

– Check against delivery –

**Frank Witter
Speech at the
Annual Media and Investor Conference
on April 28, 2016**

– Part II –

Ladies and Gentlemen,

I, too, would like to wish you a very warm welcome to today's Annual Media and Investor Conference in Wolfsburg.

As Mr. Müller already said, fiscal year 2015 confronted us with major challenges which are also reflected in our business figures. These were, in particular, charges arising from the emissions issue. I will deal with the special items in detail later. However, the decline in sales in China, Russia and Brazil also had a material impact on our performance.

Under increasingly difficult conditions, the Volkswagen Group delivered 9.9 million vehicles to customers in the reporting period. That is 2.0% down on the previous year. Nevertheless, the Group was able to increase its total sales revenue in the fiscal year 2015. In particular, improvements in the mix, positive exchange rate effects and our Financial Services business helped our sales revenue to reach €213.3 billion and thus exceed the prior year's figure by 5.4%. At €12.8 billion, the operating result – excluding negative special items – was on a level with the previous year. In particular, our strong premium brands, our Financial Services business and positive developments in Western and Central European markets were the main drivers behind this good result. The operating result fell considerably to €-4.1 billion when special items amounting to €16.9 billion in total are included. The special items resulted mainly from the diesel issue as well as restructuring expenses in particular.

The diesel issue led to total exceptional charges of €16.2 billion in the operating result across the board for all relevant markets. This figure includes provisions for pending technical modifications to the affected diesel engines or for repurchases that amount to €7.8 billion in total. In addition, €7.0 billion has been set aside for global legal risks and €1.4 billion for various market-related issues. This means that our financial statements for 2015 address all matters known to us regarding the emissions issue and the risks related to it.

In addition to the diesel issue, the special items related to restructuring expenses amounting to €0.2 billion in trucks business and additionally €0.2 billion in passenger business in South America had a negative impact. The authorities in the United States and Canada have ordered all affected automobile manufacturers to replace potentially defective airbags supplied by Takata, which made it necessary to establish provisions of €0.3 billion. As already mentioned, negative special items recognized in the operating result came to a total of €16.9 billion in the past fiscal year.

The net liquidity of the Automotive Division is a key performance indicator in the Volkswagen Group. Due to the high net cash flow, it rose to €24.5 billion in comparison with €17.6 billion at the end of 2014. In addition, the successful placement of hybrid notes with an aggregated principle amount of €2.5 billion strengthened our financial position. Most of the afore-mentioned special items were not yet cash effective in the year under review and therefore did not impact net liquidity.

As a result of the Group's unchanged robust financial strength, despite the sharp fall in its results due to special items, the Board of Management and Supervisory Board will propose to pay a dividend of €0.11 per ordinary share and €0.17 per preferred share at the Annual General Meeting. The proposed dividend has been significantly reduced and takes into account the current financial situation, especially the safeguarding of our net liquidity. We continue to maintain our medium-term goal of a 30% distribution ratio.

Ladies and Gentlemen,

At this point, allow me to give you a detailed overview of the past fiscal year.

A look at the income statement for the Volkswagen Group shows that we managed to increase sales revenue by €10.8 billion year-on-year, reaching a figure of €213.3 billion. Improvements in the mix, positive exchange rate effects and growth in the Financial Services Division's business volume were the main contributors to this.

The cost of sales rose by 8.1% mainly due to charges from special items totaling €8.5 billion that were recognized in this position. At €33.9 billion, gross profit was therefore below the previous year's figure of €36.5 billion. The gross margin was 15.9%, compared with 18% in the previous year. Excluding special items, though, it came to a good 19.9%.

Distribution expenses were up by 15.9%. The ratio of distribution expenses to sales revenue also increased. This was mainly as a result of the emissions issue but also to the trend in exchange rates. Administrative expenses grew by 5.2%, while the ratio to sales revenue remained on the same level as in the prior year.

The legal risks in connection with the diesel issue were recognized in other operating result – as were expenses for restructuring. In total, these special items had a negative impact of €7.4 billion here.

As mentioned before, we generated an operating result of €12.8 billion excluding special items which was on a level with the previous year. The operating return on sales before special items amounted to 6%, thus achieving the target set a year ago for 2015. Lower sales figures, higher depreciation and amortization charges and higher research and development expenditures had a negative impact here. By contrast, optimized product costs, improvements in the mix and more favorable exchange rates had a positive impact. The operating result after special items decreased considerably to €-4.1 billion. The operating return on sales declined from 6.3% to -1.9%.

The figures I have mentioned do not include the proportionate operating result of our Chinese joint ventures. This amounted to €5.2 billion, which is on a level with the prior year. These companies are consolidated using the equity method and are therefore reflected solely in the Group's financial result.

Year-on-year, the financial result increased by €0.7 billion to €2.8 billion. This includes the disposal gain of €1.5 billion from the sale of shares in Suzuki. In particular, higher income from the equity-accounted Chinese joint which was up on the prior-year figures, as a result of exchange rate effects and lower finance costs, had a positive impact. By contrast, higher expenses from the measurement of derivative financial instruments at the reporting date and negative remeasurement effects relating to the put options and compensation rights in the context of the control and profit and loss transfer agreement with MAN SE had an offsetting effect.

Earnings before tax came to €-1.3 billion, thus €16.1 billion down on the previous year. The return on sales before tax decreased from 7.3% to -0.6%. Sustained profitability remains a cornerstone of our strategy. Now more than ever before, our goal is to add value responsibly and to rebuild trust in our company.

Income tax expense amounted to €59 million in the past fiscal year. At €-1.4 billion, the result after tax in 2015 was far lower than in the prior year – namely €12.4 billion.

For your information, I would like to point out that you can find a presentation of the most important figures for the fourth quarter of 2015 on our investor relations web page.

Ladies and Gentlemen,

I would now like to provide you with a more detailed breakdown of the operating results by brand and business field before special items.

The Volkswagen Passenger Cars brand was particularly affected by the charges relating to the emissions issue. In the past fiscal year, the costs of customer support measures as a result of the emissions issue and the negative effects of markets, especially in Brazil and Russia, could not be offset by more favorable exchange rates and positive effects from the efficiency program for the brand. The operating result before special items of the Volkswagen Passenger Cars brand declined by €374 million to €2.1 billion. The special items in the operating result totaled €16.4 billion, including €16.0 billion for the emissions issue. As ever, the unit sales and profits of our Chinese joint ventures are not included in these figures.

The Audi brand delivered a record 1.8 million vehicles delivered to customers. Growth in unit sales, mix effects and the trend in exchange rates all had a positive impact on the operating result. However, high upfront expenditures in new products and technologies as well as in the expansion of the international production network offset this. Operating result before special items came to €5.1 billion and was consequently on a par with the prior year. The special items totaled €0.3 billion, including €0.2 billion for the diesel issue.

In 2015, the ŠKODA brand celebrated its 120th anniversary and continued its success, delivering a record 1.1 million vehicles to customers in the course of its new model rollout. The increase of just under €100 million in its operating result to reach €915 million largely came about from positive developments in volume and mix, optimization of material costs and more favorable exchange rates.

The SEAT brand can look back on another improved fiscal year in 2015, with demand up in almost all markets. Deliveries to customers rose to 400 thousand vehicles. The operating loss was much lower than in the previous year, falling by €117 million to €10 million. This was primarily due to increased volumes, positive exchange rate effects and optimized costs.

The Bentley brand started production of the Bentayga, the first luxury SUV in the Volkswagen Group's portfolio, in 2015 and launched it on the market in 2016. Despite higher sales revenue, this brand's operating result decreased by €59 million to €110 million. The favorable exchange rate trend and reduced costs could not offset lower sales in markets, especially in China, and higher upfront expenditures in new products.

In fiscal 2015, the Porsche brand continued on its successful path and achieved new records in terms of unit sales, sales revenue and profit. The Macan, in particular, enjoyed strong demand. Positive volume and exchange rate effects led to a 25% rise in operating result to €3.4 billion. Stringent income and cost management helped to counteract the negative effects from the mix, increased structural costs and higher development costs for future projects and technologies.

In the past fiscal year, the Volkswagen Commercial Vehicles brand started production of the sixth generation of the T-series. It features numerous technical innovations. In addition, this series – consisting of the Multivan and Transporter models – celebrated its 65th anniversary in 2015. However, increased unit sales and more favorable exchange rates could not offset the higher costs of renewing the product range. The operating result before special items fell by €122 million to €382 million. Special items totaled €25 million and were exclusively due to restructuring activities in South America.

In the past fiscal year, global demand for trucks and buses was well below the previous year's level. However, trends in the regional markets were very mixed. The economic recovery in Western Europe had a positive impact whereas ongoing weak economic conditions affected the markets negatively in South America and the political crisis reduced demand in Russia.

Despite lower sales figures, the Scania brand generated an operating result of one billion euros in this environment. Its operating return on sales improved to 9.8%. Increased demand for services and the favorable exchange rate trend were the key to this.

In view of the challenging competitive situation, the MAN brand launched a comprehensive program for the future to strengthen the company. Unit sales for commercial vehicles dropped by nearly 15% to 102 thousand. The Power Engineering business field was negatively impacted by the continuing difficult situation in the shipping industry, the economic trend in emerging markets and developing countries and the decline in the oil price. Operating result before special items fell by €107 million to €277 million. Special items related to restructuring measures totaled €0.2 billion.

Volkswagen Financial Services built on its growth over the past few years and again achieved a record result in fiscal 2015. In particular, this was supported by close cooperation with Volkswagen Group brands, growth in existing markets and the expansion of our international presence. The operating result at Volkswagen Financial Services rose by 12.9% percent year-on-year to €1.9 billion. Higher business volumes and the favorable trend in exchange rates were offset by higher expenses for meeting regulatory requirements and by the continuing pressure on margins.

Please note that the figures for brands and business fields also include intragroup transactions, in particular intercompany profits. These are eliminated in the "Other" category. In addition, the results 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 item.

Excluding special items, the Volkswagen Group's operating result was on a level with the previous year, at €12.8 billion.

Analysis of the changes in the operating result reveals a negative effect from volumes, the mix and prices amounting to €1.1 billion in the Passenger Cars Business Area, with changes in the mix having a positive impact. At one billion euros, changes in exchange rates had a positive impact on the operating result. Optimized product costs of €2.6 billion mainly resulted from improved procurement services, our systematic alignment of all processes around efficient procedures and methods, and the implementation of our modular toolkit strategy.

Fixed costs increased to €2.6 billion. The reasons for this were higher depreciation and amortization due to the large volume of investment on the one hand and higher research and development expenses on the other hand. In particular, new models, electrification of our vehicle portfolio, a more efficient range of engines, lightweight construction, digitalization and the development of toolkits should be mentioned here.

The operating result of the Commercial Vehicles/Power Engineering Business Area before special items was on a par with the previous year. The difficult market conditions in Brazil and Russia characterized the past fiscal year in this business field. These negative effects could not be offset by the trend toward more favorable exchange rates and the successful expansion of service business.

In this year, too, the Financial Services Division made a very positive contribution to the Group's operating result. Challenges still existed, especially when it came to meeting increasing regulatory requirements and facing the continuing pressure on margins.

The special items amounting to €-16.9 billion are entirely attributable to the Passenger Cars and Commercial Vehicles/Power Engineering Business Areas. Including these special items, the operating result fell considerably to €-4.1 billion as I have already mentioned.

Ladies and Gentlemen,

Return on investment has been one of the key instruments used to manage the Automotive Division for many years. It is used to monitor the efficient use of our resources.

Last year, the Automotive Division's return on investment declined sharply – mainly due to special items. It fell from 14.9% to -0.2% in the reporting period. With this figure, we were below both our minimum required rate of return of 9% and our current cost of capital of 6.8%.

Our invested capital increased in fiscal 2015 as a result of higher investments in capex and higher capitalized development costs. The opportunity cost of capital (invested capital multiplied by cost of capital) was down on the prior-year level due to the lower cost of capital.

After deduction of the opportunity cost of capital from the operating result after tax and the special items, there was a negative value contribution of €5.9 billion.

In view of the uncertainties in the current situation, we are reprioritizing all investments and expenditures and are questioning investments that are not deemed absolutely necessary. Nevertheless, investments in the company's future viability are essential. Investments in e-mobility and digitalization play an especially important role.

In the Financial Services Division, the return on equity before tax decreased slightly from 12.5% to 12.2% last year. This was largely due to increased regulatory requirements for equity and the associated higher capital resources.

Let us now look at our balance sheet key figures. At €381.9 billion, the Volkswagen Group's total assets as of the end of fiscal 2015 exceeded the prior-year figure by 8.7%. The main causes of this rise were the volume-related increase in lease assets and receivables from financial services as well as the trend in exchange rates. The Group's equity ratio – defined as the ratio of equity to total assets – decreased to 23.1%.

The equity ratio in the Automotive Division fell from 36.9% to 32.6%. In particular, special items and amounts arising from the measurement of derivatives, that were recognized in other comprehensive income, had a negative impact. The capital increases implemented in the Financial Services Division also reduced equity in the Automotive Division, where the deduction was recognized. The healthy earnings growth before special items, the hybrid notes issued in March 2015 and the lower actuarial losses from the measurement of pension obligations due to decreased interest rates had a positive impact.

At the end of 2015, the Financial Services Division's equity amounted to €20.9 billion, exceeding the previous year's figure by €3.5 billion. The earnings situation and the capital increases in the amount of €2.3 billion implemented by Volkswagen AG in 2015 to finance business growth and to meet regulatory capital requirements contributed to this. At 11.9%, the equity ratio was up 0.6 percentage points year-on-year.

I will now turn to individual items in our cash flow statement.

The Automotive Division's gross cash flow declined by €12.6 billion to €7.5 billion last year. This was primarily due to the special items, which were partly offset by the positive change in the earnings quality of the Automotive Division and higher dividend payments by the Chinese joint ventures. The change in working capital of €16.3 billion compared with €1.4 billion in the previous year can be attributed to the impact of the special items, which have not yet been reflected in cash flow. Cash flows from operating activities rose by €2.2 billion year-on-year to €23.8 billion.

Capex that has been recognized in investing activities attributable to operating activities rose from €11.5 billion to €12.7 billion in 2015. The ratio of capex to sales revenue increased year-on-year by 0.5 percentage points to 6.9%. This means that we were within the forecast range of 6% to 7%. These investments were primarily in our production facilities and in new models that we launched in 2015 and 2016 or are planning to launch. Other key matters were the ecological focus of our model range, the growing use of electric drives and our modular toolkits.

Let us take a quick look at the future at this point. Implementation of our 2025 strategy will have a major impact on our future investments. We will have to take opposing aspects into account here. We see a growing need for investments in new drive and mobility concepts, urbanization and digitalization. At the same time, we also see the necessity of reducing investments not only in absolute terms but also in relation to sales revenue and of making better use of the possible synergies among our twelve brands.

Capitalized development costs in fiscal 2015 increased by €0.4 billion to their current level of €5.0 billion. These primarily reflect upfront expenditures to comply with environmental requirements and to expand and upgrade the model portfolio.

Together with partners from the automotive industry, we have taken over Nokia's maps and location services business. This stake amounting to €0.7 billion is a pioneering investment in new infotainment, connectivity and assistance systems, extending to fully automated driving. The €3.1 billion cash inflow from the sale of Suzuki shares had a positive effect on the investing activities attributable to operating activities, which came to €14.9 billion in total.

Net cash flow in the Automotive Division rose by €2.8 billion year-on-year to €8.9 billion. This represents the difference between cash flows from operating activities and investing activities attributable to operating activities.

The issuance of hybrid notes with an aggregate principal amount of €2.5 billion in March 2015 boosted our net liquidity. By contrast, the afore-mentioned capital increases in the Financial Services Division led to a cash outflow amounting to €2.3 billion.

The Automotive Division's net liquidity was €24.5 billion at the end of 2015, compared with €17.6 billion at the end the previous year. This underscores our solid liquidity policy.

May I draw your attention to a publication that will be appearing soon. In May 2016, we will be publishing the notice convening Volkswagen Aktiengesellschaft's Annual General Meeting, which will be held in Hanover on June 22, 2016. I can already tell you that a capital increase will not be on the agenda of this AGM.

Looking back on the past fiscal year, the record shows that business developed well up to September 2015 but was affected massively by the diesel issue in the final months. Last year, the Volkswagen Group posted earnings attributable to shareholders of Volkswagen AG of €-1.6 billion. This was due to the special items relating to the diesel issue in particular. This corresponds to basic earnings of €-3.20 per ordinary share and €-3.09 per preferred share.

Ladies and Gentlemen,

In 2016, we are realigning the Group, revising our strategy and defining our steering model more precisely. It is not only fundamental internal changes that pose challenges this year but also the overall economic environment. This fiscal year will be characterized by continuing subdued growth prospects and sustained political uncertainty as well as strong currency fluctuations, difficult developments in some markets and the consequences of the diesel issue. Nevertheless, our goal is to reach the previous year's volume of deliveries again and strengthen our sound economic position.

Many thanks for your attention.