VOLKSWAGEN

AKTIENGESELLSCHAFT

Half-Yearly Financial Report 2017

January – June

Key Figures

VOLKSWAGEN GROUP

	Q2			H1		
Volume Data[1]	2017	2016	%	2017	2016	%
Deliveries to customers (thousand units)	2,661	2,608	+2.0	5,156	5,116	+0.8
of which: in Germany	358	366	–2.0	679	685	–1.0
abroad	2,302	2,242	+2.7	4,477	4,431	+1.0
Vehicle sales (thousand units)	2,660	2,622	+1.4	5,270	5,199	+1.4
of which: in Germany	350	357	–2.0	673	679	–0.9
abroad	2,310	2,265	+2.0	4,597	4,520	+1.7
Production (thousand units)	2,696	2,713	–0.6	5,433	5,268	+3.1
of which: in Germany	687	722	–4.9	1,352	1,405	–3.8
abroad	2,009	1,991	+0.9	4,081	3,863	+5.7
Employees (thousand on June 30, 2017/Dec. 31, 2016)				625.8	626.7	–0.1
of which: in Germany				282.7	281.5	+0.4
abroad				343.1	345.2	–0.6

	Q2			H1		
Financial Data (IFRSs), € million	2017	2016	%	2017	2016	%
Sales revenue	59,665	56,971	+4.7	115,862	107,935	+7.3
Operating profit before special items	4,549	4,386	+3.7	8,916	7,517	+18.6
as a percentage of sales revenue	7.6	7.7		7.7	7.0	
Special items	–	–2,487	x	–	–2,178	x
Operating profit	4,549	1,899	x	8,916	5,339	+67.0
as a percentage of sales revenue	7.6	3.3		7.7	4.9	
Profit before tax	4,337	1,607	x	8,960	4,810	+86.3
as a percentage of sales revenue	7.3	2.8		7.7	4.5	
Profit after tax	3,192	1,214	x	6,595	3,579	+84.3
Profit attributable to Volkswagen AG shareholders	3,129	1,155	x	6,474	3,461	+87.0
Cash flows from operating activities	–3,177	3,757	x	–2,878	5,111	x
Cash flows from investing activities attributable to operating activities	3,527	3,987	–11.5	7,040	5,149	+36.7
Automotive Division[2]						
Total research and development costs	3,389	3,305	+2.6	6,759	6,619	+2.1
as a percentage of sales revenue (R&D ratio)	6.6	6.7		6.8	7.2	
EBITDA[3]	7,440	4,904	+51.7	14,720	10,974	+34.1
Cash flows from operating activities	1,198	7,334	–83.7	2,033	9,736	–79.1
Cash flows from investing activities attributable to operating activities[4]	3,411	3,484	–2.1	6,829	4,601	+48.4
of which: capex	2,319	2,395	–3.2	4,159	4,515	–7.9
as a percentage of sales revenue	4.5	4.9		4.2	4.9	
capitalized development costs	1,473	1,342	+9.7	2,919	2,582	+13.0
as a percentage of sales revenue	2.9	2.7		3.0	2.8	
Net cash flow	–2,213	3,850	x	–4,795	5,135	x
Net liquidity at June 30				23,745	28,778	–17.5

1 Volume data including the unconsolidated Chinese joint ventures. These companies are accounted for using the equity method. 2016 deliveries updated to reflect subsequent statistical trends.
2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
3 Operating profit 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.
4 Excluding acquisition and disposal of equity investments: Q2 €3,692 (3,646) million, H1 €6,853 (6,939) million.

All figures shown in the Report are rounded, so minor discrepancies may arise from addition of these amounts. The figures from the previous fiscal year are shown in parentheses directly after the figures for the current reporting period.

Key Facts

- Volkswagen Group records successful first half of 2017
- Volkswagen Group deliveries to customers rise to 5.2 (5.1) million vehicles; growth particularly in Europe as well as in North and South America
- Group sales revenue of €115.9 (107.9) billion much higher than prior-year figure due to volume-related factors
- Operating profit up €3.6 billion to €8.9 billion; increase of €1.4 billion compared with prior-year result before special items
- Profit before tax of €9.0 billion, up €4.1 billion year-on-year
- Automotive Division's net cash flow stands at €–4.8 (5.1) billion after anticipated high cash outflows attributable to the diesel issue; capex ratio of 4.2 (4.9)%
- Net liquidity in the Automotive Division of €23.7 billion; successful placement of hybrid notes strengthens the capital base
- Inspiring product innovations:
  - Volkswagen Passenger Cars celebrates the world premiere of the new Polo; the I.D. CROZZ concept car is the third member of Volkswagen's I.D. family, the new generation of electric vehicles
  - Audi debuts the electric-powered e-tron Sportback concept
  - ŠKODA unveils the Karoq, its new compact SUV; the VISION E concept car offers an insight into the brand's electrification
  - SEAT adds the compact Arona to its range of SUVs
  - A special anniversary for Porsche: the one-millionth 911 rolls off the production line
  - MAN becomes a comprehensive provider for all transport needs between 3 and 250 tonnes with its launch of the TGE
  - The Scania R 450 Highline wins the Green Truck 2017 award

Key Events

MOTOR SHOWS AND EVENTS

The Volkswagen Group once again presented a wealth of new models and technologies at motor shows and events in the second quarter of 2017.

World premiere of the new Polo

The Volkswagen Passenger Cars brand debuted the new Polo in June 2017. The clear lines of the new exterior design give the sixth generation a sportier, more mature appearance. All variants of the bestseller are now four-door vehicles. The new Polo is larger in every dimension than its predecessor, and the boot capacity has even grown from 280 to 351 liters. It offers a multitude of assistance and convenience systems previously reserved for the Golf and Passat class. These include Front Assist with City Emergency Braking System and Pedestrian Monitoring as well as the Blind Spot Monitor lane-change system with Rear Traffic Alert. The new generation is going on sale with engine power outputs ranging from 48 kW (65 PS) to 110 kW (150 PS). A natural gas-powered version of the Polo is available for the first time: the newly developed 1.0 TGI engine generates 66 kW (90 PS) of power. The Polo is available in the three traditional equipment versions Trendline, Comfortline and Highline, as well as the special Polo Beats model with a 300-watt sound system, and the sporty top-of-the-range Polo GTI model with a power output of 147 kW (200 PS).

ŠKODA unveils the Karoq

In May, the ŠKODA brand celebrated the world premiere of the new Karoq. The compact SUV has been completely redeveloped with the exciting and dynamic features of ŠKODA's new SUV design language. The Karoq offers exceptional spaciousness, new driver assistance systems, full-LED headlights and – for the first time in a ŠKODA – a freely programmable digital instrument panel. The choice of engine power outputs on offer ranges from 85 kW (115 PS) to 140 kW (190 PS). The Karoq impresses with ŠKODA's typical clever equipment features, such as hands-free tailgate opening and the VarioFlex rear seating system. The latter consists of three rear seats that can be individually adjusted. Mobile online services and an infotainment system with a touch display in glass design round off the vehicle features.

World premiere of the SEAT Arona

SEAT presented the new Arona in Barcelona at the end of June. This new addition to the Spanish brand's SUV family marries the benefits of compact dimensions with the features of a crossover model. Its attractive design underscores the brand's sporty and dynamic claim. The new Arona comes with a variety of driver assistance systems. These include Front Assist with City Emergency Braking System and Pedestrian Monitoring as well as Adaptive Cruise Control (ACC) and Multi-Collision Braking. The Arona also excels in terms of connectivity. All engines that are available for the Arona feature direct injection, turbocharging and a start-stop system; the engine power outputs on offer range from 70 kW (95 PS) to 110 kW (150 PS).

Auto Shanghai 2017

In addition to presenting a wealth of new models, the Volkswagen Passenger Cars brand unveiled the I.D. CROZZ at Auto Shanghai 2017 for the first time. The I.D. CROZZ is the third member of the innovative I.D. family – the new generation of Volkswagen electric vehicles. The crossover utility vehicle (CUV) concept car combines the dynamism of a coupé with the greater stature of an SUV. Its electric all-wheel drive is impressive in the city and on sporty roads alike. With a top speed of 180 km/h and a power output of 225 kW (306 PS), the I.D. CROZZ can cover up to 500 km (NEDC) on a single battery charge. Pressing the Volkswagen emblem on the steering wheel for three seconds switches on the concept car's fully autonomous "I.D. Pilot" mode.

A concept car world premiere was also the centerpiece of Audi's stand at the motor show. The four-door Gran Turismo Audi e-tron Sportback concept car is a real power pack in the guise of a coupé, embodying the synthesis of electric drive and everyday practicality. Its 320 kW (435 PS) of electric power propels it from 0 to 100 km/h in 4.5 seconds. The vehicle has a range of up to 500 km. Its extremely sporty silhouette and a sharp rear end reminiscent of a coupé are impressive features. The lighting technology points the way to an intelligent future. Using digital animations, among other things, the light units will enable drivers to give highly visible signals to other road users. In Shanghai, Audi also presented the refreshed A3 to its customers in the Chinese market with an even more attractive design, new TFSI engines and improved connectivity.

The ŠKODA brand used Shanghai to debut the VISION E. As ŠKODA's first electric concept car, the vehicle gives an insight into the e-mobility strategy of the Czech brand. Thanks to a system power output of 225 kW (306 PS), the excitingly designed five-door SUV coupé accelerates dynamically and without hesitation. The vehicle has a top speed of 180 km/h. The high-power lithium-ion batteries, combined with optimal recuperation, enable a range of up to 500 km. With the VISION E, ŠKODA is also outlining realizable forms of autonomous driving.

Porsche presented five new vehicles for the Asian market at Auto Shanghai 2017. The centerpiece was the Asian debut of the Panamera Sport Turismo. The new version of the four-door Panamera has a power output of up to 404 kW (550 PS) and adds even more variety to the luxury segment with its unmistakable design and excellent everyday practicality. The second new vehicle presented by Porsche was the Panamera Turbo S E-Hybrid. The world's most powerful hybrid saloon with a system power output of 500 kW (680 PS) is entering the Chinese market exclusively as an especially luxurious Executive version with long wheelbase. The third new vehicle – and intended only for the Chinese market – was the rear-wheel-drive Panamera Executive (243 kW/330 PS) as the new basic long-wheelbase model. The new 911 GTS models and the 911 GT3 Cup race car were also on show in Asia for the first time.

Bentley presented various models in Shanghai alongside the Chinese premiere of the luxurious electric concept car EXP 12 Speed 6e. The customization company Mulliner showed off a top-of-the-range Bentayga model featuring a specially designed interior. Mulliner's exclusive Mulsanne Hallmark Series – a strictly limited edition – is inspired by the finest precious metals and luxury materials found in the workshops of the world's best jewelers. The W12 S, flagship of the Flying Spur range, also made its debut at the Asian automotive show.

Lamborghini presented the Huracán Performante and Aventador S for the first time in Asia at the Shanghai event. The Huracán Performante combines innovative lightweight technologies, active aerodynamics and a reconfigured chassis and all-wheel-drive set-up with a further improved V10 power train. The Aventador S, the latest member of the Aventador family, impresses with its unparalleled design and outstanding aerodynamics. The new generation of the naturally aspirated V12 engine has a power output of 544 kW (740 PS) and accelerates the car from 0 to 100 km/h in just 2.9 seconds.

The Volkswagen Group's vision of autonomous driving was also on show in Shanghai in the form of the Sedric concept car, which was first presented in Geneva. It underlines the great importance of fully automated driving to the Group's strategy. Sedric offers a glimpse of the mobility of the future and is also being developed further in China.

Wörthersee GTI Meet

The world premiere of the advanced up! GTI prototype drew visitors' interest at the annual GTI Meet at the Wörthersee in Austria. With a power output of 85 kW (115 PS), the up! GTI is an homage to the original 110 PS GTI of 1976. The typical GTI insignia include the red lateral stripes on the radiator grill with a honeycomb pattern, black double stripes across the broad side sills, a GTI gear stick knob and the legendary "Clark" tartan seats. The Golf GTE Performance concept car also celebrated its debut at the Wörthersee. The concept presented Volkswagen's ideas for further enhancing the pure electric Golf GTE, which has a range of up to 50 km. Compared to the existing car's 150 kW (204 PS), the concept car's plug-in hybrid drive achieves a system power output of 200 kW (272 PS). The system torque has been increased from 350 to 450 Nm. A team of vocational trainees from Wolfsburg wowed the Wörthersee visitors for the tenth time with a special Golf GTI show car, the GTI First Decade, which features an interior and exterior colored in various shades of blue. Trainees from Volkswagen in Saxony showed off an impressive concept car: their Golf GTE Estate impulsE.

Vienna Motor Symposium

At the 38th Vienna Motor Symposium, the Volkswagen Group used the example of the new Golf to present its far-reaching electrification of drive systems. This ranges from the new "eco-coasting" low-cost micro-hybrid system, to the Golf GTE with plug-in hybrid drive, to the new e-Golf, which now has a range of up to 300 km. In the new Golf TSI BlueMotion, which is on sale from summer 2017, the eco-coasting system works in conjunction with a DSG transmission. It offers the driver hybrid-like performance at speeds of up to 130 km/h: when the driver releases the accelerator pedal, the Golf can coast with the engine completely deactivated. The system reduces fuel consumption by up to 0.4 l per 100 km, compared to up to 0.2 l per 100 km for the current engine-on coasting function. Another technology with which Volkswagen is shaping the transition to the sustainable mobility of the future is the use of compressed natural gas (CNG) to power vehicles. The powerful new compact 1.0 TGI engine for the Volkswagen Group's compact car class generates 66 kW (90 PS). It is a bivalent engine, meaning that it can run on both petrol and CNG. Its emissions are particularly low when using CNG fuel – this applies both to CO_2 and NO_x and particulate emissions.

transport logistic 2017

At the global logistics industry's leading trade fair, transport logistic 2017 in Munich, Volkswagen Commercial Vehicles along with premium partners from the expansion sector presented solutions for making the new Crafter the best partner in the transport sector.

MAN used the Munich trade fair to demonstrate its expertise as a provider of efficient transport solutions. The vehicle fleet was represented by the TGX EfficientLine 3 and the new TGE van. Also at the event, MAN Financial Services showed off its comprehensive financing, leasing and insurance service portfolio as well as its rental offering and the MAN Card.

Scania used transport logistic 2017 to present its new digital platform for connected services – Scania One – for the first time in Germany. The platform enables fleet owners and drivers to access connected services that help them optimize their transport orders. The additional Scania Trailer Control service allows companies to display their trailer data in the Scania Fleet Management Portal. In addition to the functions already available, such as positioning and route tracking, the service will also display the coupling of tractor units and trailers. Scania also presented options for enhancing telematics services along with a modern maintenance plan without fixed servicing intervals.

RIO, the new digital brand of Volkswagen Truck & Bus, also gave a preview of its innovative digital services for the logistics of the future.

AWARDS

No fewer than four Group models received the renowned "Red Dot Award" for outstanding product design in early April 2017. The Audi Q2 received the coveted prize for its superior design quality and trendsetting design. The ŠKODA brand, whose current design language emphasizes precision and clarity, saw the new Kodiaq and the extensively upgraded Octavia Combi win awards in the Product Design category as well. The new SEAT Ibiza, whose body shape artfully combines sharp lines and smooth surfaces, also won over the jury.

The Volkswagen Group was again crowned the world's most innovative automotive company in early May 2017 when it received the "AutomotiveINNOVATIONS Award". The independent Center of Automotive Management presented the accolades in cooperation with audit and consulting firm PricewaterhouseCoopers. Volkswagen Passenger Cars earned the title of Most Innovative Volume Brand and also took first place in the individual categories Interface and Connectivity as well as Autonomous Driving and Safety. Audi was recognized as the Most Innovative Premium Brand and came first in the individual categories Vehicle Concepts and Body as well as Interface and Connectivity.

At the "Automobilwoche Award Autohandel" in May 2017, Volkswagen Passenger Cars emerged as the winner among the volume brands and Audi among the premium brands. The renowned industry award recognized the excellent purchasing experience for buyers of new vehicles from both brands. The study was based on undercover test purchases at around 700 German car dealerships for 16 brands between February and April 2017. Audi also won a special prize for its financing.

At the end of May 2017, the Audi A3 Sportback g-tron achieved the best result ever recorded in the 100,000-kilometer endurance test organized by Auto Bild magazine, putting it at the very top of the endurance test rankings. The top score was based on everyday experiences of and measurements taken by the editorial team, the vehicle's reliability and, importantly, the concluding inspection involving the dismantling of the test vehicle and detailed examination of all components by technical experts.

In June 2017, Volkswagen Group brands took a total of six top places in Firmenauto magazine's "Company Car of the Year" poll. The Passat GTE version won in the mid-size class, while the ŠKODA Superb Combi took the top spot in the relevant import rankings. The Czech brand also came first in the compact-class rankings for imported vehicles with the Octavia Estate. The SEAT brand celebrated a double success, with the Mii helping the brand win the title of best importer for mini cars, while the Ateca topped the overall rankings for compact SUVs. Audi rounded off the success with top place in the Service for Fleet Customers category.

At the "International Engine of the Year Awards" at the end of June 2017, the Audi brand received the coveted award in the 2.0 to 2.5 l category for its 2.5 l TFSI engine. This was Audi's 13th success since the awards began in 1999. Alongside the outstanding performance, the jury gave special praise to the unique sound of the five-cylinder engine. The engine is 26 kg lighter than its predecessor, thanks in part to the switch to a lightweight metal crankcase.

Also at the end of June 2017, Volkswagen won the "German Mobility Award 2017" with its driver assistance system Emergency Assist. The prize was awarded to Volkswagen Passenger Cars by the "Germany – Land of Ideas" initiative and the German Federal Ministry of Transport and Digital Infrastructure for its safe, intelligent mobility. Emergency Assist monitors the driver's activity (accelerator pedal, brakes and steering) and helps to avoid accidents or at least reduce the damage caused.

The magazines VerkehrsRundschau and Trucker gave awards to the most environmentally friendly commercial vehicles in April 2017. The "Green Van of the Year" title went to the Transporter from Volkswagen Commercial Vehicles, while the Scania R 450 was named "Green Truck of the Year". In the case of the Transporter, the decisive factors were the excellent ratio of payload to loading space combined with low fuel consumption and Euro 6 emissions compliance as standard. The Scania R 450 was especially impressive with its fuel consumption and emissions figures.

At the end of June 2017, readers of the specialist magazines trans aktuell, FERNFAHRER and lastauto omnibus chose no fewer than three models from Volkswagen Commercial Vehicles as the best commercial vehicles for the fourth time in a row. The Caddy beat the competition to become the best delivery vehicle, while the Volkswagen Transporter won the category for vans up to 2.8 tonnes. The Amarok was crowned best pickup.

ANNIVERSARIES

In mid-May 2017, Porsche's main factory in Zuffenhausen produced the millionth Porsche 911 – a Carrera S with custom paintwork and numerous exclusive special features in the style of the first 911 model from 1963. All 911s come from the company's headquarters.

At the end of April 2017, ŠKODA built the millionth Superb at the Kvasiny plant in the Czech Republic. The anniversary vehicle was a saloon with top-of-the-range Laurin & Klement specifications. The current third generation of the Superb has made a major contribution to this success story. A total of 250,000 units have already been manufactured since production began in 2015.

The end of June 2017 saw completion of the fifteen millionth engine to be manufactured at Volkswagen's Chemnitz site since production began in Saxony 29 years ago. The anniversary engine was a 1.0 l CNG unit for the eco up! with a power output of 50 kW.

PARTNERSHIPS

In June 2017, Volkswagen agreed on a new joint venture for e-mobility in China with the Chinese car manufacturer Anhui Jianghuai Automobile (JAC). The two partners each have a 50% stake in the new company, which plans to develop, produce and sell electric vehicles and mobility services. The agreement includes the construction of a further factory and a research and development center for this purpose. The partnership also comprises the development and production of components for New Energy Vehicles (NEV) as well as the enhancement of vehicle connectivity and automotive services. In addition, the establishment of new used-car platforms and all associated business activities is planned.

AUDI AG, the FAW Group and FAW-Volkswagen have signed an agreement on the future development of the Audi business in China with the Chinese Audi dealer council. The agreement with the dealers incorporates the interests of the existing sales network into the premium brand's new two-pillar strategy in China. All parties agreed that Audi models from the planned partnership between Audi and SAIC Motor will be sold through the brand's existing dealer network in China. A new sales management structure was defined on the basis of the legal requirements. This will ensure a unified market presence for the brand's own products originating from the cooperation between the two partners. Audi and long-standing Volkswagen partner SAIC are in the process of evaluating a partnership for the production and sale of Audi models and for data and mobility services. This strategic course is intended to further develop the China business profitably for all parties involved.

At the end of June 2017, Volkswagen agreed on a strategic partnership with US technology firm NVIDIA. The aim is to expand expertise in deep learning – a field of machine learning. Advanced systems based on artificial intelligence (AI) will be developed using deep learning at the Volkswagen Data:Lab. The projects include, among other things, AI in corporate processes and mobility services.

DIVERSITY CHARTER

At the end of May 2017, the Volkswagen Group joined the Diversity Charter – Charta der Vielfalt e.V. In doing so, the Company underscored its commitment to tolerance and tackling discrimination in the work environment. The aim is to promote a corporate culture of recognition, appreciation and diversity in Germany.

DIESEL ISSUE

UK Vehicle Certification Agency approves technical solutions

During the second quarter of 2017, the Vehicle Certification Agency in the United Kingdom issued the outstanding official approvals needed for technical solutions to modify the ŠKODA and SEAT models falling within its remit. The technical solutions for all vehicles in the European Union were thereby approved without exception.

ANNUAL GENERAL MEETING

The 57th Annual General Meeting of Volkswagen AG was held at the Hanover Exhibition Center on May 10, 2017. With 92.53% of the voting capital present, the ordinary shareholders of Volkswagen AG agreed to the proposal of the Board of Management and Supervisory Board to pay a dividend of €2.00 per ordinary share and €2.06 per preferred share for fiscal year 2016. They also formally approved the actions of the members of the Board of Management and Supervisory Board and gave their consent to the signing of an intercompany agreement. The ordinary shareholders of Volkswagen AG additionally approved the new system of Board of Management remuneration and agreed the redesign of the Supervisory Board remuneration system along with a corresponding amendment to the Articles of Association. During the Annual General Meeting, they elected PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) as the auditors for the single-entity and consolidated financial statements for fiscal year 2017 and as the auditors to review the condensed consolidated financial statements and interim management report for the first six months of 2017, for the period up to September 30, 2017 and for the first quarter of fiscal year 2018.

SUPERVISORY BOARD MATTERS

In the election of employee representatives to the Supervisory Board of Volkswagen AG on April 6, 2017 in Wolfsburg, Ms. Ulrike Jakob, Deputy Chairwoman of the Works Council of Volkswagen AG, Kassel plant; Ms. Bertina Murkovic, Deputy Chairwoman of the Works Council of Volkswagen Commercial Vehicles; and Mr. Athanasios Stimoniaris, Chairman of the Group Works Council of MAN SE and of the MAN SE Works Council, were elected as members of the Volkswagen AG Supervisory Board for the first time. They succeed Mr. Uwe Fritsch, Mr. Stephan Wolf and Mr. Thomas Zwiebler. The remaining employee representatives on the Supervisory Board were reappointed. The term of office began at the end of the Volkswagen AG Annual General Meeting on May 10, 2017. The election means that the legally prescribed ratio of at least 30% women and at least 30% men has now also been reached on the employee side of the board.

Volkswagen Shares

In the period from January to June 2017, prices on the international equity markets rose amid volatile trading.

The DAX also recorded an increase compared with the end of 2016. The promising economic performance of important industrialized nations, the improved situation in the US labor market, the outcome of the elections in the Netherlands and France and strong corporate results had a positive impact. At times, however, uncertainty as regards the economic policy of the new US government, the election results in Europe and international crises weighed on share prices.

In the first half of 2017, Volkswagen AG's preferred and ordinary shares trailed behind the rising market trend amid high volatility. Positive stimulus was generated by settlement agreements in the United States in connection with the diesel issue, strong corporate earnings and the successful performance of the Volkswagen Passenger Cars brand. Uncertainty about further legal risks arising from the diesel issue and the future regulatory framework for diesel and electric vehicles impacted on share prices.

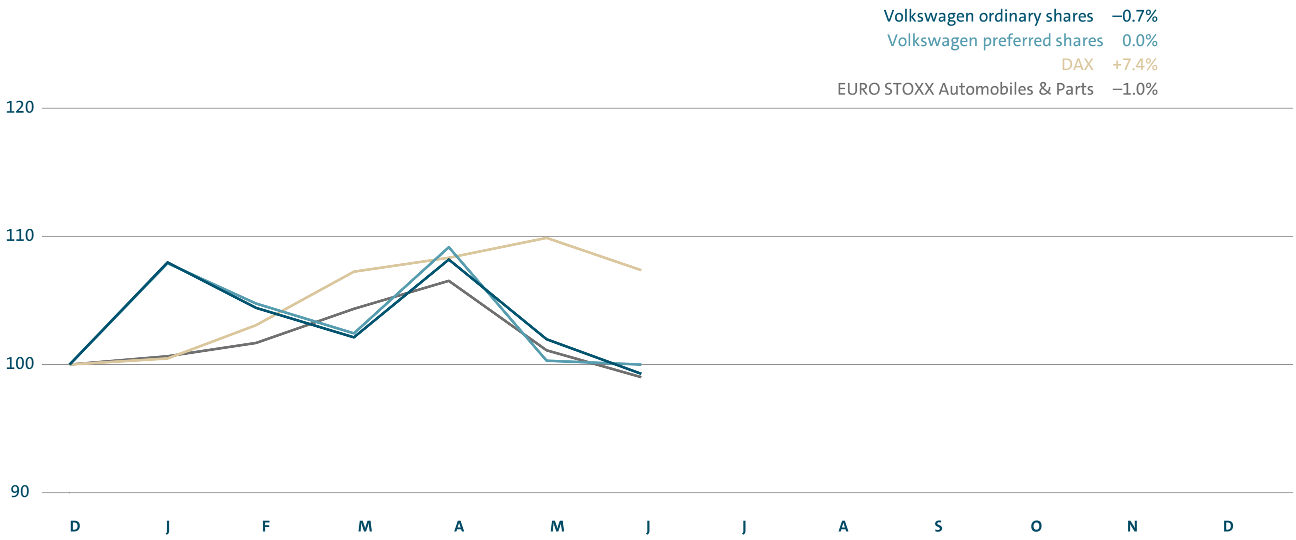
Information and explanations on earnings per share can be found in the notes to the interim consolidated financial statements. Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website at www.volkswagenag.com/ir.

VOLKSWAGEN KEY SHARE FIGURES AND MARKET INDICES FROM JANUARY 1 TO JUNE 30, 2017

		High	Low	Closing
Ordinary share	Price (€)	156.40	135.65	135.75
	Date	Jan. 25	June 16	June 30
Preferred share	Price (€)	153.90	131.15	133.35
	Date	Jan. 25	Apr. 13	June 30
DAX	Price	12,889	11,510	12,325
	Date	June 19	Feb. 6	June 30
ESTX Auto & Parts	Price	562.18	516.21	516.21
	Date	May 10	June 30	June 30

PRICE DEVELOPMENT FROM DECEMBER 2016 TO JUNE 2017

Index based on month-end prices: December 31, 2016 = 100



Business Development

GENERAL ECONOMIC DEVELOPMENT

The global economy saw moderate growth in the first half of 2017. The average expansion rate of gross domestic product (GDP) was up year-on-year in both the industrialized countries and the emerging market economies. Energy and commodity prices, which increased again at the beginning of the year, giving a boost to the economies of individual exporting countries that depend on them, weakened slightly in the course of the second quarter.

The economy of Western Europe recorded stable growth on the whole between January and June 2017, though the rates of change were mixed in both Northern European and Southern European countries.

In Germany, the continuing optimism among consumers and the strong labor market situation allowed the economy to maintain its solid growth course in the reporting period.

The economy in Central Europe continued to perform positively in the first half of 2017. Eastern Europe's economic situation improved on the back of the comparatively higher level of energy prices. Following a prolonged recessionary period in Russia's economy, the turnaround that began at the end of 2016 was maintained in the reporting period. The ongoing conflict between Russia and Ukraine continued to weigh on the economy.

In South Africa, structural deficits and political upheaval on the whole subdued the GDP growth rate during the first six months of 2017.

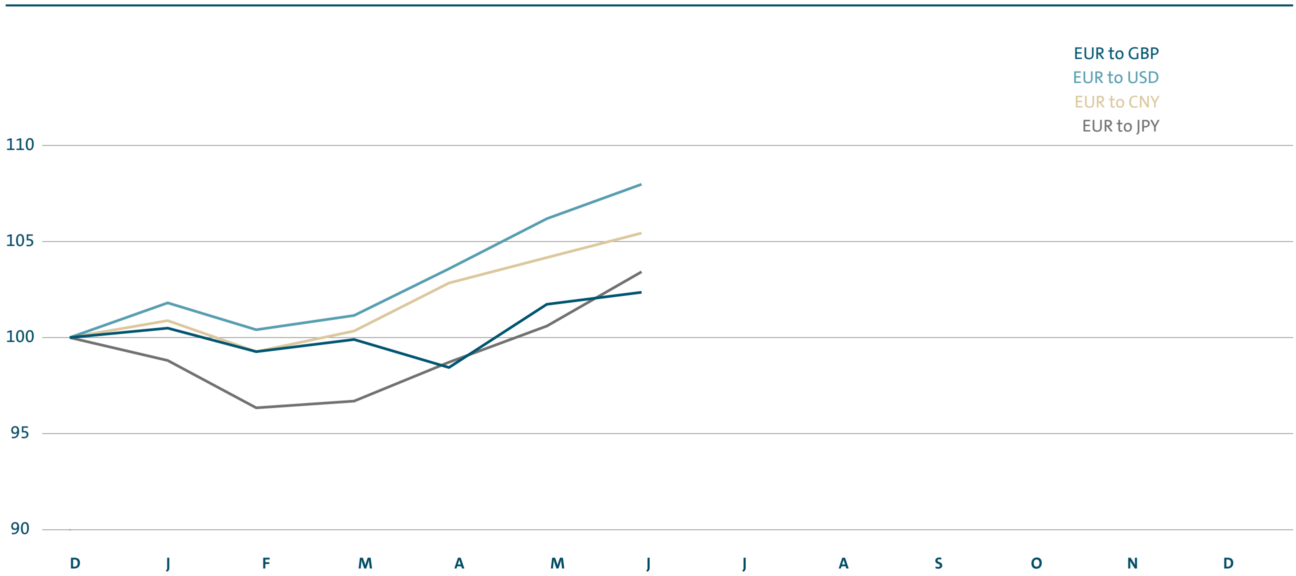
The US economy continued its growth trajectory between January and June 2017, with considerable stimulus being provided by private domestic demand. Based on the stable situation in the labor market and the expected inflation trend, the US Federal Reserve decided once again to raise its key interest rate slightly. GDP growth rates in the neighboring countries of Canada and Mexico were also higher year-on-year.

Brazil's economy remained in recession, though economic output decreased at a slightly slower pace than in the prior-year period. Weak domestic demand and political uncertainty weighed on performance. Amid sustained high inflation, Argentina's economic situation showed a slight improvement.

The Chinese economy maintained its high growth momentum in the reporting period. In India, the growth trend strengthened slightly at a high level as the year progressed. Japan registered relatively solid GDP growth.

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2016 TO JUNE 2017

Index based on month-end prices: as of December 31, 2016 = 100



TRENDS IN THE PASSENGER CAR MARKETS

Worldwide demand for passenger cars was up 2.7% in the period from January to June 2017 compared with the prior-year period. Growth was driven by the Asia-Pacific region, Western Europe, South America and Central and Eastern Europe. The number of new cars sold in North America, the Middle East and Africa declined.

In the first half of 2017, the Western European passenger car market continued its growth trajectory in spite of ongoing political uncertainty. This positive performance was underpinned by the stable macroeconomic environment. While new registrations in Italy and Spain continued to benefit from high demand for replacement vehicles and considerable growth in demand from commercial customers, the French market recorded an increase that was below average in comparison. In the United Kingdom, the weaker second quarter – due in particular to the change in vehicle taxation as of April 1, 2017 – resulted in passenger car sales falling short of the record level of the prior-year period.

New passenger car registrations in Germany in the first six months of 2017 were up year-on-year for the fourth year in a row. Demand from private and also commercial customers was helped in particular by the ongoing robust development of the economy.

The passenger car market in Central and Eastern Europe saw a marked increase year-on-year in the first half of 2017. As in the three preceding years, the majority of EU markets in Central Europe recorded high growth rates. Passenger car sales in Eastern Europe also rose, starting from a very low level. This was primarily attributable to the growth of the Russian market in the year to date.

After seeing an increase in the first quarter of 2017, new passenger car registrations in South Africa in the reporting period were down slightly overall on the previous year, mainly as a result of the weak economic environment.

In North America, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the period from January to June 2017 fell slightly short of the high prior-year level. At the same time, demand continued to decline in the USA during the second quarter. High consumer confidence, a favorable labor market and manufacturer incentive programs that continue to be attractive were unable to prevent the downward trend. The trend in demand towards SUV and pickup models, accompanied by a simultaneous decrease in traditional passenger car segments, continued in the reporting period. The automotive markets in Canada and Mexico recorded a further increase, exceeding their respective records from the prior-year period.

In South America, the market volume for passenger cars and light commercial vehicles witnessed a marked improvement in the first half of 2017 from the previously low level. After three years of declining new vehicle registrations, moderate growth was registered in Brazil in the reporting period. Brazilian car manufacturing benefited in particular from a rise in exports to Argentina, where new registrations of passenger cars and light commercial vehicles recorded a very high increase from a comparatively low prior-year figure, mainly due to price reductions by the manufacturers.

The Asia-Pacific region recorded by far the highest absolute growth in demand between January and June 2017. A comparatively modest growth rate was registered in the Chinese passenger car market. The main reason for this was the bringing forward of purchases at the end of 2016 in anticipation that the tax rate on vehicles of up to 1.6 l would be raised at the beginning of 2017. In India, passenger car sales rose considerably, largely on the strength of attractive financing terms, a high level of consumer confidence and a large number of new models. The Japanese passenger car market also showed an improvement in the reporting period. The marked upturn compared with the very low prior-year level was generated by ongoing state incentives for fuel-efficient and low-emission vehicles as well as the introduction of new models.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Global demand for light commercial vehicles was down on the previous year's level in the first half of 2017.

In Western Europe, new registrations stabilized and slightly exceeded the prior-year level on the back of the sustained positive economic performance. In the reporting period, demand in Germany was also up slightly year-on-year.

Registrations of light commercial vehicles in Central and Eastern Europe recorded a moderate increase compared with the previous year. The market trend in Russia benefited from the recovery of the ruble and falling inflation, which led to a marked increase in registrations year-on-year in the months from January to June 2017.

In North and South America, the light vehicle market is reported as part of the passenger car market, which includes both passenger cars and light commercial vehicles.

In the Asia-Pacific region, demand for light commercial vehicles declined compared with the previous year. Registration volumes in China, the region's dominant market, were down considerably year-on-year. The number of new vehicle registrations in Australia, India, Japan, South Korea and Thailand saw a moderate increase compared with the previous year.

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was above the prior-year figure between January and June 2017.

Demand in Western Europe saw a moderate increase over the 2016 level. New registrations in Germany, Western Europe's largest market, were slightly higher year-on-year in the first half of 2017. Demand in Italy also developed positively, with programs to promote investment and demand for replacement vehicles pushing up demand significantly.

In the Central and Eastern Europe region, the positive economic performance led to much higher registration volumes than in the previous year. Demand in Russia showed a substantial improvement, buoyed by the incipient recovery of the economy along with declining inflation rates.

Registration volumes in South America were perceptibly lower than in 2016. In Brazil, the region's largest market, demand for trucks decreased sharply on the prior-year period as a result of the continuing weak economic climate and political tensions. Political reforms and stimulus from the agricultural sector resulted in a very sharp increase in registration volumes in Argentina in the first half of 2017.

In the first six months of 2017, registration volumes for mid-sized and heavy trucks in the US market were noticeably lower than the previous year's level.

Demand for buses in the markets that are relevant for the Volkswagen Group was distinctly up on the previous year in the period from January to June 2017.

TRENDS IN THE MARKETS 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.

In the first half of 2017, the marine market saw a continuation of the noticeably muted order activity but remained stable at a low level compared with the prior-year period. Despite rising freight rates in the transport sector, there was no sign of recovery in the affected container ships, tankers and bulk carrier market segments due to the growing excess capacity. Demand for cruise ships, passenger ferries, dredgers and government vessels remained steady. In the offshore sector, the still low oil price in conjunction with the existing excess capacity curbed investment in offshore oil production. On account of low market volumes, all market segments are continuing to notice considerably higher competitive pressure and a sharp drop in prices as a result.

The market for power generation showed a slight recovery compared with the same period in 2016. Demand rose somewhat in all areas of application. Demand for energy solutions remained high, with a strong trend towards greater flexibility and decentralized availability. The shift away from oil-fired power plants towards dual-fuel and gas-fired power plants continued. Particularly on larger projects, order placement is being delayed due to sustained muted economic growth in key developing countries and emerging markets and to persistently difficult financing conditions for customers. In addition, continued strong pressure from competition and pricing is discernible in all projects, and is having a negative impact on the earnings quality of orders.

The market for turbomachinery was stable at a low level compared with the prior-year period. Activity in the construction of turbomachinery is mainly dominated by global investment projects in the oil, gas and processing industry and in power generation. Project volumes in the oil and gas industry remained at a low level despite the slight recovery in the oil price. Demand for products in the processing industry and in power generation has also been weak on the whole in 2017 to date. Pressure from competition and pricing increased again.

The marine and power plant after-sales business for diesel engines performed positively overall and benefited from a continued increase in interest in long-term maintenance contracts. The after-sales market for turbomachinery was mostly stable.

DEMAND FOR FINANCIAL SERVICES

Demand for automotive financial services remained high in the first half of 2017, due in particular to the expansion of the overall market for passenger cars and low key interest rates in the main currency areas.

Higher vehicle sales particularly in Western and Central Europe gave a further boost to the European market. Financing and leasing were the options preferred by customers, especially for purchases of new vehicles. Demand for after-sales products such as inspection contracts, maintenance and spare parts agreements and automotive-related insurance was also higher in the period from January to June 2017 than in the same period of the previous year.

In Germany, the share of loan-financed or leased new vehicles remained stable at a high level in the reporting period. There was greater demand for after-sales products, and demand for integrated mobility solutions in the business customer segment also continued to rise.

Demand for financing and insurance products in South Africa was steady in the first six months of 2017.

In the US market and in Mexico, demand for automotive financial services remained high in the first half of 2017.

The still tense macroeconomic and political situation in Brazil had a negative impact on the financial services business in the reporting period, with the consumer credit business and sales of the country-specific financial services product Consorcio, a lottery-style savings plan, falling below prior-year levels.

Demand for automotive financial services across the Asia-Pacific region was again mixed. In China, the proportion of loan-financed vehicle purchases rose further compared with the prior-year period. Despite increasing restrictions on registrations in metropolitan areas, there is considerable potential to acquire additional new customers for automotive-related financial services, particularly in the interior of the country. In Japan and South Korea, as well as in Australia, demand for automotive-related financial services was stable.

Demand for financial services in the commercial vehicles business area also varied from region to region. The growth trend from 2016 continued in the first half of 2017 in China and particularly in Western Europe. In contrast, the truck and bus business in Brazil and the related financial services market continued to come under pressure from the tense economic situation.

VOLKSWAGEN GROUP DELIVERIES

Between January and June 2017, the Volkswagen Group delivered 5,155,591 vehicles to customers worldwide, an increase of 0.8% or 39,676 units on the prior-year period. The chart on page 12 shows the trend in deliveries worldwide by month compared with the previous year. Separate details of deliveries of passenger cars and commercial vehicles are provided in the following.

VOLKSWAGEN GROUP DELIVERIES FROM JANUARY 1 TO JUNE 30[1]

	2017	2016	%
Passenger Cars	4,809,453	4,788,395	+0.4
Commercial Vehicles	346,138	327,520	+5.7
Total	**5,155,591**	**5,115,915**	**+0.8**

1 Deliveries for 2016 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

PASSENGER CAR DELIVERIES WORLDWIDE

In the first half of 2017, global demand for passenger cars from the Volkswagen Group rose to 4,809,453 vehicles, an increase of 0.4% or 21,058 units compared with the previous year. The market as a whole grew at a slightly stronger pace in the same period at + 2.7%. The ŠKODA (+2.8%), SEAT (+13.7%), Bentley (+30.6%), Lamborghini (+3.9%) and Porsche (+7.2%) brands reported encouraging growth rates. While the Volkswagen Passenger Cars brand now registered a slight improvement overall on the prior-year figure (+0.3%) following a weaker first quarter, deliveries to Audi customers (–4.7%) fell short of the prior-year volume. Demand for Volkswagen Group passenger cars was higher than in the previous year in the Western Europe, Central and Eastern Europe, and North and South America regions, but deliveries in the Asia-Pacific region fell below the previous year's level.

The table on the next page provides an overview of passenger car deliveries to customers by market in the reporting period. Sales trends in the individual markets are as follows.

Deliveries in Europe/Other markets

In Western Europe, demand for Volkswagen Group vehicles between January and June 2017 grew by 1.5% to 1,685,446 units and thus less rapidly than the market as a whole (+3.6%). This trend was partly the result of the Golf model change, but was also due to the fact that customer confidence has not yet been fully restored following the diesel issue. The Tiguan, Audi Q2 and Audi A5 models saw the highest growth rates. In addition, the SEAT Ateca and Porsche Macan were very popular. The new Arteon from Volkswagen Passenger Cars and the new ŠKODA Kodiaq were successfully launched in the market. In Western Europe, the Volkswagen Group's share of the passenger car market was 21.6 (22.1)%.

Sales of Volkswagen Group passenger cars in Germany in the first half of 2017 were down 1.4% on the prior-year figure. The market as a whole grew by 3.1% in the same period. The Tiguan, Audi Q2, Audi A4 Avant and Audi A5 models saw the strongest growth in demand. Moreover, the new ŠKODA Kodiaq, the new SEAT Ateca and the Porsche Macan were very popular. Seven Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the up!, Polo, Golf, Tiguan, Touran, Passat and Porsche 911. In the first six months of 2017, the Golf was again the number one passenger car in Germany in terms of registrations.

The Volkswagen Group handed over 12.8% more vehicles to customers in the still-expanding passenger car markets in the Central and Eastern Europe region in the reporting period than a year before. The Czech Republic and Poland continued to see strong growth in demand for Group models, and in Russia our sales figures also continued to rise. Demand for the Golf, Tiguan, ŠKODA Fabia, ŠKODA Rapid and ŠKODA Octavia models was very encouraging. In addition, the new Audi Q2, ŠKODA Kodiaq and SEAT Ateca models were in great demand. The Volkswagen Group's share of the market in this region rose to 22.9 (22.5)%.

In the declining passenger car market in South Africa, we handed over 0.1% more vehicles to customers in the first six months of this year than in 2016. The Polo remained the best-selling Group model in South Africa.

Deliveries in North America

Volkswagen Group deliveries to customers in North America in the first half of 2017 were 3.4% higher than the prior-year figure despite a weaker overall passenger car and light commercial vehicle market. The Volkswagen Group's share of the market in this region rose to 4.5 (4.3)%. The Jetta remained the most sought-after Group model in North America.

In the US market, demand for Volkswagen Group vehicles between January and June 2017 exceeded the prior-year figure by 7.2%. The market as a whole declined slightly in the same period. Models in the SUV and pickup segments remained in particularly high demand. The Golf, Passat, Audi A4, Audi Q5, Audi Q7 and Porsche Macan models enjoyed an encouraging rise in demand. The new Atlas SUV was well received by the market.

In Canada, where the overall market is growing, we delivered almost as many vehicles to customers in the reporting period as in the previous year, mainly on account of the diesel issue. Demand for the Golf Estate, Audi A4, Audi Q5 and Porsche Macan models developed positively.

The Mexican market as a whole lost some of its momentum during the first six months of 2017. The Volkswagen Group delivered 3.8% fewer vehicles to customers there than in the previous year. The Polo, Vento and SEAT Ibiza models were particularly popular.

Deliveries in South America

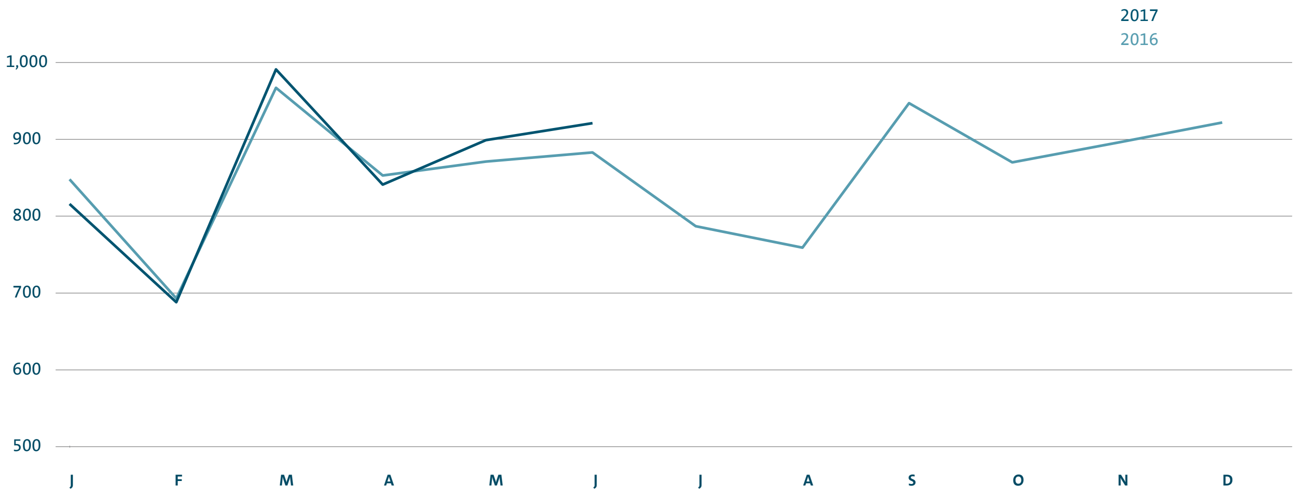
The South American markets for passenger cars and light commercial vehicles continued their upward trend in the reporting period. During this period, the Volkswagen Group delivered 10.7% more vehicles to customers there than in the prior year. The Volkswagen Group's share of the passenger car market in South America was 11.8 (11.7)%.

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET FROM JANUARY 1 TO JUNE 30[1]

	DELIVERIES (UNITS)		CHANGE
	2017	2016	(%)
Europe/Other markets	**2,176,449**	**2,131,710**	**+2.1**
Western Europe	**1,685,446**	**1,660,192**	**+1.5**
of which: Germany	598,980	607,437	–1.4
United Kingdom	276,749	273,210	+1.3
Spain	151,810	138,184	+9.9
Italy	143,169	130,540	+9.7
France	135,519	136,754	–0.9
Central and Eastern Europe	**331,583**	**293,890**	**+12.8**
of which: Russia	78,822	74,200	+6.2
Czech Republic	76,946	68,743	+11.9
Poland	74,137	62,595	+18.4
Other markets	**159,420**	**177,628**	**–10.3**
of which: Turkey	67,165	79,514	–15.5
South Africa	40,496	40,448	+0.1
North America	**454,457**	**439,440**	**+3.4**
of which: USA	293,432	273,843	+7.2
Mexico	110,423	114,800	–3.8
Canada	50,602	50,797	–0.4
South America	**213,373**	**192,736**	**+10.7**
of which: Brazil	126,655	127,638	–0.8
Argentina	63,874	47,911	+33.3
Asia-Pacific	**1,965,174**	**2,024,509**	**–2.9**
of which: China	1,821,082	1,859,353	–2.1
Japan	42,930	42,894	+0.1
India	35,567	30,422	+16.9
Worldwide	**4,809,453**	**4,788,395**	**+0.4**
Volkswagen Passenger Cars	2,935,146	2,924,919	+0.3
Audi	908,955	953,293	–4.7
ŠKODA	585,013	569,353	+2.8
SEAT	246,493	216,843	+13.7
Bentley	5,238	4,011	+30.6
Lamborghini	2,091	2,013	+3.9
Porsche	126,497	117,963	+7.2
Bugatti	20	0	x

1 Deliveries for 2016 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



The Brazilian market witnessed a slight recovery during the first six months of 2017. Volkswagen Group deliveries to customers were on a level with the previous year. The Gol, Saveiro and Amarok models were particularly sought after.

In Argentina, Group sales between January and June 2017 were up 33.3% year-on-year. The market as a whole grew similarly strongly in the same period. The Gol was the best-selling model in Argentina. The Suran and Amarok models were also high in demand.

Deliveries in the Asia-Pacific region

In the Asia-Pacific region, the number of Volkswagen Group passenger cars sold in the first half of 2017 fell below the high prior-year figure (–2.9%) although the market as a whole grew. This was mainly due to the now successfully concluded negotiations by the Audi brand for the strategic reorientation of the brand's business in China. As a result, the Group's share of the market in this region declined to 11.5 (12.3)%.

The momentum in the Chinese passenger car market slowed in the reporting period compared with the previous year. The number of Group models delivered to customers in China decreased by 2.1%. Demand for the Bora, Tiguan, Magotan and Passat models developed positively. The new Teramont SUV was successfully rolled out.

Between January and June 2017, the rate of growth in the Indian passenger car market picked up year-on-year. During this period, sales of Group models were 16.9% higher than the figure for the prior-year period. In addition to the new Ameo, the ŠKODA Rapid was very popular with customers.

Passenger car deliveries to the Group's customers in Japan in the first six months of 2017 matched the previous year's level (+0.1%) even though the market as a whole grew. The Polo, Golf and Audi A3 models saw the highest demand.

COMMERCIAL VEHICLE DELIVERIES

The Volkswagen Group handed over a total of 346,138 commercial vehicles to customers worldwide in the period from January to June 2017, an increase of 5.7% on the previous year. Sales of trucks rose to 87,529 vehicles (+6.6%). Bus delivery volumes amounted to 8,480 units (+12.1%). With 250,129 light commercial vehicles sold, the prior-year figure was exceeded by 5.1%.

As a result of the sustained economic recovery, the Volkswagen Group sold 220,403 units to customers in the Western European markets in the period from January to June 2017, 4.4% more than in the previous year. Of the vehicles delivered, 173,578 were light commercial vehicles, 44,406 were trucks and 2,419 were buses. The Transporter and the Caddy were the most sought-after Group models.

In the Central and Eastern European markets, demand for our commercial vehicle brands rose by 13.9% to 34,373 units; this included 19,143 light commercial vehicles, 14,715 trucks and 515 buses. The Transporter and the Caddy were particularly popular. In Russia, sales were up substantially on the prior-year level at 6,940 units, buoyed by the incipient economic recovery and receding inflation rates.

The Volkswagen Group delivered 28,435 vehicles in the Other markets, a decrease of 16.1% compared with the previous year; 19,903 were light commercial vehicles, 7,161 were trucks and 1,371 were buses.

Sales in North America climbed to 6,957 units, exceeding the previous year's level by 48.1%. In Mexico alone, 5,501 light commercial vehicles, 475 trucks and 978 buses were handed over to customers.

In the first six months of 2017, we delivered 34,976 commercial vehicles in the South American markets, an increase of 15.7%. Of the units sold, 19,429 were light commercial vehicles, 13,226 were trucks and 2,321 were buses. The Group model that witnessed the strongest demand was the Amarok. Delivery volumes in Brazil rose by 10.8% to 15,616 units; this included 5,332 light commercial vehicles, 8,764 trucks and 1,520 buses.

The Volkswagen Group handed over a total of 20,994 commercial vehicles to customers in the Asia-Pacific region, an increase of 21.0%. Of the vehicles delivered, 12,575 were light commercial vehicles, 7,543 were trucks and 876 were buses. China saw the highest growth in sales. The Transporter and the Amarok were the most popular Group models.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET FROM JANUARY 1 TO JUNE 30[1]

	DELIVERIES (UNITS)		CHANGE
	2017	2016	(%)
Europe/Other markets	**283,211**	**275,247**	**+2.9**
Western Europe	220,403	211,195	+4.4
Central and Eastern Europe	34,373	30,180	+13.9
Other markets	28,435	33,872	–16.1
North America	**6,957**	**4,696**	**+48.1**
South America	**34,976**	**30,223**	**+15.7**
of which: Brazil	15,616	14,093	+10.8
Asia-Pacific	**20,994**	**17,354**	**+21.0**
of which: China	4,882	2,760	+76.9
Worldwide	**346,138**	**327,520**	**+5.7**
Volkswagen Commercial Vehicles	249,807	237,879	+5.0
Scania	43,608	40,310	+8.2
MAN	52,723	49,331	+6.9

1 Deliveries for 2016 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.

In the period from January to June 2017, sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated more than two-thirds of overall sales revenue.

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 and the financial services activities of Scania, Porsche and Porsche Holding Salzburg.

Demand for the Financial Services Division's products and services remained strong in the first half of 2017. At 3.6 (3.5) million, the number of new financing, leasing, service and insurance contracts signed worldwide exceeded the previous year's level. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets rose to 33.5 (32.7)% in the reporting period. At 17.9 million, the total number of contracts as of June 30, 2017 was 2.8% higher than the 2016 year-end figure.

In Europe/Other markets, 2.7 million new contracts were signed in the period from January to June 2017, 2.5% more than in the previous year. As of June 30, 2017, the total number of contracts was 13.0 million, up 4.6% on the end of December 2016. The Customer Financing/Leasing area accounted for 6.2 million contracts (+5.3%).

The number of contracts in North America declined to 2.7 million at the end of the reporting period, a drop of 4.3% versus December 31, 2016. The Customer Financing/Leasing area recorded 1.7 million contracts (–5.3%). The number of new contracts signed amounted to 413 thousand, a decrease of 11.3% compared with the prior-year period.

In South America, 98 thousand new contracts were signed in the first six months of this year, a decrease of 4.7% year-on-year. The total number of contracts amounted to 640 thousand at the end of the reporting period, 1.1% fewer than at the end of last year. The contracts mainly related to the Customer Financing/Leasing area.

The number of new contracts signed in the Asia-Pacific region rose by 9.9% to 361 thousand. The total number of contracts amounted to 1.6 million on June 30, 2017, up 3.8% compared with December 31, 2016; the Customer Financing/Leasing area accounted for 1.3 million contracts (+6.5%).

SALES TO THE DEALER ORGANIZATION

In the first half of 2017, the Volkswagen Group's unit sales to the dealer organization (including the Chinese joint ventures) rose by 1.4% to 5,270,402 vehicles, in particular on the back of higher demand in Europe and South America. Unit sales outside Germany rose by 1.7% in the reporting period, while in the German market they fell 0.9% short of the prior-year level. Vehicles sold in Germany as a proportion of overall sales declined to 12.8 (13.1)%.

PRODUCTION

The Volkswagen Group produced a total of 5,433,123 vehicles in the period from January to June 2017, an increase of 3.1% year-on-year. Production in Germany declined by 3.8% to 1,351,856 units. The proportion of vehicles produced in Germany decreased to 24.9 (26.7)%.

INVENTORIES

Global inventories at Group companies and in the dealer organization were higher on June 30, 2017 than at year-end 2016 and also up on the June 30, 2016 level.

EMPLOYEES

The Volkswagen Group had 603,131 active employees on June 30, 2017. A further 6,919 employees were in the passive phase of their partial retirement. An additional 15,746 young people were in vocational traineeships. At the end of the first half of 2017, the Volkswagen Group had a total of 625,796 employees worldwide, on a level with the December 31, 2016 figure. The production-related expansion, the recruitment of specialists within and outside Germany and the expansion of the workforce in the new plants in Mexico, China and Poland were offset by the reduction of around 9,800 employees as a result of the disposal of part of the PGA Group SAS. At 282,679, the number of employees in Germany was up 0.4% on year-end 2016. The proportion of employees in Germany was slightly higher than on December 31, 2016 at 45.2 (44.9)%.

Results of Operations, Financial Position and Net Assets

SALE OF THIRD-PARTY-BRAND DEALERSHIPS OF PORSCHE HOLDING SALZBURG

The sale of part of the PGA Group SAS to the Emil Frey Group was executed on June 1, 2017. The sale took place in connection with the strategic development of Porsche Holding Salzburg's dealer network and the corresponding focus on dealerships belonging to the Volkswagen Group brands. This had a positive effect of €0.8 billion on the Group's net liquidity and, taking into account the disposal of the assets and liabilities, resulted in immaterial income for the Group, which was reported in other operating income.

RESULTS OF OPERATIONS OF THE GROUP

The Volkswagen Group generated sales revenue of €115.9 billion in the first half of 2017, thus exceeding the prior-year figure by €7.9 billion. In particular, volume effects and the good performance of the Financial Services Division made a positive contribution. Sales revenue generated abroad accounted for a share of 80.1 (79.0)%.

At €23.2 billion, gross profit was €2.1 billion higher than the prior-year figure, which had been negatively affected by special items. The gross margin amounted to 20.1% (19.6%; before special items 20.3%).

In the period from January to June 2017, the Volkswagen Group's operating profit improved by €3.6 billion to €8.9 billion, driven primarily by improvements in volumes, the mix and margins, as well as positive exchange rate trends and product cost optimization. In the prior-year period, this item had also included negative special items totaling €–2.2 billion. The Volkswagen Group's operating return on sales rose to 7.7 (4.9)% in the reporting period. In the previous year, the operating profit before special items amounted to €7.5 billion and the operating return on sales before special items was 7.0%.

At €44 million, the financial result was slightly positive, up €0.6 billion on the prior-year period. The rise was mainly attributable to lower finance costs due to remeasurement and lower expenses from the measurement of derivative financial instruments on the reporting date. The share of profits and losses of equity-accounted investments was slightly down on the prior-year figure. It includes the proportionate result of our Chinese joint ventures, which was on a par with the prior-year period, as well as gains from the remeasurement of the shares in HERE following investment by additional investors. In the prior-year period, the income from the sale of the LeasePlan shares had had a positive effect.

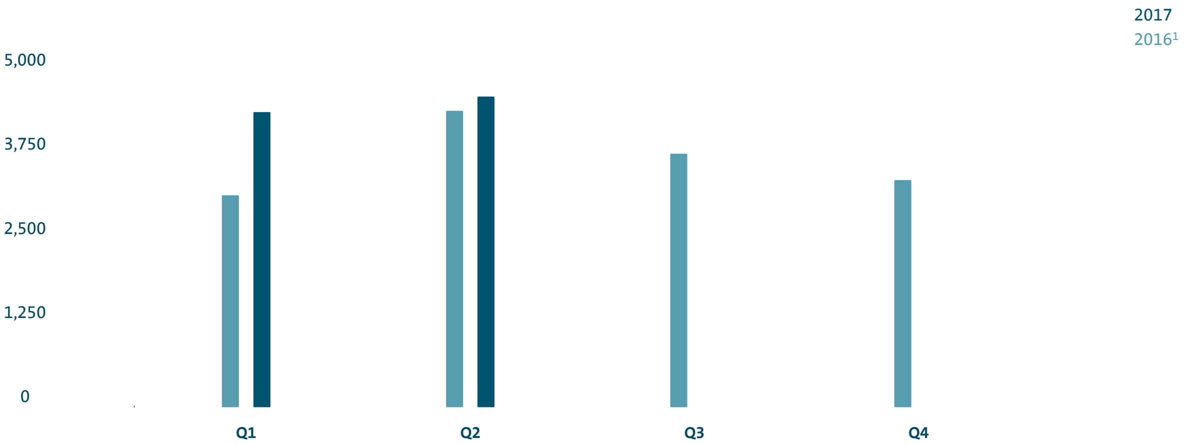
The Volkswagen Group's profit before tax rose by €4.1 billion year-on-year to €9.0 billion. Profit after tax increased by €3.0 billion to €6.6 billion.

RESULTS OF OPERATIONS IN THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS FROM JANUARY 1 TO JUNE 30

€ million	2017	2016
Passenger Cars		
Sales revenue	80,070	75,285
Gross profit	16,908	15,324
Operating result	6,654	3,895
Operating return on sales (%)	8.3	5.2
Commercial Vehicles		
Sales revenue	17,252	15,589
Gross profit	2,871	2,613
Operating result	1,043	285
Operating return on sales (%)	6.0	1.8
Power Engineering		
Sales revenue	1,579	1,673
Gross profit	284	321
Operating result	–46	–18
Operating return on sales (%)	–2.9	–1.1

OPERATING PROFIT BY QUARTER

Volkswagen Group in € million



1 Before special items.

Results of operations in the Automotive Division

The Automotive Division's sales revenue amounted to €98.9 billion in the period from January to June 2017, an increase of 6.9% compared with the previous year. The rise was primarily attributable to increased vehicle sales. Sales revenue in the Passenger Cars Business Area and the Commercial Vehicles Business Area was up significantly on the respective prior-year figures. The Power Engineering Business Area's sales revenue fell short of the level achieved in the previous year. As our Chinese joint ventures are accounted for using the equity method, the Group's performance in the Chinese passenger car market is mainly reflected in consolidated sales revenue only through deliveries of vehicles and vehicle parts.

The increase in cost of sales was driven mainly by larger volumes. Improved product costs and lower research and development costs recognized in profit or loss had a positive impact. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) amounted to 6.8 (7.2)% in the reporting period. In the prior-year period, cost of sales included negative special items.

The gross profit of the Automotive Division amounted to €20.1 (18.3) billion.

Distribution expenses increased by 2.3% in the reporting period, driven among other factors by exchange rate effects, although the ratio of distribution expenses to sales revenue declined. Administrative expenses and the ratio thereof to sales revenue increased year-on-year. Net other operating income amounted to €1.1 billion; due among other factors to exchange rate effects, this was €2.2 billion higher than in the previous year, which had been affected by negative special items.

The operating profit of the Automotive Division rose by €3.5 billion to €7.7 billion, above all due to improvements in volumes, the mix and margins, as well as positive exchange rate effects and product cost optimization. The operating return on sales rose to 7.7 (4.5)%. In the prior-year period, this item included negative special items in the Passenger Cars Business Area (€–1.7 billion) and in the Commercial Vehicles Business Area (€–0.5 billion). In the first half of 2016, the operating profit before special items amounted to €6.3 billion, giving an operating return on sales of 6.9%. Since the profit recorded by joint ventures is accounted for in the financial result using the equity method, the business growth of our Chinese joint ventures is primarily reflected in the operating profit only through deliveries of vehicles and vehicle parts, and through license income.

Results of operations in the Financial Services Division

In first six months of 2017, the Financial Services Division generated sales revenue of €17.0 billion; the 10.2% increase was mainly attributable to a rise in business volumes.

At €3.2 billion, gross profit was up 10.1% year-on-year.

Both distribution and administrative expenses increased in the reporting period; the ratio of each figure to sales revenue remained unchanged. In addition to higher volumes, the year-on-year rise in expenses was attributable in particular to digitalization.

The Financial Services Division generated an operating profit of €1.3 billion, a year-on-year increase of 7.4%. The operating return on sales stood at 7.5 (7.6)%.

FINANCIAL POSITION OF THE GROUP

At €19.5 billion, the Volkswagen Group's gross cash flow during the period from January to June 2017 exceeded the prior-year figure by €4.2 billion. The change in working capital was €12.2 billion higher than in the first six months of 2016, and amounted to €–22.4 billion. Cash flows from operating activities consequently declined to €–2.9 (5.1) billion.

At €7.0 billion, the Volkswagen Group's investing activities attributable to operating activities in the reporting period were €1.9 billion higher than in the previous year. The "Acquisition and disposal of equity investments" item includes in particular the acquisition of shares in Navistar and the sale of part of the PGA Group in the period under review, while the previous year had primarily been influenced by a cash inflow from the sale of the shares in LeasePlan.

Cash inflows from financing activities amounted to €12.6 (8.2) billion. The dual-tranche hybrid notes (€3.5 billion) successfully issued in June 2017 increased net liquidity; this was offset by the dividend paid to the shareholders of Volkswagen AG (€1.0 billion).

On June 30, 2017, the Volkswagen Group's cash and cash equivalents as reported in the statement of cash flows amounted to €21.9 billion, down €7.5 billion on the prior-year reporting date.

At the end of the first half of 2017, the Group's net liquidity was €–112.0 billion, compared with €–107.9 billion at the end of 2016.

Financial position in the Automotive Division

The gross cash flow generated by the Volkswagen Group in the first six months of 2017 amounted to €14.8 billion, €4.4 billion up on the prior-year figure, mainly due to the increase in earnings. At €–12.8 (–0.8) billion, the change in working capital was significantly negative. The cash outflows were primarily a result of vehicle recalls and legal risks relating to the diesel issue. As a result, cash flows from operating activities declined to €2.0 (9.7) billion.

Investing activities attributable to operating activities rose compared with the prior-year period to €6.8 (4.6) billion in the period from January to June 2017. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) declined year-on-year. In addition, the ratio of capex to sales revenue declined to 4.2 (4.9)% due to the rise in sales revenue. We invested primarily in our production facilities and in models to be launched in 2017 and 2018, as well as in the ecological focus of the model range, drivetrain electrification and modular toolkits. Capitalized development costs were higher than in the first half of 2016. In the reporting period, the "Acquisition and disposal of equity investments" item mainly includes the acquisition of the shares in Navistar and the sale of part of the PGA Group. In the prior-year period, the sale of the shares in LeasePlan had a significant positive effect on this item.

In the first six months of 2017, the Automotive Division's net cash flow amounted to €–4.8 billion, a decrease of €9.9 billion compared with the corresponding prior-year figure.

FINANCIAL POSITION IN THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS FROM JANUARY 1 TO JUNE 30

€ million	2017	2016
Passenger Cars		
Gross cash flow	12,866	9,101
Change in working capital	–11,902	–716
Cash flows from operating activities	964	8,385
Cash flows from investing activities attributable to operating activities	–5,710	–3,659
Net cash flow	–4,746	4,727
Commercial Vehicles		
Gross cash flow	1,871	1,254
Change in working capital	–830	18
Cash flows from operating activities	1,041	1,272
Cash flows from investing activities attributable to operating activities	–1,034	–856
Net cash flow	6	416
Power Engineering		
Gross cash flow	107	132
Change in working capital	–79	–53
Cash flows from operating activities	28	79
Cash flows from investing activities attributable to operating activities	–84	–86
Net cash flow	–56	–7

In the Automotive Division's financing activities, a capital increase carried out by Volkswagen AG at Volkswagen Financial Services AG at the beginning of 2017 in order to finance the growth in business volumes and comply with regulatory capital requirements resulted in outflows of €1.0 billion. In May 2017, a dividend totaling €1.0 billion was distributed to the shareholders of Volkswagen AG, €0.9 billion more than in the previous year. The successful placement of dual-tranche hybrid notes with an aggregate principal amount of €3.5 billion via Volkswagen International Finance N.V. in June 2017 resulted in a cash inflow. They consist of a €1.5 billion note that carries a coupon of 2.7% and has a first call date after five and a half years, and a €2.0 billion note that carries a coupon of 3.875% and has a first call date after ten years. Both tranches are perpetual and increase equity, net of transaction costs among other factors. €3.5 billion of the hybrid notes was classified as a capital contribution, which increased net liquidity. In addition, financing activities include the issuance and redemption of bonds and other financial liabilities. They amounted to €6.9 billion in the reporting period, €4.4 billion more than in the prior-year period.

On June 30, 2017, the Automotive Division's net liquidity stood at €23.7 billion, €3.4 billion below the figure as of the end of 2016.

Financial position in the Financial Services Division

At €4.6 (4.8) billion, the Financial Services Division's gross cash flow in the reporting period was down on the previous year. At €9.6 (9.4) billion, the funds tied up in working capital were higher than in the first half of 2016. This was due to higher business volume. Cash flows from operating activities amounted to €–4.9 (–4.6) billion.

At €0.2 (0.5) billion, investing activities attributable to operating activities were down on the prior-year figure, which had included the acquisition of an interest in the ride-hailing service Gett.

The Financial Services Division's financing activities resulted in cash inflows amounting to €5.7 (5.7) billion in the first six months of 2017. This included a capital increase of €1.0 billion implemented by Volkswagen AG to finance expected business growth and to comply with stricter regulatory requirements.

At the end of June 2017, the Financial Services Division's negative net liquidity, which is common in the industry, stood at €–135.7 billion, compared with €–135.1 billion at the end of December 2016.

CONSOLIDATED BALANCE SHEET STRUCTURE

At the end of the first half of 2017, the Volkswagen Group's total assets had increased to €416.2 billion, a rise of 1.6% compared with the end of 2016, although exchange rate movements had a decreasing effect. At €104.5 (92.9) billion, the Group's equity was 12.4% higher than as of December 31, 2016. The equity ratio increased to 25.1 (22.7)%.

The sale of part of the PGA Group led to the disposal of assets in the amount of €2.5 billion and liabilities in the amount of €2.1 billion.

Balance sheet structure in the Automotive Division

On June 30, 2017, property, plant and equipment in the Automotive Division was slightly down on the figure recorded at the end of 2016, while intangible assets were virtually unchanged. Lease assets were down compared with the end of December 2016 as a result of the sale of part of the PGA Group. The share of equity-accounted investments declined because of dividend payments resolved by the Chinese joint ventures. The positive business results of the Chinese joint ventures, the purchase of the shares in Navistar and the remeasurement of the shares in HERE were unable to offset this. In total, noncurrent assets decreased by 3.1%.

Current assets were 9.9% higher than at the end of December 2016; the inventories included in this figure increased for production-related reasons and as a consequence of vehicle recalls in connection with the diesel issue. Receivables, which include the as yet unpaid amounts of dividends due from the Chinese joint ventures, increased significantly. Cash and cash equivalents amounted to €17.9 billion, €3.3 billion more than on December 31, 2016.

At the end of the first six months of 2017, the Automotive Division's equity amounted to €79.2 billion, an increase of €14.6% compared with the end of 2016. It was positively impacted by healthy earnings growth, the hybrid notes issued in June 2017, effects from the measurement of derivatives recognized outside profit or loss and lower actuarial losses from the measurement of pension provisions. Currency translation effects and the dividend paid to the shareholders of Volkswagen AG reduced the Automotive Division's equity.

BALANCE SHEET STRUCTURE IN THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS

€ million	Jun. 30, 2017	Dec. 31, 2016
Passenger Cars		
Noncurrent assets	106,009	109,918
Current assets	68,670	61,600
Total assets	**174,679**	**171,518**
Equity	64,337	54,789
Noncurrent liabilities	51,823	56,703
Current liabilities	58,519	60,026
Commercial Vehicles		
Noncurrent assets	25,932	26,206
Current assets	17,384	16,197
Total assets	**43,316**	**42,403**
Equity	11,836	11,185
Noncurrent liabilities	13,523	12,531
Current liabilities	17,957	18,687
Power Engineering		
Noncurrent assets	2,771	2,879
Current assets	3,070	3,285
Total assets	**5,840**	**6,165**
Equity	3,066	3,157
Noncurrent liabilities	691	748
Current liabilities	2,083	2,260

The noncontrolling interests are mainly attributable to RENK AG and AUDI AG. As these were lower overall than the noncontrolling interests attributable to the Financial Services Division, the figure for the Automotive Division, where the deduction was recognized, was negative.

At €66.0 (70.0) billion, noncurrent liabilities were down on December 31, 2016. The noncurrent financial liabilities included in this item increased. Noncurrent other liabilities declined as a result of the positive effects from the measurement of derivatives, and there was a decrease in pension provisions due to an increase in the interest rate.

Current liabilities declined by 3.0%; the other provisions contained in this figure decreased significantly due to usage in connection with the diesel issue. Reclassifications from noncurrent to current liabilities due to shorter remaining maturities led to an increase in current financial liabilities to €3.1 (–1.0) billion. The figures for the Automotive Division also contain the elimination of intragroup transactions between the Automotive and Financial Services divisions. As the current financial liabilities for the primary Automotive Division were lower than the loans granted to the Financial Services Division in the previous year, a negative amount was disclosed for the prior-year 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.

At the end of June 2017, the Automotive Division's total assets stood at €223.8 billion, a 1.7% increase compared with the end of the previous fiscal year.

Financial Services Division balance sheet structure

The Financial Services Division's total assets amounted to €192.4 billion at the end of the first half of 2017, thus exceeding the figure for the end of 2016 by 1.5%.

Total noncurrent assets were up slightly on the previous year. The noncurrent financial services receivables included in this item rose because of the growth in business.

The 2.2% increase in current assets was mainly attributable to a volume-induced rise in receivables.

On June 30, 2017, the Financial Services Division accounted for 46.2 (46.3)% of the Volkswagen Group's assets.

Equity in the Financial Services Division amounted to €25.2 billion at the end of the reporting period, 6.1% more than as of December 31, 2016. Equity was pushed up by earnings growth and by the capital increase implemented by Volkswagen AG at the beginning of the year to finance the growth in business and to meet regulatory capital requirements. The equity ratio was 13.1 (12.5)%.

Higher noncurrent financial liabilities to fund business growth led to an increase of 11.3% in noncurrent liabilities compared with December 31, 2016.

Current liabilities declined by 6.7%; the current financial liabilities contained in this item fell significantly.

At €31.5 (33.3) billion, deposits from direct banking business as of June 30, 2017 were lower than as of December 31, 2016.

REPORT ON EXPECTED DEVELOPMENT, RISKS AND OPPORTUNITIES

On March 10, 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement resolving the environmental claims of ten states – Connecticut, Delaware, Maine, Massachusetts, New York, Oregon, Pennsylvania, Rhode Island, Vermont and Washington – for an amount of USD 157 million.

On March 24, 2017, the United States filed a motion for entry of the second partial consent decree, which had been agreed to between Volkswagen and the Department of Justice (DOJ), the US Environmental Protection Agency (EPA), the US environmental authority of California – the California Air Resources Board (CARB) – and the California Attorney General on December 20, 2016 that resolved claims for injunctive relief under the US Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. The federal court in the multidistrict litigation in California approved the second partial consent decree on May 17, 2017. Also on May 17, 2017, the court granted final approval of the 3.0 l California Second Partial Consent Decree and the class action settlement reached with private plaintiffs related to 3.0 l TDI vehicles.

On April 13, 2017, the federal court in the multidistrict litigation in California approved the third partial consent decree, which Volkswagen had agreed to with the DOJ and EPA on January 11, 2017 that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0 l and 3.0 l TDI vehicles. Various cases filed against Volkswagen AG and its affiliates remain pending before the federal court in the multidistrict litigation in California, including class actions brought by competitor dealerships (i.e. non-Volkswagen car dealerships) and Volkswagen salespersons working at franchise dealerships, as well as purchasers of certain Volkswagen bonds and American Depositary Receipts (ADRs). Moreover, certain members of the consumer and dealer classes have opted out of the settlements in the California multidistrict litigation and instead filed their own lawsuits, which are pending in the

California multidistrict litigation and various state courts in the United States.

On April 21, 2017, the federal court in Michigan accepted Volkswagen AG's agreement to plead guilty on January 11, 2017 and to pay a USD 2.8 billion criminal penalty, and imposed a sentence of three years' probation.

Also on April 21, 2017, Canadian courts approved the settlement agreement entered into between consumers and Volkswagen AG and other Canadian and US Volkswagen Group companies relating to 2.0 l diesel vehicles.

The public prosecutor's office in Munich initiated a criminal investigation against persons unknown on suspicion of fraud and false advertising in connection with 3.0 l TDI vehicles distributed in the United States. The criminal investigation is still at an early stage and further progress remains to be seen.

In June 2017, Larry Thompson was named as an Independent Compliance Monitor and an Independent Compliance Auditor. Together with his team, he will be active for the period of three years pursuant to the criminal plea agreement and the "third partial consent decree", respectively. Mr. Thompson (the "Monitor") has significant experience in both public and private sectors, having served inter alia as a Deputy Attorney General; a United States Attorney for the Northern District of Georgia; and as Executive Vice President and General Counsel for Pepsi-Co. Volkswagen AG and relevant related entities are working closely with the Monitor and his team to support them as they execute their mandates.

On April 19, 2017, a putative class action was filed against AUDI AG and certain affiliates alleging that defendants concealed the existence of "defeat devices" in Audi brand vehicles with automatic gearboxes. There are now 14 such putative class actions pending in the California multidistrict litigation. The court has set a deadline of August 28, 2017 for plaintiffs to file a consolidated class action complaint.

In addition, five "mass actions" have been filed in the California multidistrict litigation on behalf of approximately 500 individual plaintiffs alleging similar claims with respect to the existence of "defeat devices" in Audi brand vehicles with automatic gearboxes. The most recent of the mass action complaints was filed on May 26, 2017. In June 2017, the plaintiffs dismissed these actions without prejudice.

On May 23, 2017, the federal court in the multidistrict litigation in California remanded the consumer and environmental claims of 12 State Attorneys General (Alabama, Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, New Mexico, Ohio, Oklahoma, Tennessee and Vermont) to their respective state courts, where future litigation of these claims will proceed.

In June 2017, Volkswagen Group Canada reached an agreement with its Volkswagen-branded franchise dealers to resolve issues related to the diesel issue. The agreement was reached without court process.

On June 28, 2017, the court in the multidistrict litigation in California granted in part and denied in part Volkswagen AG's motion to dismiss plaintiffs' First Amended Consolidated Securities Class Action Complaint, which was filed by certain purchasers of Volkswagen ADRs. On July 19, 2017, this court granted in part and denied in part Volkswagen AG's motion to dismiss the class action complaint filed by purchasers of certain Volkswagen bonds, and permitted the plaintiffs to file an amended complaint by August 18, 2017.

On July 21, 2017, the federal court in the multidistrict litigation in California approved a further California Partial Consent Decree, in which Volkswagen AG and certain affiliates had agreed with the California Attorney General and CARB to pay USD 153,8 million in civil penalties and cost reimbursements. These penalties covered California environmental penalties for both the 2.0 l and 3.0 l TDI vehicles. An agreement in principle had been reached on January 11, 2017.

Also on July 21, 2017, the California federal court granted the motion of the Plaintiffs' Steering Committee seeking USD 125 million in attorneys' fees and costs in connection with the 3.0 l TDI settlement.

On July 21, 2017, AUDI AG offered a software-based retrofit program for up to 850,000 vehicles with V6 and V8 TDI engines meeting the Euro 5 and Euro 6 emission standards in Europe and other markets except the USA and Canada. The measure will mainly serve to further improve the vehicles' emissions in real driving conditions beyond the current legal requirements. Customers will not be charged for the new software. The full package is also offered for certain Porsche and Volkswagen models and comprises voluntary and compulsory measures that have already been reported to the authorities and partially considered within their decisions. Audi has been systematically checking the emissions of engine-gearbox combinations for months, working closely with the authorities, in particular the German Federal Ministry of Transport and the German Federal Motor Transport Authority (KBA). Audi currently assumes that the overall cost of the software-based retrofit program including the scope related to recalls will be manageable and has already recognized first provisions in this respect. If the investigations by Audi and the discussions with the KBA should reveal that further measures are necessary, Audi will swiftly implement the required solutions in the interest of its customers as part of the retrofit program. The voluntary tests have already reached an advanced stage, but have not yet been completed. In addition, Audi is responding to requests from the US authorities for information regarding automatic gearboxes in certain vehicles. Further field measures with financial consequences can therefore not be ruled out completely at this time.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in fiscal year 2017 in the "Report on Expected Developments" and "Report on Risks and Opportunities" chapters – including the "Risks from the diesel issue" and "Litigation/Diesel issue" sections and the underlying description of the issues in the chapter entitled "Diesel Issue" – of the combined management report in the 2016 Annual Report or in publications released by the reporting date concerning the diesel issue and other possible proceedings, as well as the investigations and interviews in connection with the diesel issue.

Outlook

The Volkswagen Group's Board of Management expects the global economy to record slightly higher growth in 2017 than in the previous year. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We expect the economic upturn to continue in the large majority of industrialized nations, with stable rates of expansion overall. Most emerging markets will probably see faster growth than in the previous year. 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 2017. Overall, growth in global demand for new vehicles will probably be slower than in 2016. We anticipate that sales volume in Western Europe and the German passenger car market will be slightly higher than in the previous year. In the Central and Eastern European markets, demand for passenger cars should exceed the weak prior-year figure. We expect that the market volume for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America in 2017 will be a little lower than the prior-year figure. On the South American market for passenger cars and light commercial vehicles, overall demand is expected to rise moderately compared with the previous year. The passenger car markets in the Asia-Pacific region look set to continue their growth trajectory at a slightly weaker pace.

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2017. Overall, we envisage a slight increase in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2017 are set to rise moderately above the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2017.

The Volkswagen Group is well positioned to deal with the mixed developments in automotive markets around the world. 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 further 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 covers almost all key segments, 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. The Volkswagen Group brands will further optimize their vehicle and drivetrain portfolio in 2017 to concentrate on the most attractive and fastest-growing market segments.

Our goal is to offer all customers the mobility and innovations they need, sustainably strengthening our competitive position in the process.

We expect that deliveries to customers of the Volkswagen Group in 2017 will moderately exceed the prior-year volume amid persistently challenging market conditions.

Challenges will arise particularly from the economic situation, intense competition in the market, exchange rate volatility and the diesel issue.

We expect the sales revenues of the Volkswagen Group and of the Passenger Cars Business Area and Commercial Vehicles Business Area to grow by more than 4% year-on-year in 2017. In terms of the Group's operating profit, we anticipate an operating return on sales of between 6.0% and 7.0% in 2017. In the Passenger Cars Business Area, we expect an operating return on sales in the range of 6.5% – 7.5%. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 3.0% and 5.0%. In the Power Engineering Business Area, we expect a substantial year-on-year decline in sales revenue but also a lower operating loss. For the Financial Services Division, we are forecasting sales revenue and operating profit at least at the prior-year level.

Brands and Business Fields

SALES REVENUE AND OPERATING PROFIT BY BRAND AND BUSINESS FIELD

The Volkswagen Group generated sales revenue of €115.9 (107.9) billion in the first six months of 2017. Operating profit before special items improved by €1.4 billion to €8.9 billion. In the previous year, special items totaling €–2.2 billion had to be accounted for.

When realigning our Group structures, we have reclassified companies from the Volkswagen Passenger Cars brand to the Group starting in 2017. This will allow us to increase transparency and comparability. Along with cross-brand logistics and other services, importers that also distribute vehicles from other Group brands will be separated out from the Volkswagen Passenger Cars brand. These will be disclosed in the line "Other" and will continue to be presented in the Passenger Cars Business Area. For the Volkswagen Passenger Cars brand, the reclassifications lead to reductions in unit sales, sales revenue and operating profit. The Volkswagen Passenger Cars brand sold 1.8 (2.2) million vehicles in the reporting period. This figure includes 1.6 (1.6) million Volkswagen models. The Polo, Golf, Passat and Tiguan models were in high demand. As a result of the reclassification of companies, sales revenues were down 24.8% on the prior-year period at €39.9 billion. Operating profit increased to €1.8 (0.9) billion (previous year's figure excludes special items). In addition to volume-, mix- and margin-related factors, exchange rate effects and optimization of costs had a positive impact.

In the period from January to June 2017, the Audi brand sold 783 (799) thousand vehicles worldwide. Our Chinese joint venture FAW-Volkswagen sold a further 252 (276) thousand Audi vehicles. The Q2 and A5 models proved particularly popular with customers. At €30.1 (30.1) billion, sales revenue remained at the prior-year level. At €2.7 (2.7) billion, operating profit matched the 2016 figure (previous year's figure excludes special items). Product cost optimization, positive exchange rate effects and improved margins compensated for the decline in volume and the expansion of the international model and technology portfolio. The financial key performance indicators for the Audi brand also include the Lamborghini and Ducati brands. Ducati sold 36,713 (38,693) motorcycles in the first half of 2017.

Unit sales by the ŠKODA brand increased to 501 (431) thousand vehicles in the period from January to June 2017. Demand grew for the Fabia, Rapid and Superb models. The new Kodiaq met with a very positive reception in the market and had a major part in boosting unit sales. At €8.7 billion, sales revenue was up 22.6% year-on-year. The rise in volume along with margin, mix and exchange rate effects more than compensated for increased costs. Operating profit improved by 25.5% to €860 million.

The SEAT brand recorded unit sales of 304 thousand vehicles in the first six months of 2017 (+ 9.8%). This figure includes the Q3 manufactured for Audi. The Ibiza and Leon models continued to enjoy great popularity. The new Ateca contributed particularly to the rise in unit sales. Sales revenue increased by 12.7% year-on-year to €5.1 billion. At €130 (93) million, the operating profit was up 40.9% on the prior-year period. Negative exchange rate effects and cost increases were more than compensated for by the higher volume, improved margins and positive mix effects.

Bentley sold 4,907 (4,863) vehicles in the first half of 2017 and generated sales revenue of €867 (883) million. Operating profit improved to €13 (–22) million; exchange rate effects

VOLKSWAGEN GROUP

Division	Automotive										Financial Services
Brand/ Business Field	Volkswagen Passenger Cars	Audi	ŠKODA	SEAT	Bentley	Porsche	Volkswagen Commercial Vehicles	Scania	MAN	Others	Dealer and customer financing Leasing Direct bank Insurance Fleet management Mobility offerings

and lower expenses from the development of the model portfolio had a positive impact.

Starting on January 1, 2017, Porsche's financial services business is reported as part of Volkswagen Financial Services. Porsche Automotive recorded unit sales of 124 (117) thousand vehicles worldwide in the reporting period. Above all, the Macan and Panamera saw considerable sales growth. Sales revenue increased to €10.8 (10.2) billion. The operating profit of Porsche Automotive climbed to €2.1 (1.8) billion; the increase resulted particularly from improvements in volumes and in the mix.

Volkswagen Commercial Vehicles sold 244 (231) thousand vehicles worldwide from January to June 2017. The Multivan/Transporter and Caddy were particularly popular with customers. Sales revenue improved by 9.6% to €5.9 billion. Despite higher costs resulting from expansion of the production network, operating profit improved by 49.8% to €448 million due to margin, volume and exchange rate effects.

The Scania brand increased its unit sales in the first six months of 2017 to 44 (41) thousand trucks and buses. Sales revenue grew to €6.3 (5.6) billion. Operating profit rose by €123 million to €673 million (previous year's figure excludes special items). This was attributable to higher vehicle sales and the enhanced service business as well as positive exchange rate effects.

At 53 thousand units, sales of MAN Commercial Vehicles in the reporting period were up 6.9% year-on-year. Sales revenue increased to €5.3 (4.8) billion. Operating profit (previous year's figure excludes special items) climbed to €193 (186) million due to volume and margin effects.

Sales revenue at MAN Power Engineering in the first six months of 2017 amounted to €1.6 (1.7) billion. As a result, operating profit declined to €73 (103) million.

Operating profit at Volkswagen Financial Services (including Porsche Financial Services since January 1, 2017) rose by 17.0% to €1.2 billion. In addition to Porsche Financial Services, the increase mainly resulted from business growth.

KEY FIGURES BY BRAND AND BUSINESS FIELD FROM JANUARY 1 TO JUNE 30[1]

	VEHICLE SALES		SALES REVENUE		OPERATING RESULT	
Thousand vehicles/€ million	2017	2016	2017	2016	2017	2016
Volkswagen Passenger Cars[2]	1,812	2,232	39,855	53,006	1,776	881
Audi	783	799	30,143	30,134	2,680	2,666
ŠKODA	501	431	8,720	7,114	860	685
SEAT	304	276	5,054	4,485	130	93
Bentley	5	5	867	883	13	–22
Porsche Automotive[3]	124	117	10,841	10,151	2,056	1,768
Volkswagen Commercial Vehicles	244	231	5,927	5,406	448	299
Scania[4]	44	41	6,307	5,575	673	550
MAN Commercial Vehicles	53	49	5,297	4,798	193	186
MAN Power Engineering	–	–	1,579	1,673	73	103
VW China[5]	1,870	1,867	–	–	–	–
Other[6]	–469	–849	–14,728	–28,901	–1,152	–687
Volkswagen Financial Services[7]	–	–	15,999	13,611	1,165	995
Volkswagen Group before special items	**–**	**–**	**–**	**–**	**8,916**	**7,517**
Special items	–	–	–	–	–	–2,178
Volkswagen Group	**5,270**	**5,199**	**115,862**	**107,935**	**8,916**	**5,339**
Automotive Division[8]	5,270	5,199	98,901	92,547	7,651	4,162
of which: Passenger Cars Business Area	4,930	4,879	80,070	75,285	6,654	3,895
Commercial Vehicles Business Area	340	320	17,252	15,589	1,043	285
Power Engineering Business Area	–	–	1,579	1,673	–46	–18
Financial Services Division	–	–	16,961	15,388	1,265	1,177

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 2017 figures take account of the reclassification of companies; prior-year figures were not adjusted.
3 Porsche (Automotive and Financial Services): sales revenue €11,778 (10,929) million, operating profit €2,131 (1,830) million.
4 Including financial services.
5 The sales revenue and operating profits of the joint venture companies in China are not included in the figures for the Group. These Chinese companies are accounted for using the equity method and recorded a proportionate operating profit of €2,135 (2,366) million.
6 Prior year adjusted. In operating profit, mainly intragroup items recognized in profit or loss, in particular from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocation for Scania, Porsche Holding Salzburg, MAN and Porsche.
7 Starting January 1, 2017, Porsche's financial services business is reported as part of Volkswagen Financial Services. Prior-year figures were not adjusted.
8 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

UNIT SALES AND SALES REVENUE BY MARKET

At €2.4 (2.4) million vehicles, the Volkswagen Group's unit sales in the Europe/Other markets region in the first six months of 2017 exceeded the prior-year comparison figure by 1.8%. Due to improved volumes, sales revenue rose to €73.8 (69.9) billion.

In North America, the Volkswagen Group sold 478 thousand vehicles in the reporting period; this was 1.8% more than in the previous year. Volume, exchange rate and mix effects increased sales revenue by 10.6% to €18.9 billion.

In the South American markets, the Volkswagen Group's unit sales increased to 246 (219) thousand vehicles. Sales revenue increased to €4.9 (3.8) billion. Developments in volumes, exchange rates and the mix had a positive impact.

In the Asia-Pacific region, we sold a total of 2.1 (2.1) million vehicles in the first six months of 2017, including the Chinese joint ventures. Sales revenue rose by 6.6% to €18.4 billion; the increase resulted particularly from a higher import volume as well as an improved components business at our consolidated companies. This figure does not include the sales revenue of our equity-accounted Chinese joint ventures.

KEY FIGURES BY MARKET FROM JANUARY 1 TO JUNE 30[1]

	VEHICLE SALES		SALES REVENUE	
Thousand vehicles/€ million	2017	2016	2017	2016
Europe/Other markets	2,434	2,392	73,757	69,861
North America	478	469	18,859	17,044
South America	246	219	4,854	3,777
Asia-Pacific[2]	2,113	2,119	18,392	17,254
Volkswagen Group[2]	**5,270**	**5,199**	**115,862**	**107,935**

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 The sales revenue of the joint venture companies in China is not included in the figures for the Group and the Asia-Pacific market.

VOLKSWAGEN FINANCIAL SERVICES

With its innovative products along the automotive value chain, Volkswagen Financial Services supported the Volkswagen Group's unit sales in the first half of 2017.

Starting January 1, 2017, Porsche's financial services business is reported within Volkswagen Financial Services; prior-year figures were not adjusted.

With the market launch of the new Volkswagen Crafter, Volkswagen Financial Services introduced an exclusive mobility package specially designed for customers in the courier, express and parcel service businesses. "CarePort Logistics" combines traditional services such as maintenance and spare parts, tire replacement and insurance with modern, telematics-based fleet management. All components can be provided in customized combinations as required.

In a survey by "auto motor und sport" magazine, 36.5% of the 123,000 participants chose Volkswagen Bank as the "best brand" for the eleventh time. In AUTO BILD, as many as 42% of the 60,000 participants gave their vote to Volkswagen Bank in 2017, enabling the repeat winner to beat the competition for the sixth time.

For the first time, Volkswagen Financial Services participated together with the Volkswagen Group and its sites in the "International Day for Biological Diversity" campaign that is celebrated worldwide every year on May 22. Since 2009, Volkswagen Financial Services has been actively working both nationally and internationally to protect the environment in partnership with Naturschutzbund e.V. (NABU – German Nature and Biodiversity Conservation Union).

Since the second quarter of 2017, Volkswagen Financial Services has been offering leasing-based fleet business in Turkey through its newly established subsidiary Volkswagen Dogus Finans, enabling it to participate in fleet tendering there. The first contracts have already been concluded with international companies.

The main refinancing sources for Volkswagen Financial Services are money and capital market instruments, asset-backed securities (ABS) transactions and customer deposits from the direct banking business.

At the end of June, Volkswagen Leasing GmbH successfully returned to the primary market for euro-denominated corporate bonds. It raised a total of €3.5 billion on the capital market by placing two floating-rate bonds with terms of two and four years, as well as a fixed-rate bond with a term of seven and a half years. This was the largest transaction by Volkswagen Financial Services to date.

Transactions were also successfully placed internationally in the second quarter of 2017. The second bond issued by Volkswagen Finance (China) Co., Ltd. in China has an issue volume of CNY 4 billion (approximately €534 million). In Brazil, the local company Banco Volkswagen S.A. issued a bond with a volume of BRL 500 million, which translates to approximately €134 million. Additional bonds with volumes of MXN 2 billion (approximately €99 million) and INR 1.5 billion (approximately €63 million) were issued.

The Driver España four transaction, with a volume of around €1 billion, achieved the lowest coupon of all Spanish auto ABS programs issued by Volkswagen Financial Services to date. It is also the largest Spanish auto ABS transaction since the financial crisis of 2007. The fourth Australian ABS transaction, with a volume of around AUD 500 million (approximately €340 million), was also successfully placed during the reporting period.

The number of new financing, leasing, service and insurance contracts signed in the first half of 2017 was on a level with the previous year at 3.3 (3.3) million. Based on unchanged credit eligibility criteria, the penetration rate, expressed as the ratio of leased or financed vehicles to relevant Group delivery volumes, increased to 33.1 (32.5)%. At 16.8 million, the total number of contracts at the end of the reporting period was higher than the figure as of December 31, 2016 (+ 4.2%). The number of contracts in the Customer Financing/Leasing area rose by 4.5% as against year-end 2016 to 9.3 million. At 7.5 (7.2) million, the number of contracts in the Service/Insurance area exceeded the level seen in the previous year.

As of June 30 of this year, Volkswagen Bank managed around 1.5 (1.5) million deposit accounts.

At the end of the first half of 2017, Volkswagen Financial Services had a total of 13,766 employees, an increase of 2.7% on December 31, 2016.

Interim Consolidated Financial Statements (Condensed)

Income Statement for the Period January 1 to June 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2017	2016	2017	2016	2017	2016
Sales revenue	**115,862**	**107,935**	**98,901**	**92,547**	**16,961**	**15,388**
Cost of sales	−92,618	−86,790	−78,837	−74,290	−13,781	−12,501
Gross profit	**23,244**	**21,145**	**20,064**	**18,257**	**3,180**	**2,888**
Distribution expenses	−11,051	−10,751	−10,373	−10,139	−677	−612
Administrative expenses	−4,040	−3,670	−3,182	−2,889	−859	−782
Other operating income/expense	763	−1,385	1,142	−1,068	−379	−317
Operating profit	**8,916**	**5,339**	**7,651**	**4,162**	**1,265**	**1,177**
Share of profits and losses of equity-accounted investments	1,635	1,715	1,634	1,679	2	36
Finance costs and Other financial result	−1,591	−2,243	−1,595	−2,174	3	−69
Financial result	**44**	**−528**	**39**	**−495**	**5**	**−34**
Profit before tax	**8,960**	**4,810**	**7,690**	**3,667**	**1,270**	**1,144**
Income tax expense	−2,366	−1,231	−2,001	−775	−364	−457
Profit after tax	**6,595**	**3,579**	**5,689**	**2,892**	**906**	**687**
of which attributable to						
Noncontrolling interests	5	6	−16	−44	21	49
Volkswagen AG hybrid capital investors	116	112	116	112	–	–
Volkswagen AG shareholders	6,474	3,461	5,589	2,824	885	638
Basic earnings per ordinary share (€)[2]	**12.89**	**6.88**				
Diluted earnings per ordinary share (€)[2]	**12.89**	**6.88**				
Basic earnings per preferred share (€)[2]	**12.95**	**6.94**				
Diluted earnings per preferred share (€)[2]	**12.95**	**6.94**				

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Explanatory information on earnings per share is presented in the “Earnings per share” section.

Statement of Comprehensive Income for the Period January 1 to June 30

€ million	2017	2016
Profit after tax	**6,595**	**3,579**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	1,961	–7,512
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–577	2,219
Pension plan remeasurements recognized in other comprehensive income, net of tax	1,384	–5,293
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	1	–1
Items that will not be reclassified to profit or loss	**1,385**	**–5,294**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–1,305	–729
Transferred to profit or loss	–1	0
Exchange differences on translating foreign operations, before tax	–1,306	–729
Deferred taxes relating to exchange differences on translating foreign operations	–10	0
Exchange differences on translating foreign operations, net of tax	–1,316	–729
Cash flow hedges		
Fair value changes recognized in other comprehensive income	3,778	3,912
Transferred to profit or loss	223	894
Cash flow hedges, before tax	4,002	4,806
Deferred taxes relating to cash flow hedges	–1,159	–1,401
Cash flow hedges, net of tax	2,842	3,405
Available-for-sale financial assets		
Fair value changes recognized in other comprehensive income	–42	60
Transferred to profit or loss	84	16
Available-for-sale financial assets, before tax	42	76
Deferred taxes relating to available-for-sale financial assets	–4	–20
Available-for-sale financial assets, net of tax	38	56
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax	–288	–172
Items that may be reclassified subsequently to profit or loss	**1,276**	**2,560**
Other comprehensive income, before tax	4,412	–3,531
Deferred taxes relating to other comprehensive income	–1,751	798
Other comprehensive income, net of tax	**2,661**	**–2,733**
Total comprehensive income	**9,256**	**846**
of which attributable to		
Noncontrolling interests	5	4
Volkswagen AG hybrid capital investors	116	112
Volkswagen AG shareholders	9,135	730

Income Statement for the Period April 1 to June 30

€ million	VOLKSWAGEN GROUP 2017	VOLKSWAGEN GROUP 2016	DIVISIONS AUTOMOTIVE[1] 2017	DIVISIONS AUTOMOTIVE[1] 2016	DIVISIONS FINANCIAL SERVICES 2017	DIVISIONS FINANCIAL SERVICES 2016
Sales revenue	**59,665**	**56,971**	**51,076**	**49,017**	**8,589**	**7,954**
Cost of sales	–47,612	–46,124	–40,641	–39,565	–6,971	–6,559
Gross profit	**12,052**	**10,847**	**10,435**	**9,452**	**1,618**	**1,395**
Distribution expenses	–5,628	–5,647	–5,287	–5,351	–340	–295
Administrative expenses	–2,045	–1,890	–1,626	–1,513	–419	–377
Other operating income/expense	169	–1,412	362	–1,275	–193	–137
Operating profit	**4,549**	**1,899**	**3,884**	**1,312**	**665**	**587**
Share of profits and losses of equity-accounted investments	699	601	693	585	7	16
Finance costs and Other financial result	–911	–892	–919	–896	8	4
Financial result	**–212**	**–291**	**–226**	**–312**	**15**	**20**
Profit before tax	**4,337**	**1,607**	**3,657**	**1,000**	**680**	**607**
Income tax expense	–1,145	–393	–909	–197	–236	–197
Profit after tax	**3,192**	**1,214**	**2,748**	**804**	**443**	**410**
of which attributable to						
Noncontrolling interests	2	3	–7	0	9	3
Volkswagen AG hybrid capital investors	60	56	60	56	–	–
Volkswagen AG shareholders	3,129	1,155	2,695	748	434	408
Basic earnings per ordinary share (€)[2]	**6.24**	**2.30**				
Diluted earnings per ordinary share (€)[2]	**6.24**	**2.30**				
Basic earnings per preferred share (€)[2]	**6.24**	**2.30**				
Diluted earnings per preferred share (€)[2]	**6.24**	**2.30**				

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Explanatory information on earnings per share is presented in the “Earnings per share” section.

Statement of Comprehensive Income for the Period April 1 to June 30

€ million	2017	2016
Profit after tax	**3,192**	**1,214**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	1,300	–3,201
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–394	946
Pension plan remeasurements recognized in other comprehensive income, net of tax	906	–2,255
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	2	0
Items that will not be reclassified to profit or loss	**908**	**–2,255**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–1,518	153
Transferred to profit or loss	–1	–
Exchange differences on translating foreign operations, before tax	–1,520	153
Deferred taxes relating to exchange differences on translating foreign operations	–1	0
Exchange differences on translating foreign operations, net of tax	–1,521	153
Cash flow hedges		
Fair value changes recognized in other comprehensive income	3,797	–80
Transferred to profit or loss	–62	467
Cash flow hedges, before tax	3,735	387
Deferred taxes relating to cash flow hedges	–1,089	–115
Cash flow hedges, net of tax	2,646	272
Available-for-sale financial assets		
Fair value changes recognized in other comprehensive income	–10	38
Transferred to profit or loss	–21	–16
Available-for-sale financial assets, before tax	–31	22
Deferred taxes relating to available-for-sale financial assets	13	–7
Available-for-sale financial assets, net of tax	–18	14
Share of other comprehensive income of equity-accounted investments that may be reclassified subsequently to profit or loss, net of tax	–241	–2
Items that may be reclassified subsequently to profit or loss	**866**	**438**
Other comprehensive income, before tax	3,246	–2,641
Deferred taxes relating to other comprehensive income	–1,471	824
Other comprehensive income, net of tax	**1,775**	**–1,817**
Total comprehensive income	**4,967**	**–603**
of which attributable to		
Noncontrolling interests	1	2
Volkswagen AG hybrid capital investors	60	56
Volkswagen AG shareholders	4,905	–661

Balance Sheet as of June 30, 2017 and December 31, 2016

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2017	2016	2017	2016	2017	2016
Assets						
Noncurrent assets	**250,850**	**254,010**	**134,711**	**139,003**	**116,138**	**115,007**
Intangible assets	63,229	62,599	63,021	62,372	208	227
Property, plant and equipment	52,611	54,033	49,955	51,415	2,656	2,619
Lease assets	38,047	38,439	2,895	3,385	35,151	35,054
Financial services receivables	69,997	68,402	–6	9	70,003	68,393
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	26,967	30,537	18,847	21,822	8,120	8,715
Current assets	**165,397**	**155,722**	**89,123**	**81,083**	**76,274**	**74,640**
Inventories	42,810	38,978	38,583	34,947	4,227	4,031
Financial services receivables	50,574	49,673	–618	–660	51,192	50,333
Other receivables and financial assets	33,496	30,286	19,826	17,561	13,670	12,726
Marketable securities	16,229	17,520	13,463	14,703	2,767	2,817
Cash, cash equivalents and time deposits	22,288	19,265	17,870	14,532	4,418	4,733
Total assets	**416,247**	**409,732**	**223,835**	**220,085**	**192,412**	**189,647**
Equity and Liabilities						
Equity	**104,471**	**92,910**	**79,239**	**69,130**	**25,232**	**23,780**
Equity attributable to Volkswagen AG shareholders	93,238	85,122	68,375	61,714	24,863	23,408
Equity attributable to Volkswagen AG hybrid capital investors	11,010	7,567	11,010	7,567	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	104,248	92,689	79,385	69,281	24,863	23,408
Noncontrolling interests	223	221	–146	–151	369	373
Noncurrent liabilities	**143,179**	**139,306**	**66,037**	**69,982**	**77,142**	**69,324**
Financial liabilities	74,895	66,358	6,598	5,876	68,297	60,483
Provisions for pensions	31,239	33,012	30,722	32,464	517	549
Other liabilities	37,045	39,936	28,717	31,643	8,327	8,293
Current liabilities	**168,597**	**177,515**	**78,559**	**80,973**	**90,038**	**96,542**
Put options and compensation rights granted to noncontrolling interest shareholders	3,771	3,849	3,771	3,849	–	–
Financial liabilities	86,016	88,461	3,105	–1,019	82,911	89,481
Trade payables	22,565	22,794	20,206	20,753	2,358	2,041
Other liabilities	56,246	62,411	51,477	57,391	4,769	5,021
Total equity and liabilities	**416,247**	**409,732**	**223,835**	**220,085**	**192,412**	**189,647**

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

Statement of Changes in Equity

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES Currency translation reserve
Balance at Jan. 1, 2016	**1,283**	**14,551**	**69,039**	**–987**
Profit after tax	–	–	3,461	–
Other comprehensive income, net of tax	–	–	–5,291	–729
Total comprehensive income	**–**	**–**	**–1,829**	**–729**
Capital increases	–	–	–	–
Dividends payment	–	–	–68	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	–13	–
Balance at June 30, 2016	**1,283**	**14,551**	**67,130**	**–1,716**
Balance at Jan. 1, 2017	**1,283**	**14,551**	**70,446**	**–1,117**
Profit after tax	–	–	6,474	–
Other comprehensive income, net of tax	–	–	1,383	–1,316
Total comprehensive income	**–**	**–**	**7,858**	**–1,316**
Capital increases[1]	–	–	–	–
Dividends payment	–	–	–1,015	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	–5	–
Balance at June 30, 2017	**1,283**	**14,551**	**77,284**	**–2,432**

1 Volkswagen AG recorded an inflow of cash funds amounting to €3,500 million, less a discount of €4 million and transaction costs of €23 million, from the hybrid capital issued in June 2017. Additionally, there were noncash effects from the deferral of taxes amounting to €8 million. The hybrid capital is required to be classified as equity instruments granted.

Cash flow hedges	Available-for-sale financial assets	Equity-accounted investments	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to Volkswagen AG shareholders and hybrid capital investors	Noncontrolling interests	Total equity
–3,912	**–16**	**542**	**7,560**	**88,060**	**210**	**88,270**
–	–	–	112	3,573	6	3,579
3,405	56	–173	–	–2,731	–2	–2,733
3,405	**56**	**–173**	**112**	**842**	**4**	**846**
–	–	–	–	–	–	–
–	–	–	–204	–272	–5	–277
–	–	–	–	–	–	–
–	–	6	51	44	7	51
–507	**40**	**376**	**7,519**	**88,675**	**215**	**88,890**
–457	**–2**	**417**	**7,567**	**92,689**	**221**	**92,910**
–	–	–	116	6,590	5	6,595
2,842	38	–287	–	2,661	0	2,661
2,842	**38**	**–287**	**116**	**9,251**	**5**	**9,256**
–	–	–	3,481	3,481	–	3,481
–	–	–	–204	–1,219	–5	–1,224
–	–	–	–	–	–	–
–	–	–	51	46	2	48
2,385	**37**	**130**	**11,010**	**104,248**	**223**	**104,471**

Cash flow statement for the Period January 1 to June 30

€ million	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
	2017	2016	2017	2016	2017	2016
Cash and cash equivalents at beginning of period	**18,833**	**20,462**	**14,125**	**15,294**	**4,709**	**5,168**
Profit before tax	8,960	4,810	7,690	3,667	1,270	1,144
Income taxes paid	–1,910	–1,724	–1,937	–2,138	27	414
Depreciation and amortization expense[2]	10,790	10,007	7,069	6,813	3,721	3,195
Change in pension provisions	176	169	171	165	5	3
Other noncash income/expense and reclassifications[3]	1,467	1,977	1,850	1,981	–383	–4
Gross cash flow	**19,484**	**15,239**	**14,844**	**10,487**	**4,640**	**4,752**
Change in working capital	**–22,362**	**–10,128**	**–12,810**	**–751**	**–9,551**	**–9,377**
Change in inventories	–5,946	–2,835	–5,676	–2,516	–270	–319
Change in receivables	–3,100	–4,545	–2,897	–4,486	–203	–59
Change in liabilities	5,242	4,488	4,649	3,650	592	838
Change in other provisions	–8,277	3,159	–8,346	3,092	69	67
Change in lease assets (excluding depreciation)	–5,657	–6,078	–488	–567	–5,169	–5,511
Change in financial services receivables	–4,623	–4,318	–53	76	–4,570	–4,393
Cash flows from operating activities	**–2,878**	**5,111**	**2,033**	**9,736**	**–4,911**	**–4,625**
Cash flows from investing activities attributable to operating activities	**–7,040**	**–5,149**	**–6,829**	**–4,601**	**–211**	**–548**
of which: Investments in intangible assets (excluding capitalized development costs), property, plant and equipment, and investment property	–4,327	–4,661	–4,159	–4,515	–168	–146
capitalized development costs	–2,919	–2,582	–2,919	–2,582	–	–
acquisition and disposal of equity investments	–38	1,917	24	2,338	–62	–420
Net cash flow[4]	***–9,917***	***–38***	***–4,795***	***5,135***	***–5,122***	***–5,173***
Change in investments in securities, loans and time deposits	888	926	1,741	1,112	–853	–186
Cash flows from investing activities	**–6,151**	**–4,224**	**–5,088**	**–3,489**	**–1,064**	**–735**
Cash flows from financing activities	**12,576**	**8,169**	**6,855**	**2,502**	**5,721**	**5,667**
of which: capital contributions/capital redemptions	3,473	–	2,470	–668	1,002	668
Effect of exchange rate changes on cash and cash equivalents	–507	–179	–447	–143	–60	–36
Net change in cash and cash equivalents	**3,040**	**8,877**	**3,354**	**8,605**	**–313**	**271**
Cash and cash equivalents at June 30[5]	**21,874**	**29,338**	**17,478**	**23,899**	**4,395**	**5,439**
Securities, loans and time deposits	27,085	23,328	15,969	13,663	11,116	9,665
Gross liquidity	**48,959**	**52,666**	**33,448**	**37,561**	**15,511**	**15,104**
Total third-party borrowings	–160,911	–152,205	–9,702	–8,784	–151,208	–143,421
Net liquidity at June 30[6]	**–111,952**	**–99,539**	**23,745**	**28,778**	**–135,697**	**–128,317**
For information purposes: at Jan. 1	–107,950	–100,530	27,180	24,522	–135,130	–125,052

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 (investing activities excluding change in investments in securities, loans and time deposits).
5 Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.
6 The total of cash, cash equivalents, securities, loan receivables from related parties and time deposits net of third-party borrowings (noncurrent and current financial liabilities).

Explanatory notes on the cash flow statement are presented in the section relating to the cash flow statement.

Notes to the Interim Consolidated Financial Statements

Accounting in accordance with International Financial Reporting Standards (IFRSs)

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2016 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. These interim consolidated financial statements for the period ended June 30, 2017 were therefore also prepared in accordance with IAS 34 and are condensed in scope compared with the consolidated financial statements.

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

In addition to the reportable segments, the Automotive and Financial Services divisions are presented in the condensed interim group financial report for explanatory purposes alongside the income statement, balance sheet and cash flow statement for the Volkswagen Group. This supplemental presentation is not required by IFRSs. Eliminations of intragroup transactions between the Automotive and Financial Services divisions are allocated to the Automotive Division.

The accompanying interim consolidated financial statements were reviewed by auditors in accordance with section 37w of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act).

Accounting policies

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning on or after January 1, 2017.

From January 1, 2017, IAS 7 (Statement of Cash Flows) requires entities to make additional disclosures on changes arising from cash flows and noncash changes in financial liabilities arising from financing activities as reported in the statement of cash flows. These disclosures must be made for the first time in the notes to the 2017 annual financial statements.

Since January 1, 2017, the amendments to IAS 12 (Income Taxes) have clarified the recognition of deferred tax assets for unrealized losses in the case of assets carried at fair value.

The IASB amended IFRS 12 (Disclosures of Interests in Other Entities) as part of its 2016 annual improvements project, with effect from January 1, 2017. This clarifies that, as a matter of principle, disclosures in accordance with IFRS 12 must also be made for the entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities even if these are classified as held for sale, held for distribution to owners or as discontinued operations.

The amendments do not materially affect the Volkswagen Group's net assets, financial position and results of operations. Transposition of the amendments outlined into European law has not yet taken place; this is expected for the fourth quarter of 2017.

A discount rate of 2.1% (December 31, 2016: 1.79%) was applied to German pension provisions in the accompanying interim consolidated financial statements. The increase in the discount rate reduced pension provisions and deferred taxes attributable to pension provisions and also reduced the actuarial losses for pension provisions that are recognized in retained earnings.

The income tax expense for the interim consolidated financial statements was calculated on the basis of the average annual tax rate that is expected for the entire fiscal year, in accordance with IAS 34 (Interim Financial Reporting).

In other respects, the same accounting policies and consolidation methods that were used for the 2016 consolidated financial statements are generally applied to the preparation of the interim consolidated financial statements and the measurement of the prior-year comparatives. A detailed description of the policies and methods applied is published in the "Accounting policies" section of the notes to the 2016 consolidated financial statements. In addition, details of the effects of new standards can be found in the "New and amended IFRSs not applied" section. The 2016 consolidated financial statements can also be accessed on the Internet at www.volkswagenag.com/ir.

Key events

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with Volkswagen Group diesel engines. This was followed by further reports on the scope of the diesel issue. Detailed information can be found in the "Key events" section of the 2016 consolidated financial statements.

Also, the publications released by the reporting date, as well as the investigations and interviews in connection with the diesel issue, did not provide the Group Board of Management with any new reliable findings or assessments regarding the underlying facts and the assessment of the associated risks (e.g. investor lawsuits) and did not reveal any material effects on the consolidated interim financial statements in the first half of fiscal year 2017.

Further information on the litigation in connection with the diesel issue can be found in the "Litigation" section.

Basis of consolidation

In addition to Volkswagen AG, which is domiciled in Wolfsburg and entered in the commercial register at the Braunschweig Local Court under No. HRB 100484, the consolidated financial statements comprise all significant German and non-German subsidiaries, including structured entities, that are controlled directly or indirectly by Volkswagen AG. This is the case if Volkswagen AG obtains power over the potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the subsidiaries, and is able to influence those returns.

CONSOLIDATED SUBSIDIARIES

The disposal of part of PGA Group SAS, Paris, France, by POFIN Financial Services Verwaltungs GmbH, Freilassing, to the Emil Frey Group was implemented on June 1, 2017. The sale is in connection with the strategic development of Porsche Holding Salzburg's dealer network and the corresponding focus on dealerships exclusively selling Volkswagen Group brand vehicles.

The transaction encompasses dealerships in Poland, the Netherlands, Belgium and in some cases also in France. This had a positive effect of €0.8 billion on net liquidity and, taking into account the disposal of the assets and liabilities, resulted in an insignificant income amount for the Volkswagen Group, which is reported in other operating income.

Overall, the transaction led to the disposal of assets in the amount of €2.5 billion and liabilities in the amount of €2.1 billion. The assets mainly consist of noncurrent leased assets (€0.6 billion) and inventories (€1.0 billion). The liabilities principally comprise noncurrent and current other liabilities (€0.9 billion) and trade payables (€0.7 billion).

INVESTMENTS IN ASSOCIATES

At the beginning of September 2016, Volkswagen Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, and the US-based commercial vehicle manufacturer Navistar International Corporation, Lisle, USA (Navistar), announced that they had signed an agreement to forge a wide-ranging alliance. The cooperation primarily involves working together on technical components and in procurement. The transaction closed on February 28, 2017. Within the framework of a capital increase, Volkswagen Truck & Bus acquired 16.6% of the shares in Navistar, paying USD 15.76 per share. The purchase price came to €0.3 billion. Due to Volkswagen's representation on the Board of Directors of Navistar and the agreed cooperation, the investment in Navistar is reported as an equity-accounted investment in the consolidated financial statements. The purchase price allocation has not yet been completed.

Audi, the BMW Group and Daimler AG each hold a 33.3% interest in There Holding B.V., Rijswijk, the Netherlands, which was established in 2015. In December 2016, There Holding B.V. signed contracts for the sale of interests in HERE International B.V., Rijswijk, the Netherlands. A 15% stake was sold to Intel Holdings B.V., Schiphol-Rijk, the Netherlands, and a 10% stake to a consortium consisting of NavInfo Co. Ltd., Beijing, China, Tencent Holdings Ltd., Shenzhen, China, and GIC Private Ltd., Singapore, Singapore. The transaction with Intel Holdings B.V. was completed on January 31, 2017. This resulted in a loss of control within the meaning of IFRS 10 at the There Holding B.V. level. The deconsolidation gave rise to a proportionate effect for Volkswagen of €183 million, which is shown in the result from equity-accounted investments. Since a significant influence continues to exist, HERE International B.V. is included in the financial statement of There Holding B.V. as an associate using the equity method. The completion of the transaction with the consortium is dependent on the approval of the relevant authorities. There is no change in the Volkswagen Group's participating interest in There Holding B.V. as a result of the sales.

INTERESTS IN JOINT VENTURES

Through its 50% interest in the joint venture Global Mobility Holding B.V., Amsterdam, the Netherlands (GMH), the Volkswagen Group held a 50% indirect stake in the joint venture's subsidiary, LeasePlan Corporation N.V., Amsterdam, the Netherlands (LeasePlan). GMH's business activity consisted of holding the interest in LeasePlan. LeasePlan is a Dutch financial services group whose core business is leasing and fleet management. GMH's principal place of business is in Amsterdam, the Netherlands.

On July 23, 2015, GMH sold its 100% interest in LeasePlan to a consortium of international investors. 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 attributable to operating activities and net liquidity and, taking into account the disposal of equity-accounted investment in GMH, resulted in an income amount of €0.2 billion for the Volkswagen Group, which was reported in the financial result. On completion of the transaction, the existing credit line of €1.3 billion provided by the Volkswagen Group was canceled.

Disclosures on the interim consolidated financial statements

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE

	H1	
€ million	2017	2016
Vehicles[1]	72,838	68,248
Genuine parts	7,861	7,582
Used vehicles and third-party products[1]	7,820	7,121
Engines, powertrains and parts deliveries	5,297	4,782
Power Engineering	1,578	1,672
Motorcycles	380	409
Leasing business	12,242	10,775
Interest and similar income	3,586	3,309
Other sales revenue	4,260	4,038
	115,862	**107,935**

1 Prior-year figures adjusted.

For segment reporting purposes, the sales revenue of the Group is presented by segment and market.

Other sales revenue comprises revenue from workshop services and license revenue, among other things.

To ensure that sales revenue from company vehicles is presented consistently, sales revenue from vehicles was reclassified to sales revenue from used vehicles and third-party products. Prior-year figures have been adjusted accordingly.

2. Cost of sales

Cost of sales includes interest expenses of €985 million (previous year: €948 million) attributable to the financial services business.

In addition to depreciation and amortization expenses, cost of sales also includes impairment losses on intangible assets, items of property, plant and equipment, and lease assets. The impairment losses identified on the basis of updated impairment tests amount to a total of €405 million (previous year: €572 million). The value in use of Volkswagen Group products is used as the basis for calculating impairment losses. The impairment losses in the current fiscal year and the previous year are primarily a result of the lower value in use of various products.

3. Research and development costs

€ million	H1 2017	H1 2016	%
Total research and development costs	6,759	6,619	2.1
of which: capitalized development costs	2,919	2,582	13.0
Capitalization ratio in %	43.2	39.0	
Amortization of capitalized development costs	1,705	1,803	–5.4
Research and development costs recognized in profit or loss	**5,546**	**5,840**	**–5.0**

4. Earnings per share

Basic earnings per share are calculated by dividing earnings attributable to Volkswagen AG shareholders by the weighted average number of ordinary and preferred shares outstanding during the reporting period.

Since the basic and diluted number of shares is identical, basic earnings per share also correspond to diluted earnings per share. In accordance with Article 27 of the Articles of Association of Volkswagen AG, preferred shares are entitled to a €0.06 higher dividend than ordinary shares.

		Q2 2017	Q2 2016	H1 2017	H1 2016
Weighted average number of shares outstanding					
Ordinary shares: basic	million	295.1	295.1	295.1	295.1
diluted	million	295.1	295.1	295.1	295.1
Preferred shares: basic	million	206.2	206.2	206.2	206.2
diluted	million	206.2	206.2	206.2	206.2
Profit after tax	€ million	3,192	1,214	6,595	3,579
Noncontrolling interests	€ million	2	3	5	6
Profit attributable to Volkswagen AG hybrid capital investors	€ million	60	56	116	112
Profit attributable to Volkswagen AG shareholders	€ million	3,129	1,155	6,474	3,461
Earnings per share					
Ordinary shares: basic	€	6.24	2.30	12.89	6.88
diluted	€	6.24	2.30	12.89	6.88
Preferred shares: basic	€	6.24	2.30	12.95	6.94
diluted	€	6.24	2.30	12.95	6.94

5. Noncurrent assets

CHANGES IN SELECTED NONCURRENT ASSETS BETWEEN JANUARY 1 AND JUNE 30, 2017

€ million	Carrying amount at Jan. 1, 2017	Additions/ Changes in consolidated Group	Disposals/ Other changes	Depreciation and amortization	Carrying amount at June 30, 2017
Intangible assets	62,599	2,980	195	2,155	63,229
Property, plant and equipment	54,033	3,961	761	4,623	52,611
Lease assets	38,439	9,939	6,328	4,003	38,047

6. Inventories

€ million	June 30, 2017	Dec. 31, 2016
Raw materials, consumables and supplies	4,853	4,396
Work in progress	3,816	4,408
Finished goods and purchased merchandise	28,837	25,719
Current lease assets	5,161	4,276
Prepayments	142	178
	42,810	**38,978**

There was no requirement to recognize or reverse significant impairment losses on inventories in the reporting period.

7. Current other receivables and financial assets

€ million	June 30, 2017	Dec. 31, 2016
Trade receivables	13,269	12,187
Miscellaneous other receivables and financial assets	20,227	18,099
	33,496	**30,286**

In the period January 1 to June 30, 2017, impairment losses and reversals of impairment losses on noncurrent and current financial assets reduced operating profit by €355 million (previous year: €271 million).

8. Equity

In June 2017, Volkswagen AG placed unsecured subordinated hybrid notes with an aggregate principal amount of €3.5 billion via a subsidiary, Volkswagen International Finance N.V., Amsterdam, the Netherlands (issuer). The perpetual hybrid notes were issued in two tranches and can be called by the issuer. The first call date for the first tranche (€1.5 billion and a coupon of 2.700%) is after 5.5 years, and the first call date for the second tranche (€2.0 billion and a coupon of 3.875%) is after ten years. Under IAS 32, the hybrid notes must be classified in their entirety as equity. The capital raised was recognized in equity, less a discount and transaction costs and net of deferred taxes. The interest payments payable to the noteholders will be recognized directly in equity, net of income taxes.

The subscribed capital is composed of 295,089,818 no-par value ordinary shares and 206,205,445 no-par-value preferred shares, and amounts to €1,283 million (December 2016: €1,283 million).

Volkswagen AG distributed a dividend of €1,015 million in the reporting period (previous year: €68 million). €590 million (previous year: €32 million) of this amount was attributable to ordinary shares and €425 million (previous year: €35 million) to preferred shares.

The noncontrolling interests are largely attributable to shareholders of RENK AG and AUDI AG.

9. Noncurrent financial liabilities

€ million	June 30, 2017	Dec. 31, 2016
Bonds, commercial paper and notes	57,974	51,195
Liabilities to banks	12,103	10,816
Deposit business	2,730	2,759
Other financial liabilities	2,088	1,588
	74,895	**66,358**

10. Current financial liabilities

€ million	June 30, 2017	Dec. 31, 2016
Bonds, commercial paper and notes	40,224	42,004
Liabilities to banks	15,332	14,180
Deposit business	29,384	31,019
Other financial liabilities	1,075	1,257
	86,016	**88,461**

11. Fair value disclosures

The principles and techniques used for fair value measurement remained unchanged year-on-year. Detailed explanations of the measurement principles and techniques can be found in the "Accounting policies" section of the 2016 consolidated financial statements.

Fair value generally corresponds to the market or quoted market price. If no active market exists, fair value is determined using valuation techniques, such as by discounting the future cash flows at the market interest rate, or by using recognized option pricing models.

Assets and liabilities measured at fair value through profit or loss consist of derivatives or components of derivatives that are not included in hedge accounting. These relate primarily to the interest component of currency forwards used to hedge sales revenue, commodity futures and currency forwards relating to commodity futures.

Available-for-sale financial assets (debt instruments) are carried at fair value. Changes in fair value are recognized directly in equity, net of deferred taxes.

Other equity investments (shares representing an ownership interest of less than 20% as a rule) are also classified as available-for-sale financial assets. They are recognized at cost in the consolidated financial statements if there is no active market for those shares and fair values cannot be reliably ascertained without undue cost or effort. The lower present value of the estimated future cash flows is recognized if there are indications of impairment. There is currently no intention to sell these financial assets.

Uniform valuation techniques and inputs are used to measure fair value. The fair value of Level 2 and 3 financial instruments is measured in the individual divisions on the basis of Group-wide specifications. The fair value of put options and compensation rights granted to noncontrolling interest shareholders is calculated using a present value model based on the contractually agreed cash settlement, including cash compensation, as well as the minimum statutory interest rate and a risk-adjusted discount rate for a matching maturity.

Reconciliation of balance sheet items to classes of financial instruments

The following table shows the reconciliation of the balance sheet items to the relevant classes of financial instruments, broken down by the carrying amount and fair value of the financial instruments.

The fair value of financial instruments measured at amortized cost, such as receivables and liabilities, is calculated by discounting using a market rate of interest for a similar risk and matching maturity. For reasons of materiality, the fair value of current balance sheet items is generally deemed to be their carrying amount. Financial instruments measured at fair value also include shares in partnerships and corporations. There is no active market for these instruments. Since the future cash flows cannot be reliably determined, fair value cannot be determined using measurement models. The shares in these companies are carried at cost.

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2016

	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT WITHIN SCOPE OF IFRS 7	BALANCE SHEET ITEM AT DEC. 31, 2016
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,616	8,616
Other equity investments	187	–	–	–	809	996
Financial services receivables	–	68,402	70,766	–	–	68,402
Other financial assets	251	4,982	5,008	3,023	–	8,256
Current assets						
Trade receivables	–	12,187	12,187	–	–	12,187
Financial services receivables	–	49,673	49,673	–	–	49,673
Other financial assets	740	9,527	9,527	1,577	–	11,844
Marketable securities	17,520	–	–	–	–	17,520
Cash, cash equivalents and time deposits	–	19,265	19,265	–	–	19,265
Noncurrent liabilities						
Noncurrent financial liabilities	–	66,358	66,932	–	–	66,358
Other noncurrent financial liabilities	885	1,859	1,863	1,745	–	4,488
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	3,849	3,861	–	–	3,849
Current financial liabilities	–	88,461	88,461	–	–	88,461
Trade payables	–	22,794	22,794	–	–	22,794
Other current financial liabilities	1,473	6,010	6,010	1,956	–	9,438

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF JUNE 30, 2017

	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT WITHIN SCOPE OF IFRS 7	BALANCE SHEET ITEM AT JUNE 30, 2017
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	6,661	6,661
Other equity investments	278	–	–	–	859	1,137
Financial services receivables	–	69,997	72,292	–	–	69,997
Other financial assets	52	4,756	4,779	3,495	–	8,302
Current assets						
Trade receivables	–	13,269	13,269	–	–	13,269
Financial services receivables	–	50,574	50,574	–	–	50,574
Other financial assets	57	11,021	11,021	2,353	–	13,431
Marketable securities	16,229	–	–	–	–	16,229
Cash, cash equivalents and time deposits	–	22,288	22,288	–	–	22,288
Noncurrent liabilities						
Noncurrent financial liabilities	–	74,895	77,184	–	–	74,895
Other noncurrent financial liabilities	569	1,598	1,600	361	–	2,527
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	3,771	3,772	–	–	3,771
Current financial liabilities	–	86,016	86,016	–	–	86,016
Trade payables	–	22,565	22,565	–	–	22,565
Other current financial liabilities	904	7,525	7,525	657	–	9,086

The following tables contain an overview of the financial assets and liabilities measured at fair value:

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE BY LEVEL

€ million	Dec. 31, 2016	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	187	76	–	111
Other financial assets	251	–	216	34
Current assets				
Other financial assets	740	–	734	6
Marketable securities	17,520	17,520	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	885	–	722	163
Current liabilities				
Other current financial liabilities	1,473	–	1,406	67

€ million	June 30, 2017	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	278	99	–	180
Other financial assets	52	–	14	38
Current assets				
Other financial assets	57	–	52	6
Marketable securities	16,229	16,229	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	569	–	364	205
Current liabilities				
Other current financial liabilities	904	–	822	82

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

€ million	Dec. 31, 2016	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	3,023	–	3,019	4
Current assets				
Other financial assets	1,577	–	1,577	–
Noncurrent liabilities				
Other noncurrent financial liabilities	1,745	–	1,745	0
Current liabilities				
Other current financial liabilities	1,956	–	1,956	–

€ million	June 30, 2017	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	3,495	–	3,495	–
Current assets				
Other financial assets	2,353	–	2,353	–
Noncurrent liabilities				
Other noncurrent financial liabilities	361	–	361	–
Current liabilities				
Other current financial liabilities	657	–	657	–

The allocation of fair values to the three levels in the fair value hierarchy is based on the availability of observable market prices. Level 1 is used to report the fair value of financial instruments for which a price is directly available in an active market. Examples include marketable securities and other equity investments measured at fair value. Fair values in Level 2, for example of derivatives, are measured on the basis of market inputs using market-based valuation techniques. In particular, the inputs used include exchange rates, yield curves and commodity prices that are observable in the relevant markets and obtained through pricing services. Level 3 fair values are calculated using valuation techniques that incorporate inputs that are not directly observable in active markets. In the Volkswagen Group, long-term commodity futures are allocated to Level 3 because the prices available on the market must be extrapolated for measurement purposes. This is done on the basis of observable inputs obtained for the different commodities through pricing services. Options on equity instruments and residual value protection models are also reported in Level 3. Equity instruments are measured primarily using the relevant business plans and entity-specific discount rates. The significant inputs used to measure fair value for the residual value protection models include forecasts and estimates of used vehicle residual values for the appropriate models.

CHANGES IN BALANCE SHEET ITEMS MEASURED AT FAIR VALUE BASED ON LEVEL 3

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2016	**119**	**251**
Foreign exchange differences	–3	0
Total comprehensive income	9	16
recognized in profit or loss	5	19
recognized in other comprehensive income	3	–3
Additions (purchases)	1	–
Sales and settlements	–1	–36
Transfers into Level 2	0	–23
Balance at June 30, 2016	**125**	**208**
Total gains or losses recognized in profit or loss	**5**	**–19**
Net other operating expense/income	–	–
of which attributable to assets/liabilities held at the reporting date	–	–
Financial result	5	–19
of which attributable to assets/liabilities held at the reporting date	5	1

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2017	**152**	**230**
Foreign exchange differences	–6	–
Total comprehensive income	14	97
recognized in profit or loss	19	97
recognized in other comprehensive income	–4	0
Additions (purchases)	82	–
Sales and settlements	–9	–38
Transfers into Level 2	–10	–2
Balance at June 30, 2017	**223**	**287**
Total gains or losses recognized in profit or loss	**19**	**–97**
Net other operating expense/income	–	–
of which attributable to assets/liabilities held at the reporting date	–	–
Financial result	19	–97
of which attributable to assets/liabilities held at the reporting date	1	–96

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. The transfers out of Level 3 into Level 2 comprise commodity futures for which observable quoted prices are now available for measurement purposes due to the decline in their remaining maturities; consequently, no further extrapolation is required. There were no transfers between other levels of the fair value hierarchy.

Commodity prices are the key risk variable for the fair value of commodity futures. Sensitivity analyses are used to present the effect of changes in commodity prices on earnings after tax and equity.

If commodity prices for commodity futures classified as Level 3 had been 10% higher (lower) as of June 30, 2017, profit after tax would have been €5 million higher (lower). The equity is not affected.

The key risk variable for measuring options on equity instruments held by the Company is the relevant enterprise value. Sensitivity analyses are used to present the effect of changes in risk variables on earnings after tax.

If the assumed enterprise values at June 30, 2017 had been 10% higher, earnings after tax would have been €1 million higher. If the assumed enterprise values at June 30, 2017 had been 10% lower, earnings after tax would have been €1 million lower.

Residual value risks result from hedging agreements with dealers under which earnings effects caused by market-related fluctuations in residual values that arise from buy-back obligations under leases are borne in part by the Volkswagen Group.

The key risk variable influencing the fair value of the options relating to residual value risks is used car prices. Sensitivity analyses are used to quantify the effects of changes in used car prices on earnings after tax.

If the prices for the used cars covered by the residual value protection model had been 10% higher as of June 30, 2017, earnings after tax would have been €263 million higher. If the prices for the used cars covered by the residual value protection model had been 10% lower as of June 30, 2017, earnings after tax would have been €263 million lower.

12. Cash flow statement

The cash flow statement presents the cash inflows and outflows in the Volkswagen Group and in the Automotive and Financial Services divisions. Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.

€ million	June 30, 2017	June 30, 2016
Cash, cash equivalents and time deposits as reported in the balance sheet	22,288	29,691
Time deposits	–414	–352
Cash and cash equivalents as reported in the cash flow statement	**21,874**	**29,338**

Cash inflows and outflows from financing activities are presented in the following table:

€ million	H1 2017	H1 2016
Capital contributions	3,473	–
Dividends paid	–1,224	–277
Capital transactions with noncontrolling interest shareholders	–	–3
Other changes	–	–19
Proceeds from issuance of bonds	16,030	4,560
Repayments of bonds	–7,325	–12,464
Changes in other financial liabilities	1,633	16,394
Lease payments	–11	–22
	12,576	**8,169**

13. Segment reporting

Segments are identified on the basis of the Volkswagen Group's internal management and reporting. In line with the Group's multibrand strategy, each of its brands (operating segments) is managed by its own board of management. The Group targets and requirements laid down by the Board of Management of Volkswagen AG must be complied with. Segment reporting comprises four reportable segments: Passenger Cars, Commercial Vehicles, Power Engineering and Financial Services.

The activities of the Passenger Cars segment cover the development of vehicles and engines, the production and sale of passenger cars, and the corresponding genuine parts business. Given the high degree of technological and economic interlinking in the production network of the individual brands, the Passenger Cars reporting segment combines the Volkswagen Group's individual car brands to a single reportable segment. Furthermore, there is collaboration within key areas such as procurement, research and development or treasury.

The Commercial Vehicles segment primarily comprises the development, production and sale of light commercial vehicles, trucks and buses, the corresponding genuine parts business and related services. Just as in the case of the car brands, there is collaboration within the areas procurement, development and sale. The aim is to achieve further forms of interlinking.

The activities of the Power Engineering segment consist of the development and production of large-bore diesel engines, turbo compressors, industrial turbines and chemical reactor systems, as well as the production of gear units, propulsion components and testing systems.

The activities of the Financial Services segment comprise dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility services. In this segment, combinations occur especially while taking into account the comparability of the type of services as well as the regulatory situation permits.

Purchase price allocation for companies acquired is allocated directly to the corresponding segments.

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

The reconciliation contains activities and other operations that by definition do not constitute segments. It also includes the unallocated Group financing activities. Consolidation adjustments between the segments are also contained in the reconciliation.

As a matter of principle, business relationships between the companies within the segments of the Volkswagen Group are transacted at arm's length prices.

REPORTING SEGMENTS: H1 2016

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	80,074	12,410	1,672	13,850	108,005	–70	107,935
Intersegment sales revenue	8,833	3,179	1	1,539	13,553	–13,553	–
Total sales revenue	88,907	15,589	1,673	15,388	121,558	–13,623	107,935
Segment profit or loss (operating profit or loss)	4,145	285	–18	1,177	5,589	–250	5,339

REPORTING SEGMENTS: H1 2017

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	85,580	13,491	1,578	15,166	115,816	46	115,862
Intersegment sales revenue	9,570	3,761	1	1,795	15,127	–15,127	–
Total sales revenue	95,150	17,252	1,579	16,961	130,943	–15,081	115,862
Segment profit or loss (operating profit or loss)	8,232	1,043	–46	1,265	10,494	–1,578	8,916

RECONCILIATION

	H1	
€ million	2017	2016
Segment profit or loss (operating profit or loss)	**10,494**	**5,589**
Unallocated activities	38	40
Group financing	5	12
Consolidation	–1,621	–302
Operating profit	**8,916**	**5,339**
Financial result	**44**	**–528**
Consolidated profit before tax	**8,960**	**4,810**

14. Related party disclosures

At 52.2%, Porsche SE held the majority of the voting rights in Volkswagen AG as of June 30, 2017.

The creation of rights of appointment for the State of Lower Saxony was resolved at the Extraordinary General Meeting of Volkswagen AG on December 3, 2009. As a result, Porsche SE cannot appoint the majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore classified as a related party as defined by IAS 24.

	SUPPLIES AND SERVICES RENDERED H1		SUPPLIES AND SERVICES RECEIVED H1	
€ million	2017	2016	2017	2016
Porsche SE	5	6	0	1
Supervisory Board members	1	1	2	2
Unconsolidated subsidiaries	481	419	446	340
Joint ventures and their majority interests	6,898	6,477	499	559
Associates and their majority interests	101	96	345	374
State of Lower Saxony, its majority interests and joint ventures	5	2	3	2

	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
€ million	June 30, 2017	Dec. 31, 2016	June 30, 2017	Dec. 31, 2016
Porsche SE	13	323	–	1
Supervisory Board members	0	0	311	297
Unconsolidated subsidiaries	985	1,036	1,292	1,188
Joint ventures and their majority interests	9,274	8,808	1,855	1,784
Associates and their majority interests	57	53	607	495
State of Lower Saxony, its majority interests and joint ventures	3	2	1	1

The supplies and services received from joint ventures and associates that are presented in the above tables do not include resolved dividend distributions amounting to €3,533 million (previous year: €3,488 million).

Transactions with related parties are conducted on an arm's length basis. Some of these transactions also include reservation of title clauses.

The decrease in receivables from Porsche SE is attributable to a loan repayment.

Obligations to members of the Supervisory Board relate primarily to interest-bearing bank balances of Supervisory Board members that were invested at standard market terms and conditions at Volkswagen Group companies.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €149 million.

The outstanding related party receivables were impaired in the amount of €25 million. This incurred expenses of €1 million in the first half of 2017.

In the first half of the year, the Volkswagen Group made capital contributions of €65 million to related parties.

15. Performance share plan

The Supervisory Board of Volkswagen Aktiengesellschaft resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2017.

The new system for remuneration of the Board of Management was approved by the Annual General Meeting on May 10, 2017.

The new remuneration system for the Board of Management consists of a fixed and two variable components, comprising an annual bonus with a one-year assessment period and a long-term incentive ("LTI") in the form of a so-called performance share plan with a three-year term extending into the future.

Each performance period of the performance share plan shall have a term of three years. At the time the LTI is granted, the annual target amount under the LTI shall be converted, on the basis of the initial price of the Volkswagen preferred share, into performance shares, which shall be allocated to the respective member of the Board of Management as a pure calculation position. The final determination of the number of performance shares occurs for one-third at the end of each year of the three-year performance period, in accordance with the degree of target achievement for the annual earnings per Volkswagen preferred share.

After the end of the three-year term of the performance share plan, a cash settlement shall take place. The payment amount corresponds to the final number of determined performance shares, multiplied by the amount resulting from the closing price at the end of the three-year period plus the dividend equivalent for the relevant term.

The payment amount under the performance share plan shall be limited to 200% of the target amount.

Where a member of the Board of Management leaves the Company of their own volition before the performance shares are paid out or that member starts working for a competitor, all unpaid performance shares shall expire. This does not apply to Board of Management members who had already been appointed before the change in the remuneration system for the Board of Management. Their target amount in the year they left the Company shall be reduced pro rata temporis. For further details, please refer to our disclosures in the 2017 interim report for the period from January 1 to March 31, 2017 in the section entitled "Key events".

In accordance with IFRS 2, the obligations under the performance share plan are accounted for as a cash-settled plan and measured at fair value using a recognized valuation technique. Within the framework of the changeover to the new remuneration system, the members of the Board of Management who had already approved the change were allocated a total of 128,519 performance shares. The written approval of the members of the Board of Management is expected shortly, but had not yet been received from all members by the reporting date. The fair value of the obligation as of June 30, 2017 amounts to €7.2 million. If the members of the Board of Management had left as of June 30, 2017, the obligation (intrinsic value) would have amounted to a total of €10.7 million.

16. Litigation

On March 10, 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement resolving the environmental claims of ten states – Connecticut, Delaware, Maine, Massachusetts, New York, Oregon, Pennsylvania, Rhode Island, Vermont and Washington – for an amount of USD 157 million.

On March 24, 2017, the United States filed a motion for entry of the second partial consent decree, which had been agreed to between Volkswagen and the Department of Justice (DOJ), the US Environmental Protection Agency (EPA), the US environmental authority of California – the California Air Resources Board (CARB) – and the California Attorney General on December 20, 2016 that resolved claims for injunctive relief under the US Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. The federal court in the multidistrict litigation in California approved the second partial consent decree on May 17, 2017. Also on May 17, 2017, the court granted final approval of the 3.0 l California Second Partial Consent Decree and the class action settlement reached with private plaintiffs related to 3.0 l TDI vehicles.

On April 13, 2017, the federal court in the multidistrict litigation in California approved the third partial consent decree, which Volkswagen had agreed to with the DOJ and EPA on January 11, 2017 that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0 l and 3.0 l TDI vehicles. Various cases filed against Volkswagen AG and its affiliates remain pending before the federal court in the multidistrict litigation in California, including class actions brought by competitor dealerships (i.e. non-Volkswagen car dealerships) and Volkswagen salespersons working at franchise dealerships, as well as purchasers of certain Volkswagen bonds and American Depositary Receipts (ADRs). Moreover, certain members of the consumer and dealer classes have opted out of the settlements in the California multidistrict litigation and instead filed their own lawsuits, which are pending in the California multidistrict litigation and various state courts in the United States.

On April 21, 2017, the federal court in Michigan accepted Volkswagen AG's agreement to plead guilty on January 11, 2017 and to pay a USD 2.8 billion criminal penalty, and imposed a sentence of three years' probation.

Also on April 21, 2017, Canadian courts approved the settlement agreement entered into between consumers and Volkswagen AG and other Canadian and US Volkswagen Group companies relating to 2.0 l diesel vehicles.

The public prosecutor's office in Munich initiated a criminal investigation against persons unknown on suspicion of fraud and false advertising in connection with 3.0 l TDI vehicles distributed in the United States. The criminal investigation is still at an early stage and further progress remains to be seen.

In June 2017, Larry Thompson was named as an Independent Compliance Monitor and an Independent Compliance Auditor. Together with his team, he will be active for the period of three years pursuant to the criminal plea agreement and the "third partial consent decree", respectively. Mr. Thompson (the "Monitor") has significant experience in both public and private sectors, having served inter alia as a Deputy Attorney General; a United States Attorney for the Northern District of Georgia; and as Executive Vice President and General Counsel for Pepsi-Co. Volkswagen AG and relevant related entities are working closely with the Monitor and his team to support them as they execute their mandates.

On April 19, 2017, a putative class action was filed against AUDI AG and certain affiliates alleging that defendants concealed the existence of "defeat devices" in Audi brand vehicles with automatic gearboxes. There are now 14 such putative class actions pending in the California multidistrict litigation. The court has set a deadline of August 28, 2017 for plaintiffs to file a consolidated class action complaint.

In addition, five "mass actions" have been filed in the California multidistrict litigation on behalf of approximately 500 individual plaintiffs alleging similar claims with respect to the existence of "defeat devices" in Audi brand vehicles with automatic gearboxes. The most recent of the mass action complaints was filed on May 26, 2017. In June 2017, the plaintiffs dismissed these actions without prejudice.

On May 23, 2017, the federal court in the multidistrict litigation in California remanded the consumer and environmental claims of 12 State Attorneys General (Alabama, Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, New Mexico, Ohio, Oklahoma, Tennessee and Vermont) to their respective state courts, where future litigation of these claims will proceed.

In June 2017, Volkswagen Group Canada reached an agreement with its Volkswagen-branded franchise dealers to resolve issues related to the diesel issue. The agreement was reached without court process.

On June 28, 2017, the court in the multidistrict litigation in California granted in part and denied in part Volkswagen AG's motion to dismiss plaintiffs' First Amended Consolidated Securities Class Action Complaint, which was filed by certain purchasers of Volkswagen ADRs. On July 19, 2017, this court granted in part and denied in part Volkswagen AG's motion to dismiss the class action complaint filed by purchasers of certain Volkswagen bonds, and permitted the plaintiffs to file an amended complaint by August 18, 2017.

On July 21, 2017, the federal court in the multidistrict litigation in California approved a further California Partial Consent Decree, in which Volkswagen AG and certain affiliates had agreed with the California Attorney General and CARB to pay USD 153,8 million in civil penalties and cost reimbursements. These penalties covered California environmental penalties for both the 2.0 l and 3.0 l TDI vehicles. An agreement in principle had been reached on January 11, 2017.

Also on July 21, 2017, the California federal court granted the motion of the Plaintiffs' Steering Committee seeking USD 125 million in attorneys' fees and costs in connection with the 3.0 l TDI settlement.

On July 21, 2017, AUDI AG offered a software-based retrofit program for up to 850,000 vehicles with V6 and V8 TDI engines meeting the Euro 5 and Euro 6 emission standards in Europe and other markets except the USA and Canada. The measure will mainly serve to further improve the vehicles' emissions in real driving conditions beyond the current legal requirements. Customers will not be charged for the new software. The full package is also offered for certain Porsche and Volkswagen models and comprises voluntary and compulsory measures that have already been reported to the authorities and partially considered within their decisions. Audi has been systematically checking the emissions of engine-gearbox combinations for months, working closely with the authorities, in particular the German Federal Ministry of Transport and the German Federal Motor Transport Authority (KBA). Audi currently assumes that the overall cost of the software-based retrofit program including the scope related to recalls will be manageable and has already recognized first provisions in this respect. If the investigations by Audi and the discussions with the KBA should reveal that further measures are necessary, Audi will swiftly implement the required solutions in the interest of its customers as part of the retrofit program. The voluntary tests have already reached an advanced stage, but have not yet been completed. In addition, Audi is responding to requests from the US authorities for information regarding automatic gearboxes in certain vehicles. Further field measures with financial consequences can therefore not be ruled out completely at this time.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in fiscal year 2017 in the "Report on Expected Developments" and "Report on Risks and Opportunities" chapters – including the "Risks from the diesel issue" and "Litigation/Diesel issue" sections and the underlying description of the issues in the chapter entitled "Diesel Issue" – of the combined management report in the 2016 Annual Report or in publications released by the reporting date concerning the diesel issue and other possible proceedings, as well as the investigations and interviews in connection with the diesel issue.

17. Contingent liabilities

On May 5, 2016, the U.S. National Highway Traffic Safety Administration (NHTSA) announced, jointly with the Takata company, a further extension of the recall for various models from different manufacturers containing certain airbags produced by the Takata company. Recalls were also ordered by the local authorities in individual countries. The recalls also included models manufactured by the Volkswagen Group. Appropriate provisions have been recognized. Currently, the possibility of further extensions to the recalls that could also affect Volkswagen Group models cannot be ruled out. It is not possible at the moment to provide further disclosures in accordance with IAS 37.86 in relation to this matter because the technical investigations and consultations with the authorities are still being carried out.

As of June 30, 2017, there were no major changes to the contingent liabilities compared with the disclosures in the 2016 annual report.

18. Other financial obligations

Other financial liabilities rose by €3.5 billion compared with the 2016 consolidated financial statements to reach €29.4 billion. The higher figure is mainly attributable to the increase in the purchase order commitment for property, plant and equipment as well as to obligations under irrevocable credit and leasing commitments.

German Corporate Governance Code

The current declarations in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on the German Corporate Governance Code by the Board of Management and Supervisory Board of Volkswagen AG, AUDI AG, MAN SE and RENK AG are permanently available on the Internet at www.volkswagenag.com/ir, www.audi.de/cgk-declaration, www.corporate.man.eu/en and www.renk.biz/corporated-governance.html respectively.

Significant events after the balance sheet date

There were no significant events after the end of the first six months of 2017.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed interim consolidated financial statements prepared in accordance with German accepted accounting principles give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Wolfsburg, July 27, 2017

Volkswagen Aktiengesellschaft

The Board of Management

Matthias Müller	Karlheinz Blessing	Herbert Diess
Francisco Javier Garcia Sanz	Jochem Heizmann	Andreas Renschler
Rupert Stadler	Hiltrud Dorothea Werner	Frank Witter

Review Report

To VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg

We have reviewed the condensed consolidated interim financial statements - comprising the condensed income statement and condensed statement of comprehensive income, condensed balance sheet, condensed statement of changes in equity, condensed statement of cash flows and selected explanatory notes - and the interim group management report of VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, for the period from January 1 to June 30, 2017, which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Without qualifying our opinion, we draw attention to the updated information provided in section “Key events” of the notes to the condensed consolidated interim financial statements and in chapter “Report on Expected Developments, Risks and Opportunities” of the interim group management report with regard to the Diesel Issue, which essentially refer to the information provided and statements made in the 2016 consolidated financial statements and in the combined management report as of December 31, 2016.

Based on the results of the various measures taken to investigate the issue presented so far, which underlie these financial statements, there is no validation that members of the board of management were aware of the deliberate manipulation of engine management software before summer 2015. Nevertheless, should as a result of the ongoing investigation new solid knowledge be obtained showing that members of the board of management were informed earlier, this could eventually have an impact on the annual and consolidated financial statements and on the combined management report for the fiscal year 2016 and prior years.

The provisions for warranties and legal risks recorded so far are based on the presented state of knowledge. Due to the inevitable uncertainties associated with the current and expected litigation it cannot be excluded that a future assessment of the risks may be different.

Hanover, July 27, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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FINANCIAL CALENDAR

October 27, 2017	
Interim Report January – September 2017	

This Interim Report is also available on the Internet, in German and English, at: www.volkswagenag.com/ir

This version of the Interim Report is a translation of the German original. The German takes precedence.

Printed in Germany
758.809.576.20