### Group Management Report

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

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<th>Year</th>
<th>Volkswagen Group Customer Deliveries Worldwide (in millions)</th>
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<tr>
<td>2011</td>
<td>8.3</td>
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<td>2012</td>
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<td>2013</td>
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GROUP MANAGEMENT REPORT

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Our Strategy 2018 focuses on positioning the Volkswagen Group as a global economic and environmental leader among automobile manufacturers. We have defined four goals that are intended to make Volkswagen the most successful, fascinating and sustainable automaker in the world by 2018:

- Volkswagen intends to deploy intelligent innovations and technologies to become a world leader in customer satisfaction and quality. We see high customer satisfaction as one of the key requirements for the Company’s long-term success.
- The goal is to increase unit sales to more than 10 million vehicles a year; in particular, Volkswagen intends to capture an above-average share of growth in the major growth markets.
- Volkswagen’s aim is a long-term return on sales before tax of at least 8% so as to ensure that the Group’s solid financial position and ability to act are guaranteed even in difficult market periods.
- Volkswagen aims to be the most attractive employer in the automotive industry by 2018. To build the best vehicles, we need the best team in the sector; highly qualified, fit and, above all, motivated.

We are focusing in particular on the environmentally friendly orientation and profitability of our vehicle projects so that the Volkswagen Group has the right products for success even in more challenging economic conditions. At the same time, this will mean that capital expenditure remains at manageable levels. Our attractive and environmentally friendly range of vehicles, which we are selectively expanding, and the strong position enjoyed by our individual brands in the markets worldwide, are key factors allowing us to leverage the Group’s strengths and to systematically increase our competitive advantages.

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

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

We will only successfully meet the challenges of today and tomorrow if all employees – from vocational trainees through to senior executives – consistently deliver excellence so as to ensure the quality of the Volkswagen Group’s innovations and products for the long term and at the highest level. Outstanding performance, the success that comes from it and participation in its rewards are at the heart of our human resources strategy.
The Volkswagen Group’s performance and success can be measured using both financial and nonfinancial key performance indicators. The following starts by describing the internal management process, and then explains the Volkswagen Group’s core performance indicators.

**INTERNAL MANAGEMENT PROCESS IN THE VOLKSWAGEN GROUP**

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

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

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

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

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

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

**CORE PERFORMANCE INDICATORS FOR INTERNAL MANAGEMENT**

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

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

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

The ratio of investments in property, plant and equipment (capex) to sales revenue in the Automotive Division represents both our innovative power and our competitiveness. It compares our capital expenditure – largely for modernizing and expanding our product range and environmentally friendly drivetrains, as well as for increasing capacity and improving production processes – to the Automotive Division’s sales revenue.

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

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

You can find information and explanations on the sales figures and the Volkswagen Group’s financial key performance indicators on pages 78ff. and 94ff.

Detailed descriptions of our activities and additional nonfinancial key performance indicators in the areas of corporate social responsibility, research and development, procurement, production, sales and marketing, quality assurance, employees, information technology and environmental management can be found in the chapter entitled “Sustainable Value Enhancement” beginning on page 113 of this Annual Report.
Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2013 with respect to equity investments.

Outline of the Legal Structure of the Group

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

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

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

Information on the remuneration structure for the Board of Management and the Supervisory Board can be found in the Remuneration Report on pages 60 to 64, in the notes to the consolidated financial statements of Volkswagen AG on page 282 and on page 43 of the notes to the annual financial statements of Volkswagen AG.

Organizational Structure of the Group

The Volkswagen Group is one of the leading multibrand groups in the automotive industry. The Company’s business activities comprise the Automotive and Financial Services divisions. All brands in the Automotive Division – with the exception of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands – are legally independent separate companies. The business activities of the various companies in the Volkswagen Group focus on developing, producing and selling passenger cars, light commercial vehicles, trucks and buses. The product portfolio ranges from motorcycles through fuel-efficient small cars down to luxury vehicles. In the commercial vehicles segment, the offering begins with small pickups and extends to buses and heavy trucks. Other business fields manufacture large-bore diesel engines and special gear units, among other things. A broad range of financial services rounds off the offering. With its brands, the Volkswagen Group has a presence in all relevant markets around the world. Western Europe, China, Brazil, the USA, Russia, Mexico and Argentina are currently the key sales markets for the Group.
Volkswagen AG and the Volkswagen Group are managed by Volkswagen AG’s Board of Management in accordance with the Volkswagen AG Articles of Association and the rules of procedure for Volkswagen AG’s Board of Management issued by the Supervisory Board. The Group Board of Management, which was formed to support the work of the Board of Management, ensures that Group interests are taken into account in decisions relating to the Group’s brands and companies within the framework laid down by law. This body consists of the members of Volkswagen AG’s Board of Management, the chairmen of the larger brands and selected top managers with Group management functions. Volkswagen’s strategic management is largely conducted at Group level by four committees. These committees, which are composed of representatives both of the relevant central departments and the corresponding functions in the Company’s business areas, cover the following basic functions: product planning, investment, liquidity and foreign currency, and management issues.

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

The companies of the Volkswagen Group are managed separately by their respective managements. In addition to the interests of their own companies, each individual company management takes into account the interests of the Group and of the individual brands in accordance with the framework laid down by law.

**MATERIAL CHANGES IN EQUITY INVESTMENTS**

The control and profit and loss transfer agreement between MAN SE, as the controlled company, and Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, as the controlling company, came into force on its entry in the commercial register on July 16, 2013. The conclusion of the control and profit and loss transfer agreement replaces the constructive group relationship by a contractual group, permitting considerably more efficient and less bureaucratic cooperation between the MAN brand and the rest of the Volkswagen Group. Noncontrolling interest shareholders of MAN SE have the right to tender MAN ordinary and preferred shares in Truck & Bus GmbH during, and two months after the conclusion of, the award proceedings instituted in July 2013 to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. As of December 31, 2013, Truck & Bus GmbH held 75.2% of the ordinary shares and 44.8% of the preferred shares in MAN SE.

**LEGAL FACTORS INFLUENCING BUSINESS**

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

The future of the Volkswagen Group depends on our ability to continually increase the Company’s value. Strengthening the trust of our customers and investors is fundamental to this. Transparent and responsible corporate governance therefore takes the highest priority in our daily work.

GERMAN CORPORATE GOVERNANCE CODE – A BLUEPRINT FOR SUCCESSFUL CORPORATE GOVERNANCE

The German Corporate Governance Code contains recommendations and suggestions for good and responsible corporate governance. It was prepared by the government commission established for the purpose on the basis of the material statutory provisions and nationally and internationally accepted standards of corporate governance. The government commission reviews the German Corporate Governance Code in light of national and international developments on an annual basis and updates it as necessary. The work of the Board of Management and the Supervisory Board of Volkswagen AG is based on the recommendations and suggestions of the German Corporate Governance Code. We consider responsible and transparent corporate governance to be a key prerequisite for sustainably increasing the Company’s value. It helps strengthen the trust of our customers and investors in our work and meet the steadily increasing demand for information from national and international stakeholders.

DECLARATIONS OF CONFORMITY

(AS OF THE DATE OF THE RELEVANT DECLARATION)

On February 22, 2013, the Board of Management and the Supervisory Board of Volkswagen AG issued a supplement to the declaration of conformity with the recommendations of the German Corporate Governance Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) dated November 23, 2012. This supplement became necessary due to changes in the application of the Code since the declaration of conformity was submitted. In this document, the Board of Management and Supervisory Board declare that the recommendations by the Government Commission on the German Corporate Governance Code of May 15, 2012 published by the German Federal Ministry of Justice on June 15, 2012 (2012 German Corporate Governance Code) have been complied with in full, with the exception of articles 4.2.3(4) (severance payment cap), 5.1.2(2) sentence 3 (age limit for members of the Board of Management), 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee), 5.4.1 (4 to 6) (disclosure regarding election recommendations), 5.4.6(2) (performance-related remuneration of members of the Supervisory Board) and 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled). The Board of Management and Supervisory Board also declare that the declaration of conformity submitted on November 23, 2012 has been qualified to exclude compliance with the recommendation in article 4.2.3(3) sentence 3 (exclusion of retroactive changes to comparative parameters) for the 2012 bonus. The reason for this additional exception can be found in the supplement to the declaration of conformity issued on February 22, 2013, which is published on our website, www.volkswagenag.com/ir, under the heading “Corporate Governance”, menu item “Declarations”.

From June 10, 2013 until submission of the declaration of November 22, 2013, the recommendations of the Government Commission on the German Corporate Governance Code of May 13, 2013 on June 10, 2013, the recommendations of the 2012 German Corporate Governance Code were complied with, with the exception of articles 4.2.3(4) (severance payment cap), 5.1.2(2) sentence 3 (age limit for members of the Board of Management), 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee), 5.4.1(4 to 6) (disclosure regarding election recommendations), 5.4.6(2) (performance-related remuneration of members of the Supervisory Board), 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled) and 4.2.3(3) sentence 3 (exclusion of retroactive changes to comparative parameters).
June 10, 2013 (2013 German Corporate Governance Code) were complied with, with the following exceptions: articles 4.2.3(4) (severance payment cap), 5.1.2(2) sentence 3 (age limit for members of the Board of Management), 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee), 5.4.1(4 to 6) (disclosure regarding election recommendations), 5.4.6(2) (performance-related remuneration of members of the Supervisory Board), 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled) and 4.2.2(2) sentence 3 (vertical comparison of remuneration).

In this document, the Board of Management and Supervisory Board also declare that, as of the declaration of November 22, 2013, the recommendations of the 2013 German Corporate Governance Code have been and will continue to be complied with, with the exception of articles 4.2.3(4) (severance payment cap), 5.1.2(2) sentence 3 (age limit for members of the Board of Management), 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee), 5.4.1(4 to 6) (disclosure regarding election recommendations), 5.4.6(2) (performance-related remuneration of members of the Supervisory Board) and 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled).

The reasons for these exceptions can be found in the declaration of conformity, which is published on our website, www.audi.com/cgk-declaration, under the heading “Corporate Governance”, menu item “Declarations”.

The suggestions of the current version of the German Corporate Governance Code are complied with in full.

Our listed subsidiaries AUDI AG, MAN SE and Renk AG have also issued declarations of conformity with the German Corporate Governance Code.

The Board of Management and the Supervisory Board of AUDI AG issued the declaration of conformity with the German Corporate Governance Code on November 28, 2013. In this document, they state that the recommendations of the 2012 German Corporate Governance Code were complied with until the announcement of the 2013 German Corporate Governance Code on June 10, 2013. However, there were qualifications to articles 5.1.2(2) sentence 3 and 5.4.1(2) sentence 1 (age limit for Board of Management and Supervisory Board members), 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee), 5.3.3 (nomination committee), 5.4.1(4 to 6) (disclosure regarding election recommendations), 5.4.2 (no more than two former Board of Management members to sit on the Supervisory Board), 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board) and 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled). The departure from article 5.4.3 sentence 1 (election to the Supervisory Board on an individual basis), 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board) and 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled) are exceptions.

In this document, the two Boards furthermore declared that, as of June 10, 2013, the recommendations of the 2013 German Corporate Governance Code were and will continue to be complied with, with the exception of articles 4.2.3(2) sentence 6 (caps on overall remuneration of the Board of Management and in respect of their variable remuneration components), 5.1.2(2) sentence 3 and 5.4.1(2) sentence 1 (age limit for Board of Management and Supervisory Board members), 5.3.2 sentence 3 (independence of the Audit Committee Chairman), 5.3.3 (nomination committee), 5.4.1(4 to 6) (disclosure regarding election recommendations), 5.4.2 sentence 3 (no more than two former Board of Management members to sit on the Supervisory Board), 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board), 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled).

The reasons for these exceptions are explained in the declaration of conformity, which is published at www.audi.com/cgk-declaration.

AUDI AG complies with the suggestions of the current version of the German Corporate Governance Code without exception.

In their declaration of conformity with the German Corporate Governance Code of December 2013, the Executive Board and Supervisory Board of MAN SE declared that, in the period from December 2012 to June 10, 2013, the recommendations of the 2012 German Corporate Governance Code were complied with, with the exception of articles 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee), 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board) and 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled).
From June 10, 2013 until submission of the current declaration of conformity, the recommendations of the 2013 German Corporate Governance Code were complied with, with the exception of articles 4.2.2(2) sentence 3 (vertical comparison of remuneration), 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee), 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board) and 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled). Following the necessary consultations and the corresponding decision by the Supervisory Board, article 4.2.2(2) sentence 3 (vertical comparison of remuneration) has also been complied with since November 15, 2013.

The Executive Board and Supervisory Board of MAN SE also declare that, as of the date of issue of the current declaration in December 2013, the recommendations of the 2013 German Corporate Governance Code have been complied with, with the exception of articles 5.3.2 sentence 3 (independence of the Chairman of the Audit Committee), 5.4.1(4 to 6) (disclosure regarding election recommendations), 5.4.6(2) sentence 2 (performance-related remuneration of members of the Supervisory Board) and 5.5.3 sentence 1 (report to the Annual General Meeting about conflicts of interest that have arisen and how they are being handled).

The reasons for these exceptions are explained in the declaration of conformity, which is available at www.corporate.mano.com under the heading “Investor Relations”.

At Scania AB, the management and supervisory functions are split between the Annual General Meeting, the Board of Directors, and the President and CEO. They are governed by the articles of association, Swedish company law, the stock exchange admission criteria and other laws and regulations, such as the Swedish Corporate Governance Code. Additional details on Scania AB’s corporate governance and the relevant declaration of conformity with the Swedish Corporate Governance Code are available at www.scania.com/scania-group/corporate-governance.

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

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

The first four criteria have already been met. As a rule, individuals will also not be proposed for election to the Supervisory Board if they are 75 or older at the time of the election.

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

More information on the cooperation between the Board of Management and the Supervisory Board of Volkswagen AG and on the work and structure of the committees of the Supervisory Board can be found in the Report of the Supervisory Board on pages 7 to 11 of this annual report. Information on the members of the Board of Management and Supervisory Board, as well as on the Supervisory Board committees, can be found on pages 65 to 68.

REMITERATION REPORT
Extensive explanations of the remuneration system and the individual remuneration of the members of the Board of Management and the Supervisory Board may be found in the Remuneration Report on pages 60 to 64 of this annual report.

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

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Compliance is a cornerstone of sustainable business – a view expressly shared by the Company’s management. Speaking to an audience of more than 5,000 at a management event in 2013, Chairman of the Board of Management of the Volkswagen Group, Prof. Dr. Martin Winterkorn, emphasized this point: “Operating a sustainable business means we continue to take the subject of compliance seriously. We do not break the law, or other rules and regulations! This applies to all our brands and in all regions.” Volkswagen enjoys an excellent reputation internationally. It is our responsibility as managers to ensure that it is upheld.” Other members of the Group Board of Management and brand boards of management also called on the workforce to comply with the rules during the past fiscal year.

Preventive compliance management system
Compliance is an important part of the Governance, Risk and Compliance (GRC) organization in the Volkswagen Group (see the Report on Risks and Opportunities starting on page 151). As part of this, Volkswagen adopts a preventive compliance approach and aims to create a corporate culture that stops potential breaches before they occur by raising awareness and educating employees. Group Internal Audit and Group Security regularly perform the necessary investigative measures, systematically monitor compliance and perform random checks regardless of any suspicion of infringements, as well as investigating specific suspected breaches. Responses are implemented by the Human Resources and Group Legal departments. These processes are closely interrelated, in line with the concept of a comprehensive compliance management system.

Various bodies support the work of the compliance organization at Group and brand company level. These include the Compliance Board at senior management level and the core Compliance team, which ensures coordination with the functional areas.

Focal points in 2013
Each year, detailed compliance risk assessments are carried out across the Group as part of the standard GRC process. The results are factored into the risk analyses performed by the Volkswagen Group, the brands and the companies, and into the Compliance Program planning.

Compliance activities in 2013 focused on anti-corruption measures in China and on expanding the GRC organization. The China Compliance conference was held in Beijing in May 2013 to prophylactically tackle the subject of preventing corruption in the Chinese Group companies. The Conference was sponsored by the member of the Group Board of Management responsible for the China function and President and CEO of Volkswagen Group China, as well as the CEOs of the Chinese joint ventures FAW-Volkswagen Automotive Company Ltd. and Shanghai-Volkswagen Automotive Company Ltd. All three stressed in their speeches that compliance is a key element of corporate responsibility, helps to safeguard a company’s image, and has a direct positive impact on business growth. Among other things, the conference provided an opportunity to train the local management, assess the specific situation in China from a compliance perspective and develop future local compliance strategies in workshops.

The Group Chief Compliance Officer is now supported by 14 Chief Compliance Officers, who are responsible for the brands, the Financial Services Division and Porsche Holding GmbH, Salzburg, as well as 175 compliance officers in the Group companies. In total, staff in 49 countries are employed in the GRC function.

Work of the Governance, Risk and Compliance organization
The GRC organization provided information on various compliance issues to the Group’s brands and companies over the year, using a wide range of traditional communication channels. These include reports in various employee magazines produced by the brands, companies and locations and information stands at works meetings. Electronic media such as intranet portals, smartphone apps, blogs and newsletters are also frequently used to provide compliance information. For example, International Anti-Corruption Day in early December was used at Volkswagen AG as an opportunity to launch a poster campaign highlighting the topic of corruption. The campaign was accompanied by articles in employee magazines, as well as a short animated film on the intranet.

Building on its Code of Conduct, Volkswagen has produced guidelines on various compliance topics. These cover anti-corruption – including checklists and the express prohibition of facilitation payments – and competition and antitrust law. These information documents were provided to employees either in paper form or electronically (on the intranet and the employee portal, for example) and made available to all brands to be adapted to their respective specific requirements.
There are also Group-wide directives on dealing with gifts and invitations, as well as on making donations.

We have communicated the Code of Conduct to all consolidated brand companies and established it as a fundamental part of our corporate culture. It is also increasingly being integrated into our operational processes. For example, since 2010, all new employment contracts entered into between Volkswagen AG on the one part and both management staff and employees covered by collective agreements on the other have included a reference to the Code of Conduct and the obligation to comply with it. In addition, since 2012, all new Volkswagen AG employees have been required to complete an e-learning program on the Group’s Code of Conduct. The subject of human rights is an integral part of this training program.

Training on competition and antitrust law is provided to specific target groups. For example, it is a core component of the training provided to sales and procurement employees.

Due to the new requirements of the Geldwäschegesetz (GwG – German Money Laundering Act), a money laundering prevention concept has also been rolled out at the Group companies based in Germany.

The Company considers the excellent reputation enjoyed by the Volkswagen Group in the business world and among the public to be a precious asset. To safeguard its reputation, Volkswagen verifies the integrity of its business partners (business partner check). This check allows us to find out about potential business partners before entering into a relationship with them, reducing the risk of starting a cooperation that could be damaging to the Company or its business.

Providing information to employees at all levels continues to be a core component of our compliance work. Across the Group, approximately 119,000 employees attended events on the topics of compliance, the Code of Conduct, anti-corruption, human rights, anti-money laundering, and competition and antitrust law in 2013. E-learning programs are also an established means of providing employee training. Around 31,600 employees successfully completed the e-learning program on avoiding conflicts of interest and corruption in 2013. Certain Group companies have special e-learning programs on topics such as anti-money laundering. Around 158,000 employees have taken the opportunity for professional development by participating in e-learning programs on compliance issues since 2009.

Employees of all brand companies and a large number of Group companies are able to obtain personal advice about compliance issues, usually by contacting the compliance organization via a dedicated e-mail address. In 2013, employees made extensive use of the IT-based information and advisory tool launched at Volkswagen AG’s German locations in 2012.

The Group-wide ombudsman system can be used to report any breaches or suspicions (particularly regarding corruption) in nine different languages to two external lawyers appointed by the Group. Naturally, the people providing the information need not fear being sanctioned by the Company for doing this. In 2013, the ombudsmen passed on 30 reports by people – whose details remained confidential if requested – to Volkswagen AG’s Anti-Corruption Officer. In addition, the Anti-Corruption Officer and the head of Group Internal Audit received information on a further 65 cases directly. During local internal audits of the brands and Group companies, 251 reports of suspected fraud were submitted. All information is followed up. All breaches of the law or internal regulations are appropriately punished and may lead to consequences under employment law, including dismissal.

**Effectiveness review**

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

Carefully managing potential risks to the Company is a key component of our daily work. Volkswagen Group’s risk management system is oriented toward identifying, assessing, communicating and managing risks. This system is reviewed on an ongoing basis and adjusted in line with new conditions as necessary. A detailed description of the risk management system and our accounting-related internal control system can be found in the Risk Report on pages 151 to 154 of this annual report.

The Supervisory Board has established an Audit Committee, which monitors the financial reporting process and the effectiveness of the internal control system, risk management, the internal audit system and compliance, in particular. It also supervises the audit of financial statements, particularly the independence of the auditors, the additional services provided by the auditors, the audit engagement, the definition of the areas of emphasis for the audit and the agreed fee. As recommended in article 5.3.2 of the German Corporate Governance Code, the Chairman of the Audit Committee, Dr. Ferdinand Oliver Porsche, has particular expertise and experience in the application of financial reporting principles and internal control systems.

COMMUNICATION AND TRANSPARENCY

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

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

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

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

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

The supervisory body appointments held by Board of Management members and Supervisory Board members can be found on pages 65 to 68 of this annual report.
Remuneration Report

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

PRINCIPLES OF AND CHANGES TO BOARD OF MANAGEMENT REMUNERATION

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

The remuneration system of the members of the Board of Management applicable to date was approved by the 50th Annual General Meeting on April 22, 2010 by 99.44% of the votes cast. At the same time, the Volkswagen Group’s positive business performance over the past few years made it necessary to modify and realign Board of Management remuneration and the comparative parameters on which it is based. The remuneration of the Board of Management was modified with the assistance of a remuneration consultant, whose independence has been assured by the Supervisory Board and by the Company.

Material changes to the remuneration system relate to the bonus, the calculation of which was realigned to reflect business development. It also explicitly takes into account the individual performance of members of the Board of Management.

The retroactive adjustment of the comparative parameters for the bonus was held on February 22, 2013 to be a departure from the recommendation in article 4.2.3(3) sentence 3 of the German Corporate Governance Code (in the version dated May 15, 2012), which precludes the retroactive adjustment of performance targets or comparative parameters. This departure was nonrecurring and was related to the bonus for 2012. This recommendation is now being complied with again.

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

COMPONENTS OF BOARD OF MANAGEMENT REMUNERATION

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

Fixed remuneration

In fiscal year 2013, the members of the Board of Management received fixed remuneration totaling €11,638,328 (€9,506,343). The fixed remuneration also includes differing levels of remuneration for appointments assumed at Group companies as well as the cost or cash equivalent of noncash and other benefits, such as the use of company cars and the payment of insurance premiums. Taxes due on the noncash benefits were mainly borne by Volkswagen AG.

The basic remuneration is reviewed regularly and adjusted if necessary.
Variable remuneration
The variable remuneration comprises a bonus, which relates to business performance over the preceding two years, and, since 2010, a Long-Term Incentive (LTI) plan, which is based on the previous four fiscal years, subject to an introductory phase. Both components of variable remuneration are therefore calculated on a multiyear basis and reflect both positive and negative developments.

Bonus
The bonus rewards the positive business development of the Volkswagen Group. The basis for calculating the bonus is adjusted to reflect the positive business development in recent years in connection with the changes to Board of Management remuneration. The bonus is calculated on the basis of the average operating profit, including the proportionate operating profit in China, over a period of two years. A significant change since February 22, 2013 was the introduction of a calculation floor below which no bonus will be paid. This floor was set at €5.0 billion for 2012 and 2013. In addition, a cap for extraordinary developments is explicitly provided for by limiting the maximum theoretical bonus. The theoretical cap for 2012 and 2013, subject to the performance-related bonus, is €6.75 million for the Chairman of the Board of Management and €2.5 million for the other members of the Board of Management. The system and the cap are regularly reviewed by the Supervisory Board to establish whether any adjustments are necessary.

Another material change since February 22, 2013 relates to the Supervisory Board’s ability to increase the theoretical bonus, which is calculated on the basis of average operating profit, by up to 50% by applying individual adjustment factors that are not linked to the

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN 2013 (PRIOR-YEAR FIGURES IN BRACKETS)*

<table>
<thead>
<tr>
<th></th>
<th>Fixed remuneration</th>
<th>Special remuneration</th>
<th>Individual performance-related bonus</th>
<th>LTI</th>
<th>Total</th>
</tr>
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<tr>
<td>Martin Winterkorn</td>
<td>1,907,862</td>
<td>6,002,000</td>
<td>3,001,000</td>
<td>4,095,000</td>
<td>15,005,862</td>
</tr>
<tr>
<td></td>
<td>(1,916,276)</td>
<td>(5,770,000)</td>
<td>(2,885,000)</td>
<td>(3,940,000)</td>
<td>(14,511,276)</td>
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<td>Francisco Javier García Sanz</td>
<td>1,241,017</td>
<td>2,233,000</td>
<td>1,116,500</td>
<td>1,820,000</td>
<td>6,410,517</td>
</tr>
<tr>
<td></td>
<td>(1,102,278)</td>
<td>(2,150,000)</td>
<td>(860,000)</td>
<td>(1,750,000)</td>
<td>(5,862,278)</td>
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<tr>
<td>Jochem Heizmann</td>
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<td>669,900</td>
<td>1,820,000</td>
<td>5,932,845</td>
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<tr>
<td></td>
<td>(1,100,204)</td>
<td>(2,150,000)</td>
<td>(645,000)</td>
<td>(1,750,000)</td>
<td>(5,645,204)</td>
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<td>Christian Klingler</td>
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<td>2,233,000</td>
<td>893,200</td>
<td>1,820,000</td>
<td>6,187,217</td>
</tr>
<tr>
<td></td>
<td>(999,756)</td>
<td>(2,150,000)</td>
<td>(860,000)</td>
<td>(1,750,000)</td>
<td>(5,759,756)</td>
</tr>
<tr>
<td>Michael Macht</td>
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<td>1,820,000</td>
<td>5,963,917</td>
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<tr>
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<td>(995,277)</td>
<td>(2,150,000)</td>
<td>(860,000)</td>
<td>(1,750,000)</td>
<td>(5,325,277)</td>
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<td>Horst Neumann</td>
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<td>1,820,000</td>
<td>6,187,217</td>
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<tr>
<td></td>
<td>(1,062,771)</td>
<td>(2,150,000)</td>
<td>(860,000)</td>
<td>(1,750,000)</td>
<td>(5,822,771)</td>
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<td>Leif Östling</td>
<td>1,210,126</td>
<td>2,233,000</td>
<td>669,900</td>
<td>1,820,000</td>
<td>5,933,026</td>
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<tr>
<td></td>
<td>(319,952)</td>
<td>(2,150,000)</td>
<td>(860,000)</td>
<td>(1,750,000)</td>
<td>(1,834,952)</td>
</tr>
<tr>
<td>Hans Dieter Pötsch</td>
<td>1,241,017</td>
<td>2,233,000</td>
<td>1,116,500</td>
<td>1,820,000</td>
<td>6,410,517</td>
</tr>
<tr>
<td></td>
<td>(1,025,047)</td>
<td>(2,150,000)</td>
<td>(1,075,000)</td>
<td>(1,750,000)</td>
<td>(6,000,047)</td>
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<tr>
<td>Rupert Stadler</td>
<td>1,105,310</td>
<td>2,233,000</td>
<td>893,200</td>
<td>1,820,000</td>
<td>6,051,510</td>
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<tr>
<td></td>
<td>(984,782)</td>
<td>(2,150,000)</td>
<td>(860,000)</td>
<td>(1,750,000)</td>
<td>(5,744,782)</td>
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<tr>
<td>Total</td>
<td>11,638,328</td>
<td>23,866,000</td>
<td>9,923,300</td>
<td>18,655,000</td>
<td>64,082,628</td>
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<tr>
<td></td>
<td>(9,506,343)</td>
<td>(21,536,667)</td>
<td>(8,690,000)</td>
<td>(16,773,333)</td>
<td>(56,506,343)</td>
</tr>
</tbody>
</table>

* All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
theoretical cap so as to reward members of the Board of Management for extraordinary individual performance. This can be adjusted by the Supervisory Board in the event of extraordinary individual performance by a member of the Board of Management that strengthens the Company’s long-term growth. This may take into account extraordinary performance in the area of integration, or the successful implementation of special projects, for example.

**Long-Term Incentive (LTI)**

The existing Long-Term Incentive plan was not adjusted as part of the changes to the Board of Management remuneration. The amount of the LTI depends on the achievement of the targets laid down in the Strategy 2018. The target areas are:

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

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

The Employee Index is determined using the “employment” and “productivity” indicators as well as the participation rate and results of employee surveys (“opinion surveys”, see also the Employees section on page 133 of this report).

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

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

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

Each fiscal year, the Supervisory Board can set a new LTI target on the basis of the four-year average of the overall indices. During the reporting period, the LTI target was €2.25 million for the Chairman of the Board of Management and €1.0 million for each of the other members of the Board of Management. The maximum amounts payable to the Chairman of the Board of Management and the other members are €4.5 million and €2.0 million each respectively.

The LTI was calculated and paid to the Board of Management for the first time in 2011 for fiscal year 2010 using an introductory scenario and on the basis of the likely performance for 2011. The performance for fiscal years 2010 and 2011 was reflected in the calculation in 2012, and the performance for 2010 to 2012 is reflected in the calculation in 2013. From 2014 onwards, the previous four years will be used as a basis for analysis.

The Supervisory Board may cap the total of variable remuneration components in the event of extraordinary business developments.

Members of the Board of Management with contracts entered into on or after January 1, 2010 are entitled to payment of their normal remuneration for twelve months in the event of illness. Contracts entered into before that date grant remuneration for six months. In the event of disability, they are entitled to the retirement pension. Surviving dependents receive a widows’ pension of 66 2/3% and orphans’ benefits of 20% of the former member of the Board of Management’s pension.

**POST-EMPLOYMENT BENEFITS**

In the event of regular termination of their service on the Board of Management, the members of the Board of Management are entitled to a pension, including a surviving dependents’ pension as well as the use of company cars for the period in which they receive their pension. The agreed benefits are paid or made available on reaching the age of 63.

The retirement pension is calculated as a percentage of the fixed basic salary, which accounts for most of the fixed individual remuneration of the Board of Management shown in the table on page 61. Starting at 50%, the individual percentage increases by two percentage points for each year of service. In specific cases, credit is given for previous employment periods and retirement pensions earned. The Executive Committee of the Supervisory Board has defined a maximum of 70%. These benefits are not broken down any further into performance-related components and long-term incentive components. Mr. Winterkorn, Mr. Garcia Sanz, Mr. Heizmann, Mr. Macht, Mr. Neumann and Mr. Pötsch have a retirement pension entitlement of 70%, and Mr. Klingler and Mr. Stadler of 58% of their fixed basic salaries as of the end of 2013.

Mr. Östling has a pension entitlement based on the deferred compensation regulations administered by Volkswagen Pension Trust e.V. The benefits include a retirement pension on reaching the age of 70 and a surviving dependents’ pension. Volkswagen AG provides an annual remuneration-linked company contribution for Mr. Östling, which goes toward a pension module at the end of each year.

On December 31, 2013 the pension obligations for members of the Board of Management in accordance with IAS 19 amounted to €107,676,518 (€103,535,287); €9,416,406 (€7,870,299) was added to the provision in the reporting period in accordance with IAS 19. Other benefits such as surviving dependents’ pension and the use of company cars are also factored into the measurement of pension provisions. The pension obligations measured in accordance with German GAAP amounted to €88,704,661 (€75,445,501); €13,259,160 (€3,627,309) was added to the provision in the reporting period in accordance with German GAAP. Current pensions are index-linked in accordance with the index-
linking of the highest collectively agreed salary insofar as the application of section 16 of the Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG – German Company Pension Act) does not lead to a larger increase.

Retired members of the Board of Management and their surviving dependents received €9,977,972 in 2013 (€8,797,230). Obligations for pensions for this group of persons measured in accordance with IAS 19 amounted to €140,165,675 (€146,501,307), or €125,376,525 (€122,324,853) measured in accordance with German GAAP.

**EARLY TERMINATION BENEFITS**

If membership of the Board of Management is terminated for cause through no fault of the Board of Management member, the claims under Board of Management contracts entered into since November 20, 2009 are limited to a maximum of two years’ remuneration, in accordance with the recommendation in article 4.2.3(4) of the German Corporate Governance Code (cap on severance payments). For Board of Management members who are commencing their third or later term of office, existing rights under contracts entered into before November 20, 2009 are grandfathered.

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

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

The following rule applies to Board of Management contracts entered into for the first term of office before August 5, 2009: the retirement pension to be granted after leaving the Company is payable immediately if their membership of the Board of Management is terminated by the Company, and in other cases on reaching the age of 63. Any remuneration received from other sources until the age of 63 is deductible from the benefit entitlement up to a certain fixed amount.

The following rule applies to contracts for the first term of office of members of the Board of Management entered into after August 5, 2009: the retirement pension to be granted after leaving the Company is payable on reaching the age of 63.

### PENSIONS OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN 2013 (PRIOR-YEAR FIGURES IN BRACKETS)

<table>
<thead>
<tr>
<th>€</th>
<th>Additions to pension provisions</th>
<th>Present value at December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Martin Winterkorn</td>
<td>730,734</td>
<td>22,075,213</td>
</tr>
<tr>
<td></td>
<td>(904,811)</td>
<td>(22,835,450)</td>
</tr>
<tr>
<td>Francisco Javier García Sanz</td>
<td>952,803</td>
<td>12,134,132</td>
</tr>
<tr>
<td></td>
<td>(842,801)</td>
<td>(11,579,920)</td>
</tr>
<tr>
<td>Jochem Heizmann</td>
<td>1,443,804</td>
<td>13,696,821</td>
</tr>
<tr>
<td></td>
<td>(1,303,902)</td>
<td>(12,637,000)</td>
</tr>
<tr>
<td>Christian Klingler</td>
<td>840,814</td>
<td>3,693,690</td>
</tr>
<tr>
<td></td>
<td>(583,862)</td>
<td>(2,961,689)</td>
</tr>
<tr>
<td>Michael Macht</td>
<td>1,045,270</td>
<td>10,632,210</td>
</tr>
<tr>
<td></td>
<td>(836,249)</td>
<td>(10,029,668)</td>
</tr>
<tr>
<td>Horst Neumann</td>
<td>583,826</td>
<td>17,470,333</td>
</tr>
<tr>
<td></td>
<td>(694,357)</td>
<td>(18,244,557)</td>
</tr>
<tr>
<td>Leif Östling</td>
<td>1,100,179</td>
<td>1,355,439</td>
</tr>
<tr>
<td></td>
<td>(353,925)</td>
<td>(354,065)</td>
</tr>
<tr>
<td>Hans Dieter Pötsch</td>
<td>1,926,251</td>
<td>15,994,320</td>
</tr>
<tr>
<td></td>
<td>(1,699,477)</td>
<td>(14,775,553)</td>
</tr>
<tr>
<td>Rupert Stadler</td>
<td>792,725</td>
<td>10,624,360</td>
</tr>
<tr>
<td></td>
<td>(650,915)</td>
<td>(10,117,385)</td>
</tr>
<tr>
<td>Total</td>
<td>9,416,406</td>
<td>107,676,518</td>
</tr>
<tr>
<td></td>
<td>(7,870,299)</td>
<td>(103,535,287)</td>
</tr>
</tbody>
</table>

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

Under Article 17 of Volkswagen AG’s Articles of Association, the remuneration of Volkswagen AG’s Supervisory Board is composed of a fixed component (plus attendance fees) and a variable component that depends on the amount of the dividend paid. The duties performed by the respective member on the Supervisory Board are also taken into account. Several members of the Supervisory Board are also members of the supervisory boards of subsidiaries. The remuneration received there is based on the provisions of the relevant Articles of Association and also comprises a fixed component and a variable component that is linked to the amount of the dividend paid. This remuneration is contained in the following figures. In fiscal year 2013, the members of the Supervisory Board received €9,774,530 (€8,777,511). €528,671 of this figure (€651,625) related to the fixed remuneration components (including attendance fees) and €9,245,859 (€8,125,886) to the variable remuneration components.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

<table>
<thead>
<tr>
<th>Member</th>
<th>Fixed</th>
<th>Variable</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ferdinand K. Piëch</td>
<td>121,000</td>
<td>1,068,300</td>
<td>1,189,300</td>
<td>1,108,100</td>
</tr>
<tr>
<td>Berthold Huber</td>
<td>37,500</td>
<td>736,067</td>
<td>773,567</td>
<td>683,133</td>
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<tr>
<td>Hussain Ali Al-Abdulla</td>
<td>11,000</td>
<td>320,833</td>
<td>331,833</td>
<td>288,167</td>
</tr>
<tr>
<td>Jassim Al Kuwari (until April 25, 2013)</td>
<td>2,917</td>
<td>102,488</td>
<td>105,405</td>
<td>289,167</td>
</tr>
<tr>
<td>Jörg Bode (until Feb. 19, 2013)</td>
<td>808</td>
<td>43,223</td>
<td>44,032</td>
<td>394,540</td>
</tr>
<tr>
<td>Ahmad Al-Sayed (since June 28, 2013)</td>
<td>4,050</td>
<td>163,090</td>
<td>167,140</td>
<td>–</td>
</tr>
<tr>
<td>Jürgen Dorn (since Jan. 1, 2013)</td>
<td>53,000</td>
<td>355,833</td>
<td>408,833</td>
<td>–</td>
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<tr>
<td>Annika Falkengren</td>
<td>10,000</td>
<td>481,250</td>
<td>491,250</td>
<td>390,777</td>
</tr>
<tr>
<td>Hans-Peter Fischer (since Jan. 1, 2013)</td>
<td>11,000</td>
<td>320,833</td>
<td>331,833</td>
<td>–</td>
</tr>
<tr>
<td>Uwe Fritsch</td>
<td>11,000</td>
<td>320,833</td>
<td>331,833</td>
<td>203,221</td>
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<td>Babette Fröhlich</td>
<td>14,000</td>
<td>481,250</td>
<td>495,250</td>
<td>433,750</td>
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<tr>
<td>Olaf Lies (since Feb. 19, 2013)</td>
<td>10,192</td>
<td>277,610</td>
<td>287,802</td>
<td>–</td>
</tr>
<tr>
<td>David McAllister (until Feb. 19, 2013)</td>
<td>1,213</td>
<td>64,835</td>
<td>66,048</td>
<td>433,750</td>
</tr>
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<td>Hartmut Meine</td>
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<td>331,833</td>
<td>291,167</td>
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<td>Peter Mosch</td>
<td>29,800</td>
<td>541,356</td>
<td>571,156</td>
<td>371,267</td>
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<td>Bernd Osterloh</td>
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<td>495,250</td>
<td>433,750</td>
</tr>
<tr>
<td>Hans Michel Piech</td>
<td>37,500</td>
<td>368,033</td>
<td>405,533</td>
<td>390,567</td>
</tr>
<tr>
<td>Ursula Piech</td>
<td>18,125</td>
<td>350,333</td>
<td>368,458</td>
<td>203,221</td>
</tr>
<tr>
<td>Ferdinand Oliver Porsche</td>
<td>40,500</td>
<td>712,467</td>
<td>752,967</td>
<td>687,433</td>
</tr>
<tr>
<td>Wolfgang Porsche</td>
<td>49,500</td>
<td>528,450</td>
<td>577,950</td>
<td>548,015</td>
</tr>
<tr>
<td>Stephan Weil (since Feb. 19, 2013)</td>
<td>12,767</td>
<td>415,301</td>
<td>428,068</td>
<td>–</td>
</tr>
<tr>
<td>Stephan Wolf (since Jan. 1, 2013)</td>
<td>13,800</td>
<td>470,556</td>
<td>484,356</td>
<td>–</td>
</tr>
<tr>
<td>Thomas Zwiebler</td>
<td>11,000</td>
<td>320,833</td>
<td>331,833</td>
<td>291,167</td>
</tr>
<tr>
<td>Supervisory Board members who retired in the prior year</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,336,321</td>
</tr>
<tr>
<td>Total</td>
<td>582,671</td>
<td>9,245,859</td>
<td>9,744,530</td>
<td>8,777,511</td>
</tr>
</tbody>
</table>

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 These employee representatives have stated that they will transfer their Supervisory Board remuneration to the Hans Böckler Foundation in accordance with the guidelines issued by the German Confederation of Trade Unions (DGB).
3 Under section 5(3) of the Niedersächsisches Ministergesetz (Act Governing Ministers of the State of Lower Saxony), these members of the Supervisory Board are obliged to transfer their Supervisory Board remuneration to the State of Lower Saxony as soon as and to the extent that it exceeds €6,200 per annum. Remuneration is defined for this purpose as Supervisory Board remuneration and attendance fees exceeding the amount of €200.
Executive Bodies

Members of the Board of Management and their Appointments
Appointments: as of December 31, 2013

PROF. DR. H.C. MULT.
MARTIN WINTERKORN (66)
Chairman (since January 1, 2007), Research and Development
July 1, 2000*
Chairman of the Executive Board of Porsche Automobil Holding SE
November 25, 2009*
Appointments:
○ FC Bayern München AG, Munich

DR. RER. POL. H.C.
FRANCISCO JAVIER
GARCIA SANZ (56)
Procurement
July 1, 2001*
Appointments:
○ Hochtief AG, Essen
○ Criteria CaixaHolding S.A., Barcelona

PROF. DR. RER. POL. DR.-ING. E.H.
JOCHEN HEIZMANN (62)
China
January 11, 2007*
Appointments:
○ Lufthansa Technik AG, Hamburg
○ OBO Bettermann GmbH & Co. KG, Menden

CHRISTIAN KLINGLER (45)
Sales and Marketing
January 1, 2010*
Appointments:
○ Messe Frankfurt GmbH, Frankfurt am Main

DR.-ING. E.H. MICHAEL MACHT (53)
Production
October 1, 2010*

PROF. DR. RER. POL. HORST NEUMANN (64)
Human Resources and Organization
December 1, 2005*
Appointments:
○ Wolfsburg AG, Wolfsburg

DR. H.C. LEIF ÖSTLING (68)
Commercial Vehicles
September 1, 2012*
Appointments:
○ SKF AB, Gothenburg
○ EQT Holdings AB, Stockholm

HANS DIETER PÖTSCH (62)
Finance and Controlling
January 1, 2003*
Chief Financial Officer of Porsche Automobil Holding SE
November 25, 2009*
Appointments:
○ Bertelsmann SE & Co. KGaA, Gütersloh

PROF. RUPERT STADLER (50)
Chairman of the Board of Management of AUDI AG
January 1, 2010*
Appointments:
○ FC Bayern München AG, Munich

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

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

* The date signifies the beginning or period of membership of the Board of Management.
Members of the Supervisory Board and their Appointments

Appointments: as of December 31, 2013

**HON.-PROF. DR. TECHN. H.C. DIPL.-ING. ETH FERDINAND K. PIECH (76)**
(Chairman)
April 16, 2002*

**Appointments:**
- AUDI AG, Ingolstadt
- Dr. Ing. h.c. F. Porsche AG, Stuttgart
- MAN SE, Munich (Chairman)
- Porsche Automobil Holding SE, Stuttgart
- Ducati Motor Holding S.p.A., Bologna
- Porsche Gesellschaft m.b.H., Salzburg
- Porsche Holding Gesellschaft m.b.H., Salzburg
- Porsche Piech Holding GmbH, Salzburg
- Scania AB, Södertälje
- Scania CV AB, Södertälje

**BERTHOLD HUBER (63)**
(Deputy Chairman)
IG Metall
May 25, 2010*

**Appointments:**
- AUDI AG, Ingolstadt (Deputy Chairman)
- Porsche Automobil Holding SE, Stuttgart
- Siemens AG, Munich (Deputy Chairman)

**DR. HUSSAIN ALI AL-ABDULLA (57)**
Board member of Qatar Holding LLC
April 22, 2010*

**Appointments:**
- Gulf Investment Corporation, Safat/Kuwait
- Masraf Al Rayan, Doha (Chairman)
- Qatar Exchange, Doha (Chairman)
- Qatar Investment Authority, Doha
- Qatar Holding LLC, Doha

**KHALIFA JASSIM AL-KUWARI (37)**
May 3, 2011 – April 25, 2013*

**AHMAD AL-SAYED (37)**
CEO of the Qatar Investment Authority and Managing Director (CEO) of Qatar Holding LLC
June 28, 2013*

**Annika Falkengren (51)**
President and Group Chief Executive of Skandinaviska Enskilda Banken AB
May 3, 2011*

**JÖRG BOEDE (43)**
November 4, 2009 – February 19, 2013*

**JÜRGEN DORN (47)**
Chairman of the Works Council at the MAN Truck & Bus AG Munich plant, Chairman of the General Works Council of MAN Truck & Bus AG and Chairman of the Group Works Council and the SE Works Council of MAN SE
January 1, 2013*

**Appointments:**
- MAN SE, Munich
- MAN Truck & Bus AG, Munich (Deputy Chairman)

**ANNIKA FALKENGREN (51)**
President and Group Chief Executive of Skandinaviska Enskilda Banken AB
May 3, 2011*

**JÜRGEN DORN (47)**
Chairman of the Works Council at the MAN Truck & Bus AG Munich plant, Chairman of the General Works Council of MAN Truck & Bus AG and Chairman of the Group Works Council and the SE Works Council of MAN SE
January 1, 2013*

**Appointments:**
- MAN SE, Munich
- MAN Truck & Bus AG, Munich (Deputy Chairman)

**JÖRG BOEDE (43)**
November 4, 2009 – February 19, 2013*

**JÜRGEN DORN (47)**
Chairman of the Works Council at the MAN Truck & Bus AG Munich plant, Chairman of the General Works Council of MAN Truck & Bus AG and Chairman of the Group Works Council and the SE Works Council of MAN SE
January 1, 2013*

**Appointments:**
- MAN SE, Munich
- MAN Truck & Bus AG, Munich (Deputy Chairman)

**ANNIKA FALKENGREN (51)**
President and Group Chief Executive of Skandinaviska Enskilda Banken AB
May 3, 2011*

**JÜRGEN DORN (47)**
Chairman of the Works Council at the MAN Truck & Bus AG Munich plant, Chairman of the General Works Council of MAN Truck & Bus AG and Chairman of the Group Works Council and the SE Works Council of MAN SE
January 1, 2013*

**Appointments:**
- MAN SE, Munich
- MAN Truck & Bus AG, Munich (Deputy Chairman)

**ANNIKA FALKENGREN (51)**
President and Group Chief Executive of Skandinaviska Enskilda Banken AB
May 3, 2011*

**JÜRGEN DORN (47)**
Chairman of the Works Council at the MAN Truck & Bus AG Munich plant, Chairman of the General Works Council of MAN Truck & Bus AG and Chairman of the Group Works Council and the SE Works Council of MAN SE
January 1, 2013*

**Appointments:**
- MAN SE, Munich
- MAN Truck & Bus AG, Munich (Deputy Chairman)

**ANNIKA FALKENGREN (51)**
President and Group Chief Executive of Skandinaviska Enskilda Banken AB
May 3, 2011*

**JÜRGEN DORN (47)**
Chairman of the Works Council at the MAN Truck & Bus AG Munich plant, Chairman of the General Works Council of MAN Truck & Bus AG and Chairman of the Group Works Council and the SE Works Council of MAN SE
January 1, 2013*

**Appointments:**
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- MAN Truck & Bus AG, Munich (Deputy Chairman)

**ANNIKA FALKENGREN (51)**
President and Group Chief Executive of Skandinaviska Enskilda Banken AB
May 3, 2011*

**JÜRGEN DORN (47)**
Chairman of the Works Council at the MAN Truck & Bus AG Munich plant, Chairman of the General Works Council of MAN Truck & Bus AG and Chairman of the Group Works Council and the SE Works Council of MAN SE
January 1, 2013*

**Appointments:**
- MAN SE, Munich
- MAN Truck & Bus AG, Munich (Deputy Chairman)

**ANNIKA FALKENGREN (51)**
President and Group Chief Executive of Skandinaviska Enskilda Banken AB
May 3, 2011*

**JÜRGEN DORN (47)**
Chairman of the Works Council at the MAN Truck & Bus AG Munich plant, Chairman of the General Works Council of MAN Truck & Bus AG and Chairman of the Group Works Council and the SE Works Council of MAN SE
January 1, 2013*

**Appointments:**
- MAN SE, Munich
- MAN Truck & Bus AG, Munich (Deputy Chairman)
DR. JUR. HANS-PETER FISCHER (54)
Chairman of the Board of Management of Volkswagen Management Association
January 1, 2013*
Appointments:
○ Volkswagen Pension Trust e.V., Wolfsburg

UWE FRITSCH (57)
Chairman of the Works Council at the Volkswagen AG Braunschweig plant
April 19, 2012*
Appointments:
○ Eintracht Braunschweig GmbH & Co KGaA, Braunschweig
○ Phantoms Basketball Braunschweig GmbH, Braunschweig

BABETTE FRÖHLICH (48)
IG Metall,
Department head for coordination of Executive Board duties and planning
October 25, 2007*
Appointments:
○ MTU Aero Engines AG, Munich

OLAF LIES (46)
Minister of Economic Affairs, Labor and Transport for the Federal State of Lower Saxony
February 19, 2013*
Appointments:
○ Deutsche Messe AG, Hanover

DAVID MCALLISTER (43)
July 1, 2010 – February 19, 2013*

HARTMUT MEINE (61)
Director of the Lower Saxony and Saxony-Anhalt Regional Office of IG Metall
December 30, 2008*
Appointments:
○ Continental AG, Hanover
○ KME Germany GmbH, Osnabrück

PETER MOSCH (41)
Chairman of the General Works Council of AUDI AG
January 18, 2006*
Appointments:
○ AUDI AG, Ingolstadt
○ Porsche Automobil Holding SE, Stuttgart
○ Dr.-Richard-Bruhn-Hilfe, Altersversorgung der AUTO UNION GmbH, VVoG, Ingolstadt

BERND OSTERLOH (57)
Chairman of the General and Group Works Councils of Volkswagen AG
January 1, 2005*
Appointments:
○ Autostadt GmbH, Wolfsburg
○ Porsche Automobil Holding SE, Stuttgart
○ Volkswagen AG, Wolfsburg
○ Allianz für die Region GmbH, Braunschweig
○ Porsche Holding Gesellschaft m.b.H., Salzburg
○ VfL Wolfsburg-Fußball GmbH, Wolfsburg
○ Volkswagen Immobilien GmbH, Wolfsburg

DR. JUR. HANS MICHEL PIECH (72)
Lawyer in private practice
August 7, 2009*
Appointments:
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ Porsche Automobil Holding SE, Stuttgart
○ Porsche Cars Great Britain Ltd., Reading
○ Porsche Cars North America Inc., Wilmington
○ Porsche Gesellschaft m.b.H., Salzburg (Chairman)
○ Porsche Holding Gesellschaft m.b.H., Salzburg
○ Porsche Ibérica S.A., Madrid
○ Porsche Italia S.p.A., Padua
○ Porsche Piech Holding GmbH, Salzburg (Chairman)
○ Schmittenhöhebahn AG, Zell am See
○ Volkssper Wien GmbH, Vienna

URSULA PIECH (57)
Supervisory Board member of AUDI AG
April 19, 2012*
Appointments:
○ AUDI AG, Ingolstadt

DR. JUR. FERDINAND OLIVER PORSCHE (52)
Member of the Board of Management of Familie Porsche AG Beteiligungsgesellschaft
August 7, 2009*
Appointments:
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ Porsche Automobil Holding SE, Stuttgart
○ PGA S.A., Paris
○ Porsche Holding Gesellschaft m.b.H., Salzburg
○ Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Bietigheim-Bissingen

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

* The date signifies the beginning or period of membership of the Supervisory Board.
DR. RER. COMM. WOLFGANG PORSCHE (70)
Chairman of the Supervisory Board
of Porsche Automobil Holding SE;
Chairman of the Supervisory Board
of Dr. Ing. h.c. F. Porsche AG
April 24, 2008*
Appointments:
 AUDI AG, Ingolstadt
 Dr. Ing. h.c. F. Porsche AG, Stuttgart (Chairman)
 Porsche Automobil Holding SE, Stuttgart (Chairman)
 Familie Porsche AG Beteiligungsgesellschaft, Salzburg (Chairman)
 Porsche Cars Great Britain Ltd., Reading
 Porsche Cars North America Inc., Wilmington
 Porsche Gesellschaft m.b.H., Salzburg (Deputy Chairman)
 Porsche Holding Gesellschaft m.b.H., Salzburg
 Porsche Ibérica S.A., Madrid
 Porsche Piech Holding GmbH, Salzburg (Deputy Chairman)
 Schmittenhoehbahn AG, Zell am See

STEPHAN WEIL (55)
Minister-President of the Federal State
of Lower Saxony
February 19, 2013*
Appointments:
 Wolfsburg AG, Wolfsburg
 Sitech Sitztechnik GmbH, Wolfsburg
 Volkswagen Pension Trust e.V., Wolfsburg

THOMAS ZWIEBLER (48)
Chairman of the Works Council of
Volkswagen Commercial Vehicles
May 15, 2010*

COMMITTEES OF THE SUPERVISORY BOARD
As of December 31, 2013

Members of the Executive Committee
Hon.-Prof. Dr. techn. h.c. Dipl.-Ing. ETH
Ferdinand K. Piech (Chairman)
Berthold Huber (Deputy Chairman)
Bernd Osterloh
Dr. Wolfgang Porsche
Stephan Weil
Stephan Wolf

Members of the Mediation Committee in
accordance with section 27(3) of the
Mitbestimmungsgesetz (German
Codetermination Act)
Hon.-Prof. Dr. techn. h.c. Dipl.-Ing. ETH
Ferdinand K. Piech (Chairman)
Berthold Huber (Deputy Chairman)
Bernd Osterloh
Stephan Weil

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

Members of the Nomination Committee
Hon.-Prof. Dr. techn. h.c. Dipl.-Ing. ETH
Ferdinand K. Piech (Chairman)
Dr. Wolfgang Porsche
Stephan Weil

○ Membership of statutory supervisory boards in
Germany
● Group appointments to statutory supervisory boards
○ Comparable appointments in Germany and abroad
* The date signifies the beginning or period of
membership of the Supervisory Board.
On December 31, 2013, Volkswagen AG’s share capital amounted to €1,191,009,251.84 (€1,190,995,445.76); it was composed of 295,089,818 ordinary shares and 170,148,171 preferred shares. This includes 5,393 preferred shares created as a result of the voluntary exercise of the mandatory convertible note. Each share conveys a notional interest of €2.56 in the share capital.

In addition to the issue of the €2.5 billion mandatory convertible note in November 2012, Volkswagen AG successfully placed a further €1.2 billion mandatory convertible note that entitles and obliges holders to subscribe for Volkswagen preferred shares in June 2013 (see also pages 88 and 163).

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

The Gesetz über die Überführung der Anteilsrechte an der Volkswagenwerk Gesellschaft mit beschränkter Haftung in private Hand (VW-Gesetz – Act on the Privatization of Shares of Volkswagenwerk Gesellschaft mit beschränkter Haftung) of July 21, 1960, as amended on July 30, 2009, includes various provisions in derogation of the German Stock Corporation Act, for example on exercising voting rights by proxy (section 3 of the VW-Gesetz) and on majority voting requirements at the Annual General Meeting (section 4(3) of the VW-Gesetz). The European Commission brought an action against Volkswagen at the European Court of Justice (ECJ) because it was of the opinion that this majority requirement does not comply with the Treaty on the Functioning of the European Union (TFEU, formerly the EU Treaty). The ECJ delivered its ruling on October 22, 2013 and dismissed the action brought by the European Commission. The VW-Gesetz, as amended on July 30, 2009, therefore does not need to be amended.

In accordance with the Volkswagen AG Articles of Association (Article 11(1)), the State of Lower Saxony is entitled to appoint two members of the Supervisory Board of Volkswagen AG for as long as it directly or indirectly holds at least 15 percent of Volkswagen AG’s ordinary shares. In addition, resolutions by the General Meeting that are required by law to be adopted by a qualified majority require a majority of more than 80 percent of the share capital of the Company represented when the resolution is adopted (Article 25(2)), regardless of the provisions of the VW-Gesetz. The European Commission also considered this provision of the Articles of Association to be incompatible with the TFEU. The ECJ dismissed this complaint in its ruling of October 22, 2013.
SHAREHOLDINGS EXCEEDING 10% OF VOTING RIGHTS
Shareholdings in Volkswagen AG that exceed 10% of voting rights are shown in the notes to the annual financial statements of Volkswagen AG and in the notes to the Volkswagen consolidated financial statements starting on pages 272 of this annual report.

COMPOSITION OF THE SUPERVISORY BOARD
The Supervisory Board consists of 20 members, half of whom are shareholder representatives. In accordance with Article 11(1) of the Articles of Association, the State of Lower Saxony is entitled to appoint two of these shareholder representatives for as long as it directly or indirectly holds at least 15% of the Company’s ordinary shares. The remaining shareholder representatives on the Supervisory Board are elected by the Annual General Meeting.

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

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

Information about the composition of the Supervisory Board can be found on pages 66 to 68 of this annual report.

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

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

POWERS OF THE BOARD OF MANAGEMENT, IN PARTICULAR CONCERNING THE ISSUE OF NEW SHARES AND THE REPURCHASE OF TREASURY SHARES
According to German stock corporation law, the Annual General Meeting can, for a maximum of five years, authorize the Board of Management to issue new shares. It can also authorize the Board of Management, for a maximum of five years, to issue bonds on the basis of which new shares are to be issued. The Annual General Meeting also decides the extent to which shareholders have preemptive rights to the new shares or bonds. The highest amount of authorized share capital or contingent capital available for these purposes is determined by Article 4 of the Articles of Association of Volkswagen AG, as amended.
The Annual General Meeting on April 19, 2012 resolved to authorize the Board of Management, with the consent of the Supervisory Board, to increase the Company’s share capital by a total of up to €110.0 million (corresponding to approximately 43 million shares) on one or more occasions up to April 18, 2017 by issuing new ordinary and/or nonvoting preferred bearer shares – including with shareholders’ preemptive rights disapplied – against cash and/or noncash contributions. Additionally, the Board of Management is authorized to increase the share capital by up to a total of €179.4 million on one or more occasions up to December 2, 2014 by issuing new nonvoting preferred shares against cash contributions. Furthermore, the share capital can be increased by up to €102.4 million by issuing nonvoting preferred shares, in order to settle the conversion or option rights of holders or creditors of convertible bonds or bonds with warrants to be issued before April 21, 2015. This authorization was partially exercised in November 2012 by the issuance of a mandatory convertible note in the amount of €2.5 billion and in June 2013 by a further mandatory convertible note in the amount of €1.2 billion. Further details on the authorization to issue new shares and their permitted uses may be found in the notes to the consolidated financial statements on page 228.

Opportunities to acquire treasury shares are governed by section 71 of the AktG. The Board of Management was most recently authorized to acquire treasury shares up to a maximum of 10% of the share capital at the Annual General Meeting on April 19, 2012. This authorization applies until April 18, 2017 and has not so far been exercised.

**Material Agreements of the Parent Company in the Event of a Change of Control Following a Takeover Bid**

A banking syndicate granted Volkswagen AG a syndicated credit line amounting to approximately €5.0 billion that runs until July 2018.

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

**Restrictions on the Transfer of Shares**

Volkswagen AG and Suzuki Motor Corporation have agreed mutual approval and preemptive tender rights if the shares held by the other contracting party are to be sold. As of the reporting date, Volkswagen held a 19.9% stake in Suzuki.
Business Development

The global economy recorded only moderate growth in fiscal year 2013. Global demand for vehicles registered slower growth than in the previous year. The Volkswagen Group increased its deliveries to customers by 4.9% year-on-year, amid difficult market conditions.

Global Economy Still Lacks Momentum
Global economic growth in the reporting period was down on the previous year’s level, at 2.5% (2.6%). The economic situation in the industrialized nations improved slightly in the course of the year despite the continued presence of structural obstacles. Most emerging economies recorded robust economic growth. Inflation was moderate despite the expansionary monetary policies of many central banks.

Europe/Remaining markets
In Western Europe, GDP stagnated after declining by 0.3% in the previous year. Most Southern European EU countries again recorded negative growth rates in the reporting period due to the negative effects of the sovereign debt crisis, among other things. By contrast, growth rates were positive in most Northern European countries. The overall unemployment rate in Europe continued to rise, reaching 12.6% (11.8%). Unemployment in Greece, Portugal, Spain and Cyprus was well above this average.

In Central and Eastern Europe, GDP growth declined to an average of 2.1% (2.4%), primarily due to the muted growth in Russia of 1.6% (3.4%).

At 1.8%, South Africa’s economic growth was down on the prior-year level of 2.5%.

Germany
The positive consumer sentiment and stable situation in the labor market were unable to cushion the impact of the weaker global economic trend on the German economy in 2013. At 0.5%, Germany’s GDP growth was down year-on-year (0.9%).

North America
In the USA, the rate of economic expansion was lower than in 2012, at 1.9% (2.8%), despite a positive consumer climate and declining unemployment. The US dollar was volatile against the euro during the period and was lower at the end of the year. Canada’s GDP rose by 1.7% (1.7%) and the Mexican economy expanded by just 1.3% (3.9%).

South America
Brazil’s growth rate recovered to reach 2.3% (1.0%), while GDP growth rose sharply to 4.9% in Argentina (1.9%). The economic situation in both countries was marred by structural deficits and high rates of inflation.

Asia-Pacific
At 7.7% (7.7%), China’s economic growth was above the central government’s target rate of 7.5%. Economic growth reached 5.0% (5.1%) in India and was curbed by structural problems and considerable price increases. In Japan, the monetary and fiscal policy measures and the devaluation of the yen saw economic growth stabilizing at 1.7% (1.4%).
GLOBAL NEW PASSENGER CAR REGISTRATIONS REACH RECORD HIGH

Global demand for passenger cars increased by 5.0% to 70.1 million vehicles in 2013, exceeding the previous year’s record level. This development was driven by the rapid growth in China and the NAFTA region in particular. Global passenger car production rose by 5.6% to 74.6 million units in the reporting period.

Sector-specific environment

The established passenger car markets turned in a very mixed performance in fiscal year 2013. While some industrialized countries were still negatively affected by the debt crisis and its repercussions, demand remained robust in certain growth markets.

The continued development of the major markets in China and Brazil, the expansion of activities in India and the ASEAN region and an increasing presence in Russia are still highly important for the automotive industry.

Trade restrictions have been reduced in many Asian and African markets. However, it cannot be ruled out that these countries will fall back on protectionist measures in the event of another global economic slump.

Europe/Remaining markets

In Western Europe, new registrations in the reporting period were even lower than in the previous year. Demand reached its lowest level for 20 years, at 11.5 million vehicles (–1.9%). However, the passenger car markets that were most affected by the debt crisis stabilized at a low level in the second half of the year. Demand declined year-on-year in the volume markets of France (–5.6%) and Italy (–7.1%). In Spain, a further decline in new registrations was prevented (+3.3%) by government incentive programs. Sustained high demand from private customers in the United Kingdom led to market growth of 10.7%. At 53.1%, the market share of diesel vehicles (passenger cars) in Western Europe was down on the prior-year figure in fiscal year 2013.

In Central and Eastern Europe, demand decreased by 3.9% to 3.8 million vehicles. In Russia, by far the region’s largest passenger car market, the government car loan subsidies introduced on July 1, 2013 were unable to stop the decline in demand: this decreased by 5.7% to 2.6 million vehicles. Passenger car sales were pushed down by the new extra duty on imported cars. At 0.8 million passenger cars, the Central European EU states recorded an overall market volume on a level with the previous year.
In Turkey, sales reached a new peak of 643 thousand vehicles (+15.7%) in 2013, largely due to the sharp rise in the number of imported vehicles.

Sales in the South African market rose for the fourth consecutive year. New registrations increased by 3.4% to 455 thousand units in the reporting period, primarily due to the relatively low interest rates and manufacturer and dealer incentives.

**Germany**

Passenger car demand in Germany was even lower than in the previous year at 3.0 million units (–4.2%). This represents the second-lowest level since German reunification. However, the first signs of stabilization started to emerge in the fourth quarter. Despite the positive consumer sentiment, customers were reluctant to buy new cars. By contrast, demand for used cars rose. Both domestic passenger car production (+1.0% to 5.4 million vehicles) and passenger car exports (+1.6% to 4.2 million units) were up slightly year-on-year, however, and exceeded the comparable average figures for the past ten years.

**South America**

In the North America region, demand for passenger cars and light commercial vehicles (up to 6.35 tonnes) rose sharply in fiscal 2013. The North American market registered its highest volumes since 2007, with a rise of 7.3% to 18.4 million vehicles. In the USA, the overall market volume increased by 7.7% to 15.6 million units, largely thanks to the favorable financing conditions offered by manufacturers and higher replacement demand. In Canada, demand rose by 4.0% to a new record of 1.7 million vehicles. The Mexican market exceeded the 1 million new registrations mark last reached in 2008, posting a rise of 7.7% to 1.1 million units.

**Asia-Pacific**

The Asia-Pacific region registered market growth of 8.6% in fiscal year 2013, reaching a new peak of 28.0 million units. This growth was mainly driven by the Chinese passenger car market, which achieved double-digit growth for the first time since 2010, rising 17.0% to 15.8 million vehicles. The unexpectedly strong growth was bolstered in particular by China’s robust macroeconomic environment, a large number of new passenger car models and the still comparatively low passenger car density.
The Indian passenger car market registered a year-on-year decline for the first time since 2001, decreasing by 6.7% to 2.4 million units. In addition to the weaker economic environment, this downward trend was mainly due to the still high financing costs and higher fuel prices.

In Japan, the number of new vehicle registrations remained at the previous year’s level, with an overall market volume of 4.6 million vehicles (–0.1%). The encouraging performance of the Japanese economy positively impacted the vehicle market. In 2012, the Japanese market had continued to be buoyed by the significant pent-up demand resulting from the natural disasters in 2011 and government stimulus measures.

DEMAND FOR COMMERCIAL VEHICLES MIXED

Overall, demand for light commercial vehicles was slightly higher in fiscal year 2013 than in 2012. A total of 11.8 million vehicles were sold worldwide, representing an increase of 0.6% on the previous year.

There was a slight decline in demand in Western Europe, as the economy was still weak due to the ongoing sovereign debt crisis. At a total of 1.3 million vehicles sold, vehicle sales were down 3.2% compared with the previous year. Most markets in Western Europe fell slightly short of their prior-year figures. However, the UK market benefited from an improved macroeconomic trend.

In Central and Eastern Europe, demand declined slightly overall as against the 2012 level. 326 thousand (335 thousand) vehicles were sold in the reporting period. While individual markets such as Poland and Slovenia grew over the course of the reporting period, Russia’s downward trend in demand accelerated at the end of the year.

The North American market saw a significant rise in unit sales to 9.2 million (8.3 million) vehicles in the reporting period, with higher demand for pickups and SUVs in particular.

Vehicle sales in South America increased overall in 2013. At 1.3 million units, 7.3% more light commercial vehicles were sold than in the previous year. The growing popularity of SUVs for private use, which are reported as light commercial vehicles in these markets, was the main driver of this, despite the weak economic conditions. Particularly in Argentina, where many customers increasingly invested in tangible assets prompted by the high inflation, the market for light commercial vehicles grew significantly in the reporting period.

At 7.9 million (+0.6%), vehicle sales in the Asia-Pacific region were on a level with the previous year in the fiscal year 2013. The Chinese market, which dominates the region, returned to a slight growth path during the reporting period, after stagnating in the previous year. A total of 5.1 million (5.0 million) units were sold there. In Japan, the expansionary economic policy gave the light commercial vehicle market a moderate lift. Sales in India fell short of the prior-year level, declining by 10.0% to 600 thousand units due to higher fuel prices, among other factors. Sales figures were higher year-on-year in most markets of the ASEAN region thanks to positive economic developments.

Demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was up slightly year-on-year in the fiscal year 2013. A total of 2.7 million vehicles were sold worldwide, representing a slight increase of 2.5%.

In Western Europe, vehicle sales increased by 5.7% compared with the previous year and totaled 248 thousand units. The negative effects of the still unresolved debt crisis in the eurozone were more than offset by purchases pulled forward ahead of the introduction of the Euro 6 emission standard on January 1, 2014.

At 164 thousand vehicles, new registrations in Central and Eastern Europe in 2013 were 5.5% below the comparable prior-year figure. In Russia, the largest market, the sales figures declined by 14.0% to 103 thousand units. The introduction of the recycling fee on imported vehicles in September 2012 and the negative oil price trend played a large part in this decline. In addition, the lower commodity prices had a negative effect on Russia’s state finances, which the government responded to by cutting infrastructure projects.

At 435 thousand vehicles, sales of mid-sized and heavy trucks (more than 6.35 tonnes) in North America remained at the prior-year level (433 thousand). The US market, which was heavily impacted by companies’ reluctance to invest, accounted for 351 thousand (346 thousand) of these vehicles.

At 234 thousand (231 thousand) units, sales in South America were above the previous year’s level. In Brazil, in particular, the higher transportation demand due to the bumper harvest and favorable financing conditions for trucks had a significant impact. New registrations in the country increased by 12.4% to 149 thousand vehicles.

Excluding the Chinese market, the volume of vehicles sold in the Asia-Pacific region was significantly lower than in the previous year. New registrations amounted to 448 thousand (539 thousand) vehicles. This decline is attributable in particular to the slump in unit sales in India, caused by the weaker macroeconomic situation. Sales of mid-sized and heavy trucks in India were 30.7% lower year-on-year, at 184 thousand units. In China, the world’s largest truck market, total demand amounted to 1.1 million units in the fiscal year 2013, 14.8% more than in the previous year. This increase was largely attributable to the improved domestic economy and the investments made ahead of the introduction of new emission standards in 2014.

Global demand for buses was on a level with the previous year in fiscal year 2013. Demand for buses also stagnated at the 2012 level in Western Europe, where the negative effects of the sovereign debt crisis were offset by purchases pulled forward due to the introduction of the Euro 6 standard.
TRENDS IN THE MARKETS FOR POWER ENGINEERING
The markets for power engineering are subject to differing regional and economic influences. Consequently, their business growth trends are generally independent of each other.

The merchant shipbuilding market is still dominated by significant overcapacity in the merchant fleet. Despite declining in the reporting period, deliveries remained at a high level. Rising fuel and operating costs caused mounting cost pressure for shipping company owners. At the same time, the excess capacities at shipyards kept the price of constructing new ships low. This situation led to a slight rise in orders in 2013, including for extremely large ships, which make it possible to reduce the price per unit shipped. Demand for offshore and special ships remained high in the reporting period. Due to the still high price of oil, orders were received for supply and construction vessels for developing new reserves. Demand for tankers for transporting liquid natural gas (LNG) and for cruise ships also remained high. The special market for government vessels also continued to perform well.

The market for decentralized diesel and gas engine power plants slowed down slightly in 2013, although growth was still high. This was attributable to the economic situation in the emerging markets, which deteriorated at the start of the year. In addition, the more difficult financing conditions led to longer project lead times. While there was a further slowdown in orders for diesel and oil fired power plants, demand for power plants with gas engines and dual-fuel engines (which can run on both liquid fuel and natural gas) was relatively stable. This shift in demand reflects the trend towards natural gas power plants.

There was a slight decline in the reporting period in orders from industrial facilities where compressors and turbines, turbo gear units and slide bearings are used. Although the growing demand for energy and primary materials meant that there was a significant investment requirement in this market and interest from customers remained high, economic uncertainties and difficult financing conditions caused order placement delays. Oil and gas investments remained high in 2013 due to the rise in oil prices. Price pressure rose sharply, with the yen’s devaluation giving Japanese competitors an advantage.

The development of offshore wind energy again fell well short of the original market expectations in 2013. This was largely attributable to the ongoing technical problems, particularly in relation to infrastructure, and the limited financing options.

DEMAND FOR FINANCIAL SERVICES
Global demand for automotive-related financial services remained high in fiscal year 2013. Customers are increasingly optimizing their total spend on mobility, so the trend toward just using a car, rather than actually buying one, continued. New mobility services such as car sharing are thus gaining in importance.

In the difficult economic environment, particularly in Southern Europe, providers stepped up their business activities in 2013 and developed attractive, customer-oriented campaigns. Despite declining new passenger car registrations, the finance and leasing business grew in Germany. Alongside traditional finance products, there was also higher demand for packaged products including insurance and service.

In North America, demand for financial services rose again. In the USA, the market for new vehicle financing registered slower growth, while the market for leasing through captive financial service providers grew sharply. Demand for financial services also continued to rise in Mexico. This was primarily attributable to the stable lending conditions and interest rates, as well as growing interest in modular mobility products.

The strong growth seen in Brazil in recent years weakened in 2013. However, this trend was countered through special campaigns to bolster lending to private customers. In particular, the sustained demand for car ownership was supported through the sales of Consorcio, a lottery-style financing product. The high inflation in Argentina continued to have a positive impact on sales volumes for automotive-related financial services.

The macroeconomic situation in the Asia-Pacific region was characterized by stability and growth in 2013, which was reflected in the demand for automotive-related financial services. In China, the proportion of loan-financed vehicle purchases increased from 15% in 2012 to more than 20% in 2013. There is still significant potential to acquire new customers for automotive-related financial services. The Japanese market benefited from stable demand. India, South Korea and Australia also registered sustained growth in demand for automotive-related financial services.

The financial services market in the commercial vehicles segment also saw a trend towards optimizing total costs in the mid-sized and heavy commercial vehicle category. Innovative transportation solutions are becoming increasingly important to customers as a point of difference. More intense competition was seen in the commercial finance market in Germany and, increasingly, in Europe as a whole due to the interest rate developments.
NEW GROUP MODELS IN 2013

The Volkswagen Group selectively expanded its model portfolio in key segments in the reporting period. Additionally, we introduced new products based on the Modular Transverse Toolkit (MQB), which we launched in 2012. This will also form the basis for many other new models in the coming years. The Group’s range now comprises around 315 passenger car, commercial vehicle and motorcycle models and their derivatives. The Group covers almost all key segments and body types, with offerings from small cars to super sports cars in the passenger car sector, and from pickups to heavy trucks and buses in the commercial vehicles sector, as well as motorcycles. We will continue to resolutely move into unoccupied market segments that offer profitable opportunities for us.

The models premiered by the Volkswagen Passenger Cars brand in the past year included the dynamic Golf derivatives GTD, GTI, Golf R and Golf R Cabriolet, as well as the efficiency models Golf BlueTDI and the Golf BlueMotion, which uses just 3.2 liters of fuel per 100 km. In addition, the new Golf estate was launched on the market. At 1,620 liters, its boot capacity exceeds its predecessor’s by 125 liters. The new Beetle Convertible and cross up! further strengthened the brand image. The e-up!, the first vehicle developed by the Volkswagen Group to run on electrical power alone, heralded a new era for e-mobility. Volkswagen took account of special customer and market requirements in key regions outside Europe through product upgrades and country-specific models. The successor to the best-selling Jetta was launched on the Chinese market in fiscal year 2013. We also moved into additional volume and niche segments with the new Gran Lavida and the dynamic Sagitar GLI. In Brazil, we unveiled the Gol Rallye, a derivative of the most popular model on the market. A BlueMotion version of the compact Fox was also introduced.

The Audi brand once again proved its technical and sporting credentials in 2013. In the premium compact segment, after starting production of the Audi A3 as the Group’s first vehicle based on the MQB in 2012, Audi expanded the A3 range in the reporting period to include the S3 Sportback and the natural gas-powered A3 g-tron. Audi also presented its first A3 notchback model, which boasts dynamic contours and coupé-like lightness. The flagship A8 and R8 and the Q5 were also upgraded. In the American market, the brand extended its TD1 offensive to the A6, A7, A8 and Q5 models. Audi also strengthened its market position in China with its fourth locally manufactured model, the Q3.

Following the presentation of the compact Rapid notchback saloon in 2012, in 2013 ŠKODA unveiled the Rapid Spaceback – a new compact that offers all the space expected from ŠKODA together with a fresh and elegant design. ŠKODA also unveiled the brand’s first MQB model, the new Octavia, which is available as a saloon and an estate. The series spearhead is the newly launched Octavia RS – the fastest ever Octavia. The Superb was also upgraded. In 2013, ŠKODA also started producing the Yeti in China, catering to the specific requirements of Chinese customers (for example, it has a longer wheelbase).

Spanish brand SEAT expanded the Leon Family in 2013 with the three-door Leon SC and the sporty Leon ST estate. Both cars are based on the MQB.

Porsche emphasized its dominance of the global premium and sports segment with a number of new models in the reporting period. The new edition of the 911 series took center stage, and other new exciting cars were added to the range. The brand also debuted a special edition to mark the fiftieth anniversary of the 911. In addition, the mid-engine Cayman was updated. The Panamera series was also updated and now offers the first plug-in hybrid in the luxury class in the shape of the Panamera S E-Hybrid.

The Group’s luxury brands also premiered new models in 2013. Bentley presented the successor to the Flying Spur and the new Continental GTC Speed Convertible for the first time. Lamborghini launched the Aventador Roadster, the successor to the Murciélago Roadster super sports car.

Volkswagen Commercial Vehicles started production of the new Caddy BlueMotion in the reporting period. Consuming just 4.5 liters of diesel per 100 km, it is the most economical Caddy ever made. A fuel-efficient BlueMotion version of the Crafter has also been available since 2013. Volkswagen Commercial Vehicles also launched the special-edition Amarok Canyon to appeal to pickup customers with high-octane lifestyles.

In 2013, Scania expanded its range of Euro 6 engines, which now includes gas and biodiesel engines. Scania also presented the redesigned G- and R-series as Euro 6 models with an improved look and better aerodynamics.

MAN introduced the new generation of Euro 6 engines across all of its model series in 2013, including the entire bus portfolio. At the world’s largest solar power plant, which officially went into operation in Abu Dhabi in March 2013, a MAN steam turbine generates enough environmentally friendly electricity to power around 57,000 German homes.

At Ducati, product highlights included the new Hypermotard SP, Multistrada 1200 S Granturismo and Superbike 899 Panigale models.
VOLKSWAGEN GROUP DELIVERIES

The Volkswagen Group delivered 9,730,680 vehicles to customers worldwide in fiscal year 2013, exceeding the record prior-year level by 4.9%. The chart on this page shows that the delivery figures were higher in all twelve months of the reporting period than in the same months of 2012. Details of deliveries of passenger cars and commercial vehicles are provided separately in the following. Since January 1, 2013, the Volkswagen Commercial Vehicles brand has been reported under commercial vehicles together with Scania and MAN. The prior-year figures were adjusted accordingly.

VOLKSWAGEN GROUP DELIVERIES*

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger cars</td>
<td>8,957,975</td>
<td>8,523,881</td>
</tr>
<tr>
<td>Commercial vehicles</td>
<td>772,705</td>
<td>751,802</td>
</tr>
<tr>
<td>Total</td>
<td>9,730,680</td>
<td>9,275,683</td>
</tr>
</tbody>
</table>

* Deliveries for 2012 have been updated and adjusted to reflect subsequent statistical trends and the new reporting structure.

PASSENGER CAR DELIVERIES

With its brands, the Volkswagen Group has a presence in all relevant automotive markets around the world. Western Europe, China, Brazil, the USA, Russia, Mexico and Argentina are currently the key sales markets for the Group. The Group maintained its strong competitive position in the reporting period thanks to its wide range of attractive and environmentally friendly models. We again recorded an encouraging increase in demand in key core markets.

In fiscal year 2013, the Volkswagen Group delivered 8,957,975 passenger cars to customers, exceeding the record prior-year level. The rise of 5.1% was ahead of growth in the passenger car market as a whole, which amounted to 5.0% in the same period. The Group’s share of the global market was 12.8% (12.8%). Since August 1, 2012, the Group’s delivery figures also include Porsche brand vehicles. The Volkswagen Passenger Cars, Audi and Bentley brands recorded their best ever delivery figures in the year under review. Demand for Volkswagen Group passenger cars grew fastest in the Asia-Pacific region.

The table on page 80 gives an overview of deliveries to customers in the different markets of the Volkswagen Group. We describe the demand trends for Group models in the individual markets in the following sections.
Deliveries in Europe/Remaining markets

In Western Europe, the market as a whole declined by 1.9% year-on-year. The Group’s sales figures were down year-on-year in all major markets in this region, apart from the United Kingdom and Spain. Overall, we delivered 2,734,534 units (–0.2%) to customers – almost as many as in 2012 – and thus performed better than the market as a whole. The up!, Golf, Audi A3, Audi Q5, SEAT Leon and ŠKODA Octavia were among the models to see increases. The Group’s share of the passenger car market in Western Europe rose to 24.8% (24.4%).

In the reporting period, our sales in Central and Eastern Europe almost reached the prior-year level (–0.6%). This means that we also outperformed the market as a whole in this region (–3.9%). While deliveries in Russia declined, sales were up in Poland, the Czech Republic and Hungary. Demand for the Polo Sedan, Golf, Jetta, Audi A3, Audi Q3, Audi Q5, SEAT Leon and ŠKODA Citigo models developed positively. The Group’s share of the passenger car market in Central and Eastern Europe rose to 15.7% (15.2%).

The number of deliveries made to Volkswagen Group’s customers in South Africa surpassed the prior-year level by 5.2%. The Polo remained the most sought-after Group model.

Demand for Group vehicles in the Middle East region grew by 21.8% compared with the previous year. The Polo, Golf, Jetta and Passat models were particularly popular.

Deliveries in Germany

The number of Group deliveries to customers in the German passenger car market remained on a level with the previous year (–0.8%). The market as a whole declined by 4.2% in the same period. The Golf, Tiguan, Audi A3, Audi Q5, SEAT Leon and ŠKODA Octavia models were particularly popular. Six Volkswagen Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments at the end of 2013: the up!, Polo, Golf, Passat, Touran and Tiguan. The Golf continues to be the most popular passenger car in Germany in terms of registrations.

Deliveries in North America

In 2013, the Volkswagen Group sold 2.6% more vehicles in the US market than in the previous year. The Jetta, Passat, Audi A4, Audi Q5 and Audi A6 models were particularly popular. The Porsche 911 and Cayenne models were also in demand. We delivered 8.0% more vehicles in Canada than in 2012. The Jetta was the most sought-after Group model. In Mexico, we handed over 14.7% more vehicles to customers in the reporting period than in the previous year. Demand increased for the Golf, Jetta, Passat, Audi Q3 and Audi A4 models. The Volkswagen Group’s overall market share in the North American passenger car market was 4.8% (4.9%).

Deliveries in South America

In the year under review, we delivered 13.3% fewer vehicles to customers in the highly competitive South American markets than in the prior year. The Volkswagen Group’s share of the passenger car market in this region decreased to 17.8% (19.5%) overall. Our sales declined by 16.2% in the Brazilian market. However, the Tiguan, Audi A3 and Audi Q3 models were among those to record positive growth. The Gol is still the bestselling model in South America.

<table>
<thead>
<tr>
<th>Model</th>
<th>Deliveries in 2013 (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jetta</td>
<td>925</td>
</tr>
<tr>
<td>Golf</td>
<td>837</td>
</tr>
<tr>
<td>Passat</td>
<td>759</td>
</tr>
<tr>
<td>Polo</td>
<td>721</td>
</tr>
<tr>
<td>Tiguan</td>
<td>468</td>
</tr>
<tr>
<td>Golf Sedan</td>
<td>457</td>
</tr>
<tr>
<td>Lavida</td>
<td>431</td>
</tr>
<tr>
<td>ŠKODA Octavia</td>
<td>360</td>
</tr>
</tbody>
</table>
The Volkswagen Group’s deliveries in Argentina were on a level with the previous year in 2013. The Gol remained very popular and demand for the Jetta grew significantly.

**Deliveries in the Asia-Pacific region**

Our passenger car sales in the Asia-Pacific region increased by 14.8% in 2013. We thus outperformed the market as a whole, which grew by 8.6% in the same period. The Group increased its share of the passenger car market in the Asia-Pacific region to 12.9% (12.2%). We delivered 16.2% more vehicles year-on-year to customers in the Chinese market, which was again the main driver of growth in the Asia-Pacific region. The Sagitar, Lavida, Tiguan, Santana, Passat, Audi A4, Audi Q5 and Audi A6 models recorded significant increases. Demand for the Porsche Cayenne was also strong.

In Japan, we handed over 22.5% more vehicles to customers in the year under review than in the previous year; the market as a whole declined by 0.1%. Sales in India were down 18.9% year-on-year in a declining market.

### PASSENGER CAR DELIVERIES TO CUSTOMER BY MARKET

<table>
<thead>
<tr>
<th></th>
<th>2013 (Unites)</th>
<th>2012</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe/Remaining markets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Europe</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which: Germany</td>
<td>1,044,477</td>
<td>1,052,400</td>
<td>- 0.8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>454,400</td>
<td>399,388</td>
<td>+ 13.8</td>
</tr>
<tr>
<td>France</td>
<td>245,926</td>
<td>263,317</td>
<td>- 6.6</td>
</tr>
<tr>
<td>Italy</td>
<td>176,231</td>
<td>188,323</td>
<td>- 6.4</td>
</tr>
<tr>
<td>Spain</td>
<td>173,893</td>
<td>169,017</td>
<td>+ 2.9</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which: Russia</td>
<td>287,264</td>
<td>301,574</td>
<td>- 4.7</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>81,215</td>
<td>80,826</td>
<td>+ 0.5</td>
</tr>
<tr>
<td>Poland</td>
<td>75,920</td>
<td>68,972</td>
<td>+ 10.1</td>
</tr>
<tr>
<td>Remaining markets</td>
<td>381,499</td>
<td>335,935</td>
<td>+ 13.6</td>
</tr>
<tr>
<td>of which: Turkey</td>
<td>126,853</td>
<td>97,764</td>
<td>+ 29.8</td>
</tr>
<tr>
<td>South Africa</td>
<td>101,720</td>
<td>98,606</td>
<td>+ 5.2</td>
</tr>
<tr>
<td>North America</td>
<td>878,923</td>
<td>833,624</td>
<td>+ 5.4</td>
</tr>
<tr>
<td>of which: USA</td>
<td>611,747</td>
<td>596,078</td>
<td>+ 2.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>180,123</td>
<td>156,974</td>
<td>+ 14.7</td>
</tr>
<tr>
<td>Canada</td>
<td>87,053</td>
<td>80,572</td>
<td>+ 8.0</td>
</tr>
<tr>
<td>South America</td>
<td>747,542</td>
<td>861,956</td>
<td>- 13.3</td>
</tr>
<tr>
<td>of which: Brazil</td>
<td>558,317</td>
<td>666,578</td>
<td>- 16.2</td>
</tr>
<tr>
<td>Argentina</td>
<td>148,979</td>
<td>148,955</td>
<td>+ 0.0</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>3,616,212</td>
<td>3,150,619</td>
<td>+ 14.8</td>
</tr>
<tr>
<td>of which: China</td>
<td>3,266,235</td>
<td>2,809,689</td>
<td>+ 16.2</td>
</tr>
<tr>
<td>Japan</td>
<td>100,535</td>
<td>82,078</td>
<td>+ 22.5</td>
</tr>
<tr>
<td>India</td>
<td>92,561</td>
<td>114,084</td>
<td>- 18.9</td>
</tr>
<tr>
<td>Worldwide</td>
<td>8,957,975</td>
<td>8,523,881</td>
<td>+ 5.1</td>
</tr>
<tr>
<td>Volkswagen Passenger Cars</td>
<td>5,932,308</td>
<td>5,738,417</td>
<td>+ 3.4</td>
</tr>
<tr>
<td>Audi</td>
<td>1,575,480</td>
<td>1,455,123</td>
<td>+ 8.3</td>
</tr>
<tr>
<td>ŠKODA</td>
<td>920,750</td>
<td>939,202</td>
<td>- 2.0</td>
</tr>
<tr>
<td>SEAT</td>
<td>355,004</td>
<td>321,002</td>
<td>+ 10.6</td>
</tr>
<tr>
<td>Bentley</td>
<td>10,120</td>
<td>8,510</td>
<td>+ 18.9</td>
</tr>
<tr>
<td>Lamborghini</td>
<td>162,145</td>
<td>59,513</td>
<td>+ 1.8</td>
</tr>
<tr>
<td>Porsche</td>
<td>47</td>
<td>31</td>
<td>+ 51.6</td>
</tr>
<tr>
<td>Bugatti</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Deliveries for 2012 have been updated and adjusted to reflect subsequent statistical trends and the new reporting structure. The figures include the Chinese joint venture companies.

2 The Porsche brand’s deliveries are included as from August 1, 2012.
COMMERCIAL VEHICLE DELIVERIES
In fiscal year 2013, the Volkswagen Group delivered 772,705 light commercial vehicles, trucks and buses to customers worldwide (+2.8%), of which 551,908 were light commercial vehicles (+0.3%). The number of trucks sold rose to 198,004 (+10.0%), while deliveries of buses increased to 22,793 (+5.3%). Volkswagen Commercial Vehicles sold 0.3% more units than in 2012, reaching a new record. The MAN brand delivered 140,333 units in the reporting period, an increase of 4.5% on the previous year. Scania significantly increased deliveries by 19.4% year-on-year to 80,464 units.

In Western Europe, the Volkswagen Group’s deliveries were on a level with the previous year (–1.0%) at a total of 349,204 units, of which 274,173 units were light commercial vehicles and 71,314 were trucks. While the pull-forward effects related to the introduction of the Euro 6 emission standard had a positive impact, the still unresolved eurozone debt crisis and high competitive pressure negatively affected demand.

We delivered 69,171 vehicles in Central and Eastern Europe, matching the prior-year level. Light commercial vehicles accounted for 40,271 of this figure, trucks for 27,544 and buses for 1,356. Demand for the Amarok was higher than in the previous year. The decline in sales in Russia, the region’s largest market, was mainly due to the introduction of the recycling fee on imported vehicles in September 2012 and the negative oil price trend.

In the Remaining markets, the Volkswagen Group sold 67,525 (70,263) vehicles, of which 47,047 units were light commercial vehicles and 18,130 were trucks.

During the reporting period, we delivered 9,855 light commercial vehicles, 280 trucks and 1,503 buses in the North American markets. Overall, we increased our sales by 19.9%.

In South America, 244,720 vehicles were delivered to customers (+11.3%), of which 160,409 units were light commercial vehicles and 72,296 were trucks. Growth rates for the Saveiro and Amarok models were encouraging. In the Brazilian market, the higher transportation demand due to the bumper harvest and favorable financing conditions had a positive impact. We delivered a total of 123,904 light commercial vehicles, 62,879 trucks and 10,099 buses in Brazil.

In the markets of the Asia-Pacific region, we increased sales to the Group’s customers by 1.8% to a total of 30,447 units, of which 20,153 were light commercial vehicles and 8,440 were trucks. We delivered 2,489 light commercial vehicles, 2,189 trucks and 190 buses in the Chinese market.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET*

<table>
<thead>
<tr>
<th>Market</th>
<th>Deliveries (Units)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe/Remaining markets</td>
<td>485,900</td>
<td>–1.3</td>
</tr>
<tr>
<td>Western Europe</td>
<td>349,204</td>
<td>–1.0</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>69,171</td>
<td>–0.0</td>
</tr>
<tr>
<td>Remaining markets</td>
<td>67,525</td>
<td>–3.9</td>
</tr>
<tr>
<td>North America</td>
<td>11,638</td>
<td>+19.9</td>
</tr>
<tr>
<td>South America</td>
<td>244,720</td>
<td>+11.3</td>
</tr>
<tr>
<td>of which: Brazil</td>
<td>196,882</td>
<td>+13.4</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>30,447</td>
<td>+1.8</td>
</tr>
<tr>
<td>of which: China</td>
<td>4,868</td>
<td>–11.8</td>
</tr>
<tr>
<td>Worldwide</td>
<td>772,705</td>
<td>+2.8</td>
</tr>
<tr>
<td>Volkswagen Commercial Vehicles</td>
<td>551,908</td>
<td>+0.3</td>
</tr>
<tr>
<td>Scania</td>
<td>80,464</td>
<td>+19.4</td>
</tr>
<tr>
<td>MAN</td>
<td>140,333</td>
<td>+4.5</td>
</tr>
</tbody>
</table>

* Deliveries for 2012 have been updated and adjusted to reflect subsequent statistical trends and the new reporting structure.
DELIVERIES IN THE POWER ENGINEERING SEGMENT

Orders in the Power Engineering segment are usually part of major investment projects. Lead times typically range from just under one year to several years, and partial deliveries as construction progresses are common. Accordingly, there is a time lag between incoming orders and sales revenue from the new construction business.

Sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which generated about two-thirds of the overall revenue volume. For example, MAN supplied a powerful 60 MW two-stroke engine for the world’s largest container ship in 2013. In addition, a MAN steam turbine is at the heart of the largest solar power plant in the world, which officially went into operation in Abu Dhabi in March 2013.

ORDERS RECEIVED IN THE PASSENGER CARS SEGMENT IN WESTERN EUROPE

In fiscal year 2013, overall demand for passenger cars in Western Europe remained below the previous year’s level. The Volkswagen Group increased orders received for passenger cars by 6.0% year-on-year, despite the persistently strained economic situation in some Western European markets.

ORDERS RECEIVED FOR COMMERCIAL VEHICLES

Demand for the Volkswagen Group’s light commercial vehicles in the Western European markets rose slightly year-on-year. Orders were up 1.5% compared with the previous year.

Incoming orders for our trucks and buses developed well overall in fiscal year 2013. In Western Europe, our main sales market, orders received rose in the second half of the year in particular, as purchases were pulled forward because of the introduction of the new Euro 6 emission standard at the start of 2014. Orders received in South America increased due to the high transportation demand and the favorable financing conditions offered by the Brazilian Development Bank. Overall, we received orders for 218,678 (206,445) trucks and buses in the reporting period.

ORDERS RECEIVED IN THE POWER ENGINEERING SEGMENT

The long-term performance of the Power Engineering business is determined by the macroeconomic environment. Major individual orders lead to fluctuations in incoming orders during the year that do not correlate with these long-term trends.

Orders received in the Power Engineering segment in the year under review amounted to €3.9 billion. Engines & Marine Systems and Turbomachinery generated the most new orders, together accounting for 69% of the total. Orders were received for liquid gas tanker and cruise ship engines, as well as for compressor technology for a major project in China, among other things.

GROUP FINANCIAL SERVICES

Volkswagen Financial Services had a very successful year with its products in the market in fiscal year 2013. 4.3 million new financing, leasing and service/insurance contracts were signed worldwide, a 13.4% increase on the prior-year figure. At 10.7 million, the total number of contracts on December 31, 2013 was up 11.3% on the number as of the end of the previous year. The number of contracts in the Customer Financing/Leasing area was up 9.0% to 6.9 million, while the number of contracts in the Service/Insurance area increased by 15.7% to 3.8 million. Assuming unchanged credit eligibility criteria, the total Group delivery volumes accounted for by financed or leased vehicles increased from 27.5% in the previous year to 28.9%.

In Europe, the number of new contracts signed increased to 2.9 million (2.6 million). The number of contracts was 7.5 million (7.0 million) as of December 31, 2013. The number of financing and leasing contracts was 4.3 million at the end of the reporting period, an increase on the prior-year figure of 4.0 million. The proportion of leased or financed vehicles in this region increased to 45.5% (41.9%).

The Volkswagen Group’s financial services business continued to perform well in Germany in fiscal year 2013. At 2.5 million, the number of financing and leasing contracts for new and used vehicles was 3.0% higher than at the end of 2012. The penetration rate rose to 55.8% (53.1%). Volkswagen Financial Services thus finances or leases more than every second vehicle delivered by the Volkswagen Group in Germany.

In North America, 726 thousand new contracts were signed in the reporting period, 9.8% more than in the previous year. The total number of contracts rose by 18.0% to 1.8 million. In the Customer Financing/Leasing area, the number of contracts increased by 11.2% year-on-year to 1.4 million (1.3 million). The proportion of leased or financed vehicles in North America rose to 55.0% (54.4%).

In South America, the total number of contracts was 809 thousand at year-end 2013, 16.0% higher than the prior-year figure. These were almost exclusively attributable to the Customer Financing/Leasing area. Of the vehicles delivered in this region, 33.0% (27.8%) were leased or financed.

In the Asia-Pacific region, Volkswagen Financial Services signed 320 thousand new contracts in 2013, a 41.6% increase on the prior-year figure. The total number of contracts increased by 35.5% to 628 thousand. In the Customer Financing/Leasing area, the number of contracts rose by 39.1% to 517 thousand. Leased or financed vehicles in the Asia-Pacific region accounted for an increased share of 8.3% (6.5%) of deliveries.
SALES TO THE DEALER ORGANIZATION

In the reporting period, the Volkswagen Group’s worldwide unit sales to the dealer organization – including the Chinese joint ventures – amounted to 9,728,250 vehicles, exceeding the 2012 figure by 4.1%. In particular, the sustained high demand for Group models in China led to a 5.0% year-on-year increase in sales outside Germany. In Germany, 1.7% fewer vehicles were sold. Vehicles sold in Germany decreased to 12.2% (12.9%) of the Group’s overall sales.

The Jetta, Golf and Passat were our biggest sellers in 2013. The greatest growth in demand was recorded by the Tiguan, Audi Q3, Audi Q5 and ŠKODA Rapid models, as well as the new Beetle Convertible, Audi A3 Sportback and SEAT Leon models. The Lavida, Sagitar and Santana models available in China were also very popular with customers.

PRODUCTION

The Volkswagen Group produced 9,727,848 vehicles worldwide in fiscal year 2013, exceeding the prior-year figure by 5.1%. Our Chinese joint ventures increased their production volume by 18.6% due to the continued strong demand in China. Germany accounted for 25.3% (25.1%) of the Group’s total production, remaining on a level with the previous year. In the past year, our plants worldwide produced an average of 39,352 vehicles per working day, an increase of 4.2% year-on-year. The Crafter models built in the Daimler plants in Düsseldorf and Ludwigsfelde and the Routan, which is manufactured in cooperation with Chrysler in North America, are not included in the Volkswagen Group’s production figures.

INVENTORIES

Global vehicle inventories at Group companies and in the dealer organization were higher on December 31, 2013 than at year-end 2012 due to an increase in inventories in China in response to demand.

NUMBER OF EMPLOYEES

Including the Chinese joint ventures, the Volkswagen Group employed an average of 563,066 people in fiscal year 2013, an increase of 5.5% year-on-year. Our companies in Germany employed 255,397 people on average in 2013; their share of the headcount increased slightly to 45.4% (44.4%) due to the creation of new jobs. The Volkswagen Group had 545,596 active employees (+3.9%) as of the 2013 reporting date. In addition, 9,501 employees were in the passive phase of their partial retirement and 17,703 young persons were in vocational traineeships (+5.9%). The Volkswagen Group’s headcount was 572,800 employees (+4.2%) at the end of the reporting period. Significant factors in this increase were the volume-related expansion in growth markets, particularly China, and the recruitment of specialists and experts in Germany, among other places. A total of 260,449 people were employed in Germany (+4.4%), while 312,351 were employed abroad (+4.0%).
SUMMARY OF BUSINESS DEVELOPMENT

The Board of Management of Volkswagen AG considers business development in the reporting period to have been positive. Despite the persistently challenging environment, we achieved the Group’s forecasted delivery volumes, sales revenue and operating profit for 2013 and maintained our market position. We increased the number of deliveries to the Group’s customers in the diverse automotive markets by a total of 4.9% to 9.7 million vehicles, a new sales record. The greatest absolute increases were recorded in China and the United Kingdom.

The ratio of capital expenditure to sales revenue in the Automotive Division was higher than in the previous year and was within the expected range. In spite of the higher investments, we significantly increased net cash flow compared with the previous year and exceeded the minimum required rate of return on invested capital by a clear margin.

Our attractive and environmentally friendly model portfolio impresses customers around the globe. The trust placed in us by customers, as well as our high quality and efficiency standards, allow us to meet and even exceed our financial targets.

The following table shows an overview of the targets set for the reporting period and the figures actually achieved. Detailed information on the financial key performance indicators can be found in the “Results of Operations, Financial Position and Net Assets” chapter starting on page 94.

<table>
<thead>
<tr>
<th>Core performance indicators in the Volkswagen Group</th>
<th>Forecast for 2013</th>
<th>Actual 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliveries to customers</td>
<td>&gt; 9.3 million</td>
<td>9.7 million</td>
</tr>
<tr>
<td>Sales revenue</td>
<td>&gt; €192.7 billion</td>
<td>€197.0 billion</td>
</tr>
<tr>
<td>Operating profit</td>
<td>~ €11.5 billion</td>
<td>€11.7 billion</td>
</tr>
<tr>
<td>Operating return on sales</td>
<td>~ 5.9%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Capex/sales revenue in the Automotive Division</td>
<td>6-7%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Net cash flow in the Automotive Division</td>
<td>positive</td>
<td>€4.4 billion</td>
</tr>
<tr>
<td>Return on Investment (ROI) in the Automotive Division</td>
<td>&gt; 9%</td>
<td>14.5%</td>
</tr>
</tbody>
</table>
GROUP MANAGEMENT REPORT

Shares and Bonds

Volkswagen AG’s ordinary and preferred shares again posted gains in fiscal 2013, with preferred shares surpassing the €200.00 barrier for the first time and reaching new highs. The US budget debate and the unresolved European debt crisis generated considerable volatility in some markets. Volkswagen further strengthened its liquidity and capital base through the issue of a mandatory convertible note and hybrid notes.

EQUITY MARKETS

At the beginning of 2013, the DAX continued the positive performance it had seen in the final quarter of 2012. The increase in share prices was primarily due to the upbeat mood following the provisional budget compromise in the USA. The DAX then moved sideways amid volatility until the end of February. In an environment dominated by the European debt crisis, share prices were supported by largely healthy corporate results. The DAX reached a new high in mid-March. The reasons for this were the central banks’ expansionary monetary policy as well as hopes of an increase in global growth. Towards the end of the first quarter, the situation in Cyprus generated renewed uncertainty regarding the stability of the eurozone, initially interrupting the DAX’s favorable trend.

It was because of this uncertainty that the DAX’s negative trend continued in the opening weeks of the second quarter. At the end of April, worsening economic data then fueled hopes on the financial markets of further interest rate cuts. The ensuing price rise strengthened at the beginning of May, after the European Central Bank had cut its key interest rate to a record low of 0.5% and the USA reported positive economic data. Profit taking, weaker economic data from China and speculation about the end of the expansionary US monetary policy led to falling share prices in the rest of the second quarter. Share prices retreated further in the wake of the US Federal Reserve’s announcement of a plan to scale back bond-buying. The markets only showed encouraging trends again at the end of June.

The DAX continued this upward movement until the beginning of August. This was attributable to the positive signals from the American labor market and the central banks’ ongoing expansionary monetary policy, in addition to unexpectedly good economic and corporate data. After moving sideways in the course of August, prices retreated significantly at the end of the month, particularly as a result of the strained political situation in Syria. As early as September, the markets rallied, in part reaching new highs, on the back of expectations that the loose monetary policy would continue. A slight downward trend was seen again up until the end of the third quarter on account of the US budget dispute and other factors.

After a muted start to the final quarter, the DAX continued its upward trend amid low volatility. In addition to the – albeit only temporary – agreement reached in the dispute about raising the debt ceiling in the USA, positive economic data and the interim agreement on the Iranian nuclear program created a buoyant mood in the financial markets. This was also boosted by the European Central Bank again cutting the key interest rate, to 0.25%. Investors’ renewed concerns that the expansionary US monetary policy would be curbed led to a correction on the equity markets in the first half of December. However, the brief downward movement was reversed again in mid-December by strong price gains. Although the US Federal Reserve announced it would reduce its bond purchases in stages, it combined this with a commitment to a long-term low interest rate policy. Unexpectedly good economic data in the USA and Europe then pushed Germany’s leading index to an all-time high in the last few weeks of trading. At the end of 2013, the DAX had reached 9,552 points, a significant increase on the previous year’s figure (+25.5%). The EURO STOXX Automobile & Parts closed the year at 459.5 points, 36.0% higher than at the end of the previous year.
MOVEMENTS IN THE PRICE OF VOLKSWAGEN’S SHARES

On the whole, Volkswagen AG’s ordinary and preferred shares performed very positively in 2013, with the Company’s preferred shares reaching a new high. However, movements in the share price over the year were marked by considerable volatility. In spite of price gains, the ordinary and preferred shares both underperformed the overall market and the automotive sector.

The year began with a sharp increase in share prices. The announcement that Volkswagen was seeking to enter into a control and profit and loss transfer agreement with MAN SE led prices to drop briefly, however. The securities subsequently moved in parallel to the market before both share classes lost ground once again in March: elements of the outlook for fiscal year 2013 announced when the annual financial statements were published fell short of the high expectations of many market participants.

At the beginning of the second quarter, the prices of Volkswagen AG’s preferred and ordinary shares could not escape the negative sentiment in the equity markets and continued their downward trend. From mid-April, Volkswagen share prices then rose with the market as a whole amid greater volatility. The Company’s reported sales figures, which exceeded market expectations, were one factor that increased demand for the shares. Similar to the reversal of the trend on the DAX, this upward movement came to a halt at the end of May, however. Over the remainder of the year, the prices for both share classes moved in lock-step with the market as a whole.

In the first few weeks of the third quarter, Volkswagen AG’s preferred and ordinary shares initially recorded above-average growth at a faster pace than the fresh upward movement of the equity markets. This increase was also fueled by corporate data for the first six months of 2013, which exceeded expectations. In line with the decline in the equity markets, prices fell substantially at the end of August. Volkswagen share prices were volatile in the remaining weeks of the third quarter.

This trend reversed in an improved trading environment and the preferred and ordinary shares registered considerable price gains as the fourth quarter progressed. Demand for Volkswagen shares was disproportionately high particularly after the publication of the Group’s results for the first three quarters of 2013 at the end of October. The ordinary and preferred shares then followed the overall positive trend of the market as a whole.

Volkswagen AG’s preferred shares reached their highest daily closing price for the year, and an all-time high, of €204.15 on December 30, 2013, the last trading day of the year. This was 18.6% higher than at the end of 2012. They recorded their lowest closing price for the year of €138.50 on April 18, 2013.

Volkswagen’s ordinary shares also reached their highest closing price of €196.90 on December 30, 2013, 21.0% higher than at the end of 2012. The shares also traded at their lowest daily closing price for the year of €132.60 on April 18, 2013.

Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website at www.volkswagenag.com/ir.
SHAREHOLDER STRUCTURE AT DECEMBER 31, 2013
as a percentage of subscribed capital

Porsche Automobil Holding SE
Foreign institutional investors
Qatar Holding LLC
State of Lower Saxony
Private shareholders/Others
German institutional investors

The shareholder structure of Volkswagen AG as of December 31, 2013 is shown in the chart on this page. Volkswagen AG’s subscribed capital amounted to €1,191,009,251.84 at the end of the reporting period.

The distribution of voting rights was as follows at the reporting date: Porsche Automobil Holding SE, Stuttgart, held 50.73% of the voting rights. The second-largest shareholder was the State of Lower Saxony, which held 20.0% of the voting rights. Qatar Holding LLC was the third-largest shareholder, with 17.0%. The remaining 12.3% of the 295,089,818 ordinary shares were attributable to other shareholders.

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

DIVIDEND POLICY
Our dividend policy matches our financial strategy. In the interests of all stakeholders, we are pursuing continuous dividend growth so that our shareholders can participate appropriately in our business success. The proposed dividend amount therefore reflects our financial management objectives – in particular, ensuring a solid financial foundation as part of the implementation of our Strategy 2018.

The dividend for ordinary and preferred shares proposed by the Board of Management and the Supervisory Board of Volkswagen AG is €0.50 (around 14%) higher than the previous year. On this basis, the total dividend for fiscal year 2013 is €1.9 billion (€1.6 billion). The distribution ratio is based on the Group’s profit after tax attributable to the shareholders of Volkswagen AG and is 20.6% for the reporting period. The prior-year figure for fiscal 2012 of 7.5% was affected by noncash income mainly from the updated measurement of the put/call rights relating to the acquisition of the stake in Porsche AG indirectly held by Porsche SE, as well as the remeasurement of the existing stake in Porsche AG held at the contribution date. After adjusting for these effects, the distribution ratio in 2012 was 17.8%. We are aiming to achieve a distribution ratio of 30% in the medium term.

DIVIDEND YIELD
Based on the dividend proposal for the reporting period, the dividend yield on Volkswagen ordinary shares is 2.0%, measured by the closing price on the last trading day in 2013 (2.2%). The dividend yield on preferred shares is 2.0% (2.1%).

The current dividend proposal can be found in the chapter entitled Volkswagen AG (condensed, according to the German Commercial Code), on page 110 of this annual report.

EARNINGS PER SHARE
Basic earnings per ordinary share were €18.63 (€46.41) in fiscal year 2013. Basic earnings per preferred share were €18.69 (€46.47). The positive measurement effects from the integration of Porsche should be taken into account in any comparison with the previous year’s figures. In accordance with IAS 33, the calculation is based on the weighted average number of ordinary and preferred shares outstanding in the fiscal year.

The calculation of earnings per share for fiscal year 2013 must also make allowance for the effect of the mandatory convertible note with a total volume of €3.7 billion that was issued in November 2012 and supplemented in June 2013. In accordance with IAS 33.23, all potential shares that will be issued upon the conversion of a mandatory convertible note were accounted for as issued shares and included in the calculation of basic and diluted earnings per share. The number of potential preferred shares to be included is based on the most advantageous conversion rate resulting from the minimum conversion price of €150.81. Since the
number of basic and diluted shares is identical, basic earnings per share correspond to diluted earnings per share.

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

**MANDATORY CONVERTIBLE NOTE AND HYBRID NOTES**

In June 2013, Volkswagen successfully placed another €1.2 billion mandatory convertible note to supplement the mandatory convertible note issued in November 2012 entitling and obliging the holders to subscribe for Volkswagen preferred shares. This note is backed by a subordinated guarantee from Volkswagen AG and was issued by Volkswagen International Finance N.V. The preemptive rights of existing shareholders were disappplied.

In August 2013, the Volkswagen Group also placed dual-tranche hybrid notes with an aggregate principal amount of €2.0 billion via Volkswagen International Finance N.V. Both tranches are perpetual and increased equity by the full amount, net of transaction costs. Volkswagen strengthened its capitalization by increasing the principal amount of the mandatory convertible note and issuing the hybrid notes. This was an important step, especially with a view to the implementation of the strategic growth and investment program and in light of the persistently challenging environment.

**ANNUAL GENERAL MEETING**

The 53rd Annual General Meeting of Volkswagen AG was held at the Hanover Exhibition Grounds on April 25, 2013. With 91.96% of the voting capital present, the ordinary shareholders of Volkswagen AG formally approved the actions of the Board of Management and the Supervisory Board and the conclusion of intercompany agreements.

The scheduled term of office of Dr. Wolfgang Porsche as a member of Volkswagen AG’s Supervisory Board expired at the end of the Annual General Meeting. The Annual General Meeting elected him to the Supervisory Board once more for a further full term of office as a shareholder representative. The Annual General Meeting also resolved to distribute a dividend of €3.50 per ordinary share and €3.56 per preferred share for fiscal year 2012.

**INVESTOR RELATIONS ACTIVITIES**

International analysts and investors remained keenly interested in the business development of the Volkswagen Group during the 2013 fiscal year. The Investor Relations team provided extensive information at more than 800 one-on-one discussions, roadshows and conferences at all key financial centers worldwide about the strategic focus, current business performance and future prospects of the Volkswagen Group and its brands. Many of these discussions involved a direct exchange of ideas between capital market participants and members of the Board of Management and Group senior executives.

The decision to make the focus of our investor relations activities even more international by establishing an additional presence in Beijing was welcomed by capital market participants. Growing numbers of them are taking advantage of the opportunity to get first-hand information locally about activities and the strategy for the Chinese operations, which are important for the Volkswagen Group. With other offices in Wolfsburg, London and Herndon (USA), Volkswagen Investor Relations covers the most important regions for the capital markets and the Volkswagen Group.

The investor relations team also briefed Volkswagen’s private shareholders on the Company’s performance at numerous events. Among other things, it had its own stand at the Annual General Meeting and was available to answer questions in personal discussions. As in previous years, Investor Relations also provided support for Group Treasury’s global capital market activities.

In addition to direct dialog, investors and analysts were supplied with the latest news and publications using the Internet. Our website recorded approximately 3.4 million hits, reaching the previous year’s level and underlining the tremendous importance of digital media as an information channel for investors. This is the reason the Annual Media and Investor Conference held in March 2013, the shareholder meetings and the conference calls of the Volkswagen Group on the quarterly results for 2013 were additionally broadcast live on the Internet.

We also promptly published online all presentations given in connection with events that were of interest to investors on our investor relations website at www.volkswagenag.com/ir.
## VOLKSWAGEN SHARE KEY FIGURES

### Dividend development

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of no-par value shares at Dec. 31</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>295,090</td>
<td>295,090</td>
<td>295,090</td>
<td>295,046</td>
<td>295,005</td>
</tr>
<tr>
<td>Preferred shares</td>
<td>170,148</td>
<td>170,143</td>
<td>170,143</td>
<td>170,143</td>
<td>105,238</td>
</tr>
<tr>
<td>Dividend1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>per ordinary share</td>
<td>€ 4.00</td>
<td>€ 3.50</td>
<td>€ 3.00</td>
<td>€ 2.20</td>
<td>€ 1.60</td>
</tr>
<tr>
<td>per preferred share</td>
<td>€ 4.06</td>
<td>€ 3.56</td>
<td>€ 3.06</td>
<td>€ 2.26</td>
<td>€ 1.66</td>
</tr>
<tr>
<td>Dividend paid1</td>
<td>€ million</td>
<td>1,871</td>
<td>1,639</td>
<td>1,406</td>
<td>1,034</td>
</tr>
<tr>
<td>on ordinary shares</td>
<td>€ million</td>
<td>1,180</td>
<td>1,033</td>
<td>885</td>
<td>649</td>
</tr>
<tr>
<td>on preferred shares</td>
<td>€ million</td>
<td>691</td>
<td>606</td>
<td>521</td>
<td>385</td>
</tr>
</tbody>
</table>

### Share price development2

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing</td>
<td>€ 196.90</td>
<td>162.75</td>
<td>103.65</td>
<td>105.90</td>
<td>77.00</td>
</tr>
<tr>
<td>Price performance</td>
<td>% +21.0</td>
<td>+57.0</td>
<td>–2.1</td>
<td>+37.5</td>
<td>–69.2</td>
</tr>
<tr>
<td>Annual high</td>
<td>€ 196.90</td>
<td>162.75</td>
<td>136.95</td>
<td>118.50</td>
<td>298.85</td>
</tr>
<tr>
<td>Annual low</td>
<td>€ 132.60</td>
<td>106.20</td>
<td>84.50</td>
<td>62.30</td>
<td>72.41</td>
</tr>
<tr>
<td>Preferred shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing</td>
<td>€ 204.15</td>
<td>172.15</td>
<td>115.75</td>
<td>121.40</td>
<td>65.74</td>
</tr>
<tr>
<td>Price performance</td>
<td>% +18.6</td>
<td>+48.7</td>
<td>–4.7</td>
<td>+84.7</td>
<td>+72.9</td>
</tr>
<tr>
<td>Annual high</td>
<td>€ 204.15</td>
<td>172.70</td>
<td>151.00</td>
<td>136.90</td>
<td>81.72</td>
</tr>
<tr>
<td>Annual low</td>
<td>€ 138.50</td>
<td>118.00</td>
<td>88.54</td>
<td>55.83</td>
<td>30.24</td>
</tr>
<tr>
<td>Beta factor3</td>
<td>1.32</td>
<td>1.26</td>
<td>1.09</td>
<td>0.99</td>
<td>0.87</td>
</tr>
<tr>
<td>Market capitalization at Dec. 31</td>
<td>€ billion</td>
<td>92.8</td>
<td>77.3</td>
<td>50.3</td>
<td>51.9</td>
</tr>
<tr>
<td>Equity attributable to Volkswagen AG shareholders and hybrid capital investors at Dec. 31</td>
<td>€ billion</td>
<td>87.7</td>
<td>77.7</td>
<td>57.5</td>
<td>46.0</td>
</tr>
<tr>
<td>Ratio of market capitalization to equity factor</td>
<td>1.06</td>
<td>1.00</td>
<td>0.87</td>
<td>1.13</td>
<td>0.84</td>
</tr>
</tbody>
</table>

### Key figures per share

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Earnings per ordinary share1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>basic</td>
<td>€ 18.63</td>
<td>46.41</td>
<td>33.10</td>
<td>15.17</td>
<td>2.37</td>
</tr>
<tr>
<td>diluted</td>
<td>€ 18.63</td>
<td>46.41</td>
<td>33.10</td>
<td>15.17</td>
<td>2.37</td>
</tr>
<tr>
<td>Operating profit6</td>
<td>€ 24.01</td>
<td>24.59</td>
<td>24.23</td>
<td>15.87</td>
<td>4.64</td>
</tr>
<tr>
<td>Cash flows from operating activities6</td>
<td>€ 25.91</td>
<td>15.42</td>
<td>18.27</td>
<td>25.46</td>
<td>31.84</td>
</tr>
<tr>
<td>Equity7</td>
<td>€ 188.58</td>
<td>166.98</td>
<td>123.68</td>
<td>98.84</td>
<td>88.15</td>
</tr>
<tr>
<td>Price/earnings ratio8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>factor</td>
<td>10.6</td>
<td>3.5</td>
<td>3.1</td>
<td>7.0</td>
</tr>
<tr>
<td>Preferred shares</td>
<td>factor</td>
<td>10.9</td>
<td>3.7</td>
<td>3.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Price/cash flow ratio9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>factor</td>
<td>7.6</td>
<td>10.6</td>
<td>5.7</td>
<td>4.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Dividend yield10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>%</td>
<td>2.0</td>
<td>2.2</td>
<td>2.9</td>
<td>2.1</td>
</tr>
<tr>
<td>Preferred shares</td>
<td>%</td>
<td>2.0</td>
<td>2.1</td>
<td>2.6</td>
<td>1.9</td>
</tr>
</tbody>
</table>

### Stock exchange turnover11

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover of Volkswagen ordinary shares</td>
<td>€ billion</td>
<td>3.5</td>
<td>3.5</td>
<td>5.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Turnover of Volkswagen preferred shares</td>
<td>€ billion</td>
<td>43.0</td>
<td>40.9</td>
<td>44.2</td>
<td>23.5</td>
</tr>
<tr>
<td>Volkswagen share of total DAX turnover</td>
<td>%</td>
<td>5.7</td>
<td>5.3</td>
<td>4.6</td>
<td>2.9</td>
</tr>
</tbody>
</table>

---

1 Figures for the years 2009 to 2012 relate to dividends paid in the following year. For 2013, the figures relate to the proposed dividend.
2 Xetra prices.
3 See page 107 for the calculation.
4 Prior-year figures adjusted to reflect application of IAS 19R.
5 Based on the consolidated financial statements (Earnings per share) for the calculation. Prior-year figures adjusted in accordance with IAS 33.26.
6 Based on the weighted average number of ordinary and preferred shares outstanding (basic).
7 Based on the total number of ordinary and preferred shares on December 31 (excluding potential shares from the mandatory convertible note).
8 Ratio of year-end closing price to earnings per share.
9 Using year-end closing prices of the ordinary shares.
10 Dividend per share based on the year-end closing price.
11 Order book turnover on the Xetra electronic trading platform (Deutsche Börse).
HIGHLIGHTS IN THE INVESTOR RELATIONS CALENDAR

At the Annual Media and Investor Conference in Wolfsburg on March 14, 2013, the Group’s Board of Management looked back on a successful fiscal year in 2012, answered questions from media representatives, analysts and investors, and gave its outlook for the Company and the industry. The day before, on March 13, members of the Board of Management of AUDI AG presented analysts and investors with information on the premium brand’s performance and strategy in the Audi Technology Center in Munich.

A Capital Markets Day was held in Mladá Boleslav, Czech Republic, at the beginning of June 2013. The areas of focus were the presentation of the ŠKODA brand and the Volkswagen Group’s Eastern European strategy, in which the Czech brand plays a key role. The CEO of ŠKODA and other members of the board of management and senior executives provided a comprehensive overview of the company’s development and objectives. The director-general of Volkswagen Group Rus explained the strategic focus of the Group in Russia, Eastern Europe’s most important market.

The Volkswagen Group received the Corporate Finance Award for fiscal year 2012 from financial journal “Börsen-Zeitung” on June 28, 2013. The award recognizes outstanding transactions from a corporate strategy and financing perspective. The jury cited the successful creation of the integrated automotive group with Porsche, the expansion of the commercial vehicles business by acquiring a majority stake in MAN SE and the successful issue of a mandatory convertible note as the reasons for its choice.

On September 9, 2013, one day before the opening of the Frankfurt Motor Show, members of the Group Board of Management and members of the brand boards of management provided in-depth briefings to our analysts and investors on the status of the implementation of our Strategy 2018 at another Capital Markets Day. The chief development officer of the Volkswagen Passenger Cars brand gave a talk on sustainable mobility and efficient drive technologies, which was followed by a presentation by the CEO of Volkswagen Financial Services AG on the growing importance of attractive financial services at the global level. The Board of Management member with responsibility for China spoke at length about what is now the Group’s largest sales market. The closing speech was given by the Chief Financial Officer of the Volkswagen Group, who outlined the Group’s brand and product strategy as well as its results of operations. In the evening, our guests at the Volkswagen Group Night were given an overview of new features of the Group brands, with electric and hybrid vehicles in the spotlight.
The Volkswagen Group’s refinancing activities in 2013 continued to focus on the diversification of its issues, in particular using instruments with an equity component and longer maturities. We intend to further diversify our refinancing instruments in the future as well.

In this connection, for the first time, we issued unsecured subordinated hybrid notes with a principal amount of €2.0 billion. The perpetual hybrid notes were issued in two tranches and can only be called by the issuer. The first call date for the first tranche with a volume of €1.25 billion is after five years, and the first call date for the second tranche of €0.75 billion is after ten years.

In addition, the €2.5 billion mandatory convertible note that was successfully issued in November 2012 entitling and obliging the holders to subscribe for Volkswagen preferred shares was supplemented in June 2013 by another €1.2 billion mandatory convertible note.

To access new groups of investors, Volkswagen also placed an increasing number of fixed-rate bonds with a range of maturities of more than five years in the market. Here, we additionally offered maturities of more than 20 years for the first time. The maturity structure of the bonds we issued is shown in the chart above.

Although our activities are still concentrated geographically on the European refinancing market, we have also placed issues outside of Europe. Specifically, Volkswagen was active in the US capital market with a USD 2.15 billion issue.

In the asset-backed securities segment, the Volkswagen Group issued securities with a total value of €10.7 billion that are focused on Europe and North America.

We generally eliminate interest rate and foreign currency risk in all our financing transactions by entering into derivatives contracts at the same time.

The table below shows how our money and capital market programs were utilized as of December 31, 2013 and illustrates the financial flexibility of the Volkswagen Group:

<table>
<thead>
<tr>
<th>Program</th>
<th>Authorized volume € billion</th>
<th>Amount utilized on Dec. 31, 2013 € billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial paper</td>
<td>25.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Bonds</td>
<td>97.9</td>
<td>53.8</td>
</tr>
<tr>
<td>of which USD issues in the USA</td>
<td></td>
<td>8.1</td>
</tr>
<tr>
<td>of which hybrid issues</td>
<td></td>
<td>2.0</td>
</tr>
<tr>
<td>Asset-backed securities</td>
<td>49.3</td>
<td>19.1</td>
</tr>
</tbody>
</table>
The syndicated credit line of €5.0 billion agreed in July 2011 including two options for extension by a year in each case was extended for the second time by one year to July 2018 (from July 2016 to July 2018 with a reduced amount of €4.916 billion). The credit line remains unused.

Syndicated credit lines worth a total of €3.2 billion at other Group companies have also not been drawn down. In addition, Group companies arranged bilateral credit lines with national and international banks in various other countries for a total of €9.3 billion, of which €2.1 billion has not been drawn down.

These extensive financing measures ensure the solvency of the Volkswagen Group at all times.

### RATINGS

<table>
<thead>
<tr>
<th></th>
<th>VOLKSWAGEN AG</th>
<th>VOLKSWAGEN FINANCIAL SERVICES AG</th>
<th>VOLKSWAGEN BANK GMBH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard &amp; Poor’s</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>A–2</td>
<td>A–2</td>
<td>A–2</td>
</tr>
<tr>
<td>Long-term</td>
<td>A–</td>
<td>A–</td>
<td>A–</td>
</tr>
<tr>
<td>Outlook</td>
<td>positive</td>
<td>positive</td>
<td>positive</td>
</tr>
<tr>
<td><strong>Moody’s Investors Service</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>P–2</td>
<td>P–2</td>
<td>P–2</td>
</tr>
<tr>
<td>Long-term</td>
<td>A3</td>
<td>A3</td>
<td>A3</td>
</tr>
<tr>
<td>Outlook</td>
<td>positive</td>
<td>positive</td>
<td>positive</td>
</tr>
</tbody>
</table>

oekom research AG, which issues ratings for companies in the sustainable investment segment, rates Volkswagen at B– on a twelve-point scale ranging from A+ to D–. Volkswagen thus enjoys “prime status” as one of the leading companies in its industry. oekom research rates a company’s social and environmental performance in connection with the corporate ratings performed on the basis of over 100 criteria selected for specific industries.
Volkswagen in Sustainability Rankings and Indices

As analysts and investors view corporate social responsibility (CSR) and sustainability performance as leading indicators of forward-looking corporate leadership, they also increasingly base their recommendations and decisions on companies’ CSR and sustainability profile. Sustainability ratings are particularly well suited to evaluating a company’s environmental, social and economic performance. If a company achieves the highest scores in these ratings, it not only sends a clear signal to its stakeholders, but also raises its attractiveness as an employer and the motivation of its existing employees.

In 2013, Volkswagen ranked higher than in the previous year in the most important international rankings and corresponding indices, obtaining a leading position in its sector. The Group was listed as the most sustainable automobile manufacturer in RobecoSAM AG’s leading global sustainability rating. The Company was thus classified as an industry group leader for the automotive industry in the Dow Jones Sustainability indices. RobecoSAM AG examines performance in the field of economic, environmental and social sustainability. Volkswagen was named the best in its industry in the categories of innovation management, climate strategy and corporate citizenship, among others. As in the previous year, MAN is the only German company from the industrial engineering sector to be represented in the Dow Jones Sustainability World and the Dow Jones Sustainability Europe indices, and succeeded in lifting its rating even higher compared with the previous year.

The Volkswagen Group also improved its position in the Carbon Disclosure Project (CDP). The Volkswagen Group was included for the first time in both the CDP Global 500 Climate Performance Leadership Index and the CDP Global 500 Climate Disclosure Leadership Index.

In addition to the indices shown in the table on page 90, Volkswagen was represented in the following sustainability indices as of December 31, 2013: ECPI Ethical Index Europe, ECPI Ethical Index EMU, ECPI Ethical Index Global, Ethibel Sustainability Index Excellence Global, Ethibel Sustainability Index Excellence Europe, Euronext-Vigeo Eurozone 120 Index, Global Compact 100 and STOXX Global ESG Environmental Leaders Index, STOXX Global ESG Social Leaders Index, STOXX Global ESG Governance Leaders Index.

Further information on sustainability

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

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

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

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

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

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

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

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

### Key Figures for 2013 by Segment

<table>
<thead>
<tr>
<th>€ million</th>
<th>Passenger Cars</th>
<th>Commercial Vehicles</th>
<th>Power Engineering</th>
<th>Financial Services</th>
<th>Total segments</th>
<th>Reconciliation</th>
<th>Volkswagen Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>157,048</td>
<td>31,076</td>
<td>3,851</td>
<td>22,004</td>
<td>213,979</td>
<td>−16,972</td>
<td>197,007</td>
</tr>
<tr>
<td>Segment profit or loss (operating profit or loss)</td>
<td>11,053</td>
<td>1,044</td>
<td>−250</td>
<td>1,863</td>
<td>13,711</td>
<td>−2,040</td>
<td>11,671</td>
</tr>
<tr>
<td>as a percentage of sales revenue</td>
<td>7.0</td>
<td>3.4</td>
<td>−6.5</td>
<td>8.5</td>
<td></td>
<td></td>
<td>5.9</td>
</tr>
<tr>
<td>Acquisition of property, plant and equipment, and capitalized development costs</td>
<td>13,544</td>
<td>1,329</td>
<td>137</td>
<td>345</td>
<td>15,355</td>
<td>52</td>
<td>15,407</td>
</tr>
</tbody>
</table>
GROUP MANAGEMENT REPORT
Results of Operations, Financial Position and Net Assets

Changes to the Reporting Structure and Amendments to IAS 19
Since January 1, 2013, we have combined the light commercial vehicles, trucks and buses, and power engineering businesses into a new Commercial Vehicles/Power Engineering Business Area.

IAS 19R changes the way employee benefits are accounted for. For the Volkswagen Group, this led to adjustments to bonus payments relating to partial retirement agreements in particular.

The corresponding prior-year figures in the income statement, the cash flow statement and the balance sheet have been adjusted.

Control and Profit and Loss Transfer Agreement with MAN SE
Following its approval by the Annual General Meeting of MAN SE on June 6, 2013 and its entry in the commercial register on July 16, 2013, the control and profit and loss transfer agreement in accordance with section 291 of the Aktiengesetz (AktG – German Stock Corporation Act) between MAN SE, as the controlled company, and Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, as the controlling company, entered into force. The obligation to transfer profits is effective as of the fiscal year beginning on January 1, 2014; the obligation to absorb losses is effective for the first time as of fiscal year 2013. As a consequence of the approval by the Annual General Meeting of MAN SE of the control and profit and loss transfer agreement, a liability in the total amount of €3.1 billion (€80.89 per share) was recognized in the balance sheet for the obligation to acquire the shares held by the remaining free float shareholders of MAN; equity was reduced accordingly.

In July 2013, Truck & Bus GmbH was served with an application in accordance with section 1 no. 1 of the Spruchverfahrensgesetz (SpruchG – German Award Proceedings Act) for judicial review of the appropriateness of the cash settlement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG for the noncontrolling interest shareholders of MAN SE attributable to the control and profit and loss transfer agreement between MAN SE and Truck & Bus GmbH, which was entered in MAN SE’s commercial register on July 16, 2013. The expected present value of the minimum statutory interest rate was also recognized as a liability in the amount of €0.5 billion as a result of the opening of the award proceedings in connection with the control and profit and loss transfer agreement.

Results of Operations
The Volkswagen Group generated sales revenue of €197.0 billion in 2013, 2.2% higher than in 2012. Although the slight decline in volumes – excluding the Chinese joint ventures – and in particular negative exchange rate effects depressed sales revenue year-on-year,

Income Statement by Division

<table>
<thead>
<tr>
<th>€ million</th>
<th>VOLKSWAGEN GROUP</th>
<th>AUTOMOTIVE1</th>
<th>FINANCIAL SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2013</strong></td>
<td><strong>2012</strong></td>
<td><strong>2013</strong></td>
<td><strong>2012</strong></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>197,007</td>
<td>192,676</td>
<td>175,003</td>
</tr>
<tr>
<td>Gross profit</td>
<td>35,600</td>
<td>35,154</td>
<td>30,522</td>
</tr>
<tr>
<td>Distribution expenses</td>
<td>–19,655</td>
<td>–18,850</td>
<td>–18,604</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>–6,888</td>
<td>–6,220</td>
<td>–5,682</td>
</tr>
<tr>
<td>Net other operating income</td>
<td>2,613</td>
<td>1,415</td>
<td>3,571</td>
</tr>
<tr>
<td>Operating profit</td>
<td>11,671</td>
<td>11,498</td>
<td>9,807</td>
</tr>
<tr>
<td>Share of profits and losses of equity-accounted investments</td>
<td>3,588</td>
<td>13,568</td>
<td>3,513</td>
</tr>
<tr>
<td>Other financial result</td>
<td>–2,831</td>
<td>421</td>
<td>–2,858</td>
</tr>
<tr>
<td>Financial result</td>
<td>757</td>
<td>13,989</td>
<td>655</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>12,428</td>
<td>25,487</td>
<td>10,462</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>9,145</td>
<td>21,881</td>
<td>7,590</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>52</td>
<td>169</td>
<td>–9</td>
</tr>
<tr>
<td>Profit attributable to Volkswagen AG hybrid capital investors</td>
<td>27</td>
<td>–</td>
<td>27</td>
</tr>
<tr>
<td>Profit attributable to Volkswagen AG shareholders</td>
<td>9,066</td>
<td>21,712</td>
<td>7,572</td>
</tr>
</tbody>
</table>

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

2 Prior-year figures adjusted to reflect application of IAS 19R.
these effects were more than offset by the initial full-year consolidation of Porsche and the good business performance by the Financial Services Division. The largest proportion of sales revenue, at 80.9% (80.4%), was recorded outside of Germany.

Gross profit was slightly up on the previous year, at €35.6 billion (€35.2 billion). Depreciation charges resulting from increased capital expenditures, higher research and development costs, negative mix effects as well as contingency reserves had a negative impact. The gross margin was virtually unchanged at 18.1% (18.2%).

The Volkswagen Group generated an operating profit of €11.7 billion in the fiscal year 2013, surpassing the record prior-year figure (€11.5 billion). Distribution and administrative expenses increased as a result of the initial full-year consolidation of Porsche.

At €2.6 billion, other operating income exceeded the prior-year figure, mainly as a result of lower expenses related to exchange rate factors. The operating return on sales was 5.9% (6.0%).

At €12.4 billion, the Volkswagen Group’s profit before tax in 2013 was down on the prior-year period, when measurement effects in connection with the integration of Porsche (€12.3 billion) had a clearly positive impact on the financial result. The return on sales before tax declined from 13.2% to 6.3%. Profit after tax consequently declined by €12.7 billion to €9.1 billion. The tax rate rose to 26.4% (14.1%); the effects from the updated measurement of options relating to Porsche and the remeasurement of the existing shares held did not affect tax expense in the previous year.

Results of operations in the Automotive Division

The Automotive Division’s sales revenue rose slightly year-on-year to €175.0 billion (€172.8 billion). Declining volumes and negative exchange rate effects were more than offset mainly by the initial full-year consolidation of Porsche. As our Chinese joint ventures are accounted for using the equity method, the Group’s positive business growth in the Chinese passenger car market is mainly reflected in the Group’s sales revenue only by deliveries of vehicles and vehicle parts.

Gross profit in the Automotive Division was down slightly on the previous year at €30.5 billion (€30.7 billion). Negative effects from lower sales volumes, mix, deteriorations in exchange rates and higher depreciation charges as a result of increased capital expenditures, as well as higher research and development costs, particularly for new drive concepts, were not offset by positive effects from the consolidation of Porsche and improved product costs. Contingency reserves running into the hundreds of millions of euros in each case were also recognized in profit or loss in the areas of passenger cars and power engineering. Write-downs relating to purchase price allocations also had a negative impact, but to a lesser extent than in the previous year, as expected.

Distribution and administrative expenses increased by 3.7% and 10.2% year-on-year respectively. The ratio of both distribution and administrative expenses to sales revenue also increased. This increase was mainly attributable to the initial full-year inclusion of the companies consolidated in the previous year. Currency-related factors saw other operating income improve to €3.6 billion (€2.3 billion).

The Automotive Division generated an operating profit of €9.8 billion (€9.9 billion) in 2013. At 5.6%, the operating return on sales was on a level with the previous year (5.7%). The extremely positive business growth of our Chinese joint ventures is mainly reflected in the Group’s operating profit only by deliveries of vehicles and vehicle parts. The profit recorded by the joint venture companies is accounted for in the financial result using the equity method.

The financial result declined to €0.7 billion (€14.0 billion) in the reporting period. In the previous year, the financial result had been positively affected especially by the updating of the underlying assumptions used in the valuation models for measuring the put/call rights relating to Porsche Holding Stuttgart GmbH and the remeasurement at the contribution date of the shares in Porsche AG already held indirectly (€12.3 billion).
Following the opening of the award proceedings in connection with the control and profit and loss transfer agreement with MAN SE in July 2013, the expected present value of the minimum statutory interest rate was recognized in the other financial result (€0.5 billion). Derivative financial instruments had a negative effect. Income from the equity-accounted Chinese joint ventures included in the consolidated financial statements was up on the high prior-year figure.

**RESULTS OF OPERATIONS IN THE PASSENGER CARS BUSINESS AREA**

<table>
<thead>
<tr>
<th>€ million</th>
<th>2013</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>140,077</td>
<td>138,571</td>
</tr>
<tr>
<td>Gross profit</td>
<td>25,872</td>
<td>25,886</td>
</tr>
<tr>
<td>Operating profit</td>
<td>9,013</td>
<td>8,968</td>
</tr>
</tbody>
</table>

* Prior-year figures adjusted to reflect application of IAS 19R.

The Passenger Cars Business Area generated sales revenue of €140.1 billion in 2013, which was up slightly on the previous year (€138.6 billion). At €25.9 billion, gross profit was on a level with the high prior-year figure (€25.9 billion). The decline in volumes (excluding the Chinese joint ventures), deteriorations in exchange rates and mix, higher depreciation charges as a result of increased capital expenditures, higher research and development costs, and the recognition of contingency reserves were negative factors. The initial full-year consolidation of Porsche in 2013, optimized product costs and lower write-downs relating to purchase price allocations had a positive effect. Operating profit in the Passenger Cars Business Area amounted to €9.0 billion, as in the previous year. The operating return on sales was 6.4% (6.5%).

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

<table>
<thead>
<tr>
<th>€ million</th>
<th>2013</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>34,927</td>
<td>34,251</td>
</tr>
<tr>
<td>Gross profit</td>
<td>4,650</td>
<td>4,777</td>
</tr>
<tr>
<td>Operating profit</td>
<td>794</td>
<td>945</td>
</tr>
</tbody>
</table>

* Prior-year figures adjusted to reflect application of IAS 19R.

The Commercial Vehicles/Power Engineering Business Area generated sales revenue of €34.9 billion in fiscal 2013 (€34.3 billion), of which €3.9 billion (€4.2 billion) was attributable to the Power Engineering segment. At €4.7 billion, gross profit was down slightly on the previous year (€4.8 billion). Operating profit declined to €0.8 billion (€0.9 billion), while the operating return on sales decreased from 2.8% to 2.3%. In addition to the write-downs relating to purchase price allocation for MAN and Scania, this was negatively impacted by increased competitive pressure on prices and margins. At €–250 million (€162 million), operating profit in the Power Engineering segment was well below the prior-year figure, and was negatively impacted by project-specific contingency reserves and declines in the license and after sales businesses.

**Results of operations in the Financial Services Division**

Sales revenue in the Financial Services Division amounted to €22.0 billion in fiscal year 2013, 10.8% higher than in the previous year due to growth in business volumes and the initial full-year consolidation of Porsche’s financial services business.

Gross profit improved by 13.1% to €5.1 billion. Distribution and administrative expenses increased year-on-year in the reporting period, while the ratio of both distribution and administrative expenses to sales revenue rose slightly. Alongside higher volumes and the consolidation of Porsche, this was attributable to additional expenses to comply with stricter banking supervision requirements. Other operating income amounted to €–1.0 billion (€–0.9 billion). The Financial Services Division once again made a significant contribution to the Group’s earnings with an operating profit of €1.9 billion, up 17.6% on the previous year. The operating return on sales increased to 8.5% (8.0%), and return on equity before tax rose year-on-year to 14.3% (13.1%).

**PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT**

Financial management at the Volkswagen Group covers liquidity management, currency, interest rate and commodity risk management, as well as credit and country risk management. It is performed centrally for all Group companies by Group Treasury, based on internal directives and risk parameters. The Scania subgroup is not coordinated centrally due to legal restrictions related to stock exchange law. The integration process for MAN has not yet been fully completed.

With regard to liquidity, the goals of financial management are to ensure that the Volkswagen Group remains solvent at all times and to achieve an adequate return from the investment of surplus funds. The Group’s material companies in Europe also use cash pooling to optimize the use of existing liquidity. This enables Group companies to pool the balances accumulating on cash pooling accounts on a daily basis by closing out these accounts and transferring both the positive and negative balances to a target account at Group Treasury. Currency, interest rate and commodity risk management is designed to hedge the prices on which investment, production and sales plans are based using derivative financial instruments. Credit and country risk management aims to use diversification to avoid exposing the Volkswagen Group to the risk of loss or default. To achieve this, internal limits are defined for the volume of business per counterparty when entering into
The Volkswagen Group’s gross cash flow was €24.4 billion in fiscal year 2013, up 21.5% on the prior-year figure. Funds tied up in working capital amounted to €11.8 billion, €1.1 billion lower than in the previous year. Cash flows from operating activities consequently rose by €5.4 billion to €12.6 billion.

At €14.9 billion, the Volkswagen Group’s investing activities attributable to operating activities in fiscal year 2013 were down 11.3% on the previous year, which had been characterized by the contribution in full of Porsche and the acquisition of Ducati. Investments in property, plant and equipment rose year-on-year to €11.4 billion (€10.5 billion). Net cash flow improved by €7.3 billion to €–2.3 billion.

Cash inflows from financing activities amounted to €9.0 billion (€13.7 billion). This figure includes the mandatory convertible note issued in June and the hybrid notes placed in August, which increased net liquidity by €1.1 billion and €2.0 billion, respectively. In the previous year, the increase in the stake in MAN SE led to a cash outflow of approximately €2.1 billion, while the mandatory convertible note issued in November 2012 increased net liquidity by €2.0 billion.

Cash and cash equivalents in the Volkswagen Group as reported in the cash flow statement amounted to €22.0 billion as of the end of the fiscal year, up €4.2 billion on the prior-year figure. Gross liquidity rose by €7.0 billion to €39.2 billion. Net liquidity in the Group was €–82.3 billion, compared with €–85.5 billion as of December 31, 2012.

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Cash and cash equivalents in the Volkswagen Group as reported in the cash flow statement amounted to €22.0 billion as of the end of the fiscal year, up €4.2 billion on the prior-year figure. Gross liquidity rose by €7.0 billion to €39.2 billion. Net liquidity in the Group was €–82.3 billion, compared with €–85.5 billion as of December 31, 2012.
# Cash Flow Statement by Division

## Volkswagen Group

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents at beginning of period</strong></td>
<td>17,794</td>
<td>16,495</td>
<td>14,788</td>
<td>12,668</td>
<td>3,005</td>
<td>3,827</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>12,428</td>
<td>25,487</td>
<td>10,462</td>
<td>23,897</td>
<td>1,966</td>
<td>1,590</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>14,686</td>
<td>13,135</td>
<td>10,786</td>
<td>9,982</td>
<td>3,900</td>
<td>3,152</td>
</tr>
<tr>
<td>Change in pension provisions</td>
<td>179</td>
<td>95</td>
<td>168</td>
<td>87</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Other noncash income/expense and reclassifications</td>
<td>218</td>
<td>–13,575</td>
<td>–107</td>
<td>–13,678</td>
<td>325</td>
<td>103</td>
</tr>
<tr>
<td><strong>Gross cash flow</strong></td>
<td>24,404</td>
<td>20,085</td>
<td>18,688</td>
<td>15,774</td>
<td>5,716</td>
<td>4,311</td>
</tr>
<tr>
<td>Change in working capital</td>
<td>–11,809</td>
<td>–12,876</td>
<td>1,925</td>
<td>458</td>
<td>–13,733</td>
<td>–13,334</td>
</tr>
<tr>
<td>Change in inventories</td>
<td>–1,021</td>
<td>460</td>
<td>–729</td>
<td>1,044</td>
<td>–292</td>
<td>–584</td>
</tr>
<tr>
<td>Change in receivables</td>
<td>–1,651</td>
<td>–56</td>
<td>–1,163</td>
<td>114</td>
<td>–489</td>
<td>–171</td>
</tr>
<tr>
<td>Change in liabilities</td>
<td>2,363</td>
<td>–236</td>
<td>2,118</td>
<td>–627</td>
<td>245</td>
<td>391</td>
</tr>
<tr>
<td>Change in other provisions</td>
<td>2,300</td>
<td>375</td>
<td>2,244</td>
<td>61</td>
<td>59</td>
<td>314</td>
</tr>
<tr>
<td>Change in leasing and rental assets (excluding depreciation)</td>
<td>–7,112</td>
<td>–5,606</td>
<td>–465</td>
<td>–232</td>
<td>–6,647</td>
<td>–5,374</td>
</tr>
<tr>
<td>Change in financial services receivables</td>
<td>–6,688</td>
<td>–7,814</td>
<td>–77</td>
<td>96</td>
<td>–6,611</td>
<td>–7,910</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td>12,595</td>
<td>7,209</td>
<td>20,612</td>
<td>16,232</td>
<td>–8,017</td>
<td>–9,023</td>
</tr>
<tr>
<td>Cash flows from investing activities attributable to operating activities</td>
<td>–14,936</td>
<td>–16,840</td>
<td>–16,199</td>
<td>–16,455</td>
<td>1,263</td>
<td>–385</td>
</tr>
<tr>
<td>capitalized development costs</td>
<td>–4,021</td>
<td>–2,615</td>
<td>–4,021</td>
<td>–2,615</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>acquisition and disposal of equity investments</td>
<td>–151</td>
<td>–4,105</td>
<td>–1,702</td>
<td>–3,927</td>
<td>1,551</td>
<td>–179</td>
</tr>
<tr>
<td><strong>Net cash flow</strong></td>
<td>–2,341</td>
<td>–9,631</td>
<td>4,413</td>
<td>–223</td>
<td>–6,754</td>
<td>–9,408</td>
</tr>
<tr>
<td>Change in investments in securities and loans</td>
<td>–1,954</td>
<td>–2,643</td>
<td>–1,298</td>
<td>–111</td>
<td>–656</td>
<td>–2,532</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>–16,890</td>
<td>–19,482</td>
<td>–17,497</td>
<td>–16,565</td>
<td>607</td>
<td>–2,917</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>8,973</td>
<td>13,712</td>
<td>1,734</td>
<td>2,551</td>
<td>7,239</td>
<td>11,161</td>
</tr>
<tr>
<td>of which: capital transactions with noncontrolling interests</td>
<td>0</td>
<td>–2,101</td>
<td>0</td>
<td>–2,101</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Capital contributions/capital redemptions</td>
<td>3,067</td>
<td>2,046</td>
<td>3,015</td>
<td>1,351</td>
<td>52</td>
<td>696</td>
</tr>
<tr>
<td><strong>Net change in cash and cash equivalents</strong></td>
<td>4,216</td>
<td>1,298</td>
<td>4,497</td>
<td>2,120</td>
<td>–281</td>
<td>–822</td>
</tr>
<tr>
<td>Cash and cash equivalents at Dec. 31</td>
<td>22,009</td>
<td>17,794</td>
<td>19,285</td>
<td>14,788</td>
<td>2,724</td>
<td>3,005</td>
</tr>
<tr>
<td>Securities, loans and time deposits</td>
<td>17,177</td>
<td>14,352</td>
<td>9,515</td>
<td>8,110</td>
<td>7,661</td>
<td>6,242</td>
</tr>
<tr>
<td>Gross liquidity</td>
<td>39,186</td>
<td>32,146</td>
<td>28,800</td>
<td>22,898</td>
<td>10,386</td>
<td>9,248</td>
</tr>
<tr>
<td><strong>Net liquidity</strong></td>
<td>–82,318</td>
<td>–85,517</td>
<td>16,869</td>
<td>10,573</td>
<td>–99,186</td>
<td>–96,090</td>
</tr>
</tbody>
</table>

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Prior-year figures adjusted to reflect application of IAS 19R.
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 to investing activities.
4 Before consolidation of intragroup transactions: €21,270 million (€17,029 million).
5 Net cash flow: cash flows from operating activities, net of cash flows from investing activities attributable to operating activities.
6 Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.
Overall, the Automotive Division recorded a cash inflow from financing activities of €1.7 billion (€2.6 billion), reflecting the lower proceeds from the issuance of bonds and higher cash outflows from the repayment of bonds compared with the previous year.

At €16.9 billion, net liquidity as of December 31, 2013 in the Automotive Division exceeded the prior-year figure by €6.3 billion.

**FINANCIAL POSITION IN THE PASSENGER CARS BUSINESS AREA**

<table>
<thead>
<tr>
<th>€ million</th>
<th>2013</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross cash flow</td>
<td>16,376</td>
<td>13,063</td>
</tr>
<tr>
<td>Change in working capital</td>
<td>1,841</td>
<td>1,895</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>18,218</td>
<td>14,958</td>
</tr>
<tr>
<td>Cash flows from investing activities attributable to operating activities</td>
<td>–14,838</td>
<td>–14,973</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>3,380</td>
<td>–15</td>
</tr>
</tbody>
</table>

* Prior-year figures adjusted to reflect application of IAS 19R.

Gross cash flow in the Passenger Cars Business Area amounted to €16.4 billion in fiscal year 2013, 25.4% higher than in the previous year due to earnings-related factors and lower income tax payments. The change in working capital was on a level with the 2012 figure at €1.8 billion. Cash flows from operating activities rose by 21.8% to €18.2 billion. At €14.8 billion, the cash outflow from investing activities attributable to operating activities decreased slightly compared with the previous year (€15.0 billion), which was affected by the integration of Porsche and the acquisition of Ducati. Investments in property, plant and equipment and capitalized development costs rose to €10.0 billion (€9.2 billion) and €3.6 billion (€2.3 billion), respectively. Net cash flow improved by €3.4 billion to €3.4 billion.

**FINANCIAL POSITION IN THE COMMERCIAL VEHICLES/POWER ENGINEERING BUSINESS AREA**

<table>
<thead>
<tr>
<th>€ million</th>
<th>2013</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross cash flow</td>
<td>2,311</td>
<td>2,711</td>
</tr>
<tr>
<td>Change in working capital</td>
<td>83</td>
<td>–1,438</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>2,395</td>
<td>1,274</td>
</tr>
<tr>
<td>Cash flows from investing activities attributable to operating activities</td>
<td>–1,361</td>
<td>–1,482</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>1,033</td>
<td>–208</td>
</tr>
</tbody>
</table>

* Prior-year figures adjusted to reflect application of IAS 19R.

Gross cash flow in the Commercial Vehicles/Power Engineering Business Area was €2.3 billion, €0.4 billion less than in the previous year. Funds of €0.1 billion were released from working capital in fiscal year 2013, after funds were tied up in working capital in the previous year. Cash flows from operating activities rose by 88.0% to €2.4 billion. The cash outflow from investing activities attributable to operating activities decreased to €1.4 billion (€1.5 billion). Net cash flow improved considerably by €1.2 billion to €1.0 billion.

**FINANCIAL POSITION IN THE COMMERCIAL VEHICLES/POWER ENGINEERING BUSINESS AREA**

**Net Assets**

At €324.3 billion, the Volkswagen Group’s total assets as of December 31, 2013 exceeded the prior-year figure by 4.8%. The structure of the consolidated balance sheet as of the reporting date can be seen from the chart on page 102. The Volkswagen Group’s equity ratio rose slightly to 27.8% (26.5%).

As of the end of the fiscal year, the Group had off-balance-sheet liabilities in the form of contingent liabilities in the amount of €4.2 billion (€4.6 billion) and other financial obligations in the amount of €24.4 billion (€22.1 billion). The latter primarily result from purchase commitments for property, plant and equipment, as well as obligations under long-term leasing and rental contracts and irrevocable credit commitments to customers.
**CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31**

<table>
<thead>
<tr>
<th>€ million</th>
<th>VOLKSWAGEN GROUP</th>
<th>AUTOMOTIVE¹</th>
<th>FINANCIAL SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2012²</td>
<td>2013</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>202,141</td>
<td>196,457</td>
<td>122,438</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>59,243</td>
<td>59,112</td>
<td>59,007</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>42,389</td>
<td>39,424</td>
<td>40,632</td>
</tr>
<tr>
<td>Leasing and rental assets</td>
<td>22,259</td>
<td>20,034</td>
<td>2,642</td>
</tr>
<tr>
<td>Financial services receivables</td>
<td>51,198</td>
<td>49,785</td>
<td>–602</td>
</tr>
<tr>
<td>Other receivables and financial assets³</td>
<td>27,053</td>
<td>28,101</td>
<td>20,759</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td>122,192</td>
<td>113,061</td>
<td>68,320</td>
</tr>
<tr>
<td>Inventories</td>
<td>28,653</td>
<td>28,674</td>
<td>25,580</td>
</tr>
<tr>
<td>Financial services receivables</td>
<td>38,386</td>
<td>36,911</td>
<td>–844</td>
</tr>
<tr>
<td>Other receivables and financial assets</td>
<td>23,483</td>
<td>21,555</td>
<td>16,458</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>8,492</td>
<td>7,433</td>
<td>6,675</td>
</tr>
<tr>
<td>Cash, cash equivalents and time deposits</td>
<td>23,178</td>
<td>18,488</td>
<td>20,450</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>324,333</td>
<td>309,518</td>
<td>190,758</td>
</tr>
<tr>
<td><strong>Equity and Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>90,037</td>
<td>81,995</td>
<td>75,984</td>
</tr>
<tr>
<td>Equity attributable to Volkswagen AG shareholders</td>
<td>85,730</td>
<td>77,682</td>
<td>72,100</td>
</tr>
<tr>
<td>Equity attributable to Volkswagen AG hybrid capital investors</td>
<td>2,004</td>
<td>–</td>
<td>2,004</td>
</tr>
<tr>
<td><strong>Equity attributable to Volkswagen AG shareholders and hybrid capital investors</strong></td>
<td>87,733</td>
<td>77,682</td>
<td>74,103</td>
</tr>
<tr>
<td>Noncontrolling interests⁴</td>
<td>2,304</td>
<td>4,313</td>
<td>1,881</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td>115,672</td>
<td>121,996</td>
<td>65,290</td>
</tr>
<tr>
<td>Noncurrent financial liabilities</td>
<td>61,517</td>
<td>63,603</td>
<td>15,913</td>
</tr>
<tr>
<td>Provisions for pensions</td>
<td>21,774</td>
<td>23,939</td>
<td>21,481</td>
</tr>
<tr>
<td>Other noncurrent liabilities⁵</td>
<td>32,380</td>
<td>34,454</td>
<td>27,896</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td>118,625</td>
<td>105,526</td>
<td>49,484</td>
</tr>
<tr>
<td>Put options and compensation rights granted to noncontrolling interest shareholders</td>
<td>3,638</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Current financial liabilities</td>
<td>59,987</td>
<td>54,060</td>
<td>–3,981</td>
</tr>
<tr>
<td>Trade payables</td>
<td>18,024</td>
<td>17,268</td>
<td>16,582</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>36,976</td>
<td>34,198</td>
<td>33,245</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>324,333</td>
<td>309,518</td>
<td>190,758</td>
</tr>
</tbody>
</table>

¹ Including allocation of consolidation adjustments between the Automotive and Financial Services divisions, primarily intragroup loans.
² Prior-year figures adjusted to reflect application of IAS 19R.
³ Including equity-accounted investments and deferred taxes.
⁴ Following the approval by the Annual General Meeting of MAN SE of the conclusion of a control and profit and loss transfer agreement on June 6, 2013, the noncontrolling interests in the equity of MAN SE were derecognized from Group equity as a capital transaction involving a change in ownership interest. At the same time, a liability was recognized as a separate item of current liabilities in accordance with the cash settlement offer.
⁵ Including deferred taxes.
The Automotive Division’s noncurrent assets – in particular intangible assets – were on a level with the previous year at the end of the reporting period. Property, plant and equipment rose by 6.9%. Within the other noncurrent assets item, equity-accounted investments rose sharply from €5.4 billion to €7.6 billion due to the acquisition of the LeasePlan interest and the strong performance of the Chinese joint ventures. Current assets were up 11.5% year-on-year; within this item, trade receivables rose by 12.8% as a result of the increase in business. Cash and cash equivalents amounted to €20.5 billion as of December 31, 2013, €5.0 billion higher than in the previous year. Following the approval by the Annual General Meeting of MAN SE of the control and profit and loss transfer agreement, a liability was recognized for the obligation to acquire the shares held by the remaining free float shareholders of MAN in accordance with the cash settlement offer in the amount of €3.1 billion. This did not affect liquidity. Equity was reduced accordingly; the noncontrolling interests in MAN SE were derecognized. The remaining noncontrolling interests are largely attributable to Scania shareholders.

The Automotive Division’s equity amounted to €76.0 billion at the end of 2013, up 10.7% on the prior-year figure. The increase was attributable to positive earnings growth, lower actuarial losses from the measurement of pension provisions, the issuance of a mandatory convertible note and the hybrid notes, as well as positive effects from the fair value measurement of derivative financial instruments. Effects from the derecognition of the noncontrolling interests in MAN SE, dividend payments and foreign exchange differences had an offsetting effect. The division’s equity ratio rose year-on-year to 39.8% (37.9%).

At €65.3 billion, noncurrent liabilities declined by 4.8% as against December 31, 2012. This figure includes provisions for pensions, which decreased by €2.1 billion to €21.5 billion as a result of the actuarial remeasurement. Following the derecognition of the noncontrolling interests in MAN, a liability in the amount of €3.1 billion was recognized under the position “Put options and compensation rights granted to noncontrolling interest shareholders” in current liabilities for the obligation to acquire the shares held by the remaining free float shareholders of MAN in accordance with the cash settlement offer. Following the opening of the award proceedings in connection with the control and profit and loss transfer agreement with MAN SE, this obligation had to be increased by the expected present value of the minimum statutory interest rate in the amount of €0.5 billion. Current liabilities were up on the previous year at €49.5 billion (€43.7 billion). The increase was mainly attributable to reclassifications from noncurrent to current liabilities due to shorter remaining maturities. The figures for the Automotive Division also contain the elimination of intragroup transactions between the Automotive and Financial Services divisions. As the current financial liabilities for the primary Automotive Division were lower than the loans granted to the Financial Services Division, a negative amount was disclosed for the reporting period.

Total assets were €190.8 billion as of December 31, 2013, 5.4% higher than at year-end 2012.
At €94.9 billion, noncurrent assets in the Passenger Cars Business Area were up 4.4% on the prior-year figure. This was attributable to the increase in property, plant and equipment as a result of the comprehensive investment program, as well as an increase in equity-accounted investments from the acquisition of the LeasePlan interest and the positive performance of the Chinese joint ventures. Current assets rose by 16.8% to €50.1 billion, mainly due to the increase in cash and cash equivalents. Total assets amounted to €145.0 billion (€133.8 billion) as of December 31, 2013. Equity rose by 23.1% to €60.5 billion. Noncurrent liabilities declined by 3.1%, while current liabilities rose by 5.3%.

At the end of the reporting period, noncurrent assets in the Commercial Vehicles/Power Engineering Business Area were down year-on-year, while current assets were on a level with the previous year. Total assets declined slightly to €45.7 billion (€47.1 billion). At €15.5 billion, equity was 20.5% lower than the prior-year figure. In connection with the control and profit and loss transfer agreement with MAN SE, equity was reduced by the €3.1 billion obligation to acquire the shares held by the remaining free float shareholders of MAN, which was recognized as a current liability. The expected present value of the minimum statutory interest rate (€0.5 billion) was also reported under this item. Noncurrent liabilities declined as against December 31, 2012, while current liabilities were 30.6% higher at the end of fiscal year 2013.

Financial Services Division balance sheet structure
The Financial Services Division’s total assets amounted to €133.6 billion on December 31, 2013, 3.9% higher than at year-end 2012.

Both leasing and rental assets and noncurrent financial services receivables rose as a result of the increase in business. The sale of the interest in LeasePlan led to a decline in equity-accounted investments. Overall, noncurrent assets increased by 3.8% compared with December 31, 2012. Current assets rose by 4.0%. Current financial services receivables increased by €1.4 billion to €39.2 billion. The Financial Services Division accounted for 41.2% of the Volkswagen Group’s assets at the end of fiscal year 2013.

At €14.1 billion, the Financial Services Division’s equity at the reporting date was up 5.1% on the previous year due to an improved earnings situation. The division’s equity ratio rose to 10.5% (10.4%). The shorter remaining maturities of financial liabilities in particular saw noncurrent liabilities decline by 5.6% as against year-end 2012, while current liabilities rose by 11.8%. Deposits from direct banking business amounted to €23.3 billion (€23.9 billion); of this figure, €22.3 billion was attributable to Volkswagen Bank direct. The debt to equity ratio remained unchanged at 8:1.
## Financial Key Performance Indicators

<table>
<thead>
<tr>
<th>%</th>
<th>2013</th>
<th>2012¹</th>
<th>2011</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volkswagen Group</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross margin</td>
<td>18.1</td>
<td>18.2</td>
<td>17.6</td>
<td>16.9</td>
<td>12.9</td>
</tr>
<tr>
<td>Personnel expense ratio</td>
<td>16.1</td>
<td>15.3</td>
<td>15.0</td>
<td>15.0</td>
<td>15.2</td>
</tr>
<tr>
<td>Return on sales before tax</td>
<td>6.3</td>
<td>13.2</td>
<td>11.9</td>
<td>7.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Return on sales after tax</td>
<td>4.6</td>
<td>11.4</td>
<td>9.9</td>
<td>5.7</td>
<td>0.9</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>27.8</td>
<td>26.5</td>
<td>25.0</td>
<td>24.4</td>
<td>21.1</td>
</tr>
<tr>
<td>Dynamic gearing (years)²</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Automotive Division³</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in unit sales⁴</td>
<td>+4.1</td>
<td>+11.8</td>
<td>+14.9</td>
<td>+15.4</td>
<td>+0.6</td>
</tr>
<tr>
<td>Change in sales revenue</td>
<td>+1.3</td>
<td>+21.6</td>
<td>+26.0</td>
<td>+21.2</td>
<td>−9.3</td>
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<tr>
<td>Operating profit as a percentage of sales revenue</td>
<td>5.6</td>
<td>5.7</td>
<td>7.0</td>
<td>5.5</td>
<td>1.4</td>
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<tr>
<td>EBITDA (in € million)⁵</td>
<td>20,594</td>
<td>19,895</td>
<td>17,815</td>
<td>13,940</td>
<td>8,005</td>
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<tr>
<td>Return on investment (ROI)⁶</td>
<td>14.5</td>
<td>16.6</td>
<td>17.7</td>
<td>13.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Cash flows from operating activities as a percentage of sales revenue</td>
<td>11.8</td>
<td>9.4</td>
<td>12.0</td>
<td>12.3</td>
<td>13.8</td>
</tr>
<tr>
<td>Cash flows from investing activities as a percentage of sales revenue</td>
<td>9.3</td>
<td>9.5</td>
<td>11.3</td>
<td>8.1</td>
<td>11.0</td>
</tr>
<tr>
<td>Investments in property, plant and equipment as a percentage of sales revenue</td>
<td>6.3</td>
<td>5.9</td>
<td>5.6</td>
<td>5.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Ratio of noncurrent assets to total assets⁷</td>
<td>21.3</td>
<td>21.0</td>
<td>21.5</td>
<td>22.8</td>
<td>24.9</td>
</tr>
<tr>
<td>Ratio of current assets to total assets⁸</td>
<td>13.4</td>
<td>14.3</td>
<td>17.4</td>
<td>14.7</td>
<td>13.8</td>
</tr>
<tr>
<td>Inventory turnover</td>
<td>6.5</td>
<td>6.4</td>
<td>6.9</td>
<td>7.4</td>
<td>6.0</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>39.8</td>
<td>37.9</td>
<td>35.9</td>
<td>35.5</td>
<td>30.2</td>
</tr>
<tr>
<td><strong>Financial Services Division</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in total assets</td>
<td>3.9</td>
<td>19.5</td>
<td>22.5</td>
<td>9.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Return on equity before tax⁹</td>
<td>14.3</td>
<td>13.1</td>
<td>14.0</td>
<td>12.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>10.5</td>
<td>10.4</td>
<td>10.1</td>
<td>10.4</td>
<td>10.2</td>
</tr>
</tbody>
</table>

---

1. Prior-year figures adjusted to reflect application of IAS 19R.
2. Ratio of cash flows from operating activities to current and noncurrent financial liabilities.
3. Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
4. Including the Shanghai-Volkswagen Automotive Company Ltd. and FAW-Volkswagen Automotive Company Ltd. vehicle-production investments. These companies are accounted for using the equity method.
5. Operating profit plus net depreciation/amortization and impairment losses/reversals of impairment losses on property, plant and equipment, capitalized development costs, leasing and rental assets, goodwill and financial assets as reported in the cash flow statement.
6. For details, see Value-based management on page 108.
7. Ratio of property, plant and equipment to total assets.
8. Ratio of inventories to total assets.
9. Profit before tax as a percentage of average equity.
SUMMARY OF ECONOMIC POSITION

The Board of Management of Volkswagen AG believes that the Group’s economic position is positive. Alongside our primary business, the initial full-year consolidation of Dr. Ing. h.c. F. Porsche AG in the Volkswagen Group helped us to exceed the previous year’s record sales revenue and operating profit and thus maintain our profitable growth trajectory. We continued to pursue disciplined cost and investment management and the continuous optimization of our processes in the year under review.

In fiscal year 2013, we entered into a control and profit and loss transfer agreement with MAN SE to enable Volkswagen and MAN to strengthen and simplify their cooperation, increasing the competitiveness of both companies.

Volkswagen Group’s capital base was strengthened in the reporting period by the successful issue of a mandatory convertible note with an aggregate principal amount of €1.2 billion in June 2013, which supplemented the mandatory convertible note issued in November 2012, and the placement of dual-tranche hybrid notes with an aggregate principal amount of €2.0 billion in August 2013, which were well received by the market. The Automotive Division’s strong liquidity position at the end of fiscal year 2013 gives us financial stability and flexibility.

An overview of the development of the Volkswagen Group over the past five years can be found in the tables on pages 104 and 106. More information on the economic position of the Volkswagen Group by brand and business field can be found in the Divisions chapter starting on page 21.

VALUE ADDED STATEMENT

The value added statement indicates the added value generated by a company in the past fiscal year as its contribution to the gross domestic product of its home country, and how it is appropriated.

The value added generated by the Volkswagen Group in the year under review was 19.2% lower than in the previous year, as measurement effects from the integration of Porsche had a positive effect on other income. Added value per employee in 2013 was €98.4 thousand (–22.6%). Employees in the passive phase of their partial retirement are not included in the calculation.

VALUE ADDED GENERATED BY THE VOLKSWAGEN GROUP

<table>
<thead>
<tr>
<th>Source of funds in € million</th>
<th>2013</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue</td>
<td>197,007</td>
<td>192,676</td>
</tr>
<tr>
<td>Other income</td>
<td>13,994</td>
<td>24,642</td>
</tr>
<tr>
<td>Cost of materials</td>
<td>–127,089</td>
<td>–122,450</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>–14,686</td>
<td>–13,135</td>
</tr>
<tr>
<td>Other upfront expenditures</td>
<td>–21,027</td>
<td>–22,070</td>
</tr>
<tr>
<td>Value added</td>
<td>48,198</td>
<td>59,663</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Appropriation of funds in € million</th>
<th>2013</th>
<th>%</th>
<th>2012*</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>to shareholders (dividend)</td>
<td>1,871</td>
<td>3.9</td>
<td>1,639</td>
<td>2.8</td>
</tr>
<tr>
<td>to employees (wages, salaries, benefits)</td>
<td>31,747</td>
<td>65.9</td>
<td>29,504</td>
<td>49.5</td>
</tr>
<tr>
<td>to the state (taxes, duties)</td>
<td>3,865</td>
<td>8.0</td>
<td>4,322</td>
<td>7.2</td>
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<tr>
<td>to creditors (interest expense)</td>
<td>3,442</td>
<td>7.1</td>
<td>3,957</td>
<td>6.6</td>
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<tr>
<td>to the Company (reserves)</td>
<td>7,274</td>
<td>15.1</td>
<td>20,242</td>
<td>33.9</td>
</tr>
<tr>
<td>Value added</td>
<td>48,198</td>
<td>100.0</td>
<td>59,663</td>
<td>100.0</td>
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</table>

* Prior-year figures adjusted to reflect application of IAS 19R.
### FIVE-YEAR REVIEW

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume Data (thousands)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicle sales (units)</td>
<td>9,728</td>
<td>9,345</td>
<td>8,361</td>
<td>7,278</td>
<td>6,310</td>
</tr>
<tr>
<td>Germany</td>
<td>1,187</td>
<td>1,207</td>
<td>1,211</td>
<td>1,059</td>
<td>1,288</td>
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<td>Abroad</td>
<td>8,541</td>
<td>8,137</td>
<td>7,150</td>
<td>6,219</td>
<td>5,022</td>
</tr>
<tr>
<td>Production (units)</td>
<td>9,728</td>
<td>9,255</td>
<td>8,494</td>
<td>7,358</td>
<td>6,055</td>
</tr>
<tr>
<td>Germany</td>
<td>2,458</td>
<td>2,321</td>
<td>2,640</td>
<td>2,115</td>
<td>1,938</td>
</tr>
<tr>
<td>Abroad</td>
<td>7,270</td>
<td>6,934</td>
<td>5,854</td>
<td>5,243</td>
<td>4,117</td>
</tr>
<tr>
<td><strong>Employees (yearly average)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>563</td>
<td>533</td>
<td>454</td>
<td>389</td>
<td>367</td>
</tr>
<tr>
<td>Abroad</td>
<td>255</td>
<td>237</td>
<td>196</td>
<td>178</td>
<td>173</td>
</tr>
<tr>
<td><strong>Financial Data (in € million)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales revenue</td>
<td>197,007</td>
<td>192,676</td>
<td>159,337</td>
<td>126,875</td>
<td>105,187</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>161,407</td>
<td>157,522</td>
<td>131,371</td>
<td>105,431</td>
<td>91,608</td>
</tr>
<tr>
<td>Gross profit</td>
<td>35,600</td>
<td>35,154</td>
<td>27,965</td>
<td>21,444</td>
<td>13,579</td>
</tr>
<tr>
<td>Distribution expenses</td>
<td>19,655</td>
<td>18,850</td>
<td>14,582</td>
<td>12,213</td>
<td>10,537</td>
</tr>
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<td>Administrative expenses</td>
<td>6,888</td>
<td>6,220</td>
<td>4,384</td>
<td>3,287</td>
<td>2,739</td>
</tr>
<tr>
<td>Net other operating income</td>
<td>2,613</td>
<td>1,415</td>
<td>2,271</td>
<td>1,197</td>
<td>1,553</td>
</tr>
<tr>
<td>Operating profit</td>
<td>11,671</td>
<td>11,498</td>
<td>11,271</td>
<td>7,141</td>
<td>1,855</td>
</tr>
<tr>
<td>Financial result</td>
<td>757</td>
<td>13,989</td>
<td>7,655</td>
<td>1,852</td>
<td>−595</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>12,428</td>
<td>25,487</td>
<td>18,926</td>
<td>8,994</td>
<td>1,261</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>3,283</td>
<td>3,606</td>
<td>3,126</td>
<td>1,767</td>
<td>349</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>9,145</td>
<td>21,881</td>
<td>15,799</td>
<td>7,226</td>
<td>911</td>
</tr>
<tr>
<td>Cost of materials</td>
<td>127,089</td>
<td>122,450</td>
<td>104,648</td>
<td>79,394</td>
<td>67,925</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>31,747</td>
<td>29,504</td>
<td>23,854</td>
<td>19,027</td>
<td>16,027</td>
</tr>
<tr>
<td><strong>Balance Sheet (at December 31)</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>202,141</td>
<td>196,457</td>
<td>148,129</td>
<td>113,457</td>
<td>99,402</td>
</tr>
<tr>
<td>Current assets</td>
<td>122,192</td>
<td>113,061</td>
<td>105,640</td>
<td>85,936</td>
<td>77,776</td>
</tr>
<tr>
<td>Total assets</td>
<td>324,333</td>
<td>309,518</td>
<td>253,769</td>
<td>199,393</td>
<td>177,178</td>
</tr>
<tr>
<td>Equity</td>
<td>90,037</td>
<td>81,995</td>
<td>63,154</td>
<td>48,712</td>
<td>37,430</td>
</tr>
<tr>
<td>of which: noncontrolling interests</td>
<td>2,304</td>
<td>4,313</td>
<td>5,815</td>
<td>2,734</td>
<td>2,149</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>115,672</td>
<td>121,996</td>
<td>89,179</td>
<td>73,781</td>
<td>70,215</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>118,625</td>
<td>105,526</td>
<td>101,237</td>
<td>76,900</td>
<td>69,534</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>324,333</td>
<td>309,518</td>
<td>253,769</td>
<td>199,393</td>
<td>177,178</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>12,595</td>
<td>7,209</td>
<td>8,500</td>
<td>11,455</td>
<td>12,741</td>
</tr>
<tr>
<td>Cash flows from investing activities attributable to operating activities</td>
<td>14,936</td>
<td>16,840</td>
<td>16,002</td>
<td>9,278</td>
<td>10,428</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>8,973</td>
<td>13,712</td>
<td>8,316</td>
<td>−852</td>
<td>5,536</td>
</tr>
</tbody>
</table>

* Prior-year figures adjusted to reflect application of IAS 19R.
RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION

The Volkswagen Group’s financial target system centers on continuously and sustainably increasing the value of the Company. We have been using the return on investment (RoI) and value contribution*, a key performance indicator linked to the cost of capital, for a number of years, in order to use resources in the Automotive Division efficiently and to measure the success of this.

The concept of value-based management allows the success of our innovative, environmentally oriented product portfolio to be evaluated. This concept also enables the earnings strength of individual business units and projects, such as the new plants in India, Russia and North America, to be measured.

Components of value contribution

Value contribution is calculated using operating profit after tax and the opportunity cost of invested capital. Operating profit shows the economic performance of the Automotive Division and is initially a pre-tax figure.

Using the various international income tax rates of the relevant companies, we assume an overall average tax rate of 30% when calculating the operating profit after tax.

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

As the concept of value-based management only comprises our operating activities, assets relating to investments in subsidiaries and associates and the investment of cash funds are not included when calculating invested capital. Interest charged on these assets is reported in the financial result.

Determining the current cost of capital

The cost of capital is the weighted average of the required rates of return on equity and debt. The cost of equity is determined using the Capital Asset Pricing Model (CAPM).

This model uses the yield on long-term risk-free Bunds, increased by the risk premium attaching to investments in the equity market. The risk premium comprises a general market risk and a specific business risk.

The general risk premium of 6.5% reflects the general risk of a capital investment in the equity market and is oriented on the Morgan Stanley Capital International (MSCI) World Index.

Since 2010, the specific business risk – price fluctuations in Volkswagen preferred shares – has been modeled when calculating the beta factor in comparison to the MSCI World Index.

The switch in benchmark index from the DAX to the MSCI World Index was necessary because Volkswagen shares experienced considerable price fluctuations in 2008 and 2009, and the share class in the DAX was changed to preferred shares in 2010. The MSCI World Index sets a standard that reflects a global capital market benchmark for investors.

The analysis period for the beta factor calculation spans five years with annual beta figures on a daily basis and an average subsequently being calculated. A beta factor of 1.32 was determined for 2013 (1.26).

COST OF CAPITAL AFTER TAX
AUTOMOTIVE DIVISION

<table>
<thead>
<tr>
<th>%</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-free rate</td>
<td>2.6</td>
<td>2.2</td>
</tr>
<tr>
<td>MSCI World Index market risk premium</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Volkswagen-specific risk premium</td>
<td>2.1</td>
<td>1.7</td>
</tr>
<tr>
<td>(Volkswagen beta factor)</td>
<td>(1.32)</td>
<td>(1.26)</td>
</tr>
<tr>
<td>Cost of equity after tax</td>
<td>11.2</td>
<td>10.4</td>
</tr>
<tr>
<td>Cost of debt</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Tax</td>
<td>–1.1</td>
<td>–1.1</td>
</tr>
<tr>
<td>Cost of debt after tax</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Proportion of equity</td>
<td>66.7</td>
<td>66.7</td>
</tr>
<tr>
<td>Proportion of debt</td>
<td>33.3</td>
<td>33.3</td>
</tr>
<tr>
<td>Cost of capital after tax</td>
<td>8.3</td>
<td>7.8</td>
</tr>
</tbody>
</table>

The cost of debt is based on the average yield for long-term debt. As borrowing costs are tax-deductible, the cost of debt is adjusted to account for the tax rate of 30%.

A weighting on the basis of a fixed ratio for the fair values of equity and debt gives an effective cost of capital for the Automotive Division of 8.3% (7.8%) for 2013.

* The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.
The return on investment (RoI) is the return on invested capital for a particular period based on the operating profit after tax. It decreased in 2013 as against the previous year, but at 14.5% (16.6%) was still well above our minimum required rate of return of 9%.

The opportunity cost of capital – invested capital multiplied by the cost of capital, which increased as against 2012 – was up on the prior-year level at €6,038 million (€5,128 million). In conjunction with the lower operating profit after tax, this led to a declining but clearly positive value contribution of €4,497 million (€5,775 million).

More information on value-based management is contained in our publication entitled “Financial Control System of the Volkswagen Group”, which can be downloaded from our Investor Relations website: www.volkswagenag.com/ir

### Return on Investment (ROI) and Value Contribution in the Automotive Division¹

<table>
<thead>
<tr>
<th>€ million</th>
<th>2013</th>
<th>2012²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit after tax</td>
<td>10,536</td>
<td>10,904</td>
</tr>
<tr>
<td>Invested capital (average)</td>
<td>72,749</td>
<td>65,749</td>
</tr>
<tr>
<td>Return on investment (ROI) in %</td>
<td>14.5</td>
<td>16.6</td>
</tr>
<tr>
<td>Cost of capital in %</td>
<td>8.3</td>
<td>7.8</td>
</tr>
<tr>
<td>Cost of invested capital</td>
<td>6,038</td>
<td>5,128</td>
</tr>
<tr>
<td>Value contribution</td>
<td>4,497</td>
<td>5,775</td>
</tr>
</tbody>
</table>

¹ Including proportionate inclusion of the Chinese joint ventures (including the relevant sales and component companies) and allocation of consolidation adjustments between the Automotive and Financial Services Divisions.

² Prior-year figures adjusted to reflect application of IAS 19R.
At €65.6 billion, Volkswagen AG’s sales in the reporting period were down 4.1% on the previous year. The proportion of sales generated outside Germany was 62.8% (63.5%). The 2.4% decrease in cost of sales to €61.9 billion resulted in gross profit of €3.6 billion (€4.9 billion).

Selling, general and administrative expenses were 1.7% higher in fiscal year 2013 than in the previous year, at €6.1 billion; the ratio of selling, general and administrative expenses to sales rose to 9.3% (8.8%).

Other operating result amounted to €0.9 billion (€1.3 billion).

The financial result declined by 22.6% year-on-year to €6.1 billion, due in particular to lower income from investments.

Volkswagen AG’s result from ordinary activities decreased overall to €4.6 billion (€8.1 billion) in 2013. After deducting income taxes, net income for the year was €3.1 billion.

* Including write-downs of financial assets.
NET ASSETS AND FINANCIAL POSITION

Total assets amounted to €107.0 billion at December 31, 2013, €15.9 billion higher than in the previous year. Investments in tangible and intangible assets were on a level with the previous year, at €2.5 billion. Investments in financial assets amounting to €19.9 billion (€9.7 billion) also include the interest in Truck & Bus GmbH. At €69.9 billion, fixed assets exceeded the 2012 figure by 14.5% at the balance sheet date.

Current assets (including prepaid expenses) amounted to €37.1 billion, surpassing the prior-year figure by €7.1 billion, mainly due to higher liquid assets and the increase in receivables from affiliated companies.

Equity amounted to €25.9 billion at year-end 2013. The 5.9% increase was largely the result of the net income.

The equity ratio was 24.2% (26.8%). Provisions increased by a total of €0.8 billion on the previous year. This is primarily attributable to higher pension provisions. Other provisions increased by €0.2 billion to €11.1 billion, while provisions for taxes rose by €0.1 billion to €5.0 billion. Higher liabilities to affiliated companies in particular saw total liabilities (including deferred income) rise by 35.2% as against December 31, 2012, to €52.6 billion.

The interest-bearing portion of debt rose to €45.1 billion (€33.1 billion).

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

DIVIDEND PROPOSAL

In accordance with section 58(2) of the Aktiengesetz (AktG – German Stock Corporation Act), €1,210 million of the net income for the year was appropriated to other revenue reserves. The Board of Management and Supervisory Board are proposing to the Annual General Meeting to pay a dividend of €1.9 billion from net retained profits, i.e. €4.00 per ordinary share and €4.06 per preferred share.

PROPOSAL ON THE APPROPRIATION OF NET PROFIT

<table>
<thead>
<tr>
<th>€ million</th>
<th>2013</th>
<th>%</th>
<th>2012</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend distribution on subscribed capital (€1,191 million)</td>
<td>1,871,160,846.26</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which on: ordinary shares</td>
<td>1,180,359,272.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>preferred shares</td>
<td>690,801,574.26</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance (carried forward to new account)</td>
<td>3,295,735.06</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net retained profits</td>
<td>1,874,456,581.32</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG

<table>
<thead>
<tr>
<th>€ million</th>
<th>2013</th>
<th>%</th>
<th>2012</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct pay including cash benefits</td>
<td>6,545</td>
<td>71.4</td>
<td>6,481</td>
<td>70.4</td>
</tr>
<tr>
<td>Social security contributions</td>
<td>1,116</td>
<td>12.2</td>
<td>1,073</td>
<td>11.7</td>
</tr>
<tr>
<td>Compensated absence</td>
<td>930</td>
<td>10.1</td>
<td>868</td>
<td>9.4</td>
</tr>
<tr>
<td>Retirement benefits</td>
<td>579</td>
<td>6.3</td>
<td>778</td>
<td>8.5</td>
</tr>
<tr>
<td>Total expense</td>
<td>9,170</td>
<td>100.0</td>
<td>9,200</td>
<td>100.0</td>
</tr>
</tbody>
</table>
SALES TO THE DEALER ORGANIZATION
Volkswagen AG sold a total of 2,495,745 vehicles to the dealer organization in fiscal year 2013, down on the previous year (−3.3%). The proportion of vehicles sold outside Germany was 70.5% (70.0%).

PRODUCTION
Volkswagen AG produced a total of 1,169,151 vehicles at its vehicle production plants in Wolfsburg, Hanover and Emden in the reporting period, 1.8% more than in the previous year. Volkswagen AG’s average daily production was higher than the previous year at 5,095 units.

NUMBER OF EMPLOYEES
As of December 31, 2013, a total of 107,559 people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. Of this figure, 4,942 were vocational trainees. 5,549 employees were in the passive phase of their partial retirement. The workforce grew by 5.7% as against the prior-year reporting date.

Female employees accounted for 15.8% of the workforce. Volkswagen AG employed 3,590 part-time workers (3.3%). The percentage of foreign employees was 5.9%. The proportion of employees in the production area who have completed vocational training relevant for Volkswagen was 83.0%. 17.3% of the employees were graduates. The average age of employees in fiscal year 2013 was 42.9 years.

RESEARCH AND DEVELOPMENT
Research and development costs for Volkswagen AG under the German Commercial Code amounted to €4.4 billion (€3.8 billion) in 2013. 11,181 people were employed in this area at the end of the reporting period.

PURCHASING VOLUME
The purchasing volume across the six Volkswagen AG sites in Germany amounted to €26.2 billion in fiscal year 2013 (€26.6 billion); the proportion attributable to German suppliers was 68.1% (68.4%). Of the total purchasing volume, €21.1 billion was spent on production materials and €5.1 billion on capital goods and services.

EXPENDITURE ON ENVIRONMENTAL PROTECTION
Expenditure on environmental protection is split between investments and operating costs. Of our total investments, those that are spent exclusively or primarily on environmental protection are included in environmental protection investments. We distinguish here between additive and integrated investments. Additive environmental protection measures are separate investments that are independent of other investments relating to the production process. They can be upstream or downstream of the production process. In contrast to additive environmental protection measures, the environmental impact is already reduced during production in the case of integrated measures. Our focus in 2013 was on water pollution control.

Operating costs for environmental protection relate exclusively to production-related measures that protect the environment against harmful factors by avoiding, reducing, or eliminating emissions by the Company, or conserving resources. These entail both expenses associated with the operation of equipment that protects the environment as well as expenditures for measures not relating to such equipment. Our focus in 2013 was on water pollution control, waste management and air pollution control.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>14</td>
<td>9</td>
<td>18</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Operating costs</td>
<td>224</td>
<td>216</td>
<td>200</td>
<td>197</td>
<td>180</td>
</tr>
</tbody>
</table>
BUSINESS DEVELOPMENT RISKS AND OPPORTUNITIES AT VOLKSWAGEN AG

The business development of Volkswagen AG is exposed to essentially the same risks and opportunities as the Volkswagen Group. These risks and opportunities are explained in the Report on Risks and Opportunities on pages 151 to 163 of this annual report.

RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risks for Volkswagen AG arising from the use of financial instruments are the same as those to which the Volkswagen Group is exposed. An explanation of these risks can be found on pages 162 to 163 of this annual report.

DEPENDENT COMPANY REPORT

The Board of Management of Volkswagen AG has submitted to the Supervisory Board the report required by section 312 of the AktG and issued the following concluding declaration:

“We declare that, based on the circumstances known to us at the time when the transactions with affiliated companies within the meaning of section 312 of the German Stock Corporation Act (AktG) were entered into, our Company received appropriate consideration for each transaction. No transactions with third parties or measures were either undertaken or omitted on the instructions of or in the interests of Porsche or other affiliated companies in the reporting period.”

The Annual Financial Statements of Volkswagen AG (in accordance with the HGB) can be accessed from the electronic companies register at www.unternehmensregister.de.
Sustainable Value Enhancement

Our corporate governance is geared towards sustainable value enhancement. We take responsibility along the entire value chain for our customers, our employees, society and the environment.

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

**Corporate Social Responsibility and Sustainability**

Thanks to its corporate culture, Volkswagen is better suited than almost any other company to combine a modern understanding of responsibility and sustainability with the traditional values of running a business to form an integrated CSR approach.

In the traditional sense, corporate social responsibility (CSR) means that a company actively contributes to charitable measures and social welfare, in the form of donations or corporate volunteering. Although such a contribution is expected of a company, it is a voluntary service in recognition of its social responsibility. Today, CSR is considered to be an integrated component of a company’s core competency. CSR is therefore oriented on Volkswagen’s strategic goals and comprises a concept of corporate responsibility along the entire value chain. While under the traditional definition of CSR, various stakeholders ask how funds are used, the question posed under the new definition is how a company generates its funds. This relates both to responsibility for social and ecological standards at the company’s own production sites and along the supply chain, and for the product itself.

Sustainability means simultaneously striving for economic, social and environmental goals in a way that gives them equal priority. Consequently, to us this means creating enduring value, facilitating good work, and using the environment and resources with care. Our integrated CSR concept is aimed at ensuring that we recognize and manage at an early stage risks and development opportunities in the areas of environment, society and governance at every step along the value chain, and further improve our reputation. This is how CSR contributes to increasing our Company’s value in a long-term and sustainable way.

**Management and coordination**

Our integrated CSR management concept is closely linked with the functional areas at all levels of the Company. The Group Board of Management is also the supreme sustainability board in the Company. It regularly receives information on the issues of responsibility and sustainability from the Group CSR & Sustainability steering group, whose members include senior executives from central Board of Management business areas in addition to the Group Works Council and representatives of the brands and regions. This steering group is responsible for our sustainability strategy, on the basis of which the Group aims to become the most sustainable automaker in the world by 2018. The steering group formulates the strategic goals and statements on CSR and sustainability, establishes and monitors the Company-wide CSR management indicators, and makes decisions about sustainability reporting.

Since 2006, our CSR & Sustainability office has coordinated all CSR activities within the Group and the brands, using standardized structures, processes and reports. It strategically aligns the CSR activities and guides internal management processes and stakeholder relationships. The CSR project teams in the Group as well as the brands and regions work on current topics across business areas, such as sustainability in supplier relationships and stakeholder management. Since 2009, the international CSR coordinators of all brands and regions have exchanged information each year.
With our IT-based sustainability management system and the integration of key performance indicator systems, we have created the basis for comprehensive and timely CSR and sustainability reporting in the Group. This increases transparency and the quality of the data, so that we can monitor CSR risks more easily and identify opportunities.

**Code of Conduct and guidelines**

Our Code of Conduct, which is applicable throughout the Group, provides guidance for our employees in the event of legal and ethical challenges in their daily work. It embodies the Group values of closeness to customers, maximum performance, creating value, renewability, respect, responsibility and sustainability. All employees are equally responsible for adhering to these principles. International conventions, regulations and internal rules are also key guidelines for our conduct. We also acknowledge our commitment to the “Declaration on Social Rights and Industrial Relationships at Volkswagen” (Volkswagen Social Charter), the Charter on Labor Relations and the Temporary Work Charter, all of which address fundamental human rights, labor standards and principles.

**Strategic stakeholder management**

Volkswagen continually exchanges information and views with its stakeholders, whose diverse demands and expectations directly affect the Group’s economic success and therefore flow into the Company’s knowledge management processes at an early stage. In order to meet such requirements in a targeted way, we developed a stakeholder management concept, which analyzes economic, ecological and social challenges in a systematic process along our value chain. We communicate with the various stakeholders openly, constructively and equitably. We use many instruments to do this: dialogs, workshops, symposiums, public debates, social media, questionnaires, evaluations and projects.

We document stakeholder dialogs in an IT-based stakeholder management system that is customized for the Volkswagen Group, and publish them in our annual sustainability report to make our interaction with stakeholders transparent and understandable. Stakeholder management is steered and coordinated by the Group CSR & Sustainability steering group, the Group’s project team, and the brands and regions. Since we selectively choose relevant departments for the project teams, we are also able to respond to the many requirements of the stakeholders concerned within a short time.

A key component of external stakeholder management is the ability to help shape national and international corporate networks: we are represented on the board of the leading European business network for corporate social responsibility, CSR Europe, for example. Within Germany, we are represented on the board of econsense, the Forum for Sustainable Development of German Business. Along with numerous other companies, we have signed the “Code of Responsible Conduct for Business” initiative.

Since 2002, we have also been committed to the UN Global Compact, the largest and most important CSR initiative in the world. Over 10,000 companies and other stakeholders from more than 130 countries work together to shape a more sustainable and equitable world economy. The Volkswagen Group and its brands make a significant contribution to this initiative. Scania reinforced this by signing the Global Compact in 2013.

The values of the Global Compact comprise ten principles governing human rights, labor standards, environmental protection and the fight against corruption. We achieved the “Global Compact Advanced Level” in 2013 again due to our progress report on implementing these principles at our locations. Furthermore, we use our expertise to help other companies in the Global Compact to embrace their global responsibility, for example through our active participation as a standing member of the advisory board for the “Sustainable Supplier Chain” project.

In 2013, Volkswagen became the first automotive company in the world to sign the CEO Water Mandate. This sub-initiative of the UN Global Compact is a multi-stakeholder organization that tackles the many problems related to water worldwide with the cooperation of companies, the UN Secretariat, nongovernmental organizations and governments, and develops long-term solutions.

**Materiality matrix**

We learn which issues are important for the security of the Company’s future from our comprehensive dialog with our stakeholders. We systematically evaluate these issues using the latest international sustainability studies and benchmark them against the guidelines and conventions that Volkswagen is committed to. Internal bodies discuss and weight the issues identified as part of a continual materiality analysis process. We discuss these important challenges for our Company and the automotive industry in detail at both brand and Group level. The result is the map for our sustainability strategy: a matrix of the key issues.
CSR Projects
The many and varied CSR projects initiated and managed by the Volkswagen Group around the world are based on the following key principles:

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

The Volkswagen Group supports a large number of projects that promote the arts and culture, education, science, health and sport, or that serve to develop regional structures and conserve nature. These projects make CSR a learning platform for all brands and in all of the Company’s regions. Our extensive cooperation with the German Red Cross and the German Nature and Biodiversity Conservation Union (NABU) are good examples of this.

The German Red Cross represents an idea that is just as topical today as it was 150 years ago: people helping fellow people in need. Humanity, public spirit and responsibility – these are the values on which Germany’s largest mass movement with the richest tradition is based, and which we also share in the Volkswagen Group. That is why we are promoting sound, balanced social development, in Germany and at our other international locations. As part of its strategic partnership, the Volkswagen Group thus helps the German Red Cross to find even more people who are willing to volunteer their time. This goal is central to the partnership, in conjunction with strengthening the Red Cross’s rescue service.

NABU has worked with Volkswagen AG for many years and, since the end of 2012, this alliance has been based on a new, expanded cooperation and advisory agreement. NABU is a strategic partner for Volkswagen on the Group’s path to becoming the most environmentally friendly automobile manufacturer in the world.

RESEARCH AND DEVELOPMENT
Research and development activities in the Group again concentrated on two areas in 2013: expanding its product portfolio and improving the functionality, quality, safety and environmental compatibility of our products.

Focus of our research and development activities
We plan to cut the average CO₂ emissions of the Volkswagen Group’s new European passenger car fleet to 120 grams per kilometer by 2015. We have already succeeded in reducing CO₂ emissions over the past five years by 23 grams of CO₂ per kilometer to 128 grams of CO₂ per kilometer. Since 2012, the CO₂ emissions for vehicle
manufacturers’ new European passenger car fleets have been regulated by law: for 2013, the emissions of 75% of the new vehicle fleet had to comply with the statutory level of 130 grams of CO₂ per kilometer. The figure for the Volkswagen Group in the reporting period was 117 grams of CO₂ per kilometer. We currently offer a total of 438 model variants (engine-transmission combinations) that emit less than 130 grams of CO₂ per kilometer. For 324 model variants, we are already below the threshold of 120 grams of CO₂ per kilometer. Of these, 54 model variants are even below 100 grams of CO₂ per kilometer (see chart on page 118).

A focus of the Technical Development function in 2013 was on continuing to roll out the Modular Transverse Toolkit. After the first models to be based on the Modular Transverse Toolkit – the Audi A3, the new Golf and the SEAT Leon – were launched in the market in 2012, further derivatives of these models followed during the reporting period, as well as the new ŠKODA Octavia. Other vehicles, such as the Golf Sportsvan that has already been unveiled, will follow.

Automatic driving functions promote predictive driving and offer the potential for increasing efficiency. They make steering safer by reducing the probability of human error, and increase comfort. They also enhance the flow of traffic, thus contributing to the better use of infrastructure. In the near future, a roadworks assistance function will help to reduce or completely avoid accidents around roadworks, for example. We are also conducting research into highly and fully automated driving.

Another focus of our research and development in the past year was on mobile online services. These promote comfort, safety and traffic efficiency and support the vision of cooperative, environmentally friendly and accident-free driving. Volkswagen’s Group Research function proved that these technologies are practicable in the grant-assisted project it completed in mid-2013 entitled “Safe and Intelligent Mobility Test Field Germany” (simTD). The first elements we tested were warnings about danger zones and the ends of traffic jams, intervention by active safety systems and information about traffic light phases.

When it comes to our ambitious target to reduce CO₂ emissions, lightweight construction for large series is becoming increasingly important. The cooperation between Group Research and the production and components departments is accelerating research into lightweight construction and its future production technologies within the Group. Since 2012, we have also been researching economical lightweight construction technologies as part of the public-private partnership “Open Hybrid LabFactory” in collaboration with the Lower Saxony Research Center for Vehicle Technology (NFF) at the Technical University of Braunschweig and other industry partners. We agreed on a contractual framework in 2013 and established the focuses of our research and technology activities. The aim is to have around 200 researchers from industry and science jointly developing hybrid lightweight structures by the end of 2015.

We are constantly extending the use of virtual technologies in our processes, so as to speed up and improve the vehicle development, production, or service process. Smartphones play an increasingly key role in this. The primary focus is on augmented reality technology, in which the real world is recognized and enriched with virtual information. The Audi brand already employs this technology, and Volkswagen is making use of it for the first time in the XL1. Further applications are being developed by Volkswagen’s Group Research function. In addition, Volkswagen uses virtual technologies to improve the ergonomics of work sequences in production, for example.

Recognizing new developments in society, technology, politics, the environment and the economy at an early stage is an important basis for innovations and business success. This is why Group Research constantly addresses the latest social and technological trends. It has established interfaces to key global automotive markets to do this. Research offices in China, Japan and the USA
observe technological areas relevant to the automotive industry, conduct cooperative projects with research institutions and local companies, and thus capture new data for the Volkswagen Group.

Innovations incorporated into vehicles

The “Automotive INNOVATIONS Awards” are presented every year to vehicle manufacturers by the Center of Automotive Management, an independent organization that conducts empirical research on automobiles and mobility. In fiscal year 2013, the Volkswagen Group won in the “Most Innovative Automotive Company”, “Best Manufacturer: Conventional Drives”, “Best Manufacturer: Alternative Drives” and “Best Manufacturer: Connected Car” categories, once again underscoring its innovative power.

The following are some examples of our innovations in the past fiscal year:

The innovative highlight for the Volkswagen Passenger Cars brand was the XL1, produced in a limited run. With a drag coefficient of 0.189, it is the most aerodynamic series vehicle in the world. Thanks to high tech lightweight construction, it weighs just 795 kg. The XL1 emits only 21 grams of CO2 per kilometer and consumes just 0.91 of diesel per 100 km with its plug-in hybrid system, consisting of a two-cylinder TDI engine with 35 kW (48 PS), an electric motor with 20 kW and a seven-speed direct shift gearbox (DSG). This also makes it the world's most economical series automobile with an combustion engine.

The e-up! was launched in 2013 – our first vehicle with a purely electric drive. Its 60 kW (82 PS) electric motor, in combination with an 18.7 kWh lithium-ion battery, gives it a range of up to 160 km. The e-up! can be charged using a 230 volt electric socket, a wall box installed on the customer’s premises, a public AC charge point, or via a DC fast charging station featuring the combined charging system (CCS), which charges the vehicle up to 80% within just 30 minutes.

The Audi brand presented the first notchback model in the compact premium segment with the A3 saloon in the reporting period. Fitted with a 1.4 TFSI engine and the new cylinder-on-demand technology, the vehicle consumes only 4.81 per 100 km and emits 111 g/km of CO2. In addition, this new member of the A3 family not only features a low weight thanks to its lightweight construction, but also a large number of high-end infotainment and driver assistance system solutions.

In our new Audi A8, we are using Matrix LED technology for the first time, which sets new standards for headlights in terms of design and technology: the high beam headlights are divided into 25 individual segments whose light-emitting diodes can be separately switched on and off or dimmed depending on the situation. This allows the system to respond to other vehicles with great precision. The headlights also offer intelligent curve lighting, new-look daytime running lights and indicators with dynamic signaling.

Porsche proved its expertise in hybrid technology in 2013: the Panamera S E-Hybrid is the first plug-in hybrid in the luxury class. With its 416 PS combined maximum output, the E-Hybrid accelerates from 0 to 100 km/h in 5.5 seconds. Its top speed is 270 km/h. In purely electric mode, the Panamera S E-Hybrid travels 36 km, with a top speed of 135 km/h. The vehicle uses an average of just 3.11 of fuel per 100 km, corresponding to CO2 emissions of 71 grams per kilometer. It also offers an entirely new range of comfort functions, which can also be activated and accessed via a smartphone app. These include the display for the battery's charge status and range, preheating or precooling the vehicle, and guiding the driver to the parked vehicle.

The Porsche 918 Spyder is ringing in a new era in sports car manufacturing. Designed as a high-performance hybrid from the ground up, it marries the performance of a super sports car with the virtually silent drive of an electric vehicle. Its combined maximum output of 652 kW (887 PS) catapults the hybrid from 0 to 100 km/h in 2.8 seconds. When the vehicle is started, the “E-Power” mode is activated as standard if the battery charge level is sufficient.

Scania Streamline is responsible for the new long-distance models of the G and R ranges, which are optimized for low fuel consumption. Alongside improved aerodynamics and a complete air deflector package, a new version of the Scania Opticruise transmission contributes to this. The economy mode is fully integrated into the Scania Active Prediction predictive cruise control. Combined with the new generation of Euro 6 engines, up to 8% of fuel can thus be saved in long-distance driving.

MAN successfully launched the series production of Euro 6 technology for trucks and coaches. Proven technologies were combined in an intelligent manner and optimally matched with each other. All Euro 6 diesel vehicles feature a comprehensive efficient concept comprising needs-driven exhaust gas recirculation, diesel particulate filters and special exhaust gas after-treatment.

Since June 2013, Audi has been producing a synthetic natural gas – Audi e-gas – and channeling it into the public network. The core element of the newly constructed plant in Lower Saxony is a methanation plant provided by MAN. The 16-meter high unit was designed and manufactured at MAN’s Deggendorf location. Using renewable power, the plant produces climate-neutral fuel that can be both saved and transported via the existing infrastructure.
A glimpse into the future – study and concept vehicles

In this section, we describe selected concept vehicles and studies that we presented in 2013 alongside the numerous series vehicles.

The Volkswagen Passenger Cars brand presented the twin up! study at the Tokyo Motor Show. Featuring a plug-in hybrid system with a combined maximum output of 55 kW (75 PS), the four-door’s combined consumption is a mere 1.1 l per 100 km. This innovative city specialist shares specific elements of its drive system – diesel engine, electric motor and direct shift gearbox (DSG) – with the world’s most economical car, the XL1. The twin up! can travel up to 50 km in purely electric – and thus emission-free – mode.

The Volkswagen Passenger Cars’ mid-size SUV study, the CrossBlue, is a masculine six-seater that combines the imposing presence of a SUV with the space of a van. Its innovative plug-in hybrid system with a total output of 225 kW (306 PS) comprises a 140 kW (190 PS) TDI engine, two electric motors (40 kW and 85 kW), a six-speed direct shift gearbox (DSG) and an electric propshaft. The CrossBlue shows how Volkswagen could expand the range of models in the US with a mid-size SUV in the five-meter class.

Audi celebrated the 30th anniversary of the Sport quattro by introducing the Sport quattro concept car, a dynamic coupé study that combines the imposing presence of an SUV with the space of a van. Its innovative plug-in hybrid system with a total output of 225 kW (306 PS) comprises a 140 kW (190 PS) TDI engine, two electric motors (40 kW and 85 kW), a six-speed direct shift gearbox (DSG) and an electric propshaft. The CrossBlue shows how Volkswagen could expand the range of models in the US with a mid-size SUV in the five-meter class.

The Audi nanuk quattro concept car, a crossover study, was developed in close cooperation with the designers from Italdesign Giugiaro, and marries the dynamism of a high-performance sports car with Audi’s quattro expertise on the street, on the race track and off-road. The sports car for young and old is powered by a 400 kW (544 PS) V10 TDI engine.

Driven by its passion for innovation and alternative solutions, Lamborghini commemorated its 50th anniversary with the unveiling of the Egoista: powered by a 440 kW (600 PS) V10 engine, this supercar is a sports car of superlatives that wows with its masculine design. The interior of this one-off is extremely rational and is made for one person only.

Leveraging synergies increases efficiency

A number of studies during the reporting period proved that Volkswagen AG is investing more than any other company in research and development. In order to make even better use of these resources in the future to contribute to the Company’s success, additional synergies are being leveraged by way of cross-brand cooperation to develop technologies. To ensure this, a Group Board of Management Technology Committee was formed; it defines the efficient development and implementation of core technologies in the Group that make us competitive in the long term. This relates in particular to strategic key technologies that a brand on its own could only finance with difficulty. In addition, the individual brands use our modular toolkits, which ensure that we can benefit from the synergy effects that exist both between models in one series and across all series and brands.
Pooling strengths with strategic alliances
The Volkswagen Group is systematically pressing ahead with research into and the ongoing development of high-voltage battery systems for electric and plug-in hybrid drives in cooperation with expert battery manufacturers. We continued and intensified these cooperative projects in 2013. VOLKSWAGEN VARTA Microbattery Forschungsgesellschaft mbH & Co. KG, which we formed in 2010 with VARTA Microbattery GmbH in Ellwangen, successfully continued its work and achieved important research results in the field of electric vehicle batteries in the reporting period.

Our collaborative projects with the Budapest University of Technology and Economics and the Lawrence Berkeley National Lab – as well as with other national and international partners – are also in the area of battery research.

We continued our cooperation with Daimler AG in 2013 to produce the Crafter; this arrangement will continue until 2016.

Integrating external R&D expertise
In addition to our own internal resources, the expertise of our suppliers is extremely important in our development process; it will help us to systematically advance our new model rollout in the coming years. The early-stage, close collaboration between our internal and external resources guarantees that we can successfully complete projects with the quality we expect in reduced development times. We draw on external expertise particularly in creative processes and in the area of virtual technologies and megatrends.

We also use external capacity for support services, downstream processes such as series management, and activities that are not customer-facing but generate improvements. We are systematically expanding our cooperation with subsequent series suppliers in order to be able to tap their expertise in the development phase of modules and components.

Numerous patents filed
In the reporting period, we filed 5,948 patent applications for employee inventions, around half of them in Germany. This large number and the technical quality of the ideas submitted in 2013 demonstrates once again the innovative power of our top team. The patents filed related mainly to innovations in the technology areas of modular infotainment, driver assistance systems, alternative drive technology and intelligent lightweight construction.

Key R&D figures
The total research and development spend in the Automotive Division for fiscal year 2013 increased by 23.4% year-on-year. Alongside new models, the main focus was on the electrification of our vehicle portfolio and increasing the efficiency of our range of engines; the proportion accounted for by alternative drive technologies again increased. The capitalization ratio rose to 34.2% (27.5%). Research and development costs recognized in the income statement in accordance with IFRSs increased to €10.2 billion (€8.9 billion). This meant that their ratio to sales revenue in the Automotive Division amounted to 5.8% (5.1%).

On December 31, 2013, the Research and Development function – including the equity-accounted joint venture companies in China – employed 43,756 people Group-wide (+4.0%), corresponding to 7.6% of the total headcount.

### RESEARCH AND DEVELOPMENT COSTS IN THE AUTOMOTIVE DIVISION

<table>
<thead>
<tr>
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<th></th>
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<tbody>
<tr>
<td>Total research and development costs</td>
<td>11,743</td>
<td>9,515</td>
<td>7,203</td>
<td>6,257</td>
<td>5,790</td>
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<td>of which capitalized development costs</td>
<td>4,021</td>
<td>2,615</td>
<td>1,666</td>
<td>1,667</td>
<td>1,947</td>
</tr>
<tr>
<td>Capitalization ratio in %</td>
<td>34.2</td>
<td>27.5</td>
<td>23.1</td>
<td>26.6</td>
<td>33.5</td>
</tr>
<tr>
<td>Amortization of capitalized development costs</td>
<td>2,464</td>
<td>1,951</td>
<td>1,697</td>
<td>2,276</td>
<td>1,586</td>
</tr>
<tr>
<td>Research and development costs recognized in the income statement</td>
<td>10,186</td>
<td>8,851</td>
<td>7,234</td>
<td>6,866</td>
<td>5,429</td>
</tr>
</tbody>
</table>
Procurement focused its work in the reporting period on safeguarding new vehicle start-ups, developing new procurement markets and ensuring continuity of supply to production.

Procurement strategy
Procurement makes an important contribution to the implementation of the Group Strategy 2018 with its procurement strategy. It continues to pursue four goals derived from the Group strategy: first, to provide market-centric premium quality and innovations at competitive prices; second, to meet cost targets and ensure the profitability of our products over their entire lifecycle; third, to safeguard our global volume growth through the permanent availability and consistently high quality of procured components; and fourth, to continue to raise employee satisfaction and the attractiveness of the procurement function.

We have assigned action areas to each of these goals. Each action area has concrete programs comprising precisely defined measures and responsibilities. These strategic elements are standardized and implemented throughout the Group, which enables us to take advantage of opportunities across all brands and all regions, pool strengths and minimize weaknesses and risks at the same time.

Continuous process optimization program
Continuous process optimization has become a core component of the global procurement organization. In 2013, our experts also continued work on improving and standardizing a large number of workflows worldwide as part of our process optimization program, in particular at the interface with processes in other functions. This enables us to reduce frictional losses and create synergies. For example, we improved requirements planning for equipment variants, enabling capacity for procured components to be planned significantly more precisely.

In 2013, we also began benchmarking the indicators, comparing them across all of the procurement organizations. This enables us to more quickly recognize and take advantage of best practice processes and areas for improvement.

Supply situation for procured components and raw materials
The supply situation in 2013 was dominated by the continued growth of vehicle sales in China, the steady increase in demand for vehicles based on the Modular Transverse Toolkit (MQB) and the ongoing trend toward vehicles with high-quality equipment levels. This in turn drove up our need for procured components. However, in cooperation with our suppliers, we made available the capacities needed to supply the component and vehicle plants.

Procurement focused its work in the reporting period on safeguarding new vehicle start-ups, developing new procurement markets and ensuring continuity of supply to production.

We also added additional suppliers to our INCA integrated capacity management system, which we use to safeguard our supply. 4,100 suppliers already manage their capacities in the Group online, which gives them an insight into the requirements forecasts for their parts for a planning horizon of up to 24 months.

In 2013, the global economy continued to grow, albeit at a slower pace year-on-year. The prices for most input and raw materials fell slightly on the spot markets. This was attributable to the sluggish demand from the industrialized nations and the relatively moderate growth in China. Crude oil prices remained volatile and reacted strongly to speculation and political uncertainty.

Economic effects also impacted prices for iron ore, coking coal and rare earths. The prices for these input materials are at a low level compared with the record highs in 2011; compared with 2012, the 2013 prices were similarly volatile and at a comparable level. China did not come close to exhausting its 2013 export quotas for rare earths set by the government; nevertheless, there were no supply shortages for components containing rare earths.

Procured component and supplier management assure quality within the supply process
Procured components management is firmly established in the Volkswagen Group’s global procurement organizations in the brands and regions. Tool and process experts support new vehicle start-ups around the world using Group-wide standards. As the automotive industry becomes more complex, we have helped suppliers secure parts for our series production.

Enhancing procured components management in the engines and transmissions areas is a particular focus for implementing the Group-wide growth strategy. Procured component management will strengthen its activities in this action area in the future.

In addition, the “Quality in Growth” program is focused on safeguarding start-ups in the context of internationalization and on managing the subcontractor structure. We hold cross-business area discussions with suppliers on best practices and lessons learned.

Other tools for preventive safeguarding of vehicle start-ups include simulated series production at the suppliers as part of preliminary series production and a multi-step performance test across all business areas. This enables us to identify supplier problems related to volume and quality in good time and to counteract any potential risks.
Developing new procurement markets

In order to achieve the cost targets derived from the Group Strategy 2018, we are developing affordable procurement markets under the C3 Sourcing (Cost-Competitive Country Sourcing) program.

In the reporting period, we took additional measures to integrate these activities in the markets. These include common sourcing – bundling volumes between different procurement markets. These common market-wide requests for the same or similar components will generate synergies for the participating locations and projects. This type of transregional awarding strategy is a win-win situation for Volkswagen and its business partners, as the latter can thus offer more affordable prices because of higher volumes and can become established competitors in new regions.

One example of targeted volume bundling and integration with local procurement markets and structures is our common sourcing activities in China: we achieved our cost targets by bundling request volumes. At the same time, we integrated 700 new suppliers into our systems environment. In the future, they will participate in global tenders and thus have the opportunity to export their products outside local markets.

Sustainability in supplier relationships

Since 2006, procurement has followed the requirements of the “sustainability in supplier relationships” concept, supporting our goal to become the most sustainable automobile company in the world by 2018. This concept helps secure the global volume flows as it avoids situations in which suppliers fail to deliver.

The “requirements for sustainability in relations with business partners” are a key component of the concept we use to expect and promote sustainability efforts from our suppliers. This takes into account both social and environmental standards.

In the reporting period, we again deepened our relationships with suppliers in order to supportively monitor sustainability requirements and to minimize sustainability risk: we surveyed them in detail on the current status of their implementation of our requirements and remedied any deficits together. We also provided more in-depth training in 2013 via our Internet-based training module.

Consistently implementing the “sustainability in supplier relationships” concept as well as providing intensive training for our own employees enables us to systematically reduce both procurement-relevant sustainability and supplier risk and to meet customer and capital market requirements.

Purchasing volume

The Volkswagen Group’s purchasing volume mainly comprises production materials, services and investments. In the reporting period – including the Chinese joint venture companies – it saw an increase of 4.9% to €135.0 billion. Suppliers in Germany account for a share of 37.3% (38.8%).

### Purchasing Volume by Brand and Market

<table>
<thead>
<tr>
<th>€ billion</th>
<th>2013</th>
<th>2012</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volkswagen Passenger Cars</td>
<td>79.0</td>
<td>77.0</td>
<td>+2.5</td>
</tr>
<tr>
<td>Audi¹</td>
<td>23.6</td>
<td>22.7</td>
<td>+4.3</td>
</tr>
<tr>
<td>ŠKODA</td>
<td>6.5</td>
<td>6.6</td>
<td>–1.5</td>
</tr>
<tr>
<td>SEAT</td>
<td>3.9</td>
<td>3.7</td>
<td>+6.7</td>
</tr>
<tr>
<td>Bentley</td>
<td>0.7</td>
<td>0.6</td>
<td>+9.7</td>
</tr>
<tr>
<td>Porsche²</td>
<td>3.7</td>
<td>1.4</td>
<td>x</td>
</tr>
<tr>
<td>Volkswagen Commercial Vehicles</td>
<td>2.4</td>
<td>2.4</td>
<td>+1.3</td>
</tr>
<tr>
<td>Scania</td>
<td>6.4</td>
<td>5.2</td>
<td>+22.3</td>
</tr>
<tr>
<td>MAN</td>
<td>8.8</td>
<td>9.1</td>
<td>–3.4</td>
</tr>
<tr>
<td><strong>Volkswagen Group</strong></td>
<td><strong>135.0</strong></td>
<td><strong>128.7</strong></td>
<td><strong>+4.9</strong></td>
</tr>
<tr>
<td>Europe/Remaining markets</td>
<td>87.9</td>
<td>88.1</td>
<td>–0.3</td>
</tr>
<tr>
<td>North America</td>
<td>6.3</td>
<td>6.2</td>
<td>+2.3</td>
</tr>
<tr>
<td>South America</td>
<td>8.9</td>
<td>8.0</td>
<td>+12.0</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>31.9</td>
<td>26.4</td>
<td>+20.6</td>
</tr>
</tbody>
</table>

¹ Audi includes Lamborghini and Ducati (from August 2012).
² Porsche from August 2012.
The automobile industry is changing – steadily, step by step, starting out on the road to e-mobility. This change is not a radical break with the past – rather it will take place gradually over the next few decades. Several trends and factors supporting this process are evident: first and foremost, climate change and the target agreed by governments worldwide to reduce CO₂ emissions by some 90% by the year 2050. A further factor is the fact that supplies of primary fossil materials are finite and are estimated to last in sufficient quantities for only another 40 to 60 years. In addition, greater urbanization is creating noise and air pollution in megacities, so that governments have had to introduce emission controls.

The Volkswagen Group has been working on e-mobility since the 1970s. But for a long time, neither the technology nor the market was ready for large-scale series development. But it’s a different story today – interest in e-mobility has grown substantially, thanks to a combination of steadily improving battery technology and falling prices for battery cells, national support programs and higher expectations of sustainable vehicle concepts in the marketplace. Against this backdrop, the Volkswagen Group anticipates that by 2020 electrified vehicles will make up around 3% of total vehicle production. The market share in cities will be much greater.

The Volkswagen Passenger Cars brand launched series production of the Touareg Hybrid in June 2010, the first all-terrain hybrid in the European SUV segment. It was followed by hybrid versions of the Jetta, Audi Q5, Audi A6, Audi A8, Porsche Cayenne and Porsche Panamera. MAN is using hybrid technology in its Lion’s City Hybrid bus. Moreover, the Company presented the first prototype of the Golf with a purely electric drive – again in June 2010. In 2011 and 2012, the Volkswagen Group brands carried out extensive fleet trials with electric and plug-in hybrid vehicles in Europe, China and the USA to make sure that every aspect relating to user requirements, suitability for everyday driving and technology had been tested in advance of series production. The market share in cities will be much greater.

The integration of electric traction into the modular toolkit strategy, especially the MQB, is absolutely crucial for the Group and at the same time constitutes a major competitive advantage. The MQB enables us to manufacture a whole range of electric and hybrid vehicles, including country-specific equipment, cost-efficiently in series production for all our markets. For example, all drive types can be incorporated into a Golf – from conventional drives and drives running on renewable energy, down to electric drives and, in the future, fuel cell drives as well – all produced bumper to bumper on the same assembly line. As many parts as possible will be taken over from the toolkit. The MQB also
enables us to implement the same concept in other vehicle classes based on the MQB, e.g. the Passat. Lightweight construction is also becoming more important here.

Alongside design, the drive is the most important factor shaping the customer-vehicle relationship. It was important for us right from the beginning to make sure that alternative drives also had their own dedicated development and in-house manufacturing teams. That is why we worked intensively on developing electric motors and battery systems and built up the necessary manufacturing skills at our plants in Kassel (electric drives) and Braunschweig (battery systems). Over two-thirds of the Automotive Division’s €84.2 billion investment program between 2014 and 2018 is earmarked for developing more efficient vehicles, drives and technologies, as well as environmentally friendly production processes. The Group has already hired additional skilled workers and experts to strengthen its expertise in the area of electric traction. In 2014, the new e-mobility campus will open within the research and development site at the Wolfsburg headquarters. This campus is where the Group will concentrate its expertise in the field of electric traction. A total of some 1,100 people will undertake research and work on this technology there.

There are several hurdles still to be overcome on the road towards more widespread take-up of e-mobility. Despite considerable advances in the past few years, the battery is still by far the biggest cost factor in today’s electric vehicles. However, new challenges and opportunities arise not only out of vehicle development itself, but also from integrating vehicles into their environment. The e-mobility system as a whole incorporates the idea that the vehicles of the future will be integrated into intelligent networks and will be able to communicate with other vehicles, buildings, or passers-by. For example, information about the level of battery charge or the charging time required can be accessed via a smartphone, or a vehicle can be located, reserved and paid for as part of a carsharing model. Other questions arise regarding the charging strategy, electric vehicle itself. Many of these issues also demand substantial commitment from politicians, local authorities and energy utilities. The Volkswagen Group plans to offer its customers new services and business models through intelligent networking across the automotive, energy supply and telecommunications sectors that will make switching over to the new technologies easier for them.

Volkswagen’s electric vehicles are dynamic, highly emotional automobiles that are fun to drive – they express the driver’s modern attitude to life and appreciation of advanced technology. Our aim is to offer safe, affordable electric vehicles suitable for everyday use, to almost all customer groups.
PRODUCTION

In fiscal year 2013, the Volkswagen Group again expanded its production network and increased its global production volume by 5.1% to 9.7 million vehicles. Productivity improved by 5.7% year-on-year despite difficult conditions in many markets. In the European market, declining volumes impacted productivity trends for some vehicle segments. However, this was more than offset by the increasing unit sales in China and the Group’s systematic implementation of its production system.

“Production 2018” strategy

The goal of our “Production 2018” strategy, which the Production function pursues in all Group brands and all regions, is to build the world’s most powerful and most fascinating automotive production system. The core objectives comprise enthusiastic customers, a higher earnings contribution, a global production network as well as a high level of attractiveness for employees. These objectives were assigned 13 challenges. Measures have been formulated for each of these challenges to improve production processes and connect them across all brands and all regions worldwide. This will ensure that our strategy is implemented sustainably and that our organization is prepared to meet future requirements.

Production locations

The Volkswagen Group’s global production network grew in 2013 from 99 to 106 locations. At the end of the reporting period, it consisted of 61 passenger car, commercial vehicle and motorcycle factories as well as 45 powertrain and component plants.

The Group’s 100th location opened in Silao, Mexico, back in spring 2013; this engine plant is the fourth production site in North America. This was followed by the MAN commercial vehicle plant in St. Petersburg and then by a total three vehicle plants in China – in Urumqi, Foshan and Ningbo. In addition, operations also began at a new engine plant in Changchun and, at the end of the year, a production location in Foshan for axles and struts, in order to safeguard the local supply of components to Chinese plants.

With 68 vehicle and component locations, Europe remains at the heart of our production network; 28 of these plants are located in Germany alone. The Asia-Pacific region is increasingly important, with 22 locations, 17 of which are in China. North America now has four production sites; the number of production sites in South America (nine sites) and Africa (three sites) remained unchanged in the reporting period.

Construction of Audi’s first automobile factory in North America has been underway since May 2013 in San José Chiapa, Mexico. The highly efficient production facility, with an annual capacity of 150,000 vehicles, is expected to start production from mid-2016; Audi’s next generation of the Q5 will be produced here. Starting in 2015, Audi will begin production for the local market, laying the foundation for further growth in South America: the new Audi A3 saloon and the Audi Q3 will be produced in Volkswagen do Brasil’s Curitiba plant. Volkswagen do Brasil is also expanding this plant to accommodate production of the new Golf, thus bringing our most advanced production technology, the Modular Transverse Toolkit (MQB), to Brazil starting in 2015.

Construction for a new vehicle plant began in May 2013 in Changsha, China, where an end-to-end automobile production facility with an annual capacity of 300,000 vehicles is being built for the Shanghai-Volkswagen joint venture by 2015 in the Southern central region of China.

We expanded our production partnerships as well as our production network in the reporting period. In Russia for example, our partner GAZ has been producing the Jetta at its Nizhny Novgorod site since the first half of 2013, and began production of the ŠKODA Octavia shortly thereafter.

The ASEAN region plays an important role in our growth strategy. It has high potential demand and is extremely diverse, for example in terms of its culture, income, vehicle requirements and customs and tax legislation. This is why we developed country-specific, long-term production concepts to support our local sales activities as part of our strategy for the largest markets in this region.

Our involvement in Indonesia started with local vehicle assembly in 2009 and has developed very positively in recent years. Because of the great success seen in this market, we opened a new assembly facility with greater capacity in Cikampek together with our local partner Indomobil in December 2013. In addition, we expanded the product portfolio in the last year to include the Tiguan and the new Golf. This brings the number of models assembled there to six for the Volkswagen Passenger Cars, Audi and Volkswagen Commercial Vehicles brands.

In Malaysia, we are currently expanding our local production in cooperation with our local partner DRB-HICOM. A new CKD production facility opened in 2013 at its site where up to 40,000 vehicles a year can be assembled. Currently, the Polo, Jetta and Passat models are being produced there.

We are also examining potential new production locations in the rest of the ASEAN region in order to achieve our ambitious unit sales targets.

New start-ups and production milestones

The Volkswagen Group implemented 27 new production start-ups in 2013, ten of which were new or successor products.

A highlight for the Volkswagen Passenger Cars brand was the start of production of the Golf estate in May 2013 at the Zwickau location. The start of manufacturing in Bratislava of the first fully electronic series vehicle – the e-up! – in July marked another mile-
stone. Audi kicked off the series production of the Audi A3 saloon in May at its expanded production facility in Győr, Hungary. The ŠKODA brand rolled out production of the seventh generation of the Octavia Combi in Mladá Boleslav in March and expanded its product range in August to include the Rapid Spaceback. The SEAT brand rounded off its Leon family in Martorell, Spain, in September with the Leon ST. Bentley began production of the second generation of the Flying Spur in Crewe in the United Kingdom.

We began production of the new Golf in China in July, the first time that the new generation of the bestselling model is being produced outside Europe; this also marked the start of operations at our new Foshan site.

The Group is continuing its success story in the South American small car segment in Taubaté in Brazil, where it has been producing the up! since the fourth quarter. Finally, at the end of 2013, production of the fifth series from Porsche started in Leipzig: the Macan.

The Volkswagen Group again celebrated anniversaries in 2013: in February, ŠKODA produced the 15 millionth vehicle since becoming a member of the Group. The eight millionth Gol was produced in March in Brazil. In June, the Wolfsburg plant reached the 30 million milestone for Golf models manufactured worldwide. The 10 millionth vehicle rolled off the production line in August in Puebla, Mexico. In November, the 25 millionth engine in the history of Audi Hungaria left the production facilities in Győr.

**Flexibility in production**

We design our production locations to be as flexible as possible. We adapt existing vehicle plants for multiple brands, converting them into multiple-brand plants. This allows us to react more easily to changing market requirements, exploit cross-brand synergies, improve processes and reduce investments.

One example is the new location that opened in Foshan, China, in September 2013: this extremely flexible vehicle plant is currently producing the Audi A3 saloon, the Audi A3 Sportback and the new Golf. If demand for one of these models rises, the production facilities permit us to increase the production volume of that model and lower that of another.

Our customers increasingly want more customized vehicles. A growing offering of vehicle and powertrain derivatives enables us to cater to this wish. Thanks to the modular toolkits developed by the Group, we can produce a wide variety of vehicle and drive concepts with a minimum of effort using a uniform vehicle architecture. Using modular toolkits across all brands – accompanied by the resulting standardization and synergies in the production process – allows us to efficiently produce different models on a single production line.

We are also standardizing operating equipment, systems, production areas and even entire factories. This makes us significantly more flexible when we are adapting our plants to accommodate multiple brands, accelerating and safeguarding new vehicle start-ups.

**The Group’s production system**

Our Group production system was introduced in 2007 and involves employees in optimizing corporate processes. Since then, we have systematically applied its principles and methods to all brands and areas in the Group, anchoring it in each of them. We are successfully increasing quality, productivity, ergonomics, leadership and teamwork by using a continuous improvement process.
(CIP) in the Company. Additional process and organizational improvements are intended to make Volkswagen number one in the automotive industry by 2018 in terms of customer satisfaction, its attractiveness as an employer, profitability and growth.

The introduction of the Group’s production system was an important step toward to creating a value-driven company with coordinated processes. Throughout the world, we are implementing these principles and methods at the brand and regional locations and are continuing to systematically enhance the production system in order to safeguard what we have accomplished to date for the long term.

Our ambitious growth objectives also create a challenge for logistics. The “Neues Logistik Konzept” (NLK – New Logistics Concept) manages the difficulties arising from the increasing volume of materials and the widening variety of components. We are using this to make our material and information flows even more efficient throughout the Group. Initially, our focus was on making significant improvements in providing materials to our assembly lines. In the future, we will turn our attention more strongly towards the upstream transportation and logistics processes between our locations and our suppliers, where potential synergies are high. These mainly result from smaller inventories, greater transparency as well as more stable processes and higher quality information.

Efficient production

To achieve our goal of becoming the world’s most sustainable automobile manufacturer, we have begun to redesign production processes at all locations along end-to-end ecological lines. Our aim is to align economics with ecology. We demonstrably cut costs and conserve the environment by using resources efficiently and cutting emissions. For example, we recorded CO2 savings of over 229,000 t in 2013 by implementing more than 1,260 measures to improve energy and environmental processes in the production of passenger cars and light commercial vehicles in the course of a system-based exchange of best practices. At the same time, there is also an economic benefit as this corresponds to cost savings of more than €28 million each year.

The Group’s brands are implementing the Volkswagen Group’s ecological reorganization by means of their own cross-disciplinary strategies. For example, the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands are bundling all ecological measures related to efficient use of resources and lower emissions in production in their holistic “Think Blue. Factory.” program, which was launched in 2011 under the motto “More sustainability – less environmental impact”. When we systematically share knowledge between the locations and across trades, we benefit from our employees’ collective expertise. “Think Blue. Factory.” is part of “Think Blue.”, the Volkswagen brand’s holistic initiative promoting ecological sustainability.

Other brands have launched initiatives to reveal potential, develop strategies and solutions, and take action in order to meet the Volkswagen Group’s sustainability goals. Examples include the SKODA brand’s “GreenFuture” initiative, the SEAT brand’s “ECOMOTIVE Factory” initiative and the MAN brand’s climate strategy.

Here are a few examples of ecological activities that were implemented successfully in the reporting period:

In order to exploit existing energy-saving potential, an energy value stream analysis pilot project was implemented in the paint shop and body shell production facility at the Bratislava plant. The first step was to determine how much energy is needed for production and where there are potential savings so that consumption can be reduced in the next step. Our aim with this measure is to target energy savings of 49,000 MWh and CO2 savings of 9,800 t. At the same time, these savings will cut over €700,000 in costs each year.

The location of the Emden plant is being leveraged to save energy by using geothermal energy. When the body shell production building was built, geothermal piles were set into the ground. These piles harness the coldness in the ground to cool equipment during the production process. This measure offers savings of 12,000 MWh of energy and 25,000 m³ of water and also cuts our costs by €70,000 a year compared with a cooling tower that would otherwise be needed.

The Pamplona plant can reduce or avoid waste thanks to its successful waste strategy. It prepares a list of the types of waste that can be reused. In addition, it identifies which processes create waste so that new process workflows can be developed to reduce or reuse waste. Already, 380 t of paint sludge have been cut, saving us €60,000 a year. The structured approach enshrined in this waste strategy is also being rolled out at other Volkswagen Passenger Cars and Commercial Vehicles plants, reducing the amount of waste they produce.

The Braunschweig plant can save 34,380 m³ of water by using conductivity-based spray water metering in its paintshops. This also makes a difference in costs: this optimization measure saves approximately €232,000 each year.

In 2013, SEAT completed the third and final construction phase of its “SEAT al sol” solar rooftop park at its Martorell plant in Spain. A total of 53,000 solar panels cover an area of 276,000 m² and were installed on the roofs of production facilities and delivery areas. With an annual capacity of 15,000 MWh of electricity, this helps SEAT cut its CO2 emissions by 7,000 t/year.

As the Volkswagen Group’s ecological restructuring takes place, it is essential to get employees even more involved. For this reason, the training center in Chemnitz that is open to all Group employees developed an energy training program in 2013 that reproduces a realistic production environment and simulates different energy
situations. The aim is to teach employees basic skills for saving energy and to enable them to identify energy waste in their immediate working environment.

SALES AND MARKETING

The Volkswagen Group’s unique product portfolio comprises twelve successful brands that excite millions of customers worldwide, year in and year out. In 2013, we systematically reinforced the distinct and individual image of each brand and optimized their market positioning.

Brand diversity in the Volkswagen Group

The “Volkswagen – Das Auto.” slogan unites the three core messages that distinguish the Volkswagen Passenger Cars brand: its products are innovative, offer enduring value and are responsible. Customers worldwide associate quality, reliability and German engineering skill with Volkswagen Passenger Cars. Global brand management focuses on the wishes and preferences of customers, today and in the future. They are the starting point for developing innovations that are driven by demand while remaining affordable. This is our competitive advantage; based on this, the Volkswagen Passenger Cars brand aims to become the most innovative volume manufacturer with the best quality in each class in the medium to long term.

In the premium segment, Audi has become one of the strongest car brands worldwide under the slogan of “Vorsprung durch Technik”. Its objective is to become the market leader in this segment. To do this, the Audi brand relies heavily on its progressive, high-quality and sporty image. The numerous honors and awards it has received attest to the brand’s strategy of innovative engineering solutions and an emotional design language.

With its “Simply Clever” slogan, ŠKODA has become one of the fastest emerging brands, particularly in Europe and China. The brand image is defined by a compelling value proposition and an attractive design, coupled with intelligent ideas for the use of space that are technically simple but offer sophisticated, practical details.

The Spanish SEAT brand is aiming for stronger growth, particularly in Europe, by sharpening its brand profile and focusing on its distinctive brand values: it is dynamic, young and design-oriented. The brand claim – “Enjoyneering” – characterizes the brand’s passionate perfectionism and emotional technology leadership.

Sports car manufacturer Porsche’s brand values are a combination of opposites: exclusivity and acceptance, tradition and innovation, performance and suitability for daily use, design and functionality. Porsche’s philosophy is “to achieve maximum output from minimum input” while adhering to high quality standards.

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

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

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

The core values of the MAN brand are reliability, innovation, dynamic strength and openness. At the same time, these values are key success factors for MAN, one of the leading European manufacturers of commercial vehicles, engines and mechanical engineering equipment. As well as trucks and buses, the company manufactures diesel engines, turbomachinery, turnkey power plants and special gear units.

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

Think Blue.

“Think Blue.” is the Volkswagen Passenger Cars brand’s ecological sustainability policy. It is Volkswagen’s answer to, among other things, the question of how individual mobility can be reconciled with sustainable practices. “Think Blue.” is contributing to the Volkswagen Group’s objective of being the most sustainable automobile manufacturer in the world by 2018.

In addition to the international “Think Blue. Factory.” program, which aims to conserve resources and lower emissions in the vehicle and components plants, another example of the “Think Blue.” range of activities is an initiative at Volkswagen dealers in Germany. Starting in 2014, all partner operations will be provided with advice on eco-efficiency that will suggest concrete measures for running an environmentally friendly dealership.

The Volkswagen Passenger Cars brand was also a partner of the 2013 One Young World Summit in Johannesburg. Around 1,300 young people from 190 countries discussed topics such as sustainable development with experts and celebrities. Twenty-five young international Volkswagen Passenger Cars brand employees provided information on “Think Blue,” at the summit, participating in discussions so as to identify trends and challenges for the Company to address.
**Customer satisfaction and customer loyalty**

The Volkswagen Group’s sales activities focus consistently on making our customers satisfied customers – this is the top priority for us. We further increased the satisfaction of our vehicle buyers, after-sales customers and dealership partners with the measures and process improvements we implemented in 2013.

The Group brands regularly measure the satisfaction of their customers, focusing on products and services and derive measures from the survey results to improve customer satisfaction even further.

Measured in terms of customer satisfaction with their products, the Audi and Porsche brands are among the leaders in the core European markets in comparison to other Group brands and their competitors. The other brands in the Group also score higher than competing brands.

Customers are loyal to our brands and trust them when they are satisfied with our products and services. The extent of this trust is impressively illustrated by our loyalty figures, which we measure on a regular basis. The Volkswagen Passenger Cars brand, for example, has maintained a high level of customer loyalty in its core European markets for several years in a row. The loyalty of Audi, Porsche and ŠKODA customers has likewise kept these brands in the upper rankings in a competitive comparison for a number of years.

**Structure of Group sales**

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

In the reporting period, we strengthened dealer profitability in particular. This was achieved firstly with cost-cutting programs and secondly by expanding the business volume for each dealer. Our distribution network strategy, which calls for us to work with strong partners and leverage all business fields, as well as the difficult economic situation in some countries led to the distribution network being restructured. The focus is on a close working relationship with dealers and their profitability. We use Group companies to manage our wholesale business in over 20 markets. A central department makes sales activities more transparent and more profitable, as well as creating synergies between the different brands. Wholesale companies can learn quickly and efficiently from the best practices adopted by individual firms. The central department is instrumental in helping us achieve the goals laid down in the Group’s Strategy 2018.

Following the integration of Porsche Holding Salzburg, we reorganized trading activities in the Volkswagen Group so as to be able to take full advantage of this company’s specific skills. The majority of the Group’s proprietary trading activities are now managed by Porsche Holding Salzburg. The company is a key element for strengthening our position in the emerging markets; for example, it took over the function of importer in Chile in March 2013. We also systematically and rapidly expanded their presence in China in the reporting period.

**Fleet customer business further expanded**

Our relationships with fleet customers are often of a long-term nature. This customer group guarantees more stable vehicle sales than in the private customer segment in a volatile environment. The Volkswagen Group has an established base of business fleet customers in Germany and the rest of Europe in particular. Our extensive product offering enables us to satisfy custom mobility needs from a single source. This allowed us to largely defend our well established position in Europe in 2013.

**The e-mobility challenge for Group sales**

The Volkswagen Group’s e-mobility strategy covers the development of customer-centric products and business models to complement its range of electric vehicles.

In the reporting period, we entered into partnerships with green energy utilities such as “LichtBlick” and installation service providers for the charging infrastructure, including Bosch. These partners will help us provide our customers with comprehensive vehicle-related offerings. When selecting products and partners, we took great care to preserve the identities of our brands while, at the same time, generating maximum synergies for the Group.

We also provided additional sales and after-sales services to our electric vehicle customers.

**Used car business**

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

We focus on professional used cars management at both the wholesale and retail levels. Customer-driven financial services lay the foundation for attractive product packages. In addition, our proprietary used car brands were further strengthened and rolled out internationally so as to ensure customer offerings also meet their needs. Cross-brand activities implement examples of best practice throughout the Group, ensuring economies of scale and leveraging synergies.

We established and standardized processes for used cars at all distribution levels, enhanced and increasingly harmonized the underlying IT infrastructure and introduced uniform management performance indicators.
To achieve long-term success in our used car business, we attach considerable importance to stable residual values – in the interest of our customers as well – and have set up system-based reporting functions for this purpose.

**QUALITY ASSURANCE**

The satisfaction of our customers worldwide is crucially driven by the quality of our products and services. Customers are satisfied and loyal only when their expectations of a product or service are met or even exceeded. Reliability, appeal and service determine the quality perceived by the customer throughout the entire product experience. Our objective is to surprise and excite our customers in all these areas so that we can win them over with our outstanding quality. We continued to improve our high level of quality in 2013, thus contributing to growth and to increasing the value of the Volkswagen Group.

Our Quality Assurance consistently focuses on customer wishes and integrates them into product requirements. It ensures that Volkswagen, as the manufacturer, and its products comply with all the legal requirements, defines high quality targets and standards and supervises compliance with them. In addition, Quality Assurance also identifies the cause of any defects and manages the process for eliminating them.

**Focus on customer wishes**

The global growth of the Volkswagen Group poses additional challenges for Quality Assurance. New vehicle projects in the different regions throughout the world are subject to the widest variety of customer desires. In light of this, identifying specific regional factors and prioritizing them is an important task for Quality Assurance so that they can then be integrated into new products, but also so they can be reflected appropriately in the production of established vehicle models. Examples of important factors include the available fuel quality, road conditions, traffic density, country-specific usage patterns and not least local legislation. The Volkswagen Group’s strong growth outside of Europe means that the main focus of Quality Assurance is on conditions in the BRIC markets.

We mainly use studies and customer surveys to capture customer requirements in the different markets.

**Product and supplier quality**

In the reporting period, a large number of product start-ups and several new plants starting to operate again made high demands on Quality Assurance. We maintained the high quality of the previous year for the Group and continued to reduce the number of repairs. Our suppliers also made significant contributions to this. We expect sustainable practices from them as well as delivering the highest product quality and reliability of supply.

New vehicle projects entail innovative technologies that must be established in the markets without any problems. This is why Quality Assurance analyzes these projects long before customers experience a new product. The goal is to make products even better and more reliable, while successfully implementing all customer wishes in the new projects and continuing to factor in regional requirements and needs.

In 2013, we continued to standardize our defect elimination process and can now react even more quickly to vehicle problems and help our customers even faster. This both increases customer satisfaction and reduces warranty and ex gratia repair costs for Volkswagen.

**Service quality**

The Service area is also focused on improving the quality of its offerings worldwide. In 2013, we therefore optimized the warranty and ex gratia repair instruments. As the direct interface with customers, the dealership operation offers other starting points: we can identify at an early stage any problems that may be revealed in the emotional moment of vehicle handover and correct them systematically.

We began recalibrating the processes at the interface between markets and dealers in 2012. We successfully continued this project in 2013 and positioned Technical Service even closer to the market, enabling us to recognize and prioritize market disruptions in good time. This is an important condition for being able to quickly start the process for eliminating defects and taking effective measures in services and product ranges so that customer satisfaction continues to grow.
Volkswagen's best vocational trainees around the world. This prize was awarded for the thirteenth time in November 2013 in Braunschweig. 40 vocational trainees from 15 countries received the honor.

Volkswagen supports particularly talented vocational trainees in its talent group for young specialists. This is a key instrument for guiding employees who are outstanding at both a professional and personal level through the transition from vocational traineeship to professional practice. In December 2013, 196 talented young people took part in this two-year development and training program; 270 have already completed it.

After completing their vocational training, young people at the start of their career have had the opportunity since 2006 to take part in the “Wanderjahre” (Years Abroad) program, spending twelve months at one of the Group’s international locations. Today, 35 Volkswagen Group locations in 19 different countries participate in this development program.

The focus of Volkswagen’s vocational training is on professional development, but participants also benefit from a series of supplementary programs and opportunities. For example, Volkswagen vocational trainees have a more than twenty-year tradition of involvement with the Auschwitz memorial site. Prepared and supervised by the International Auschwitz Council and Volkswagen Group Academy, vocational trainees from Volkswagen, its subsidiaries and investees and Polish young people travel to Auschwitz six times a year for two weeks in each case to help maintain the memorial. More than 2,400 young people from Germany and Poland have participated in the program so far.

Developing university graduates
Volkswagen uses a differentiated approach to support its young academic talent; the Student Talent Bank and the Academic Talent Pool.

Volkswagen has been using the Student Talent Bank since 1998 to develop particularly high-achieving students in both functional and interdisciplinary areas. Since then, nearly 2,300 students have qualified for inclusion in the Student Talent Bank thanks to their committed approach during their internship at Volkswagen. Volkswagen supports these former interns during their further studies and invites them to presentations and seminars by specialists or on excursions to Volkswagen locations, for example.

Talented students are added to the Academic Talent Pool just before they complete their degree or doctorate. This recruiting tool puts selected high potentials on the radar screen at the Company, allowing them to be considered for a qualified entry-level position in one of the functional areas.
Volkswagen’s StartUp Direct trainee program gets university graduates off to a flying start in the Company. Over a two-year period, participants in the program not only work in their own department and familiarize themselves with the Company, but also attend supplementary training seminars. Alternatively, university graduates with an international focus can enter the StartUp Cross program. This 18-month international program includes a three-month international placement. Over 2,700 trainees have gained their first experience of Volkswagen in one of these two programs since then. In 2013 alone, Volkswagen AG employed a total of 360 university graduates, around 30% of whom are women.

The Volkswagen Group’s StartUp Europe trainee program has offered young engineers from Southern Europe an opportunity to gain international work experience since 2012. This Volkswagen program is designed to attract international talent and is initially targeted at university graduates from Spain and Portugal. The graduates start off in the relevant company abroad before moving to a Group company in Germany for up to 21 months. They may be offered permanent positions after completion of the two-year program.

**Professional development and training for all employees**

For employees to progress personally as individuals within the Company, they have to be supported and given the opportunity to demonstrate their capabilities and develop them further. Volkswagen offers the opportunity for training to all employees within the various vocational groups. A vocational group includes all employees who perform activities based on similar technical skills and work together across experience and development levels. Learning and teaching happens by involving the vocational group’s own internal specialists using both tested and new forms of skills development.

Volkswagen is continuously extending and enhancing its mutual learning approach: more and more areas of the Company have vocational group academies in which they organize skills development. The Volkswagen Group Academy was formed in January 2013 as an umbrella organization for all of the Group’s academies. It is the result of the reintegration of Volkswagen Coaching GmbH and a merger with the AutoUni. The new structure is an integrated qualification platform that leverages synergies and ensures high quality and expertise levels throughout the Group. It covers everything from vocational training up to and including academic professional development.

The Volkswagen Group is also driving forward uniform global training and professional development standards for master craftsmen and future executives and managers. These standards were rolled out at additional Group locations in Germany and abroad. Overall, 322 master craftsmen qualified at Volkswagen in the reporting period, including 84 abroad.

There are also many tailored training opportunities for other professions in the Group. First and foremost is Volkswagen AG’s Volkswagen Group Academy, which offers a broad range of courses. These include personal development programs, interdisciplinary seminars and courses, and specialized training options designed for the particular needs of individual vocational groups. In the reporting period, 86,316 participants received further training at the 10,060 seminars held by Volkswagen Group Academy lasting a total of 213,678 participant days. In the area of specialist skills development (e.g. factory automation, robotics, applications engineering and business), 56,554 participants took part in 7,591 seminars lasting for 126,976 participant days. In the field of “crossfunctional skills development” (which includes leadership skills and personal development), 29,762 participants attended 2,469 training courses for a total of 86,702 participant days. To ensure that its range of training options always keeps pace with the Company’s training needs, an additional 369 new training courses were developed in 2013.

**Professional development at university level: the AutoUni**

The AutoUni, which operates under the Volkswagen Group Academy umbrella, ensures the availability of specialized academic knowledge within the Volkswagen Group. The educational offerings, which are developed in conjunction with the partner universities, are tailored to the needs of the vocational groups. With its eight institutes, the AutoUni offers numerous lectures, conferences, programs and cooperative study modules at university level. Cooperative study modules are used to study scientific topics in more detail and finish with an exam. Programs at the AutoUni, which is based in Wolfsburg, are being rolled out internationally, a process that dates back several years. In 2013, they were extended to the Group sites in Bratislava, Mladá Boleslav, Martorell, Shanghai and Beijing, among other places. One of the focuses was on future mobility: electric traction, innovative drivetrains and lightweight construction as well as sustainable transportation systems.
The AutoUni is also heavily involved in the Group’s doctoral student program. More than 420 doctoral students were supervised in 2013 at the various Volkswagen Group companies in Germany. The doctoral students conduct research on ambitious PhD thesis topics that are relevant for the Company. During this time, they work closely with the department they have been assigned to in the Group, which also appoints a supervisor within the Company for them. The AutoUni supports doctoral students by providing seminars on academic writing and its doctoral colloquium offers the opportunity to present ongoing dissertations and discuss them in public within the Group.

Advancement of women, family-friendly HR policies
Volkswagen’s corporate culture places a very high value on both job and family. For Volkswagen, family-friendly human resources policies are a key success factor along the road to becoming one of the world’s leading employers. In spring 2011, the Volkswagen Group proposed individual goals to raise the proportion of women at Volkswagen in Germany for the long term as part of a voluntary commitment.

A pioneering instrument is the quota for the university graduates we hire. Volkswagen hires the year’s best university graduates in the necessary fields and then trains them further. It is guided in this by the proportion of female graduates in each field of study. Consequently, approximately 10% of graduate engineer recruits have to be women. For electrical engineering, the ratio is also 10% and for business and economics 50%. Averaged across all fields of study relevant to Volkswagen, the individual ratios produce an overall goal of at least 30% women among the university graduates hired.

PROPORTION OF WOMEN VOLKSWAGEN GROUP IN GERMANY* as of December 31, 2013

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total vocational trainees</td>
<td>27.4</td>
<td>26.8</td>
</tr>
<tr>
<td>Industrial vocational trainees</td>
<td>21.4</td>
<td>20.9</td>
</tr>
<tr>
<td>Commercial vocational trainees</td>
<td>53.2</td>
<td>52.3</td>
</tr>
<tr>
<td>Students in traineeship schemes</td>
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<td>31.3</td>
</tr>
<tr>
<td>Total management</td>
<td>9.8</td>
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</tr>
<tr>
<td>Management</td>
<td>11.2</td>
<td>11.0</td>
</tr>
<tr>
<td>Senior management</td>
<td>7.9</td>
<td>7.0</td>
</tr>
<tr>
<td>Top management</td>
<td>4.8</td>
<td>5.5</td>
</tr>
</tbody>
</table>

* Excluding Scania, MAN and Porsche.

Volkswagen approaches female students at an early stage. For example, it uses its Germany-wide Woman DrivINg Award and the Woman Experience Day to focus on female engineering students and graduates so as to recruit them for technical positions at Volkswagen.

This increased proportion of qualified women joining the Company will enable us to steadily lift the proportion of female executives in the coming years. The Volkswagen Group is aiming to have 30% women at all levels of the management hierarchy in Germany in the long term. In line with this, the proportion of women at the Volkswagen Group in Germany increased from 9.3% (2012) to 9.8% (2013). 40 women at Volkswagen AG participated in the Company’s mentoring program in 2013, which is designed to support them as they transition to management.

Volkswagen also has the goal of raising the proportion of women among its skilled workers and master-level workers in Germany to 10%. In 2013, 30 women at Volkswagen AG took part in the master craftsman mentoring program.

With 27.4% female vocational trainees in 2013, and especially with 21.4% in the industrial and technical area, the Volkswagen Group is one of the leaders in the automotive industry in Germany. We aim to increase this to around 30%. Volkswagen therefore specifically recruits female talent, for example by offering special information days for industrial and technical vocational training at Volkswagen and career experience days for young women. The Company has participated in the national “Girls’ Day” in Germany for years and offered roughly 2,200 schoolgirls a behind-the-scenes look into careers in the automotive industry in the reporting period.

In addition to hiring and supporting talented female employees, Volkswagen is attempting to systematically improve its employees’ work/life balance. This includes a high level of working time flexibility and a range of part-time and shift models, as well as easing the transition back into the workforce for employees on parental leave. Teleworking and the associated use of new IT and communications technologies allow employees to find their own individual work/life balance.

Another step toward becoming a family-friendly company is the constant expansion of a range of childcare options. Since 2013, childcare is now available during school vacations at all Volkswagen AG locations for the first time. Volkswagen Sachsen GmbH and Volkswagen Osnabrück GmbH also added childcare during school vacations as of the reporting period; this has been implemented at AUDI AG since 2011.

The Volkswagen Group’s experience with near-site childcare facilities has been positive. For example, MAN offers company childcare facilities at its Munich and Augsburg locations. Volkswagen Financial Services AG’s “Frech Daxe” kindergarten is one of the largest company childcare facilities in Germany. Childcare has been available at Volkswagen Group of America’s Chattanooga location since 2012.
Performance incentives and bonus arrangements

Systematically encouraging and recognizing achievements and switching to remuneration systems that allow employees to share in the Company’s success for the long term are another component of our human resources strategy. Universal and uniform criteria for skills development and performance evaluation have been in place at Volkswagen AG since 2010. These apply to the entire workforce – from vocational trainees to senior executives. The criteria are underpinned by concrete incentive systems in the remuneration structure.

Volkswagen AG’s employees covered by collective pay agreements have a remuneration system that comprises three key elements:

- basic pay in the form of a competitive monthly salary,
- a performance-based remuneration component, which recognizes the achievements of each individual employee, and
- the right to a bonus arrangement anchored in the collective pay agreements.

This three-tier remuneration system has proven its worth as a tool for the workforce to participate in the Company’s success. At the same time, it helps recognize individual achievements while maintaining competitiveness. It is therefore being increasingly implemented as the standard throughout the Group.

Employee participation

Employees can actively help shape the Company by participating in the opinion survey. This uniform, Group-wide employee survey gathers information about employee satisfaction once a year. Following the survey, the results are discussed together by supervisors and employees. Complaints and problems are addressed, as are suggestions on how to better organize work. The measures agreed are then implemented before the next survey. The opinion survey was conducted for the sixth time in 2013. A total of 121 locations and companies in 40 countries were included in the survey. More than 400,000 of the over 450,000 employees invited to participate took part. This corresponds to a participation rate of 89%.

Employees from Porsche, MAN, Volkswagen Group Retail Deutschland GmbH and Volkswagen Group Polska Sp. z o.o took part for the first time. The sentiment rating is a key parameter for the opinion survey, in addition to the level of employee participation. In 2013, this was 79 (79) out of 100.

Another instrument – and one whose success depends significantly on employee involvement and participation – is the “Volkswagen Way”. This has been an integral feature at Volkswagen for six years. It aims to safeguard competitiveness and employment in equal measure. It focuses on a permanent improvement process.
that aims to achieve continuous process optimization in the areas of productivity and quality, ergonomics, leadership and teamwork. In the reporting period, a particular focus was on optimizing overarching workflows. In addition to the “Volkswagen Way”, the Group also has similar programs designed to optimize processes and structures. For example, during production, a uniform Group-wide production system is used for all brands.

Employees use their creativity, knowledge and initiative to take responsibility for process and product improvement under the Ideas Management program. Employees have submitted approximately two million ideas since 1949 using the suggestion scheme in place at that time and today’s Ideas Management program, saving nearly €3,000 million at Volkswagen AG and Volkswagen Sachsen GmbH locations. Ideas Management is an important leadership and motivational instrument for line supervisors. It also helps make work at Volkswagen safer and more compatible with good health.

### IDEAS MANAGEMENT IN THE VOLKSWAGEN GROUP*

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideas suggestion</td>
<td>532,053</td>
<td>536,532</td>
</tr>
<tr>
<td>Suggestion implemented</td>
<td>412,795</td>
<td>380,475</td>
</tr>
<tr>
<td>Savings in € million</td>
<td>312.5</td>
<td>358.1</td>
</tr>
<tr>
<td>Bonuses in € million</td>
<td>34.9</td>
<td>34.1</td>
</tr>
</tbody>
</table>

* 31 (30) participating production locations.

Preventive healthcare and occupational safety

Healthcare management at Volkswagen is much more than classic preventive healthcare and occupational safety. The comprehensive healthcare management system that is in place at Volkswagen also covers aspects of work organization, ergonomics, leadership and prospects for all individuals.

The “CheckUp”, a free, comprehensive medical examination, was made available to all employees at Audi in 2006 and at Volkswagen in 2010. This tool helps to maintain and improve employees’ health, fitness and performance. The high level of diagnostic quality is widely acknowledged by employees; nearly 61,000 Volkswagen check-ups and almost 60,000 Audi check-ups have been performed to date.

Now that the check-ups have been established at the German locations, associated internal and external prevention and training programs are now being systematically expanded. In addition, the large-scale rollout of the Volkswagen CheckUp was continued at the international locations. Existing screening programs were adapted to meet the Group-wide standard represented by the CheckUp, for example at ŠKODA AUTO a.s. in 2013. More than 15,000 ŠKODA check-ups have already been performed since then.

At the same time, Volkswagen uses improvements along the entire product development process to guarantee that the quality of workplaces and the strains on employees that arise as a result of production are already taken into account in the planning and design stages of vehicle models. The common objective is to combine ergonomically state-of-the-art workplaces and innovative work processes, using a mix of science and practical experience. The deployment of occupational assistants on the production lines means that employees are able to receive advice and guidance directly at their workplace about how to implement their workflows more ergonomically.

In the course of our management development programs, line supervisors are taught to give stronger consideration in their leadership practices to the link between leadership and employee health. We have also implemented compulsory training modules on occupational safety for all prospective managers since the beginning of 2012. In the same way, the training components for prospective master-level craftsmen were standardized in 2013.

Using the Group occupational safety management system, all Group companies covered by it analyzed their existing occupational safety organizations and processes. The results are available throughout the Group in a central database system. This includes the systematic communication of examples of good practice identified in the Volkswagen Group.
Social benefits
Volkswagen AG tops up the benefits provided by social insurance institutions, such as sick pay, and supports dependents when an employee dies. All Volkswagen AG employees are also insured by a group accident insurance policy against accidents resulting in death or disability. Volkswagen AG also grants short-term loans in exceptional cases of economic hardship.

Employees in the Group companies in Germany and abroad enjoy additional benefits. Depending on the location, these include transportation and subsistence allowances, affordable housing, monthly childcare allowances as well as subsidies towards selected leisure activities. Additional preventive healthcare services or supplementary pension insurances round off this offering on a location-specific basis.

Volkswagen AG and its brand companies and subsidiaries operate an occupational pension system, making an important contribution to their employees’ retirement income. The direct pension commitment at Volkswagen AG comprises the basic pension and the retirement benefits under contributory pension schemes I and II. While the basic pension and contributory pension scheme I are funded by the employer, contributory pension scheme II offers employees the opportunity to provide for their own retirement income through deferred compensation. Direct insurance is another opportunity for employees to provide for their own retirement income through deferred compensation.

Volkswagen AG’s Time Asset is an instrument that gives staff the opportunity to retire earlier. Since 1998, employees have been able to make contributions from their gross salary and time credits. The accumulated Time Asset credits can be used for paid early retirement.

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**EMPLOYEE BREAKDOWN**

**as of December 31, 2013**

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Vocational trainees in the Group</td>
<td>17,703</td>
<td>16,714</td>
<td>15,021</td>
<td>10,545</td>
<td>9,846</td>
</tr>
<tr>
<td>Industrial</td>
<td>13,174</td>
<td>12,508</td>
<td>11,249</td>
<td>7,799</td>
<td>7,439</td>
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<tr>
<td>Commercial</td>
<td>4,529</td>
<td>4,206</td>
<td>3,772</td>
<td>2,746</td>
<td>2,407</td>
</tr>
<tr>
<td>Passive stage of partial retirement</td>
<td>9,501</td>
<td>7,804</td>
<td>4,488</td>
<td>4,778</td>
<td>7,070</td>
</tr>
<tr>
<td>Group’s active employees</td>
<td>545,596</td>
<td>525,245</td>
<td>482,447</td>
<td>384,058</td>
<td>351,584</td>
</tr>
<tr>
<td>Employees</td>
<td>572,800</td>
<td>549,763</td>
<td>501,956</td>
<td>399,381</td>
<td>368,500</td>
</tr>
<tr>
<td>Europe</td>
<td>424,964</td>
<td>410,427</td>
<td>378,030</td>
<td>290,159</td>
<td>278,779</td>
</tr>
<tr>
<td>America</td>
<td>61,796</td>
<td>61,193</td>
<td>58,072</td>
<td>54,571</td>
<td>48,529</td>
</tr>
<tr>
<td>Africa</td>
<td>6,356</td>
<td>6,461</td>
<td>6,602</td>
<td>6,546</td>
<td>5,608</td>
</tr>
<tr>
<td>Asia</td>
<td>78,672</td>
<td>68,704</td>
<td>58,540</td>
<td>47,607</td>
<td>35,123</td>
</tr>
<tr>
<td>Australia</td>
<td>1,012</td>
<td>978</td>
<td>712</td>
<td>498</td>
<td>461</td>
</tr>
<tr>
<td>Percentage of female employees in the Group</td>
<td>15.5</td>
<td>15.2</td>
<td>14.7</td>
<td>14.2</td>
<td>14.2</td>
</tr>
<tr>
<td>Female graduate recruits (in %)</td>
<td>35.3</td>
<td>29.2</td>
<td>30.5</td>
<td>23.6</td>
<td>22.4</td>
</tr>
<tr>
<td>Number of accidents at work (thousands)</td>
<td>1.9</td>
<td>1.7</td>
<td>1.8</td>
<td>1.9</td>
<td>1.9</td>
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<tr>
<td>Accident value</td>
<td>0.003</td>
<td>0.003</td>
<td>0.003</td>
<td>0.004</td>
<td>0.004</td>
</tr>
</tbody>
</table>

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1 Including the Chinese joint venture companies.
2 Volkswagen AG
3 Production locations excluding Scania, MAN (also excluding Porsche in 2012, also excluding Audi Brussels in 2009); accident value = number of accidents at work x 1,000 /number of hours worked.
INFORMATION TECHNOLOGY (IT)

The communication society, the nearly universal information technology support for business processes and the development of new locations continually pose new challenges to the IT functions of large companies. An adequately equipped IT infrastructure, both technologically and quantitatively, is the foundation for stable IT systems and thus for optimal IT support.

Ensuring that new developments in the application landscape are passed on efficiently to the different corporate locations and incorporated into business processes and the sales network is just as vital as having a modern IT infrastructure. The IT staff are responsible not only for programming the systems at all of the Volkswagen Group’s brands, but also for supporting users in Technical Development, Production and Sales. This is how applications tailored to the exact needs of the users are created. Volkswagen’s factory planners can use the “digital factory”, for example, to virtually walk through the future production buildings long before the ground is broken. IT support ensures that employees on the production line can build the right vehicle at the right time using the Group-wide “Fertigungs-, Informations- und Steuerungssystem” (FIS – Production, Information and Control System). Expert teams on the ground develop solutions that can be applied globally and across brands for all of these IT services. This way, Volkswagen establishes IT standards in its business areas that also form a basis for leveraging potential synergies.

In addition, customers expect to find innovative communications technology and IT in the Volkswagen Group’s vehicles – such as networking the vehicle to the Internet, or apps tailored to meet individual needs. The Audi brand’s “Audi Connect” system has been further developed into a modular system that can be used by other brands in the Group. The “Car Net” services introduced with the Golf GTI are based on the same approach, for example. The services are operated across all the brands through regional data centers. Data security is another top priority alongside functionality. Volkswagen applies the highest security standards when transferring data between vehicles and data centers.

Volkswagen’s employees are systematically educated and trained so that, combined with reliable IT security systems, the risk of sensitive data being accessed by unauthorized persons is reduced. A Group-wide information security campaign that addresses the management of sensitive data has been in place since 2012.

ENVIRONMENTAL MANAGEMENT IN THE GROUP

The Group has set itself the target of becoming the most sustainable automobile company in the world by 2018. The Group’s environmental strategy is the framework through which the Company will become a leader in ecological terms.

By 2018, we aim to reduce energy and water consumption, emissions and waste in relation to vehicles at all of our sites by 25% compared with 2010. The charts on page 138 illustrate our progress in fiscal year 2013. The collection of key environmentally relevant consumption and emissions data on the basis of VW standard 98,000, which is applicable throughout the Group, is subject to a continual improvement process. The information that must be calculated using special algorithms is particularly affected by these optimization measures. Additionally, the integration of new Group brands and locations requires adjustments in the time series that have already been reported. The improved and updated environmental data collection process aims to increase the degree of accuracy and consistency of the information gathered.

Alongside efficient and resource-friendly production as well as the design of intelligent mobility concepts for the future the development of environmentally friendly vehicles is also one of our key action areas: we aim to reduce the CO₂ emissions of our European new vehicle fleet to 95 g/km by 2020. In addition, every new model generation is designed to be 10% to 15% more efficient than its immediate predecessor.

In order to successfully implement our environmental strategy, we must model all environmentally relevant aspects in our organizational and decision-making processes, both in product development and production at all locations. This is why we have a holistic environmental management program, which has already been established in the Group for many years. The main pillars of this are the Group’s globally applicable environmental principles for products and production and the environmental goals of the Technical Development function. Since 2010, these efforts have been supported by a Group-wide energy management system. Teaching our employees about ecological issues is also an important factor in reaching our goals. For this reason, we employ environmental protection experts and environmental officers around the world, who help to build a broad foundation for environmental protection within the Group.

Since 1995, Volkswagen’s German locations have voluntarily participated in the EU’s Eco-Management and Audit Scheme as well as worldwide in the environmental certification process under international standard ISO 14001. Since 1996, the environmental management system used by Volkswagen’s Technical Development function has been certified in accordance with ISO 14001 and, since 2009, additionally in accordance with ISO/TR 14062. By means of recertifications and external validations, we also confirmed our role as a trailblazer in the reporting period.

Our Group environmental strategy takes a holistic approach that takes into account the lifecycles of our products. To do this, we chose a modular structure whereby the modules are oriented on business areas along the entire value chain. Thus we not only address environmental issues relating to production and the products themselves, but also in logistics or recycling, for example. We defined a fixed committee and reporting structure to manage
these issues. The responsible parties are globally networked, enabling the systematic exchange of examples of best practice. In fiscal year 2013, at a global Group strategy workshop, we put together an ambitious package of measures together with all of the business areas and established the responsibilities and reporting structures.

A summary of our ecological activities and a supplementary overview of our key environmental indicators can be found at www.volkswagenag.com/sustainability.

Climate protection
Based on our environmental strategy, protecting the climate is one of our key challenges because we have a special responsibility as a company that produces over 9.7 million vehicles a year. This applies not only to the production conditions at our own production sites, but also to the supply chain and the products over their entire lifecycles.

We consider climate change and the resulting risks and opportunities in all of our strategic decisions. These decisions are based among other things, on information provided by the CSR & Sustainability steering group and the Group’s CO2 steering group. A key instrument is the “CO2 Registry” management and analysis tool, for example. This analyzes every one of the Group’s vehicle projects over the entire production process with regard to their CO2 emissions, based on the requirements for CO2 savings laid down in our Group environmental strategy.

We established a Group Expert Network for Climate and Energy to facilitate the exchange of knowledge and experience between all brands and regions. The Network’s focus, alongside exchanging best practice approaches, is to discuss issues with international scientific experts (for example, representatives of the International Energy Agency) and other stakeholders (for example, the World Business Council on Sustainable Development).

Water management
Water is not just a means of subsistence, but also a means of production and a source of energy. In many parts of the world, however, there is no basic provision of this essential commodity. In automobile production, it is impossible to avoid using water, however – in washing processes in mechanical manufacturing or process cooling, for example. Volkswagen is aware of its responsibility and thus uses this valuable resource sparingly. Using water sparingly is also laid down in the Group’s environmental principles: three of the 22 environmental principles for production relate directly to the issue of water.

Volkswagen has participated in the Water Disclosure Project (WDP) since 2011. This nonprofit organization collects information on water management in a comprehensive annual survey, and analyzes and evaluates the data. Volkswagen is the only German automotive group to agree to publish the results. We are thus trailblazers when it comes to the disclosure and transparency of our careful use of water and newly developed solutions for sustainable water management. Furthermore, since 2013, Volkswagen has been the first automotive company in the world to support the CEO Water Mandate.

Volkswagen has set itself the goal of reducing water consumption per vehicle in all plants by 25% by 2018 compared with 2010. During the reporting period, we implemented numerous measures in the plants to do this, showing that we are reducing the overall pollution of bodies of water attributable to vehicle production and at the same time ensuring a secure water supply.

The Foshan plant was the first facility in China to be awarded the Triple-Star Green Building Award – the highest state award for environmentally friendly factory planning. Almost all waste water at this location is treated and reused using state-of-the-art membrane technology. In engine production at the Salzgitter plant, no industrial waste water is created either because waste water containing oil is separated into oil and water in vacuum evaporators. The water claimed in this process is used to prepare emulsions. This helps us save 30,000 m³ of water a year. We also use energy-efficient evaporators at other Group locations, such as the Slovakian plant in Martin or the Pollowicz plant run by VW Motor Polska. We use the resulting distillates as recycled water and for cleaning. Additionally, the amount of liquid and dangerous waste containing oil is being reduced by up to 40%.

The significant requirement for cooling water in the industrial production of automobiles means that there is also considerable potential for water savings in this area. When a new combined cycle power plant was constructed in Kassel, a nanofiltration plant was commissioned that helps save water in cooling tower operation. Thanks to this nanofiltration plant, we can treat waste water containing salt so that the water can be reused, allowing fresh water to be saved and up to 70% less waste water to be discharged.

The waste water cleaned in Volkswagen’s sewage treatment plants meets the highest global standards. We guarantee this by using state-of-the-art biological waste water purification technology, for example in the Pune plant in India. There we use a membrane bioreactor: the combination of microbial breakdown and filtration through extremely fine membranes means that over 99% of all biologically degradable components can be removed from the pre-treated industrial waste water. Thanks to this process, the water can be reused at the site.

We are also proving the high quality of our sewage treatment plants and waste water in a cooperative project between Volkswagen Slovakia and Comenius University in Bratislava: together we have been breeding crayfish that are supplied with purified waste water from the Volkswagen sewage treatment plant. The water provides optimal living conditions for the threatened crayfish. Volkswagen is supporting the return of crayfish to their natural habitat by reintroducing the farmed animals into the wild.
<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2010</th>
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<tbody>
<tr>
<td><strong>ENERGY CONSUMPTION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in kilowatt hours per vehicle)</td>
<td>2,205</td>
<td>2,213</td>
<td>2,519</td>
</tr>
<tr>
<td><strong>CO₂ EMISSIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in kilograms per vehicle)</td>
<td>883</td>
<td>895</td>
<td>1,096</td>
</tr>
<tr>
<td><strong>VOC EMISSIONS (VOLATILE ORGANIC COMPOUNDS)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in kilograms per vehicle)</td>
<td>3.62</td>
<td>3.73</td>
<td>4.13</td>
</tr>
<tr>
<td><strong>DISPOSABLE WASTE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in kilograms per vehicle)</td>
<td>20.1</td>
<td>20.7</td>
<td>23.3</td>
</tr>
<tr>
<td><strong>FRESH WATER CONSUMPTION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in cubic meters per vehicle)</td>
<td>4.33</td>
<td>4.25</td>
<td>4.54</td>
</tr>
</tbody>
</table>

* Production of passenger cars and light commercial vehicles. Prior-year figures adjusted.
Noise reduction

Responsible concern for the environment means that an automobile manufacturer must consider the full range of its vehicles’ effects. Increasingly, this includes the topic of traffic noise. Volkswagen is facing up to this responsibility, not only by developing ever quieter vehicles, but also through extensive activities to reduce overall traffic noise. Our goal is to better understand the influence that cars have on traffic noise so as to identify which tasks will be assumed in the future by vehicle manufacturers and when – as part of a comprehensive approach – there is a need for cooperation with other participants.

We developed a so called noise level tool in collaboration with the internationally renowned firm of Lärmkontor GmbH, Hamburg. Using this tool, we will be able to compare measures to quantitatively reduce noise in a model city in terms of its effect on the noise level on the whole as well as on the number of those affected. The control variables of the noise level tool include traffic volume, the proportion of passenger cars and commercial vehicles, speed, road surface, engine noise and rolling noise. The innovative feature of the tool is that it indicates noise pollution, illustrating how much noise is “perceived” by how many of the city’s inhabitants. Looking exclusively at the sources of noise produced – that is, the emissions – would give a skewed picture of the effectiveness of noise-reduction measures. Our focus on those affected by noise is also demonstrated by the continual exchange we maintain with representatives of municipal authorities, which we intensified in 2013. For example, Volkswagen is participating in the city of Wolfsburg’s measures to reduce noise.

These activities are examples of our contribution to ensuring that future steps towards reducing noise are better coordinated and that funds can be used more selectively.

Lifecycle assessment

Reducing fuel consumption and the associated reduction of emissions are important measures for improving the environmental credentials of our vehicles. However, these alone do not reduce a car’s environmental impact to a minimum. After all, this does not begin when it starts being driven by the customer. The raw materials for the vehicle must also be produced, and materials and components manufactured – and this long before the wheels of a new car turn for the first time.

To be able to reduce the environmental impact of a vehicle to a minimum, the entire product lifecycle is considered when vehicles are developed. This means that the assessment of the potential environmental impacts of new vehicles, components and materials begins before they are even produced; effectively from the first idea and design sketches, through production and the subsequent usage phase, down to disposal. Volkswagen uses the environmental impact study – or lifecycle assessment – in accordance with ISO standards 14040 and 14044 as a tool for this. Using environmental impact studies, we determine where improvements have the greatest effect and develop targeted innovations accordingly. We call this approach lifecycle engineering.

The Volkswagen brand publishes environmental ratings to inform its customers, shareholders and stakeholders about its success stories in environmentally responsible vehicle development and lifecycle assessments. Environmental ratings for new vehicle models demonstrate ecological advancements in direct comparison with the predecessor model. For the communication to be credible, it is important that the results and evaluations in the environmental impact studies meet internationally recognized quality standards and are transparent, comparable and understandable. In order to ensure this, the results of the lifecycle assessments are reviewed, confirmed and certified by independent experts, in accordance with the requirements of ISO 14040.

External environmental awards

The Volkswagen Group and its brands and projects received numerous awards for environmental protection and sustainability in 2013. Here are some examples:

For the second time, the Volkswagen eco up! heads the environmental vehicle list published by Verkehrs Club Deutschland (VCD), the German association for sustainable mobility. It is on a level with the ŠKODA Citigo CNG and SEAT Mii Ecofuel models produced by other Group companies, with the three being named the most environmentally friendly vehicles of the year. The VCD’s evaluation considers CO₂ emissions, drive-by noise and the specific emission standard met by the vehicle.

The magazine “verkehrsrUENDSCHAU”, together with its sister publication “Trucker”, awarded the Volkswagen Crafter the “Green Van 2013” environmental prize, rating it the most environmentally friendly transporter. Key to its success was primarily its categorization in the enhanced environmentally friendly vehicle (EEV) emission standard for all performance classes, alongside its low consumption.

The strategic stakeholder dialog between Volkswagen and the German Nature and Biodiversity Conservation Union e.V. (NABU) is also seen externally as an example of best practice. This once again received second place in the 2013 European Change Communications Award in the “Strategy large” category and was a finalist in the 2013 PR Report Awards in the “Responsibility/CSR” category.

Finally, the Volkswagen Group received the German Investors’ Award for Responsible Business Practices, which is sponsored and awarded by the magazine publisher DuMont and Deutsche Asset & Wealth Management. The jury praised the way sustainability is anchored in the core business and the responsible attitude towards all stakeholders and towards nature.
**Biodiversity**

Together – and in connection with – climate change, the dramatic loss in species, ecosystems and genetic diversity is one of the greatest challenges of our time. The United Nations has therefore declared the current decade as the UN Decade on Biodiversity.

Every company’s value added depends – directly or indirectly – on nature’s achievements. And every company has an impact on nature and ecosystems, to their benefit or detriment. The loss of biodiversity means that the quality of the “services” provided to us for free by natural ecosystems also suffers. An economy that acts to maintain and use biodiversity sustainably does so in its own long-term interests.

Protecting natural resources has been a corporate goal at Volkswagen since 2007, consistent with the UN’s Convention on Biological Diversity. We continued to drive forward integration of this topic with our processes and systems in the reporting period. As an industrial enterprise, we contribute to protecting biodiversity primarily by reducing greenhouse gas emissions and other environmental impacts caused by production. Initiatives in nature and species conservation and in promoting and integrating biotopes – together with expert project partners – supplement our biodiversity management activities.

Volkswagen again actively used the “Biodiversity in Good Company” corporate initiative we co-founded as a platform for learning and dialog and supported its further national and international integration. For example, we participated in the kick-off event for “Enterprise Biological Diversity”, a platform of associations initiated by the German Federal Ministry for the Environment in 2013, the management of which was entrusted to the “Biodiversity in Good Company” initiative. Our cooperation in the research project studying the impact of product systems on biodiversity, led by the Fraunhofer Institute for Building Physics with the cooperation of the Federal Agency for Nature Conservation, the Federal Ministry for the Environment and the German Federal Environmental Agency, served to operationalize the goal of protecting biodiversity from a corporate perspective.

As part of a long-term strategic stakeholder dialog, Volkswagen also receives expert advice from the largest and most important environmental organization in Germany, the Nature and Biodiversity Conservation Union e.V. (NABU), whose core concerns are nature and species conservation. The common objective of Volkswagen and NABU is to translate pure dialog into concrete projects that contribute to protecting biological diversity.

The following examples from the reporting period illustrate this:

- Thanks to the German Moor Conservation Fund established by Volkswagen Leasing GmbH and NABU in 2011, the rewatering program for moors in Germany was extended.
- Support for Europe’s largest river restoration project on the Lower Havel river took on a new level of quality when we made a donation to reconnect the Schliepenlanke oxbow lake in Rathenow.
- The “Willkommen Wolf!” wolf conservation initiative continued with a roadshow through zoological gardens and animal parks, with 40 stops overall.

We provide continual updates about these and other projects at www.mobil-fuer-mensch-und-natur.de, which presents the development of the alliances. For example, Volkswagen is protecting water habitats in and around the entire Allertal valley in Lower Saxony in collaboration with the Federal Agency for Nature Conservation and the Otter Center in Hankensbüttel.

Volkswagen promotes the conservation of nature and species diversity not only in Germany, but also in other international Volkswagen Group locations and all around the world. This includes Volkswagen de México’s “Por amor al planeta” program, for example, which conducts scientific research into biodiversity in nature reserves among other things, and also the public-private partnership project between Volkswagen do Brasil and the Sào Carlos Ecological Park to protect the habitats of endangered species such as the Cerrado wolf, the Andean condor and the Andean bear.

**Fuel and drivetrain strategy**

In fiscal year 2013, we made further progress towards implementing our vision of sustainable mobility. Efficient and sustainable drivetrains are a highly important strategic issue for Volkswagen and part of the product strategy. We are not only working to continuously optimize existing drivetrains but also – as in the past – pursuing a variety of alternative concepts, and especially electric traction. At present, our customers around the world primarily choose conventional engines to drive their vehicles. Until carbon-neutral and sustainable mobility is a reality, electrified drive technology and conventional combustion engines will continue to coexist in the future. This coexistence will be flanked by a steady increase in the share of carbon-neutral energy sources, in the form of renewable power for electric vehicles, for example, or carbon-neutral fuels such as the next generation of biofuels. Of particular significance here are biomethane, which is generated from waste materials, and synthetic natural gas. The latter is produced in electrolysis and methanation plants fueled by renewable wind power. Today, almost carbon-neutral mobility is already a possibility using sustainable natural gas. Volkswagen has continually expanded its offering of vehicles with CNG drives in recent years. It addition, we are examining innovative renewable fuels that bind CO₂ during production and that put carbon-neutral mobility within grasping distance.
From today’s perspective, the combustion engine looks set to serve as the broad basis for drive technology in the coming years. This is particularly true for growth markets such as Russia, India and the Far East. Given the need to use resources responsibly, it is crucial to further optimize combustion engines so as to facilitate sustainable, forward-looking mobility. We have developed an entirely new generation of petrol and diesel engines in response to this challenge. These drivetrains were used in the successor models for the Audi A3 and Golf for the first time in 2012, and will be successively added to the Volkswagen Group’s vehicle range in the future.

All the new engines feature turbocharging, direct injection and a start-stop system as a standard feature. Alongside intelligent thermomangement for reducing mechanical and energy losses, they also make use of other fuel-saving technologies such as demand-driven auxiliary power unit management and variable valve management. In addition, they feature energy recuperation. We have been using active cylinder management in many Group vehicles with petrol engines since 2012. This automatically switches off individual cylinders when they are not needed without the driver noticing. This innovative technology cuts fuel consumption by up to 0.5 l per 100 km, depending on the engine and driver profile involved. Active cylinder management is increasingly being used in new models.

Driver profile selection is another means of reducing fuel consumption. In 2012, it was integrated into a volume model – the new generation of the Golf – for the first time; it is now also available in other Volkswagen Group vehicles. The driver can select the eco, normal and sport modes as desired. Engine and gear management as well as auxiliary power units and the air conditioning are activated as necessary according to the driver’s selection.

The Group’s efficiency models show what can be achieved by combining efficient conventional drives and vehicle innovations such as low rolling resistance tires and aerodynamic measures. At Volkswagen, they are available under the “BlueMotion” label, at ŠKODA they are known as the “GreenLine” models and at SEAT they go by the name of “ECOMOTIVE”. With CO₂ emissions of 87 g/km and fuel consumption of only 3.3 l per 100 km, the Polo BlueMotion is one of the most environmentally friendly and economical five-door vehicles in the world. The Golf BlueMotion, with its new 1.6 TDI engine, uses an average of only 3.2 l of fuel per 100 km, while its CO₂ emissions are a mere 85 g/km. The ŠKODA Octavia GreenLine emits only 85 g/km of CO₂ and uses 3.2 l of diesel per 100 km. The eco up! – available since the end of 2012 – has CO₂ emissions of just 79 g/km with its 1.0 CNG engine.

The Audi and Porsche brands provide impressive proof that premium-segment diesel engines can also be dynamic and economical. The twin turbocharged 3.0 TDI engine in the Audi SQ5 TDI has an output of 230 kW (313 PS) and uses a mere 6.8 l of diesel
Porsche offers the Cayenne S diesel with a twin turbocharged 4.2 l V8 diesel engine and an output of 281 kW (382 PS), consuming just 8.3 l of diesel per 100 km.

The successful TSI, TFSI and TDI engines, ideally combined with the Group’s innovative direct shift gearboxes (DSGs), offer a good starting point for efficient vehicle propulsion now and in the future, as they can be combined on a modular basis with electrical components to produce hybrid drives. The plug-in versions of such vehicles can be recharged via electrical outlets and – depending on the model concerned – can cover between 20 and 80 km in purely electric mode.

When it comes to drive electrification, hybrids are a core topic for the Volkswagen Group, especially plug-in hybrids. They are currently the best way of supplementing petrol and diesel engines, because they combine the benefits of two technologies and hence meet a number of customer expectations: an unlimited range thanks to their combustion engines, an attractive electric drive unit for day-to-day urban use, no restrictions on speed, hill-climbing ability or trailer loads, and substantial potential for reducing CO₂ emissions. The Volkswagen Group is mounting a major push for this technology. Integration into the modular toolkit strategy is a significant element of this. This technology underscores the importance of e-mobility within the Group, giving it a firm, long-term place in its product strategy. Combined drives are already available today in a large number of vehicle classes in the form of the hybrid versions of the Jetta, Touareg, Audi Q5, Audi A6, Audi A8, Porsche Cayenne S and Porsche Panamera S models.

In 2013, we rang in the age of pure-play e-mobility in the Group with the market launch of the e-up! The e-Golf will be launched in spring 2014. The Group brands performed extensive trials, including with customer involvement, with purely electric vehicles and plug-in hybrids in the reporting period and were able to further optimize the technology, its suitability for daily use and user requirements for subsequent series production.

Alongside purely electric vehicles, a range of plug-in hybrid vehicles from many of the Group’s brands will be launched around the world in the coming years.

Mass mobility using electric vehicles still faces some challenges, however. In the area of battery chemistry, developing high-performance batteries and building up technological expertise are both vital to increasing the range and hence the attractiveness of electric vehicles. Another challenge is integrating electric cars into the existing infrastructure. Questions still need to be answered with respect to the recharging strategy to be adopted (“smart grid”), how to construct an end-to-end infrastructure, particularly of rapid charging stations, and how to book charging points and bill the electricity provided; these questions must be answered together with governments, municipal authorities and utilities. In our opinion, an intelligent combination of the automotive, power generation and telecommunications sectors offers the opportunity to ease the transition to e-mobility for our customers, or to make it attractive for them. A broad range of new services, such as mobile online services or intelligent recharging, could play an important role in this.

Volkswagen will manufacture not only the bodywork but also the core components of electric cars: the electric motor and the battery system. The motors will be manufactured in the Kassel plant, while the battery modules will be assembled into battery systems at the Braunschweig facility.

Thanks to our conventional and alternative technologies and the modular toolkit strategy, which allows innovations to be incorporated rapidly into different vehicles, the Volkswagen Group is optimally positioned to meet the challenges that the future will bring.

**REPORT ON POST-BALANCE SHEET DATE EVENTS**

There were no significant events after the end of fiscal year 2013.
Report on Expected Developments

The global economy and many automotive markets are expected to continue growing in 2014. The main driver of the global economy is the rapidly expanding emerging markets. The Volkswagen Group intends to capitalize on this trend by building on the strength of its brand diversity, pioneering technologies and global presence.

In the following, we describe the expected future development of the Volkswagen Group and the general framework for its business activities. Risks and opportunities that represent a departure from the forecast trends are presented in the Report on Risks and Opportunities.

We prepare our forecasts on the basis of current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

GLOBAL ECONOMIC DEVELOPMENT

Our plans assume that the global economy will grow slightly faster in 2014 than in the reporting period. Going forward, we anticipate that growth will remain strongest in the emerging economies of Asia. While we expect to see signs of recovery in the economies of the major industrialized nations, the rates of expansion will remain moderate in the medium term.

We believe that the global economy will continue growing in the period 2015 to 2018.

Europe/Remaining markets

In Western Europe, we are forecasting a consolidation in 2014 of the economic recovery that began in the reporting period. However, developments remain contingent on structural problems being resolved, especially in Southern Europe.

In Central and Eastern European countries, on the other hand, whose economies are heavily dependent on the economic situation in Western Europe, we believe that significantly faster growth on a level with the previous year is likely. We expect the Russian economy to record a slightly higher rate of expansion than in 2013.

In 2014, the South African economy will continue to suffer the effects of political uncertainty and social tensions resulting primarily from high unemployment levels, though the pace of growth should accelerate somewhat once again.

Germany

We believe that the uptrend in Germany will be sustained in 2014 with rising growth rates. The situation in the labor market is also expected to remain positive.

North America

We expect economic activity in North America to continue to pick up in 2014. In our view, growth in the USA, Canada and Mexico will strengthen compared with the prior year.

South America

In Brazil, we anticipate that growth rates in 2014 will be on a level with the prior year. Argentina’s economy is expected to continue growing, albeit at a slower pace and with persistently high inflation, which is weighing on the business climate.

Asia-Pacific

Growth in China will remain at a high level and in 2014 is again expected to reach the target set by the government. In India, we estimate that the pace of expansion will remain moderate following recent below-average growth. The Japanese economy is likely to continue growing on a level with the previous year on the back of the expansionary monetary policy.
TRENDS IN THE PASSENGER CAR MARKETS
In 2014, we expect to see mixed trends in the passenger car markets in the individual regions. Overall, the increase in global demand for new vehicles will probably be somewhat slower than in the reporting period.

The Volkswagen Group is well positioned to deal with the mixed developments in the automotive markets. Our broad product range featuring the latest generation of consumption-optimized engines gives us a global competitive advantage. We are pursuing the goal of offering all customers the mobility and innovation they need, sustainably strengthening our competitive position in the process.

We estimate that the demand for passenger cars worldwide will continue to increase in the period 2015 to 2018.

Europe/Remaining markets
In Western Europe, we expect demand for automobiles to start rising again in 2014 after four years of decline. However, as the ongoing debt crisis is still unsettling consumers in many countries in the region and restricting their financial opportunities to buy new cars, we anticipate only modest growth. Particularly in core markets such as Spain and Italy, large-scale government austerity measures are also putting a damper on demand.

In Central and Eastern European markets, we expect a moderate increase in demand for automobiles in 2014 as against the prior-year level. The Russian market, which dominates this region, will be unable to compensate for the weaker 2013 demand in the short term and will see only a limited recovery in 2014.

We anticipate that the South African vehicle market will grow at a slightly slower pace in 2014 than in the previous year.

Germany
After recording initial losses, the German automobile market increasingly stabilized in the course of 2013. This trend is likely to continue in 2014, leading to modest market growth.

North America
Although the uncertainty regarding US fiscal policy in the final months of 2013 had an adverse effect on consumer confidence, the market continues to benefit from pent-up replacement demand, a trend we believe will endure in a weaker form in 2014. We estimate that demand in the Canadian market for passenger cars will be on a level with the previous year, but are expecting to see a positive trend in the Mexican passenger car market in 2014.

South America
Owing to their dependence on demand for raw materials, the South American markets are heavily influenced by developments in the global economy. Furthermore, increasingly protectionist tendencies are adversely affecting the performance of the region’s vehicle markets, especially in Brazil and Argentina, which have imposed restrictions on vehicle imports. In Brazil, the largest market in South America, demand for vehicles in 2013 was unable to keep pace with the high prior-year level in spite of tax breaks being extended. For 2014, when the tax breaks are expected to be extended, we are forecasting that the market volume will be only marginally higher than in the previous year. In view of the persistently high inflation and the challenging macroeconomic situation, we anticipate that the Argentinian market will contract sharply in 2014.

Asia-Pacific
The markets in the Asia-Pacific region look set to continue growing in 2014, albeit at a slower pace. Increasing demand for individual mobility will drive demand in China in particular. After a weak year in 2013, India is likely to see volume growth mirroring the prior-year level, though this will depend on the general business environment. On the strength of the encouraging trend in the Japanese economy, in 2013 the local vehicle market sustained its prior-year level, when the market had been boosted by incentive programs and backlog effects. A previously announced tax increase led to pull-forward effects in the reporting period, as a result of which the overall market will probably decline significantly in 2014.

The markets in the ASEAN region are expected to continue their growth trajectory in 2014.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES
The markets for light commercial vehicles will also see mixed trends in the individual regions in 2014. Overall, we envisage slight growth in demand for light commercial vehicles in the markets that are relevant for the Volkswagen Group, and this will continue in the period 2015 to 2018.

Based on the easing of the economic situation in Western Europe expected in 2014, there should be a modest recovery in demand for commercial vehicles in many markets. We believe that Central and Eastern European markets will perform better in 2014 than in the previous year. In Russia, demand will improve somewhat on the level recorded in 2013.

The North American market for light commercial vehicles will continue to grow in 2014.

In South America, owing to inflation and rising debt, we estimate that demand in 2014 will only marginally exceed the prior-year figure. The expansion of the market for light commercial vehicles is being driven primarily by the growing popularity of SUVs for private use, which are reported as light commercial vehicles in these markets. In addition, continuing protectionist trends are still having a negative impact on market growth, especially in Brazil and Argentina, which have imposed restrictions on vehicle imports. In Brazil, rising interest rates and low consumer confidence are...
Japan benefited in the reporting period from the expansionary economic policy. We expect that the market volume for light commercial vehicles in Japan in 2014 will be down slightly on the prior year.

For the majority of the Asian automotive markets, including the ASEAN markets, we are forecasting further growth starting in 2014. Demand for mid-sized and heavy trucks rose slightly in 2013, and we are also forecasting a small increase in total volumes in the markets relevant to the Volkswagen Group in 2014, mostly in the second half of the year. We are expecting growth to continue in the period 2015 to 2018.

In Western Europe, the economic situation will improve, but market trends will continue to be determined by the introduction of the new Euro 6 emission standard, which has pulled forward an appreciable proportion of demand to 2013. Thus, we anticipate a reversal of this effect to noticeably depress market levels in 2014.

In Russia, we expect to witness significant growth in demand in 2014. After predominantly weak macroeconomic development in 2013, this is expected to perform more positively in 2014. We are anticipating a rise in truck sales, although changes to the details of the recycling fee may impact this considerably.

Despite the uncertain business climate, demand for trucks in the USA is expected to rise appreciably in 2014.

We are forecasting a small increase in demand in 2014 in the Brazilian market on the back of higher demand for replacement purchases and additional state-sponsored investment and financing programs, while economic growth is expected to remain merely moderate.

The market volume in China, the world’s largest truck market, is likely to be sharply below the prior-year level in 2014. This is primarily due to the pull-forward effects in 2013 from the amended emission standards and the government’s infrastructure measures that are being gradually phased out and may lead to largely saturated demand for replacement vehicles in 2014. In India, we expect that the market will perform significantly better than in the previous year.

Demand for buses is set to noticeably exceed 2013 levels in almost all regions in 2014, buoyed by increasing urbanization and the growing need for coaches. We expect the bus market in Western Europe to be stable in 2014 and are also forecasting a slight uptrend for China, the largest bus market.

For the period 2015 to 2018, we estimate that demand for buses worldwide will continue to increase overall.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

The individual markets in the power engineering segment will again develop at different rates in 2014.

In the merchant shipbuilding market, we expect order volumes to remain at the level of the previous year on account of the continuing overcapacity. Energy efficiency and pollution control will largely determine the future of ship design. We also anticipate strong sales of special ships in 2014, including ships for offshore applications, LNG tankers, cruise ships and government vessels.

Growth in the power generation market will be determined by macroeconomic developments, especially in the emerging economies, where we anticipate a further slight recovery in 2014. In addition to global population growth, the burgeoning demand for energy and the trend towards more decentralized energy supplies are among the main factors. Natural gas-fired power plants will play an increasingly important role. There is also potential to be tapped in the growing demand for combined heat and power (CHP) plants and the need to stabilize the networks using peaking power plants, especially in connection with the increased use of renewable energies.

In the processing industry, we do not anticipate any improvement in the general environment in 2014. Despite high long-term demand for primary materials, the number of new contracts awarded will hover around the prior-year level. The price pressure will continue unabated.

The market outlook in the oil and gas industry is encouraging. We are seeing heavy investment in the exploitation of new deep sea oil reserves and pumping technology. The trend towards using natural gas as an alternative to oil is generally having a positive effect in all key regions. We therefore anticipate slight growth in the oil and gas industry in 2014.

The future in the offshore wind market in Germany is fraught with uncertainty. A positive outlook is not expected until the infrastructural and political framework has been clarified, something that is unlikely to happen in 2014. Going forward, sales opportunities could arise in other regions of the world as well.

We expect that the markets for power engineering will continue to record an increase in overall demand in the period 2015 to 2018.
DEMAND FOR FINANCIAL SERVICES
We expect automotive financial services to continue to grow in importance worldwide in 2014. We anticipate that demand for financial services will increase more strongly in those emerging markets in which market penetration is currently low, such as China. In regions with developed automotive finance markets, there will be a further shift in the offering towards enabling mobility at a manageable total cost, with integrated end-to-end solutions, comprising service modules such as insurance and innovative packages of services, and new mobility offerings like carsharing becoming increasingly important. We expect this trend to continue in the period 2015 to 2018.

We estimate that demand for financial services in the mid-sized and heavy commercial vehicles segment will gain momentum in the emerging economies, where financing solutions to support vehicle sales are an essential component of the sales process. In the developed markets, we believe that there will be greater demand for cost-optimized services for mid-sized and heavy trucks in 2014, a trend that will also continue in the period 2015 to 2018.

EXCHANGE RATE TRENDS
The global economy lost some of its momentum in 2013. The US Federal Reserve’s announcement of its plan to trim its bond-buying program in the near future led to an increased outflow of capital, primarily in countries with high-yielding currencies. This in turn substantially impacted exchange rates, leading to considerable volatility. The euro gained against the US dollar in the first four weeks of 2013 before weakening once more up to July. It then trended upwards again for the remainder of the year. For 2014, we expect euro exchange rates against the US dollar, sterling, Chinese renminbi and other key currencies to be relatively stable, despite continuing high volatility in the financial markets. However, there is still an event risk - defined as the risk arising from unforeseen market developments. We currently assume that this trend will continue in the period 2015 to 2018.

INTEREST RATE TRENDS
Interest rates remained extremely low in fiscal 2013 due to the ongoing expansionary monetary policy and the difficult overall economic environment. A number of countries actually cut their interest rates further in the course of the year. In 2014, we consider it unlikely that either Europe or the USA will adopt a more restrictive monetary policy, and hence increase interest rates. We are predicting that short- and long-term interest rates will only rise significantly if there is a sharp increase in inflation. For the period 2015 to 2018, we are predicting a gradual rise in interest rates.

COMMODITY PRICE TRENDS
Commodity prices fell in 2013. After peaks were recorded in the first quarter, prices tailed off as the year went on, principally due to the weaker economic signals from China and to supply overcharges. Assuming that the global economy continues to grow, we expect prices of most exchange-traded raw materials in 2014 to fluctuate around the current level. Provided there is a further recovery of the global economy, we believe that commodity prices will rise in the period 2015 to 2018.

NEW MODELS IN 2014
We will systematically press ahead with our model initiative in 2014 and modernize and expand our offering by introducing attractive new vehicles. Priority will always be given to what our customers want. We are also successively expanding our portfolio of vehicles equipped with alternative drive systems powered by gas or electricity.

Following on the heels of the e-up!, our first production vehicle to run on electrical power that we launched in 2013, we will also introduce the Golf GTE with a plug-in hybrid drive in 2014 to complement the e-Golf, the electric version of our bestseller. Furthermore, the Volkswagen Passenger Cars brand will enlarge the Golf family by adding the Golf Sportsvan, the successor to the Golf Plus. In addition, the brand will unveil the new generation of the Passat saloon and the Passat estate.

In 2014, the Audi brand will launch the sporty derivative versions S1, S3 saloon, A3 and S3 Cabriolet, as well as the new TT Coupe. Many models, including the A8 hybrid, will also be extensively upgraded. Audi’s first plug-in hybrid will be available in 2014 as the A3 e-tron.

ŠKODA is expanding the new generation of its Octavia family with the addition of the Scout and the natural gas-powered edition of the Octavia. The new edition of the Fabia – both as a hatchback and as the Fabia Combi – will score points with its new, contemporary design and once again set standards in its class with its spaciousness.

From 2014, the SEAT brand will offer the efficient CNG models of the Leon and the Leon ST. In 2014, Porsche will roll out its fifth series with the Macan, the brand’s second SUV beneath the Cayenne. In addition to the entry-level version, the Macan will come in S, Diesel S and Turbo versions. We will expand the 911 series by adding the GT3 RS plus a Targa version. Other highlights for 2014 are the GTS versions of the Cayman and the Boxster, as well as the revamped Cayenne and Panamera series. The Cayenne S Hybrid will be upgraded.

Bentley will launch four dynamic models in 2014: the Flying Spur V8, the Continental GT V8 S, the Continental GTC V8 S Convertible and the Mulsanne Speed.
Super sports car manufacturer Lamborghini will introduce its successor to the Gallardo Coupé in 2014, the Huracán, featuring a carbon fiber and aluminum body as well as a new, efficient petrol injection system.

**PLANNED PRODUCT MEASURES**

The Volkswagen Group’s goal is to offer consistently efficient and carbon-optimized mobility, including options based on alternative drive technologies, so as to live up to its responsibilities with respect to sustainability. Given the increasingly strict exhaust and emission standards and the fact that vehicle taxation is CO₂-dependent, vehicle CO₂ emissions are playing a more and more important role in vehicle purchases. Volkswagen is therefore continuing to focus in depth on developing efficient drive technologies, thus extending its position as an innovation leader in the area of environmentally friendly mobility.

We shall continue to drive forward the issues of downsizing and zero emissions in our products in the coming years. Downsizing increases material and energy efficiency by reducing drivetrain sizes while retaining their original performance. We are expanding our e-mobility operations – in the form of both plug-in hybrids and purely electric drives – on the basis of our in-depth research. Our current and future projects are improving the Volkswagen Group’s environmental footprint on an ongoing basis.

The Volkswagen Group’s many different concepts underscore the individual brands’ high level of development and diversification expertise. At the beginning of 2012, the Group became the first manufacturer to implement fuel-saving technology in series production of a charged four-cylinder engine with its cylinder management concept. The Volkswagen Passenger Cars brand has consolidated its holistic ecological sustainability policy in its “Think Blue.” concept. This not only combines innovative technology and solutions such as the BlueMotion technologies, but also offers recommendations for reducing emissions and consumption, such as tips and training on how to save fuel. In addition to the BlueMotion vehicles, highly efficient technologies such as the BlueTDI and TSI EcoFuel drives (CNG) set standards for consumption and CO₂ emissions. They leverage innovations such as hybrid/electric drives, start-stop systems and brake energy recuperation. Other Group brands such as ŠKODA’s GreenLine model range and SEAT’s ECOMOTIVE models also make use of this technology. Audi offers efficiency technologies as standard. This brand is also developing products such as the fully electronic e-tron vehicles and the natural gas-powered A3 g-tron, which are based on sustainable supply concepts.

**STRATEGIC SALES FOCUS**

The multibrand structure, comprising largely independent brands that nevertheless achieve maximum synergies, is one of the defining features of the Volkswagen Group. The structures that have been put in place have been designed for managing a multibrand organization.

To facilitate the entry into new markets for other Group brands, we will further expand our multibrand structure in the growth markets in particular. We will also sharpen our customer focus across all sales levels and in customer service, for which we are continually enhancing employee qualifications in addition to optimizing our processes and systems to reflect changing customer demands and markets. The focus of our sales strategy remains the same – the integrated marketing of new and used vehicles, financial and other services, as well as genuine parts and accessories.

**BUILDING A FIRST-CLASS TEAM**

Only a top team can deliver the excellence that is necessary for Volkswagen to become number one in international automotive production, which is why, more than ever, we will nurture talented individuals in all areas of the Group.

Our goal for the next few years is to increase our employees’ already high level of expertise and problem-solving skills. Vocational training and a university degree are the basis for professional development in the vocational groups at Volkswagen. Employees then obtain further qualifications throughout their working lives. An important pillar of this strategy is the transfer of knowledge and experience by experts to other staff. Qualifications are provided in the form of dual vocational training and classroom education and closely integrate theoretical and practical forms of learning.
Based on our current planning, we shall invest a total of €84.2 billion in the Automotive Division in the period from 2014 to 2018. Investments in property, plant and equipment will account for €63.4 billion, more than half of which (roughly 60%) will be in Germany alone. The ratio of investments in property, plant and equipment (capex) to sales revenue in the period from 2014 to 2018 will be at a competitive level of 6 – 7%. Besides investments in property, plant and equipment, investing activities will include additions of €19.5 billion to capitalized development costs. By investing in new facilities and models, as well as by developing alternative drives and modular toolkits, Volkswagen is laying the foundations for profitable, sustainable growth. These investments also include commitments arising from decisions taken in previous fiscal years.

At €41.2 billion (roughly 65%), the lion’s share of the total amount to be invested in property, plant and equipment in the Automotive Division will be spent on modernizing and extending the product range for our brands. Among other things, the high level of investment results from upfront expenditures in connection with the Euro 6 emission standard, which necessitates extensive upgrading of the vehicle and engine portfolio. The main focus will be on new vehicles and successor models in almost all vehicle classes, which will be based on the modular toolkit technology and the related components. This will allow us to systematically continue our model rollout with a view to tapping new markets and segments. In the area of drivetrain production, we will launch new generations of engines offering improved performance and lower fuel consumption and emission levels, focusing for example on hybrid and electric motors.

In addition, Volkswagen will make cross-product investments of €22.2 billion over the next five years; this includes investments to expand capacity. As a result of our high quality targets and our commitment to continuous improvement of our production processes, investments in our press shops and paintshops are also necessary. Non-production-related investments are mainly planned for the areas of development, quality assurance, sales, genuine parts supply and information technology.
We endeavor to finance our investments in the Automotive Division using internally generated funds and expect cash flows from operating activities to amount to €115.8 billion over the 2014 to 2018 planning period. This means that the funds generated are expected to exceed the Automotive Division’s investment requirements by €31.6 billion, further improving our liquidity position. We expect net cash flow in the Automotive Division to be moderately lower in 2014 than in the prior year, but it will nevertheless make a significant contribution to strengthening the Group’s financial position.

These plans are based on the Volkswagen Group’s current structures. They do not take into account the possible settlement payable to other shareholders associated with the control and profit and loss transfer agreement with MAN SE. Our joint ventures in China are not consolidated and are therefore also not included in the above figures. These joint ventures will invest a total of €18.2 billion in new production facilities and products in the period from 2014 to 2018 and will finance these investments from the companies’ own funds.

We are planning to invest €2.6 billion in the Financial Services Division from 2014 to 2018. We expect the growth in leasing and rental assets and in receivables from leasing, customer and dealer financing to lead to funds tied up in working capital of €81.8 billion. Roughly 43% of the total capital requirements of €84.5 billion will be financed from gross cash flow. As is common in the sector, the remaining funds needed will be met primarily through established money and capital market debt issuance programs and customer deposits from the direct banking business.

**Targets for Value-Based Management**

Based on long-term interest rates derived from the capital market and the target capital structure (fair value of equity to debt = 2:1), the minimum required rate of return on invested capital defined for the Automotive Division remains unchanged at 9%. We again clearly exceeded the minimum required rate of return in the reporting period, at 14.5% (see also pages 104 and 108). An increase in invested capital as a result of the largest volume of investments in the Group’s history will have a dampening effect on future returns. Nevertheless, we expect that our return will continue to be in excess of the minimum required rate of return. Under our Strategy 2018, our medium-term goal is a sustained return on investment of more than 16% in the Automotive Division, which is significantly above the minimum required rate of return.

This report contains forward-looking statements on the business development of the Volkswagen Group. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions, and in particular for the automotive industry, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Consequently, any unexpected fall in demand or economic stagnation in our key sales markets, such as Western Europe (and especially Germany), the USA, Brazil, China, or Russia will have a corresponding impact on the development of our business. The same applies in the event of a significant shift in current exchange rates, mostly against the euro and primarily in US dollars, sterling, Chinese renminbi, Swiss francs, Mexican pesos, Swedish kronor, Polish zloty and Australian dollars. In addition, expected business developments may vary if this report’s assessments develop in a way other than we are currently expecting.
SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Group’s Board of Management expects the global economy to record slightly stronger growth in 2014 than in the previous year, despite some uncertainties. The financial markets still entail risks resulting above all from the strained debt situation of many countries. While the industrialized nations will probably record moderate rates of expansion, we continue to anticipate that growth will be strongest in the emerging economies of Asia.

The automotive industry remains dependent on global economic developments. We expect that competition in the international automotive markets will continue to increase. The markets in which the Group’s brands operate remain challenging, particularly in Western Europe.

In 2014, we expect trends in the passenger car markets in the individual regions to be mixed. Overall, growth in global demand for new vehicles will probably be somewhat slower than in the reporting period. We anticipate a slight recovery in demand for automobiles in Western Europe, and volumes in the German market are also likely to increase again somewhat in 2014. The passenger car markets in Central and Eastern Europe will only just exceed the prior-year level. The upward trend in North America will probably weaken, while the South American passenger car markets will be on a level with the previous year. We anticipate further growth in 2014 for the markets in the Asia-Pacific region that are strategically important for the Volkswagen Group, although momentum there is expected to be lower than in the previous year.

The global markets for light commercial vehicles will probably experience slight growth overall in 2014, with the individual regions recording mixed trends.

We anticipate that the overall volume in the markets for trucks and buses that are relevant for the Volkswagen Group will see a slight increase in 2014 as against the previous year, with the greatest growth expected in the second half of the year.

We expect demand for automotive financial services to grow worldwide again in 2014.

The Volkswagen Group is well positioned to deal with the mixed developments in the automotive markets. Our strengths include our unique brand portfolio covering almost all segments, from motorcycles through subcompact cars to heavy trucks and buses, our steadily growing presence in all major markets in the world and our wide range of financial services. We offer an extensive range of environmentally friendly, cutting-edge, high-quality vehicles for all markets and customer groups that is unparalleled in the industry. The Volkswagen Group will press ahead with its product initiative across all brands in 2014, and we will modernize and expand our offering by introducing attractive new vehicles. We are pursuing the goal of offering all customers the mobility and innovation they need, sustainably strengthening our competitive position in the process.

We expect that the Volkswagen Group will moderately increase deliveries to customers year-on-year in 2014 in a still challenging market environment. The new production facilities at our Chinese joint ventures will make a significant contribution to this development. We will also sharpen our customer focus across all sales levels and in customer service.

Challenges for the Volkswagen Group will come from the difficult market environment and fierce competition, as well as interest rate and exchange rate volatility and fluctuations in raw materials prices. The modular toolkit system, which we are continuously expanding, will have an increasingly positive effect on the Group’s cost structure.

Depending on the economic conditions, we expect 2014 sales revenue for the Volkswagen Group and its business areas to move within a range of 3% around the prior-year figure.

In terms of the Group’s operating profit, we are expecting an operating return on sales of between 5.5% and 6.5% in 2014, in light of the challenging economic environment, and the same range for the passenger car markets in the Asia-Pacific region that are strategically important for the Volkswagen Group, although momentum there is expected to be lower than in the previous year.

The operating return on sales in the Financial Services Division is expected to be between 8.0% and 9.0%. We are aiming to achieve a sustainable return on sales before tax at Group level of at least 8% by 2018 at the latest.

In the Automotive Division, the ratio of capital expenditure to sales revenue will fluctuate around a competitive level of 6 – 7% in 2014. The return on investment (RoI) will be below the prior-year level due to the extensive investment program, but still well above our minimum required rate of return of 9%. Net cash flow will probably be moderately lower than in the previous year, but will nevertheless make a significant contribution to strengthening the Group’s finances. Our goal is also to maintain our positive rating compared with the industry as a whole and to continue our solid liquidity policy.

We are working to make even more focused use of the strengths of our multibrand group by constructing new plants and developing new technologies and toolkits. We will successfully meet the challenges of today and tomorrow thanks to a first-rate team, which delivers excellence and ensures the quality of our innovations and products at the highest level. Disciplined cost and investment management and the continuous optimization of our processes remain integral elements of the Volkswagen Group’s Strategy 2018.
In this chapter, we first explain the objective and structure of the Volkswagen Group’s risk management system (RMS) and internal control system (ICS) and describe the system relevant for the financial reporting process. We then outline the risks and opportunities arising in our business activities.

**OBJECTIVE OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM AT VOLKSWAGEN**

Only by promptly identifying, accurately assessing and effectively managing the risks and opportunities arising from our business activities can we ensure the Volkswagen Group’s sustainable success and the systematic implementation of our Strategy 2018. The Volkswagen Group’s RMS/ICS aims to identify potential risks at an early stage so that suitable countermeasures can be taken to avert the threat of loss to the Company, and any risks that might jeopardize its continued existence can be ruled out.

Uniform Group principles are used as the basis for managing risks in a transparent and appropriate manner. These include:

- promoting a culture of openness with regard to risks
- aligning the RMS/ICS with corporate goals
- weighing up risks and opportunities so as to be able to leverage opportunities where the related risks are transparent and manageable
- complying with rules (compliance, see also page 57)
- ensuring the adequacy of the RMS/ICS in relation to the nature, scope and complexity of, as well as the risks involved in, the specific business activities and the business environment
- regularly reviewing the effectiveness and efficiency of the RMS/ICS.

**STRUCTURE OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM AT VOLKSWAGEN**

The organizational design of the Volkswagen Group’s RMS/ICS is based on the internationally recognized COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework for enterprise risk management. Volkswagen has chosen a holistic, integrated approach that combines a risk management system, an internal control system and a compliance management system in a single management strategy (governance, risk and compliance strategy). Structuring the RMS/ICS in accordance with the COSO framework for enterprise risk management ensures that potential risks are covered in full; opportunities are not captured.

In addition to fulfilling legal requirements, particularly with regard to the financial reporting process, this approach enables us to manage significant risks to the Group holistically, i.e. by incorporating both tangible and intangible criteria.

Another key element of the RMS/ICS at Volkswagen is the three lines of defence model, a basic element required, among others, by the European Confederation of Institutes of Internal Auditing (ECIIA). In line with this model, the Volkswagen Group’s RMS/ICS has three lines of defence that protect the Company from significant risks occurring.

No significant changes were made to the RMS/ICS compared with the previous year.
First line of defence: operational risk management

The primary line of defence comprises the operational risk management and internal control systems at the individual Group companies and units. The RMS/ICS is an integral part of the Volkswagen Group’s structure and workflows. Events that may give rise to risk are identified and assessed locally in the divisions and at the investees. Countermeasures are introduced immediately, their effects are assessed and the information is incorporated into the planning in a timely manner. The results of the operational risk management process are incorporated into budget planning and financial control on an ongoing basis. The targets agreed in the budget planning rounds are continually reviewed in revolving planning updates.

At the same time, the results of risk mitigation measures that have already been taken are incorporated into the monthly forecasts on further business development in a timely manner. This means that the Board of Management has access to an overall picture of the current risk situation via the documented reporting channels during the year as well.

The minimum requirements for the operational risk management and internal control system are set out for the entire Group in uniform guidelines. These also include a process for the timely reporting of material risks.

Second line of defence: capturing systemic risks using the standard Governance, Risk and Compliance process

In addition to the units’ ongoing operational risk management, the Group Governance, Risk and Compliance (GRC) department each year sends standardized surveys on the risk situation and the effectiveness of the RMS/ICS to the material Group companies and units worldwide (standard GRC process). This feedback is used to update the overall picture of the potential risk situation and assess the effectiveness of the system.

Each material systemic risk is assessed using the expected likelihood of occurrence and various risk criteria (financial and nonfinancial). In addition, the risk management and control measures taken are documented at management level. This means that risks are assessed in the context of any risk management measures, i.e. in a net analysis. In addition to strategic, operational and reporting risks, risks arising from potential compliance violations are also integrated into this process. Moreover, the effectiveness of key risk management and control measures is tested and any weaknesses identified in the process are reported and rectified.

All Group companies and units selected from among the entities in the consolidated Group on the basis of materiality and risk criteria – including Ducati Motor Holding S.p.A., which was consolidated in 2012 – were subject to the standard GRC process in fiscal year 2013. Only the Scania, MAN and Porsche brands were excluded.

The Scania brand, which has been consolidated since July 22, 2008, has not yet been included in the Volkswagen Group’s risk management system due to various provisions of Swedish company law. According to Scania’s Corporate Governance Report, risk management and risk assessment are integral parts of corporate management. Risk areas are evaluated there by the Controlling department and reflected in the financial reporting.

MAN SE and Dr. Ing. h.c. F. Porsche AG had already implemented their own central processes for capturing risks at the time they were consolidated and are included in the Volkswagen Group’s annual reporting.

Third line of defence: checks by Group Internal Audit

Group Internal Audit helps the Board of Management to monitor the various divisions and corporate units within the Group. It regularly checks the risk early warning system and the structure and implementation of the RMS/ICS as part of its independent audit procedures.

RISK EARLY WARNING SYSTEM IN LINE WITH THE KONTRAG

The Company’s risk situation is ascertained, assessed and documented in accordance with the requirements of the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG – German Act on Control and Transparency in Business). The requirements for a risk early warning system are met through the elements of the RMS/ICS described above (first and second lines of defence). Separately, the auditors check the processes and procedures implemented for this as well as the adequacy of the documentation on an annual basis. The plausibility and adequacy of the risk reports are examined on a test basis in detailed interviews.
with the divisions and companies concerned that also involve the auditors. The auditors assessed our risk early warning system based on this volume of data and established that the risks identified were presented and communicated accurately. The risk early warning system therefore meets the requirements of the KonTraG.

In addition, the Financial Services Division is subject to scheduled inspections as part of the audit of the annual financial statements and unscheduled inspections within the meaning of section 44 of the Kreditwesengesetz (KWG – German Banking Act) by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – the German Federal Financial Supervisory Authority), as well as inspections by the Prüfungsverband deutscher Banken (Auditing Association of German Banks).

Monitoring the effectiveness of the risk management system and the internal control system
The RMS/ICS is regularly optimized as part of our continuous monitoring and improvement processes. In the process, equal consideration is given to both internal and external requirements – such as the provisions of the Bilanzrechtsmodernisierungsgesetz (BiMoG – German Accounting Law Modernization Act). External appraisers assist in the continuous enhancement of our RMS/ICS on a case-by-case basis. The objective of the monitoring and improvements is to ensure the effectiveness of the RMS/ICS. The results culminate in both regular and event-driven reporting to the Board of Management and Supervisory Board of Volkswagen AG.

THE RISK MANAGEMENT AND INTEGRATED INTERNAL CONTROL SYSTEM IN THE CONTEXT OF THE FINANCIAL REPORTING PROCESS
The accounting-related part of the RMS/ICS that is relevant for the financial statements of Volkswagen AG and the Volkswagen Group comprises measures that are intended to ensure the complete, accurate and timely transmission of the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the combined Group management report. These measures are designed to minimize the risk of material misstatement in the accounts and in the external reporting.

Main features of the risk management and integrated internal control system relevant for the financial reporting process
The Volkswagen Group’s accounting is organized along decentralized lines. For the most part, accounting duties are performed by the consolidated companies themselves or entrusted to the Group’s shared service centers. The audited financial statements of Volkswagen AG and its subsidiaries prepared in accordance with IFRSs and the Volkswagen IFRS accounting manual and reported on by the auditors are transmitted to the Group in encrypted form. A standard market product is used for encryption.

The Volkswagen IFRS accounting manual, which is prepared using external expert opinions in certain cases, ensures the application of uniform accounting policies based on the requirements applicable to the parent. In particular, it includes more detailed guidance on the application of legal requirements and industry-specific issues. Components of the reporting packages required to be prepared by the Group companies are also set out in detail there and requirements established regarding the presentation and settlement of intragroup transactions and the balance reconciliation process that builds on this.

Control activities at Group level include analyzing and, if necessary, adjusting the data reported in the financial statements presented by the subsidiaries, taking into account the reports submitted by the auditors and the outcome of the meetings on the financial statements with representatives of the individual companies. These discussions address both the reasonableness of the single-entity financial statements and specific significant issues at the subsidiaries. Alongside reasonableness reviews, control mechanisms applied during the preparation of the single-entity and consolidated financial statements of Volkswagen AG include the clear delineation of areas of responsibility and the application of the dual control principle.
The Group management report is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of and in consultation with the Group units and companies.

In addition, the accounting-related internal control system is independently reviewed by Group Internal Audit in Germany and abroad.

Integrated consolidation and planning system
The Volkswagen consolidation and corporate management system (VoKUs) enables the Volkswagen Group to consolidate and analyze both Financial Reporting’s backward-looking data and Controlling’s budget data. VoKUs offers centralized master data management, uniform reporting, an authorization concept and maximum flexibility with regard to changes to the legal environment, providing a future-proof technical platform that benefits Group Financial Reporting and Group Controlling in equal measure. To verify data consistency, VoKUs has a multi-level validation system that primarily checks content plausibility between the balance sheet, the income statement and the notes.

Risks and opportunities
In this section, we outline the specific risks and opportunities, which we have grouped into categories. Unless explicitly mentioned, there were no material changes to the specific risks and opportunities compared with the previous year.

We use competitive and environmental analyses and market studies to identify not only risks but also opportunities with a positive impact on the design of our products, the efficiency with which they are produced, their success in the market and our cost structure. Risks and opportunities that we expect to occur are already reflected in our medium-term planning and our forecast. The following therefore reports on internal and external developments as risks and opportunities that may result in a negative or positive deviation from our forecast.

Macroeconomic risks and opportunities
We currently see risks to continued global economic growth primarily in the persistent structural deficits in developed economies. The unanswered questions surrounding the economic and institutional stability of the eurozone are particularly noteworthy in this context, as are the unresolved debt problem in many industrialized countries. In the eurozone, the situation of numerous financial institutions whose stability and ability to withstand a crisis remain in doubt is hindering sustained economic recovery.

Structural deficits also pose a risk to the growth of many emerging economies. Overindebtedness, reliance on capital inflows, violent clashes and corruption are some of the main threats to these countries’ development going forward.

As the global economy becomes increasingly interconnected, declines in growth in key countries and regions often have an immediate impact on the state of the global economy and therefore pose a central risk. The trend in the large economies of Europe, the USA and China is especially important for global growth.

Geopolitical risks result primarily from tensions in the Middle East and North Africa and may impact negatively on global energy and commodity prices. In addition, a large number of local and regional conflicts pose a threat to the performance of both individual economies and entire regions.

Overall, we consider the probability of a global recession to be low. Due to the risk factors listed, however, the possibility of a decline in global economic growth or a period of below-average growth rates cannot be ruled out.

The macroeconomic environment may also give rise to opportunities for the Volkswagen Group if actual developments differ in a positive way from expected developments.

Sector-specific risk and market opportunities
The growth markets of Asia, South America, and Central and Eastern Europe are particularly important for the Volkswagen Group in terms of the global trend in demand for passenger cars and commercial vehicles. Although these markets harbor considerable potential, the underlying conditions in some of the countries in these regions make it difficult to increase unit sales figures there. Some have high customs barriers or minimum local content requirements for domestic production, for example. Following the reduction in the number of new vehicles allowed to be registered in places such as Beijing, further restrictions on registrations could enter into force in other Chinese metropolitan areas as well. Furthermore, a potential global economic slowdown could impact negatively on consumer confidence in some of these countries. Equally, we cannot entirely rule out the possibility of freight deliveries being shifted from trucks to other means of transport and of demand for the Group’s commercial vehicles falling as a result.

At the same time, if the economic and regulatory situation permits, there are opportunities for faster growth above and beyond current projections in emerging markets where vehicle ownership rates are still low. The demand that builds up in established markets during a crisis could also lead to a strong recovery in these markets should the economic environment ease more quickly.

Price pressure in established automotive markets is a particular challenge for the Volkswagen Group as a supplier of volume and...
premium models due to its high level of market coverage. As the
global economy is still under strain, competitive pressures are likely
to remain high in the future. Some manufacturers will respond by
offering incentives in order to meet their sales targets, putting the
entire sector under additional pressure, particularly in Western
Europe, the USA and China.

Western Europe is one of our main sales markets. A drop in
prices due to the economic climate as demand falls in this region
would have a particularly strong impact on the Company’s earnings.
We counter this risk with a clear, customer-oriented and innovative
product and pricing policy. Outside Western Europe, overall
delivery volumes are broadly diversified throughout the world. The
Chinese market accounts for an increasing share. We either already
have a strong presence in numerous existing and developing
markets or are working hard to build such a presence. Moreover,
strategic partnerships help us to increase our presence in these
countries and regions and cater to requirements there.

The global economic climate deteriorated tangibly in fiscal year
2013. The resulting challenges for our trading and sales companies,
such as efficient warehouse management and a profitable dealer
network, are considerable and are being met by appropriate
measures on their part. However, financing business activities
through bank loans remains difficult. Our financial services
companies offer dealers financing on attractive terms with the aim
of strengthening their business models and reducing operational
risk. We have installed a comprehensive liquidity risk management
system so that we can promptly counteract any liquidity bottlenecks
at the dealers’ end that could hinder smooth business operations.

We continue to approve loans for vehicle finance on the basis of
the same cautious principles applied in the past, taking into account
the regulatory requirements of section 25a(1) of the Kreditwesen-
gesetz (KWG – German Banking Act).

Volkswagen may be exposed to increased competition in after-
markets for two reasons: firstly, because of the provisions of the new
Block Exemption Regulations, which have been in force for after-
sales service since June 2010, and, secondly, because of the
amendments included in EU Regulation 566/2011 dated June 8,
2011, which expand independent market participants’ access to
technical information.

The European Commission is planning to end design
protection for visible vehicle parts. If this plan is actually imple-
mented, it could adversely affect the Volkswagen Group’s genuine
parts business.

Below, we outline the market opportunities for the Volkswagen
Group. We see the greatest potential for growth in the markets of
the Asia-Pacific region and in North America.

China
China, the largest market in the Asia-Pacific region, saw further
market growth in 2013. Here, demand for vehicles will continue to
Brazil
In 2012, the Brazilian government supported local industry, including the automotive industry, by providing tax breaks. This support was partially withdrawn in January 2013, slowing growth in the automotive market. In the first half of the year, the market trend was also impacted by rising interest rates and an upturn in inflation. To prevent a further decline in the Brazilian market as a whole, the tax breaks will be initially continued in 2014 in a weakened form. The growing number of automobile manufacturers with local production has resulted in a sharp increase in price pressure and competition. The Brazilian market plays a key role for the Volkswagen Group. To strengthen our competitive position here, we offer vehicles that have been specially developed for this market and locally produced, for example the Gol and the Fox.

Russia
We continue to expect that Russia has the potential to grow into one of the largest automotive markets in the world. However, its heavy reliance on currently stagnating oil revenues is slowing economic growth. The discontinuation of subsidized loans in 2014 is also depressing demand for vehicles. The market remains of strategic importance for the Volkswagen Group, which is why it is a primary focus of our activities. In addition to the local production in Kaluga, our contract manufacturing agreement with local manufacturer GAZ has added capacity that will enable us to better serve the market. We are also examining additional opportunities to further strengthen our market position.

Middle East
Despite economic and political instability, the Middle East region offers growth opportunities. We are leveraging the potential for sustainable growth without operating our own production facilities by offering a range of vehicles that has been specifically tailored to this market. Optimized sales channels are also intended to help lift our market share.

Research and development risk
We conduct extensive trend analyses, customer surveys and scouting activities so as to adequately reflect our customers’ requirements during product development. In this way, we ensure that we identify trends at an early stage and examine their relevance for our customers in good time.

We counter the risk that it may not be possible to develop products or modules within the specified timeframe, to the required quality standards, or in line with cost specifications by continuously and systematically monitoring the progress of all projects and increasingly analyzing third-party industrial property rights, including in relation to communication technologies. We regularly compare this progress with the project’s original targets; in the event of variances, we introduce appropriate counter measures in good time. Our end-to-end project organization supports effective cooperation among all areas involved in the process, ensuring that specific requirements are incorporated into the development process as early as possible and that their implementation is planned in good time.

Opportunities arising from the Modular Transverse Toolkit
The Modular Transverse Toolkit (MQB) and the Modular Production Toolkit (MPB) enable us to cut both development costs and the necessary one-time expenses and manufacturing times as well as to leverage expenditure over several vehicle generations. The toolkits also allow us to produce different models in different quantities and even from different brands using one and the same plant in a single facility. This enables us to deploy our capacity more flexibly across the entire Group and to achieve efficiency gains.

In addition to conventional petrol and diesel engines, the MQB also affords us the opportunity to integrate alternative drivetrains, such as gas, hybrid, or electric drives. Previously, individual, vehicle-specific adaptations were necessary. The MQB has created an extremely flexible vehicle architecture that permits dimensions determined by the concept such as the wheelbase, track width, wheel size and seat position to be harmonized throughout the Group and deployed flexibly. Other dimensions, for example the distance between the pedals and the middle of the front wheels, are always the same and guarantee a uniform system in the front of the car, enabling synergies to be generated.

Procurement risks and opportunities
Although European demand for vehicles steadied in the reporting period, there are still considerable economic differences in the regional markets. These are affecting our suppliers, especially those focused on Southern and Western Europe. In 2013, this situation once again contributed to a cautious stance on the part of investors. As a result, greater consideration was given to suppliers’ financing options when making lending decisions. The Volkswagen Group’s procurement risk management system is well prepared for the current environment: changes at the suppliers’ end are continuously monitored and a suite of different measures deployed in the event of any negative developments. This allows us to minimize supply risks and the financial effects of crises and insolvencies at suppliers.

The modular structure of our toolkits make them the ideal starting point for requests for bundled volumes of vehicle parts and for synchronized order and procurement processes. We will systematically enhance this strategy with the Modular Transverse Toolkit in the A0 vehicle class and combine worldwide volumes into a single request. In doing so, we consider both market requirements and conditions at the location, with the objective of a globally harmonized supplier strategy. This process creates the conditions for us to exploit regional and transregional synergies. Furthermore,
start-up risks in the Volkswagen Group are minimized, one-time expenses are optimized and the security of planning and supplies are ensured at a global level.

Production risk

The weakness in the European automotive market also had a noticeable effect on production at the Volkswagen Group in 2013. Changes in the demand environment, partly due to weak domestic markets, caused production volumes of several vehicle models to fluctuate at some plants. We have various tools at our disposal with which to smooth out these market-driven fluctuations, such as flexible working time models and dynamic capacity utilization at our sites. “Turntable concepts” are used to keep capacity utilization at our production sites at a consistently high level. In addition, we are better able to smooth out fluctuations in demand at multi-brand sites, the number of which is growing in the Group.

Short-term changes in demand for special equipment features or components of our products and the decreasing predictability of those changes may lead to supply bottlenecks. We minimize this risk, among other things, using a revolving process that examines the feasibility of different future demand scenarios for vehicle features. If there are signs of bottlenecks in the supply of materials, countermeasures can be introduced with sufficient lead time.

Regular preventative maintenance measures ensure that plant availability is high and that output at our production facilities remains stable.

We select new sites for vehicle or drivetrain plants by means of a transparent process that is consistent for all Group brands. In addition to economic, geological and technical factors, environmental factors, environmental laws and compliance requirements are assessed and considered in detail in the course of this process.

Risks arising from long-term production

In the case of large projects, risks may arise that are often only identified in the course of the project. These may result in particular from contracting deficiencies, miscosting, post-contract changes in economic and technical conditions, weaknesses in project management and poor performance by subcontractors. We use an enhanced project control process that covers all project phases and a lessons learned process to endeavor to identify such risks at an even earlier stage and to take appropriate measures to eliminate or minimize them before they occur.

Risks arising from changes in demand

Consumer demand is shaped not only by real factors such as disposable income, but also by psychological factors that are impossible to plan for.

Increased fuel and energy prices could result in unexpected buyer reluctance, which could be further exacerbated by media reports, for example. This is particularly the case in saturated automotive markets such as Western Europe, where demand could drop as a result of owners holding on to their vehicles for longer. In the reporting period, the effect of unplannable psychological demand factors was exacerbated by the euro crisis and its impact on the global economy and the entire automotive industry. Several automotive markets, particularly in Southern Europe, were unable to recover from their record lows in the reporting period and even contracted further in some cases. We are countering this buyer reluctance with our attractive range of models and in-depth customer orientation.

A combination of buyer reluctance as a result of the crisis and increases in some vehicle taxes based on CO₂ emissions – such as those already formulated in some European countries – is driving a shift in demand towards smaller segments and engines in individual markets. We counter the risk that such a shift will negatively impact the Volkswagen Group’s earnings by constantly developing new, fuel-efficient vehicles and alternative drive technologies, based on our drivetrain and fuel strategy. In automotive markets around the world, risks arise due to government intervention in the form of tax increases, for example, which could curb private consumption.

As industrial goods, commercial vehicles are influenced by the general economic environment, which means that the market is highly cyclical. Although production volumes are significantly lower, the complexity of the trucks and buses range even exceeds that of passenger cars, since they are tailored to the customers’ requirements. The priorities for commercial vehicle customers are overall running costs, vehicle reliability and the service provided.

MAN Power Engineering’s two-stroke engines are produced exclusively by licensees, particularly in China and Korea. Weaker demand could result in licensees having excess capacity and consequently in risks due to declining license revenues or bad debt losses up to and including the loss of licensees. We address the risks by constantly monitoring the markets, carefully managing business relationships with licensees and, if necessary, agreeing payment plans.
Dependence on fleet customer business
In fiscal year 2013, the percentage of total registrations in Germany accounted for by fleet customers fell to 12.5% (12.7%). The Volkswagen Group’s share of this customer segment decreased to 47.2% (47.7%).

In Europe, the Volkswagen Group was unable to extend its position in this customer segment despite its comprehensive product range and customized support for this target group; registrations by business fleet customers were down 2.2% year-on-year, while the Group’s share fell to 28.8% (29.4%). The fleet customer business continues to be marked by increasing concentration and internationalization. With its broad product portfolio, the Group is well positioned to face the growing importance of the issue of CO₂ and the trend towards downsizing. No default risk concentrations exist for individual corporate customers.

Quality risk
Right from the product development stage, we aim to identify and rectify quality problems at the earliest possible point so as to prevent potential delays to the start of production. The increasing use of modular components means that, when vehicle defects occur, the cause of the defect must be identified and eliminated as quickly as possible. In the reporting period, we further optimized the process by which defects are rectified in the brands and improved its organization so as to counter the related risks.

Growing production volumes, increasing complexity and the use of the Group’s toolkit system mean that the need for high-grade supplier components of impeccable quality is also rising. To ensure production and hence meet customer expectations, it is extremely important that our own plants and our suppliers deliver on time. The introduction of an internally-tested risk management system at suppliers is an important step towards ensuring long-term quality and supply capability early on in the supply chain. In this way, quality assurance helps to fulfill customer expectations and consequently boost our Company’s reputation, sales figures and earnings.

Sustained high demand in the Volkswagen Group’s key markets also presents particular challenges for quality assurance. Quality assurance is of fundamental importance especially in the growing automotive markets of Brazil, Russia, India and China, for which dedicated vehicles are developed and where local manufacturing operations and suppliers have been established. We analyze the conditions specific to each market and thus ensure growth in these regions. In cooperation with the central quality assurance function, we continuously develop effective measures to counter identified local risks and then implement those measures locally, minimizing quality defects from the outset.

Vehicle registration and operation criteria are set and monitored by national and, in some cases, international authorities. Some countries also have special, and in some cases new, rules aimed at protecting customers in their dealings with vehicle manufacturers. Therefore, we systematically ensure that the Volkswagen Group brands and their products fulfill all applicable requirements and the local authorities receive timely notification of all issues required to be reported. By doing so, we reduce the risk of customer complaints, administrative fines and other negative consequences for Volkswagen.

Personnel risk
The individual skills and technical expertise of our employees are a major factor contributing to the Volkswagen Group’s success. Our aim of becoming the top employer in the automotive industry improves Volkswagen’s chances of recruiting and retaining the most talented employees.

Our strategic, end-to-end human resources development strategy gives all employees attractive training and development opportunities, with particular emphasis placed on increasing technical expertise in the Company’s different vocational groups. By continuously expanding our recruitment tools and boosting training programs, particularly at our international locations, we are able to adequately address the challenges posed by growth from a human resources perspective.

In addition to the standard twin-track vocational training, programs such as our StIP integrated degree and traineeship scheme ensure a pipeline of highly qualified and motivated employees. We counter the risk that knowledge will be lost as a result of employee fluctuation and retirement with intensive, department-specific training. We have also expanded our base of senior experts in the Group to ensure that the valuable knowledge of specialists retiring from Volkswagen is transferred to other employees.

Participation and codetermination are factors in the Volkswagen Group’s success. Employee involvement and motivation are two sides of the same coin. We aim to maintain a culture of participation at Volkswagen internationally as well. The challenge lies in crafting labor relations with the many trade unions and stakeholder representatives worldwide. We have created a framework for this with our Labor Relations Charter and have pledged our commitment to it.

IT risk
At Volkswagen, a global company geared towards further growth, the information technology (IT) used in all divisions Group-wide is assuming an increasingly important role. IT risks include
unauthorized access to sensitive electronic corporate data as well as limited systems availability as a consequence of downtime or natural disasters.

We address the risk of unauthorized access to corporate data by using firewall and intrusion prevention systems and a dual authentication procedure. We achieve additional protection by restricting the allocation of access rights to systems and information and by keeping backup copies of critical data resources. We use technical resources that have been tried and tested in the market, adhering to standards applicable throughout the Company. Redundant IT infrastructures protect us against risks that occur in the event of a systems failure or natural disaster.

In addition, we continuously take measures to combat identified and anticipated risks during the software development process, when protecting the IT infrastructure and also in the allocation of access rights to systems and data resources. These preventative measures are taken with the aim of counteracting the growing intensity and quality of attacks on our IT systems and data resources at an early stage.

Volkswagen supplements its reliable technical protection against unauthorized access to sensitive data by systematically providing its employees with information and training. A Company-wide information security campaign was launched back in 2012, covering topics such as how to handle sensitive data.

Environmental protection regulations
The EU Regulation governing CO₂ emissions from passenger cars (443/2009/EC) and the EU Regulation governing light commercial vehicles of up to 3.5 tonnes (510/2011/EU), in effect since April 2009 and June 2011 respectively, set the specific emission limits for all new passenger car and light commercial vehicle models and the fleet targets calculated from the individual vehicle data of brands and groups in the 28 EU member states for the period up to 2019. They are an important component of European climate protection regulations and therefore form the key regulatory framework for product design and marketing by all vehicle manufacturers operating in the European markets.

From 2012 onwards, the average CO₂ emissions of European manufacturers’ new passenger car fleets may not exceed the figure of 130 g CO₂/km. Compliance with this requirement is being introduced in stages: 75% of the fleet had to meet this requirement in 2013, 80% must meet it in 2014 and the entire fleet in 2015. A further significant reduction in European passenger car fleet emissions to 95 g CO₂/km from 2020 onwards has also been resolved.

The EU’s CO₂ regulation for light commercial vehicles requires limits to be met from 2014 onwards, with targets being phased in over the period to 2017: the average CO₂ emissions of new registrations in Europe may not exceed the figure of 175 g CO₂/km, a target required to be met by 70% of the fleet in 2014. The long-term target has also been set, subject to the European Commission’s current review: for the period after 2020, the limit is to be set at 147 g CO₂/km. Like the CO₂ regulation for passenger cars, the regulation provides for derogations from the targets, for example by offering relief for eco-innovations.

The European Commission intends to set out the CO₂ regime for the period after 2020 by the end of 2014. Politicians are already discussing reduction targets for the transport sector for the period to 2050, such as the 60% reduction in greenhouse gas emissions from 1990 levels cited in the EU White Paper on transport published in March 2011. It will only be possible to meet these long-term goals by also making extensive use of nonfossil sources of energy, in particular in the form of renewable electricity.

At the same time, CO₂ or fuel consumption regulations are also being developed or introduced outside Europe – in Japan, China, South Korea, India, Brazil, Mexico and Australia, for example. In the USA, a new consumption regulation will impose uniform fuel consumption and greenhouse gas rules in all states of the USA for the period from 2017 to 2025. The law was signed by the US president in mid-2012.

The increase in CO₂ and consumption regulations mean that the latest mobility technologies are required in all key markets worldwide. Electrified and pure-play electric drives will also gain more and more ground.

The Volkswagen Group closely coordinates technology and product planning with its brands so as to avoid breaches of emission limits, which would entail severe sanctions. In principle, the EU legislation permits some flexibility. For example:

- Excess emissions and emission shortfalls may be offset between vehicle models
- Emission pools may be formed
- Relief may be provided in the form of credits that are granted for additional eco-innovations contained in the vehicle and that apply outside the test cycle
- Special rules are in place for small series producers and niche manufacturers.

Whether the targets are met, however, depends crucially on the Group’s technological and financial capabilities, which are reflected, among other things, in our drivetrain and fuel strategy (see page 140).

The other main EU regulations affecting the automotive industry include:

- EU Directive 2009/33/EC on the promotion of clean and energy-efficient road transport vehicles (Green Procurement Directive)
- EU Directive 2006/40/EC relating to emissions from air-conditioning systems in motor vehicles
- Passenger car energy consumption labeling directive 1999/94/EC
- Revised Energy Taxation Directive 2003/96/EC: updates the minimum tax rates for all energy products and power.
The implementation of the above-mentioned directives by the EU member states serves as a flanking measure for the CO₂ regulations in Europe. As well as vehicle manufacturers, they are also aimed at other stakeholders such as the mineral oil industry. Vehicle taxes based on CO₂ emissions are having a similar effect; many EU member states have already incorporated CO₂ elements into their rules on vehicle taxation.

Heavy commercial vehicles put into operation from 2014 onwards are already subject to the stricter emission requirements under the Euro 6 standard in accordance with EU Regulation 595/2009/EC. At the same time as the CO₂ legislation for passenger cars and light commercial vehicles, the EU is preparing a further CO₂ regulation for heavy commercial vehicles. Setting one overarching limit for these vehicles – like that in place for passenger cars and light commercial vehicles – is extremely complicated because of the wide range of variants (tractor units with different trailers or bodywork). With the support of the European Automobile Manufacturers’ Association (ACEA), the European Commission is currently preparing a simulation-based method that can be used to determine the CO₂ emissions of heavy commercial vehicles of over 7.5 tonnes according to their typical use (short- and long-haul trips, service on construction sites, city buses and coaches). This method is expected to be the basis for the European Commission’s concrete regulatory proposals, which are anticipated by the end of 2014 and likely to enter into force in 2017/2018.

Manufacturers of heavy commercial vehicles are urging the adoption of a system for quantifying CO₂ figures that is accessible to everyone and that looks at the vehicle as a whole, and not simply at the engine or the tractor, in order to increase transparency and therefore competition in the market.

As part of its efforts to reduce the CO₂ emissions of heavy commercial vehicles, the European Commission is also planning to revise the provisions regarding the maximum permissible dimensions of trucks (Directive 1996/53/EC, the Weights and Measures Directive). By relaxing the legal length restrictions, it may be possible to design vehicles in an aerodynamic way without losing any loading space. Air resistance falls in a rounded and streamlined design, cutting fuel consumption. Considering the vehicle as a whole could save up to 25% in fuel through the aerodynamic design of cabs and trailers, as well as additional technical innovations (e.g. low rolling resistance tyres, hybridization).

In the Power Engineering segment, the International Maritime Organization (IMO) has implemented the International Convention for the Prevention of Pollution from Ships (MARPOL), which aims to reduce marine pollution and which is phasing in limits on exhaust emissions from marine engines. Emission limits also apply, for example, under EU directive 1997/68/EC and the US EPA (Environmental Protection Agency) marine regulations. As regards stationary equipment, national rules are in place worldwide and have to be applied locally. On December 18, 2008, the World Bank Group set limits for gas and diesel engines in its “Environmental, Health, and Safety Guidelines for Thermal Power Plants”, which are binding if individual countries have adopted no or less strict national requirements. In addition, back in 1979, the United Nations adopted the Convention on Long-range Transboundary Air Pollution, setting limits on total emissions as well as nitrogen oxide limits for the signatory states (including all EU states, other countries in Eastern Europe, the USA and Canada). Enhancements to the product portfolio in the Power Engineering segment are focusing on improving the efficiency of the equipment and systems.

In order to be optimally prepared for the third emissions trading period starting in 2013, we calculated and disclosed the required CO₂ emissions to be reported for our German plants in accordance with the German Data Collection Regulation (DEV 2020 – German Data Collection Regulation). We have submitted the appropriate applications for the allocation of certificates to the Deutsche Emissionshandelsstelle (DEHSt – German Emissions Trading Authority) for all our plants. Our other plants in the European Union were also checked in accordance with the relevant national laws in force at those locations and action was taken to ensure that applications were submitted to the relevant national authorities in good time.

The allocation method for emissions certificates changed fundamentally when the third trading period (2013 – 2020) began. As a general rule, all emission allowances for power generators are being sold at auction starting in 2013. For manufacturing industry and certain power generation installations (e.g. combined heat and power installations), a portion of the certificates are allocated free of charge on the basis of benchmarks applicable throughout the EU. The share allocated for free will gradually decrease as the trading period progresses; the remaining quantities of certificates required will have to be bought, and thus paid for, at auction. Furthermore, installation operators can partly fulfill their obligation to hold emission allowances using certificates from climate protection projects (Joint Implementation and Clean Development Mechanism projects).

For certain (sub-) sectors of industry where there is a risk that production will be transferred to countries outside Europe due to the amended provisions governing emissions trading (a phenomenon referred to as “carbon leakage”), a consistent quantity of certificates will be allocated free of charge for the period from 2013 to 2020 on the basis of the pan-EU benchmarks. The automotive industry is not on this list because in the past it did not meet the criteria examined. It is currently unclear whether it will be included in the carbon leakage list when this is updated in the future.

In 2013, the European Commission decided to initially withhold a portion of the certificates to be auctioned and to only release them for auction at a later date during the third trading period (“backloading”). This temporary shortage of certificates during the trading period may cause certificate prices to rise.
As well as the European Union, other countries in which the Volkswagen Group has production sites are also considering introducing an emissions trading system. Seven pilot projects have started in China, for example, although they have not so far affected the Volkswagen Group. The Chinese government plans to expand those pilot projects into a national emissions trading system.

Litigation
In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested become involved in legal disputes and official proceedings in Germany and internationally. In particular, such legal disputes and proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. For the companies involved, these may result in payment or other obligations. Particularly in cases where US customers assert claims for vehicle defects individually or by way of a class action, highly cost-intensive measures may have to be taken and substantial compensation or punitive damages paid. Corresponding risks also result from US patent infringement proceedings.

Where transparent and economically viable, adequate insurance cover is taken out for these risks and appropriate provisions recognized for the remaining identifiable risks. The Company does not believe, therefore, that these risks will have a sustained effect on the economic position of the Group. However, as some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not being covered by the insured amounts and provisions cannot be ruled out.

ARFB Anlegerschutz UG (haftungsbeschränkt), Berlin, brought an action against Porsche Automobil Holding SE, Stuttgart, and Volkswagen AG for claims for damages allegedly assigned to it in the amount of approximately €1.8 billion. The plaintiff asserts that these claims are based on alleged breaches by the defendants of legislation to protect the capital markets in connection with Porsche’s acquisition of Volkswagen shares in 2008. The Group does not believe, therefore, that these risks will have a sustained effect on the economic position of the Group. However, as some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not being covered by the insured amounts and provisions cannot be ruled out.

In 2011, the European Commission opened antitrust proceedings against European truck manufacturers including MAN and Scania. The investigations continued in fiscal year 2013. At the reporting date, it is still too early to judge whether these investigations pose any risk to Volkswagen Group companies. Antitrust proceedings, also opened in 2011, by the Korea Fair Trade Commission (KFTC) against several truck manufacturers including MAN and Scania were brought to a close in fiscal year 2013 with decisions to impose administrative fines on all manufacturers involved. MAN and Scania are currently examining legal action against the decision to impose fines.

MAN has also launched an investigation into the extent to which irregularities occurred in the course of the handover of four-stroke marine diesel engines, and in particular whether technically calculated fuel consumption figures were externally manipulated. MAN informed the Munich Public Prosecution Office (I) about the ongoing investigation and the matter was handed to the Augsburg Public Prosecution Office. In this connection, the Augsburg Local Court imposed an administrative fine in the single-digit millions on MAN Diesel & Turbo SE. The investigations by the Augsburg Public Prosecution Office into MAN Diesel & Turbo SE were terminated on payment of this amount.

The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Truck & Bus GmbH, a subsidiary of Volkswagen AG, in June 2013. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. It is not uncommon for noncontrolling interest shareholders to institute such proceedings. Volkswagen continues to maintain that the results of the valuation are correct. The appropriateness of the valuation was confirmed by the audit firms engaged by the parties and by the court-appointed auditor of the agreement.

Suzuki Motor Corporation has filed an action against Volkswagen AG at a London court of arbitration for retransfer of the 19.9% interest held in Suzuki, and for damages. Volkswagen considers the claims to be unfounded and has itself filed counterclaims. The court of arbitration is expected to reach a decision in 2014.
Strategies for hedging financial risks

In the course of our business activities, financial risks may arise from changes in interest rates, exchange rates, raw materials prices, or share and fund prices. Management of financial and liquidity risks is the responsibility of the central Group Treasury department, which minimizes these risks using nonderivative and derivative financial instruments. The Board of Management is informed of the current risk situation at regular intervals.

We hedge interest rate risk, where appropriate in combination with currency risk, and risks arising from fluctuations in the value of financial instruments by means of interest rate swaps, cross-currency swaps and other interest rate contracts with matching amounts and maturity dates. This also applies to financing arrangements within the Volkswagen Group.

Foreign currency risk is reduced in particular through natural hedging, i.e. by flexibly adapting our production capacity at our locations around the world, establishing new production facilities in the most important currency regions and also procuring a large percentage of components locally, currently for instance in Russia, China and Mexico. We hedge the residual foreign currency risk using hedging instruments. These include currency forwards, currency options and cross-currency swaps. We use these transactions to limit the currency risk associated with forecasted cash flows from operating activities and intragroup financing in currencies other than the respective functional currency. The currency forwards and currency options can have a term of up to six years. We use them to hedge our principal foreign currency risks associated with forecasted cash flows, mostly against the euro and primarily in US dollars, sterling, Chinese renminbi, Swiss francs, Mexican pesos, Swedish kronor, Polish zloty and Australian dollars.

Raw materials purchasing entails risks relating to the availability of raw materials and price trends. We limit these risks mainly by entering into forward transactions and swaps. We have used appropriate contracts to hedge some of our requirements for commodities such as aluminum, copper, lead, platinum, rhodium, palladium and coal over a period of up to seven years. Similar transactions have been entered into for the purpose of supplementing and improving allocations of CO₂ emission certificates.

Pages 254 to 261 of the notes to the consolidated financial statements explain our hedging policy, the hedging rules and the default and liquidity risks, and quantify the hedging transactions mentioned. Additionally, we outline the market risk within the meaning of IFRS 7.

Risks arising from financial instruments

Channeling excess liquidity into investments gives rise to counterparty risk. Partial or complete failure by a counterparty to perform its obligation to pay interest and repay principal would have a negative impact on the Volkswagen Group’s earnings and liquidity. We counter this risk through our counterparty risk management, which we describe in more detail in the section entitled “Principles and Goals of Financial Management” starting on page 97. In addition to counterparty risk, the financial instruments held for hedging purposes hedge balance sheet risks, which we limit by applying hedge accounting.

By diversifying when we invest excess liquidity and by entering into financial instruments for hedging purposes, we ensure that the Volkswagen Group remains solvent at all times, even in the event of a default by individual counterparties.

Risks arising from trade receivables and from financial services are explained in more detail in the notes to the consolidated financial statements, starting on page 254.

Liquidity risks

We ensure that the Company remains solvent at all times by holding sufficient liquidity reserves, through confirmed credit lines and through our tried-and-tested money market and capital market programs. We cover the capital requirements of the growing financial services business mainly by raising funds at matching maturities in the national and international financial markets as well as through customer deposits from the direct banking business. Financing conditions in the reporting period were almost unchanged compared with 2012.

For this reason and thanks to the broadly diversified structure of our sources of funding, we were always able to raise sufficient liquidity in the various markets.

Credit lines from banks are only used within the Group to cover short-term working capital requirements. Projects are financed by, among other things, loans provided at favorable interest rates by development banks such as the European Investment Bank (EIB), the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), or by national development banks such as Kreditanstalt für Wiederaufbau (KfW) and Banco Nacional de Desenvolvimento Econômico e Social (BNDES). This extensive range of options means that the liquidity risk to the Volkswagen Group is extremely low.

A downgrade of the Company’s rating could adversely affect the terms attached to the Volkswagen Group’s borrowings. However, in
light of Volkswagen’s overall financial stability and flexibility, underpinned by the strong performance by its operating business, both Standard & Poor’s and Moody’s Investor Service affirmed the Group’s existing ratings, in each case assigning a positive outlook. Information on the ratings of Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH can be found on page 92 of this report.

In the reporting period, hybrid notes were issued in the amount of €2.0 billion in order to further strengthen our liquidity and capital base with a view toward future global growth and the systematic implementation of our Strategy 2018. In June 2013, in addition to the mandatory convertible note issued in November 2012 in the amount of €2.5 billion, Volkswagen AG successfully placed a further mandatory convertible note in the amount of €1.2 billion, which entitles and obliges holders to subscribe for Volkswagen preferred shares. These transactions increased not only the Volkswagen Group’s net liquidity, but also its equity in accordance with International Financial Reporting Standards.

Residual value risk in the financial services business
In the financial services business, we agree to buy back selected vehicles at a residual value that is fixed at inception of the contract. Residual values are set realistically so that we are able to leverage market opportunities. We evaluate the underlying lease contracts at regular intervals and recognize any necessary provisions if we identify any potential risks.

Management of the residual value risk is based on a defined feedback loop ensuring the full assessment, monitoring, management and communication of risks. This process design ensures not only professional management of residual risks but also that we systematically improve and enhance our handling of residual value risks.

As part of our risk management, we use residual value forecasts to regularly assess the appropriateness of the provisions for risks and the potential for residual value risk. In the process, we compare the contractually agreed residual values with the fair values obtainable. These are determined utilizing data from external service providers and our own marketing data. We do not take account of the upside in residual market values when making provisions for risks.

More information on residual value risk and other risks in the financial services business, such as counterparty, market and liquidity risk, can be found in the 2013 Annual Report of Volkswagen Financial Services AG.

Other factors
Going beyond the risks already outlined, there are other factors that cannot be predicted and are therefore difficult to control. Should these transpire, they could have an adverse effect on the further development of the Volkswagen Group. In particular, these factors include natural disasters, epidemics and terror attacks.

OVERALL ASSESSMENT OF THE RISK AND OPPORTUNITY POSITION
The Volkswagen Group’s overall risk and opportunity position results from the specific risks and opportunities shown above. We have put in place a comprehensive risk management system to ensure that these risks are controlled. The most significant risks to the Group may result from a negative trend in unit sales of, and markets for, vehicles and genuine parts, from the failure to develop and produce products in line with demand and from quality problems. Taking into account all the information known to us at present, no risks exist which could pose a threat to the continued existence of significant Group companies or the Volkswagen Group.
The Volkswagen Group’s Board of Management expects the global economy to record slightly stronger growth in 2014 than in the previous year, despite some uncertainties. The financial markets still entail risks resulting above all from the strained debt situation of many countries. While the industrialized nations will probably record moderate rates of expansion, we continue to anticipate that growth will be strongest in the emerging economies of Asia.

In 2014, we expect trends in the passenger car markets in the individual regions to be mixed. Overall, growth in global demand for new vehicles will probably be somewhat slower than in the reporting period. We anticipate a slight recovery in demand for automobiles in Western Europe, and volumes in the German market are also likely to increase again somewhat in 2014. The passenger car markets in Central and Eastern Europe will only just exceed the prior-year level. The upward trend in North America will probably weaken, while the South American passenger car markets will be on a level with the previous year. We anticipate further growth in 2014 for the markets in the Asia-Pacific region that are strategically important for the Volkswagen Group, although momentum there is expected to be lower than in the previous year.

The global markets for light commercial vehicles will probably experience slight growth overall in 2014, with the individual regions recording mixed trends.

We anticipate that the overall volume in the markets for trucks and buses that are relevant for the Volkswagen Group will see a slight increase in 2014 as against the previous year, with the greatest growth expected in the second half of the year.

We expect demand for automotive financial services to grow worldwide again in 2014.

The Volkswagen Group is well positioned to deal with the mixed developments in the automotive markets. Our strengths include our unique brand portfolio covering almost all segments, from motorcycles through subcompact cars to heavy trucks and buses, our steadily growing presence in all major markets in the world and our wide range of financial services. We offer an extensive range of environmentally friendly, cutting-edge, high-quality vehicles for all markets and customer groups that is unparalleled in the industry. The Volkswagen Group will press ahead with its product initiative across all brands in 2014, and we will modernize and expand our offering by introducing attractive new vehicles. We are pursuing the goal of offering all customers the mobility and innovation they need, sustainably strengthening our competitive position in the process.

We expect that the Volkswagen Group will moderately increase deliveries to customers year-on-year in 2014 in a still challenging market environment.

Challenges for the Volkswagen Group will come from the difficult market environment and fierce competition, as well as interest rate and exchange rate volatility and fluctuations in raw materials prices. The modular toolkit system, which we are continuously expanding, will have an increasingly positive effect on the Group’s cost structure.

Depending on the economic conditions, we expect 2014 sales revenue for the Volkswagen Group and its business areas to move within a range of 3% around the prior-year figure.

In terms of the Group’s operating profit, we are expecting an operating return on sales of between 5.5% and 6.5% in 2014 in light of the challenging economic environment, and the same range for the Passenger Cars Business Area. The Commercial Vehicles/Power Engineering Business Area is likely to moderately exceed the 2013 figure. The operating return on sales in the Financial Services Division is expected to be between 8.0% and 9.0%. Disciplined cost and investment management and the continuous optimization of our processes remain integral elements of the Volkswagen Group’s Strategy 2018.