countries such as Australia, Israel, Italy, United Kingdom and the Netherlands. The proceedings in the Netherlands are focused on taking evidence only. The other class action proceedings are lawsuits aimed among other things at asserting damages. The amount of these damages cannot yet be quantified due to the early stage of the proceedings. In South Korea various mass proceedings are pending (individual lawsuits in which several hundred litigants have aggregated). These lawsuits are filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Volkswagen does not estimate the litigants’ prospect of success to be more than 50% in any of the aforementioned proceedings aimed at asserting damages. Contingent liabilities have therefore been disclosed in those cases where that can be assessed and for which the chance of success was deemed not implausible.
Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany and Austria, individual lawsuits in the two-digit range are pending, most of which are aimed at asserting damages or rescinding the purchase contract. According to Volkswagen’s estimates so far, the litigants’ prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed for those lawsuits that can be assessed and for which the chance of success was deemed not implausible.

It is too early to estimate how many customers will take advantage of the option to file lawsuits in the future, beyond the existing lawsuits, or what their prospects of success will be. On the one hand, the final results of the external investigation by Jones Day are not yet known. On the other hand, the public prosecutors’ investigations are also still ongoing.

Volkswagen is working intensively to finalize the remedial actions described above. For the 21 engines, implementation already started in the fourth week of January 2016.

Volkswagen is pursuing the clear aim of not adversely affecting engine performance, fuel consumption and CO\textsubscript{2} emissions in implementing the planned measures.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)
Investors from Germany and abroad have announced that they are examining the possibility of pursuing claims for damages against Volkswagen AG due to the movements in Volkswagen AG’s share price following publication of the EPA’s “Notices of Violation”. Volkswagen AG had already been served with lawsuits that in particular claim damages due to alleged misconduct in capital market communications. In some cases, applications were simultaneously made to instigate proceedings in accordance with the Kapitalanleger-Musterverfahrensgesetz (Capital Markets Model Case Act). Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. Furthermore, contingent liabilities were disclosed for a portion of the submitted claims. The majority of the claims either could not be assessed at the time or the chance of success was deemed unlikely.

4. Proceedings in the USA/Canada
Following the publication of the EPA’s notices of violation, Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal) and civil litigation. Volkswagen AG and other Volkswagen Group companies have received subpoenas and inquiries from state attorneys general and other governmental authorities and are responding to such investigations and inquiries.

In addition, Volkswagen AG and other Volkswagen Group companies in the USA/Canada are facing litigation on a number of different fronts relating to the matters described in the EPA’s “Notices of Violation”.

On January 4, 2016, the U.S. Department of Justice (DOJ), Civil Division, on behalf of the EPA, initiated a civil penalty lawsuit against Volkswagen AG, AUDI AG and certain other Volkswagen Group companies. The action seeks statutory penalties under the US Clean Air Act, as well as certain injunctive relief.

On January 12, 2016, it was announced that CARB intends to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

The DOJ has also opened a criminal investigation. This focuses on allegations that various federal law criminal offenses were committed.

A large number of putative class action lawsuits by affected customers and dealers have been filed in US federal courts and consolidated for pretrial coordination purposes in a federal court multidistrict litigation proceeding in the State of California. The claims primarily relate to compensation for material damage. The DOJ civil penalty lawsuit referenced above has also been consolidated for pretrial coordination purposes in this California multidistrict litigation proceeding.

Additionally, in the USA, some putative class actions have been filed; some individual customers’ lawsuits have been filed; and some state or municipal claims have been filed in state courts. The attorneys general of four US states (West Virginia, Texas, New Mexico and New Jersey) have commenced litigation in state courts and allege that Volkswagen Group of America inappropriately advertised clean diesels and that customers were misled into purchasing Volkswagen diesel vehicles as a result. The United States Federal Trade Commission (FTC) has also made similar accusations against the Volkswagen Group of America in its lawsuit from March 29, 2016.

In addition to lawsuits described above, for which provisions have been recognized, a number of lawsuits for damages have been filed on behalf of a putative class of purchasers of Volkswagen AG American Depository Receipts, alleging a suffered drop in price purportedly resulting from the matters described in the EPA’s “Notices of Violation”.

These lawsuits have also been consolidated in the federal multidistrict litigation proceeding in the State of California described above. Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. In addition, contingent liabilities have not been disclosed as they currently cannot be measured.
5. Risk assessment regarding the diesel issue

To protect against the currently known legal risks, including suitable expenses for defense and legal advice related to the diesel issue, existing information and assessments at the time indicated the need to generate provisions in the amount of €7.0 billion. A sum amounting to €1 billion has also been reported for contingent liabilities, insofar as these can be adequately measured at this stage. The provisions recognized, the contingent liabilities disclosed and the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing regulatory approval process with the authorities and the fact that the independent and exhaustive investigations have not yet been completed. In addition, negotiations are currently being conducted with the authorities in the USA concerning possible investments in environmental projects and e-mobility. The investments are expected to amount to approximately €1.8 billion. Their content and timing have yet to be defined.

Additional important legal cases

ARFB Anlegerschutz UG (haftungbeschrankt), Berlin, brought an action against Porsche Automobil Holding SE, Stuttgart, Germany, and Volkswagen AG for claims for damages allegedly assigned to it in the amount of approximately €2.26 billion. The plaintiff asserts that these claims are based on alleged breaches by the defendants of legislation to protect the capital markets in connection with Porsche’s acquisition of Volkswagen shares in 2008. With its April 2016 ruling, the district court of Hannover submitted numerous goals for discovery to the higher regional court in Celle in an attempt to prompt a model case decision. In all other cases, the claims were thrown out for being inadmissible. In various cases since 2010, investors initiated conciliation proceedings for other alleged damages – including claims against Volkswagen AG – that amounted to approximately €4.6 billion in total and also related to transactions at that time. In each case, Volkswagen rejected the claims asserted and refused to participate in any conciliation proceedings.

In 2011, the European Commission opened antitrust proceedings against European truck manufacturers including MAN and Scania. In November 2014, the European Commission sent a statement of objections to MAN, Scania and the other truck manufacturers concerned, in which it informed the truck manufacturers of the objections raised against them and gave them the right to comment extensively on the objections raised and to exercise other rights of defense before any decision is reached. Given the fact that the issues are still being clarified, it is too early to judge whether the European Commission’s investigation will result in financial liabilities for MAN and Scania and, if so, to assess their amount. As a consequence, neither MAN nor Scania has recognized provisions or disclosed contingent liabilities.

The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Volkswagen Truck & Bus GmbH (formerly Truck & Bus GmbH), a subsidiary of Volkswagen AG, in June 2013. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. It is not uncommon for noncontrolling interest shareholders to institute such proceedings. In July 2015, the Munich Regional Court ruled in the first instance that the amount of the cash settlement payable to the noncontrolling interest shareholders of MAN should be increased from €80.89 to €90.29; at the same time, the amount of the cash compensation was confirmed. Both applicants and Volkswagen Truck & Bus GmbH have appealed to the Higher Regional Court in Munich. Volkswagen continues to maintain that the results of the valuation are correct. The appropriateness of the valuation was confirmed by the audit firms engaged by the parties and by the court-appointed auditor of the agreement. The assessment of liability for put options and compensation rights granted to noncontrolling interest shareholders was adjusted in turn.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities, particularly in relation to the diesel issue and the European Commission’s investigation. This is so as to not compromise the results of the proceedings or the interests of the Company.

Strategies for hedging financial risks

In the course of our business activities, financial risks may arise from changes in interest rates, exchange rates, raw materials prices, or share and fund prices. Management of financial and liquidity risks is the responsibility of the central Group Treasury department, which minimizes these risks using nonderivative and derivative financial instruments. The Board of Management is informed of the current risk situation at regular intervals.

We hedge interest rate risk – where appropriate in combination with currency risk – and risks arising from fluctuations in the value of financial instruments by means of interest rate swaps, cross-currency swaps and other interest rate contracts with fundamentally matching amounts and maturities. This also applies to financing arrangements within the Volkswagen Group.
Foreign currency risk is reduced in particular through natural hedging, i.e. by flexibly adapting our production capacity at our locations around the world, establishing new production facilities in the most important currency regions and also procuring a large percentage of components locally. We hedge the residual foreign currency risk using hedging instruments. These include currency forwards, currency options and cross-currency swaps. We use these transactions to limit the currency risk associated with forecasted cash flows from operating activities and intragroup financing in currencies other than the respective functional currency. The currency forwards and currency options can have a term of up to six years. We thus hedge our principal foreign currency risks, mostly against the euro and primarily in Australian dollars, Brazilian real, sterling, Chinese renminbi, Indian rupees, Japanese yen, Canadian dollars, Mexican pesos, Polish zloty, Russian rubles, Swedish kronor, Swiss francs, Singapore dollars, South African rand, South Korean won, Taiwan dollars, Czech koruna, Hungarian forints and US dollars.

Increased volatility in future cash flows is to be expected from the current uncertainties regarding the effects of the emissions issue on the Volkswagen Group. This could impact the hedging result.

Raw materials purchasing entails risks relating to the availability of raw materials and price trends. We limit these risks mainly by entering into forward transactions and swaps. We have used appropriate contracts to hedge some of our requirements for commodities such as aluminum, lead, coal, copper, platinum, palladium and rhodium over a period of up to seven years. Similar transactions have been entered into for the purpose of supplementing and improving allocations of CO2 emission certificates.

Pages 278 to 286 of the notes to the consolidated financial statements explain our hedging policy, the hedging rules and the default and liquidity risks, and quantify the hedging transactions mentioned. Additionally, we disclose information on market risk within the meaning of IFRS 7.

**Liquidity risk**

We ensure that the Company remains solvent at all times by holding liquidity reserves, through confirmed credit lines and through our money market and capital market programs. We cover the capital requirements of the financial services business mainly by raising funds at matching maturities in the national and international financial markets as well as through customer deposits from the direct banking business.

Projects are financed by, among other things, loans provided by development banks such as the European Investment Bank (EIB), the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), or by national development banks such as Kreditanstalt für Wiederaufbau (KfW) and Banco Nacional de Desenvolvimento Econômico e Social (BNDES). Lines of credit from banks supplement our broadly diversified refinancing structure.

Our ability to use refinancing instruments may possibly be restricted in the future or precluded for existing instruments due to the current uncertainties regarding the effects of the emissions issue on the Volkswagen Group. A downgrade of the Company’s rating could adversely affect the terms associated with the Volkswagen Group’s borrowings.

Information on the ratings of Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH can be found on page 108 of this report.
Residual value risk in the financial services business

In the financial services business, we agree to buy back selected vehicles at a residual value that is fixed at inception of the contract. Residual values are set at a realistic amount so that we are able to leverage market opportunities. We evaluate the underlying lease contracts at regular intervals and recognize any necessary provisions if we identify any potential risks.

Management of the residual value risk is based on a defined feedback loop ensuring the full assessment, monitoring, management and communication of risks. This process design ensures not only professional management of residual risks but also that we systematically improve and enhance our handling of residual value risks.

As part of our risk management, we use residual value forecasts to regularly assess the appropriateness of the provisions for risks and the potential for residual value risk – also with a view to the emissions issue. In the process, we compare the contractually agreed residual values with the fair values obtainable. These are determined utilizing data from external service providers and our own marketing data. We do not take account of the upside in residual market values when making provisions for risks.

More information on residual value risk and other risks in the financial services business, such as counterparty, market and liquidity risk, can be found in the 2015 Annual Report of Volkswagen Financial Services AG.

Reputational risks

The reputation of the Volkswagen Group and its brands is one of the most important assets and forms the basis for long-term business success. Our policy on issues such as ethics and sustainability is in the public focus. One of the basic principles of running our business is therefore to pay particular attention to compliance with legal requirements and ethical principles. However, we are aware that misconduct or criminal acts of individuals and the resulting reputational damage can never be fully prevented. In addition, media reactions can have a negative effect on the reputation of the Volkswagen Group and its brands. This impact could be amplified through insufficient communication.

Moreover, the above-described individual risks that may arise in the course of our operating activities may turn into a threat to the Volkswagen Group’s reputation.

Other factors

Going beyond the risks already outlined, there are other factors that cannot be predicted and whose repercussions are therefore difficult to control. Should these transpire, they could have an adverse effect on the further development of the Volkswagen Group. In particular, these factors include natural disasters, epidemics and terror attacks.

OVERALL ASSESSMENT OF THE RISK AND OPPORTUNITY POSITION

The Volkswagen Group’s overall risk and opportunity position results from the specific risks and opportunities shown above. We have put in place a comprehensive risk management system to ensure that these risks are controlled. The most significant risks to the Group may result from a negative trend in unit sales of, and markets for, vehicles and genuine parts, from the failure to develop and produce products in line with demand and from quality problems. Compared with the previous year, the emissions issue gives rise to additional risks for the Volkswagen Group which, when aggregated, are among the most significant risks. Taking into account all the information known to us at present, no risks exist which could pose a threat to the continued existence of significant Group companies or the Volkswagen Group.
The Volkswagen Group’s Board of Management expects the global economy to record the same level of growth in 2016 as in the previous year. Risks will arise from turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects continue to be hurt by geopolitical tensions and conflicts. We expect the economic upturn to continue in most industrialized nations, with moderate rates of expansion overall. As in the previous year, growth will in all probability be muted in many emerging markets. We expect the strongest rates of expansion in Asia’s emerging economies.

We expect trends in the passenger car markets in the individual regions to be mixed in 2016. Overall, growth in global demand for new vehicles will probably be slower than in the reporting period. We anticipate that the demand volume in Western Europe and the Germany passenger car market will be in line with the previous year. In the Central and Eastern European markets, demand for passenger cars is estimated to be under the weak prior-year figure. In North America, we expect last year’s positive trend to continue at a slightly weaker pace. The volumes of the South American markets will probably fall noticeably short of the prior-year figures. The passenger car markets in the Asia-Pacific region look set to continue their growth path at a similar pace.

Global demand for light commercial vehicles will probably see a slight increase in 2016. We expect trends to vary from region to region.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2016 are set to drop slightly below the prior-year level, while new registrations of buses in the relevant markets will probably be noticeably lower than in the previous year.

We expect automotive financial services to continue to grow in importance worldwide in 2016.

The Volkswagen Group is well positioned to deal with the mixed developments in the global automotive markets. Our broad, selectively expanded product range featuring the latest generation of engines as well as a variety of alternative drives puts us in a good position globally compared with our competitors. The Group’s strengths include in particular its unique brand portfolio, its steadily growing presence in all major world markets and its wide selection of financial services. Our range of models spans from motorcycles through compact, sports and luxury cars to heavy trucks and buses, and covers almost all segments. The Volkswagen Group’s brands will press ahead with their product initiative in 2016, modernizing and expanding their offering by introducing new models. Our goal is to offer all customers the mobility and innovations they need, sustainably strengthening our competitive position in the process.

We expect that, on the whole, deliveries to customers of the Volkswagen Group in 2016 will be on a level with the previous year amid persistently challenging market conditions, with a growing volume in China.

In addition to the emissions issue, the highly competitive environment as well as interest rate and exchange rate volatility and fluctuations in raw materials prices all pose challenges. We anticipate positive effects from the efficiency programs implemented by all brands and from the modular toolkits.

Depending on the economic conditions – particularly in South America and Russia – and the exchange rate development and in light of the emissions issue, we expect 2016 sales revenue for the Volkswagen Group to be down by as much as 5% on the prior-year figure. In terms of the Group’s operating result, we anticipate that the operating return on sales will be between 5.0% and 6.0% in 2016.

In the Passenger Cars Business Area we expect a sharp decrease in sales revenue, with an operating return on sales in the anticipated range of 5.5 – 6.5%. With sales revenue in the Commercial Vehicles Business Area remaining essentially unchanged, we assume operating return on sales will be between 2.0% and 4.0%. We expect sales revenue in the Power Engineering Business Area to be perceptibly lower than the prior-year figure, with a significantly reduced operating result. For the Financial Services Division, we are forecasting sales revenue and operating result at the prior-year level. Disciplined cost and investment management and the continuous optimization of our processes are integral elements of the Volkswagen Group’s strategy.