– Check against delivery –

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- Part II –

Ladies and Gentlemen,

I, too, would like to wish you a very warm welcome to the Annual Media and Investor Conference of the Volkswagen Group in our Autostadt here in Wolfsburg.

The key figures for our 2016 annual financial statements were already published at the end of February. What I would like to do today is give you a detailed insight into our business figures. Let's start out by comparing them with our expectations.

In 2016, the environment in the automotive sector was also significantly influenced by fiscal policy measures, with continuing evidence of protectionist tendencies. All in all, global demand for passenger cars and commercial vehicles grew at a stronger pace than in 2015 and therefore more significantly than we had expected. However, as forecast, there were also significant declines in a few of our relevant markets.

The business development of the Volkswagen Group was further influenced by the challenges resulting from the diesel issue. In spite of this, we were able to exceed our forecast by delivering 10.3 million vehicles to customers in 2016, thus setting a new record. As a result, the sales revenue of the Volkswagen Group also improved over the course of the year. At €217.3 billion, it even exceeded the expected figure – one we had revised during the year – by around €4 billion. At €14.6 billion, our operating profit before special items also exceeded the original forecast, due in particular to optimized product costs and mix improvements. Consequently, we were also able to improve our operating return on sales before special items to 6.7%. Also after special items, resulting in particular from the diesel issue, the operating profit and the operating return on sales were as forecast clearly positive.

I would now like to take a closer look at how our income statement compares to that of the previous year.

The Volkswagen Group generated sales revenue of €217.3 billion in fiscal year 2016, thus surpassing the prior-year figure by 1.9%. Once again, we generated the largest portion of our sales revenue – 79.9% – outside Germany. Improvements in the mix and positive developments in our Financial Services Division were the main contributing factors. By contrast, exchange rate effects and a slight decline in unit sales (excluding the Chinese joint ventures) had a negative impact. The Volkswagen Group's business performance in the Chinese market is mainly reflected in sales revenue and operating profit relating only to deliveries of vehicles and vehicle parts as well as license revenue.

At €14.6 billion, operating profit before special items was €1.8 billion higher than in the previous year. €1.0 billion of this can be attributed to mix improvements in the Passenger Cars Business Area. This, however, was offset by negative exchange rate effects amounting to the same figure. We were able to achieve a €2.7 billion increase in earnings by optimizing product costs, whereas an increase in fixed costs led to a negative impact amounting to €1.3 billion. In the Commercial Vehicles Business Area, the operating profit rose by €0.4 billion. This was mainly due to an increase in unit sales and the expansion of the service business. The operating profit in the Power Engineering Business Area sank by €0.2 billion due to volume- and margin-related factors. The Financial Services Division was able to improve its operating profit by €0.2 billion, owing mainly to the growth in its business volume.

Before special items, the operating profit of Volkswagen Group increased by 14% in comparison with the previous year.

In total, special items had a negative impact of €7.5 billion on the operating profit in fiscal year 2016, compared to €16.9 billion in the previous year. €6.9 billion of this figure is attributable to the Passenger Cars Business Area, €0.5 billion to the Commercial Vehicles Business Area, and €0.2 billion to the Power Engineering Business Area.

Special items relating to the diesel issue amounted to €6.4 billion, mainly due to costs for legal risks. In the prior-year period, the charges related to the diesel issue amounted to €16.2 billion. Agreements, reached in the United States and Canada have taken us a major step forward in overcoming the diesel issue.

In fiscal year 2016, it was necessary to make additional provisions of €0.3 billion to replace potentially faulty airbags manufactured by Takata.

Our operating profit was also negatively impacted by special items related to restructuring measures. With regard to our business in South America these amounted to €0.2 billion in the passenger cars business and €0.1 billion in the trucks business. In the Power Engineering Business Area, special items totaled €0.2 billion. The measures are aimed at sustainably strengthening our competitiveness and safeguarding future viability.

In the commercial vehicles business, we set aside provisions of €0.4 billion for legal risks relating to the commercial vehicles antitrust proceedings launched by the European Commission.

At €7.1 billion, the Volkswagen Group's operating profit was once again positive in fiscal year 2016, despite special items. The operating return on sales increased from -1.9% to 3.3%.

Because our Chinese joint ventures are accounted for using the equity method, they are reflected solely in the consolidated financial result. They recorded a proportionate operating profit of just under €5 billion.

At €0.2 billion, the financial result was €2.6 billion lower year-on-year. Income from the sale of the Suzuki shares had a clearly positive effect in 2015. The decline can also be attributed to lower at-equity income from our Chinese joint ventures, which were additionally impacted by negative exchange rate effects.

The Volkswagen Group's earnings before tax and earnings after tax were once again positive in fiscal year 2016. Income tax expense amounted to €1.9 billion, resulting in a tax rate of 26.2% in the reporting period.

For those interested in a presentation of the key figures for the fourth quarter of 2016, these are available as usual on our Investor Relations website.

Ladies and Gentlemen,

I would now like to explain the profits of the Volkswagen Group's individual brands before special items.

In 2016, the operating profit of the Volkswagen Passenger Cars brand before special items fell to €1.9 billion. The operating return on sales before special items also declined slightly from 2.0% to 1.8%. The decrease is primarily attributable to volume, mix and exchange rate effects. Business was also negatively impacted by the difficult economic environment in Brazil, together with higher marketing costs for the Volkswagen Passenger Cars brand, not only in the USA, as a result of the diesel issue. In contrast, cost savings from the efficiency program are already having an impact. The Volkswagen Passenger Cars brand is completely repositioning itself with the TRANSFORM 2025+ strategy. And, as you already know, the Future Pact has now been signed. The Volkswagen Passenger Cars brand is focusing on sharpening its market position and profitable growth. The realignment of the Group's structure, with more decentralized responsibility, is also playing a role here. As a result, there will be a change in management responsibility in the Volkswagen Passenger Cars brand from 2017 onwards. For example Importer companies that also sell vehicles from other Group brands will be separated from the Volkswagen Passenger Cars brand and shown in future in the Automotive Division under "Other".

In 2016, the Audi brand delivered an operating profit before special items of €4.8 billion, which was also slightly below that of the previous year. Higher sales revenue and ongoing optimization of processes and costs had a positive impact.

The “SPEED UP” action program launched in fiscal year 2016 also began to have an effect. However, exchange rate effects and intense competition had a significant adverse impact on earnings. High upfront expenditure for new products and technologies together with the expansion of the international production network led to increased depreciation and amortization charges and launch costs. The Audi brand achieved an operating return on sales before special items of 8.2%.

The ŠKODA brand celebrated its 25th anniversary as part of the Volkswagen Group in 2016. During this time, the Czech brand has evolved from a regional provider into an internationally successful vehicle manufacturer. The financial figures are also extremely encouraging. In the last fiscal year, ŠKODA’s operating profit rose by almost one-third to €1.2 billion, thanks to positive volume- and mix-related effects along with optimization of product costs. The operating return on sales rose to 8.7%.

The first SUV in the brand's history – the Ateca – contributed to record-breaking figures for sales revenue and operating profits at the SEAT brand. At €8.9 billion, sales revenue exceeded the prior-year figure by 3.8%. With an operating profit of €153 million and an operating return on sales of 1.7%, SEAT returned to the profit zone in the reporting period. Negative exchange rate effects were more than compensated for by cost reductions and mix improvements.

2016 saw strong demand for the Bentayga, Bentley's new luxury SUV. The brand sold around 11,300 vehicles worldwide, 6.4% more than in the previous year. Despite a change in market conditions and the launch costs for the Bentayga, the operating profit remained on a par with the previous year at €112 million. This can be attributed to positive exchange rate effects and cost reduction measures. The operating return on sales was 5.5%.

The Porsche brand set new records in terms of unit sales, sales revenue and profit in fiscal 2016. At €22.3 billion, sales revenue exceeded the prior-year figure by 3.6%. The operating profit rose by 13.9% to €3.9 billion, with the increase primarily attributable to volume, mix and exchange rate effects. At the same time, costs grew at a comparatively low rate despite investments for electrification, digitalization and new business fields. The operating return on sales increased from 15.8% to 17.4%.

The Volkswagen Commercial Vehicles brand celebrated 60 years of its headquarters in Hanover in the reporting year. The brand opened a new plant established especially for the production of the new Crafter in Wrzesnia, Poland. In fiscal year 2016, the sales revenue for the Volkswagen Commercial Vehicles brand rose from its prior-year figure of €10.3 billion to €11.1 billion. The operating profit before special items increased by 19% to €455 million. Contributing factors were volume and mix effects along with the positive impact of product cost optimization. The operating return on sales rose to 4.1%.

Our Scania brand celebrated its 125th anniversary in 2016. With its new generation of trucks, the Swedish brand is setting new benchmarks for efficiency and customer focus. Scania's operating profit before special items climbed to €1.1 billion. Negative exchange rate effects were more than offset by higher vehicle sales and an expansion of the service business. In the reporting period, the operating return on sales before special items amounted to 9.5%.

The operating profit before special items for the MAN Commercial Vehicles brand rose from €–4 million in 2015 to €230 million in 2016. At 2.3%, the operating return on sales before special items was once again positive. This was in part attributable to volume effects and improved margins in Europe whilst the difficult economic environment in South America had an adverse impact on business. The initiated future programs had a positive effect.

In the Power Engineering Business Area, the operating profit before special items declined from €283 million to €194 million due to volume- and margin-related factors. The operating return on sales before special items was 5.4% compared to 7.5% in the previous year.

Volkswagen Financial Services reported record profits in fiscal year 2016, due in equal measure to its broad product range and competitive offerings. At €2.1 billion, its operating profit exceeded the prior-year figure by 9.6%.

Please note that these figures I have quoted for the brands include intragroup transactions, such as in particular intercompany profits. The elimination of these items is found in the “Other” category. In addition, the profits of Porsche Holding Salzburg and the depreciation and amortization of identifiable assets from the purchase price allocation for Scania, Porsche Holding Salzburg, MAN and Porsche are combined in this line.

In 2016 all brands contributed to the success of the Volkswagen Group by delivering a positive operating result.

Ladies and Gentlemen,

In order to ensure the efficient use of resources in the Automotive Division and to measure the success of this, we have been using with Return on Investment, a value-based management system, for a number of years. RoI shows the return on invested capital based on the operating result after tax. The invested capital rose in the reporting period due to increased capex and higher capitalized development costs. The RoI rose year-on-year to 8.2% as a consequence of the improved operating profit. However, we did not meet our minimum required rate of return on invested capital of 9% due to the adverse effects of the special items on earnings. .

In the Financial Services Division, the return on equity before tax decreased from 12.2% to 10.8% in 2016. Due to regulatory minimum capital requirements, equity rose more sharply than earnings before tax in the reporting period.

I would now like to turn to specific details of the financial position of the Automotive Division.

At €16.5 billion, the Automotive Division’s gross cash flow was €9.0 billion higher in fiscal year 2016 than in the previous year. The increase is attributable primarily to lower special items and the resulting improved operating result. However, lower dividend payments by the Chinese joint ventures had an offsetting effect.

The change in working capital of €3.8 billion was significantly down on the figure of €16.3 billion for the previous year. The new special items recognized in each reporting period had a negative impact on gross cash flow and a positive effect on the change in working capital. Legal risks and vehicle recalls attributable to the diesel issue resulted in cash outflows in the reporting period. Cash flows from operating activities decreased in total by €3.5 billion to €20.3 billion mainly as a result of lower Chinese dividends and, as already mentioned, the diesel related outflows.

Investing activities attributable to operating activities rose to €15.9 billion, a year-on-year increase of €1 billion. At €12.8 billion, capex was on a level with the previous year. The ratio of capex to sales revenue remained at 6.9%, within the expected range. Unfortunately however, we were unable to achieve our goal of reducing the level of capex in absolute terms in the reporting period. Our investment policy has been rigorously realigned: we are now focusing even more closely on future trends rather than on non-product-related areas. We are firmly convinced it would be negligent of us to fail to systematically invest in our future during this critical transition phase in the automotive industry. In the course of the last fiscal year, we invested mainly in our production facilities and our vehicles. These included the Tiguan and Atlas series from the Volkswagen Passenger Cars brand, the A4, A6, A8 and Q5 from Audi, the Kodiaq from ŠKODA, the Ateca, Ibiza and Arona models from SEAT, and the Panamera and Cayenne models from Porsche. Other investment priorities were the ecological focus of our model range, drivetrain electrification and our modular toolkits.

Capitalized development costs increased by €0.7 billion to €5.8 billion. The reporting period saw a number of important projects reach their capitalization point in accordance with IFRS rules. Over and above this, we have streamlined our product development process, which leads to an earlier capitalization.

We remain committed to our target of reducing both the ratio of capex to sales revenue and the R&D ratio to 6% by 2021 at the latest.

Investing activities attributable to operating activities in the reporting period included the sale of the LeasePlan shares amounting to €2.2 billion, and in the previous year the sale of the Suzuki shares.

The Automotive Division’s net cash flow was €4.3 billion. This figure was down on the previous year, also due to cash outflows related to the diesel issue, but was within our expected range.

We started fiscal year 2016 with a net liquidity of €24.5billion in the Automotive Division. As I just mentioned, net cash flow had a positive effect on net liquidity. A capital increase of €1.2 billion was carried out at Volkswagen Financial Services AG to finance the growth in business volumes and comply with regulatory capital requirements. In consequence of the diesel issue, the dividend payment to Volkswagen AG shareholders amounted to only €0.1 billion. The Automotive Division’s net liquidity at the end of the reporting period was €27.2 billion - a robust sum, particularly in view of the upcoming cash outflows related to the diesel issue.

Ladies and gentlemen,

In fiscal year 2016, the Volkswagen Group generated earnings attributable to shareholders of Volkswagen AG of €5.1 billion, compared to €-1.6 billion in the previous year. This corresponds to basic earnings of €10.24 per ordinary share and €10.30 per preferred share, marking a return to positive zone in these figures as well. Consequently, the Board of Management and the Supervisory Board are pleased to be able to propose a dividend of €2.00 per ordinary share and €2.06 per preferred share, corresponding to a payout ratio of 19.7%. This figure takes account of our current financial situation and the significant payments related to the diesel issue in 2017. At the same time, we are reaffirming our strategic goal to achieve a payout ratio of 30%.

Our Annual General Meeting will be held at the Deutsche Messe AG Exhibition Grounds in Hanover on May 10th, 2017. The agenda and other related documents will be published on our Investor Relations website as soon as the Annual General Meeting has been convened.

Ladies and Gentlemen,
Many thanks for your attention.