

The
Volkswagen
Investor
Settlement
Foundation

**STICHTING VOLKSWAGEN
INVESTOR SETTLEMENT**

**ANNUAL REPORT
FOR THE YEAR 2016**

CONTENTS

	PAGE
ANNUAL REPORT FOR THE YEAR 2016	
1. Directors' report	3
2. Report of the Supervisory Board	6
3. Governance report	6
FINANCIAL STATEMENTS FOR THE YEAR 2016	
4. Statement of Changes in Operational Fund 2016	9
5. Balance sheet at December 31, 2016	10
6. Cash Flow Statement 2016	11
7. Notes to the financial statements for the year 2016	12
OTHER INFORMATION	
INDEPENDENT AUDITOR'S REPORT	18

1. DIRECTORS' REPORT

Formation of the Stichting

Stichting Volkswagen Investor Settlement, the “Stichting”, is a foundation, incorporated by notarial deed dated 26 January 2016 and is domiciled in Amsterdam, the Netherlands.

Objectives of the Stichting and role of Participants

The objective of the Stichting is to represent the interests of investors who suffer loss or have suffered loss as a result of acts or omissions of one or more legal entities or personnel belonging to Volkswagen during the period 23 April 2008 through 4 January 2016. The Stichting aims to open a dialogue with Volkswagen in a spirit of mutual respect to find a reasonable and fair solution. Participation in the Stichting is open to all investors other than investors who purchased American Depository Receipts that are traded over-the-counter in the United States (the “Volkswagen ADRs”). There is a separate class action pending in the United States on behalf of investors in the Volkswagen ADRs.

The Stichting functions as an “opt-out” foundation based upon the Dutch Collective Settlement Act (Wet Collectieve Afwikkeling Massaschade 2005 or “WCAM”). The Amsterdam Court of Appeal has exclusive jurisdiction for the declaration of the binding effect of a future settlement between Volkswagen and the Stichting.

Once a settlement has been reached, the unique group solution procedure of the Netherlands provides the opportunity to get Court approval and make such settlement globally binding (with the option to opt out). This will provide investors with compensation for their losses and will provide Volkswagen the chance to turn the page and focus on the future.

Being a Participant does not make any Participant a party to any litigation and is merely intended to provide the Stichting the required representative capacity under Dutch law to act as a representative body and also enter into and execute any class-wide settlement agreements on behalf of Investors.

Financing of the Stichting

Participants carry no financial risk or obligation. Bernstein Litowitz Berger & Grossmann LLP (“BLB&G”, New York, USA) is pre-financing all costs of the Stichting, including legal costs. Any material financing and funding decisions require approval from the Supervisory Board. BLB&G has an interest in the results of the proceedings with respect to the compensation of losses for the investors and takes care of the financing of the Stichting. BLB&G is entitled to a success fee if and when a settlement agreement is reached with Volkswagen and approved by the Court.

The independence of the Stichting

Independence of the Stichting is built upon a strong internal governance (see the section on governance), the independence of the members of the Board and the Supervisory Board, the articles of association of the Stichting, transparency to the investors whose interests are represented by the Stichting and last but not least the procedures under the WCAM and the role of the Amsterdam Court of Appeal in the declaration of the binding effect of a future settlement.

Board Meetings and Plan of Action

In addition to a number of telephone conferences and many exchanges of views by e-mail, the Board had 10 physical meetings during 2016. The main issues discussed and/or resolved by the Board were:

- activities to be undertaken in 2016
- information to investors and Participants and set-up of the website;
- registration of Participants;
- budget for the Stichting and financing agreements with BLB&G;
- appointment of the accounting firm and external auditor;
- appointment of BLB&G as Legal Counsel for the settlement process;
- appointment of Allen & Overy as Legal Advisory and Settlement Counsel for the Stichting, later in the year replaced by Stibbe because of a conflict of interest.

BLB&G serves as the court-appointed Lead Counsel in the VW ADR class action in the United States. Under the US Supreme Court's decision in Morrison, the U.S. case only covers ADR claims and thus any claims on losses sustained on VW common and preferred stock and VW bonds are not covered by the U.S. ADR class action. The establishment of the Volkswagen Investor Settlement Stichting, provides a vehicle for Volkswagen investors to achieve a comprehensive and global resolution of their claims for recovery of damages on all publicly traded securities of VW without initiating formal litigation.

Volkswagen may decide to engage with the Stichting on a potential global settlement to resolve claims of investors in all Volkswagen securities, including preferred and common Volkswagen shares that were purchased in Germany, through our Stichting. Under the Dutch Collective Settlement Act, it is possible for defendants in a securities class action like Volkswagen to reach a global settlement with a Dutch Stichting that is sufficiently representative of investor interests. The Amsterdam Court of Appeals has exclusive jurisdiction to hear and assess such potential settlements and has previously taken an expansive view of its jurisdiction to include the settlement of claims that are not predominantly affecting the Netherlands or Dutch investors. As a result, we believe that the Court will also hear a potential settlement involving Volkswagen.

In 2016 Volkswagen has not entered into such a dialogue with the Stichting. The (Chairman of the) Board has had a number of meetings with (potential) Participants and other stakeholders and with the press.

Participants

The Stichting has well over one hundred Participants which are directly informed by the Board over the proceedings of the Stichting by means of regular newsletters and webinars. The Stichting has its own website <http://volkswageninvestorssettlement.com>. In addition, BLB&G provides regular updates on the legal proceedings around Volkswagen. In particular, developments around the proceedings initiated by investors in the USA were of interest to our Participants.

The Stichting seeks to measure the financial losses suffered by Volkswagen investors. As a first step, we asked Participants to share their trading data on a strictly confidential basis in order to be able to substantiate the damage suffered in a future dialogue with Volkswagen.

In 2016 there was no need to organize a Meeting of Participants to discuss the results of a dialogue with Volkswagen as there has not been a dialogue yet.

Budget 2016 and realisation

The budget for the financial year 2016 was set high given the expected start-up costs and the uncertainty over the course of events in 2016. The realisation was well below budget. This goes especially for the budgeted costs of lawyers, but also the other costs in general were lower than budgeted due to the fact that a dialogue with Volkswagen has not yet started. The Stichting has no employees. The budget for 2016 has been drawn up by the Board and approved by the Supervisory Board.

Looking forward

The empirical evidence around settlement processes indicates that it takes a long time before the relevant parties agree to negotiate a settlement. No doubt the legal risks of ongoing litigation claims make the defendant extremely cautious in entering negotiations. In this case we expect no fast results; that being said we are not pessimistic about the chances of reaching a fair and reasonable settlement agreement with Volkswagen. It is however too early to put a time frame on that.

2. Report of the Supervisory Board

The duties and powers of the Supervisory Board (SB) are defined in the articles of association of the Stichting.

The SB was appointed by deed of incorporation on 26 January 2016. The SB appoints the members of the Board.

Prior to the deed of incorporation the prospective members of the SB and the Board met to discuss the articles of association.

The SB held two in person meetings in 2016. In these meetings the SB was informed by the Board over the Board's policies and the daily management of the Stichting. In these meetings the SB approved:

- The budget for 2016 including the action plan;
- The remuneration of the Board and the members of the SB;
- The appointment of the accounting firm and the external auditor;
- The appointment of the legal advisor.

The Board informed the SB about the communication plan of the Stichting and the contacts with the Participants of the Stichting.

The Supervisory Board has approved the annual report including the financial statements for 2016.

3. GOVERNANCE REPORT

The Stichting is a Dutch legal entity formed to effectuate a settlement on behalf of the Investors. The Stichting is governed by its articles of association. The articles of association are published on the website of the Stichting.

The Board and the Supervisory Board

The Stichting operates a two-tier model, which means that management and supervision are segregated. The management board, "the Board" has been charged with the daily management of the Stichting. The Board consults the Supervisory Board on a regular basis. Important decisions are – in line with the articles of association– submitted to the Supervisory Board. The Board has four members, including a Chairman, a Secretary and a Treasurer. The initial and current members are the founders of the Stichting, who are appointed for a period of four years, with the option of reappointment.

The Board will be guided in the performance of its duties by the interests of the Investors. The Board is remunerated on the basis of agreed hourly rates for time spent. Members of the Board are appointed and dismissed by the Supervisory Board.

The Supervisory Board consists of three independent members. Its role is defined in the articles of association. Members of the Supervisory Board are appointed or dismissed by the Supervisory Board. The members of the Supervisory Board are appointed for a period of four years, with the option of reappointment.

Members of both the Board and the Supervisory Board shall be independent of BLB&G and independent of Volkswagen or advisors to Volkswagen. Reference is made to the site of the Stichting for the curricula of the members of the Board and of the Supervisory Board. The remuneration of the members of the Board is based on the hours spent. The tariff per hour is Euro 400 per hour for the members of the Board and the Supervisory Board and 500 for the respective chairmen of both Boards.

The Stichting adheres to the Dutch Claim Code. This self-enforced code gives best practices on governance and internal operations for claim and settlement foundations in the Netherlands. In a separate document, published on the website of the Stichting, it is explained in which manner the Stichting applies the principles of the Code.

Independent Auditor

The board report and the financial statements of the Stichting require the approval of the Supervisory Board. The Supervisory Board shall instruct the Board to arrange for the annual accounts to be audited by an independent external auditor, designated by the Supervisory Board. The Supervisory Board has appointed Mazars Paardekooper Hoffman N.V. as independent auditor.

**FINANCIAL STATEMENTS
FOR THE YEAR 2016**

4. STATEMENT OF CHANGES IN OPERATIONAL FUND FOR THE YEAR 2016

	Note**	2016	Budget
		EUR	EUR
Balance at January 26, 2016		0	0
Contribution Bernstein Litowitz Berger & Grossmann LLP		300.000	700.500
EXPENSES			
Remuneration Board	7.2.1	143.215	239.500
Remuneration Supervisory Board	7.2.2	26.543	44.000
Secretarial services	7.2.3	51.555	37.000
Administrative services	7.2.4	9.000	30.000
Legal fees	7.2.5	30.443	310.000
Tax services	7.2.6	28.088	40.000
Other expenses	7.2.5	381	-
		<u>289.225</u>	<u>700.500</u>
Balance at December 31, owed to BLB&G		<u>10.775</u>	<u>-</u>

**See the accompanying notes to the financial statements on page 13 and following.

5. BALANCE SHEET AT DECEMBER 31, 2016

ASSETS	Note**	2016	
			<u>EUR</u>
CURRENT ASSETS			0
Value added tax	7.3.1		7.614
Bank	7.3.2		<u>75.376</u>
TOTAL			<u>82.990</u>
 FUNDS AND LIABILITIES			
OPERATIONAL FUND, OWED TO BLB&G			10.775
 OTHER LIABILITIES			
Creditors	7.3.3	63.215	
Payables and accruals	7.3.4	<u>9.000</u>	
Total			<u>72.215</u>
			<u>82.990</u>

** See the accompanying notes to the financial statements on page 15 and following.

6. CASH FLOW STATEMENT FOR THE YEAR 2016

	<u>2016</u>	
	EUR	
BALANCE AT JANUARY 26, 2016		
Cash flow Operational Fund:		
Received	344.188	
Paid	<u>268.812</u>	
		75.376
 BALANCE AT DECEMBER 31		 <u>75.376</u>

7 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

General

Stichting Volkswagen Investor Settlement (the Stichting) was founded on 26 January 2016.

The objective of the Stichting is to represent the interests of investors who suffer loss or have suffered loss as a result of acts or omissions of one or more legal entities or personnel belonging to Volkswagen during the period 23 April 2008 through 4 January 2016.

Financial year

The financial year coincides with the calendar year. The first year started on the date the Stichting has been founded, January 26, 2016

7.1 Accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles in The Netherlands. The functional currency of the Stichting is the Euro. The budgeted figures have been included as comparatives to provide insight for the stakeholders.

Unless stated otherwise, the assets and liabilities have been included at cost or face value. Income and expenses are accounted for in the year they relate to. The cash flow statement has been prepared on the basis of the direct method

The Stichting applies fund accounting as the Stichting is not at risk itself for its costs as these are fully reimbursed by BLB&G, or, in case of a future settlement, by Volkswagen . The financial statements comprise therefore statements of changes in the Operational Fund, the balance sheet, the cash flow statement and the related notes to these statements. In future other Funds may be added, depending on the developments in the dialogue with Volkswagen and the result thereof.

The financial statements have been drawn up on the basis of going concern.

7.2 NOTES TO THE STATEMENT OF CHANGES IN OPERATIONAL FUND

7.2.1 Remuneration Board of Directors

	2016	Budget
	EUR	EUR
Chairman	51.100	67.500
Secretary	20.600	54.000
Treasurer	35.800	54.000
Other members of the board of directors	35.700	54.000
Travel and other expenses	<u>15</u>	<u>10.000</u>
	143.215	239.500

7.2.2 Remuneration Supervisory Board

	2016	Budget
	EUR	EUR
Chairman	12.750	16.000
Other members of the supervisory board	12.800	26.000
Travel and other expenses	<u>993</u>	<u>2.000</u>
	26.543	44.000

7.2.3 Secretarial services

	2016	Budget
	EUR	EUR
Secretarial fees	<u>51.555</u>	<u>37.000</u>
	51.555	37.000

7.2.4 Administrative services

	2016	Budget
	EUR	EUR
Administrative fees	4.000	10.000
Audit fees	<u>5.000</u>	<u>20.000</u>
	9.000	30.000

7.2.5 Legal fees

Lawyer expenses

2016	Budget
<u>EUR</u>	<u>EUR</u>
<u>30.443</u>	<u>310.000</u>
30.443	310.000

7.2.6 Tax services

Tax advice expenses

2016	Budget
<u>EUR</u>	<u>EUR</u>
<u>28.088</u>	<u>40.000</u>
28.088	40.000

7.2.7 Other expenses

Other

2016	Budget
<u>EUR</u>	<u>EUR</u>
<u>381</u>	<u>-</u>
381	-

7.3 NOTES TO THE BALANCE SHEET AT DECEMBER 31, 2016

7.3.1 Value Added Tax	2016
	<u>EUR</u>
Receivable, 2016	<u>7.614</u>
7.3.2 Bank	
Current account	<u>75.376</u>
The amount is at free disposal of the Stichting	
7.3.3 Creditors	63.215
Outstanding invoices	<u> </u>
7.3.4 Payables and accruals	
Administrative services	4.000
Audit fees	<u>5.000</u>
	9.000
	<u> </u>

7.3.5. Operational Fund, owed to BLB&G

As the Stichting only charges its cost to BLB&G, the Stichting owes the amount it has invoiced over the year 2016, insofar as this amount exceeds the level of costs for 2016.

7.3.6. Tax position

The Stichting is subject to value added tax in the Netherlands.

The Stichting is only subject to corporate taxes in the Netherlands to the extent it realises a profit exceeding certain thresholds which is unlikely given the fact that all costs are charged to BLB&G and any income from a settlement with Volkswagen will go to the investors.

7.3.7. Contingent liabilities

The invoices by lawyers in the Netherlands are based upon a base tariff, with an upward potential in case the dialogue with Volkswagen would be successful in the future. At year-end this contingency is estimated at Euro 5.000.

BLB&G will seek payment of fees and reimbursement of expenses with respect to this case if, in connection with BLB&G's efforts, the Stichting achieves a benefit for Volkswagen investors.

Board of Stichting Volkswagen Investor Settlement

J.H.M. Willems, chair
J.M.G. Frijns, secretary
R.W. Okhuijsen, member
F. van der Wel, treasurer

Supervisory Board

B.F.M. Knüppe, chair
H. de Munnik, member
A. Stadler, member

Amsterdam, June 20, 2017

OTHER INFORMATION

INDEPENDENT AUDITOR'S REPORT

To the Board and participants of
Stichting Volkswagen Investor Settlement

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2016 INCLUDED IN THE ANNUAL REPORT FOR THE YEAR 2016

OUR OPINION

We have audited the financial statements 2016 of Stichting Volkswagen Investor Settlement, based in Amsterdam.

In our opinion the accompanying financial statements, give a true and fair view of the financial position of Stichting Volkswagen Investor Settlement as at 31 December 2016 and its Changes in the Operational Fund for the period 26 January 2016 up to and including 31 December 2016, in accordance with generally accepted accounting principles in The Netherlands as summarized and described in the financial statements.

The financial statements comprise:

1. the balance sheet as at 31 December 2016;
2. the statement of changes in the operational fund for the period 26 January 2016 up to and including 31 December 2016; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Stichting Volkswagen Investor Settlement in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of the Directors' report.

Based on the following procedures performed, we conclude that the other information:

- ⊕ is consistent with the financial statements and does not contain material misstatements;
- ⊕ contains the information as required by generally accepted accounting principles in The Netherlands.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of generally accepted accounting principles in The Netherlands. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board is responsible for the preparation of the directors' report and other information both in accordance with generally accepted accounting principles in The Netherlands.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

RESPONSIBILITIES OF THE BOARD FOR THE FINANCIAL STATEMENTS

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles in The Netherlands. Furthermore, the Board is responsible for such internal control as the Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board is responsible for assessing the Foundation's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Board should prepare the financial statements using the going concern basis of accounting unless the Board either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

The Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- ⌚ identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ⌚ obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- ⌚ evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board;
- ⌚ concluding on the appropriateness of the Board's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- ⌚ evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- ⌚ evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Rotterdam, 27 June 2017

MAZARS PAARDEKOOPER HOFFMAN N.V.

Original has been signed by: J.A. Viskil RA