VOLKSWAGEN

AKTIENGESELLSCHAFT

Full speed ahead to the future.

ANNUAL REPORT 2018

Key Figures

VOLKSWAGEN GROUP

	2018	2017[1]	%
Volume Data[2] in thousands			
Deliveries to customers (units)	10,834	10,742	+0.9
Vehicle sales (units)	10,900	10,777	+1.1
Production (units)	11,018	10,875	+1.3
Employees at Dec. 31	664.5	642.3	+3.5
Financial Data (IFRSs), € million			
Sales revenue	235,849	229,550	+2.7
Operating result before special items	17,104	17,041	+0.4
Operating return on sales before special items (%)	7.3	7.4	
Special items	–3,184	–3,222	–1.2
Operating result	13,920	13,818	+0.7
Operating return on sales (%)	5.9	6.0	
Earnings before tax	15,643	13,673	+14.4
Return on sales before tax (%)	6.6	6.0	
Earnings after tax	12,153	11,463	+6.0
Automotive Division[3]			
Total research and development costs	13,640	13,135	+3.8
R&D ratio (%)	6.8	6.7	
Cash flows from operating activities	18,531	11,686	+58.6
Cash flows from investing activities attributable to operating activities[4]	18,837	17,636	+6.8
of which: capex	13,218	12,631	+4.6
capex/sales revenue (%)	6.6	6.5	
Net cash flow	–306	–5,950	–94.9
Net liquidity at Dec. 31	19,368	22,378	–13.5
Return on investment (ROI) in %	11.0	12.1	
Financial Services Division			
Return on equity before tax[5] (%)	9.9	9.8	

VOLKSWAGEN AG

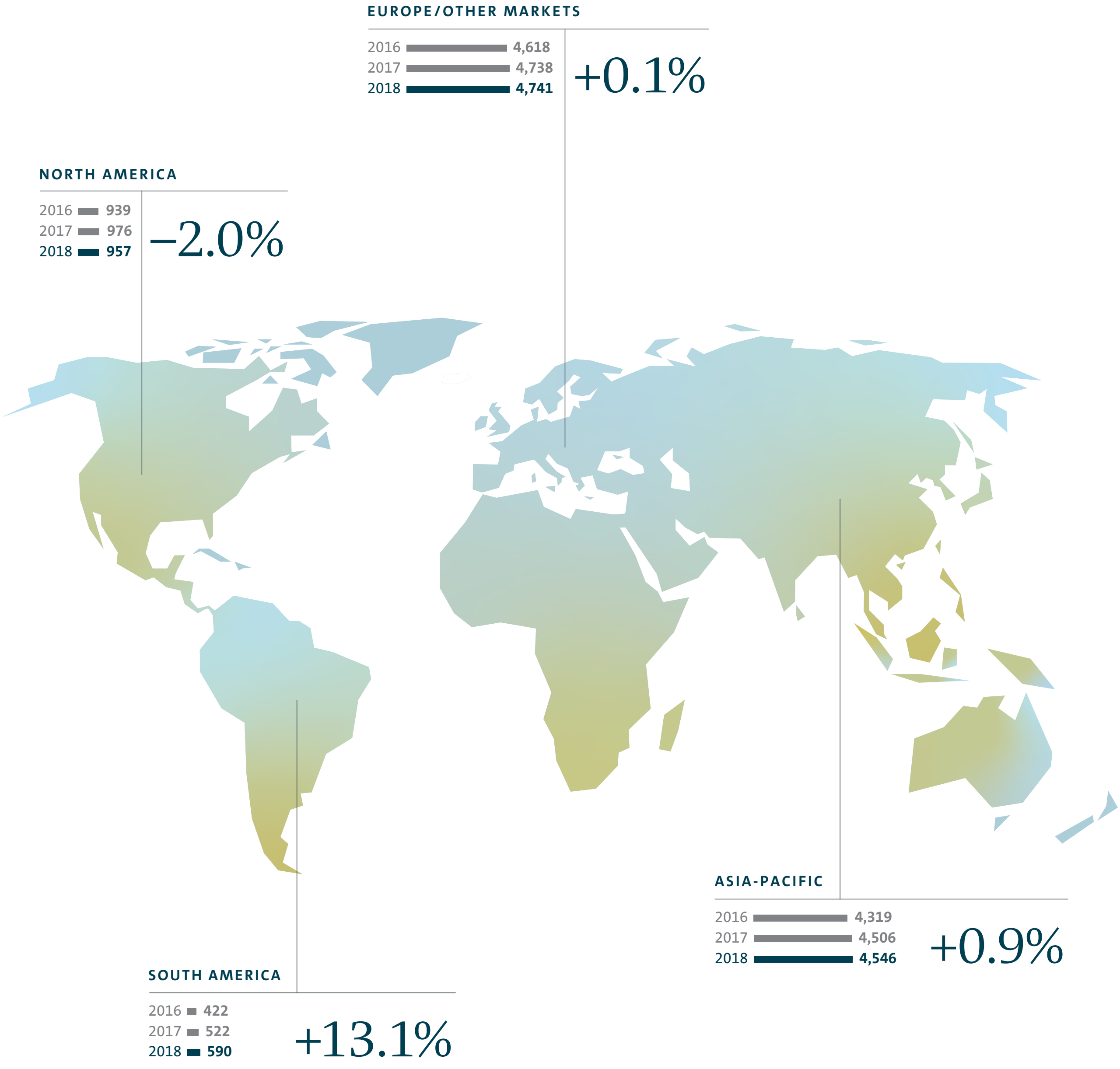
	2018	2017	%
Volume Data in thousands			
Employees at Dec. 31	119.4	117.4	+1.7
Financial Data (HGB), € million			
Sales	78,001	76,729	+1.7
Net income for the fiscal year	4,620	4,353	+6.1
Dividends (€)			
per ordinary share	4.80	3.90	
per preferred share	4.86	3.96	

1 Adjusted
2 Volume data including the unconsolidated Chinese joint ventures. These companies are accounted for using the equity method. Prior-year deliveries updated to reflect subsequent statistical trends.
3 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
4 Excluding acquisition and disposal of equity investments: €18,242 (€17,512) million.
5 Earnings before tax as a percentage of average equity.

This version of the annual report is a translation of the German original. The German takes precedence. All figures shown in the report are rounded, so minor discrepancies may arise from addition of these amounts. The figures from the previous fiscal year are shown in parentheses directly after the figures for the current reporting period.

Moving Globally

VOLKSWAGEN GROUP deliveries – in thousand units



We are resolutely pursuing the transformation of the Volkswagen Group. By maintaining our course, we will continue to shape individual mobility in the future.

VOLKSWAGEN

AKTIENGESELLSCHAFT

Volkswagen

Audi

SEAT

ŠKODA

BENTLEY

BUGATTI

LAMBORGHINI

PORSCHE

DUCATI

Commercial Vehicles

SCANIA

MAN

VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

1

TO OUR SHAREHOLDERS

2

DIVISIONS

This annual report was published on the occasion of the Annual Media Conference on March 12, 2019.

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To our Shareholders

TO OUR SHAREHOLDERS

Letter to our Shareholders

Dear Shareholders,

There are many reasons to invest in a company. Some look for returns – for companies built on solid foundations and with healthy prospects. Others look for companies that embrace responsibility for people and the environment. But they all look for companies that are valuable, that create value and stand for values. This is the type of company Volkswagen strives to be. We therefore align our business to the following three pillars: digitalization, electrification and an increase in shareholder value.

The 2018 fiscal year has shown that we have added value in spite of the difficult environment. This value is reflected in 10.8 million vehicles delivered – more than ever before. It is reflected in more than 70 new models launched by our brands. For example SUVs such as the Volkswagen Touareg and T-Roc, the ŠKODA Kodiaq and Karoq, the SEAT Arona and the Audi Q8. And it is reflected not least in our financial figures: sales revenue rose to €235.8 billion. Operating profit climbed to €17.1 billion (before special items of €–3.2 billion). And at 7.3 percent, the operating return on sales before special items was at the upper end of the target range.

The Group is in a solid financial position. Our operating business has proven resilient, despite the headwinds we had to face. In Europe the new WLTP test procedure caused delays in production. There were shifts in distribution, above all in the second half of the year. Volkswagen Passenger Cars and Audi were particularly negatively affected by the introduction of the WLTP. By increasing test capacities and reducing the range of variants, we intend to pass through the next level of the WLTP more smoothly.

We have also defined extensive countermeasures to improve the earnings situation. Appropriate programs are under way in all the brands. Bentley, Audi and also the core Volkswagen brand in particular will have to work more efficiently. At the Volkswagen brand, above all the objective is to shape the future from its own resources. At the main plant in Wolfsburg alone, we therefore want to increase productivity by 25 percent by 2020.

These efforts are also necessary as political uncertainty and an ailing economy are affecting our business in many regions of the world. This also includes China, where the economy dimmed considerably in the second half of the year because of the trade dispute with the USA. Nevertheless, our share of this core market grew further, and deliveries increased slightly to 4.2 million.

In short, the 2018 result was quite a feat. I offer my sincerest thanks to our more than 660,000 employees for their commitment!

And you, our shareholders, will of course also benefit from our success. The Board of Management and Supervisory Board are therefore proposing a significant increase of €0.90 in the dividend to €4.80 per ordinary share and €4.86 per preferred share.

Our emphasis is on the electric car, because from today's perspective it is the best and most efficient choice for reducing CO_2 in transport.

– Herbert Diess –

Looking ahead, the situation remains challenging. The technological change in our industry – from e-mobility through to digitalization, connectivity, new mobility solutions, and on to automated driving – is going to take a lot of energy and financial resources. We want to shape this development from the top. Therefore, we are realigning our activities. We will increase our efficiency and competitiveness, pick up speed and revise our cost structures.

The coming years will be guided by our electric campaign. We are committed to the Paris Agreement and to making our contribution to protecting people and the environment. We're planning investments of around €30 billion in electric mobility in the next five years. Our emphasis is on the electric car, because from today's perspective it is the best and most efficient choice for reducing CO_2 in transport. By 2025, we will put 50 new electric models on the road. By then, every fourth car in our range will be an electric model. With the Volkswagen ID., we will soon offer the first vehicle with a CO_2-neutral supply chain and production. This will also change the face of our plants: Zwickau, Emden and Hanover will be transformed into pure-play electric car plants, forming Europe's largest electric production network. In China, too, the conversion of the Anting and Foshan plants is in full swing. The production launch of electric cars in North America is planned for 2022.

But the transformation of the car will go far beyond drives. It is becoming a highly complex, connected device, like a "tablet on wheels", if you like. From assistance systems through infotainment to fully autonomous driving: software will shape the car of tomorrow. To be globally successful, companies need economies of scale, and as a leading company in the sector, Volkswagen has the necessary size. What we are lacking in many areas is software expertise. We are taking steps to acquire these skills by forging alliances with partners, increasing resources at full speed, revising our structures and changing our workflows. We are the first established automaker to separate hardware from software development. At the Volkswagen brand, we have therefore established a separate Board of Management position for software, which will additionally be responsible for the Digital & Software-Services Group division.

We are keeping a close eye on our goal to become the global leading provider of sustainable mobility. This will be possible if we continue to improve. We want to achieve sustainable growth and create value. For our customers. For our workforce. For our shareholders.

I thank you for your trust and invite you to stay with us as we move forward on this journey.

Sincerely,

Herbert Diess

The Board of Management

of Volkswagen Aktiengesellschaft

Dr.-Ing. Herbert Diess
Chairman of the Board of Management of Volkswagen Aktiengesellschaft and Chairman of the Brand Board of Management of Volkswagen Passenger Cars, Volume brand group, China

Hiltrud Dorothea Werner
Integrity and Legal Affair

Andreas Renschler
Chairman of the Board of Management of TRATON SE, Truck & Bus brand group

Gunnar Kilian
Human Resources

Oliver Blume
Chairman of the Board of Management
of Dr. Ing. h.c. F. Porsche AG,
Sport & Luxury brand group

Dr.-Ing. Stefan Sommer
Components & Procurement

Frank Witter
Finance & IT

Bram Schot
Chairman of the Board of Management
of AUDI AG, Premium brand group

Report of the Supervisory Board

(in accordance with section 171(2) of the AktG)

Ladies and gentlemen,

In fiscal year 2018, the work of the Supervisory Board of Volkswagen AG and its committees focused on the enhancement of the Volkswagen Group management structure. The efforts to address the diesel issue remained another area of emphasis. The Supervisory Board regularly deliberated on the Company's position and development in the reporting period. We supervised and supported the Board of Management in its running of the business and advised it on issues relating to the management of the Company in accordance with our duties under the law, the Articles of Association and the rules of procedure. We also observed the relevant recommendations and suggestions of the German Corporate Governance Code (the Code) at all times. The Supervisory Board was directly involved in all decisions of fundamental importance to the Group. Additionally, we discussed strategic considerations with the Board of Management at regular intervals.

The Board of Management regularly, promptly and comprehensively informed us in writing or in person on all matters of relevance to the Company relating to its strategy, the business development and the Company's planning and position. This also included the risk situation and risk management. In this respect, the Board of Management also informed the Supervisory Board of further improvements to the risk and compliance management system. In addition, the Supervisory Board received information about compliance-related topics and other topical issues by the Board of Management on an ongoing basis. In all cases, we received the documents relevant to our decisions in good time for our meetings. At regular intervals, we also received a detailed report from the Board of Management on the current business position and the forecast for the current year. Any deviations in performance from the plans and targets previously drawn up were explained in detail by the Board of Management, either in person or in writing. Together with the Board of Management we analyzed the reasons for the deviations so as to enable countermeasures to be derived. At the meetings of the Special Committee on Diesel Engines, the Board of Management presented regular reports on current developments in connection with the diesel issue.

In addition, the Chairman of the Supervisory Board consulted with the Chairman of the Board of Management at regular intervals between meetings to discuss important current issues. Apart from the diesel issue, they included the Volkswagen Group's strategy and planning, its business development, and the risk situation and risk management, including integrity and compliance issues in the Volkswagen Group.

The Supervisory Board held a total of 14 meetings in fiscal year 2018. The average attendance rate was 90.0%. In addition, resolutions on urgent matters were adopted in writing or using electronic communications media. All of the members of the Supervisory Board attended over half of the meetings of the Supervisory Board and the committees of which they are members.

COMMITTEE ACTIVITIES

In order to discharge the duties entrusted to it, the Supervisory Board has established five committees: the Executive Committee, the Nomination Committee, the Mediation Committee established in accordance with section 27(3) of the Mitbestimmungsgesetz (MitbestG – German Codetermination Act), the Audit Committee and, since October 2015, the Special Committee on Diesel Engines. The Executive Committee and the Special Committee on Diesel Engines each consist of three shareholder representatives and three employee representatives. The shareholder representatives on the Executive Committee make up the Nomination Committee. The remaining two committees are each composed of two shareholder representatives and two employee representatives. The members of these committees as of December 31, 2018 are given on page 89 of this annual report.

The Executive Committee met 13 times in the reporting period. At its meetings, the Executive Committee prepared the resolutions of the Supervisory Board in detail, dealt with the composition of the Board of Management and took decisions on, among other things, contractual issues concerning the Board of Management other than remuneration and on consenting to ancillary activities by members of the Board of Management.

The Nomination Committee is responsible for proposing suitable candidates for the Supervisory Board to recommend for election to the Annual General Meeting. This committee met on one occasion in 2018.

The Mediation Committee did not have to be convened in the reporting period.

The Audit Committee held five meetings in the past fiscal year. It focused on the annual and consolidated financial statements, the risk management system including the effectiveness of the internal control system and the internal audit system, and the work performed by the Company's Compliance organization. In addition, the Audit Committee concerned itself with the Volkswagen Group's quarterly reports and the half-yearly financial report, as well as with current issues and the supervision of financial reporting and the financial reporting process, and the examination thereof by the auditors. Moreover, the Audit Committee completed the call for bids for audits and other audit-related services in the Volkswagen Group from fiscal year 2020. In this process, Volkswagen AG and other public-interest entities of the Volkswagen Group follow the selection procedure within the meaning of Article 16(3) of Regulation (EU) No 537/2014.

The Special Committee on Diesel Engines is responsible for coordinating all activities relating to the diesel issue and preparing resolutions by the Supervisory Board. To this end, the Special Committee on Diesel Engines is also provided with regular information by the Board of Management. This Special Committee is also entrusted with examining any consequences of the findings. The Chairman of the Special Committee on Diesel Engines reports regularly on its work to the Supervisory Board. In 2018, the Special Committee on Diesel Engines met on four occasions to discuss, among other topics, the regulatory offense proceedings terminated by administrative fine orders issued by the public prosecutor's offices in Braunschweig and Munich II and the Supervisory Board's proposed resolutions regarding formal approval of the actions of the members of the Board of Management and Supervisory Board incumbent in fiscal year 2017.

Furthermore, as a rule, the shareholder and employee representatives met for separate preliminary discussions before each of the Supervisory Board meetings.

TOPICS DISCUSSED BY THE SUPERVISORY BOARD

The Supervisory Board's first meeting in the reporting period was held on February 23, 2018. Following a detailed examination, we approved the consolidated financial statements and the annual financial statements of Volkswagen AG for 2017 prepared by the Board of Management. We examined the combined management report, the combined separate nonfinancial report for 2017 and the Report by the Board of Management on Relationships of Volkswagen AG with Affiliated Companies in Accordance with Section 312 of the AktG (dependent company report). Upon completion of our examination of the dependent company report, we came to the conclusion that there were no objections to be raised to the concluding declaration by the Board of Management in the dependent company report. Other agenda items included the current state of affairs with respect to the diesel issue and the agenda for the 58th Annual General Meeting of Volkswagen AG, particularly the Supervisory Board's proposed resolutions.

Hans Dieter Pötsch

The Supervisory Board meeting on April 12, 2018 focused on the enhancement of the Volkswagen Group management structure. In this context, we also resolved on changes in the composition of the Board of Management of Volkswagen AG. Furthermore, we concerned ourselves with the strategic focus of Volkswagen Truck & Bus GmbH (now TRATON SE) and discussed the current state of affairs with respect to the diesel issue.

The Supervisory Board held another meeting on May 2, 2018. The main items on the agenda were the preparation of the 58th Annual General Meeting of Volkswagen AG held on May 3, 2018 and the current state of affairs with respect to the diesel issue.

The principal topic of discussion at the Supervisory Board meeting on June 13, 2018 was the administrative fine order issued by the public prosecutor's office in Braunschweig against Volkswagen AG in connection with the diesel issue.

The next Supervisory Board meetings were held on June 18 and 19, 2018. The main points of discussion at both meetings were issues relating to the composition of the Board of Management of Volkswagen AG; at the meeting held on June 18, 2018, we also dealt with the current state of affairs with respect to the diesel issue.

The Supervisory Board held two further meetings on July 9 and 23, 2018, which likewise addressed the composition of the Board of Management of Volkswagen AG; the issues discussed at the meeting on July 9, 2018 also included the current state of affairs with respect to the diesel issue.

The agendas of the Supervisory Board meetings on September 17 and 28, 2018 included the current state of affairs with respect to the diesel issue and other steps relating to the corporate structure and capital market readiness of TRATON AG (formerly Volkswagen Truck & Bus GmbH, now TRATON SE) as well as information on management remuneration and matters relating to the Board of Management.

At our meeting on October 2, 2018, we again addressed issues relating to the composition of the Board of Management of Volkswagen AG.

The main topic of discussion at the Supervisory Board meeting on October 16, 2018 was the administrative fine order issued by the public prosecutor's office in Munich II against AUDI AG in connection with the diesel issue.

On October 25, 2018, the Supervisory Board met again to discuss strategic issues in connection with TRATON AG (now TRATON SE).

At the Supervisory Board meeting on November 16, 2018, we discussed in detail the Volkswagen Group's investment and financial planning for the period from 2019 to 2023. The meeting also focused on strategic issues, including the utilization of production sites and the current state of affairs with respect to the diesel issue. We also submitted the annual declaration of conformity with the Code together with the Board of Management. Moreover, we adopted an information policy to provide the Board of Management with detailed guidance on reporting requirements to the Supervisory Board.

In the reporting period, we voted in writing on matters such as the establishment of a branch of Volkswagen AG in Malaysia and on issues relating to the composition and remuneration of the Board of Management of Volkswagen AG.

CONFLICTS OF INTEREST

Mr. Hans Dieter Pötsch was a member of the Board of Management of Volkswagen AG until October 2015. His move to the Supervisory Board had already been planned irrespective of the diesel issue. In order to avoid conceivable conflicts of interest, Mr. Pötsch always left the meeting room prior to discussions and resolutions adopted by the Supervisory Board that might relate to his conduct in connection with the diesel issue.

Starting in autumn 2016, the public prosecutor's office in Braunschweig launched criminal investigations against a number of individuals based on the provisions of the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act) relating to possibly excessive remuneration granted to the Chairman of the General and Group Works Councils of Volkswagen AG, Mr. Bernd Osterloh, and other works council members. In order to avoid conceivable conflicts of interest, Mr. Osterloh always left the meeting room prior to discussions and resolutions adopted by the Supervisory Board that relate to possibly excessive remuneration granted to him, based on the provisions of the German Works Constitution Act.

No other conflicts of interest were reported or were discernible in the reporting period.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board meeting on November 16, 2018 focused on the implementation of the recommendations and suggestions of the Code in the Volkswagen Group. We discussed in detail the version of the Code dated February 7, 2017, as published by the government commission on April 24, 2017, and issued the annual declaration of conformity with the recommendations of the Code in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) together with the Board of Management.

The joint declarations of conformity by the Board of Management and the Supervisory Board are permanently available at www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html. Additional information on the implementation of the recommendations and suggestions of the Code can be found in the corporate governance report starting on page 59 and in the notes to the consolidated financial statements on page 327 of this annual report.

MEMBERS OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

Ms. Annika Falkengren stepped down as a member of the Supervisory Board of Volkswagen AG with effect from February 5, 2018. Effective February 14, 2018, the Braunschweig Registry Court temporarily appointed Ms. Marianne Heiß as a member of the Supervisory Board until the end of the Annual General Meeting on May 3, 2018. On May 3, 2018, the Annual General Meeting elected Ms. Heiß as a member of the Supervisory Board of Volkswagen AG for a full term of office.

The term of office of Dr. Wolfgang Porsche on the Supervisory Board of Volkswagen AG duly ended at the close of the 58th Annual General Meeting. The Annual General Meeting reelected Dr. Porsche on May 3, 2018 for a further full term of office on the Supervisory Board.

Effective February 8, 2019, Mr. Uwe Hück stepped down from his position as a member of the Volkswagen AG Supervisory Board. Upon request of the Chairman of the Supervisory Board and in accordance with section 104 AktG, the Braunschweig Registry Court appointed Mr. Werner Weresch to succeed him as a member of the Volkswagen AG Supervisory Board, effective February 21, 2019.

The enhancement of the Volkswagen Group management structure also gave rise to changes in the composition of the Board of Management of Volkswagen AG. Mr. Matthias Müller resigned from his position as Chairman of the Board of Management of Volkswagen AG by mutual agreement with effect from April 12, 2018. Dr. Herbert Diess was appointed to succeed him, effective April 13, 2018. Dr. Diess also heads the Volume brand group, which includes the Volkswagen Passenger Cars brand. Dr. Karlheinz Blessing and Dr. Francisco Javier Garcia also left their positions as members of the Board of Management on April 12, 2018, Dr. Blessing by mutual agreement and Dr. Garcia of his own volition. Mr. Gunnar Kilian was appointed to succeed Dr. Blessing as member of the Board of Management of Volkswagen AG with responsibility for Human Resources effective April 13, 2018. Dr. Stefan Sommer took over from Dr. Garcia Sanz as member of the Board of Management with responsibility for Components and Procurement effective September 1, 2018. Mr. Oliver Blume, Chairman of the Board of Management of Dr. Ing. h.c. F. Porsche AG, was newly appointed to the Group Board of Management with effect from April 13, 2018. Mr. Blume is the member of the Group Board of Management responsible for the Sport & Luxury brand group.

With effect from October 2, 2018, Mr. Rupert Stadler left the Board of Management of Volkswagen AG and the Board of Management of AUDI AG. Mr. Abraham Schot was appointed to succeed him as member of the Board of Management of Volkswagen AG and Chairman of the Board of Management of AUDI AG, effective January 1, 2019. Mr. Schot is the member of the Group Board of Management responsible for the Premium brand group. He became interim Chairman of the Board of Management at AUDI AG on June 19, 2018 and first attended the meetings of the Volkswagen AG Board of Management as a guest.

Prof. Jochem Heizmann retired from the Board of Management of Volkswagen AG with effect from January 10, 2019 under a retirement program. His Board responsibility for the China division was transferred to Dr. Diess with effect from January 11, 2019.

Our sincere thanks go to all of the departing members of the Supervisory Board and the Board of Management for their work.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

In line with our proposal, the Annual General Meeting of Volkswagen AG on May 3, 2018 elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) as auditors for fiscal year 2018. The auditors audited the annual financial statements of Volkswagen AG, the consolidated financial statements of the Volkswagen Group and the combined management report and issued unqualified audit reports in each case.

The Supervisory Board commissioned PwC to conduct an external content-related audit of the combined separate nonfinancial report for 2018.

In addition, the auditors analyzed the risk management and internal control systems, concluding that the Board of Management had taken the measures required by section 91(2) of the AktG to ensure early detection of any risks endangering the continued existence of the Company. The Report on Relationships of Volkswagen AG with Affiliated Companies in Accordance with Section 312 of the AktG for the period from January 1 to December 31, 2018 (dependent company report) submitted by the Board of Management was also audited by the auditors, who issued the following opinion: “In our opinion and in accordance with our statutory audit, we certify that the factual disclosures provided in the report are correct and that the Company’s consideration concerning legal transactions referred to in the report was not unduly high.”

The members of the Audit Committee and the members of the Supervisory Board were provided in each case with the documentation relating to the annual and consolidated financial statements, including the dependent company report, the documentation relating to the combined management report, and also the audit reports prepared by the auditors and the report from PwC on the external content-related audit of the combined separate nonfinancial report for 2018 in good time for their meetings on February 21, 2019 and February 22, 2019 respectively. The auditors reported extensively at both meetings on the material findings of their audit and were available to provide additional information.

Taking into consideration the audit reports and the discussion with the auditors and based on its own conclusions, the Audit Committee prepared the documents for the Supervisory Board’s examination of the consolidated financial statements, the annual financial statements of Volkswagen AG, the combined management report, the dependent company report as well as the combined separate nonfinancial report, and reported on these at the Supervisory Board meeting on February 22, 2019. Following this, the Audit Committee recommended that the Supervisory Board approve the annual and consolidated financial statements. We examined the documents in depth in the knowledge and on the basis of the report by the Audit Committee and the audit report as well as in talks and discussions with the auditors. We came to the conclusion that they are due and proper and that the assessment of the position of the Company and the Group presented by the Board of Management in the combined management report corresponds to the assessment by the Supervisory Board.

We therefore concurred with the auditors' findings and approved the annual financial statements and the consolidated financial statements prepared by the Board of Management at our meeting on February 22, 2019, at which the auditors also took part in discussions on the agenda items relating to the annual and consolidated financial statements, the dependent company report and the combined management report. The annual financial statements are thus adopted. Upon completion of our examination of the dependent company report, there are no objections to be raised to the concluding declaration by the Board of Management in the dependent company report. We reviewed the proposal on the appropriation of net profit submitted by the Board of Management, taking into account in particular the interests of the Company and its shareholders, and endorsed the proposal. PwC conducted an external content-related audit of the combined separate nonfinancial report for 2018 to attain limited assurance and issued an unqualified report. At our meeting on February 22, 2019, PwC took part in the discussions on the agenda items relating to the combined separate nonfinancial report for 2018. Upon completion of its own independent examination of the combined separate nonfinancial report for 2018, the Supervisory Board did not have any objections.

We would like to express our thanks and particular appreciation to the members of the Board of Management, the Works Council, the management and all the employees of Volkswagen AG and its affiliated companies for their work in 2018. With your immense personal commitment, great loyalty and unwavering readiness to support the changes implemented, you made a decisive contribution in helping the Volkswagen Group to conclude fiscal year 2018 successfully in spite of the many challenges presented.

Wolfsburg, February 22, 2019

H. D. Pö

Hans Dieter Pötsch
Chairman of the Supervisory Board

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Divisions

DIVISIONS

Brands and Business Fields

Despite the continued challenging environment, the Volkswagen Group remained on its growth course in the reporting year. Unit sales, sales revenue and profit increased, while special items attributable to the diesel issue continued to weigh on profit.

GROUP STRUCTURE

The Volkswagen Group consists of two divisions: the Automotive Division and the Financial Services Division. The Automotive Division comprises the Passenger Cars, Commercial Vehicles and Power Engineering business areas. We report on the Passenger Cars segment and the reconciliation in the Passenger Cars Business Area. The Commercial Vehicles Business Area and Power Engineering Business Area correspond to the segments of the same name. Activities of the Automotive Division comprise the development of vehicles and engines, the production and sale of passenger cars, light commercial vehicles, trucks, buses and motorcycles, as well as genuine parts, large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses. The Ducati brand is allocated to the Audi brand and thus to the Passenger Cars Business Area. The activities of the Financial Services Division, which corresponds to the Financial Services segment, comprise dealer and customer financing, vehicle leasing, direct banking and insurance activities, fleet management and mobility offerings.

VOLKSWAGEN GROUP REPORTING STRUCTURE

AUTOMOTIVE DIVISION			FINANCIAL SERVICES DIVISION
Passenger Cars Business Area	**Commercial Vehicles Business Area**	**Power Engineering Business Area**	Dealer and customer financing
Volkswagen Passenger Cars	Volkswagen Commercial Vehicles	MAN Power Engineering	Leasing
Audi	Scania Vehicles and Services		Direct bank
ŠKODA	MAN Commercial Vehicles		Insurance
SEAT			Fleet management
Bentley			Mobility offerings
Porsche Automotive			
Others			

In this chapter, we present the key volume and financial data relating to the Group brands and to Volkswagen Financial Services. In light of the considerable importance of the development of business in the world's largest single market for the Volkswagen Group, we also report on business developments and the results of our activities in China in this chapter.

The production figures and deliveries to customers are differentiated by brand and their models that carry the corresponding brand logo. Unit sales figures contain vehicles sold by respective brand companies, including models of other Group brands. In some cases, there are marked differences between delivery figures and unit sales as a result of our business development in China.

KEY FIGURES BY MARKET

In fiscal year 2018, the Volkswagen Group generated an operating profit before special items of €17.1 (17.0) billion. Special items which resulted from the diesel issue weighed on the operating profit in the amount of €–3.2 (–3.2) billion.

Amid fierce competition in a challenging market environment, the Volkswagen Group lifted sales to a new record of 10.9 (10.8) million vehicles. Sales revenue increased by 2.7% to €235.8 billion.

In the Europe/Other markets region, we sold 4.7 million vehicles (+0.2 %). Sales revenue amounted to €143.1 (142.8) billion. Negative exchange rate effects were offset by higher volume. The second half of 2018 was negatively impacted by the changeover to the WLTP test procedure.

In North America, Group sales stood at 0.9 million vehicles, a decline of 6.8% year-on-year. Sales revenue of €37.7 (37.7) billion was on a level with the previous year. Negative effects resulted from the decline in new vehicle sales and from exchange rates, while improvements in the mix and the financial services business, as well as revenue stemming from retrofitted used vehicles in connection with the diesel issue, had a positive impact.

In the markets of the South America region, we increased unit sales by 13.2% to 0.6 million vehicles. Volume and mix improvements increased sales revenue by 4.2% to €10.4 billion; exchange rate trends had a negative impact.

In the Asia-Pacific region – including the Chinese joint ventures – we sold a total of 4.6 (4.5) million vehicles in the reporting year. Sales revenue rose by 10.3% to €43.2 billion due to higher volumes and improvements in the components business at our fully consolidated companies. This figure does not include the sales revenue of our equity-accounted Chinese joint ventures.

Since the new accounting standard IFRS 9 was applied on January 1, 2018, income and expenses realized from hedging transactions relating to sales revenue in foreign currency have been allocated to sales revenue; in fiscal year 2018, hedging transactions increased the sales revenue of the Volkswagen Group by €1.5 billion.

KEY FIGURES BY BRAND AND BUSINESS FIELD

Thousand vehicles/€ million	VEHICLE SALES 2018	VEHICLE SALES 2017	SALES REVENUE 2018	SALES REVENUE 2017[1]	OPERATING RESULT 2018	OPERATING RESULT 2017
Volkswagen Passenger Cars	3,715	3,573	84,585	79,186	3,239	3,301
Audi	1,467	1,530	59,248	59,789	4,705	5,058
ŠKODA	957	937	17,293	16,559	1,377	1,611
SEAT	608	595	10,202	9,892	254	191
Bentley	10	11	1,548	1,843	–288	55
Porsche Automotive[2]	253	248	23,668	21,674	4,110	4,003
Volkswagen Commercial Vehicles	469	498	11,875	11,909	780	853
Scania[3]	97	92	13,360	12,789	1,346	1,289
MAN Commercial Vehicles	137	114	12,104	11,087	332	362
MAN Power Engineering	–	–	3,608	3,283	193	193
VW China[4]	4,101	4,020	–	–	–	–
Other[5]	–912	–840	–34,408	–30,288	–1,557	–2,335
Volkswagen Financial Services	–	–	32,764	31,826	2,612	2,460
Volkswagen Group before special items	**–**	**–**	**–**	**–**	**17,104**	**17,041**
Special items	–	–	–	–	–3,184	–3,222
Volkswagen Group	**10,900**	**10,777**	**235,849**	**229,550**	**13,920**	**13,818**
Automotive Division[6]	10,900	10,777	201,067	195,817	11,127	11,146
of which: Passenger Cars Business Area	10,206	10,077	160,802	157,334	9,220	9,309
Commercial Vehicles Business Area	694	700	36,656	35,200	1,971	1,892
Power Engineering Business Area	–	–	3,608	3,283	–64	–55
Financial Services Division	–	–	34,782	33,733	2,793	2,673

1 Adjusted; see disclosures about the application of new International Financial Reporting Standards on page 114.
2 Porsche (Automotive and Financial Services): sales revenue €25,784 (23,491) million, operating profit €4,291 (4,144) million.
3 Including financial services.
4 The sales revenue and operating profits of the joint venture companies in China are not included in the figures for the Group. These Chinese companies are accounted for using the equity method and recorded a proportionate operating profit of €4,627 (4,746) million.
5 In operating profit, mainly intragroup items recognized in profit or loss, in particular from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocation for Scania, Porsche Holding Salzburg, MAN and Porsche.
6 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

KEY FIGURES BY MARKET

Thousand vehicles/€ million	VEHICLE SALES 2018	VEHICLE SALES 2017	SALES REVENUE 2018	SALES REVENUE 2017[1]
Europe/Other markets	4,739	4,731	143,089	142,753
North America	925	992	37,656	37,686
South America	596	526	10,405	9,988
Asia-Pacific[2]	4,640	4,527	43,166	39,123
Hedges on sales revenue	–	–	1,535	–
Volkswagen Group[2]	**10,900**	**10,777**	**235,849**	**229,550**

1 Adjusted; see disclosures about the application of new International Financial Reporting Standards on page 114.
2 The sales revenue of the joint venture companies in China is not included in the figures for the Group and the Asia-Pacific market.

Volkswagen

The Volkswagen Passenger Cars brand continued its global product initiative in 2018, including the world premiere of the new Touareg. Moreover, media representatives were given a preview of the Modular Electric Drive Toolkit (MEB).

BUSINESS DEVELOPMENT

The Volkswagen Passenger Cars vision is “Moving people and driving them forwards”. The “TRANSFORM 2025+” strategy therefore centers on a global model initiative through which the brand aims to lead innovation, technology and quality in the volume segment.

Volkswagen Passenger Cars celebrated the world premiere of the new Touareg in the reporting year. With its expressive design, its extensive equipment, high-quality materials and top-class craftsmanship, it occupies a top position in the premium SUV segment. The brand also presented the T-Cross, a versatile, practical and urban crossover model, which is set to launch in 2019. In addition, it unveiled the ID. VIZZION concept car, the electric-driven ID. family's new flagship. The saloon car of tomorrow is self-driving, effortless to operate thanks to augmented reality, and capable of learning through artificial intelligence. In September 2018, Volkswagen gave media representatives from all around the world a first glimpse of its platform strategy for electric vehicles. The aim of the Modular Electric Drive Toolkit (MEB) is to translate electric mobility into mass mobility at affordable prices. The all-electric ID. family based on the MEB will be manufactured in Zwickau from late 2019. Vehicles with all-electric drive will also roll off the assembly line in Emden.

Volkswagen Passenger Cars delivered a record 6.2 million vehicles worldwide in 2018 (+0.2%). There was strong growth especially in Italy (+11.8%), Russia (+18.5%) and Brazil (+28.6%). The Polo, T-Roc, Tiguan and Virtus models were especially popular.

The Volkswagen Passenger Cars brand sold 3.7 (3.6) million vehicles in the reporting year. The difference between deliveries and unit sales is mainly due to the fact that the vehicle-producing joint ventures in China are not attributed to the companies in the Volkswagen Passenger Cars brand.

The Volkswagen Passenger Cars brand produced 6.3 (6.3) million vehicles worldwide in fiscal year 2018. The Mexican plant in Puebla produced its twelve millionth vehicle.

SALES REVENUE AND EARNINGS

At €84.6 billion, the sales revenue of the Volkswagen Passenger Cars brand in 2018 was 6.8% higher than in the previous year. Operating profit before special items amounted to €3.2 (3.3) billion. The increase in vehicle sales and improved product costs had a positive effect. Higher sales expenses resulting from factors such as the environmental bonus, exchange rate effects and upfront expenditures for new products, especially in connection with the implementation of the electric mobility campaign, weighed on the operating profit. In addition, the WLTP test procedure presented challenges. The operating return on sales before special items was 3.8 (4.2)%. The diesel issue gave rise to special items of €–1.9 (–2.8) billion.

12 million

Vehicles produced in Mexico

PRODUCTION

Units	2018	2017
Tiguan	861,331	769,870
Polo/Virtus	855,179	755,506
Golf	805,752	968,284
Jetta/Sagitar	770,447	883,346
Passat/Magotan	656,249	660,996
Lavida	513,556	507,574
Santana	272,080	293,313
Bora	269,390	334,900
T-Roc	236,977	22,724
Atlas/Teramont	166,034	129,724
Gol	156,410	203,148
Lamando	141,076	138,943
up!	136,512	158,795
Touran	130,417	144,676
Saveiro	59,233	66,431
Arteon/CC	49,735	37,972
Fox	40,596	50,739
Touareg	40,387	42,407
Beetle	37,846	59,483
Sharan	30,459	45,695
Tharu	26,986	–
Phideon	24,102	13,014
Suran	16,356	21,093
Scirocco	–	8,199
	6,297,110	**6,316,832**

VOLKSWAGEN PASSENGER CARS BRAND

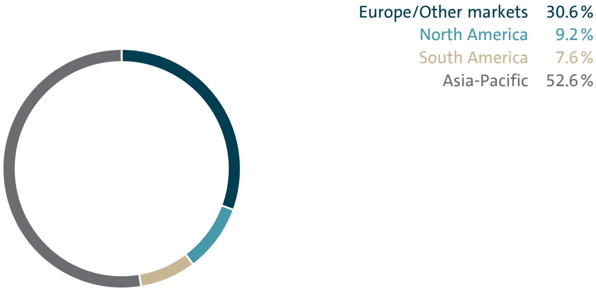
	2018	2017[1]	%
Deliveries (thousand units)	6,245	6,230	+0.2
Vehicle sales	3,715	3,573	+4.0
Production	6,297	6,317	–0.3
Sales revenue (€ million)	84,585	79,186	+6.8
Operating result before special items	3,239	3,301	–1.9
Operating return on sales (%)	3.8	4.2	

1 Sales revenue adjusted; see disclosures about the application of new International Financial Reporting Standards on page 114.

Touareg

DELIVERIES BY MARKET

in percent



FURTHER INFORMATION www.volkswagen.com

Audi

Audi continued to drive its major model and technology initiative in a difficult market environment. It presented the e-tron premium SUV, the brand's first fully electric series-produced model.

BUSINESS DEVELOPMENT

"Vorsprung" is an active brand promise that is delivered throughout the world, making Audi one of the most highly desired brands in the premium segment. In 2018, the brand had around 20 market launches, thus continuing the renewal of its model range and further strengthening its product portfolio. Audi presented the new A6, the eighth generation of its successful premium saloon. The A6 features dynamic surfaces, sharp contours and striking lines, conveying sporty elegance, cutting-edge technology and sophistication. Audi also presented the new face of its Q family for the first time: the Audi Q8. This combines the elegance of a four-door luxury coupé with the practical versatility of a large SUV. Its distinguished design is underlined by an imposing octagon-shaped, single-frame radiator grille, an elegant sloping roof line and up to 22-inch wheels. Audi started its electrification offensive in September 2018 with the world premiere of the e-tron. The SUV is the first all-electric production model from the brand with the four rings. Its comfort and spaciousness are equivalent to a traditional premium model. At fast-charging stations, the e-tron is ready for a long-distance drive after 30 minutes. A large number of pre-orders for the e-tron had already been received by the end of the year. By 2025, Audi plans to offer at least 20 electric models.

In the past fiscal year, Audi faced challenges from a difficult market environment and the new WLTP test procedure. The brand delivered a total of 1.8 million vehicles, a decline of 3.4%. While unit sales in Western Europe were down 13.9%, there were increases especially in China (+10.9%).

Audi sold 1.5 (1.5) million vehicles in 2018. Unit sales by the Chinese joint venture FAW-Volkswagen amounted to a further 620 (552) thousand Audi vehicles. The Q2, Q5, A4, A7 and A8 models were especially popular. Unit sales at Automobili Lamborghini S.p.A. amounted to 6,333 (3,897) vehicles. The increase was mainly due to high demand for the Urus.

Globally, Audi produced 1.9 (1.9) million units in the reporting year. Lamborghini manufactured a total of 6,571 (4,056) vehicles in 2018.

SALES REVENUE AND EARNINGS

Sales revenue of the Audi brand was €59.2 (59.8) billion in fiscal year 2018. Operating profit before special items was 7.0% lower, at €4.7 billion. Mix improvements, positive exchange rate effects and product cost optimization were unable to compensate for lower vehicle sales and higher sales costs, both of which primarily reflect the impact of the WLTP, as well as higher depreciation and amortization charges due to the large volume of capital expenditure. Audi generated an operating return on sales before special items of 7.9 (8.5)%. Special items resulting from the diesel issue amounted to €–1.2 (–0.4) billion. The financial key performance indicators for the Lamborghini and Ducati brands are included in the financial figures for the Audi brand.

1.8 million

Vehicles delivered in 2018

PRODUCTION

Units	2018	2017
Audi		
A4	344,623	325,307
A3	304,903	313,380
Q5	298,645	289,959
A6	254,705	259,618
Q3	167,707	205,006
A5	111,544	119,595
Q7	110,593	106,515
Q2	108,386	102,084
A1	80,387	95,346
A8	24,541	15,854
Q8	22,414	364
A7	20,058	16,968
TT	12,118	22,174
e-tron	2,425	4
R8	1,764	3,179
	1,864,813	**1,875,353**
Lamborghini		
Urus	2,565	121
Huracán Coupé	1,669	1,822
Huracán Spyder	1,121	827
Aventador Roadster	638	278
Aventador Coupé	578	1,008
	6,571	**4,056**
Audi brand	**1,871,384**	**1,879,409**
Ducati, motorcycles	53,320	56,743

AUDI BRAND

	2018	2017[1]	%
Deliveries (thousand units)	1,818	1,882	–3.4
Audi	1,812	1,878	–3.5
Lamborghini	6	4	+50.7
Vehicle sales	1,467	1,530	–4.1
Production	1,871	1,879	–0.4
Sales revenue (€ million)	59,248	59,789	–0.9
Operating result before special items	4,705	5,058	–7.0
Operating return on sales (%)	7.9	8.5	

1 Sales revenue adjusted; see disclosures about the application of new International Financial Reporting Standards on page 114.

A6

DELIVERIES BY MARKET

in percent

FURTHER INFORMATION www.audi.com

ŠKODA presented the all-new compact Scala model in 2018. In addition to the Kamiq SUV, which was launched in China, additional derivative models of the Kodiaq and the upgraded Fabia were also presented.

BUSINESS DEVELOPMENT

The models offered by ŠKODA are synonymous with smart understatement, featuring a superior spacious interior, highest standards of functionality, excellent value for money and a distinct design. Added to that are a number of "Simply Clever" ideas and new digital services, all aimed at making customers' lives easier. In 2018, ŠKODA launched their extensively enhanced Fabia. With the world premiere of the Scala, which will celebrate its market debut in 2019, ŠKODA has completely redefined its compact segment. The new compact model is the first series-produced vehicle to reveal the next step in the development of the ŠKODA design language, which will shape future ŠKODA models. New sculptural shapes, dynamic elements and attention to detail give the Scala its strong identity. The Kodiaq GT is the Czech brand's new top model in China. It is the first vehicle in ŠKODA's SUV segment that combines the robustness and versatility of an SUV with the sporty elegance and dynamic features of a coupé. China also saw the launch of the Kamiq. This city SUV offers the ultimate in connectivity for young urban customers who want to be always online even on the go. The dynamic Kodiaq RS – the new top model in the brand's SUV portfolio – is also the first SUV in the sporty RS family. Thanks to its extraordinary on- and off-road performance and markedly powerful design, it meets all the requirements of a steadily expanding target group for powerful SUVs. The VISION X and VISION RS vehicle concepts with plug-in hybrid technology revealed in 2018 embody ŠKODA's future orientation and form the basis for the series-produced models to be launched in 2019.

Global deliveries by the ŠKODA brand in 2018 amounted to 1.3 million vehicles (+4.4%), thus reaching a new record. China was once again the largest single market: deliveries there were up by 4.9%. Sales rose by 1.8% in Western Europe and 9.6% in Central and Eastern Europe.

ŠKODA sold 957 (937) thousand vehicles in 2018, outperforming the previous year's level. The Kodiaq and Karoq models were particularly highly sought-after. The difference between figures for deliveries and unit sales is mainly due to the fact that the vehicle-producing joint ventures in China are not attributed to ŠKODA brand companies.

ŠKODA manufactured 1.3 (1.2) million vehicles worldwide in 2018. The one-millionth SUV was produced at the plant in Kvasiny, Czech Republic.

SALES REVENUE AND EARNINGS

At €17.3 billion, the ŠKODA brand's sales revenue in 2018 was 4.4% higher than in 2017. Operating profit fell by 14.6% to €1.4 billion; the decline mainly resulted from negative exchange rate effects, negative impacts resulting from WLTP, a rise in personnel costs and higher upfront expenditure for new products. Meanwhile, growth in unit sales, product cost optimization and improved price positioning had a positive impact. The operating return on sales declined from 9.7% in the previous year to 8.0%.

1 million

SUVs produced at the Kvasiny plant

PRODUCTION

Units	2018	2017
Octavia	400,210	420,802
Rapid	195,270	210,002
Fabia	186,213	209,471
Karoq/Kamiq/Yeti	173,816	81,963
Kodiaq	155,499	123,982
Superb	136,985	147,103
Citigo	37,095	38,749
	1,285,088	**1,232,072**

ŠKODA BRAND

	2018	2017	%
Deliveries (thousand units)	1,254	1,201	+4.4
Vehicle sales	957	937	+2.1
Production	1,285	1,232	+4.3
Sales revenue (€ million)	17,293	16,559	+4.4
Operating result	1,377	1,611	–14.6
Operating return on sales (%)	8.0	9.7	

Kamiq

DELIVERIES BY MARKET

in percent

FURTHER INFORMATION www.skoda-auto.com

SEAT celebrated the world premiere of the new Tarraco in the reporting year. In SEAT's SUV family, the Tarraco is the big brother of the Arona and Ateca, which contributed to the good results in the reporting year.

BUSINESS DEVELOPMENT

SEAT delivers solutions "Created in Barcelona" to make mobility easy. The highlight in fiscal year 2018 was the world premiere of the new Tarraco. The Spanish brand's new flagship is based on the Modular Transverse Toolkit and complements the model range. It is the largest SUV offered by SEAT, next to the Arona and Ateca. The Tarraco combines elegant, progressive design with state-of-the-art technology, dynamic, agile handling, and limitless practicality and functionality. Synonymous with the ultimate expression of SEAT sportiness, the company's CUPRA brand was presented with its own unique personality in 2018. CUPRA is designed to captivate car lovers and stands for uniqueness, sophistication and performance. Its first model, the CUPRA Ateca, has been on sale since October 2018. In addition, CUPRA will enter an all-electric racing car in the new eTCR multibrand touring car competition, which is to be launched in 2020.

SEAT increased its deliveries to customers by 10.5% in fiscal year 2018 to 518 thousand vehicles. Almost all markets contributed to this rise, with the most significant increases achieved in Spain (+13.3%), Germany (+11.8%), France (+31.3%) and the United Kingdom (+12.0%).

At 608 thousand units, the SEAT brand's unit sales were up 2.2% year-on-year in the reporting period. The A1 and Q3 models produced for Audi are also included in this figure. The Arona was particularly popular.

SEAT produced 528 thousand vehicles in the past year. This was 10.2% more than in 2017.

SALES REVENUE AND EARNINGS

SEAT continued its upward trend in the reporting year. Sales revenue was €10.2 billion, exceeding the previous year's record figure by 3.1%. Operating profit rose to €254 (191) million, which was also a new record. Positive volume and mix effects more than offset the negative impact of cost increases and exchange rates. The Seat brand's operating return on sales improved to 2.5 (1.9)%.

33.4%

Increase in profit in 2018

PRODUCTION

Units	2018	2017
Leon	159,486	163,306
Ibiza	120,287	160,377
Arona	110,926	17,527
Ateca	90,824	77,483
Alhambra	19,588	33,638
Mii	14,369	13,825
Toledo	10,151	13,146
Tarraco	2,398	–
	528,029	**479,302**

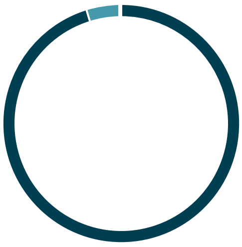
SEAT BRAND

	2018	2017	%
Deliveries (thousand units)	518	468	+10.5
Vehicle sales	608	595	+2.2
Production	528	479	+10.2
Sales revenue (€ million)	10,202	9,892	+3.1
Operating result	254	191	+33.4
Operating return on sales (%)	2.5	1.9	

Tarraco

DELIVERIES BY MARKET

in percent



Europe/Other markets 95.3 %
North America 4.5 %
South America 0.2 %
Asia-Pacific 0.1 %

FURTHER INFORMATION www.seat.com

BENTLEY

With the Bentayga Hybrid, the British luxury brand Bentley is taking the first step toward a fully electric product range. Delays to the start-up of the new Continental GT weighed on operating profit.

BUSINESS DEVELOPMENT

The Bentley brand is defined by exclusivity, elegance and power. Bentley presented the world's first luxury hybrid vehicle during the reporting year. With the Bentayga Hybrid, the British luxury brand Bentley is taking a first step on the path toward a fully electric product range. At the heart of the plug-in hybrid model are a highly efficient electric motor and a new turbocharged 3.0 l V6 petrol engine. The Bentayga Hybrid can cover approximately 50 km in pure electric mode. With CO_2 emissions of 75 g/km, it is currently the brand's most efficient model. Bentley also presented the powerful Bentayga V8 for the first time in the reporting year. It combines luxury with sharp performance and strong practicality. Its V8 twin-turbo engine with 404 kW (550 PS) of power accelerates the vehicle from 0 to 100 km/h in 4.5 s. The new Continental GT had a very positive reception in 2018, both from its first customers and in the media. It is very popular worldwide and will be launched in the USA and in China in 2019. The new Continental GT Convertible was unveiled at the end of 2018, and deliveries will commence in spring 2019.

At 10,494 (11,089) vehicles, the Bentley brand's sales in 2018 did not match the previous year's record level. While deliveries fell by 14.0% in the USA, they were up 10.9% in Asia-Pacific.

In the 2018 reporting year, Bentley sold 9,559 (10,566) vehicles worldwide. This was below the previous year's level, primarily as a result of the new generation of the Continental GT. The Bentayga was the most sought-after model.

In 2018, the Bentley brand manufactured 9,115 vehicles. The 13.6% decline versus the prior year was mainly attributable to product cycles.

SALES REVENUE AND EARNINGS

The Bentley brand generated sales revenue of €1.5 billion in the reporting period, a decline of 16.0% year-on-year. Operating result fell to €–288 (55) million. In particular, delays to the start-up of the new Continental GT as well as exchange rate effects had a negative impact. The operating return on sales amounted to –18.6 (3.0)%.

75 g/km

The Bentayga Hybrid's CO_2 emissions

PRODUCTION

Units	2018	2017
Bentayga	4,072	4,849
Continental GT Coupé	2,841	1,345
Flying Spur	1,627	2,295
Mulsanne	547	595
Continental GT Convertible	28	1,468
	9,115	**10,552**

BENTLEY BRAND

	2018	2017	%
Deliveries (units)	10,494	11,089	–5.4
Vehicle sales	9,559	10,566	–9.5
Production	9,115	10,552	–13.6
Sales revenue (€ million)	1,548	1,843	–16.0
Operating result	–288	55	x
Operating return on sales (%)	–18.6	3.0	

Bentayga Hybrid

DELIVERIES BY MARKET
in percent

FURTHER INFORMATION www.bentleymotors.com

Porsche looks back on another successful fiscal year; sales revenue and profit exceed the prior-year figures. The first all-electric Porsche is set to launch in 2019 under the name Taycan.

BUSINESS DEVELOPMENT

Exclusivity and social acceptance, innovation and tradition, performance and everyday usability, design and functionality – these are the brand values of sports car manufacturer Porsche. The brand presented the new generation of the Macan in 2018. The SUV has been extensively enhanced in terms of design, comfort, connectivity and driving dynamics. The Porsche Communication Management with a 10.9-inch touchscreen enables access to new digital functions, such as intelligent voice control and the online navigation provided as standard. A high-performance sports car also made its debut: the Porsche 911 GT3 RS, which generates 383 kW (520 PS) and accelerates from 0 to 100 km/h in 3.2 s. Its top speed is an impressive 312 km/h. The new generation of the 911, which was presented at the end of 2018, will launch in 2019, once again setting standards in terms of exclusive sportiness. Intelligent controls and chassis elements as well as innovative assistance systems combine the uncompromising dynamism of the classic rear-engine sports car with the demands of the digital world. Porsche announced in 2018 that the brand's all-electric model, previously known as the Mission E concept car, will be marketed as the Porsche Taycan from the end of 2019. The brand also presented an electric-driven crossover utility vehicle: the Mission E Cross Turismo concept study. Its strengths are the exciting design, striking off-road elements, and innovative display and control interfaces with touchscreen and gaze control.

In the reporting period, Porsche delivered 256 thousand sports cars, an increase of 4.0% on the previous year. China remained the largest single market for Porsche with 80 thousand vehicles (+12.0%). Sales in North America rose by 3.7%.

At 253 thousand vehicles, Porsche's unit sales exceeded the prior-year figure by 1.9% in 2018. In particular, the Panamera and Cayenne achieved impressive growth; sales of the 911 were also up.

Porsche produced 268 thousand vehicles in the reporting year. This was 5.0% more than in the previous year.

SALES REVENUE AND EARNINGS

The 2018 fiscal year was once again very successful for Porsche: Porsche Automotive's sales revenue rose by 9.2% to €23.7 (21.7) billion. Operating profit increased by 2.7% year-on-year to €4.1 billion. The rise was particularly attributable to the increased volume and positive mix effects, while higher research and development costs, particularly for e-mobility and digitalization had an offsetting effect. The operating return on sales stood at 17.4 (18.5)%.

9.2%

Increase in sales revenue in 2018

PRODUCTION

Units	2018	2017
Macan	93,953	98,763
Cayenne	79,111	59,068
911 Coupé/Cabriolet	36,236	33,820
Panamera	35,493	37,605
718 Boxster/Cayman	23,658	26,427
	268,451	**255,683**

PORSCHE AUTOMOTIVE[1]

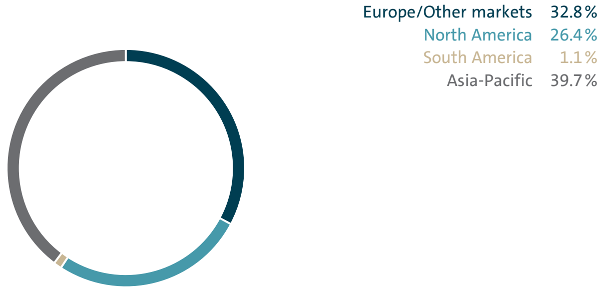
	2018	2017	%
Deliveries (thousand units)	256	246	+4.0
Vehicle sales	253	248	+1.9
Production	268	256	+5.0
Sales revenue (€ million)	23,668	21,674	+9.2
Operating result	4,110	4,003	+2.7
Operating return on sales (%)	17.4	18.5	

1 Porsche (Automotive and Financial Services): sales revenue €25,784 (23,491) million, operating profit €4,291 (4,144) million.

Macan

DELIVERIES BY MARKET

in percent



FURTHER INFORMATION www.porsche.com

Commercial Vehicles

At the IAA Commercial Vehicles trade fair in Hanover, Volkswagen Commercial Vehicles impressed motor show visitors with a wealth of solutions ready for series production for using e-mobility in commercial contexts.

BUSINESS DEVELOPMENT

As a leading manufacturer of light commercial vehicles, Volkswagen Commercial Vehicles is making fundamental, lasting changes to the way goods and services are distributed in cities in order to improve quality of life, especially in inner city areas. At the IAA Commercial Vehicles 2018 in Hanover, the brand presented a number of compelling solutions for using commercial e-mobility in urban areas on a sustainable basis. The e-Crafter has now become an important component of the Hanover-based car manufacturer's delivery range. Another two all-electric vehicles for urban traffic – the ABT e-Caddy and ABT e-Transporter – have also been added. With a top speed of 120 km/h, the ABT e-Caddy can cover approximately 200 km on a single battery charge. However, the highlight of Volkswagen Commercial Vehicles' presence at the IAA was the ID. BUZZ CARGO concept car. The delivery van of tomorrow is all-electric, connected and automated for urban traffic. The successor of the "Bulli" is intended to meet the need for modern, emission-free and sustainable transport of people and goods. With battery ranges of 330 to more than 550 km achieved with the new Modular Electric Drive Toolkit (MEB) and a digitalized charging system, the brand will address the future needs of its customer groups.

Deliveries by Volkswagen Commercial Vehicles in the past fiscal year amounted to 500 thousand vehicles, representing a slight increase of 0.4% on the previous year. Sales rose by 2.0% in Europe and 7.5% in South America.

Following Group-internal restructuring in South America, unit sales declined by 5.9% to 469 thousand vehicles. The Crafter was especially sought-after.

The Volkswagen Commercial Vehicles brand produced 519 thousand vehicles in the reporting year. This represents a year-on-year increase of 6.0%. The two-millionth Caddy rolled off the assembly line at Volkswagen Poznan in March. The main plant in Hanover had two reasons to celebrate in 2018: the 100 thousandth California campervan was produced at the end of May, and in early June staff completed the 500 thousandth vehicle in the current Transporter series.

SALES REVENUE AND EARNINGS

Sales revenue at Volkswagen Commercial Vehicles in fiscal year 2018 was €11.9 (11.9) billion. Despite positive mix effects and material cost optimization, operating profit declined to €780 (853) million, primarily as a result of higher upfront expenditure for new products, unfavorable exchange rate trends and the challenges arising from the WLTP. The operating return on sales fell to 6.6 (7.2)%.

500 thousand

Vehicles produced in the current T series

PRODUCTION

Units	2018	2017
Caravelle/Multivan, Kombi	115,525	115,553
Caddy Kombi	89,154	93,167
Amarok	88,950	80,328
Transporter	86,286	92,876
Caddy	71,881	71,501
Crafter	67,151	36,313
	518,947	**489,738**

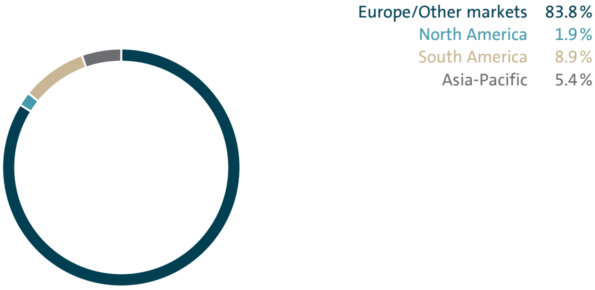
VOLKSWAGEN COMMERCIAL VEHICLES BRAND

	2018	2017	%
Deliveries (thousand units)	500	498	+0.4
Vehicle sales	469	498	–5.9
Production	519	490	+6.0
Sales revenue (€ million)	11,875	11,909	–0.3
Operating result	780	853	–8.6
Operating return on sales (%)	6.6	7.2	

e-Crafter

DELIVERIES BY MARKET

in percent



FURTHER INFORMATION www.volkswagen-commercial-vehicles.com

In 2018, the TRATON GROUP continued to consistently pursue its goal of becoming a global champion of the commercial vehicle industry. Innovative technological solutions, sales successes and the expansion of strategic partnerships all contributed to this.

BUSINESS DEVELOPMENT

With its MAN, Scania, Volkswagen Caminhões e Ônibus and RIO brands, TRATON SE aims to become a global champion of the commercial vehicle industry and drive the transformation of the logistics sector. Its mission is to reinvent transport for future generations: “Transforming Transportation”. With this purpose in mind, Volkswagen Truck & Bus, as the company was known until mid-2018, has given itself the new name TRATON, which stands, among other things, for tradition, transport, transformation and tonnage. Other milestones in the reporting year were its conversion into a stock corporation and the achievement of capital market readiness.

Under the TRATON name, the group aims to become a leader in profitability. It made major progress towards this objective in 2018. TRATON once again leads the truck market in the core markets of Europe and Brazil and considerably increased unit sales by 13.7% in the reporting year to 233 (205) thousand vehicles globally. Scania’s new generation of trucks and the newly developed MAN Lion’s City Bus both contributed to this success.

TRATON reinforced its claim to innovation in 2018 with pioneering projects. These included the joint platooning project between MAN and DB Schenker on the A9 highway between Munich and Nuremberg and the fully autonomous Scania tipper truck in an Australian mine. TRATON also made progress in the field of e-mobility: Scania has been testing electric city buses in Sweden under everyday driving conditions since March 2018. MAN operates a test fleet of nine electric trucks for an Austrian consortium, gathering valuable experience in urban delivery traffic. In Brazil, Volkswagen Caminhões e Ônibus agreed to supply a beverage company with 1,600 battery-electric trucks by 2023. All the TRATON GROUP’s electric vehicles use a common electric platform, which is also found in the chargE school bus produced by the US alliance partner Navistar.

At the IAA Commercial Vehicles 2018, the TRATON GROUP announced a new strategic partnership with the US company Solera. The partnership is intended to further expand TRATON’s digital capabilities and encompasses fleet management, driver services and digital sales solutions for the commercial vehicle industry. TRATON also informed about the further development of the strategic partnership with Hino: the Japanese commercial vehicle manufacturer and TRATON agreed to establish a joint venture for procurement and to pool their energies in the field of e-mobility. A joint venture to build heavy trucks in China is also planned with the Chinese truck producer Sinotruk. With its investment in the manufacturer Navistar, TRATON is working on leveraging synergies in procurement and technologies in the USA. The aim of all strategic partnerships is to strengthen TRATON’s global presence.

13.7%

Increase in deliveries in 2018

PRODUCTION

Units	2018	2017
Trucks	207,235	188,234
Buses	23,141	19,217
Light Commercial Vehicles	9,043	3,891
	239,419	**211,342**

DELIVERIES

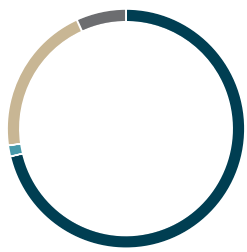
Units	2018	2017
Trucks	202,492	183,487
Buses	22,629	19,217
Light Commercial Vehicles	7,871	2,212
	232,992	**204,916**

Strong brands

TRATON GROUP

DELIVERIES BY MARKET

in percent



Europe/Other markets 71.2 %
North America 1.5 %
South America 20.5 %
Asia-Pacific 6.8 %

FURTHER INFORMATION www.traton.com

Scania focused on alternative drive systems for its vehicles in fiscal year 2018 and exceeded the prior-year figures for unit sales, sales revenue and profit.

BUSINESS DEVELOPMENT

The Swedish brand Scania follows its values “Customer first”, “Respect for the individual”, “Elimination of waste”, “Determination”, “Team Spirit” and “Integrity”. All the vehicles presented by Scania at the IAA Commercial Vehicles in 2018 had alternative drives. Among them was a hybrid truck for urban delivery traffic that can run on HVO (hydrotreated vegetable oil) or diesel. The model also has a 130 kW (177 PS) electric motor. Furthermore, Scania celebrated the world premiere of its first alternative-fuel coach. Powered by liquefied natural gas (LNG), the Interlink MD has a range of up to 1,000 km and is therefore a modern, future-proof alternative in the coach segment. Scania rounds off its modern engine range with a wide offering of fuel-efficient Euro 6 engines that can run on diesel, biodiesel, biogas, bioethanol, compressed natural gas (CNG) and HVO.

The key figures presented in this chapter encompass Scania’s truck and bus, industrial and marine engines and financial services businesses.

Incoming orders at the Scania brand decreased by 10.9% year-on-year in fiscal year 2018 to 97 thousand vehicles. In Western Europe, incoming orders rose due to Scania’s leading position in Euro 6 engines, long experience with consumption-optimized vehicles and wide range of alternative drive systems. Deliveries by the Scania brand increased in 2018 to 96 (91) thousand vehicles globally. In Europe, sales considerably outperformed the previous year’s figures, and encouraging increases were also seen in Brazil. At 8 (8) thousand units, the number of buses delivered in 2018 remained at the prior-year level. Demand for services and replacement parts as well as for Scania Financial Services was again higher in the reporting period than in the previous year.

Scania manufactured 101 (96) thousand commercial vehicles in fiscal year 2018 (+5.8%), of which 9 (8) thousand were buses.

SALES REVENUE AND EARNINGS

The Scania brand generated sales revenue of €13.4 (12.8) billion in fiscal year 2018. Operating profit improved by 4.4% to €1.3 billion, particularly as a result of the higher volume, positive mix effects, favorable exchange rate trends and a better financial services business. Meanwhile, cost increases had a negative impact. The operating return on sales amounted to 10.1 (10.1)% in the reporting period.

10.1%

Operating return on sales

PRODUCTION

Units	2018	2017
Trucks	92,679	87,454
Buses	8,696	8,327
	101,375	**95,781**

SCANIA BRAND

	2018	2017	%
Orders received (thousand units)	97	109	–10.9
Deliveries	96	91	+6.3
Vehicle sales	97	92	+6.1
Production	101	96	+5.8
Sales revenue (€ million)	13,360	12,789	+4.5
Operating result	1,346	1,289	+4.4
Operating return on sales (%)	10.1	10.1	

Interlink MD LNG

DELIVERIES BY MARKET

in percent

Europe/Other markets	74.0 %
North America	0.8 %
South America	15.3 %
Asia-Pacific	9.9 %

FURTHER INFORMATION www.scania.com

With its impressive vehicles, MAN provided straightforward answers to complex questions about e-mobility and digitalization in 2018.

BUSINESS DEVELOPMENT

Customer focus, enthusiasm for the product and efficiency are the core values at MAN. In the past fiscal year, the company put the MAN eTGM distribution truck on the road and presented the eTGE van as a series-produced vehicle. Both vehicles are designed for urban use. The long-established, Munich-based company is using them to provide straightforward answers to multiple complex questions surrounding e-mobility and digitalization: The models are fully electric-powered and emission-free, and therefore contribute to improving urban air quality. Their low noise level also enables increased use at night. MAN is taking one step further with the MAN CitE concept, an electric-powered truck full of creative solutions for urban delivery traffic. Its innovative equipment, including the 360-degree camera system, means drivers can work safely and comfortably day in, day out. The CitE has a range of up to 100 km – more than enough for deliveries in cities. From its bus range, MAN presented the MAN Lion's City E prototype, which is close to production. Its batteries are crash-safe and located on the roof to save space. They enable a range of up to 270 km. In 2018, MAN also presented new tailor-made solutions from MAN DigitalServices.

In South America, MAN Commercial Vehicles, through its Volkswagen Caminhões e Ônibus brand, recorded rising demand in the reporting year, driven by the improved economic environment. In Europe, demand was up, too. Orders received increased by 22.2% to 146 thousand vehicles. MAN delivered 137 (114) thousand commercial vehicles to customers in the past fiscal year, of which 14 (11) thousand were buses.

MAN produced a total of 138 (116) thousand commercial vehicles in 2018, including 14 (11) thousand buses.

Incoming orders in the Power Engineering Business Area amounted to €4.0 (3.7) billion despite the continued difficult situation in the shipping industry and economic difficulties in emerging markets.

SALES REVENUE AND EARNINGS

Driven by higher volumes, sales revenue at MAN Commercial Vehicles climbed to €12.1 billion in 2018, exceeding the prior-year figure by 9.2%. As a result of the expenditure associated with the restructuring activities in India, operating profit declined to €332 (362) million. The operating return on sales was 2.7 (3.3)%.

In the power engineering segment, MAN recorded an increase in sales revenue to €3.6 (3.3) billion. The operating profit for 2018 was €193 (193) million; positive volume effects were offset by a deterioration in the mix. The operating return on sales stood at 5.3 (5.9)%.

137 thousand

Commercial vehicles sold in 2018

PRODUCTION

Units	2018	2017
Trucks	114,556	100,780
Buses	14,445	10,890
Light Commercial Vehicles	9,043	3,891
	138,044	**115,561**

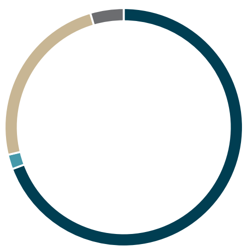
MAN

	2018	2017	%
Commercial Vehicles			
Orders received (thousand units)	146	120	+22.2
Deliveries	137	114	+19.6
Vehicle sales	137	114	+19.6
Production	138	116	+19.5
Sales revenue (€ million)	12,104	11,087	+9.2
Operating result	332	362	–8.3
Operating return on sales (%)	2.7	3.3	
Power Engineering			
Sales revenue (€ million)	3,608	3,283	+9.9
Operating result	193	193	+0.1
Operating return on sales (%)	5.3	5.9	

eTGM

DELIVERIES BY MARKET

in percent



Europe/Other markets 69.3 %
North America 2.0 %
South America 24.2 %
Asia-Pacific 4.5 %

FURTHER INFORMATION www.man.eu

Volkswagen Group China

We pushed ahead with our product and technology initiative in China in 2018, and further investments in e-mobility and digitalization are planned. We have expanded our production network with new manufacturing sites.

BUSINESS DEVELOPMENT

Volkswagen continued its product and technology initiative in its biggest single market over the past year. The new Touareg, which celebrated its world premiere in Beijing, represents our ambitions in the important SUV segment. In China, this segment now makes up 44% of the market volume of passenger cars. Alongside the Touareg, the following models also debuted: the extended-wheelbase Chinese version of the T-Roc, the new Tayron and Tharu models, the Audi Q5L, the locally produced Q2L and the ŠKODA Kodiaq GT. The updated Volkswagen Lavida and Bora models were introduced, in addition to the new CC. With the ID. VIZZION concept vehicle, the future flagship of the all-electric ID. family, we looked ahead to the sustainable mobility of tomorrow and beyond. Together with our partners, we plan to invest over €4 billion during 2019 in e-mobility and the digitalization of the model range, in new technologies and mobility services, in strengthening development and production capacity and in new products. We aim to largely extend our range of electric models on the Chinese market by 2020. To do so, we will introduce 30 new models – half of which will be locally produced. We are preparing to enable delivery of approximately 400,000 New Energy Vehicles to customers in China in 2020 and approximately 1.5 million in 2025.

We currently manufacture vehicles and components at 23 sites in China. As part of our localization strategy for China, we opened new vehicle plants and one component plant in 2018. At the Tianjin plant, 300,000 SUV models are to roll off the assembly line each year, forming the basis for an SUV campaign. The opening of the second vehicle-manufacturing plant in Foshan, taking total capacity there to 600,000 vehicles a year, plays a pioneering role in our "Roadmap E" electrification strategy. In 2020, we plan to begin manufacturing vehicles based on the Modular Electric Drive Toolkit (MEB) and MEB battery systems at this location. In Qingdao, electric vehicles will also be built alongside models with combustion engines in future. In addition, the production of battery systems for the MQB platform will be located there. The Group's first production site specially designed to produce MEB vehicles is scheduled to begin operation in Anting near Shanghai in 2020. Foshan and Anting will therefore follow closely behind the global MEB production launch in Zwickau in 2019.

On the Chinese market, the Volkswagen Group offers more than 180 imported and locally produced models from the Volkswagen Passenger Cars, Audi, ŠKODA, Porsche, Bentley, Lamborghini, Volkswagen Commercial Vehicles, MAN, Scania and Ducati brands. We delivered 4.2 (4.2) million vehicles (including imports) to customers in China in the reporting period. The Tiguan, Teramont, Magotan, New Bora, Audi A4 L, Audi A5, ŠKODA Kodiaq, Porsche Cayenne and Panamera models were especially popular. In November, the Volkswagen Passenger Cars brand celebrated the 30 millionth delivery in China since production began there in 1983.

30 million

Volkswagen models delivered since 1983

Thousand units	2018	2017	%
Deliveries	4,207	4,184	+0.5
Vehicle sales[1]	4,101	4,020	+2.0
Production	4,116	4,041	+1.9

1 Produced locally.

EARNINGS

€ million	2018	2017
Operating result (100%)	11,427	11,191
Operating result (proportionate)	4,627	4,746

Our two joint ventures, SAIC VOLKSWAGEN and FAW-Volkswagen, produced a total of 4.1 million vehicles in fiscal year 2018. This was 1.9% more than in the previous year. The joint ventures produce both established Group models and those specially modified for Chinese customers (e.g. with lengthened wheelbases), as well as vehicles developed exclusively for the Chinese market (such as the Volkswagen Lamando, Lavida, New Bora, New Jetta, New Santana and Teramont).

The proportionate operating result of the joint ventures in the reporting year stood at €4.6 billion. The negative impact of more intense market competition, adverse exchange rate effects as well as the increase in research and development costs were offset by improvements in the mix, higher volumes and product cost optimization.

The figures of the Chinese joint venture companies are not included in the operating profit of the Group as they are accounted for using the equity method. Their profits are included solely in the Group's financial result on a proportionate basis.

Tharu

LOCAL PRODUCTION

Units	2018	2017
Volkswagen Passenger Cars	3,145,141	3,156,352
Audi	617,472	552,744
ŠKODA	353,829	332,168
Total	**4,116,442**	**4,041,264**

VOLKSWAGEN FINANCIAL SERVICES

THE KEY TO MOBILITY

Growth in business enabled Volkswagen Financial Services to increase its earnings in 2018. The digitalization of financial services was expanded further.

STRUCTURE OF VOLKSWAGEN FINANCIAL SERVICES

Volkswagen Financial Services comprises dealer and customer financing, leasing, direct banking and insurance activities, fleet management and mobility services in 48 countries. Volkswagen Financial Services AG is responsible for global coordination of the Group's financial services activities, the only exceptions being the financial services business of the Scania brand and of Porsche Holding Salzburg. In Europe, the principal companies are Volkswagen Bank GmbH, Volkswagen Leasing GmbH and Volkswagen Versicherungsdienst GmbH. VW CREDIT, INC. operates financial services activities in North America.

BUSINESS DEVELOPMENT

In 2018, Volkswagen Financial Services continued the digitalization of its business and concluded a three-year cooperation agreement with the University of Hildesheim. In addition to promoting knowledge transfer and developing joint research projects in the future field of big data analytics, the university and Europe's largest automotive financial services provider also intend to strengthen contacts at the graduate level.

Furthermore, Volkswagen Financial Services is involved in the Hafven Smart City Hub in Hanover, a Lower Saxony-based founders' initiative for smart cities. This was established as an organization for start-ups and young people wishing to share their ideas with others and advance them together in networks. The potential founders receive coaching and mentoring from the company on selected ideas in areas such as artificial intelligence, augmented and virtual reality or the Internet of things.

In 2018, Volkswagen Financial Services invested in Verimi, a European, cross-industry identity platform combining a central login and high security and data protection standards. An overarching identity platform with a simplified customer login enhances the digital ecosystems at the Volkswagen Group, opens the door to diverse service offerings and generates real added value at a central interface for our clients – e.g. in relation to e-government activities and the digital vehicle file.

According to a study commissioned by the Focus Money magazine, the TraviPay parking app developed by sunhill technologies GmbH, Volkswagen Financial Services' smart parking service provider is one of the best smartphone apps in Germany. A total of 375 apps from 45 industries were rated. TraviPay beat its competitors in the mobility category, in the subcategory for finding a parking space.

6.2%

Increase in profit in 2018

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

In April 2018, Volkswagen Financial Services AG issued three bonds with a total volume of €2.25 billion and terms of one and a half, three and five years. In October, it placed three further bonds with a total volume of €2.6 billion and terms of two, five and eight years. Volkswagen Leasing GmbH placed three bonds on the capital market for a total of €2.5 billion in August. In June, Volkswagen Bank GmbH also issued a euro benchmark bond in three tranches for a total of €2.0 billion.

Numerous notes transactions were conducted internationally too, including in Norway, Australia, Sweden, Mexico, Brazil, the UK and Russia.

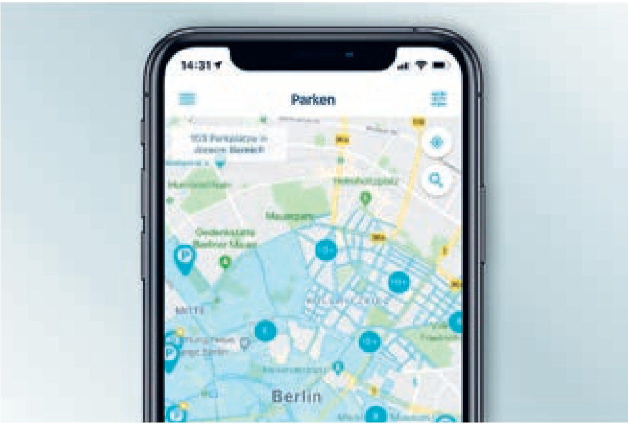
Volkswagen Leasing GmbH was once again active on the market with its ABS transactions in fiscal year 2018. The existing "Volkswagen Car Lease 26" program, consisting of securitized German leasing receivables, has a volume of approximately €1.5 billion. In the "Volkswagen Car Lease 27" program, receivables of approximately €1.0 billion are securitized.

Volkswagen Bank GmbH securitized loan receivables totaling approximately €1.65 billion in the reporting year with the Driver fourteen and Driver fifteen transactions.

Outside Germany, Volkswagen Financial Services issued various ABS transactions on the market, including in Australia, Japan, Spain and Turkey. In Italy, an ABS transaction was placed for the first time with a volume of €500 million. A total of ten bonds were issued.

Other instruments used as part of the diversified funding strategy are customer deposits, commercial paper and credit lines.

TraviPay



6.9 million new financing, leasing, service and insurance contracts were signed in fiscal year 2018, 2.3% more than in the previous year. The total number of contracts stood at a new record high of 17.8 million (+3.3%) as of December 31, 2018. The customer financing/leasing area accounted for 10.1 million contracts, up 5.1% year-on-year. In the service/insurance area, the number of contracts increased by 1.0% to 7.7 million. Starting on January 1, 2019, contracts entered into by our international joint ventures will also be included, whereby the new number of contracts would have amounted to 20.3 million contracts on December 31, 2018. With credit eligibility criteria remaining unchanged, the penetration rate, expressed as the ratio of financed or leased vehicles to relevant Group delivery volumes – including the Chinese joint ventures – was steady at 33.3 (33.1)%.

As of December 31, 2018, Volkswagen Bank managed around 1.4 (1.5) million deposit accounts. Volkswagen Financial Services employed 14,048 people worldwide as of that date, 7,010 of them in Germany.

SALES REVENUE AND EARNINGS

Volkswagen Financial Services' sales revenue amounted to €32.8 billion in the reporting period, thus exceeding the prior-year figure by €2.9%. Operating profit rose by 6.2% to €2.6 billion – a new record. The increase was mainly attributable to business growth.

VOLKSWAGEN FINANCIAL SERVICES

		2018	2017	%
Number of contracts	thousands	17,801	17,234	+3.3
Customer financing		5,935	5,672	+4.6
Leasing		4,149	3,921	+5.8
Service/Insurance		7,717	7,641	+1.0
Lease assets	€ million	40,317	36,422	+10.7
Receivables from	€ million			
Customer financing		63,690	58,125	+9.6
Dealer financing		20,529	19,614	+4.7
Leasing agreements		41,838	39,553	+5.8
Direct banking deposits	€ million	28,926	30,408	–4.9
Total assets	€ million	207,629	186,917	+11.1
Equity	€ million	26,298	25,634	+2.6
Liabilities[1]	€ million	174,255	154,410	+12.9
Equity ratio	%	12.7	13.7	
Return on equity before tax[2]	%	10.0	9.8	
Leverage[3]		6.6	6.0	
Operating result	€ million	2,612	2,460	+6.2
Earnings before tax	€ million	2,600	2,299	+13.1
Employees at Dec. 31		14,048	13,955	+0.7

1 Excluding provisions and deferred tax liabilities.
2 Earnings before tax as a percentage of average equity (continuing operations).
3 Liabilities as a percentage of equity.

ADDITIONAL INFORMATION
www.vwfsag.com

3

Group Management Report

(Combined Management Report of the Volkswagen Group and Volkswagen AG)

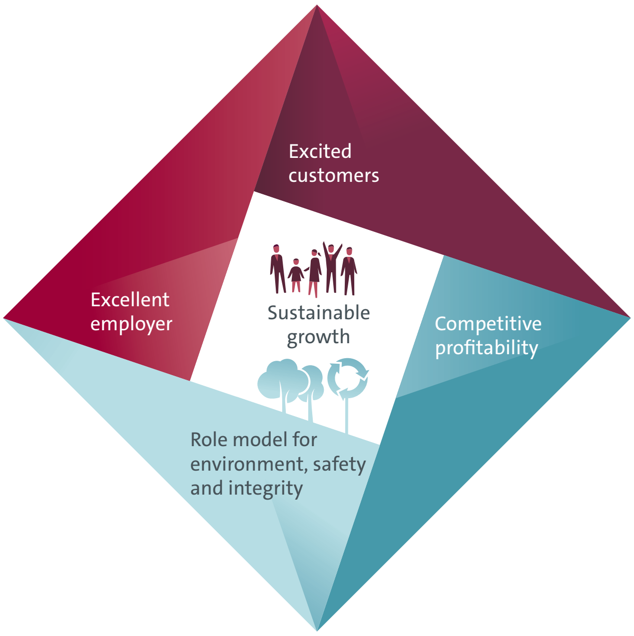
GROUP MANAGEMENT REPORT

Goals and Strategies

We are striving for lasting success in tomorrow's world of mobility and intend to be one of the world's leading providers of sustainable mobility. This is the reason we have anchored the future program TOGETHER – Strategy 2025 in the Group.

With the future program TOGETHER – Strategy 2025 announced in 2016, we aim to make the Volkswagen Group more focused, efficient, innovative, customer-oriented and sustainable, and systematically geared towards generating profitable growth. The program creates the framework and lays the cornerstones for us to achieve our vision of being one of the world's leading providers of sustainable mobility.

FUTURE PROGRAM TOGETHER – STRATEGY 2025



The time horizon until 2025 shows that our thoughts and actions are long-term and future-oriented. The term TOGETHER describes the mindset that will be even more vital to the Volkswagen Group's long-term success going forward. Our intention with the new Group strategy is for everyone in the Volkswagen Group to join us in producing exciting vehicles and forward-looking, tailor-made mobility solutions that will continue to inspire our customers, meeting their diverse needs with a portfolio of strong brands. Every day, we actively assume and exercise responsibility in relation to the environment, safety and society, and we wish to be a role model in these areas. Integrity, reliability, quality and passion thus form the basis for our work. In this way, we will aim for technological leadership in the industry, ensure our competitive profitability and remain an excellent, reliable and secure employer at the same time.

The Code of Collaboration formulated as part of the future program is the foundation on which the Group strategy rests. This Code describes how collaboration is to take place within the Group and between individuals in their day-to-day work. Its core values are encapsulated in the terms "genuine", "straightforward", "open-minded", "as equals" and "united".

FOUR BUILDING BLOCKS OF THE FUTURE PROGRAM TOGETHER – STRATEGY 2025

Our Group strategy comprises a raft of far-reaching strategic decisions and specific initiatives aimed at safeguarding the long-term future and generating profitable growth. It is composed of four building blocks which cover strategic Group initiatives. We regularly review the progress of these initiatives so as to analyze the significance, suitability and target achievement of the measures defined. We are thus able to adjust the Group initiatives specifically according to the dynamic changes occurring within our Company.

The first of these is the transformation of the core automotive business. Developing, building and selling vehicles will remain essential for the Volkswagen Group going forward. However, there will be far-reaching and lasting changes to this business in the future. That is the reason why we are comprehensively restructuring our core business to face this new era of mobility.

The second key building block in our Group strategy is establishing a new mobility solutions business. In this business, we are developing innovative and efficient, attractive yet profitable mobility services that are tailored to customer requirements with the goal of being one of the leading providers in this growth market in the future.

With the third key building block, we are intensifying our traditionally excellent innovative strength and placing it on an even broader footing. This is necessary both for the transformation of our core business and for the establishment of the new mobility solutions business. To this end, we are pushing ahead with the digital transformation in all parts of the Company.

Becoming one of the world's leading providers of sustainable mobility calls for substantial capital expenditure. This will be financed in particular through efficiency gains along the entire value chain – from product development and procurement through to production and distribution as well as in the central supporting areas. Additional funds for future investments can also be generated by optimizing the existing portfolio of brands and equity investments. Through the fourth key building block of the Group strategy we will safeguard the financing of the Volkswagen Group and place it on a solid basis.

GOALS AND KEY PERFORMANCE INDICATORS OF THE GROUP'S STRATEGY

The strategic initiatives describe how we intend to achieve our vision of being one of the world's leading providers of sustainable mobility. For this purpose, we have defined four target dimensions – excited customers, excellent employer, role model for the environment, safety and integrity, and competitive profitability – which are designed to help us grow sustainably.

Although these target dimensions apply throughout the Group, the strategic KPIs that we will use in the future to measure how well we have implemented our Group strategy, depend on the respective business model. After all, the busi-

BUILDING BLOCKS AND STRATEGIC GROUP INITIATIVES

TRANSFORM CORE BUSINESS

- Sharpen positioning of brands
- Develop successful vehicle and drivetrain portfolio
- Partner with regional players to win in economy segment
- Streamline modular toolkits
- Implement model line organization
- Realign "Components" business
- Develop battery technology as new core competency
- Develop self-driving system for autonomous vehicles and artificial intelligence
- Develop best-in-class user experience across brands and customer touchpoints

BUILD MOBILITY SOLUTIONS BUSINESS

- Establish mobility solutions business
- Develop and expand attractive and profitable smart mobility offering

SECURE FUNDING

- Improve operational excellence
- Optimize business portfolio
- Integrate strategy and planning process

STRENGTHEN INNOVATION POWER

- Drive digital transformation
- Create organization 4.0

ness model for our passenger car-producing brands is different from that for trucks and buses and also from that of our Power Engineering Business Area and our services business.

In the following, we describe the Group's strategic goals attached to these target dimensions.

The strategic KPIs of the competitive profitability target dimension have been defined and anchored uniformly in the Group. As the new Group strategy has yet to be specified in detail, the content of some strategic KPIs in the other target dimensions is still being determined. The relevance of the KPIs is reviewed at Group level and their focus continuously monitored and adjusted as necessary. We report on the defined nonfinancial strategic KPIs in the "Corporate Governance Report" and "Sustainable Value Enhancement" sections.

Target dimension: excited customers

This target dimension focuses on the diverse needs of our customers and on tailor-made mobility solutions. We aspire to exceed our customers' expectations, generating maximum benefit for them. That calls not only for the best products, the most efficient solutions and the best service, but also for flawless quality and an outstanding image. We want to excite our existing customers, win over new ones and retain their loyalty in the long term – because only loyal and faithful customers will recommend us to others.

The strategic KPIs consist of the conquest rate and KPIs pertaining to loyalty, customer satisfaction and quality.

Target dimension: excellent employer

Skilled and dedicated employees are one of the keys to sustainable success. We wish to promote their satisfaction and motivation by means of equal opportunities, an attractive and modern working environment, and a forward-looking organization of work. Exemplary leadership and corporate culture forms the foundation for this, enabling us to retain our core workforce and attract new talent.

The strategic KPIs of this target dimension cover internal employer attractiveness determined by means of the opinion survey, external employer attractiveness, an external employer ranking as well as a KPI pertaining to cross-brand exchange and rotation and the diversity index.

Target dimension: role model for environment, safety and integrity

Every day, we at the Volkswagen Group assume and exercise responsibility in relation to the environment, safety and society. This is reflected in our thoughts and actions and in all our decisions in equal measure.

We pay particular attention to the use of resources and the emissions of our product portfolio as well as those of our sites and plants, with the goal of continuously improving our carbon footprint and lowering pollutant emissions. Through innovations and outstanding quality, we aim for maximum product safety.

The most important principles in this process include compliance with laws and regulations, the establishment of secure processes, and dealing openly with mistakes so that they can be avoided or rectified in the future. In terms of integrity, Volkswagen aims to become a role model for a modern, transparent and successful enterprise.

The strategic KPIs of this target dimension include the decarbonization index and KPIs pertaining to emissions figures, compliance, a culture of dealing openly with mistakes, and integrity.

Target dimension: competitive profitability

Investors judge us by whether we are able to meet our obligations as regards interest payments and debt repayments. As equity holders, they expect appropriate dividends and a long-term increase in the value of their shares.

We make investments with a view to achieving profitable growth and strengthening our competitiveness, thus keeping the Volkswagen Group on a firm footing and ensuring it remains an attractive investment option.

The goals we have set ourselves are operational excellence in all business processes and becoming the benchmark for the entire industry.

The strategic KPIs are operationalized for internal management purposes: target and actual data are derived from Volkswagen Group figures.

STRATEGIC KPIS: COMPETITIVE PROFITABILITY

	2015	2025
Operating return on sales[1]	6.0%	7 to 8%
Research and development ratio (R&D ratio) in the Automotive Division	7.4%	~6%
Capex/sales revenue in the Automotive Division	6.9%	~6%
Net cash flow in the Automotive Division	€8,887 million	>€10 billion
Payout ratio	negative	30%
Net liquidity in the Automotive Division	€24,522 million, 11.5%	~10% of consolidated sales revenue
Return on investment (ROI) in the Automotive Division	–0.2%	>15%

1 2015 before special items.

Internal Management System and Key Performance Indicators

This chapter describes, on the basis of the Group strategy, how the Volkswagen Group is managed and the key performance indicators used for this purpose. In addition to financial measures, our management system also contains nonfinancial key performance indicators.

The Volkswagen Group's performance and success can be measured by both financial and nonfinancial key performance indicators. With the Operational Excellence Group initiative, we aim to improve these indicators throughout all areas and along the entire value chain.

In the following, we first describe the internal management process and then explain the Volkswagen Group's core performance indicators.

INTERNAL MANAGEMENT PROCESS IN THE VOLKSWAGEN GROUP

The Integrate Strategy and Planning Process Group initiative is focused on continuity and even closer dovetailing of the Group and brand strategies with the operational planning process. This enhances transparency when it comes to the financial assessment and the evaluation of directional decisions. The operational medium-term planning that is conducted once a year and generally covers a period of five years is incorporated into the strategic planning as a key management element of the Group.

Medium-term planning forms the core of our operational planning and is used to formulate and safeguard the requirements for realizing strategic projects designed to meet Group targets in both technical and economic terms – and particularly in relation to earnings, cash flow 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 sites.

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 fixed and a budget drawn up for the individual months. This is planned in detail down to the level of the operating cost centers.

The budget is reviewed each month throughout the year to establish the target achievement level. Key internal management instruments comprise target/actual comparisons, prior-year comparisons, variance analyses and, where necessary, action plans to ensure targets are met. For the current fiscal year, detailed revolving monthly forecasts are prepared for the coming three months and the full year, taking 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.

CORE PERFORMANCE INDICATORS IN THE VOLKSWAGEN GROUP

The Volkswagen Group's internal management system is based on nine core performance indicators, which are derived from our strategic goals:

- Deliveries to customers
- Sales revenue
- Operating result
- Operating return on sales
- Research and development ratio (R&D ratio) in the Automotive Division
- Capex/sales revenue in the Automotive Division
- Net cash flow in the Automotive Division
- Net liquidity in the Automotive Division
- Return on investment (ROI) in the Automotive Division

Deliveries to customers are defined as handovers of new vehicles to the end customer. This figure shows the popularity of our products and is the measure we use to determine our competitive position in the various markets. Deliveries are closely related to our targets of exciting our customers, being a role model in terms of the environment, safety and integrity, and being an excellent employer. One of the most important prerequisites for the Company's long-term success is a strong brand portfolio that – on the basis of outstanding quality – offers tailor-made mobility solutions with safe, resource-efficient vehicles, thus meeting the diverse needs of customers. Demand for our products guarantees not only unit sales and production, but also full utilization of our sites and the jobs of our employees. The goals we are striving for cannot be achieved without a skilled, dedicated workforce and a consensus on shared values.

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, the operating result reflects the Company's actual business activity and documents the economic success of our core business. The operating return on sales is the ratio of the operating result to sales revenue.

The research and development ratio (R&D ratio) in the Automotive Division shows total research and development costs in relation to sales revenue. Research and development costs comprise a range of expenses, from futurology through to the development of marketable products. Particular emphasis is placed on the environmentally friendly orientation of our product portfolio, digitalization and new technologies. The R&D ratio underscores the efforts made to ensure the Company's future viability: the goal of competitive profitability geared to sustainable growth.

The ratio of capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) to sales revenue in the Automotive Division reflects both our innovative power and our future competitiveness. It shows our capital expenditure – largely for modernizing, expanding and digitalizing our product range and for environmentally friendly drivetrains, as well as for adjusting production capacities and improving production processes – in relation 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.

Net liquidity in the Automotive Division is the total of cash, cash equivalents, securities, loans and time deposits not financed by third-party borrowings. To safeguard our business activities, we have formulated the strategic target that net liquidity in the Automotive Division should amount to approximately 10% of the consolidated sales revenue.

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 the operating result after tax to average 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 financial success of our brands, locations and vehicle projects.

You can find information on and explanations of the sales figures and the Volkswagen Group's financial key performance indicators on pages 101 to 107 and on pages 114 to 128, respectively.

Detailed descriptions of our activities and additional nonfinancial key performance indicators in the areas of sustainability, research and development, procurement, production, sales and marketing, quality assurance, employees, information technology and the environment can be found in the chapter entitled "Sustainable Value Enhancement" beginning on page 133 of this annual report. Nonfinancial key performance indicators related to compliance are described in the "Corporate Governance Report" on page 65.

Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2018 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 capacity as parent company, Volkswagen AG holds indirect or direct interests in AUDI AG, SEAT S.A., ŠKODA AUTO a.s., Dr. Ing. h.c. F. Porsche AG, Scania AB, MAN SE, Volkswagen Financial Services AG, Volkswagen Bank GmbH 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/en/InvestorRelations.html and is part of the annual financial statements.

Volkswagen AG is a vertically integrated energy supply company as defined by 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 generates, sells and distributes electricity 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.

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 within the Automotive Division – with the exception of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands – are independent legal entities.

The Automotive Division comprises the Passenger Cars, Commercial Vehicles and Power Engineering business areas. The Passenger Cars Business Area essentially consolidates the Volkswagen Group's passenger car brands. Activities focus on the development of vehicles and engines, the production and sale of passenger cars, and the genuine parts business. The product portfolio ranges from fuel-efficient compact cars to luxury vehicles and also includes motorcycles, and will gradually be supplemented by mobility solutions.

The Commercial Vehicles Business Area 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 collaboration between the MAN and Scania commercial vehicle brands is coordinated within the TRATON GROUP. The commercial vehicles portfolio ranges from pickups to heavy trucks and buses.

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

The activities of the Financial Services Division comprise dealer and customer financing, vehicle leasing, direct banking and insurance activities, as well as fleet management and mobility offerings.

With its brands, the Volkswagen Group is present in all relevant markets around the world. The Group's key sales markets currently include Western Europe, China, the USA, Brazil, Russia and Mexico.

Volkswagen AG and the Volkswagen Group are managed by the Volkswagen AG 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.

To further enhance its leadership and management model, the Volkswagen Group introduced an additional internal operational structure in spring 2018. Volkswagen is convinced that this will allow better use of existing competences and economies of scale, make it possible to leverage synergies more systematically and accelerate decision making.

In addition to the Finance & IT, Human Resources and Integrity and Legal Affairs divisions, the Volkswagen Group collaborates across six operating units and the China region, these being the "Volume", "Premium", "Sport & Luxury", "Truck & Bus" brand groups, as well as the Components & Procurement and Financial Services operating units. The "Volume" brand group comprises the Volkswagen Passenger Cars, SEAT, ŠKODA and Volkswagen Commercial Vehicles brands. The Audi, Lamborghini and Ducati brands are brought together in the "Premium" brand group. "Sport & Luxury" is comprised of the Porsche, Bentley and Bugatti brands. The "Truck & Bus" brand group is the umbrella for the Scania and MAN brands. Components & Procurement will function as one unit spanning all of the brands and supporting them. The Financial Services business has been combined into a single unit.

This prepares the Volkswagen Group for a management structure that is simpler, leaner and more effective, and strengthens the brands, giving them more autonomy. In line with the principle of subsidiarity, decisions will be taken at the lowest competent level, close to business operations.

At the same time, spreading the Group's management duties more broadly means that responsibility is assigned more clearly and definitively. Every member of the Board of Management has assumed additional higher-level duties for the Group. At the same time, the members of the Board of Management of Volkswagen AG have responsibility for a brand group or operating unit, improving collaboration between the brands and the Group as a whole and ensuring that management of the Group is a shared undertaking.

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

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

At Group level, committees also address key strategic issues, for example relating to product planning, investments, risks management and management issues. The portfolio of these committees and the regulation landscape at Group level was revised in the reporting year and, in the course of this, a committee was established to manage the technology strategy. This has reduced complexity and reinforced governance within the Group.

Within our future program TOGETHER – Strategy 2025, the Organization 4.0 Group initiative is also supporting the Company's transformation. The aim of this initiative is to connect activities across divisions, initiate new organizational approaches and anchor these in the Group for the long term. This will not only enable but actively create holistic stimulus for innovation, entrepreneurship and change.

MATERIAL CHANGES IN EQUITY INVESTMENTS

The control and profit and loss transfer agreement between MAN SE, as the controlled company, and TRATON SE (at that time Volkswagen Truck & Bus AG), a wholly owned subsidiary of Volkswagen AG, as the controlling company, came into force upon its entry in the commercial register on July 16, 2013. The conclusion of the control and profit and loss transfer agreement replaced, the group based on the de facto exercise of management control with a contractual group, permitting considerably more efficient and less bureaucratic cooperation between the MAN Group and the rest of the Volkswagen Group. In the summer of 2018, the Higher Regional Court in Munich made a final decision in the award proceedings regarding the appropriateness of the cash settlement and the right to compensation for the noncontrolling interest shareholders of MAN SE, ruling that the cash settlement amount set out in the contract should be increased to €90.29 per share and the annual compensation to €5.47 gross per share. Following the entry of the final decisions in the commercial register in August 2018, the noncontrolling interest shareholders were entitled to tender their shares in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) within a two-month period. The decision in the award proceedings resulted in a significant increase in the annual compensation to be paid to noncontrolling interest shareholders of MAN SE. In the opinion of the Board of Management at TRATON SE (at that time TRATON AG), this was no longer proportionate to the profit transfer from MAN SE and other benefits stipulated in the control and profit and loss transfer agreement; TRATON SE therefore exercised its right to extraordinary termination in accordance with section 304(4) of the German Stock Corporation Act on August 22, 2018 and terminated the control and profit and loss transfer agreement effective January 1, 2019. As of year-end 2018, TRATON SE held 87.04 (75.73)% of the ordinary shares and 83.05 (46.95)% of the preferred shares in MAN SE. Following the announcement of the termination of the control and profit and loss transfer agreement and the recording thereof in the commercial register on January 3, 2019, the noncontrolling shareholders of MAN SE once again had the right to tender their shares to TRATON SE, pursuant to the provisions of the control and profit and loss transfer agreement, within a two-month period at a cash settlement price of €90.29.

With the Optimize business portfolio Group initiative, the Board of Management intends to ensure the Volkswagen Group's competitiveness and financial performance as a forward-looking mobility provider by focusing on its core business. To this end, we are continuously monitoring and analyzing our portfolio and can respond in a timely manner by making any necessary purchases or sales.

LEGAL FACTORS INFLUENCING BUSINESS

Like other international companies, the business of Volkswagen companies is affected by numerous laws in Germany and abroad. In particular, there are legal requirements relating to development, products, production and distribution, as well as supervisory, data protection, financial, company, commercial, capital market, anti-trust and tax regulations and regulations relating to labor, banking, state aid, energy, environmental and insurance law.

i VOLKSWAGEN AG SHAREHOLDINGS
www.volkswagenag.com/en/InvestorRelations.html

Corporate Governance Report

Corporate governance is defined as responsible, transparent corporate management and supervision that aim to add long-term value. For us, good corporate governance not only forms the basis for lasting success; it is also an important prerequisite for strengthening the trust of our stakeholders in our work.

THE GERMAN CORPORATE GOVERNANCE CODE – A BLUEPRINT FOR SUCCESSFUL CORPORATE GOVERNANCE

Corporate governance provides the regulatory framework for corporate management and supervision. This includes a company's organization and values, and the principles and guidelines for its business policy. The German Corporate Governance Code (the Code) contains recommendations and suggestions for sound, responsible corporate management and supervision. It was prepared by a dedicated government commission on the basis of the material provisions and nationally and internationally accepted standards of corporate governance. The government commission regularly reviews the Code in light of current developments and updates it as necessary. The Board of Management and the Supervisory Board of Volkswagen AG base their work on the recommendations and suggestions of the German Corporate Governance Code. We consider good corporate governance to be a key prerequisite for achieving a lasting increase in the Company's value. It helps strengthen the trust of our shareholders, customers, employees, business partners and investors in our work and enables us to meet the steadily increasing demand for information from national and international stakeholders.

DECLARATIONS OF CONFORMITY (VALID AS OF THE DATE OF THE DECLARATION)

The Board of Management and the Supervisory Board of Volkswagen AG issued the annual declaration of conformity with the Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on November 16, 2018 with the following wording:

"The Board of Management and the Supervisory Board declare the following:

The recommendations of the Government Commission of the German Corporate Governance Code in the version dated 7 February 2017 (the Code) that was published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 24 April 2017 was complied with in the period from the last Declaration of Conformity dated 17 November 2017 and will continue to be complied with, with the exception of the numbers listed below and their stated reasons listed below.

- a) 4.2.3(4) (severance payment cap)
  A severance payment cap will be included in new contracts concluded with members of the Board of Management, but not in contracts concluded with Board of Management members entering their third term of office or beyond, provided a cap did not form part of the initial contract. Grandfather rights have been applied accordingly.
- b) 5.3.2(3) sentence 2 (independence of the chair of the Audit Committee)
  It is unclear from the wording of this recommendation whether the Chairman of the Audit Committee is "independent" within the meaning of number 5.3.2(3) sentence 2 of the Code. Such independence could be considered lacking in view of his seat on the Supervisory Board of Porsche Automobil Holding SE, kinship with other members of the Supervisory Board of the company and of Porsche Automobil Holding SE, his indirect minority interest in Porsche Automobil Holding SE, and business relations with other members of the Porsche and Piëch families who also have an indirect interest in Porsche Automobil Holding SE. However, in the opinion of the Supervisory Board and the Board of Management, these relationships do not constitute a conflict of interest nor do they interfere with his duties as the Chairman of the Audit Committee. This deviation is therefore being declared purely as a precautionary measure.
- c) 5.4.1(6 to 8) (disclosure regarding election recommendations)
  With regard to the recommendation under number 5.4.1(6-8) of the Code stating that certain circumstances disclosed by the Supervisory Board when making election recommendations to the Annual General Meeting, the stipula-

tions of the Code are vague and the definitions unclear. Purely as a precautionary measure, the Board of Management and the Supervisory Board therefore declare a deviation from the Code in this respect. Notwithstanding this, the Supervisory Board will make every effort to satisfy the requirements of the recommendation."

The current declaration of conformity is also published on our website, http://www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html.

With the exception of number 4.2.3(2) sentence 9 (no early disbursements of variable remuneration components) and number 5.1.2(2) sentence 1 (duration of first-time appointments to the Board of Management), the suggestions in the current version of the Code have been complied with. The general compensation clauses in the contracts with members of the Board of Management may, if applied accordingly, result in early disbursement of multi-year variable remuneration components. The Supervisory Board will decide the duration of each first-time appointment to the Board of Management on an individual basis, taking the best interests of the Company into account. The suggestion made in number 2.3.2 sentence 2 (accessibility of the voting proxy during the Annual General Meeting) was implemented at the 2018 Annual General Meeting in such a manner that the shareholders were able to reach the voting proxies named by the Company to exercise their voting rights until 1:00 pm, also by electronic means. The suggestion made in number 2.3.3 (broadcast of the Annual General Meeting) was implemented at the 2018 Annual General Meeting so that the introductory remarks by the Chairman of the Supervisory Board and the speech of the Chairman of the Board of Management were broadcast.

Our listed subsidiaries AUDI AG, MAN SE and RENK AG have also each issued declarations of conformity with the German Corporate Governance Code. The declarations of conformity of our listed subsidiaries can be accessed at the websites shown on this page.

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 and is directly involved in decisions of fundamental importance to the Company. The Board of Management and the Supervisory Board of Volkswagen AG consult closely on the strategic orientation of the Volkswagen Group. The two bodies jointly assess, at regular intervals, the progress made in implementing the corporate strategy. The Board of Management reports to the Supervisory Board regularly, promptly and comprehensively in both written and oral form on all issues of relevance for the Company with regard to strategy, planning and the situation of the Company, 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 12 to 17 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 86 to 89.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT AS WELL AS THE SENIOR EXECUTIVE POSITIONS

In view of the Company's specific situation, its purpose, its size and the extent of its international activities, the Supervisory Board of Volkswagen AG strives to achieve a composition that takes the Company's ownership structure and the following aspects into account:

- At least three members of the Supervisory Board should be persons who embody the criterion of internationality to a particularly high degree.
- At least four members of the Supervisory Board should be shareholder representatives with no potential conflicts of interest, particularly conflicts of interest that could arise from an advisory or board position at customers, suppliers, lenders, or other third parties.
- In addition, at least four of the shareholder representatives on the Supervisory Board must be persons who are independent as defined in number 5.4.2 of the Code.
- At least three of the seats on the Supervisory Board should be held by people who make a special contribution to the diversity of the Board.
- Furthermore, proposals for elections should not normally include persons who will have reached the age of 75 on the date of the election or who will have been members of the Supervisory Board for more than 15 years on the date of the election.

The above criteria have been met. The independent members of the Supervisory Board within the meaning of number 5.4.2 of the Code are or were as follows: Ms. Hessa Sultan Al-Jaber, Ms. Louise Kiesling, Mr. Hussain Ali Al-Abdulla, Mr. Bernd Althusmann and Mr. Stephan Weil, as well as Ms. Annika

DECLARATION OF CONFORMITY OF VOLKSWAGEN AG
www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html

DECLARATION OF CONFORMITY OF AUDI AG
www.audi.com/cgk-declaration

DECLARATION OF CONFORMITY OF MAN SE
www.corporate.man.eu/en/investor-relations/corporate-governance/corporate-governance-at-man/Corporate-Governance-at-MAN.html

DECLARATION OF CONFORMITY OF RENK AG
www.renk-ag.com/en/investor-relations/financial reports

Falkengren, who left the Supervisory Board during the reporting year.

In addition, the Supervisory Board has decided on the following profile of skills and expertise for the full Board:

The Supervisory Board as a whole must collectively have the knowledge, skills and professional expertise required to properly perform its supervisory function and assess and monitor the business that the Company conducts. For this, the members of the Supervisory Board must collectively be familiar with the sector in which the Company operates. The key skills and requirements of the Supervisory Board as a whole include, in particular:

- Knowledge of or experience in the manufacture and sale of all types of vehicles and engines or other technical products,
- Knowledge of the automotive industry, the business model and the market, as well as product expertise,
- Knowledge in the field of research and development, particularly of technologies with relevance for the Company,
- Experience in corporate leadership positions or in the supervisory bodies of large companies,
- Knowledge in the areas of governance, law or compliance,
- detailed knowledge in the areas of finance, accounting, or auditing,
- Knowledge of the capital markets,
- Knowledge in the areas of controlling/risk management and the internal control system,
- Human resources expertise (particularly the search for and selection of members of the Board of Management, and the succession process) and knowledge of incentive and remuneration systems for the Board of Management,
- detailed knowledge or experience in the areas of codetermination, employee matters and the working environment in the Company.

The current composition of the Supervisory Board is also in line with this profile of skills and expertise. The curriculum vitae of the members of the Supervisory Board are available online at www.volkswagenag.com/en/group/executive-bodies.html.

The statutory quota of at least 30% women and at least 30% men has applied to new appointments to the Supervisory Board of Volkswagen AG since January 1, 2016 as required by the Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst (FührposGleichberG – German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors). Shareholder and employee representatives have resolved that each side will meet this quota separately. The shareholder representatives have met the quota of at least 30% women and at least 30% men since the 56th Annual General Meeting on June 22, 2016. The employee representatives have met the quota since the end of the 57th Annual General Meeting on May 10, 2017. Both the shareholder and the employee representatives fulfilled the quota on December 31, 2018.

The Supervisory Board set a target quota of 11.1% for the period after December 31, 2016 for the proportion of female members on the Board of Management as required in accordance with the FührposGleichberG. The new deadline set for achievement of this target is December 31, 2021. The proportion of female members on the Group Board of Management as of December 31, 2018 was 12.5%, thus meeting the target quota.

For the proportion of women in management in accordance with the FührposGleichberG, Volkswagen AG has set itself the target of 13.0% women in the first level of management and 16.9% women in the second level of management for the period up to the end of 2021. As of December 31, 2018, the proportion of women in the active workforce at the first level of management was 10.7 (10.4)% and at the second level of management it was 15.4 (14.0)%.

REMUNERATION REPORT

Extensive explanations of the remuneration system and the individual remuneration of the members of the Board of Management and Supervisory Board can be found in the Remuneration Report starting on page 68 of the combined management report, in the notes to Volkswagen's consolidated financial statements on page 329, and on page 62 of the notes to the annual financial statements of Volkswagen AG.

GROUP CORPORATE GOVERNANCE DECLARATION

The Group corporate governance declaration forms part of the combined management report and is permanently available at www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html. It also contains the description of the diversity concepts for the Board of Management and Supervisory Board of Volkswagen AG.

GROUP CORPORATE GOVERNANCE DECLARATION
www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html

TOGETHER4INTEGRITY

INTEGRITY

Volkswagen is undergoing one of the furthest-reaching processes of change in the Company's history. A strategic objective as part of TOGETHER – Strategy 2025 is to make Volkswagen a role model of a modern, transparent and successful company when it comes to integrity.

With the Board of Management position for Integrity and Legal Affairs, the Group has put in place the organizational prerequisites for centralized integrity management. This Group function is responsible for planning, preparing and implementing programs and projects aimed at raising awareness, providing information and reinforcing a shared awareness of integrity.

Integrity at Volkswagen is defined as acting out of conviction, with responsibility and steadfastness. Integrity is an inner disposition that acts as an internal moral compass for doing the right thing in gray areas, in the absence of explicit rules or in the event of conflicting objectives. This means complying with our Group principles and the ethical principles established therein and behaving correctly in accordance with rules. This also includes the steadfastness needed to adhere to these principles – regardless of economic and social pressure.

Already in 2016, we launched a comprehensive integrity program with information campaigns, opportunities for dialog and initiatives aimed at all employees. This encompasses measures such as international get-togethers for managers and integrity workshops for team spokespeople in production. In addition, we have launched an ambassador program that helps multipliers to make integrity a visible and practical part of everyday working life. We have also worked intensively to create an integrity index. This is due to be piloted in 2019 at the German locations of the Volkswagen Passenger Cars and Audi brands as a joined-up approach to measuring integrity.

We firmly believe: only with lasting, dependable integrity will our Company gain and strengthen the trust of its staff, customers, shareholders, business partners and the general public. The Group Board of Management therefore resolved in April 2018 to combine the programs and initiatives on integrity, compliance, risk management and culture under the umbrella program "Together4Integrity", and thus to reinforce them.

With "Together4Integrity" (T4I), the Board of Management of Volkswagen AG has initiated an umbrella program with which to embed excellence in integrity and compliance throughout the Group – in all brands, regions and companies and in respect of processes, structures, attitudes and behavior. The program plays an integral and central role at Volkswagen. It consolidates, combines and coordinates the Group-wide initiatives that are led by the responsible divisions. It also encourages discussion and mutual learning, thus ensuring continuous improvement. Uniform and consistent implementation according to a firm schedule is planned for all Group companies, prioritized by their size and risk profile.

T4I is based on the five principles of the internationally recognized Ethics & Compliance Initiative (ECI). These principles relate to strategy, risk management, culture of integrity, speak-up environment and resolute accountability. They are codified as the Group's aspiration level and are implemented through T4I. The Board of Management positions for Integrity and Legal Affairs and for Human Resources are responsible for the program. The other Board of Management positions act as sponsors, thus ensuring that T4I is successfully implemented in their area of responsibility.

COMPLIANCE

Acting with integrity, compliance and honesty is an essential prerequisite for the success of the Volkswagen Group. For this reason, compliance with national and international laws and regulations, internal rules and voluntary commitments is among our Company's most important principles. We are striving to strengthen the trust of our customers, our business partners and stakeholders in our Group through fair treatment. Compliant behavior is the basis for this and must be a matter of course for all Group employees. One of our Company's main tasks is to further enhance awareness of this.

Commitment to compliance at the highest level

At the Global Management Meeting in June 2018, Herbert Diess, Chairman of the Board of Management of Volkswagen AG, underlined that integrity and compliant behavior are the responsibility of each individual in the Group: "We need dependable structures and work processes that ensure impeccable, compliant behavior. But we also need a firmly rooted sense of right and wrong, a better way of handling mistakes, a culture of constructive dissent and a stronger sense of responsibility in the management team."

In an interview in August 2018, Hiltrud Dorothea Werner, member of the Board of Management responsible for Integrity and Legal Affairs, explained the importance of dealing thoroughly and quickly with cases of suspicion and compliance violations in the Company: "The nearer Compliance is to people and processes, the better, because preventing a problem from becoming a scandal also means acting with speed and investigating thoroughly."

Compliance organization

The Group Compliance Committee at top management level is chaired by the member of the Board of Management responsible for Integrity and Legal Affairs and met regularly in the reporting year. This committee ensures that compliance and integrity standards are uniformly developed, applied and communicated on a cross-divisional and cross-brand basis.

Central divisions within the Group are supported and advised by their own compliance contacts. Additional centers of competence are responsible for the overall direction of compliance work and develop compliance instruments and program components with which the companies can implement the compliance requirements themselves across the Group. During the reporting period, additional resources are set aside for these tasks.

The global compliance organization at the Volkswagen Group comprises divisional and regional compliance offices. It supports and advises the respective Group and brand companies with an effective, risk-based, Group-wide compliance management system, helping them to conduct their business activities in accordance with the rules and to consistently adhere to relevant laws and internal regulations. It also helps companies to identify, evaluate, manage and monitor potential compliance risks. Additional compliance resources were provided across the Group on a risk-oriented basis in the reporting year. Higher-level compliance functions are involved in the appointment of new compliance officers and conduct a standardized appointment and induction process.

In the reporting period, there was direct communication on compliance issues at meetings of the Supervisory Board, the Board of Management and the Works Council, particularly by the member of the Board of Management responsible for Integrity and Legal Affairs and the Group Chief Compliance Officer.

The Group Chief Compliance Officer reports directly to the member of the Board of Management responsible for Integrity and Legal Affairs and also to the Audit Committee of the Supervisory Board of Volkswagen AG.

The heads of the centers of competence report to the Group Chief Compliance Officer on disciplinary and functional matters. The compliance officers of the brand companies and the head of the regional compliance office for China report to the Group Chief Compliance Officer on functional matters. Meetings and conferences ensure that those responsible for compliance at Group and brand level are connected and communicate regularly.

Compliance management system

Our compliance management system is aligned with national and international laws and standards. Its objective is to encourage, reinforce and ensure compliant behavior in the Company in a lasting manner. The focus of our compliance organization is on preventing corruption, breaches of trust, embezzlement, fraud and money laundering and thereby on reducing the risk of unlawful actions. The Code of Conduct is the key element for raising awareness among staff of correct behavior and finding the right contact person in cases of doubt.

Where laws and regulations have been violated, our whistleblower system is a suitable tool for taking appropriate action. We enhanced the whistleblower system in 2018: members of management are obligated to report every indication of serious rule-breaking. Failure to do so is itself a serious infringement. The accessibility of the whistleblower system has been further improved with a 24-hour hotline.

We place value on communication and training seminars to permanently anchor compliance-related content among the workforce.

Compliance work in the Volkswagen Group is based on a systematic process of risk identification and reporting in accordance with the IDW standard AsS 980. We used 2018 to review the content of and the process for the existing compliance risk analysis. The objective is to obtain transparency at Group level of the risk exposure of all Group companies included in the compliance scope.

However, we are also aware that even the best compliance management system can never entirely prevent the criminal actions of individuals.

Code of Conduct and guidelines

The Volkswagen Group's Code of Conduct is established throughout the Group. It is permanently available to all employees on the intranet and also to third parties on the internet and is continually communicated via digital and print media and at events within the Company.

The Code of Conduct is a significant part of the compliance training completed by all staff, from the Board of Management to employees. Both face-to-face and online training are used. The Code of Conduct is also integrated into operational processes. For example, employment contracts for employees of Volkswagen AG generally include a reference to the Code of Conduct and the obligation to comply with it. Furthermore, compliance with the Code of Conduct remained a component of our employees' annual reviews in the reporting period and was thus taken into account when calculating their variable, performance-related remuneration.

In addition to the Volkswagen Group Code of Conduct, there are various Group policies and guidelines on specific compliance issues. Organizational instructions on dealing with gifts and invitations as well as on making donations also apply across the Group.

Employees have access to the compliance rules and regulations in particular via the compliance pages on the Company intranet.

Whistleblower system

In the Volkswagen Group, the whistleblower system refers to the internal and external contact points where employees and third parties can report potential violations of laws and internal regulations by employees of the Volkswagen Group. It also refers to the committees that support and monitor the work of these contact points.

The Company has had a system for reporting breaches of the law or regulations since 2006. In 2017, the whistleblower system was improved and partially reorganized. Processes were further optimized to enable reports to be followed up on even more quickly, fairly and transparently. Among other things, a central investigative office has been set up in the Compliance department. It is responsible for coordinating the whistleblower system within the Volkswagen Group and for processing information concerning Volkswagen AG and its subsidiaries – with the exception of AUDI AG, Dr. Ing. h.c. F. Porsche AG and TRATON SE. These companies each have separate investigative offices for themselves and their subsidiaries.

The whistleblower system uses defined processes to investigate reports on breaches and to penalize misconduct where appropriate. Protection of both the whistleblower and the party affected has top priority in the applicable procedural principles and guarantees. In addition, a Group Guideline sets out the responsibilities in the Group and the specific procedure for the processing of reports. The aim of the whistleblower system is to protect our company and employees from harm using firm principles and a clearly governed, transparent and fair process. Moreover, experience with violations of laws and regulations also helps us to constantly enhance our compliance management and prevent similar incidents in future.

Information on misconduct can be submitted in any of the major languages used by the Group and is treated confidentially. The people providing the information need not fear any sanctions from the Company for providing the information. In principle, they can decide for themselves whether they wish to give their names. For this reason, a specially protected online reporting channel was additionally set up in 2017, which whistleblowers can use anonymously. We also continue to rely on existing tried-and-tested channels such as ombudspersons (counsels of trust).

CODE OF CONDUCT OF THE VOLKSWAGEN GROUP
www.volkswagenag.com/presence/konzern/documents/Code_of_Conduct_2017_VW_Group_english.pdf

WHISTLEBLOWER SYSTEM
www.volkswagenag.com/en/group/compliance-and-risk-management/whistleblowersystem.html
Phone: +49 5361 9 46300
E-mail: io@volkswagen.de

Since August 1, 2018, information on possible rule-breaking has also been reportable via a telephone hotline in addition to the existing reporting channels. Employees, business partners and customers worldwide can submit information 24 hours a day, 365 days a year. Callers are put through to a specially trained contact person with access to an interpreter if required. In addition, a revised Group policy was adopted in August 2018. This enhances the whistleblower system, particularly with its expanded communication options. It was also decided to provide additional resources for the expansion of the whistleblower system.

The Compliance organization registered a total of 2,920 reports throughout the Group in 2018. All substantiated reports have been, or will be, investigated, and any misconduct penalized.

Communication, training and advice

Providing information to employees at all levels on compliance, raising their awareness of compliant behavior and offering them advice as partners within the Company is a core component of our compliance activities.

We use all of our internal communication channels to communicate compliance-related content. These include online and offline media as well as event and training formats.

Online communication is primarily via the compliance organization's own sites on the Volkswagen intranet and via the in-house, Group-wide communication platform "Group Connect", which is also used for direct dialog with the target groups. There are also articles, interviews and other publications in cross-brand and specific divisions' media. In the reporting year, compliance-related topics were also featured at various information events for employees and at works meetings at several locations. Communication regarding the whistleblower system was integrated into an event on corporate culture that took place across multiple locations.

Following a risk-based approach, mandatory compliance training is conducted for specific target groups. In addition to traditional lectures and online tutorials, case studies, role-playing games and other interactive formats form part of the training provided to employees and managers.

In the reporting year, the focus was on enhancing Code of Conduct training and, in particular, on commencing the introduction of compulsory training regarding the Code of Conduct for all employees in the Group.

Employees can also use special e-mail addresses to solicit advice on compliance issues.

Compliance key performance indicators

To measure the level of target achievement, we defined a strategic indicator for the major brands that manufacture passenger cars:

> Compliance, a culture of error management and behaving with integrity. This is based on an evaluation of the answers to three questions in the opinion survey relating to compliance with regulations and processes, dealing with risks and errors and behaving with integrity. In the case of negative deviations, the affected departments develop and implement measures. In the reporting year, the figure further improved on the already good basis.

Strengthening compliance in company processes

The act implementing the Fourth EU Money Laundering Directive into German law presented new requirements for Volkswagen AG as a company that is bound by the Gesetz über das Aufspüren von Gewinnen aus schweren Straftaten (GWG – Law on Tracing Profits from Serious Criminal Offences). The Group policy adopted and published in this context by the Board of Management in 2018 defines the minimum standard to be implemented by all Group companies.

In 2018, we designed and developed a new IT tool for a risk-based business partner selection process at the Volkswagen Group. We began pilot testing of the tool at the end of the reporting year. This business partner selection process will be gradually introduced in the Group from 2019. A key objective of this new process is the creation of transparency within the Volkswagen Group to prevent Group companies from entering into business relationships with business partners which other Group companies have previously classified as not acting with integrity.

New business models are constantly being considered in the Volkswagen Group as part of the TOGETHER – Strategy 2025 program. These business models focus particularly on digitalization, automation and electrification, but also on the development of and involvement in mobility concepts. The compliance organization helps the strategic business units to implement their forward-looking projects through individual risk assessments and recommendations based on these.

In addition, compliance will become more firmly embedded in mergers and acquisitions and real estate transactions.

Effectiveness review

Independent reviews by Group Internal Audit in the corporate units and the regular exchange of information with external bodies help ensure continuous improvement of the compliance management system. There are no indications that our current compliance management system was ineffective in 2018.

INDEPENDENT MONITOR

In June 2017, in connection with the diesel issue, Larry D. Thompson was appointed as the Independent Compliance Monitor at Volkswagen under the terms of the Plea Agreement with the United States Department of Justice announced on January 11, 2017 and confirmed by a US federal court on April 21, 2017. He also works as Independent Compliance Auditor under the Third Partial Consent Decree concluded separately with the US Department of Justice and the US Environmental Protection Agency (EPA) and the Third California Partial Consent Decree agreed with the US State of California and the environmental authority California Air Resources Board, CARB (for more information on these agreements, please see the Litigation section starting on page 177). Mr. Thompson will perform his duties under the Plea Agreement and Third Partial Consent Decrees for a period of three years, which also includes taking measures to further strengthen the Company's compliance, reporting and monitoring mechanisms and the implementation of an enhanced compliance and ethics program.

Mr. Thompson submitted a report on March 30, 2018 in his capacity as the Independent Compliance Monitor on the basis of the Plea Agreement; in accordance with the provisions of the Plea Agreement, the report will not be published. In addition, in his capacity as the Independent Compliance Auditor under the terms of the Third Partial Consent Decrees, Mr. Thompson prepared his first annual report, published on August 27, 2018.

RISK MANAGEMENT, AUDIT

Carefully managing potential risks to the Company is a key component of our daily work. The Volkswagen Group's risk management system is oriented toward identifying, assessing, communicating and managing risks at an early stage. This system is reviewed on an ongoing basis and adjusted if and when conditions change. A detailed description of the risk management system and our accounting-related internal control system can be found in the Risk Report on pages 163 to 166 of this annual report.

The Supervisory Board has established an Audit Committee that in particular monitors the financial accounting, the financial accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, the audit of the financial statements and compliance. Furthermore, the Audit Committee makes a well-founded recommendation for the election of the auditor to the Supervisory Board, obtains a declaration of independence from the auditor, supervises the additional services provided by the auditor and prepares the audit engagement resolution. It also discusses the annual audit planning, the determination of areas of emphasis for the audit, the agreed fee and the auditor's obligation to provide information.

COMMUNICATION AND TRANSPARENCY

The Volkswagen Group publishes a financial calendar listing all the relevant dates for its shareholders in its annual report and interim reports as well as on its website at www.volkswagenag.com/en/InvestorRelations.html. Among other things, invitations to the shareholders' meetings as well as agendas for these meetings and any motions to be added to the agenda or 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 votes on their behalf in accordance with their voting instructions. We also give our shareholders the opportunity to watch the introductory remarks of the Chairman of the Supervisory Board and the speech of the Chairman of the Board of Management on the internet. In addition, news and information on the Volkswagen Group are available on this website. The press releases and other information are published in both English and German.

Immediately after their publication in accordance with legal requirements, the Company's ad-hoc releases are also published on the same website under the heading "Financial News, Ad-hoc Releases & Publications".

We publish managers' transactions pursuant to Article 19 of the Market Abuse Regulation or section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) under the heading "Corporate Governance", menu item "Directors' Dealings". On the same web page – under the heading "Financial News, Ad-hoc Releases & Publications", menu item "Voting Rights" – you can also access details of the notifications filed in the reporting period in compliance with sections 33 ff. of the WpHG as well as notifications relating to other legal issues.

The supervisory body appointments held by Board of Management members and Supervisory Board members can be found on pages 86 to 89 of this annual report. The shareholder structure is presented on page 110.

i MANDATORY PUBLICATIONS OF VOLKSWAGEN AG
www.volkswagenag.com/en/InvestorRelations/news-and-publications.html

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 remuneration system for the Board of Management.

PRINCIPLES OF BOARD OF MANAGEMENT REMUNERATION

Matters involving the remuneration system and the total remuneration of each individual member of the Volkswagen AG Board of Management are decided on by the Supervisory Board on the basis of the Executive Committee's recommendations. The remuneration system implements the requirements of the Aktiengesetz (AktG – German Stock Corporation Act) and the recommendations of the German Corporate Governance Code (the Code). In particular, the remuneration structure is focused on ensuring sustainable business development in accordance with the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG – German Act on the Appropriateness of Executive Board Remuneration) and section 87(1) of the AktG.

At the beginning of 2017, the Supervisory Board of Volkswagen AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2017. The system for remuneration of the Board of Management was approved by the Annual General Meeting on May 10, 2017 with 80.96% of the votes cast. The adjustment, in which the Supervisory Board was assisted by renowned, independent external remuneration and legal consultants, resulted in an alignment with the Group strategy TOGETHER – Strategy 2025.

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, and the performance of and outlook for the Company, as well as how customary the remuneration is when measured against the 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

In this section, we provide an overview of the Board of Management's remuneration system before going into the components of the remuneration for the reporting period.

Overview of the remuneration system

The remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term. The performance share plan is linked to business development in the next three years and is thus based on a multiyear, forward-looking assessment that reflects both positive and negative developments. The non-performance-related component creates an incentive for individual members of the Board of Management to perform their duties in the best 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. The performance-related components, dependent among other criteria on the financial performance of the Company, serve to ensure the long-term impact of behavioral incentives.

If 100% of the respectively agreed targets are achieved, the annual target remuneration for each member of the Board of Management will amount to a total of €4,500,000 (corresponding to a fixed remuneration of €1,350,000, a target amount from the annual bonus of €1,350,000 and a target amount from the performance share plan of €1,800,000). The annual target remuneration for the Chairman of the Board of

Management amounts to a total of €9,000,000 (fixed remuneration of €2,125,000, a target amount from the annual bonus of €3,045,000, and a target amount from the performance share plan of €3,830,000).

Annual minimum remuneration of €3.5 million (sum of fixed remuneration, annual bonus, LTI and any special payments) was contractually agreed with Mr. Sommer. Annual minimum remuneration of €3.5 million (sum of fixed and variable remuneration) was contractually agreed with Mr. Blessing.

Non-performance-related remuneration

The non-performance-related remuneration comprises fixed remuneration and fringe benefits. Since 2018, separate remuneration is no longer provided for appointments assumed at Group companies, but is covered by the fixed remuneration. The fringe benefits result from noncash benefits and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these noncash benefits are mainly borne by Volkswagen AG.

The fixed level of remuneration is reviewed regularly and adjusted if necessary.

Performance-related remuneration

The performance-related/variable remuneration consists of an annual performance-related bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (long-term incentive components) and phantom preferred shares. The components of performance-related/variable remuneration reflect both positive and negative developments.

The Supervisory Board may cap the performance-related/variable remuneration components in the event of extraordinary developments.

Annual bonus

The annual bonus is based upon the result for the respective fiscal year. Operating profit achieved by the Volkswagen Group plus the proportionate operating profit of the Chinese joint ventures form half of the basis for the annual bonus, with operating return on sales achieved by the Volkswagen Group making up the second half. Each of the two components of the annual bonus will only be payable if certain thresholds are exceeded or reached.

The calculated payment amount may be individually reduced (multiplier of 0.8) or increased (multiplier of 1.2) by up to 20% by the Supervisory Board, taking into account the degree of achievement of individual targets agreed between the Supervisory Board and the respective member of the Board of Management, as well as the success of the full Board of Management in transforming the Volkswagen Group by transferring employees to new areas of activity.

The payment amount for the annual bonus is capped at 180% of the target amount for the annual bonus. The cap arises from 150% of the maximum financial target achievement and a performance factor of a maximum of 1.2.

CALCULATION OF THE PAYMENT AMOUNT FOR THE ANNUAL BONUS

TARGET × **TARGET ACHIEVEMENT** = **ANNUAL BONUS**

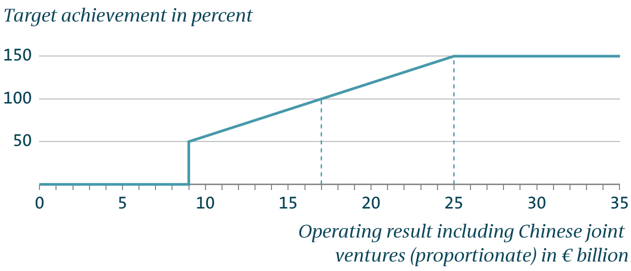
Company bonus
Operational KPIs
(0 – 150% target achievement)

×

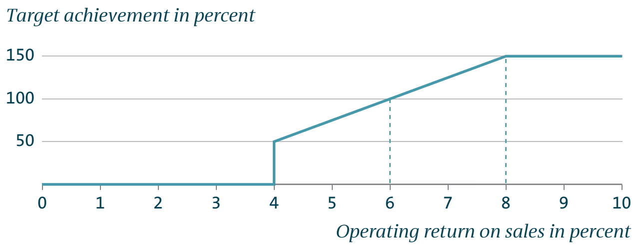
Performance factor
Multiplier
(0.8 – 1.2)

Payment amount

50 PERCENT COMPONENT 1



50 PERCENT COMPONENT 2



COMPONENT 1: OPERATING RESULT INCLUDING CHINESE JOINT VENTURES (PROPORTIONATE)

€ billion	2017	2018
Maximum threshold	25.0	25.0
100% level of target	17.0	17.0
Minimum threshold	9.0	9.0
Actual	18.6	18.5
Target achievement (in %)	110	110

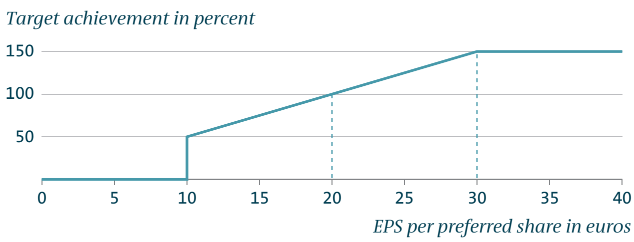
COMPONENT 2: OPERATING RETURN ON SALES

%	2017	2018
Maximum threshold	8.0	8.0
100% level of target	6.0	6.0
Minimum threshold	4.0	4.0
Actual	6.0	5.9
Target achievement (in %)	100	98

Performance share plan – long-term incentive (LTI)

The LTI is granted to the Board of Management annually in the form of a performance share plan. Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the respective member of the Board of Management purely for calculation purposes. The conversion is performed based on the unweighted average of the closing prices of Volkswagen's preferred shares for the last 30 trading days preceding January 1 of a given fiscal year. At the end of each year, the number of performance shares is determined definitively for one-third of the three-year performance period based on the degree of target achievement for the annual earnings per Volkswagen preferred share (EPS – earnings per share per preferred share in €). A prerequisite for this is that a threshold is reached.

EPS PERFORMANCE MEASUREMENT



PERFORMANCE PERIOD 2017–2019

€	2017	2018
Maximum threshold	30.00	30.0
100% level of target	20.00	20.0
Minimum threshold	10.00	10.0
Actual	22.69	23.82
Target achievement (in %)	113	119

PERFORMANCE PERIOD 2018–2020

€	2018
Maximum threshold	30.0
100% level of target	20.0
Minimum threshold	10.0
Actual	23.82
Target achievement (in %)	119

A cash settlement is made at the end of the three-year term of the performance share plan. The payment amount corresponds to the final number of determined performance shares, multiplied by the closing reference price at the end of the three-year period plus a dividend equivalent for the relevant term. The closing reference price is the unweighted average of the closing prices for Volkswagen's preferred shares for the 30 trading days preceding the last day of the three-year performance period.

€	2017	2018
Initial reference price	127.84	169.42
Closing reference price	–[1]	–[1]
Dividend equivalent	2.06	3.96

1 Determined at the end of the performance period.

The payment amount under the performance share plan is limited to 200% of the target amount. An advance of 20% on the payment amount is paid if the average ratio of capex to sales revenue in the Automotive Division or the R&D ratio of the last three years is smaller than 5%.

If the employment contract of a member of the Board of Management concludes prior to the end of the performance period due to extraordinary termination based on good cause, or if the member of the Board of Management starts working for a competitor, (also referred to as "bad-leaver cases"), the unpaid performance shares will expire. For members of the Board of Management who held their seat as of December 31, 2016, this rule only applies in the event of a reappointment or new appointment.

In connection with the appointment of the Chairman of the Board of Management, the employment contract of Mr. Diess was terminated by mutual agreement in 2018 and a new employment contract was entered into, although the expiry rule described above applies from the 2018 –2020 performance period onwards.

Ms. Werner was appointed as a member of the Board of Management in 2017. Mr. Blume, Mr. Kilian and Mr. Sommer were newly appointed to the Board of Management in 2018.

In the introductory phase of the performance share plan (2017–2018), the members of the Board of Management who were Board members as of December 31, 2016 will generally receive advances of 80% of their target amount. Mr. Stadler did not receive an advance payment for the performance period 2018–2020. Mr. Blume will receive corresponding advances for the performance periods 2018–2020 (proportionate) and 2019–2021. The two advances will each be paid after the first year of the performance period. A settlement is made based on actual achievement of targets at the end of the relevant three-year performance period.

CALCULATION OF THE PAYMENT AMOUNT FROM THE PERFORMANCE SHARE PLAN

TARGET

÷

Initial reference price

Provisional performance shares (number)

PERFORMANCE MEASUREMENT

Final number determined for ⅓ of provisional performance shares multiplied by annual target achievement EPS per preferred share

⅓ × | ⅓ × | ⅓ ×

Target achievement EPS per preferred share

Fiscal year 1 | Fiscal year 2 | Fiscal year 3

Final performance shares (number)

×

PRICE PERFORMANCE AND DIVIDENDS

Closing reference price plus dividend over term

=

LTI

Payment amount

INFORMATION ON THE PERFORMANCE SHARES

€	PERFORMANCE PERIOD 2017–2019		PERFORMANCE PERIOD 2018–2020	
	Number of performance shares allocated at the grant date	Fair value at the grant date	Number of performance shares allocated at the grant date	Fair value at the grant date
Herbert Diess	14,080	2,048,640	19,212	2,840,468
Karlheinz Blessing (until April 12, 2018)	14,080	2,025,408	10,624	1,799,918
Oliver Blume (since April 13, 2018)	–	–	7,614	1,349,810
Francisco Javier Garcia Sanz (until April 12, 2018)	14,080	1,890,944	10,624	1,799,918
Jochem Heizmann	14,080	2,031,040	10,624	1,799,918
Gunnar Kilian (since April 13, 2018)	–	–	7,614	1,349,810
Matthias Müller (until April 12, 2018)	29,959	4,309,602	22,607	3,829,909
Andreas Renschler	14,080	1,891,648	10,624	1,799,918
Stefan Sommer (since September 1, 2018)	–	–	3,541	488,446
Rupert Stadler (until October 2, 2018)	14,080	2,025,408	10,624[1]	1,799,918[1]
Hiltrud Dorothea Werner (since February 1, 2017)	12,907	1,856,672	10,624	1,799,918
Frank Witter	14,080	2,025,408	10,624	1,799,918
Total	**141,426**	**20,104,770**	**134,956**	**22,457,869**

1 In connection with Mr. Stadler's departure, the number of performance shares allocated to him was reduced to 4,890 (fair value: €828,464).

€	**Provision as of Dec. 31, 2018**	**Intrinsic value as of Dec. 31, 2018**	**Comprehensive income 2018 arising from performance shares**	Provision as of Dec. 31, 2017	Intrinsic value as of Dec. 31, 2017	Comprehensive income 2017 arising from performance shares
Herbert Diess	2,617,527	3,056,319	1,547,771	3,673,623	2,222,245	3,673,623
Karlheinz Blessing (until April 12, 2018)	6,573,347	3,802,998	796,447	5,202,356	2,222,245	5,202,356
Oliver Blume (since April 13, 2018)	401,323	–	401,323	–	–	–
Francisco Javier Garcia Sanz (until April 12, 2018)	4,141,211	3,802,898	49,867	5,405,211	2,222,245	5,405,211
Jochem Heizmann	3,422,628	3,802,898	759,638	4,102,990	2,222,245	4,102,990
Gunnar Kilian (since April 13, 2018)	401,323	–	401,323	–	–	–
Matthias Müller (until April 12, 2018)	10,770,485	8,091,750	1,246,413	10,201,381	4,728,427	10,201,381
Andreas Renschler	5,298,813	3,802,898	1,991,565	4,747,249	2,222,245	4,747,249
Stefan Sommer (since September 1, 2018)	97,766	–	97,766	–	–	–
Rupert Stadler (until October 2, 2018)	2,658,630	3,531,782	−938,995	4,698,709	2,222,245	4,698,709
Hiltrud Dorothea Werner (since February 1, 2017)	2,166,448	–	1,542,922	623,526	–	623,526
Frank Witter	6,366,831	3,802,898	2,678,125	5,128,707	2,222,245	5,128,707
Total	**44,916,334**	**33,694,440**	**10,574,164**	**43,783,751**	**20,284,141**	**43,783,751**

The number of performance shares includes the provisional performance shares allocated at the grant date of the performance share plan. The fair value as at the grant date was determined using a recognized valuation technique.

The provision recognized as of December 31, 2018 reflects the obligation to the members of the Board of Management. To determine its amount, the performance shares expected for future performance periods were taken into account in addition to the provisional performance shares determined or allocated for the performance periods 2017–2019 and 2018–2020. The amount therefore depends on the individual contract term and the relevant vesting arrangements for the performance shares. The intrinsic value was calculated in accordance with IFRS 2 and corresponds to the amount that the members of the Board of Management would have received if they had stepped down on December 31, 2018. Only the nonforfeitable (vested) performance shares at the reporting date are included in the calculation. The intrinsic value was calculated based on the unweighted average share price for the 30 trading days (Xetra closing prices of Volkswagen's preferred shares) preceding December 31, 2018, taking the dividends paid per preferred share during the performance period into account. The net value of all amounts recognized in income for the performance shares in fiscal year 2018 is recorded in comprehensive income 2018 arising from performance shares according to the IFRSs.

Phantom preferred shares

The phantom preferred shares for the remuneration withheld for 2015 will form part of the Board of Management remuneration until they are paid out in 2019.

Total remuneration cap

In addition to the cap on the individual variable components of the remuneration for the members of the Board of Management, the annual benefits received according to the Code, consisting of fixed remuneration and the variable remuneration components (i.e. annual bonus and performance share plan) for one fiscal year may not exceed an amount of €10,000,000 for the Chairman of the Board of Management and €5,500,000 for each member of the Board of Management. If the total remuneration cap is exceeded, the variable components will be reduced proportionately.

Regular review and adjustment

The Supervisory Board regularly reviews and, if necessary, adjusts the level of the total remuneration cap and the individual targets.

Other agreements

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 six to 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 widow's pension of 66 ⅔% and orphans' benefits of 20% of the former member of the Board of Management's pension. Contracts with members of the Board of Management whose first term of office began after April 1, 2015, provide for an entitlement – in line with the principles of the works agreement that also applies to employees of Volkswagen AG covered by collective agreements – to a widow's pension of 60%, an orphan's benefit of 10% for half-orphans and an orphan's benefit of 20% for full orphans, based in each case on the former member of the Board of Management's pension.

BENEFITS BASED ON PHANTOM PREFERRED SHARES FROM THE REMUNERATION WITHHELD FOR FISCAL YEAR 2015

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance.

This is being effected by first converting the amount withheld based on the average share price for the 30 trading days preceding April 22, 2016 (initial reference price) into phantom preferred shares of Volkswagen AG with a three-year holding period and, at the same time, defining a target reference price corresponding to 125% of the initial reference price. During the holding period, the phantom preferred shares are entitled to dividend equivalents in the amount of the dividends paid on real preferred shares.

The shares will generally be reconverted and paid out when the three-year holding period has expired or – in the event that members retire from office early – at the time they do so.

To determine the payment amount, the average share price for the 30 trading days preceding the last day of the holding period, i.e. April 22, 2019, or the date upon which members leave the company, will be calculated (closing reference price). The difference between the target reference price and the initial reference price will be deducted from the closing reference price, and the dividends distributed on one real Volkswagen preferred share during the holding period (dividend equivalent) will be added to the closing reference price. The figure thus calculated will be multiplied by the number of phantom preferred shares so as to calculate the amount to be paid to each Board of Management member. This will ensure that – excluding any dividend equivalents accrued – the amount withheld is only paid out in full if the initial reference price of the preferred share has increased by at least 25%. Otherwise, the amount will be reduced accordingly to a minimum of €0. The amount disbursed may not be more than twice the amount originally withheld.

In fiscal year 2018, Mr. Garcia Sanz and Mr. Müller – Board members participating in the amount withheld – retired from the Board of Management of Volkswagen AG, while their contract of service remained in place. Therefore, they did not receive any early disbursement. Moreover, the three-year holding period still applies. Due to early termination of the contract of service in 2018, Mr. Stadler received a payment from the amount withheld.

The number of phantom preferred shares granted on April 22, 2016 to the members of the Board of Management who were in office at that time did not change in fiscal year 2018. The fair value as of December 31, 2018 was determined using a recognized valuation technique. The intrinsic value was calculated in accordance with IFRS 2 and corresponds to the amount that the members of the Board of Management would have received if they had stepped down on December 31, 2018. The intrinsic value was calculated based on the unweighted average share price for the 30 trading days (Xetra closing prices of Volkswagen's preferred shares) preceding December 31, 2018, taking the initial reference price and the dividends for the relevant fiscal years into account. The net value of all amounts recognized in income for the phantom shares in fiscal year 2018 is recorded in comprehensive income 2018 arising from phantom preferred shares according to the IFRSs.

INFORMATION ON THE PHANTOM PREFERRED SHARES HELD IN 2018

€	Number of phantom shares	Provision Dec. 31, 2018	Provision Dec. 31, 2017	Intrinsic value Dec. 31, 2018	Intrinsic value Dec. 31, 2017	Comprehensive income 2018 arising from phantom preferred shares	Comprehensive income 2017 arising from phantom preferred shares
Herbert Diess	4,317	512,740	596,428	540,704	620,051	−83,688	169,732
Francisco Javier Garcia Sanz (until April 12, 2018)	8,633	1,025,361	1,192,718	1,081,283	1,239,958	−47,418	339,425
Jochem Heizmann	8,633	1,025,361	1,192,718	1,081,283	1,239,958	−167,356	339,425
Matthias Müller (until April 12, 2018)	10,583	1,256,967	1,462,126	1,325,521	1,520,036	−58,128	416,094
Andreas Renschler	7,914	939,964	1,093,382	991,229	1,136,688	−153,418	311,156
Rupert Stadler (until October 2, 2018)	8,633	–	1,192,718	–	1,239,958	−68,178	339,425
Frank Witter	1,990	236,357	274,934	249,248	285,824	−38,577	78,241
Total	**50,703**	**4,996,750**	**7,005,022**	**5,269,268**	**7,282,472**	**−616,764**	**1,993,496**

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE

€	2018 Non-performance-related component	Performance-related component	Long-term incentive component	Total remuneration	2017 Total remuneration
Herbert Diess	1,982,182	3,055,182	2,840,468	7,877,832	5,034,323
Karlheinz Blessing (until April 12, 2018)	483,329	435,831	1,799,918	2,719,078	5,193,502
Oliver Blume (since April 13, 2018)	1,013,499	1,152,506	1,349,810	3,515,815	–
Francisco Javier Garcia Sanz (until April 12, 2018)	469,821	435,831	1,799,918	2,705,570	5,009,209
Jochem Heizmann	1,605,076	1,608,147	1,799,918	5,013,141	5,139,764
Gunnar Kilian (since April 13, 2018)	1,027,207	1,152,506	1,349,810	3,529,523	–
Matthias Müller (until April 12, 2018)	672,083	983,042	3,829,909	5,485,033	10,140,544
Andreas Renschler	1,596,305	1,608,147	1,799,918	5,004,370	5,025,264
Stefan Sommer (since September 1, 2018)	579,020	536,049	488,446	1,603,515	–
Rupert Stadler (until October 2, 2018)	687,284	643,642	1,799,918[1]	3,130,844	5,002,721
Hiltrud Dorothea Werner (since February 1, 2017)	1,522,095	1,608,147	1,799,918	4,930,160	4,626,272
Frank Witter	1,413,363	1,608,147	1,799,918	4,821,428	5,004,967
Members of the Board of Management who left in the previous year	–	–	–	–	109,361
Total	**13,051,264**	**14,827,178**	**22,457,869**	**50,336,310**	**50,285,927**

1 In connection with Mr. Stadler's departure, the number of performance shares allocated to him was reduced to 4,890 (fair value: €828,464).

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The amounts shown as benefits received in the Board of Management remuneration tables in accordance with the Code correspond, in principle, to the amounts paid out for the fiscal year in question.

In the introductory phase of the performance share plan (2017 to 2018), the members of the Board of Management who were Board members as of December 31, 2016 generally received advances on the target amount, which in accordance with the Code are reported in the tables as benefits received for the fiscal year in which the performance shares under the plan were allocated; Mr. Stadler did not receive an advance for the 2018–2020 performance period. Mr. Blume will receive corresponding advances for the performance period 2018–2020 (proportionate) and 2019–2021.

The amounts shown as benefits granted in the Board of Management remuneration tables in accordance with the Code are based on 100% of the targets for the annual bonus and on the fair value at the grant date for the performance share plan. Since the new members of the Board of Management were appointed on different dates throughout 2018, there is an individual grant date for these Board members and, consequently, a different fair value.

In the Board of Management remuneration tables in accordance with the Code showing benefits received, entries for the phantom preferred shares from the amount withheld for fiscal year 2015 are only included for Mr. Stadler. No other payments for the phantom preferred shares were made in financial year 2018.

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

	HERBERT DIESS					
	Chairman of the Board of Management of Volkswagen AG, Chairman of the Brand Board of Management of Volkswagen Passenger Cars, Volume brand group					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	1,905,414	1,350,000	1,350,000	1,905,414	1,905,414	1,905,414
Fringe benefits	76,768	78,104	78,104	76,768	76,768	76,768
Total	**1,982,182**	**1,428,104**	**1,428,104**	**1,982,182**	**1,982,182**	**1,982,182**
One-year performance-related remuneration	3,055,182	1,557,579	1,350,000	2,564,750	0	4,616,550
Multiyear performance-related remuneration	2,603,867	1,440,000	2,048,640	2,840,468	0	6,509,667
LTI (performance share plan 2017–2019)	–	1,440,000	2,048,640	–	–	–
LTI (performance share plan 2018–2020)	2,603,867	–	–	2,840,468	0	6,509,667
Total[1]	**7,641,230**	**4,425,683**	**4,826,744**	**7,387,400**	**1,982,182**	**13,108,398**
Pension expense	850,620	814,654	814,654	850,620	850,620	850,620
Total remuneration	**8,491,850**	**5,240,337**	**5,641,398**	**8,238,020**	**2,832,802**	**13,959,018**

1 The fixed remuneration agreed with Mr. Diess for fiscal year 2018 is €1,905,414, while the target amount for the annual bonus is €2,564,750, the target amount for the performance share plan is €3,254,833 and the total remuneration cap is €8,725,000. The values were calculated pro rata for the term of office as a full member of the Board of Management up until April 12, 2018 and for the term of office as Chairman of the Board of Management starting April 13, 2018.

	KARLHEINZ BLESSING					
	Human Resources and Organization					
	Left: April 12, 2018					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	382,500	1,350,000	1,350,000	382,500	382,500	382,500
Fringe benefits	100,829	260,515	260,515	100,829	100,829	100,829
Total	**483,329**	**1,610,515**	**1,610,515**	**483,329**	**483,329**	**483,329**
One-year performance-related remuneration	435,831	1,557,579	1,350,000	382,500	0	688,500
Multiyear performance-related remuneration	408,000	1,440,000	2,025,408	1,799,918	0	3,600,000
LTI (performance share plan 2017–2019)	–	1,440,000	2,025,408	–	–	–
LTI (performance share plan 2018–2020)	408,000	–	–	1,799,918	0	3,600,000
Total[1]	**1,327,160**	**4,608,094**	**4,985,923**	**2,665,747**	**1,092,496**	**4,771,829**
Pension expense	236,664	686,413	686,413	236,664	236,664	236,664
Total remuneration	**1,563,824**	**5,294,507**	**5,672,336**	**2,902,411**	**1,329,159**	**5,008,493**

1 Minimum amount for 2018 includes a prorated top-up amount on minimum remuneration of €3.5 million.

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

	OLIVER BLUME					
	Chairman of the Board of Management of Dr. Ing. h.c. F. Porsche AG, Sport & Luxury brand group					
	Joined: April 13, 2018					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	967,500	–	–	967,500	967,500	967,500
Fringe benefits	45,999	–	–	45,999	45,999	45,999
Total	**1,013,499**	**–**	**–**	**1,013,499**	**1,013,499**	**1,013,499**
One-year performance-related remuneration	1,152,506	–	–	967,500	0	1,741,500
Multiyear performance-related remuneration	1,032,000	–	–	1,349,810	0	2,580,000
LTI (performance share plan 2018–2020)	1,032,000	–	–	1,349,810	0	2,580,000
Total	**3,198,005**	**–**	**–**	**3,330,809**	**1,013,499**	**5,334,999**
Pension expense	588,354	–	–	588,354	588,354	588,354
Total remuneration	**3,786,359**	**–**	**–**	**3,919,163**	**1,601,853**	**5,923,353**

	FRANCISCO JAVIER GARCIA SANZ					
	Procurement					
	Left: April 12, 2018					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	382,500	1,350,000	1,350,000	382,500	382,500	382,500
Fringe benefits	87,321	210,686	210,686	87,321	87,321	87,321
Total	**469,821**	**1,560,686**	**1,560,686**	**469,821**	**469,821**	**469,821**
One-year performance-related remuneration	435,831	1,557,579	1,350,000	382,500	0	688,500
Multiyear performance-related remuneration	408,000	1,440,000	1,890,944	1,799,918	0	3,600,000
LTI (performance share plan 2017–2019)	–	1,440,000	1,890,944	–	–	–
LTI (performance share plan 2018–2020)	408,000	–	–	1,799,918	0	3,600,000
Total	**1,313,652**	**4,558,265**	**4,801,631**	**2,652,239**	**469,821**	**4,758,321**
Pension expense	250,087	889,410	889,410	250,087	250,087	250,087
Total remuneration	**1,563,740**	**5,447,675**	**5,691,041**	**2,902,326**	**719,908**	**5,008,408**

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

	JOCHEM HEIZMANN					
	China					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	1,350,000	1,351,278	1,351,278	1,350,000	1,350,000	1,350,000
Fringe benefits	255,076	199,867	199,867	255,076	255,076	255,076
Total	**1,605,076**	**1,551,145**	**1,551,145**	**1,605,076**	**1,605,076**	**1,605,076**
One-year performance-related remuneration	1,608,147	1,557,579	1,350,000	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,440,000	2,031,040	1,799,918	0	3,600,000
LTI (performance share plan 2017–2019)	–	1,440,000	2,031,040	–	–	–
LTI (performance share plan 2018–2020)	1,440,000	–	–	1,799,918	0	3,600,000
Total	**4,653,223**	**4,548,724**	**4,932,185**	**4,754,994**	**1,605,076**	**7,635,076**
Pension expense	–	–	–	–	–	–
Total remuneration	**4,653,223**	**4,548,724**	**4,932,185**	**4,754,994**	**1,605,076**	**7,635,076**

	GUNNAR KILIAN					
	Human Resources					
	Joined: April 13, 2018					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	967,500	–	–	967,500	967,500	967,500
Fringe benefits	59,707	–	–	59,707	59,707	59,707
Total	**1,027,207**	**–**	**–**	**1,027,207**	**1,027,207**	**1,027,207**
One-year performance-related remuneration	1,152,506	–	–	967,500	0	1,741,500
Multiyear performance-related remuneration	–	–	–	1,349,810	0	2,580,000
LTI (performance share plan 2018–2020)	–	–	–	1,349,810	0	2,580,000
Total	**2,179,713**	**–**	**–**	**3,344,517**	**1,027,207**	**5,348,707**
Pension expense	703,228	–	–	703,228	703,228	703,228
Total remuneration	**2,882,941**	**–**	**–**	**4,047,745**	**1,730,435**	**6,051,935**

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

	MATTHIAS MÜLLER					
	Chairman of the Board of Management					
	Left: April 12, 2018					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	602,083	2,125,000	2,125,000	602,083	602,083	602,083
Fringe benefits	70,000	192,735	192,735	70,000	70,000	70,000
Total	**672,083**	**2,317,735**	**2,317,735**	**672,083**	**672,083**	**672,083**
One-year performance-related remuneration	983,042	3,513,207	3,045,000	862,750	0	1,552,950
Multiyear performance-related remuneration	1,085,167	3,830,000	4,309,602	3,829,909	0	7,660,000
LTI (performance share plan 2017–2019)[1]	–	3,830,000	4,309,602	–	–	–
LTI (performance share plan 2018–2020)[1]	1,085,167	–	–	3,829,909	0	7,660,000
Total	**2,740,292**	**9,660,942**	**9,672,337**	**5,364,742**	**672,083**	**9,885,033**
Pension expense	187,207	612,807	612,807	187,207	187,207	187,207
Total remuneration	**2,927,498**	**10,273,749**	**10,285,144**	**5,551,949**	**859,290**	**10,072,240**

1 Advance of 100% in the introductory phase of the performance share plan, pro rata for 2018.

	ANDREAS RENSCHLER					
	Chairman of the Board of Management of TRATON SE, Truck & Bus brand group					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	1,350,000	1,350,000	1,350,000	1,350,000	1,350,000	1,350,000
Fringe benefits	246,305	226,037	226,037	246,305	246,305	246,305
Total	**1,596,305**	**1,576,037**	**1,576,037**	**1,596,305**	**1,596,305**	**1,596,305**
One-year performance-related remuneration	1,608,147	1,557,579	1,350,000	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,440,000	1,891,648	1,799,918	0	3,600,000
LTI (performance share plan 2017–2019)	–	1,440,000	1,891,648	–	–	–
LTI (performance share plan 2018–2020)	1,440,000	–	–	1,799,918	0	3,600,000
Total	**4,644,452**	**4,573,616**	**4,817,685**	**4,746,223**	**1,596,305**	**7,626,305**
Pension expense	5,249,526	5,361,551	5,361,551	5,249,526	5,249,526	5,249,526
Total remuneration	**9,893,978**	**9,935,167**	**10,179,236**	**9,995,749**	**6,845,831**	**12,875,831**

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

	STEFAN SOMMER Components & Procurement Joined: September 1, 2018					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	450,000	–	–	450,000	450,000	450,000
Fringe benefits	129,020	–	–	129,020	129,020	129,020
Total	**579,020**	**–**	**–**	**579,020**	**579,020**	**579,020**
One-year performance-related remuneration	536,049	–	–	450,000	0	810,000
Multiyear performance-related remuneration	–	–	–	488,446	0	1,200,000
LTI (performance share plan 2018–2020)	–	–	–	488,446	0	1,200,000
Total[1]	**1,295,687**	**–**	**–**	**1,517,466**	**1,295,687**	**2,589,020**
Pension expense	270,997	–	–	270,997	270,997	270,997
Total remuneration	**1,566,684**	**–**	**–**	**1,788,463**	**1,566,684**	**2,860,017**

1 Benefits received and the minimum amount for 2018 include a prorated top-up amount on minimum remuneration of €3.5 million.

	RUPERT STADLER Chairman of the Board of Management of AUDI AG, Premium brand group Left: October 2, 2018					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (minimum)	2018 (maximum)
Fixed remuneration	621,370	1,350,000	1,350,000	621,370	621,370	621,370
Fringe benefits	65,914	69,734	69,734	65,914	65,914	65,914
Total	**687,284**	**1,419,734**	**1,419,734**	**687,284**	**687,284**	**687,284**
One-year performance-related remuneration	643,642	1,557,579	1,350,000	621,370	0	1,118,466
Multiyear performance-related remuneration	1,044,593	1,440,000	2,025,408	1,799,918	0	3,600,000
LTI (performance share plan 2017–2019)	–	1,440,000	2,025,408	–	–	–
LTI (performance share plan 2018–2020)	–	–	–	1,799,918[1]	0	3,600,000
Phantom shares	1,044,593	–	–	–	–	–
Total	**2,375,519**	**4,417,313**	**4,795,142**	**3,108,572**	**687,284**	**5,405,750**
Pension expense	379,726	829,730	829,730	379,726	379,726	379,726
Total remuneration	**2,755,245**	**5,247,043**	**5,624,872**	**3,488,298**	**1,067,010**	**5,785,476**

1 In connection with Mr. Stadler's departure, the number of performance shares allocated to him was reduced to 4,890 (fair value: €828,464).

REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

	HILTRUD DOROTHEA WERNER					
	Integrity and Legal Affairs					
	Joined: February 1, 2017					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (Minimum)	2018 (Maximum)
Fixed remuneration	1,350,000	1,237,500	1,237,500	1,350,000	1,350,000	1,350,000
Fringe benefits	172,095	104,319	104,319	172,095	172,095	172,095
Total	**1,522,095**	**1,341,819**	**1,341,819**	**1,522,095**	**1,522,095**	**1,522,095**
One-year performance-related remuneration	1,608,147	1,427,781	1,237,500	1,350,000	0	2,430,000
Multiyear performance-related remuneration	–	–	1,856,672	1,799,918	0	3,600,000
LTI (performance share plan 2017–2019)	–	–	1,856,672	–	–	–
LTI (performance share plan 2018–2020)	–	–	–	1,799,918	0	3,600,000
Total	**3,130,242**	**2,769,600**	**4,435,991**	**4,672,013**	**1,522,095**	**7,552,095**
Pension expense	953,404	930,689	930,689	953,404	953,404	953,404
Total remuneration	**4,083,646**	**3,700,289**	**5,366,680**	**5,625,417**	**2,475,499**	**8,505,499**

	FRANK WITTER					
	Finance & IT					
	Benefits received		Benefits granted			
€	2018	2017	2017	2018	2018 (Minimum)	2018 (Maximum)
Fixed remuneration	1,350,000	1,350,000	1,350,000	1,350,000	1,350,000	1,350,000
Fringe benefits	63,363	71,980	71,980	63,363	63,363	63,363
Total	**1,413,363**	**1,421,980**	**1,421,980**	**1,413,363**	**1,413,363**	**1,413,363**
One-year performance-related remuneration	1,608,147	1,557,579	1,350,000	1,350,000	0	2,430,000
Multiyear performance-related remuneration	1,440,000	1,440,000	2,025,408	1,799,918	0	3,600,000
LTI (performance share plan 2017–2019)	–	1,440,000	2,025,408	–	–	–
LTI (performance share plan 2018–2020)	1,440,000	–	–	1,799,918	0	3,600,000
Total	**4,461,510**	**4,419,559**	**4,797,388**	**4,563,281**	**1,413,363**	**7,443,363**
Pension expense	849,556	692,743	692,743	849,556	849,556	849,556
Total remuneration	**5,311,066**	**5,112,302**	**5,490,131**	**5,412,837**	**2,262,919**	**8,292,919**

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 when the Board of Management member reaches the age of 63. As a departure from this principle, Mr. Renschler is able to start drawing his pension when he reaches the age of 62.

The retirement provision for members of the Board of Management with an existing occupational pension based on final remuneration is calculated as a percentage of the fixed remuneration, starting from 50%. For Mr. Garcia Sanz, Mr. Heizmann, Mr. Renschler and Mr. Stadler, the individual percentages rise by two percentage points for every year of service. For Mr. Müller, the percentage increases by 4.5% as of March 1, 2017 and 2018. In specific cases, credit is given for previous employment periods and retirement pensions earned. In a departure from this rule, a retirement pension entitlement of 62% of the fixed level of remuneration was set for Mr. Renschler on his appointment. The Supervisory Board has capped the percentage at 70%. These benefits are not broken down any further into performance-related components and long-term incentive components. Mr. Heizmann reached a retirement pension entitlement of 70% of his fixed level of remuneration at the end of 2018; the entitlement for Mr. Renschler is 68%. The increase in the fixed remuneration as a consequence of the remuneration system in place from fiscal year 2017 is therefore not taken into account for the incumbent members of the Board of Management of Volkswagen AG with an existing occupational pension based on final remuneration. 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.

For the members of the Board of Management of Volkswagen AG appointed before February 24, 2017 with a defined contribution pension scheme, a contribution rate of 50% of the fixed remuneration applies. For the members of the Board of Management of Volkswagen AG appointed after February 24, 2017 with a defined contribution pension scheme, a contribution rate of 40% of the fixed remuneration applies. The resulting amount will be credited to the pension account.

Ms. Werner, Mr. Blessing, Mr. Blume, Mr. Diess, Mr. Kilian, Mr. Sommer and Mr. Witter received a defined contribution plan, which is based in principle on a works agreement that also applies to the employees of Volkswagen AG covered by collective agreements and includes retirement, invalidity and surviving dependents' benefits. A pension contribution in the amount of 50% of the fixed level of remuneration for Ms. Werner, Mr. Blessing, Mr. Diess and Mr. Witter and in the amount of 40% of the fixed level of remuneration for Mr. Blume, Mr. Kilian and Mr. Sommer is paid to Volkswagen Pension Trust e.V. at the end of the calendar year for each year they are appointed to the Board of Management. The annual pension contributions result in modules of what is, in principle, a lifelong pension in line with the arrangements that also apply to employees covered by collective agreements. The individual pension modules vest immediately upon payment to Volkswagen Pension Trust e.V. Instead of a lifelong pension, benefits can optionally be paid out as a lump sum or in installments when the beneficiary reaches retirement age – currently 63 at the earliest. Volkswagen AG has assumed responsibility for pension entitlements due to Mr. Witter from the time before his service with the Company, although these cannot be claimed before he reaches the age of 60.

On December 31, 2018, the pension obligations for members of the Board of Management in accordance with IAS 19 amounted to €55.8 (125.4) million. €11.9 (12.9) million was added to the provision in the reporting period in accordance with IAS 19. Other benefits such as surviving dependents' pensions 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 €45.9 (92.4) million. Measured in accordance with German GAAP, €9.5 (15.8) million was added to the provision in the reporting period.

Retired members of the Board of Management and their surviving dependents received €44.0 (19.9) million, or €44.0 (19.9) million measured in accordance with German GAAP, in the past year. Obligations for pensions for this group of persons measured in accordance with IAS 19 amounted to €324.0 (269.0) million, or €276.2 (214.9) million measured in accordance with German GAAP.

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 a member of the Board of Management leaves the Company is payable immediately if the member's contract is not renewed by the Company, or when the member reaches 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 general 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 a member of the Board of Management leaves the Company is payable when the member reaches the age of 63.

EARLY TERMINATION BENEFITS

If the appointment to 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 section 4.2.3(4) of the Code (severance payment cap). 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 the appointment to the Board of Management is terminated for good 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.

Please refer to notes 43 and 46 to the consolidated financial statements and the notes to the annual financial statements of Volkswagen AG for more detailed individual disclosures relating to members of the Board of Management who left the Company in fiscal year 2018.

PENSIONS OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN 2018 (PRIOR-YEAR FIGURES IN BRACKETS)

€	Pension expense	Present values as of December 31[1]
Herbert Diess	850,620	3,410,933
	(814,654)	(2,169,255)
Karlheinz Blessing (until April 12, 2018)	236,664	–
	(686,413)	(1,623,275)
Oliver Blume (since April 13, 2018)	588,354	588,354
	–	–
Francisco Javier Garcia Sanz (until April 12, 2018)	250,087	–
	(889,410)	(22,544,823)
Jochem Heizmann	–	18,098,438
	–	(19,254,055)
Gunnar Kilian (since April 13, 2018)	703,228	703,228
	–	–
Matthias Müller (until April 12, 2018)	187,207	–
	(612,807)	(30,065,068)
Andreas Renschler	5,249,526	20,109,236
	(5,361,551)	(16,278,653)
Stefan Sommer (since September 1, 2018)	270,997	270,997
	–	–
Rupert Stadler (until October 2, 2018)	379,726	–
	(829,730)	(22,262,176)
Hiltrud Dorothea Werner (since February 1, 2017)	953,404	1,872,035
	(930,689)	(975,823)
Frank Witter	849,556	10,765,942
	(692,743)	(10,214,190)
Members of the Board of Management who left in the previous year	(54,091)	–
Total	**10,519,369**	**55,819,163**
	(10,872,088)	**(125,387,318)**

1 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

Following its regular review of Supervisory Board remuneration, the Supervisory Board proposed a reorganization of the system of Supervisory Board remuneration to the 2017 Annual General Meeting, which was approved on May 10, 2017 with 99.98% of the votes cast. The remuneration of the members of the Supervisory Board of Volkswagen AG is comprised entirely of non-performance-related remuneration components. Remuneration for supervisory board work at subsidiaries continues in part to comprise a mix of non-performance-related and performance- related components.

The following applies to members of the Supervisory Board of Volkswagen AG with effect from January 1, 2017:

- Members of the Supervisory Board receive fixed remuneration of €100,000 per fiscal year.
- The Chairman of the Supervisory Board receives fixed remuneration of €300,000, while the Deputy Chairman receives remuneration of €200,000.
- For their work in the Supervisory Board committees, the members of the Supervisory Board also receive additional fixed remuneration of €50,000 per committee per fiscal year provided the committee met at least once per year for the performance of its duties. Memberships of the Nomination and Mediation Committees established in accordance with section 27(3) of the Mitbestimmungsgesetz (MitbestG – German Codetermination Act) are not taken into account.
- Committee chairpersons receive double this amount, while deputy chairpersons receive one-and-a-half times the committee remuneration listed above.
- Membership of no more than two committees is taken into account, whereby the two functions with the highest remuneration are counted if this maximum number is exceeded.
- Supervisory Board members who belonged to the Supervisory Board or one of its committees for only part of the fiscal year receive proportionate remuneration.
- Supervisory Board members receive an attendance fee of €1,000 for attending a meeting of the Supervisory Board or one of its committees; if several meetings are held on one day, the attendance fee is paid only once.
- The remuneration and attendance fees are each payable after the end of the fiscal year.

In fiscal year 2018, the members of the Supervisory Board received €4,538,986 (3,786,839). Of this figure, €2,297,500 related to the work of the Supervisory Board and €936,389 related to the work in the committees.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

€	FIXED REMUNERATION	WORK IN THE COMMITTEES	OTHER[1]	TOTAL 2018	TOTAL 2017
Hans Dieter Pötsch	300,000	100,000	184,500	584,500	–[2]
Jörg Hofmann[3]	200,000	75,000	19,000	294,000	295,000
Hussain Ali Al-Abdulla	100,000	–	8,000	108,000	107,000
Hessa Sultan Al-Jaber	100,000	–	11,000	111,000	111,000
Bernd Althusmann[4] (since December 14, 2017)	100,000	43,194	12,000	155,194	4,583
Birgit Dietze[3]	100,000	50,000	17,000	167,000	163,000
Annika Falkengren (until February 5, 2018)	9,444	–	–	9,444	150,750
Hans-Peter Fischer[3]	100,000	–	14,000	114,000	109,000
Marianne Heiß (since February 14, 2018)	88,056	43,194	67,050	198,300	–
Uwe Hück[3]	100,000	–	84,500	184,500	180,500
Johan Järvklo[3]	100,000	–	14,000	114,000	110,000
Ulrike Jakob[3] (since May 10, 2017)	100,000	–	12,000	112,000	68,028
Louise Kiesling	100,000	–	11,000	111,000	111,000
Peter Mosch[3]	100,000	100,000	146,589	346,589	293,107
Bertina Murkovic[3] (since May 10, 2017)	100,000	50,000	14,000	164,000	102,042
Bernd Osterloh[3]	100,000	125,000	39,233	264,233	226,021
Hans Michel Piëch	100,000	–	172,000	272,000	250,600
Ferdinand Oliver Porsche	100,000	150,000	162,500	412,500	397,100
Wolfgang Porsche	100,000	150,000	172,500	422,500	411,400
Athanasios Stimoniaris[3] (since May 10, 2017)	100,000	–	130,225	230,225	170,778
Stephan Weil[4]	100,000	50,000	14,000	164,000	174,000
Members of the Supervisory Board who left in the previous year	–	–	–	–	351,931
Total	**2,297,500**	**936,389**	**1,305,097**	**4,538,986**	**3,786,839**

1 Attendance fees, membership of other Group bodies (non-performance-related: €355,483; performance-related: €534,614).
2 Mr. Pötsch waived his remuneration for fiscal year 2017 in full.
3 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).
4 Under section 5(3) of the Niedersächsisches Ministergesetz (German 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, 2018 or the leaving date from the Board of Management of Volkswagen AG

DR.-ING. HERBERT DIESS (60)
Chairman (since April 13, 2018)
Chairman of the Brand Board of Management of Volkswagen Passenger Cars,
Volume brand group,
China (since January 11, 2019)
July 1, 2015[1]
Appointments:
○ FC Bayern München AG, Munich
○ Infineon Technologies AG, Neubiberg

DR. RER. SOC. KARLHEINZ BLESSING (61)
Human Resources and Organization
January 1, 2016 – April 12, 2018[1]
Appointments (as of April 12, 2018):
○ Wolfsburg AG, Wolfsburg

OLIVER BLUME (50)
Chairman of the Executive Board of Dr. Ing. h.c. F. Porsche AG,
Sport & Luxury brand group
April 13, 2018[1]

DR. RER. POL. H.C. FRANCISCO JAVIER GARCIA SANZ (61)
Procurement
July 1, 2001 – April 12, 2018[1]
Appointments (as of April 12, 2018):
○ Hochtief AG, Essen
⊙ Criteria CaixaHolding S.A., Barcelona

PROF. DR. RER. POL. DR.-ING. E.H. JOCHEM HEIZMANN (66)
China
January 11, 2007 – January 10, 2019[1]
Appointments (as of January 10, 2019):
○ Lufthansa Technik AG, Hamburg
⊙ OBO Bettermann Holding GmbH Co. KG, Menden

GUNNAR KILIAN (43)
Human Resources
April 13, 2018[1]
Appointments:
○ Wolfsburg AG, Wolfsburg

MATTHIAS MÜLLER (65)
Chairman
March 1, 2015 – April 12, 2018[1]

ANDREAS RENSCHLER (60)
Chairman of the Board of Management of TRATON AG[2],
Truck & Bus brand group
February 1, 2015[1]
Appointments:
○ Deutsche Messe AG, Hanover

ABRAHAM SCHOT (57)
Chairman of the Board of Management of AUDI AG,
Premium brand group
January 1, 2019[1]

DR.-ING. STEFAN SOMMER (55)
Components & Procurement
September 1, 2018[1]

RUPERT STADLER (55)
Chairman of the Board of Management of AUDI AG,
Premium brand group
January 1, 2010 – October 2, 2018[1]
Appointments (as of October 2, 2018):
○ FC Bayern München AG, Munich

HILTRUD DOROTHEA WERNER (52)
Integrity and Legal Affairs
February 1, 2017[1]

FRANK WITTER (59)
Finance & IT
October 7, 2015[1]

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.

1 Beginning or period of membership of the Board of Management.
2 Formerly Volkswagen Truck & Bus GmbH or Volkswagen Truck & Bus AG; now TRATON SE.

Members of the Supervisory Board and their appointments

Appointments: as of December 31, 2018 or the leaving date from the Supervisory Board of Volkswagen AG

HANS DIETER PÖTSCH (67)
Chairman (since October 7, 2015)
Chairman of the Executive Board and
Chief Financial Officer of Porsche Automobil Holding SE
October 7, 2015[1]
Appointments:
○ AUDI AG, Ingolstadt
○ Autostadt GmbH, Wolfsburg
○ Bertelsmann Management SE, Gütersloh
○ Bertelsmann SE & Co. KGaA, Gütersloh
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ TRATON AG[2], Munich (Chairman)
○ Wolfsburg AG, Wolfsburg
⦿ Porsche Austria Gesellschaft m.b.H., Salzburg (Chairman)
⦿ Porsche Holding Gesellschaft m.b.H., Salzburg (Chairman)
⦿ Porsche Retail GmbH, Salzburg (Chairman)
⦿ VfL Wolfsburg-Fußball GmbH, Wolfsburg (Deputy Chairman)

JÖRG HOFMANN (63)
Deputy Chairman (since November 20, 2015)
First Chairman of IG Metall
November 20, 2015[1]
Appointments:
○ Robert Bosch GmbH, Stuttgart

DR. HUSSAIN ALI AL-ABDULLA (61)
Minister of State, Qatar
April 22, 2010[1]
Appointments:
⦿ Gulf Investment Corporation, Safat/Kuwait
⦿ Masraf Al Rayan, Doha (Chairman)
⦿ Qatar Investment Authority, Doha
⦿ Qatar Supreme Council for Economic Affairs and Investment, Doha

DR. HESSA SULTAN AL-JABER (59)
Chairwoman of the Supervisory Board of
Malomatia Qatar, Doha
Chairwoman of the Supervisory Board of
Qatar Satellite Company (Es'hailSat), Doha
Member of the Consultative Assembly (Shura Council)
of the state Qatar, Doha
June 22, 2016[1]
Appointments:
⦿ Malomatia, Doha (Chairwoman)
⦿ Qatar Satellite Company (Es'hailSat), Doha (Chairwoman)
⦿ Trio Investment, Doha (Chairwoman)

DR. BERND ALTHUSMANN (52)
Minister of Economic Affairs, Labor, Transport and
Digitalization for the Federal State of Lower Saxony
December 14, 2017[1]
Appointments:
○ Deutsche Messe AG, Hanover (Chairman)
⦿ Container Terminal Wilhelmshaven JadeWeserPort-Marketing GmbH & Co. KG, Wilhelmshaven (Chairman)
⦿ JadeWeserPort Realisierungs GmbH & Co. KG, Wilhelmshaven (Chairman)
⦿ JadeWeserPort Realisierungs-Beteiligungs GmbH, Wilhelmshaven (Chairman)
⦿ Niedersachsen Ports GmbH & Co. KG, Oldenburg (Chairman)

BIRGIT DIETZE (45)
First authorized representative of IG Metall Berlin
June 1, 2016[1]
Appointments:
○ Volkswagen Bank GmbH, Braunschweig

ANNIKA FALKENGREN (56)
Managing Partner of
Compagnie Lombard Odier SCmA
May 3, 2011 – February 5, 2018[1]

DR. JUR. HANS-PETER FISCHER (59)
Chairman of the Board of Management of
Volkswagen Management Association
January 1, 2013[1]
Appointments:
⦿ Volkswagen Pension Trust e.V., Wolfsburg

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

1 Beginning or period of membership of the Supervisory Board.
2 Formerly Volkswagen Truck & Bus GmbH or Volkswagen Truck & Bus AG; now TRATON SE.

MARIANNE HEIß (46)
Chief Financial Officer of BBDO Group Germany GmbH, Düsseldorf
February 14, 2018[1]
Appointments:
○ AUDI AG, Ingolstadt
○ Porsche Automobil Holding SE, Stuttgart

UWE HÜCK (56)
Chairman of the General and Group Works Councils of Dr. Ing. h.c. F. Porsche AG
July 1, 2015 – February 8, 2019[1]
Appointments (as of February 8, 2019):
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart (Deputy Chairman)

JOHAN JÄRVKLO (45)
Secretary-General of the European and Global Group Works Council of Volkswagen AG
November 22, 2015[1]

ULRIKE JAKOB (58)
Deputy Chairwoman of the Works Council of Volkswagen AG, Kassel plant
May 10, 2017[1]

DR. LOUISE KIESLING (61)
Businesswoman
April 30, 2015[1]

PETER MOSCH (46)
Chairman of the General Works Council of AUDI AG
January 18, 2006[1]
Appointments:
○ AUDI AG, Ingolstadt (Deputy Chairman)
○ Audi Pensionskasse – Altersversorgung der AUTO UNION GmbH, VVaG, Ingolstadt

BERTINA MURKOVIC (61)
Chairwoman of the Works Council of Volkswagen Commercial Vehicles
May 10, 2017[1]
Appointments:
⊙ MOIA GmbH, Berlin

BERND OSTERLOH (62)
Chairman of the General and Group Works Councils of Volkswagen AG
January 1, 2005[1]
Appointments:
○ Autostadt GmbH, Wolfsburg
○ TRATON AG[2], Munich
○ Wolfsburg AG, Wolfsburg
⊙ Allianz für die Region GmbH, Braunschweig
⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
⊙ SEAT, S.A., Martorell
⊙ ŠKODA Auto a.s., Mladá Boleslav
⊙ VfL Wolfsburg-Fußball GmbH, Wolfsburg
⊙ Volkswagen Immobilien GmbH, Wolfsburg

DR. JUR. HANS MICHEL PIËCH (76)
Lawyer in private practice
August 7, 2009[1]
Appointments:
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ Porsche Automobil Holding SE, Stuttgart (Deputy Chairman)
⊙ Porsche Cars Great Britain Ltd., Reading
⊙ Porsche Cars North America Inc., Atlanta
⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
⊙ Porsche Ibérica S.A., Madrid
⊙ Porsche Italia S.p.A., Padua
⊙ Schmittenhöhebahn AG, Zell am See
⊙ Volksoper Wien GmbH, Vienna

DR. JUR. FERDINAND OLIVER PORSCHE (57)
Member of the Board of Management of Familie Porsche AG Beteiligungsgesellschaft
August 7, 2009[1]
Appointments:
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ Porsche Automobil Holding SE, Stuttgart
○ TRATON AG[2], Munich
⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
⊙ Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg

DR. RER. COMM. WOLFGANG PORSCHE (75)
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[1]
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., Atlanta
⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
⊙ Porsche Ibérica S.A., Madrid
⊙ Porsche Italia S.p.A., Padua
⊙ Schmittenhöhebahn AG, Zell am See

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

1 Beginning or period of membership of the Supervisory Board.
2 Formerly Volkswagen Truck & Bus GmbH or Volkswagen Truck & Bus AG; now TRATON SE.

ATHANASIOS STIMONIARIS (47)
Chairman of the Group Works Council of MAN SE and of the SE Works Council
May 10, 2017[1]
Appointments:
○ MAN SE, Munich
○ MAN Truck & Bus AG, Munich (Deputy Chairman)
○ Rheinmetall MAN Military Vehicles GmbH, Munich
○ TRATON AG[2], Munich (Deputy Chairman)

STEPHAN WEIL (60)
Minister-President of the Federal State of Lower Saxony
February 19, 2013[1]

WERNER WERESCH (57)
Chairman of the General and Group Works Councils of Dr. Ing. h.c. F. Porsche AG
February 21, 2019[1]
Appointments (as of February 21, 2019):
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart

COMMITTEES OF THE SUPERVISORY BOARD AS OF DECEMBER 31, 2018

Members of the Executive Committee
Hans Dieter Pötsch (Chairman)
Jörg Hofmann (Deputy Chairman)
Peter Mosch
Bernd Osterloh
Dr. Wolfgang Porsche
Stephan Weil

Members of the Mediation Committee established in accordance with section 27(3) of the Mitbestimmungsgesetz (German Codetermination Act)
Hans Dieter Pötsch (Chairman)
Jörg Hofmann (Deputy Chairman)
Bernd Osterloh
Stephan Weil

Members of the Audit Committee
Dr. Ferdinand Oliver Porsche (Chairman)
Bernd Osterloh (Deputy Chairman)
Birgit Dietze
Marianne Heiß

Members of the Nomination Committee
Hans Dieter Pötsch (Chairman)
Dr. Wolfgang Porsche
Stephan Weil

Special Committee on Diesel Engines
Dr. Wolfgang Porsche (Chairman)
Dr. Bernd Althusmann
Peter Mosch
Bertina Murkovic
Bernd Osterloh
Dr. Ferdinand Oliver Porsche

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

1 Beginning or period of membership of the Supervisory Board.
2 Formerly Volkswagen Truck & Bus GmbH or Volkswagen Truck & Bus AG; now TRATON SE.

Disclosures Required Under Takeover Law

This section contains the Volkswagen Group's disclosures relating to takeover law required by sections 289a(1) and 315a(1) of the HGB.

CAPITAL STRUCTURE

Volkswagen AG's share capital amounted to €1,283,315,873.28 (€1,283,315,873.28) on December 31, 2018. It was composed of 295,089,818 ordinary shares and 206,205,445 preferred shares. Each share conveys a notional interest of €2.56 in the share capital.

SHAREHOLDER RIGHTS AND OBLIGATIONS

The shares convey pecuniary and administrative rights. The pecuniary rights include in particular the shareholders' right to participate in profits (section 58(4) of the Aktiengesetz (AktG – German Stock Corporation Act)), the right to participate in liquidation proceeds (section 271 of the AktG) and preemptive rights to shares in the event of capital increases (section 186 of the AktG) that can be disapplied by the Annual General Meeting with the approval of the Special Meeting of Preferred Shareholders, where appropriate. Administrative rights include the right to attend the Annual General Meeting to speak there, to ask questions, to propose motions and to exercise voting rights. Shareholders can enforce these rights in particular through actions seeking disclosure and actions for avoidance.

Each ordinary share grants the holder one vote at the Annual General Meeting. The Annual General Meeting elects shareholder representatives to the Supervisory Board and elects the auditors; in particular, it resolves on the appropriation of net profit, formally approves the actions of the Board of Management and the Supervisory Board, and resolves on amendments to the Articles of Association of Volkswagen AG, capitalization measures and authorizations to purchase treasury shares; if required, it also resolves on the performance of a special audit, the removal before the end of their term of office of Supervisory Board members elected at the Annual General Meeting and the winding-up of the Company.

Preferred shareholders generally have no voting rights. However, in the exceptional case that they 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 of Volkswagen AG).

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 the exercise of 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).

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% of Volkswagen AG's ordinary shares. In addition, resolutions by the Annual General Meeting that are required by law to be adopted by a qualified majority require a majority of more than four-fifths of the share capital of the Company represented when the resolution is adopted (Article 25(2)), regardless of the provisions of the VW-Gesetz.

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, which are available online at https://www.volkswagenag.com/en/InvestorRelations.html. The current notifications regarding changes in voting rights in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) are also published on this website.

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 of Volkswagen AG, 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.

The goals for the composition of the Supervisory Board are described on page 60 of the Corporate Governance Report. Information about the composition of the Supervisory Board at the end of the reporting period can be found on pages 87 to 89 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 of Volkswagen AG 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 of Volkswagen AG, 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 authorize the Board of Management, for a maximum period of five years, to issue new shares. It can also authorize the Board of Management, for a maximum period 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 maximum 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.

At the Annual General Meeting on May 5, 2015, a resolution was passed authorizing the Board of Management, with the consent of the Supervisory Board, to increase the Company's share capital by a total of up to €179.2 million (corresponding to 70 million shares) on one or more occasions up to May 4, 2020 by issuing new nonvoting preferred shares against cash contributions.

Further details of the authorization to issue new shares and their permitted uses may be found in the notes to the consolidated financial statements on page 261.

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 line of credit amounting to €5.0 billion that runs until April 2020. The syndicate members were granted the right to call their portion of the syndicated line of credit 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.

Diesel Issue

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines. The regulatory offense proceedings of the public prosecutor's office in Braunschweig against Volkswagen AG, which began in April 2016, and that of the Munich II public prosecutor's office against AUDI AG have both been concluded with orders imposing administrative fines. Special items totaling €–3.2 billion had to be accounted for in fiscal year 2018.

IRREGULARITIES CONCERNING NO_x EMISSIONS

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. In this context, Volkswagen AG announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On November 2, 2015, the EPA issued a "Notice of Violation" alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines.

Numerous court and governmental proceedings were subsequently initiated in the USA and the rest of the world. We have since succeeded in making substantial progress and ending a great number of these proceedings. Detailed information on the pending court and governmental proceedings can be found in the Report on Risks and Opportunities, starting on page 177.

EXTENSIVE INVESTIGATIONS INITIATED BY THE VOLKSWAGEN GROUP

After the first "Notice of Violation" was issued, Volkswagen AG immediately initiated its own internal as well as external investigations; both have since been concluded for the most part.

The Supervisory Board of Volkswagen AG formed a special committee that coordinates this board's activities relating to the diesel issue on its behalf.

Furthermore, in September 2015 Volkswagen AG and AUDI AG filed a criminal complaint in Germany against unknown persons. Volkswagen AG and AUDI AG are cooperating with all relevant authorities.

The regulatory offense proceedings of the public prosecutor's office in Braunschweig against Volkswagen AG, which began in April 2016, and the regulatory offense proceedings of the Munich II public prosecutor's office against AUDI AG have both been concluded with administrative fine orders.

Work in respect of the legal proceedings that are still pending in the USA and the rest of the world is ongoing, still requires considerable efforts, and will continue for some time. Volkswagen AG is being advised by a number of external law firms in this connection.

The diesel issue is rooted in a modification of parts of the software of the relevant engine's control units – which, according to Volkswagen AG's legal position, is only unlawful under US law – for the type EA 189 diesel engines that Volkswagen AG was developing at that time. The decision to develop and install this software function was taken in late 2006 below Board of Management level. None of the members of the Board of Management had, at that time and for many years to follow, knowledge of the development and implementation of this software function.

In the months following publication of a study by the International Council on Clean Transportation in May 2014, Volkswagen AG's Powertrain Development department checked the test set-ups on which the study was based for plausibility, confirming the unusually high NO_x emissions from certain US vehicles with type EA 189 2.0 l diesel engines. The California Air Resources Board (CARB) – a part of the environmental regulatory authority of California – was informed of this result, and, at the same time, an offer was made to recalibrate the engine control unit software of type

EA 189 diesel engines in the USA as part of a service measure that was already planned in the USA. This measure was evaluated and adopted by the Ausschuss für Produktsicherheit (APS – Product Safety Committee), which initiates necessary and appropriate measures to ensure the safety and conformity of Volkswagen AG's products that are placed in the market. There are no findings that an unlawful "defeat device" under US law was disclosed to the APS as the cause of the discrepancies or to the persons responsible for preparing the 2014 annual and consolidated financial statements. Instead, at the time the 2014 annual and consolidated financial statements were being prepared, the persons responsible for preparing the 2014 annual and consolidated financial statements remained under the impression that the issue could be solved with comparatively little effort as part of a service measure.

In the course of the summer of 2015, however, it became successively apparent to individual members of Volkswagen AG's Board of Management that the cause of the discrepancies in the USA was a modification of parts of the software of the engine control unit, which was later identified as an unlawful "defeat device" as defined by US law. This culminated in the disclosure of a "defeat device" to EPA and CARB on September 3, 2015. According to the assessment at that time of the responsible persons dealing with the matter, the scope of the costs expected by the Volkswagen Group (recall costs, retrofitting costs and financial penalties) was not fundamentally dissimilar to that of previous cases involving other vehicle manufacturers, and, therefore, appeared to be controllable overall with a view to the business activities of the Volkswagen Group. This assessment by the Volkswagen Group was based, among other things, on the advice of a law firm engaged in the USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. The publication of the "Notice of Violation" by the EPA on September 18, 2015, which, especially at that time, came unexpectedly to the Board of Management, then presented the situation in an entirely different light.

Extensive inquiries were also conducted at AUDI AG in relation to the potential use of unlawful "defeat devices" under US law in the type V6 3.0 l diesel engines and concluded for the most part.

The AUDI AG Board of Management members in office back at the relevant time have stated that they had no knowledge of the use of unlawful "defeat device" software under US law in the type V6 3.0 l TDI engines until they were informed by the EPA in November 2015.

Within the Volkswagen Group, Volkswagen AG has development responsibility for the four-cylinder diesel engines such as the type EA 189, and AUDI AG has development responsibility for the six- and eight-cylinder diesel engines such as the type V6 3.0 l and V8 diesel engines.

AFFECTED VEHICLES IN THE EU/REST OF WORLD

With the exception of the USA and Canada, around ten million vehicles with type EA 189 diesel engines were affected worldwide.

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines.

AUDI AG has worked intensively for many months to check all relevant diesel concepts for possible discrepancies and retrofit potentials. The measures proposed by AUDI AG have been adopted and mandated in various recall notices issued by the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) for vehicle models with V6 and V8 TDI engines.

AFFECTED VEHICLES IN THE USA/CANADA

In the USA and Canada three generations of certain vehicles with 2.0 l TDI engines and two generations of certain vehicles with the type V6 3.0 l TDI engines are affected, which come to a total of approximately 700 thousand vehicles. Due to NO_x limits that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge here to retrofit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

In the USA, in fiscal year 2018, the EPA and CARB issued the outstanding official approvals needed for the technical solutions for the affected vehicles with 2.0 l TDI and with V6 3.0 l TDI engines. In the case of 2.0 l Generation 2 diesel vehicles with manual transmissions, Volkswagen Group of America, Inc. elected to withdraw the approved emissions modification proposal, whereby owners were given the option of a buyback and lessees were given the option of early lease termination.

LEGAL RISKS

Various legal risks are associated with the diesel issue. The provisions recognized for the diesel issue and the contingent liabilities disclosed as well as the other latent legal risks are in part subject to substantial estimation risks given that the fact finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further considerable financial charges.

There are no conclusive findings or assessments of facts available to the Board of Management of Volkswagen AG that would suggest that a different assessment of the associated risks (e.g. investor lawsuits) should have been made. A detailed description of these and other risks arising from the diesel issue can be found in the Report on Risks and Opportunities starting on page 177.

OPERATING RESULT

Special items recognized in operating profit relating to the diesel issue amounted to €–3.2 (–3.2) billion in fiscal year 2018 and were mainly attributable to the legally final administrative fine orders imposed by the public prosecutor's office in Braunschweig against Volkswagen AG (€1.0 billion) and by the Munich II public prosecutor's office against AUDI AG (€0.8 billion), higher legal risks and legal defense costs, as well as higher expenses for technical measures.

The diesel issue led to total special items of €–29.0 billion in the years 2015 to 2018.

Business Development

The robust growth of the global economy continued in fiscal year 2018 with a slight decrease in momentum. Global demand for vehicles was somewhat lower than in the previous year. Amid persistently challenging market conditions, the Volkswagen Group delivered 10.8 million vehicles to customers.

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global economy sustained its robust growth in 2018 with a slight decrease in momentum: global gross domestic product (GDP) rose by 3.2 (3.3)%. Economic momentum nearly matched the prior-year level both in advanced economies and emerging markets. With interest rates remaining comparatively low and prices for energy and other commodities rising year-on-year on the whole, consumer prices continued to increase worldwide. Growing upheaval in trade policy at international level and geopolitical tensions led to much greater uncertainty.

Europe/Other Markets

The solid GDP growth in Western Europe slowed to 1.8 (2.3)% as the year went on. The rate of change in the majority of countries in this region decreased compared with the previous year. The Brexit negotiations between the United Kingdom and the European Union (EU), which continued for the entire year, generated uncertainty, as did the related question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 8.1 (9.0)%, though rates remained considerably higher in Greece and Spain.

At 2.9 (4.0)%, the Central and Eastern Europe region also recorded a slower growth rate in the reporting period than in the previous year. While the comparatively high level of GDP growth in Central Europe slowed down on the whole, economic growth in Eastern Europe remained unchanged. Higher prices for energy and other commodities led to further stabilization of the economic situation in the countries from this region that export raw materials. Russia's economy improved somewhat with a growth rate of 1.6 (1.5)%.

Growth in the Turkish economy slumped substantially to 2.5 (7.3)% after the first half of 2018. South Africa's GDP rose by just 0.7 (1.3)% in the reporting period, down on the already low figure for the previous year. Ongoing structural deficits, social unrest and political challenges weighed on the economy.

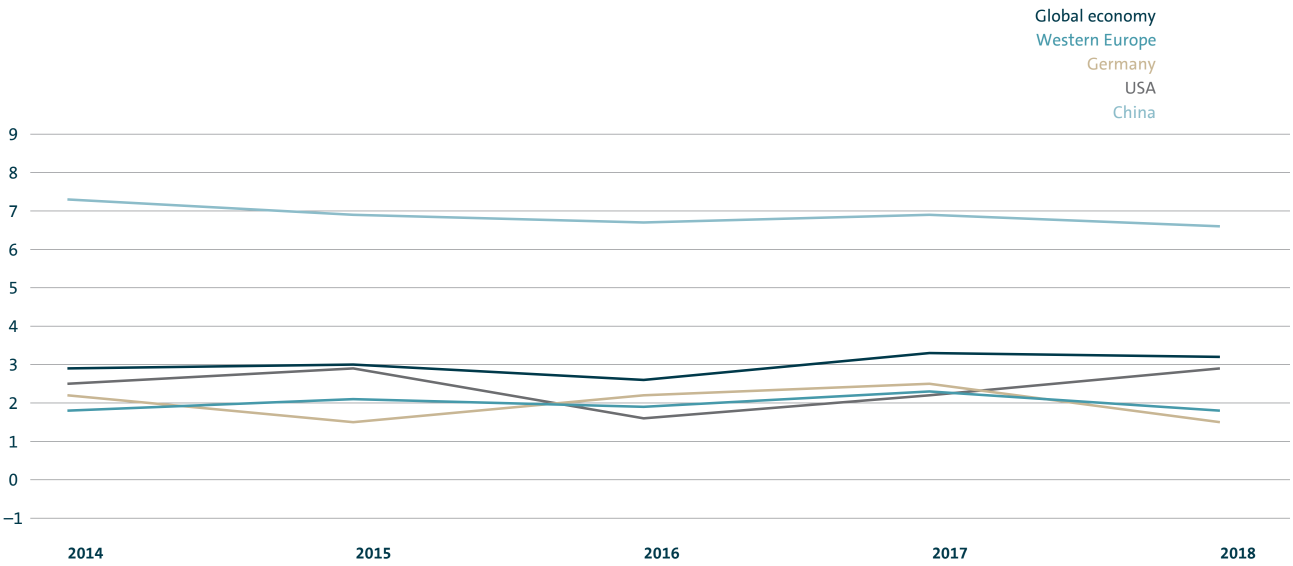
Germany

Germany's GDP continued to grow in 2018 on the back of the good labor market, however, momentum diminished year-on-year to 1.5 (2.5)%. Both company and consumer sentiment darkened as the year progressed.

North America

Economic growth in the USA picked up in the reporting period, reaching 2.9 (2.2)%. The economy was supported mainly by domestic consumer demand. The unemployment rate in the United States in 2018 was at 3.9 (4.3)%. Based on the stable situation in the labor market and the expected inflation trend, the US Federal Reserve successively raised its key interest rate. The US dollar gained strength against the euro in the course of the year. In neighboring Canada and Mexico, GDP grew at a slower rate than in the previous year, at 2.1 (3.0)% and 2.2 (2.3)%, respectively.

ECONOMIC GROWTH
Percentage change in GDP



South America
Brazil's economy once again recorded slight growth, at 1.4 (1.1)%. However, the situation in South America's largest economy remained tense due to political uncertainty, among other factors. The economic situation in Argentina deteriorated increasingly as the year went on. The country was in recession amid persistently high inflation: GDP fell by 1.7 (+2.9)%. In view of this difficult situation, the Argentine government requested financial aid from the International Monetary Fund.

Asia-Pacific
China's economy recorded a growth rate of 6.6 (6.9)% in 2018, but its rate of expansion was not quite as strong as in the previous year. The Chinese government responded to the trade disputes with the United States by stepping up state support measures. The Indian economy continued its positive trend, with growth in the reporting period of 7.2 (6.7)%. However, the pace of growth tapered off in the course of the year. Japan's GDP grew by only 0.8 (1.9)%.

TRENDS IN THE PASSENGER CAR MARKETS

In fiscal year 2018, the global market volume of passenger cars fell slightly below the prior-year level to 82.8 million vehicles (–1.2%) after increasing for eight years in a row. This decrease was attributable in particular to weaker performance in the Western Europe and Asia-Pacific regions in the fourth quarter. In the reporting period, stronger demand in Central and Eastern Europe as well as in South America was offset by declining volumes in the Asia-Pacific, Middle East, North America and Western Europe regions.

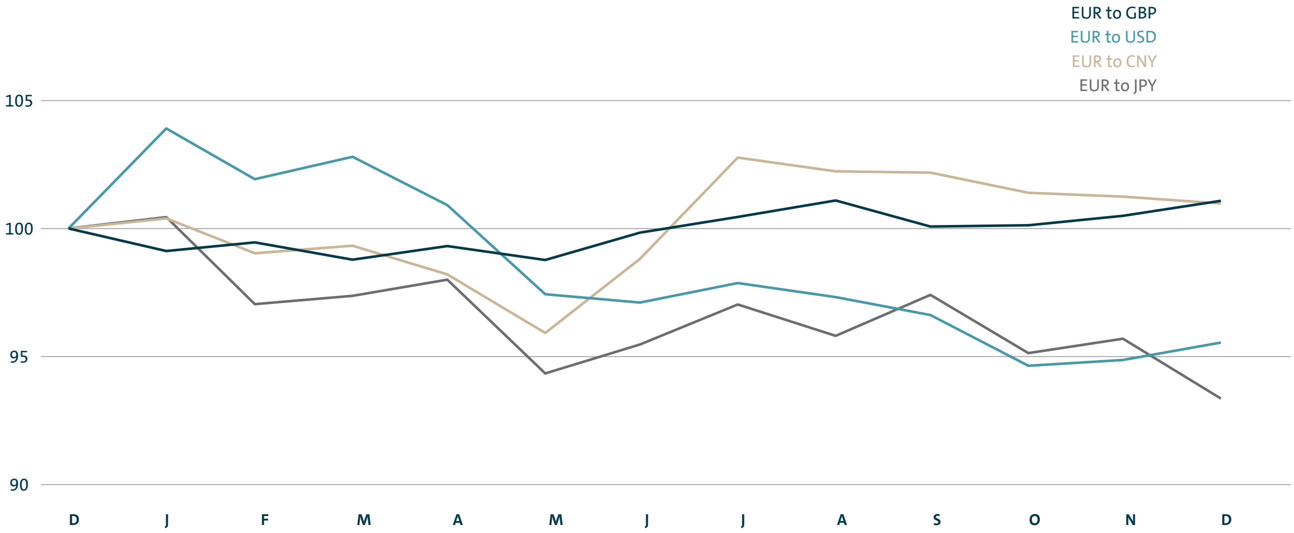
Sector-specific environment
The sector-specific environment was influenced significantly by fiscal policy measures, which contributed considerably to the mixed trends in sales volumes in the markets last year. These measures included tax cuts or increases, incentive programs and sales incentives, as well as import duties.

In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the movement of vehicles, parts and components more difficult.

Europe/Other Markets
In Western Europe, the total number of new passenger car registrations in the reporting period was down 0.7% in total on the prior-year figure, at 14.2 million. The continuing strong macroeconomic environment, positive consumer sentiment and low interest rates generated a slight increase in the first half of the year. The changeover to the new WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) as of September 1, 2018 led to pull-forward effects in the months of July and August and to significant declines from September until December in some cases. New vehicle registrations were mixed in the largest single markets. Spain (+7.0%) and France (+3.0%) continued to record increases. Both countries benefited from a buoyant macroeconomic

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2017 TO DECEMBER 2018

Index based on month-end prices: as of December 31, 2017= 100



environment. In Italy, falling demand from both private and commercial customers put a damper on market development (–3.1%), among other things, as a consequence of the political uncertainty during and after the formation of government. The UK passenger car market saw a continuation of the negative trend from the previous year (–6.8%). This was due, among other things, to the uncertain outcome of the Brexit negotiations with the EU. The share of diesel vehicles (passenger cars) in Western Europe slipped to 36.4 (44.4)% in the reporting year.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2018 rose markedly by 11.0% year-on-year to 3.4 million vehicles. New passenger car registrations in the EU member states of Central Europe increased further by 8.0% to 1.4 million units. Passenger car sales in Eastern Europe also achieved a double-digit growth rate (+13.1%), starting from a low level. The Russian market was the main growth driver in the region with an increase of 13.2%. This was mainly attributable to government programs to promote sales as well as to pull-forward effects resulting from a value-added tax increase entering into force on January 1, 2019.

The Turkish passenger car market recorded a substantial drop in demand of 32.7%, largely due to the rapidly deteriorating macroeconomic situation. In South Africa (–0.1%), the number of new passenger car registrations in the reporting period stayed at the comparatively low level seen in recent years. The change in political environment as a result of the new presidency had little positive impact on the overall economy and the automotive market.

Germany

Amounting to 3.4 million units (–0.2%) in the reporting period, passenger car registrations in Germany sustained the previous year's high level. This was attributable not only to the buoyant macroeconomic environment but also to manufacturer discounts in the form of trade-in and scrapping bonuses for older diesel models as well as to an environmental bonus for electric-powered vehicles (all-electric and plug-in hybrid drives). The changeover to the WLTP test procedure as of September 1, 2018, which limited model availability in some cases, in total led to a slightly declining overall market, whereas the rise in new registrations for private customers (+2.0%) in particular had a positive effect.

Domestic production and exports once again fell short of the comparable prior-year figures in 2018: passenger car production decreased by 9.3% to 5.1 million vehicles, while passenger car exports fell by 8.9% to 4.0 million units. This was primarily caused by declining volumes in Europe resulting to some extent from the changeover to the WLTP.

North America

At 20.7 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region in fiscal year 2018 did not match the high prior-year figure (–0.6%). In the US market, demand was almost flat on the 2017 level at 17.3 million units (+0.2%). A favorable labor market and the greater purchasing power of consumers largely compensated for increased financing costs resulting from higher interest rates. The shift in demand from traditional passenger cars (–13.5%) to light commercial vehicles such as SUVs and pickup models (+8.1%) also continued in the reporting period. Due to sales figures, which had declined since the second quarter, the Canadian automotive market remained below the record figure of the previous year (–2.6%). In Mexico, sales of passenger cars and light commercial vehicles fell short of the prior-year figure (–6.6%) for the second year in a row.

South America

In the markets of the South America region, the recovery continued in the reporting period – starting from a low level – with demand for passenger cars and light commercial vehicles rising by 6.2% to 4.5 million units. The main driver was the Brazilian automotive market, whose 13.8% growth outperformed the strong momentum of the preceding year. However, the market volume was still around a third lower than the record figure for 2012. Brazil's vehicle exports declined to 629 thousand units in the course of 2018, a decrease of 17.9% on the previous year's record high. Particularly from mid-year onwards, exports were impacted by the market trend in Argentina, where demand slumped on account of the progressive deterioration of the macroeconomic situation (–10.4%).

Asia-Pacific

After many years of uninterrupted growth, the market volume in the Asia-Pacific region decreased by 2.3% in fiscal year 2018 to 36.1 million units. This was mainly due to the weakness of the Chinese passenger car market (–4.6%). The trade dispute between China and the United States of America in the reporting period weighed on business and consumer confidence, among other things, and led to a marked decline in demand, especially in the second half of the year. By contrast, the Indian market continued growing and achieved a new record with a 4.8% increase in passenger car sales year-on-year. Alongside attractive financing products, the positive trend continued to profit from the goods and services tax introduced on July 1, 2017, which resulted in part in improved purchasing conditions for the consumer. The Japanese passenger car market almost matched the volumes recorded in the previous year (–0.4%).

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Overall demand for light commercial vehicles in fiscal year 2018 was slightly lower than in the previous year. A total of 9.0 (9.2) million vehicles were registered worldwide.

Despite the uncertain outcome of the Brexit negotiations between the EU and the UK, new registrations in Western Europe were up 2.8% to 2.0 million units. In Germany, the comparative figure for 2017 was exceeded by 6.0%. The market in Spain grew distinctly and the market in France recorded moderate growth, while Italy and the United Kingdom registered a decline.

The markets in Central and Eastern Europe grew noticeably on the whole, with 352 (324) thousand light commercial vehicle registrations including 130 (124) thousand in Russia alone. Most of the markets in this region succeeded in maintaining or exceeding their prior-year results.

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

Registration volumes of light commercial vehicles in the Asia-Pacific region decreased to 6.0 million units (–2.7%) in the reporting period. In China, the region's dominant market and the largest market worldwide, demand for light commercial vehicles of 3.0 million units was down 12.0% on the prior-year figure. This decline is mainly due to the shift in demand for micro vans towards more cost-effective MPVs and SUVs. As a consequence of the sustained economic growth, new registrations in India increased sharply compared to 2017; here, 710 (575) thousand new units were registered. The market volume in Japan rose by 3.2% to 770 thousand vehicles. The number of new vehicle registrations in Thailand and Indonesia saw a significant increase versus the previous year.

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in fiscal year 2018 than in the previous year, with 591 thousand new vehicle registrations (+6.6%).

In Western Europe, the number of new truck registrations exceeded the prior-year figure by 2.2% at a total of 297 thousand vehicles. In Germany, Western Europe's largest market, the previous year's level was also exceeded slightly. While demand in the United Kingdom and in Spain witnessed a decline, it rose in France and Italy.

The Central and Eastern Europe region saw demand rise by 6.0% to 169 thousand units on the back of the positive economic performance. The Russian market deteriorated as the year progressed and recorded only slight year-on-year growth over the year as a whole. New registrations there increased by 2.6% to 78 thousand vehicles.

In fiscal year 2018, the market volume in South America rose compared with the previous year. Here, the number of new vehicle registrations rose by 19.5% to 125 thousand units. In Brazil, the region's largest market, demand for trucks grew very sharply compared with the relatively low figure for the prior-year period as a consequence of the economic recovery. By contrast, Argentina saw new registrations fall by more than a quarter. This was due to weak economic performance with a related weakening of the peso and rising interest rates.

Demand for buses in the markets that are relevant for the Volkswagen Group was slightly higher than in the previous year. The markets in Brazil as well as in Central and Eastern Europe contributed in particular to this growth. Demand in Western Europe was slightly down on the previous year's level.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

The markets for power engineering are subject to differing regional and economic factors. Consequently, their business growth trends are mostly independent of each other.

The marine market remained at the previous year's low level in 2018. Steady demand in merchant shipping was largely based on orders of container ships and LNG carriers. Demand for cruise ships, passenger ferries, fishing vessels and dredgers also remained steady. The special market for government vessels also continued on a stable trajectory. The existing overcapacity in the market continued to curb investment in offshore oil production and thus in new ship construction in this segment. Planned tighter emission standards resulted in a positive trend toward gas-powered or dual fuel-engined ships. China, South Korea and Japan remained the dominant shipbuilding countries, accounting for a global market share of more than 85% measured in terms of the number of ships. Because market volumes are still low, all segments in the marine market are continuing to experience significant competitive pressure and a sharp drop in prices as a result.

The market for power generation showed a slight recovery compared with the previous year. Higher demand was registered in all areas of application, for gas in particular. This confirms the shift away from oil-fired power plants towards dual-fuel and gas-fired power plants. Demand for energy solutions remained high, with a strong trend towards greater flexibility and decentralized availability. The economies of key emerging markets recovered somewhat. However, continued strong pressure from competition and pricing was discernible in all projects, having a negative impact on the earnings quality of orders. Furthermore, order placement was often delayed due to persistently difficult financing conditions for customers, particularly on larger projects.

In 2018, the market for turbomachinery improved somewhat year-on-year. Demand for turbo compressors in the raw materials, oil, gas and processing industry increased slightly but remained volatile owing to political uncertainty. The steam and gas turbine business continued to be dominated by overcapacity on the part of electricity producers; however, signs pointed towards a slight recovery, especially in regions with a low level of electrification. Although pressure from competition and pricing was somewhat lower than in the prior-year period, the overall level remained high due to existing overcapacity and market volatility.

The marine and power plant after-sales business for diesel engines performed positively overall and benefited from a continued increase in interest in long-term maintenance contracts and retrofit solutions. The after-sales market for turbomachinery remained under pressure, impacted by a price war and competition to improve efficiency. It is recovering, but only slowly.

TRENDS IN THE MARKET FOR FINANCIAL SERVICES

Demand for automotive financial services was once again high in 2018 in a slightly shrinking overall market. Service products such as maintenance and servicing agreements or insurance were especially popular, as customers in more advanced automotive financial services markets are putting their focus on optimizing total cost of ownership. In the fleet segment, some customers elicited the support of automotive financial service providers in order to optimize their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than on ownership.

In Europe, sales of financial services climbed further in the reporting period, strengthened by higher vehicle sales and strong growth in financing agreements and leases. The used-vehicle market expanded, particularly in Western and Central Europe. Demand for after-sales products such as servicing, maintenance and spare parts agreements as well as automotive-related insurance also developed positively. Automotive financial services products enjoyed rising popularity, particularly in Spain and Italy, while in the United Kingdom and France demand for financial services remained high.

In the German market, the share of loan-financed or leased vehicles remained stable at a high level in 2018. Alongside traditional products, integrated mobility services in the business customer segment and after-sales products were particularly popular.

In South Africa, demand for automotive financial services products was stable.

Sales of automotive financial services in North America remained at a high level in the past fiscal year. In the USA, the overall market for financial services products once again performed well; above all, demand for leasing through captive financial services products was consistently high. Automotive financial services products were also popular in Mexico.

Brazil continued to witness a recovery in 2018 despite the political tensions. Sales of vehicle financing arrangements and the country-specific financial services product Consorcio, a lottery-style savings plan, as well as of insurance and other services rose in the reporting period. The current economic crisis in Argentina brought the positive trend seen in 2017 to a halt. Due to the sharp rise in interest rates, sales of financing and leasing products proved challenging in 2018, though the situation stabilized somewhat at the end of the year.

The markets in the Asia-Pacific region turned in a mixed performance during the reporting period. In China, the proportion of loan-financed vehicle purchases rose. Despite increasing restrictions on registrations in metropolitan areas, there is considerable potential to acquire new customers for automotive-related financial services, particularly in the interior of the country. Demand for automotive financial services rose in the Indian market. It was stable on the whole in Japan and South Korea. In Australia, amid a slight downturn in the vehicle market, demand for financial services products remained high.

In the commercial vehicles segment, the European market for financial services again performed well; demand for these products was also high in China. The economic situation in Brazil stabilized and the truck and bus business and the related financial services market developed encouragingly.

NEW GROUP MODELS IN 2018

The Volkswagen Group launched a large number of attractive new models on the market in fiscal year 2018. The current product portfolio comprises 365 models. It covers almost all key segments and body types, with offerings from small cars to super sports cars in the passenger car segment, and from pickups to heavy trucks and buses in the commercial vehicles segment, as well as motorcycles.

The Volkswagen Passenger Cars brand continued its global product initiative in the past year. The new Touareg plays a leading role in the premium SUV segment with its expressive design, its equipment and the high-quality materials and craftsmanship. The rollout of the new Polo GTI and the up! GTI put two models on the market that are distinguished in particular by their driving dynamics and sportiness. In China, a total of four new SUV models were launched, including the compact, sporty T-Roc. Further successors to important volume models were also introduced: the Lavida, Bora and Passat NMS. Added to these were other plug-in hybrid models brought out to meet the growing demand for new energy vehicles in China. In the USA, the new Jetta came on the market. The latest generation of the US bestseller, which is now also based on the Modular Transverse Toolkit, is quite different from its predecessor, both visually and from a technological perspective. South America celebrated the rollout of the Virtus, a notchback saloon based on the Polo; the further rejuvenation and expansion of the product range is an important element of the brand's realignment in this region.

The Audi brand launched a successor model in each of its A6 and A7 premium series. Since 2018, the sporty Q8 SUV has been the top model in the Q family. The second model generations of the compact A1 and Q3 model series each celebrated their premieres. All vehicles are winning over customers in their respective segments with a brand-new virtual cockpit architecture, a large number of innovative driver assistance systems and Audi's characteristic dynamism.

ŠKODA launched its revamped compact Fabia model in the reporting period, which impresses in particular with a more modern exterior. In China, the brand rolled out its third SUV, the Kamiq. It features a spacious interior, emotional design and connectivity solutions. With the Kodiaq GT, the dynamic coupé version of the popular SUV, ŠKODA is presenting its new flagship, which will be offered exclusively in the Chinese market.

The SEAT brand continued its SUV product initiative in 2018 and unveiled the seven-seater Tarraco. The model fits perfectly into the Spanish brand's SUV model range alongside the smaller Arona and Ateca models. In addition, SEAT established the new sporty CUPRA line and included the dynamic CUPRA Ateca in its range at the end of the year.

After rolling out the new Cayenne in the European market in 2017, Porsche launched this model in the United States, China and other countries during the reporting period. In addition, the product range was supplemented by the Cayenne E-Hybrid. The GTS models of the 718 Boxster and Cayman were also delivered to overseas markets in 2018 for the first time. The 911 GT3 RS, which was likewise launched in 2018, impressed customers with its dynamics. The new Macan came on the Chinese market in the fall and subsequently on the European market at the end of the year.

Furthermore, the Panamera model range was expanded by the addition of the GTS models.

In 2018, Bentley again set standards in the luxury grand tourer segment with the third generation of the Continental GT. Moreover, the brand expanded its successful Bentayga series by adding the powerful Bentayga V8.

Lamborghini established a third series with the Urus super-SUV, significantly expanding its customer base. The Huracán Performante Spyder was also introduced to the market.

Bugatti offered additional options for its super sports car, the Chiron, including the Sky View glass roof.

Since 2018, Volkswagen Commercial Vehicles has been offering the Amarok with a new top-of-the-range V6 TDI engine. The battery-electric e-Crafter is the brand's first zero-emission van and has been specially designed for couriers, express and parcel delivery services.

In the reporting period, Scania presented a plug-in hybrid drive that allows fuel savings of up to 15% for its latest generation of trucks. Furthermore, the first long-distance truck with an efficient LNG drive and a range of up to 1,000 km was unveiled.

MAN celebrated the rollout of its fully electric eTGE in 2018. The van has a range of around 160 km, which makes it particularly suitable for inner-city distribution logistics. With the XLION special edition, MAN introduced special equipment packages for long-distance, distribution and traction trucks. In the bus sector, MAN presented the new Lion's City G city bus with a newly developed CNG gas-powered engine.

In 2018, Ducati launched numerous new models on the market, including the Scrambler 1100, the Monster 821, the Multistrada 1260, the 959 Panigale Corse and the Panigale V4.

VOLKSWAGEN GROUP DELIVERIES

In fiscal year 2018, the Volkswagen Group increased its deliveries to customers worldwide by 0.9% year-on-year and achieved a new record of 10,834,012 vehicles. The chart on the next page shows how deliveries changed from month to month and compares each monthly figure to the same month of the previous year. Deliveries of passenger cars and commercial vehicles are reported separately in the following.

PASSENGER CAR DELIVERIES WORLDWIDE

With its passenger car brands, the Volkswagen Group is present in all relevant automotive markets around the world. The key sales markets currently include Western Europe, China, the USA, Brazil, Russia and Mexico. The Group recorded encouraging growth in many key markets.

VOLKSWAGEN GROUP DELIVERIES[1]

	2018	2017	%
Passenger Cars	10,101,297	10,038,756	+0.6
Commercial Vehicles	732,715	702,778	+4.3
Total	**10,834,012**	**10,741,534**	**+0.9**

1 Deliveries for 2017 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

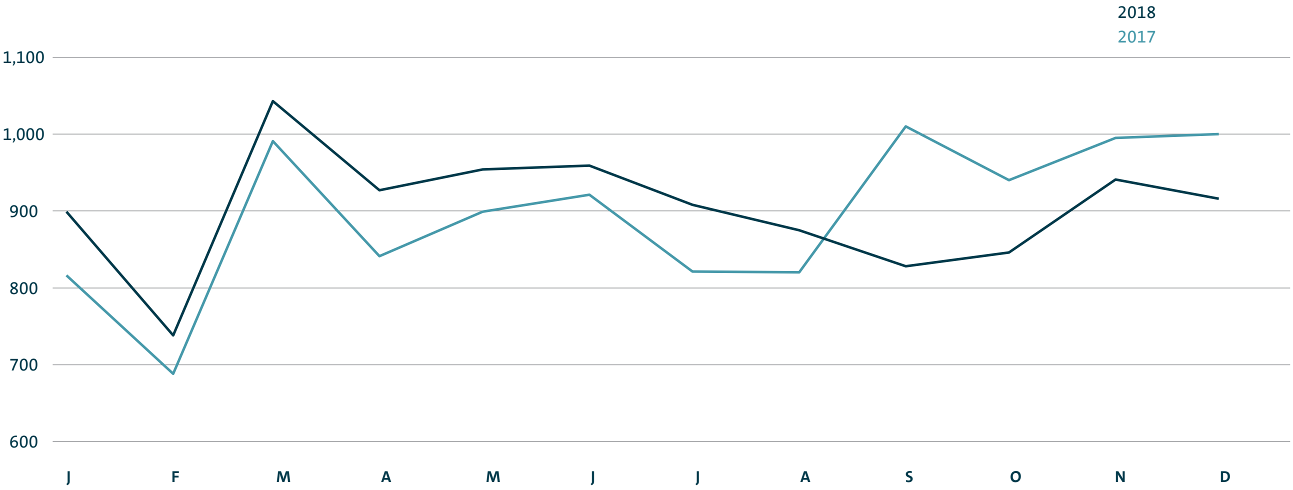
During the reporting period, deliveries of passenger cars to Volkswagen Group customers worldwide rose to 10,101,297 units amid difficult conditions in some countries in Western Europe – mainly as a result of the changeover to the WLTP – and in the Chinese market, which was impacted by macroeconomic uncertainty. This was an increase of 62,541 vehicles or 0.6% on the previous year. The Group's new SUV models made a particular contribution to this rise. As the passenger car market as a whole declined by 1.2% in the same period, the Volkswagen Group's share of the global market rose to 12.3 (12.0)%. The largest increases in volume in absolute terms were seen in Brazil and Russia. Sales figures were down on the previous year in Germany, the United Kingdom, Mexico and Turkey, among other countries. The Volkswagen Passenger Cars, ŠKODA, SEAT, Porsche and Lamborghini brands delivered record numbers of vehicles. The brands that experienced the largest growth in absolute terms were ŠKODA and SEAT; Audi and Bentley fell short of the respective prior-year levels.

The table on page 104 gives an overview of passenger car deliveries to customers of the Volkswagen Group in the regions and the key individual markets. The demand trends for Group models in these markets and regions are described in the following sections.

Deliveries in Europe/Other markets

In the reporting period, the passenger car market as a whole in Western Europe fell 0.7% short of the prior-year figure. With 3,138,419 vehicles delivered to customers, the Volkswagen Group reached the level seen in the previous year (–0.6%) despite a considerable drop in the second half of the year resulting from the changeover to the WLTP. Other adverse effects were attributable to the fact that customer confidence has not yet been fully restored following the diesel issue and to customer uncertainty generated by the public discussion on driving bans for diesel vehicles. The ŠKODA Kodiaq, Porsche 911 and Porsche Cayenne saw

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



encouraging growth. Furthermore, the new Polo, T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq and SEAT Arona were very popular. The Touareg from Volkswagen Passenger Cars was successfully launched in the market along with the Audi A1 Sportback, Audi Q3, Audi A6, Audi A7 Sportback, Audi Q8 and ŠKODA Fabia. The Group's share of the passenger car market in Western Europe was 22.0 (22.0)%.

In the significantly growing passenger car markets in the Central and Eastern Europe region, the number of deliveries to Volkswagen Group customers in fiscal year 2018 rose by 6.8% year-on-year. Whereas in Russia and Poland demand for Group models grew strongly in some cases, the number of vehicles sold in the Czech Republic saw a decline. The Polo and the Tiguan from Volkswagen Passenger Cars along with the ŠKODA Rapid and Octavia were the models most in demand. The new T-Roc from Volkswagen Passenger Cars, the ŠKODA Karoq and the SEAT Arona were also very popular SUV models. The Volkswagen Group's share of the passenger car market in Central and Eastern Europe was 21.2 (22.0)%.

In Turkey, the Volkswagen Group delivered 40.5% fewer vehicles than in the previous year in a substantially weaker overall market. In South Africa's passenger car market, which was almost on a level with the previous year, demand for Volkswagen Group vehicles rose by 3.5%. The best-selling Group model in South Africa was the Polo.

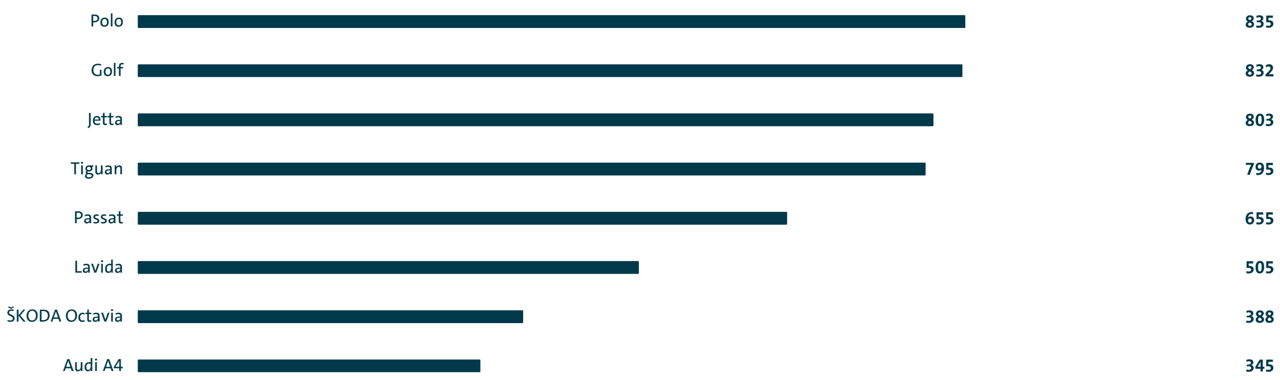
Deliveries in Germany

In the reporting period, the German passenger car market matched the high prior-year level (–0.2%). The Volkswagen Group delivered 1,121,289 vehicles to customers in its home market, a slight decrease on the prior-year level (–0.9%). In addition to the decreases in the second half of the year caused by the changeover to the WLTP, the fact that customer confidence has not yet been fully restored following the diesel issue weighed on demand, as did customer uncertainty generated by the public discussion on driving bans for diesel vehicles. The Golf continued to top the list of the most popular passenger cars in Germany in terms of registrations. The Polo, Tiguan and Passat Estate from Volkswagen Passenger Cars were among the most popular Group models, as were the ŠKODA Kodiaq, ŠKODA Octavia Combi and Audi A4 Avant. The new Polo, T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq and the SEAT Arona were also in high demand among customers. In the registration statistics of the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority), seven Group models led their respective segments at the end of 2018: the up!, Polo, Golf, Tiguan, Touran, Passat, and Porsche 911.

Deliveries in North America

Demand for Volkswagen Group models in North America in the reporting period was 2.0% lower than the prior-year figure at 943,621 vehicles in a slightly declining overall passenger car and light commercial vehicle market. The Group's market share was 4.6 (4.7)%. The new Jetta was successfully rolled out. Moreover, the Tiguan Allspace was the most sought-after Group model in North America.

WORLDWIDE DELIVERIES OF THE MOST SUCCESSFUL GROUP MODEL RANGES IN 2018
Vehicles in thousands



In the US market, demand for Volkswagen Group models rose by 2.1% in fiscal year 2018 compared with the previous year. In this period, the market as a whole matched the prior-year level. Demand remained higher for models in the SUV and pickup segments than for conventional passenger cars. The Group models achieving the largest increases in absolute terms were the Audi Q5 and Audi A5 Sportback. In addition, the Jetta and the Porsche Macan as well as the new Tiguan Allspace and Atlas SUVs from the Volkswagen Passenger Cars brand were very popular among customers.

In Canada, demand for Group models in the reporting period increased by 3.7% year-on-year in a shrinking overall market. The Golf saloon, Jetta and Audi Q5 models and the new Tiguan Allspace and Atlas SUVs from the Volkswagen Passenger Cars brand were particularly popular.

In the Mexican market, which was declining on the whole, the Volkswagen Group delivered 16.4% fewer vehicles to customers compared with the previous year. The Vento, Jetta and Tiguan Allspace models recorded the highest demand.

Deliveries in South America

The South American market for passenger cars and light commercial vehicles continued its recovery path overall in the reporting year. In this region we delivered 497,820 vehicles to customers, 11.7% more than a year before. Among others, the Virtus, Jetta and Touareg from the Volkswagen Passenger Cars brand were successfully launched in the market along with the Audi Q3, Audi Q8 and Porsche Boxster. The Volkswagen Group's share of the passenger car market in South America rose to 11.9 (11.4)%.

The Brazilian market also recovered further in the reporting period. The Volkswagen Group benefited from this development and delivered 27.1% more vehicles to customers there than in the previous year. Above all, demand was particularly high for the new Polo and Virtus models from the Volkswagen Passenger Cars brand. Demand for the Gol and Amarok models also developed encouragingly.

In Argentina, the Group recorded a 22.3% decline in sales year-on-year amid a considerably weaker overall market. The Gol and Amarok recorded the highest demand among Group models. The new Polo, Virtus and Tiguan Allspace models were also well received by customers.

Deliveries in the Asia-Pacific region

In 2018, the passenger car markets in the Asia-Pacific region registered their first decline in many years. Despite adverse effects from the Chinese market in particular, the Volkswagen Group handed over 4,503,791 units to customers here, 0.9% more vehicles than a year before. The Volkswagen Group's market share in the Asia-Pacific region rose to 12.5 (12.1)%.

China, the world's largest single market and the main growth driver of the Asia-Pacific region for many years, experienced a downturn in the reporting period. The Volkswagen Group increased sales here and delivered 0.5% more vehicles to customers in China than in the prior year. The models that achieved the largest growth in absolute terms were the Magotan from Volkswagen Passenger Cars, the Audi A4 and the Porsche Panamera. In addition, the new Phideon from Volkswagen Passenger Cars and the ŠKODA Octavia Combi were highly sought-after. The new Teramont and Tiguan Allspace SUVs from the Volkswagen Passenger Cars brand, the Audi Q5 and the ŠKODA Kodiaq were also very popular. The T-Roc, Tayron, Tharu, Bora, Lavida, Gran Lavida, Passat and Touareg models from Volkswagen Passenger Cars as well as the Audi Q2 and ŠKODA's Karoq and Kamiq models were successfully launched in the market.

The Indian passenger car market continued its growth in the reporting period. Demand for models from the Volkswagen Group fell by 15.4% in this period compared with the previous year. The Polo was the Group's most sought-after model in India.

In Japan, the number of passenger cars delivered to Volkswagen Group customers exceeded the prior-year figure by 1.8%, while the total market volume remained on the prior-year level. The Polo and Audi Q2 models recorded promising increases in demand.

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET[1]

	DELIVERIES (UNITS)		CHANGE
	2018	2017	(%)
Europe/Other markets	**4,156,065**	**4,167,753**	**–0.3**
Western Europe	**3,138,419**	**3,157,107**	**–0.6**
of which: Germany	1,121,289	1,131,417	–0.9
United Kingdom	493,768	531,592	–7.1
Spain	291,407	270,640	+7.7
Italy	273,548	259,920	+5.2
France	259,468	256,716	+1.1
Central and Eastern Europe	**713,799**	**668,629**	**+6.8**
of which: Russia	209,261	173,491	+20.6
Poland	152,720	145,024	+5.3
Czech Republic	131,761	142,842	–7.8
Other markets	**303,847**	**342,017**	**–11.2**
of which: Turkey	94,335	158,523	–40.5
South Africa	82,744	79,968	+3.5
North America	**943,621**	**962,980**	**–2.0**
of which: USA	638,274	625,128	+2.1
Mexico	186,864	223,548	–16.4
Canada	118,483	114,304	+3.7
South America	**497,820**	**445,636**	**+11.7**
of which: Brazil	346,025	272,231	+27.1
Argentina	97,224	125,153	–22.3
Asia-Pacific	**4,503,791**	**4,462,387**	**+0.9**
of which: China	4,196,702	4,173,834	+0.5
Japan	86,356	84,827	+1.8
India	61,277	72,467	–15.4
Worldwide	**10,101,297**	**10,038,756**	**+0.6**
Volkswagen Passenger Cars	6,244,869	6,230,335	+0.2
Audi	1,812,485	1,878,105	–3.5
ŠKODA	1,253,741	1,200,535	+4.4
SEAT	517,627	468,431	+10.5
Bentley	10,494	11,089	–5.4
Lamborghini	5,750	3,815	+50.7
Porsche	256,255	246,375	+4.0
Bugatti	76	71	+7.0

1 Deliveries for 2017 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

COMMERCIAL VEHICLE DELIVERIES

The Volkswagen Group delivered a total of 732,715 commercial vehicles to customers worldwide in 2018 (+4.3%). Trucks accounted for 202,492 (+10.4%) units and buses for 22,629 (+17.8%) units. Sales of light commercial vehicles increased by 1.5% year-on-year to 507,594 units.

In Western Europe, deliveries were up by 4.3% on the previous year at 445,081 vehicles; of this total, 344,034 were light commercial vehicles, 95,299 were trucks and 5,748 were buses. The Transporter and Caddy were the most sought-after Group models in the Western European markets.

We handed over 83,365 vehicles to customers in the markets in Central and Eastern Europe in the period from January to December 2018 (+9.6%); of this figure, 44,530 were light commercial vehicles, 37,400 were trucks and 1,435 were buses. The Transporter and the Caddy were the Group models experiencing the highest demand. In Russia, the region's largest market, sales climbed in the wake of economic recovery by 12.4% year-on-year to 20,567 units.

In the Other markets, particularly in Turkey, deliveries of Volkswagen Group commercial vehicles fell by 15.8% to a total of 56,514 units: 38,271 light commercial vehicles, 14,491 trucks and 3,752 buses.

Deliveries in North America amounted to 13,074 vehicles (–2.5%), which were handed over almost exclusively to customers in Mexico. In this region, we handed over 9,567 light commercial vehicles, 1,256 trucks and 2,251 buses to customers.

The Volkswagen Group sold a total of 92,161 units (+21.3%) in South America. Of the units delivered, 44,417 were light commercial vehicles, 40,451 were trucks and 7,293 were buses. The Amarok was particularly popular. Following continued improvement in the economic climate, deliveries rose by 55.7% in Brazil; 17,739 light commercial vehicles, 32,903 trucks and 5,081 buses were handed over to customers here.

In the Asia-Pacific region, the Volkswagen Group sold 42,520 vehicles in the reporting period: 26,775 light commercial vehicles, 13,595 trucks and 2,150 buses. In total this was 2.2% less than in the previous year. The Transporter and the Amarok were the most popular Group models. In China, sales were on a level with the previous year at 10,353 vehicles (–0.5%). Of this total, 5,695 were light commercial vehicles, 4,247 were trucks and 411 were buses.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET[1]

	DELIVERIES (UNITS)		CHANGE
	2018	2017	(%)
Europe/Other markets	**584,960**	**569,962**	**+2.6**
Western Europe	445,081	426,773	+4.3
Central and Eastern Europe	83,365	76,031	+9.6
Other markets	56,514	67,158	–15.8
North America	**13,074**	**13,410**	**–2.5**
South America	**92,161**	**75,949**	**+21.3**
of which: Brazil	55,723	35,781	+55.7
Asia-Pacific	**42,520**	**43,457**	**–2.2**
of which: China	10,353	10,408	–0.5
Worldwide	**732,715**	**702,778**	**+4.3**
Volkswagen Commercial Vehicles	499,723	497,862	+0.4
Scania	96,475	90,782	+6.3
MAN	136,517	114,134	+19.6

1 Deliveries for 2017 have been updated to reflect subsequent statistical trends.

DELIVERIES IN THE POWER ENGINEERING SEGMENT

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

Sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated two-thirds of overall sales revenue.

ORDERS RECEIVED IN THE PASSENGER CARS SEGMENT IN WESTERN EUROPE

The temporary restrictions on the range of models on sale attributable to the introduction of the WLTP with effect from September 1, 2018 had a negative impact on the order situation in Western Europe in fiscal year 2018. Incoming orders in the reporting period were down 5.9% year-on-year. Developments in the key markets were mixed: while especially Germany and the United Kingdom registered a larger decline, incoming orders rose in Spain, France and Italy.

ORDERS RECEIVED FOR COMMERCIAL VEHICLES

Orders received for light commercial vehicles of the Volkswagen Group in Western Europe were 1.6% lower than in the previous year at 342,386 units.

Orders received for mid-sized and heavy trucks and buses increased by 3.5% year-on-year to 233,627 vehicles in 2018. In Western Europe, our main sales market, ongoing positive economic stimulus gave a boost to incoming orders. Orders received in South America were up in response to the economic recovery in Brazil.

ORDERS RECEIVED IN THE POWER ENGINEERING SEGMENT

The long-term performance of the Power Engineering business is determined by the macroeconomic environment. Individual major 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 2018 amounted to €4.0 (3.7) billion. Engines & Marine Systems and Turbomachinery generated more than two-thirds of the order volume in a persistently difficult market environment. In the marine business, for example, orders came in for the supply of engines and exhaust gas treatment systems for seven new cruise ships with an aggregate output of 290 MW. In the power plant business, orders were won in Bangladesh for 36 engines with an aggregate output of 724 MW. In the area of turbomachinery, we received a follow-up order for the expansion of an underwater compressor station in the North Sea.

VOLKSWAGEN GROUP FINANCIAL SERVICES

The Financial Services Division includes the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania and Porsche Holding Salzburg.

The Financial Services Division's products and services remained very popular in fiscal year 2018. At 7.6 (7.3) million, the number of new financing, leasing, service and insurance contracts signed worldwide exceeded the comparable prior-year figure. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets was 33.7 (33.4)% in the reporting period. As of December 31, 2018, the total number of contracts was 19.6 million, up 6.4% from the year before. The number of contracts in the customer financing/leasing area climbed 5.4% to 10.6 million, while it increased by 7.6% to 9.0 million in the service/insurance area.

In the Europe/Other markets region, the number of new contracts signed between January and December 2018 increased by 3.9% to 5.6 million. The penetration rate rose to 48.4 (47.6)%. At the end of the reporting period, the total number of contracts was 14.2 million, an increase of 6.0% as against December 31, 2017. The customer financing/leasing area accounted for 6.7 million contracts (+5.6%).

The number of contracts in North America as of December 31, 2018 increased to 2.9 million, 6.0% more than in the previous year. The customer financing/leasing area accounted for 1.9 million contracts (+5.6%). The number of new contracts signed amounted to 935 thousand, an increase of 7.0% versus the previous year. The ratio of leased or financed vehicles to Group deliveries in North America was 66.3 (60.5)%.

In South America, 236 (205) thousand new contracts were signed in the past fiscal year. The penetration rate increased to 29.1 (26.6)%. At the end of the reporting period, the total number of contracts was 487 thousand, 9.4% fewer than at the end of 2017. The contracts mainly related to the customer financing/leasing area.

In the Asia-Pacific region, the number of new contracts signed rose by 6.7% to 889 thousand units in 2018. The ratio of leased or financed vehicles to Group deliveries was 14.8 (16.1)%. On December 31, 2018, the total number of contracts amounted to 2.1 million, up 14.6% on the previous year. The customer financing/leasing area accounted for 1.6 million contracts (+8.3%).

SALES TO THE DEALER ORGANIZATION

The Volkswagen Group's sales to the dealer organization increased by 1.1% to 10,899,869 units (including the Chinese joint ventures) in the reporting year. This was due to higher demand in Brazil, China and Central and Eastern Europe. Outside Germany, the unit sales volumes rose by 1.6%. Owing to the changeover to the WLTP test procedure, which took place in the third quarter of 2018, unit sales in Germany decreased by 2.2%. At 11.3 (11.7%), the proportion of the Group's total sales accounted for by Germany was lower than in 2017.

The Polo, Tiguan, Golf, Lavida and Jetta were our biggest sellers last year. The largest increases in demand were recorded by the Polo, Tiguan, Atlas/Teramont and Phideon models from the Volkswagen Passenger Cars brand, the Audi Q5 and A8, as well as the ŠKODA Kodiaq and Karoq/Kamiq and the SEAT Arona. The Porsche Cayenne and the Crafter from the Volkswagen Commercial Vehicles brand also achieved a strong growth rate.

PRODUCTION

The Volkswagen Group produced 11,017,621 vehicles worldwide in fiscal year 2018, 1.3% more than in the previous year. In total, our Chinese joint ventures manufactured 1.9% more units than in the year before. In the German market, the production declined by 10.7%, which was largely WLTP-related. The percentage of the Group's total production accounted for by Germany was lower than in 2017, at 20.9 (23.7)%.

INVENTORIES

Global inventories at Group companies and in the dealer organization were higher at the end of the reporting period than at year-end 2017.

EMPLOYEES

Including the Chinese joint ventures, the Volkswagen Group employed an average of 655,722 people in fiscal year 2018, an increase of 3.4% year-on-year. In Germany, we employed 290,757 people on average in 2018; at 44.3 (44.9)%, their share of the total headcount was slightly below the level of the previous year.

The Volkswagen Group had 636,156 active employees (+3.4%) as of December 31, 2018. In addition, 9,096 employees were in the passive phase of their partial retirement and 19,244 young people were in vocational traineeships. The Volkswagen Group's headcount was 664,496 employees (+3.5%) at the end of the reporting period. The main contributors to this were the volume-related expansion, the recruitment of specialists inside and outside Germany and the expansion of the workforce at our new plants in China. A total of 292,729 people were employed in Germany (+1.8%), while 371,767 were employed abroad (+4.8%).

EMPLOYEES BY DIVISION/BUSINESS AREA

as of December 31, 2018

Shares and Bonds

Volkswagen AG's ordinary and preferred shares underperformed the market as a whole amid volatility in 2018. The Company successfully reentered the US capital market for the first time since the emergence of the diesel issue.

EQUITY MARKETS AND PERFORMANCE OF THE PRICE OF VOLKSWAGEN'S SHARES

In the period from January to December 2018, declining prices overall were seen on the international equity markets amid volatile trading.

The DAX recorded a drop compared with the end of 2017. Uncertainty regarding the economic policy of the US government, the monetary policy of the US Federal Reserve as well as the European Central Bank and the economic risks of some countries had a lasting negative impact on share prices. The promising economic performance of important industrialized nations and the formation of governments in the individual EU countries had a positive effect.

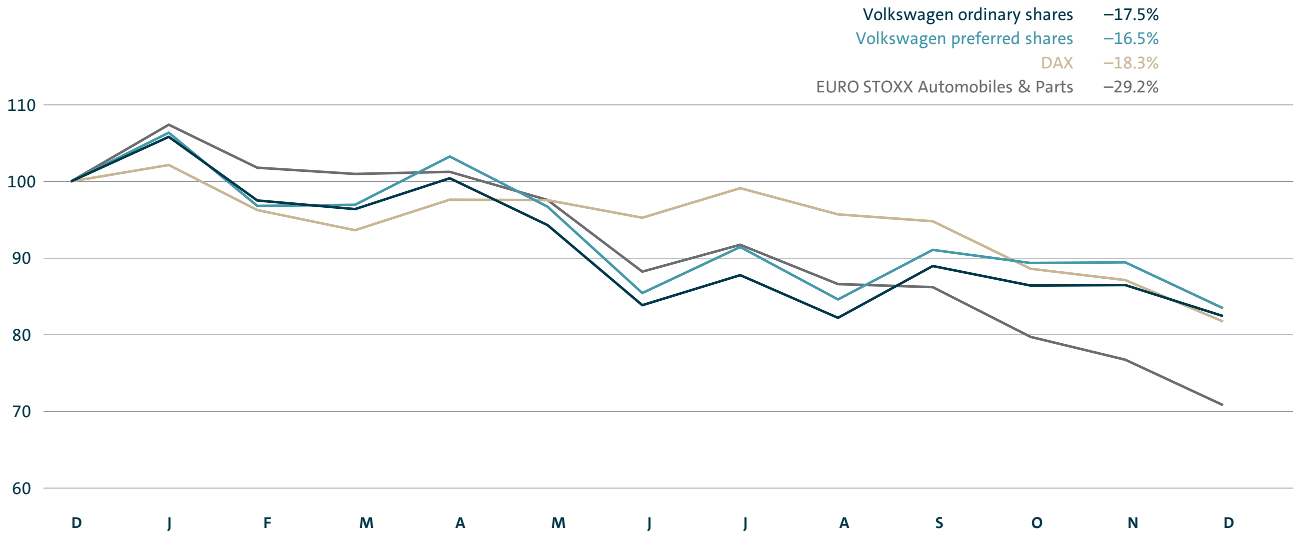
Throughout 2018, Volkswagen AG's preferred and ordinary share prices followed the decreasing market trend amid high volatility. Strong liquidity and the enhancement of the management structure at the Volkswagen Group provided a positive impetus. Share prices were negatively impacted, in particular by uncertainty about the future regulatory framework for diesel and electric vehicles, the diesel issue, the US tariff policy and the WLTP test procedure for determining pollutant and CO_2 emissions and fuel consumption for passenger cars and light commercial vehicles.

VOLKSWAGEN KEY SHARE FIGURES AND MARKET INDICES FROM JANUARY 1 TO DECEMBER 31, 2018

		High	Low	Closing
Ordinary share	Price (€)	188.00	131.10	139.10
	Date	Jan. 22	Oct. 24	Dec. 28
Preferred share	Price (€)	188.50	133.70	138.92
	Date	Jan. 22	Oct. 24	Dec. 28
DAX	Points	13,560	10,382	10,559
	Date	Jan. 23	Dec. 27	Dec. 28
ESTX Auto & Parts	Points	656	415	420
	Date	Jan. 22	Dec. 27	Dec. 28

PRICE AND INDEX DEVELOPMENT FROM DECEMBER 2017 TO DECEMBER 2018

Index based on month-end prices: December 31, 2017 = 100



DIVIDEND POLICY

Our dividend policy matches our financial strategy. In the interests of all stakeholders, we aim for 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.

The Board of Management and Supervisory Board of Volkswagen AG are proposing a dividend of €4.80 per ordinary share and €4.86 per preferred share for fiscal year 2018. On this basis, the total dividend amounts to €2.4 (2.0) billion. The distribution ratio is based on the Group's earnings after tax attributable to Volkswagen AG shareholders. This amounts to 20.4% for the reporting period and stood at 17.6% in the previous year. In our Group strategy, we aim to achieve a distribution ratio of 30%.

FURTHER INFORMATION ON VOLKSWAGEN SHARES
www.volkswagenag.com/en/InvestorRelations.html

DIVIDEND YIELD

Based on the dividend proposal for the reporting period, the dividend yield on Volkswagen ordinary shares is 3.5 (2.3)%, measured by the closing price on the last trading day in 2018. The dividend yield on preferred shares is 3.5 (2.4)%.

The current dividend proposal can be found in the chapter entitled "Volkswagen AG (condensed in accordance with the German Commercial Code)", on page 130 of this annual report.

EARNINGS PER SHARE

Basic earnings per ordinary share were €23.57 (22.28) in fiscal year 2018. Basic earnings per preferred share were €23.63 (22.34). In accordance with IAS 33, the calculation is based on the weighted average number of ordinary and preferred shares outstanding in the reporting period. 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.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2018
as a percentage of subscribed capital

Porsche Automobil Holding SE	30.8
Foreign institutional investors	25.3
Qatar Holding LLC	14.6
State of Lower Saxony	11.8
Private shareholders/Others	15.1
German institutional investors	2.5

VOLKSWAGEN SHARE DATA

	Ordinary shares	Preferred shares
ISIN	DE0007664005	DE0007664039
WKN	766400	766403
Deutsche Börse/Bloomberg	VOW	VOW3
Reuters	VOWG.DE	VOWG_p.DE
Primary market indices	CDAX, Prime All Share, MSCI Euro, S&P Global 100 Index	DAX, CDAX, EURO STOXX, EURO STOXX 50, EURO STOXX Automobiles & Parts, Prime All Share, MSCI Euro
Exchanges	Berlin, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart, Xetra, Luxembourg, SIX Swiss Exchange	

Once the approved issue volume of the American Depositary Receipt (ADR) programs had been reached, Volkswagen AG decided not to renew its "level 1 sponsored ADR" programs and notified the custodian bank, JPMorgan Chase Bank, that the programs were being terminated effective August 13, 2018.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2018

At the end of the reporting period, Volkswagen AG's subscribed capital amounted to €1,283,315,873.28. The shareholder structure of Volkswagen AG as of December 31, 2018 is shown in the chart on this page.

The distribution of voting rights for the 295,089,818 ordinary shares was as follows at the reporting date: Porsche Automobil Holding SE, Stuttgart, held 52.2% 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 10.8% of 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/en/InvestorRelations/news-and-publications.html.

OUR INVESTOR RELATIONS TEAM IS AVAILABLE FOR QUERIES AND COMMENTS:

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VOLKSWAGEN SHARE KEY FIGURES

Dividend development		2018	2017	2016	2015	2014
Number of no-par value shares at Dec. 31						
Ordinary shares	thousands	295,090	295,090	295,090	295,090	295,090
Preferred shares	thousands	206,205	206,205	206,205	206,205	180,641
Dividend[1]						
per ordinary share	€	4.80	3.90	2.00	0.11	4.80
per preferred share	€	4.86	3.96	2.06	0.17	4.86
Dividend paid[1]	€ million	2,419	1,967	1,015	68	2,294
on ordinary shares	€ million	1,416	1,151	590	32	1,416
on preferred shares	€ million	1,002	817	425	35	878

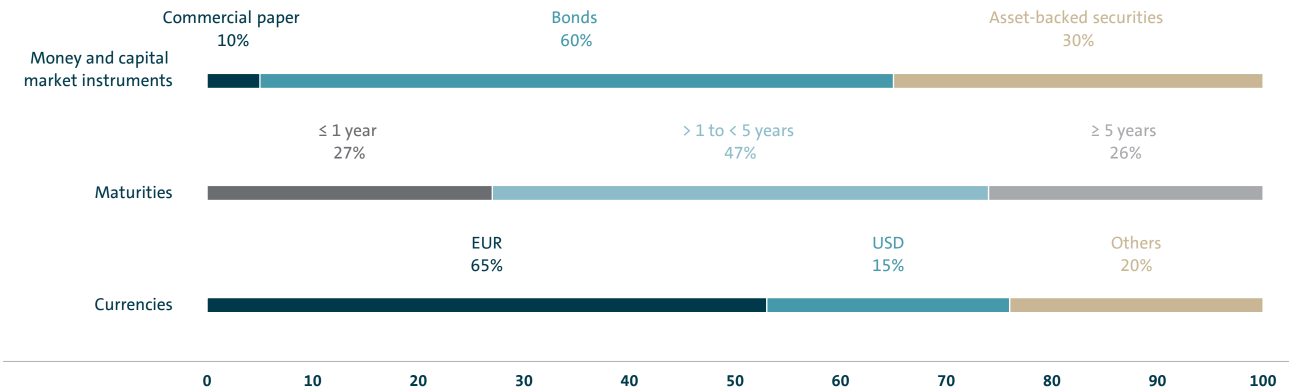
Share price development[2]		2018	2017	2016	2015	2014
Ordinary share						
Closing	€	139.10	168.70	136.75	142.30	180.10
Price performance	%	–17.5	+23.4	–3.9	–21.0	–8.5
Annual high	€	188.00	173.95	144.20	247.55	197.35
Annual low	€	131.10	128.70	108.95	101.15	150.70
Preferred share						
Closing	€	138.92	166.45	133.35	133.75	184.65
Price performance	%	–16.5	+24.8	–0.3	–27.6	–9.6
Annual high	€	188.50	178.10	138.80	255.20	203.35
Annual low	€	133.70	125.35	94.00	92.36	150.25
Beta factor[3]	factor	1.17	1.12	1.22	1.28	1.38
Market capitalization at Dec. 31	€ billion	69.7	84.1	67.9	69.6	86.5
Equity attributable to Volkswagen AG shareholders and hybrid capital investors at Dec. 31	€ billion	117.1	108.8	92.7	88.1	90.0
Ratio of market capitalization to equity	factor	0.60	0.77	0.73	0.79	0.96

Key figures per share		2018	2017	2016	2015	2014
Earnings per ordinary share[4]						
basic	€	23.57	22.28	10.24	–3.20	21.82
diluted	€	23.57	22.28	10.24	–3.20	21.82
Equity attributable to Volkswagen AG shareholders and hybrid capital investors at Dec. 31[5]	€	233.63	217.13	184.90	175.67	189.16
Price/earnings ratio[6]						
Ordinary share	factor	5.9	7.5	13.4	x	8.2
Preferred share	factor	5.9	7.3	13.0	x	8.4
Dividend yield[7]						
Ordinary share	%	3.5	2.3	1.5	0.1	2.7
Preferred share	%	3.5	2.4	1.5	0.1	2.6

Stock exchange turnover[8]		2018	2017	2016	2015	2014
Turnover of Volkswagen ordinary shares	€ billion	4.3	3.5	3.3	6.9	3.2
	million shares	28.0	23.6	25.4	45.4	17.8
Turnover of Volkswagen preferred shares	€ billion	54.1	45.1	41.1	72.4	45.1
	million shares	346.6	312.3	347.0	444.4	248.3
Volkswagen share of total DAX turnover	%	5.4	5.4	5.0	7.1	5.4

1 Figures for the years 2014 to 2017 relate to dividends paid in the following year. For 2018, the figures relate to the proposed dividend.
2 Xetra prices.
3 See page 126 for the calculation.
4 See note 11 to the consolidated financial statements (Earnings per share) for the calculation. 2017 figure adjusted (IFRS 9).
5 Based on the total number of ordinary and preferred shares on December 31 (excluding potential shares from the mandatory convertible note).
6 Ratio of year-end-closing price to earnings per share.
7 Dividend per share based on the year-end-closing price.
8 Order book turnover on the Xetra electronic trading platform (Deutsche Börse).

REFINANCING STRUCTURE OF THE VOLKSWAGEN GROUP
as of December 31, 2018



REFINANCING

In 2018, the Volkswagen Group focused its refinancing activities on diversifying instruments and markets.

In June 2018, we boosted net liquidity by placing unsecured, subordinated hybrid notes with an aggregate principal amount of €2.75 billion. The perpetual notes were issued in two tranches and can only be called by the issuer. One tranche with a volume of €1.25 billion has a first call date after six years, while the other tranche of €1.5 billion has a first call date after ten years. The transaction also served to refinance a tranche with a principal amount of €1.25 billion from the hybrid notes issued in 2013; the tranche was terminated in September 2018.

Furthermore, a senior, unsecured benchmark bond for the Automotive Division was issued in Europe in four tranches with a volume of €4.25 billion and in two GBP 800 million tranches. Four benchmark bonds with an aggregate volume of €9.35 billion were issued for the Financial Services Division. In addition to this, private placements were issued in various currencies.

Outside the European refinancing market, the Volkswagen Group was active in the North American capital market. With an aggregate issue volume of USD 8.0 billion, we succesfully reentered the US capital market for the first time since the emergence of the diesel issue.

Notes with a volume of around CAD 2.25 billion were issued in the Canadian refinancing market.

A further focus of refinancing was the continued issue of commercial paper, especially in the European region and in euros, as well as in the United States.

Asset-backed securities (ABS) transactions were another important element of our refinancing activities. ABS transactions in excess of €7.1 billion were placed in Europe. In addition, ABS transactions were issued in Australia, Japan, Turkey and the USA among other countries.

The proportion of fixed-rate instruments in the past year was roughly three times as high as the proportion of variable-rate instruments.

In all refinancing arrangements, we aim to exclude interest rate and currency risk with the simultaneous use of derivatives.

The table below shows how our money and capital market programs were utilized as of December 31, 2018 and illustrates the financial flexibility of the Volkswagen Group:

PROGRAMS	Authorized volume € billion	Amount utilized on Dec. 31, 2018 € billion
Commercial paper	35.4	13.5
Bonds	139.6	80.1
of which hybrid issues		12.5
Asset-backed securities	69.8	40.4

RATINGS

	VOLKSWAGEN AG			VOLKSWAGEN FINANCIAL SERVICES AG			VOLKSWAGEN BANK GMBH		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Standard & Poor's									
short-term	A–2	A–2	A–2	A–2	A–2	A–2	A–2	A–2	A–2
long-term	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	A–	A–	A–
outlook	stable	stable	negative	stable	stable	negative	negative	negative	negative
Moody's Investors Service									
short-term	P–2	P–2	P–2	P–2	P–2	P–1	P–1	P–1	P–1
long-term	A3	A3	A3	A3	A3	A2	A1	A3	Aa3
outlook	stable	negative	negative	stable	negative	negative	stable	negative	negative

Volkswagen AG's syndicated credit line of €5.0 billion agreed in July 2011 was extended in 2015 to April 2020 by exercising an extension option. This credit facility remained unused as of the end of 2018.

Of the syndicated credit lines worth a total of €7.6 billion at other Group companies, €1.8 billion has been drawn down. In addition, Group companies had arranged bilateral, confirmed credit lines with national and international banks in various other countries for a total of €4.2 billion, of which €1.8 billion was drawn down.

RATINGS

In 2018, the rating agencies Standard & Poor's and Moody's Investors Service conducted the regular update of their credit ratings for Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH.

In November and December 2018, Standard & Poor's confirmed its short-term and long-term ratings of A–2 and BBB+ for Volkswagen AG and Volkswagen Financial Services AG, and of A–2 and A– for Volkswagen Bank GmbH. The outlook for Volkswagen AG and Volkswagen Financial Services AG was left at "stable" and that for Volkswagen Bank GmbH at "negative".

Moody's Investors Service left its short-term and long-term ratings for Volkswagen AG and Volkswagen Financial Services AG unchanged at P–2 and A3. In April 2018, the outlook was raised in each case from "negative" to "stable" based on better-than-expected operating performance. In August 2018, the long-term rating for Volkswagen Bank GmbH was raised by two notches from A3 to A1 on the back of changes to German banking law. The short-term rating was left at P–1. The outlook was also raised to "stable".

SUSTAINABILITY RATINGS

Analysts and investors are referring increasingly to company sustainability profiles when making their recommendations and decisions. They draw primarily on sustainability ratings to evaluate a company's environmental, social and governance performance. At the same time, sustainability ratings are instrumental in determining whether we are meeting our goal of being one of the world's leading providers of sustainable mobility. Furthermore, they provide the basis for implementing internal measures.

After the diesel issue became public knowledge, the Volkswagen Group was downgraded significantly in the MSCI, RobecoSAM, Sustainalytics, oekomISS, VigeoEiris, EcoVadis and RepRisk sustainability indices and consequently removed from sustainability indices such as the Dow Jones Sustainability Index and the FTSE4Good Index. In fiscal year 2018, Volkswagen continued to have a score of A– in the CDP and also an A– rating in the Water Disclosure Project (WDP).

Results of Operations, Financial Position and Net Assets

The Volkswagen Group's sales revenue increased in fiscal year 2018 compared with the previous year. Despite further charges and cash outflows in connection with the diesel issue, operating profit was on a level with the previous year, and net liquidity in the Automotive Division continued at a solid level.

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

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

The reconciliation column contains activities and other operations that do not by definition constitute segments. These include the unallocated Group financing activities. The reconciliation also contains consolidation adjustments between the segments (including the holding company functions). Purchase price allocation for Porsche Holding Salzburg and Porsche, Scania and MAN reflects 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; for Commercial Vehicles and Power Engineering, the segment is the same as the business area. The Financial Services Division corresponds to the Financial Services segment.

APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

The application of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" became mandatory as of January 1, 2018.

IFRS 9 changes the accounting requirements for classifying and measuring financial assets, for impairment of financial assets, and for hedge accounting. Some of the fair value measurement gains and losses on certain derivatives, which were previously reported under the financial result, are now reported directly in sales revenue and other operating income. This will have a more significant impact on operating profit.

IFRS 15 specifies new accounting rules for revenue recognition. In this context, the way income from the reversal of provisions and accrued liabilities is reported has also been adjusted; these items are now allocated to the functions in which they were originally recognized.

KEY FIGURES FOR 2018 BY SEGMENT

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue	188,088	36,656	3,608	34,782	263,134	–27,285	235,849
Segment result (operating result)	12,245	1,971	–64	2,793	16,945	–3,025	13,920
as a percentage of sales revenue	6.5	5.4	–1.8	8.0			5.9
Capex, including capitalized development costs	15,599	2,491	176	510	18,776	187	18,962

In addition, expenses for certain sales programs had to be reclassified.

The situation described has led, among other things, to adjustments to prior-year figures in the income statement. Cost of sales, distribution and administrative expenses, and the net other operating result required adjustments in connection with the change in the way reversals of provisions are reported; the reclassification of expenses for certain sales programs led to a decrease in sales revenue and distribution expenses. The operating profit was unchanged. The application of IFRS 9 led to minor adjustments to the financial result and consequently also to profit before tax, income tax expense and profit after tax.

SPECIAL ITEMS

Special items consist of certain items in the financial statements whose separate disclosure the Board of Management believes can enable a better assessment of our economic performance.

In the reporting period, negative special items in connection with the diesel issue amounting to €–3.2 (–3.2) billion affected operating profit in the Passenger Cars Business Area. These were mainly attributable to the fines resulting from the final administrative fine orders issued by the Braunschweig public prosecutor's office (€1.0 billion) and the Munich II public prosecutor's office (€0.8 billion), to higher legal risks and legal defense costs and an increase in expenses for technical measures.

COMPENSATION PAID TO THE NONCONTROLLING INTEREST SHAREHOLDERS OF MAN SE

In the award proceedings regarding the appropriateness of the cash settlement and the right to compensation for the noncontrolling interest shareholders of MAN SE, the Higher Regional Court in Munich made a final decision at the end of June 2018, ruling that the right to annual compensation per share must be increased. The cash settlement per share, raised in a first instance ruling by the First Regional Court in Munich, was confirmed.

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of January 1, 2019.

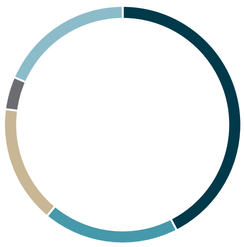
Cash outflows for compensation payments and the acquisition of shares tendered amounted to €2.1 billion in the period to December 31, 2018. The "Put options and compensation rights granted to noncontrolling interest shareholders" item reported in the balance sheet was reduced accordingly.

INCOME STATEMENT BY DIVISION

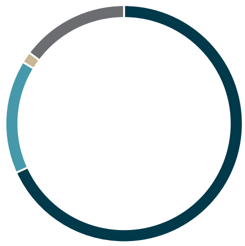
	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2018	2017[2]	2018	2017[2]	2018	2017[2]
Sales revenue	**235,849**	**229,550**	**201,067**	**195,817**	**34,782**	**33,733**
Cost of sales	–189,500	–186,001	–161,298	–158,534	–28,201	–27,467
Gross profit	**46,350**	**43,549**	**39,769**	**37,283**	**6,581**	**6,265**
Distribution expenses	–20,510	–20,859	–19,039	–19,510	–1,471	–1,349
Administrative expenses	–8,819	–8,126	–7,105	–6,434	–1,714	–1,692
Net other operating result	–3,100	–745	–2,497	–194	–603	–552
Operating result	**13,920**	**13,818**	**11,127**	**11,146**	**2,793**	**2,673**
Operating return on sales (%)	**5.9**	**6.0**	**5.5**	**5.7**	**8.0**	**7.9**
Share of the result of equity-accounted investments	3,369	3,482	3,310	3,473	58	9
Interest result and Other financial result	–1,646	–3,628	–1,576	–3,448	–70	–180
Financial result	**1,723**	**–146**	**1,734**	**25**	**–12**	**–171**
Earnings before tax	**15,643**	**13,673**	**12,861**	**11,171**	**2,782**	**2,502**
Income tax expense	–3,489	–2,210	–2,657	–3,230	–832	1,020
Earnings after tax	**12,153**	**11,463**	**10,203**	**7,941**	**1,950**	**3,522**
Noncontrolling interests	17	10	–32	–257	49	267
Earnings attributable to Volkswagen AG hybrid capital investors	309	274	309	274	–	–
Earnings attributable to Volkswagen AG shareholders	**11,827**	**11,179**	**9,926**	**7,924**	**1,900**	**3,255**

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

SHARE OF SALES REVENUE BY MARKET 2018
in percent



SHARE OF SALES REVENUE BY DIVISION/BUSINESS AREA 2018
in percent



RESULTS OF OPERATIONS

Results of operations of the Group

The Volkswagen Group recorded sales revenue of €235.8 billion in fiscal year 2018, thus exceeding the prior-year figure by €6.3 billion. Improvements in volumes and in the mix, and the healthy business performance in the Financial Services Division were offset by negative exchange rate effects. The effects of applying the new International Financial Reporting Standards resulted in an overall increase in sales revenue. The Volkswagen Group generated 81.4 (80.7)% of its sales revenue abroad.

Gross profit was up on 2017 at €46.3 (43.5) billion. Adjusted for special items recorded under this item in both periods, gross profit amounted to €46.6 (45.8) billion. The gross margin rose to 19.7 (19.0)%; excluding special items it was 19.8 (19.9)%.

At €17.1 (17.0) billion, the Volkswagen Group's operating profit before special items was on a level with the previous year. The operating return on sales before special items amounted to 7.3 (7.4)%. Positive factors included primarily volume improvements, although higher depreciation and amortization charges due to the large volume of capital expenditure, increased research and development costs, and fair value measurement gains and losses on certain derivatives, which have had to be reported here since the beginning of the year, had a negative impact. Special items in connection with the diesel issue weighed on operating profit, reducing this item by €–3.2 (–3.2) billion. The Volkswagen Group's operating profit was €13.9 (13.8) billion and the operating return on sales stood at 5.9 (6.0)%.

The financial result increased by €1.9 billion to €1.7 billion. Foreign currency measurement, lower interest expenses and lower expenses from the measurement on the reporting date of derivative financial instruments, which are used to hedge financing transactions, had a positive impact. The effect of the remeasurement of put options and compensation rights in connection with the control and profit and loss transfer agreement with MAN SE was negative. The share of profits of equity-accounted investments decreased year-on-year, while there was a rise in the profits generated by the Chinese joint ventures. In the prior-year period, the remeasurement of the interest in HERE following the acquisition of shares by additional investors had a positive impact.

The Volkswagen Group's profit before taxes increased to €15.6 billion in the reporting period; this was 14.4% higher than in the previous year. The return on sales before tax improved to 6.6 (6.0)%. Income taxes resulted in an expense of €3.5 (2.2) billion, which in turn led to a tax rate of 22.3 (16.2)% in fiscal year 2018. In the previous year, the tax reform in the USA passed at the end of 2017 had a non-recurring positive non-cash measurement effect. Profit after tax was €12.2 billion, an improvement of €0.7 billion compared with 2017.

Results of operations in the Automotive Division

Sales revenue in the Automotive Division rose by €5.2 billion to €201.1 billion in the reporting period. Improvements in volumes and in the mix had a positive impact, while the effect of exchange rates was negative. In the second half of the year, the changeover to WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) weighed on performance. As our Chinese joint ventures are accounted for using the equity method, the Group's performance in the Chinese passenger car market is mainly reflected in consolidated sales revenue only through deliveries of vehicles and vehicle parts.

Cost of sales was up, mainly as a result of expansion and due to higher depreciation and amortization charges and research and development costs recognized in profit or loss. Special items recognized here in the reporting period were down on the previous year. Expressed as a percentage of sales revenue, cost of sales before special items was up slightly. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) amounted to 6.8 (6.7)% in fiscal year 2018. In addition to new models, our activities focused above all on the electrification of our vehicle portfolio, a more efficient range of engines, digitalization and new technologies.

Distribution expenses and their ratio to sales revenue were down on the previous year. This was attributable to reclassifications of expenses to sales revenue as a consequence of the new IFRS 15, the sale of the PGA Group in June 2017, as well as exchange rate effects. Administrative expenses and their ratio to sales revenue increased compared with 2017. The main factors contributing to the €2.3 billion decline in other operating income to €–2.5 billion in fiscal year 2018 included an increase in special items recognized in connection with the diesel issue, negative exchange rate effects, and the fair value measurement of gains and losses on certain derivatives to which hedge accounting is not applied, and which have had to be reported here since the beginning of the year.

The operating profit of the Automotive Division was at the prior-year level at €11.1 (11.1) billion. Special items recognized in the reporting period, higher depreciation and amortization charges, higher research and development costs recognized in profit or loss and the fair value measurement of gains and losses on certain derivatives that have had to be reported here since the beginning of the year weighed on operating profit. Volume improvements had a positive impact. The operating return on sales amounted to 5.5 (5.7)%. The negative special items of €–3.2 (–3.2) billion included in operating profit are attributable to the diesel issue. Excluding special items, the Automotive Division's operating profit was €14.3 (14.4) billion and thus on a level with the previous year; the operating return on sales before special items declined slightly to 7.1 (7.3)%. Since the results recorded by the joint ventures are accounted for in the financial result using the equity method, the business growth of our Chinese joint ventures is primarily reflected in the operating profit only through deliveries of vehicles and vehicle parts, and through license income.

RESULTS OF OPERATIONS IN THE PASSENGER CARS BUSINESS AREA

€ million	2018	2017
Sales revenue[1]	160,802	157,334
Operating result	9,220	9,309
Operating return on sales (%)[1]	5.7	5.9

1 Prior-year figures adjusted.

The Passenger Cars Business Area recorded sales revenue of €160.8 billion in the reporting period, €3.5 billion more than in the previous year; this increase was driven mainly by volume and mix improvements, while exchange rates had a negative effect. At €9.2 (9.3) billion, operating profit was in line with the previous year. Special items in connection with the diesel issue weighed on profit, reducing this item by €–3.2 (–3.2) billion. Moreover, an increase in depreciation and amortization charges, higher research and development costs recognized in profit or loss, and the fair value measurement of gains and losses on certain derivatives, which have had to be reported in operating profit since the beginning of the year, had a negative impact, while the effect of volume improvements was positive. The operating return on sales amounted to 5.7 (5.9)%.

RESULTS OF OPERATIONS IN THE COMMERCIAL VEHICLES BUSINESS AREA

€ million	2018	2017
Sales revenue	36,656	35,200
Operating result	1,971	1,892
Operating return on sales (%)	5.4	5.4

The Commercial Vehicles Business Area reported sales revenue of €36.7 (35.2) billion in fiscal year 2018. At €2.0 billion, its operating profit was €0.1 billion higher than in the previous year; the operating return on sales was unchanged at 5.4 (5.4)%. The year-on-year increase was mostly driven by higher volumes, positive mix and exchange rate effects, while cost increases had a negative impact.

RESULTS OF OPERATIONS IN THE POWER ENGINEERING BUSINESS AREA

€ million	2018	2017
Sales revenue	3,608	3,283
Operating result	–64	–55
Operating return on sales (%)	–1.8	–1.7

Sales revenue in the Power Engineering Business Area increased by 9.9% year-on-year to €3.6 billion in 2018. The operating loss amounted to €–0.1 (–0.1) billion. Volume improvements were offset by a deterioration in the mix. The operating return on sales stood at –1.8 (–1.7)%.

Results of operations in the Financial Services Division

The Financial Services Division generated sales revenue of €34.8 billion in the reporting period; the 3.1% rise compared with the previous year was mainly due to higher business volume.

Cost of sales rose slightly slower than sales revenue, increasing by €0.7 billion to €28.2 billion. Distribution expenses and their ratio to sales revenue were both higher. Administrative expenses rose slightly, while their ratio to sales revenue was virtually unchanged year-on-year. The growth in volumes and higher IT costs were the main factors in the overall increase in expenses compared with the previous year.

The Financial Services Division's operating profit improved by 4.5% compared with the previous year, increasing to €2.8 billion and thus contributing significantly to consolidated net profit. The operating return on sales amounted to 8.0 (7.9)%. At 9.9 (9.8)%, the return on equity before tax was on a level with the previous year.

Principles and goals of financial management

Financial management in the Volkswagen Group covers liquidity management, the management of currency, interest rate and commodity risks, 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 main areas of the MAN and Porsche Holding Salzburg subgroups are integrated into the financial management of the Group while Scania is included to a limited extent. Additionally, these subgroups have their own financial management structures.

The goal of financial management is to ensure that the Volkswagen Group remains solvent at all times and at the same time to generate an adequate return from the investment of surplus funds. We use cash pooling to optimize the use of existing liquidity between the significant companies in Europe. In this system, the balances, either positive or negative, accumulating in the cash pooling accounts are swept daily into a target account at Group Treasury and thus pooled. The aim of currency, interest rate and commodity risk management is to hedge the prices on which investment, production and sales plans are based using derivative financial instruments and commodity forwards, and to mitigate interest rate risks incurred in financing transactions. Credit and country risk management uses diversification to limit the Volkswagen Group's exposure to counterparty risk. To achieve this, counterparty risk management imposes internal limits on the volume of business per counterparty when financial transactions are entered into. Various credit rating criteria are used in this process. These focus primarily on the capital resources of potential counterparties, as well as the ratings awarded by independent agencies. The relevant risk limits and the authorized financial instruments, hedging methods and hedging horizons are approved by the Group Board of Management Committee for Risk Management. For additional information on the principles and goals of financial management, please refer to page 185 and to the notes to the 2018 consolidated financial statements on pages 289 to 310.

FINANCIAL POSITION

Financial position of the Group

The Volkswagen Group's gross cash flow was €35.6 billion in fiscal year 2018, an increase of 9.1% compared with the prior-year figure. Administrative fines imposed after regulatory offense proceedings, which were recognized as special items in connection with the diesel issue in the reporting period, led to cash outflows. The rise in working capital led to tied-up funds in the amount of €–28.3 (–33.8) billion. The €5.5 billion change reflects the significant decrease in cash outflows attributable to the diesel issue in the reporting period, set against a WLTP-related increase in inventories. As a result, cash flows from operating activities were up by €8.5 billion to €7.3 billion.

The Volkswagen Group's investing activities attributable to operating activities stood at €19.4 billion, 6.4% more than in the previous year.

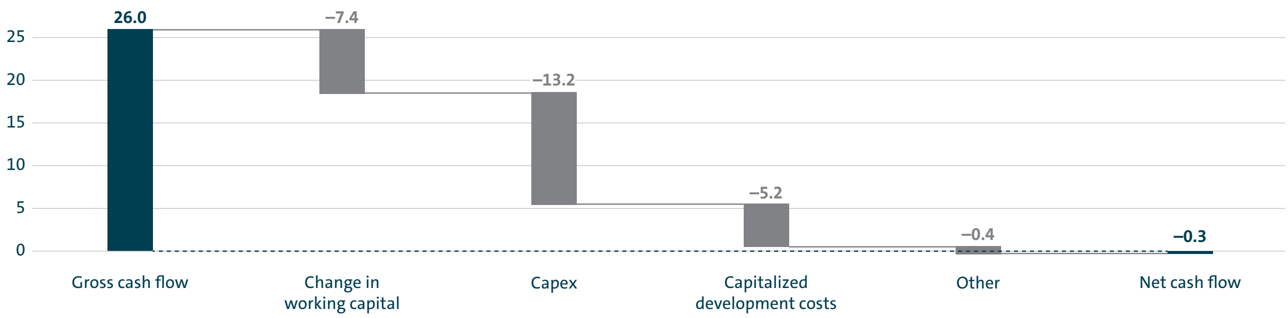
Cash inflows from financing activities amounted to €24.6 (17.6) billion. The figure mainly comprises the issuance and redemption of bonds and other financial liabilities. Financing activities also include the dividends paid to the shareholders of Volkswagen AG, the acquisition of MAN shares tendered following the ruling in the award pro-

CASH FLOW STATEMENT BY DIVISION

€ million	VOLKSWAGEN GROUP 2018	VOLKSWAGEN GROUP 2017[2]	AUTOMOTIVE[1] 2018	AUTOMOTIVE[1] 2017[2]	FINANCIAL SERVICES 2018	FINANCIAL SERVICES 2017[2]
Cash and cash equivalents at beginning of period	**18,038**	**18,833**	**13,428**	**14,125**	**4,609**	**4,709**
Earnings before tax	15,643	13,673	12,861	11,171	2,782	2,502
Income taxes paid	–3,804	–3,664	–3,786	–3,514	–19	–149
Depreciation and amortization expense[3]	22,561	22,165	15,581	14,948	6,980	7,218
Change in pension provisions	524	468	503	452	21	15
Share of the result of equity-accounted investments	244	274	303	159	–58	115
Other noncash income/expense and reclassifications[4]	445	–265	502	202	–56	–467
Gross cash flow	**35,613**	**32,651**	**25,964**	**23,418**	**9,650**	**9,233**
Change in working capital	**–28,341**	**–33,836**	**–7,433**	**–11,732**	**–20,908**	**–22,104**
Change in inventories	–5,372	–4,198	–5,337	–3,784	–34	–414
Change in receivables	–6,400	–1,660	–1,800	–937	–4,600	–724
Change in liabilities	3,645	5,302	2,793	4,168	853	1,134
Change in other provisions	–1,286	–9,910	–1,306	–10,079	20	169
Change in lease assets (excluding depreciation)	–11,647	–11,478	–1,590	–1,115	–10,056	–10,363
Change in financial services receivables	–7,282	–11,891	–191	15	–7,090	–11,906
Cash flows from operating activities	**7,272**	**–1,185**	**18,531**	**11,686**	**–11,258**	**–12,871**
Cash flows from investing activities attributable to operating activities	**–19,386**	**–18,218**	**–18,837**	**–17,636**	**–549**	**–583**
of which: investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs	–13,729	–13,052	–13,218	–12,631	–510	–421
capitalized development costs	–5,234	–5,260	–5,234	–5,260	–	–
acquisition and disposal of equity investments	–705	–317	–594	–124	–111	–193
Net cash flow[5]	***–12,113***	***–19,404***	***–306***	***–5,950***	***–11,807***	***–13,454***
Change in investments in securities, loans and time deposits	–2,204	1,710	6,129	2,333	–8,332	–622
Cash flows from investing activities	**–21,590**	**–16,508**	**–12,708**	**–15,303**	**–8,882**	**–1,205**
Cash flows from financing activities	**24,566**	**17,625**	**4,274**	**3,562**	**20,292**	**14,063**
of which: capital transactions with noncontrolling interests	–28	–	–28	–	–	–
Capital contributions/capital redemptions	1,491	3,473	1,418	2,400	73	1,073
MAN noncontrolling interest shareholders: compensation payments and acquisition of shares tendered	–2,117	–118	–2,117	–118	–	–
Effect of exchange rate changes on cash and cash equivalents	–173	–727	–171	–641	–2	–86
Change of loss allowance within cash and cash equivalents	–1	–	–1	–	0	–
Net change in cash and cash equivalents	**10,075**	**–796**	**9,925**	**–696**	**150**	**–99**
Cash and cash equivalents at Dec. 31[6]	**28,113**	**18,038**	**23,354**	**13,428**	**4,759**	**4,609**
Securities, loans and time deposits	28,036	26,291	8,697	15,201	19,339	11,090
Gross liquidity	**56,148**	**44,329**	**32,051**	**28,630**	**24,098**	**15,699**
Total third-party borrowings	–190,883	–163,472	–12,683	–6,251	–178,200	–157,221
Net liquidity[7]	**–134,735**	**–119,143**	**19,368**	**22,378**	**–154,103**	**–141,522**

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Adjusted
3 Net of impairment reversals.
4 These relate mainly to the fair value measurement of financial instruments and the reclassification of gains/losses on disposal of noncurrent assets and equity investments to investing activities.
5 Net cash flow: cash flows from operating activities net of cash flows from investing activities attributable to operating activities (investing activities excluding change in investments in securities, loans and time deposits).
6 Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.
7 The total of cash, cash equivalents, securities, loans to affiliates and joint ventures and time deposits net of third-party borrowings (noncurrent and current financial liabilities).

AUTOMOTIVE DIVISION NET CASH FLOW 2018
€ billion



ceedings, the successful placement of dual-tranche hybrid notes in June 2018, and the redemption of the hybrid notes terminated in the third quarter of 2018.

At the end of the reporting period, the Volkswagen Group's cash and cash equivalents as reported in the cash flow statement amounted to €28.1 (18.0) billion and were thus significantly up on the prior-year reporting date.

On December 31, 2018, the Volkswagen Group's net liquidity was €–134.7 billion, compared with €–119.1 billion at the end of 2017.

Financial position of the Automotive Division

The Automotive Division's gross cash flow amounted to €26.0 billion in fiscal year 2018, €2.5 billion more than a year earlier. The increase was mainly due to healthy earnings growth. Special items recognized in the reporting period, most of which have already led to cash outflows, and a year-on-year decline in dividends from the Chinese joint ventures had a negative impact. The change in working capital of €–7.4 (–11.7) billion was €4.3 billion lower than in the previous year; it mainly reflects the significant decrease in cash outflows attributable to the diesel issue in the reporting period set against a WLTP-related increase in inventories. As a result, cash flows from operating activities rose by €6.8 billion to €18.5 billion.

Investing activities attributable to operating activities increased by €1.2 billion to €18.8 billion. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex), were 4.6% higher, at €13.2 billion. The ratio of capex to sales revenue was 6.6 (6.5)%. We invested mainly in our production facilities and in models that we launched in the reporting period or are planning to launch next year. These are primarily the Touareg, T-Cross, Audi e-tron, Audi Q3, Audi A6, Porsche 911 and Porsche Taycan model series, and the Bentley Continental family. Other investment priorities included the ecological focus of our model range, product electrification and digitalization, and our modular toolkits. Capitalized development costs of €5.2 (5.3) billion were in line with 2017 levels. Within the "Acquisition and disposal of equity investments" item, the sale of a part of the shares in There Holding was offset mainly by the investment in the newly established joint venture with Anhui Jianghuai Automobile (JAC) and the acquisition of additional shares in Quantum Scape. The prior-year figure had included the acquisition of the shares in Navistar and the disposal of part of the PGA Group.

Due mainly to markedly lower cash outflows attributable to the diesel issue, net cash flow in the Automotive Division improved by €5.6 billion to €–0.3 (–6.0) billion compared with the previous year.

Cash inflows from financing activities amounted to €4.3 (3.6) billion in fiscal year 2018. In May 2018, a dividend totaling €2.0 billion was distributed to the shareholders of Volkswagen AG, €1.0 billion more than in the previous year. The successful placement of dual-tranche hybrid notes with an aggregate principal amount of €2.75 billion via Volkswagen International Finance N.V. in June 2018 resulted in a cash inflow. The notes consist of a €1.25 billion note that carries a coupon of 3.375% and has a first call date after six years, and a €1.5 billion note that carries a coupon of 4.625% and has a first call date after ten years. Both tranches are perpetual and, net of transaction costs and other factors, increase equity. €2.75 billion of the hybrid notes were classified as a capital contribution, which increased net liquidity. The redemption of the hybrid notes terminated in the third quarter of 2018 caused a cash outflow of €1.25 billion in the reporting period. Financing activities also include the issuance and redemption of bonds and other financial liabilities, as well as the MAN shares tendered as a result of the award proceedings and shares in AUDI AG acquired in the fiscal year.

The Automotive Division's net liquidity was €19.4 billion on December 31, 2018, €3.0 billion lower than at the end of fiscal year 2017. The Automotive Division's net liquidity stood at 8.2 (9.7)% of consolidated sales revenue in fiscal year 2018.

FINANCIAL POSITION IN THE PASSENGER CARS BUSINESS AREA

€ million	2018	2017
Gross cash flow	21,808	19,410
Change in working capital	–5,938	–10,122
Cash flows from operating activities	15,870	9,289
Cash flows from investing activities attributable to operating activities	–16,194	–15,337
Net cash flow	–325	–6,048

In fiscal year 2018, the Passenger Cars Business Area's gross cash flow improved by €2.4 billion to €21.8 billion. The increase was mainly due to healthy earnings growth; cash outflows associated with special items recognized in the reporting period had an offsetting effect. At €–5.9 (–10.1) billion, the negative impact on the change in working capital was less than in the year before, especially because of significantly lower cash outflows attributable to the diesel issue; this was set against a WLTP-related increase in inventories. Consequently, cash flows from operating activities went up by €6.6 billion to €15.9 billion. Investing activities attributable to operating activities of €16.2 (15.3) billion were up on 2017 levels. Capex grew, while capitalized development costs declined. In the reporting period, the sale of some of the shares in There Holding was offset by the investment in the joint venture with Anhui Jianghuai Automobile (JAC) and the acquisition of additional shares in Quantum Scape. In the prior-year period, the sale of part of the PGA Group had a positive effect on this item. Net cash flow increased to €–0.3 (–6.0) billion.

FINANCIAL POSITION IN THE COMMERCIAL VEHICLES BUSINESS AREA

€ million	2018	2017
Gross cash flow	3,847	3,739
Change in working capital	–1,234	–1,320
Cash flows from operating activities	2,613	2,419
Cash flows from investing activities attributable to operating activities	–2,480	–2,122
Net cash flow	132	297

The Commercial Vehicles Business Area's gross cash flow was €3.8 (3.7) billion in fiscal year 2018; the slight increase over the previous year was due to higher earnings. The change of funds tied up in working capital decreased by €0.1 billion to €–1.2 billion. As a result, cash flows from operating activities were up on the 2017 figure, increasing to €2.6 (2.4) billion. Investing activities attributable to operating activities stood at €2.5 (2.1) billion. This figure comprises increased capex and higher capitalized development costs mainly for the T7 and Caddy models. The prior-year figure included the acquisition of the shares in Navistar. Net cash flow amounted to €0.1 billion, €0.2 billion lower than a year earlier.

FINANCIAL POSITION IN THE POWER ENGINEERING BUSINESS AREA

€ million	2018	2017
Gross cash flow	309	268
Change in working capital	–260	–290
Cash flows from operating activities	49	–22
Cash flows from investing activities attributable to operating activities	–162	–177
Net cash flow	–113	–199

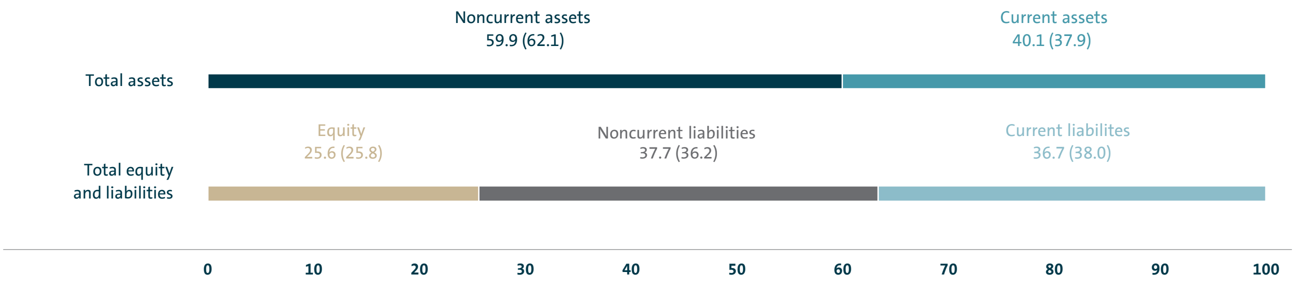
The Power Engineering Business Area generated a gross cash flow of €0.3 (0.3) billion in the reporting period. Funds tied up in working capital amounted to €–0.3 (–0.3) billion. Cash flows from operating activities were slightly higher than in the previous year. Investing activities attributable to operating activities stood at €0.2 (0.2) billion. Net cash flow improved by €0.1 billion to €–0.1 billion.

CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31

	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2018	2017	2018	2017	2018	2017
Assets						
Noncurrent assets	**274,620**	**262,081**	**143,153**	**140,912**	**131,467**	**121,169**
Intangible assets	64,613	63,419	64,404	63,211	209	208
Property, plant and equipment	57,630	55,243	54,619	52,503	3,010	2,739
Lease assets	43,545	39,254	5,297	3,140	38,249	36,114
Financial services receivables	78,692	73,249	9	–7	78,684	73,256
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	30,140	30,916	18,824	22,065	11,315	8,851
Current assets	**183,536**	**160,112**	**91,371**	**80,210**	**92,165**	**79,902**
Inventories	45,745	40,415	41,302	36,113	4,443	4,302
Financial services receivables	54,216	53,145	–510	–686	54,726	53,832
Other receivables and financial assets	37,557	32,040	13,033	17,354	24,524	14,686
Marketable securities	17,080	15,939	13,376	13,512	3,703	2,427
Cash, cash equivalents and time deposits	28,938	18,457	24,169	13,826	4,769	4,632
Assets held for sale	–	115	–	90	–	24
Total assets	**458,156**	**422,193**	**234,524**	**221,121**	**223,632**	**201,071**
Equity and liabilities						
Equity	**117,342**	**109,077**	**88,850**	**81,605**	**28,492**	**27,472**
Equity attributable to Volkswagen AG shareholders	104,522	97,761	76,624	70,857	27,898	26,904
Equity attributable to Volkswagen AG hybrid capital investors	12,596	11,088	12,596	11,088	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	117,117	108,849	89,219	81,945	27,898	26,904
Noncontrolling interests	225	229	–369	–339	594	568
Noncurrent liabilities	**172,846**	**152,726**	**77,692**	**69,805**	**95,154**	**82,921**
Financial liabilities	101,126	81,628	14,187	6,709	86,939	74,919
Provisions for pensions	33,097	32,730	32,535	32,189	563	540
Other liabilities	38,623	38,368	30,970	30,906	7,652	7,462
Current liabilities	**167,968**	**160,389**	**67,982**	**69,711**	**99,986**	**90,678**
Put options and compensation rights granted to noncontrolling interest shareholders	1,853	3,795	1,853	3,795	–	–
Financial liabilities	89,757	81,844	–1,504	–458	91,261	82,302
Trade payables	23,607	23,046	20,962	20,497	2,645	2,548
Other liabilities	52,750	51,705	46,671	45,877	6,079	5,828
Total equity and liabilities	**458,156**	**422,193**	**234,524**	**221,121**	**223,632**	**201,071**

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

CONSOLIDATED BALANCE SHEET STRUCTURE 2018
in percent



Financial position in the Financial Services Division

In the reporting period, the Financial Services Division's gross cash flow was €9.6 (9.2) billion. The change in working capital declined by €1.2 billion year-on-year to €–20.9 billion. Cash flows from operating activities amounted to €–11.3 (–12.9) billion.

At €0.5 (0.6) billion, investing activities attributable to operating activities were in line with the previous year.

The Financial Services Division's financing activities relate primarily to the issuance and redemption of bonds and other financial liabilities; the total cash inflow to refinance the business volume was €20.3 (14.1) billion.

The Financial Services Division's negative net liquidity, which is common in the industry, stood at €–154.1 billion at the end of the reporting period; at the end of December 2017 it had amounted to €–141.5 billion.

As of the end of fiscal year 2018, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €9.3 (8.4) billion, financial guarantees in the amount of €0.3 (0.3) billion and other financial obligations in the amount of €26.6 (23.5) billion. Contingent liabilities relate primarily to legal risks in connection with the diesel issue as well as potential liabilities from tax risks in the Commercial Vehicles Business Area in Brazil. The other financial obligations primarily result from purchase commitments for property, plant and equipment, obligations under long-term leasing and rental contracts and irrevocable credit commitments to customers. In addition, they include investments to which the Group has committed itself in the infrastructure for zero-emission vehicles and in initiatives to promote access to and awareness of this technology. These commitments were made as part of the settlement agreements in the USA in connection with the diesel issue. Other financial obligations include an amount of €1.3 billion for this purpose.

NET ASSETS

Consolidated balance sheet structure

The Volkswagen Group's total assets amounted to €458.2 billion at the end of fiscal year 2018, 8.5% more than at the end of the previous year; the main contributing factor was the increased business volume in the Financial Services Division. The structure of the consolidated balance sheet as of the reporting date is shown in the chart on this page. The Volkswagen Group's equity was €117.3 (109.1) billion on December 31, 2018. The equity ratio was virtually unchanged from the previous year, at 25.6 (25.8)%.

The implementation of the new International Financial Reporting Standards led to adjustments to the opening balance sheet of the Volkswagen Group as of January 1, 2018. The amounts as of December 31, 2017 were unchanged, apart from movements within equity.

Automotive Division balance sheet structure

As of December 31, 2018, the Automotive Division's intangible assets and property, plant and equipment were both up year-on-year. Equity-accounted investments rose slightly. The dividend distributions resolved by the Chinese joint ventures were set against positive business results of the Chinese joint ventures and the acquisition of the shares in Quantum Scape. The decrease in noncurrent other receivables and financial assets was due among other factors to the negative impact from the measurement of derivatives. Overall, there was a slight increase in noncurrent assets, to €143.2 (140.9) billion, compared with the previous balance sheet date.

At €91.4 (80.2) billion, current assets were up significantly compared with the end of 2017; the inventories included in this figure increased by 14.4%, mainly for production-related reasons and because of the changeover to the WLTP test procedure. The decrease in current other receivables and financial assets was due mainly to the negative impact from the measurement of derivatives. Cash and cash equivalents were significantly higher than on December 31, 2017, rising to €24.2 (13.8) billion.

Equity in the Automotive Division amounted to €88.9 billion at the end of 2018. This 8.9% incease on the previous year's balance sheet date was mainly a result of the healthy earnings growth and the hybrid notes issued in June 2018. The negative effects from the measurement of derivatives recognized outside profit or loss and currency translation, the dividends paid to the shareholders of Volkswagen AG, the redemption of the hybrid notes terminated in the third quarter of 2018 and the non-recurring impact of the first-time application of the new International Financial Reporting Standards reduced equity in the Automotive Division. The noncontrolling interests are mainly attributable to RENK AG and AUDI AG. As these were lower overall than the noncontrolling interests attributable to the Financial Services Division, the figure for the Automotive Division, where the deduction was recognized, was negative. The equity ratio was 37.9 (36.9)%, up on the figure as of December 31, 2017.

Noncurrent liabilities went up to €77.7 (69.8) billion, driven mainly by the rise in the noncurrent financial liabilities included in this item.

Current liabilities declined to €68.0 billion, in total 2.5% down on the end of 2017. The item "Put options and compensation rights granted to noncontrolling interest shareholders" primarily comprises the liability for the obligation to acquire the shares held by the remaining free float shareholders of MAN; following the ruling in the award proceedings, the extraordinary notice of termination of the control and profit and loss transfer agreement, and the cash outflows for the cash compensation and the acquisition of shares tendered, this item was adjusted accordingly to €1.9 (3.8) billion. Reclassifications from noncurrent to current liabilities due to shorter remaining maturities were among the factors that led to a rise in current financial liabilities compared with the end of 2017. 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 in both periods. Current other provisions included in current other liabilities declined due to their use in connection with the diesel issue.

On December 31, 2018, total assets in the Automotive Division amounted to €234.5 billion, 6.1% more than at the end of 2017.

PASSENGER CARS BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2018	Dec. 31, 2017
Noncurrent assets	112,796	111,277
Current assets	65,882	60,052
Total assets	**178,678**	**171,329**
Equity	70,817	66,449
Noncurrent liabilities	62,445	55,118
Current liabilities	45,415	49,762

Intangible assets and property plant and equipment in the Passenger Cars Business Area were higher than in the previous year. The decrease in noncurrent other receivables and financial assets was due to factors such as the negative impact from the measurement of derivatives. Overall, noncurrent assets grew by €1.5 billion to €112.8 billion. Current assets increased by a total of €5.8 billion to €65.9 billion; the inventories included in this figure grew for production-related reasons and because of the changeover to the WLTP test procedure. There was a threefold year-on-year increase in cash and cash equivalents to €18.1 (6.1) billion. Total assets stood at €178.7 (171.3) billion at the end of 2018.

At €70.8 billion, the Passenger Cars Business Area's equity exceeded the prior-year figure by 6.6%, due mainly to earnings-related factors and the hybrid notes issued in the reporting period.

Noncurrent liabilities were 13.3% higher than at the end of 2017; the financial liabilities included in this item were up significantly. Current liabilities decreased by a total of 8.7%. Current other liabilities and current other provisions were down on the prior-year figure.

COMMERCIAL VEHICLES BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2018	Dec. 31, 2017
Noncurrent assets	27,858	27,005
Current assets	21,892	16,908
Total assets	**49,750**	**43,913**
Equity	15,081	12,194
Noncurrent liabilities	14,493	13,975
Current liabilities	20,176	17,744

POWER ENGINEERING BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2018	Dec. 31, 2017
Noncurrent assets	2,499	2,629
Current assets	3,597	3,250
Total assets	**6,097**	**5,879**
Equity	2,953	2,963
Noncurrent liabilities	754	711
Current liabilities	2,391	2,205

On December 31, 2018, the Commercial Vehicles Business Area's intangible assets and property, plant and equipment were higher than at the end of 2017. Equity-accounted investments were up, while other equity investments decreased as a result of an intragroup sale (power engineering business). Overall, noncurrent assets grew by €0.9 billion to €27.9 billion. Current assets amounted to €21.9 (16.9) billion, significantly up on the previous year's balance sheet date. The current other receivables and financial assets included in this item increased, while cash and cash equivalents declined; the payments in connection with the intragroup sale of the power engineering business will become due in the first quarter of 2019. Total assets climbed by 13.3% to €49.7 billion.

Equity in the Commercial Vehicles Business Area stood at €15.1 billion at the end of 2018, 23.7% more than a year earlier. In addition to healthy earnings, this increase was attributable to the intragroup sale of the power engineering business. The item "Put options and compensation rights granted to noncontrolling interest shareholders" fell sharply: the item was adjusted to reflect the ruling in the award proceedings and the extraordinary termination of the control and profit and loss transfer agreement, as well as the cash outflows for the cash compensation and the acquisition of shares tendered. Noncurrent liabilities rose by 3.7%; the noncurrent financial liabilities included in this item were down on the previous year, while noncurrent other liabilities increased. Current liabilities were 13.7% higher than on December 31, 2017. Current other liabilities were significantly higher.

In the Power Engineering Business Area, the decline in noncurrent assets was mainly attributable to a year-on-year decrease in intangible assets. Higher inventories and receivables led to a 10.7% rise in current assets compared with the previous balance sheet date. At the end of 2018, the Power Engineering Business Area recorded a 3.7% year-on-year increase in total assets to €6.1 billion.

On December 31, 2018, equity stood at €3.0 (3.0) billion, and thus on a level with the previous year. Both noncurrent and current liabilities were up in the reporting period compared with the 2017 balance sheet date.

Financial Services Division balance sheet structure

On December 31, 2018, total assets in the Financial Services Division amounted to €223.6 billion, 11.2% more than at the end of 2017.

There was a significant rise in both lease assets and noncurrent receivables, tracking the growth in business. Noncurrent assets were up by 8.5% in total.

Current assets rose by 15.3%, driven by higher volumes. The revised classification of financial instruments required by IFRS 9 led to reclassifications, in particular of financial services receivables to trade receivables, which are included in the "Other receivables and financial assets" item. Total securities increased by €1.3 billion to €3.7 billion.

On December 31, 2018, the Financial Services Division accounted for around 48.8 (47.6)% of the Volkswagen Group's assets.

The 3.7% rise in equity to €28.5 billion in the reporting period was mainly attributable to healthy earnings. The equity ratio was 12.7 (13.7)%.

Noncurrent liabilities were up 14.8%, mainly because of a rise in noncurrent financial liabilities to refinance the business volume. Current liabilities increased by a total of 10.3% and the current financial liabilities included in this item rose markedly.

At €29.9 (31.4) billion, deposits from the direct banking business were lower at the end of 2018 than they had been a year earlier.

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. In order to ensure the efficient use of resources in the Automotive Division and to measure the success of this, we have been using a value-based management system for a number of years, with return on investment (ROI) as a relative indicator and value contribution[1], a key performance indicator linked to the cost of capital, as an absolute performance measure.

The return on investment serves as a consistent target in strategic and operational management. If the return on investment exceeds the market cost of capital, there is an increase in the value of the invested capital and a positive value contribution. The concept of value-based management allows the success of the Automotive Division and individual business units to be evaluated. It also enables the earnings power of our products, product lines and projects – such as new plants – to be measured.

Components of value contribution

Value contribution is calculated on the basis of the operating result after tax and the opportunity cost of invested capital.

The operating result 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 result after tax.

The cost of capital is multiplied by the average invested capital to give the opportunity cost of capital. Invested capital is calculated as total operating assets reported in the balance sheet (property, plant and equipment, intangible assets, lease assets, inventories and receivables) less non-interest-bearing liabilities (trade payables and payments on account received). Average invested capital is derived from the balance at the beginning and the end of the reporting period.

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.

The specific business risk – price fluctuations in Volkswagen preferred shares – has been modeled in comparison to the MSCI World Index when calculating the beta factor. The MSCI World Index is a global capital market benchmark for investors.

The analysis period for the beta factor calculation spans five years with annual beta figures calculated on a daily basis followed by the subsequent calculation of the average. A beta factor of 1.17 (1.12) was determined for 2018.

1 The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.

COST OF CAPITAL AFTER TAX AUTOMOTIVE DIVISION

%	2018	2017
Risk-free rate	0.8	1.0
MSCI World Index market risk premium	6.5	6.5
Volkswagen-specific risk premium	1.1	0.8
(Volkswagen beta factor)	(1.17)	(1.12)
Cost of equity after tax	**8.4**	**8.3**
Cost of debt	2.5	1.8
Tax	–0.8	–0.6
Cost of debt after tax	**1.8**	**1.3**
Proportion of equity	66.7	66.7
Proportion of debt	33.3	33.3
Cost of capital after tax	**6.2**	**6.0**

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 6.2 (6.0)% for 2018.

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION IN THE REPORTING PERIOD

The operating result after tax of the Automotive Division, including the proportionate operating result of the Chinese joint ventures, was €11,438 (11,756) million in fiscal year 2018. Volume improvements were unable to compensate for the year-on-year decline that was primarily caused by rising depreciation and amortization charges due to the large volume of capital expenditure, higher research and development costs, as well as the fair value measurement of gains and losses on certain derivatives, which have been reported here since the beginning of the year. Effects on earnings and assets from purchase price allocation are not taken into account as they cannot be influenced operationally by management.

In the reporting year, the invested capital rose to €104,424 (97,021) million. The increase was particularly due to higher inventories as well as to additions to investments in property, plant and equipment and capitalized development costs.

The return on investment (ROI) is the return on invested capital for a particular period based on the operating result after tax. The ROI declined year-on-year as a result of the lower operating profit and higher invested capital. However, at 11.0 (12.1)%, it exceeded our minimum rate of return on invested capital of 9% in spite of the adverse effects of the special items on earnings.

At €6,474 (5,821) million, the opportunity cost of capital (invested capital multiplied by cost of capital) was up on the prior-year level due to the increase in the invested capital and the higher cost of capital. After deduction of the opportunity cost of invested capital, operating result after tax – which was negatively impacted by special items – led to a positive value contribution of €4,964 (5,935) 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/en/InvestorRelations/news-and-publications/More_Publications.html.

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION IN THE AUTOMOTIVE DIVISION[1]

€ million	2018	2017
Operating result after tax	**11,438**	**11,756**
Invested capital (average)	104,424	97,021
Return on investment (ROI) in %	**11.0**	**12.1**
Cost of capital in %	6.2	6.0
Cost of invested capital	**6,474**	**5,821**
Value contribution	**4,964**	**5,935**

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.

SUMMARY OF BUSINESS DEVELOPMENT AND ECONOMIC POSITION

The Board of Management of Volkswagen AG considers business development and the economic position to have been positive overall.

In spite of the challenges presented by the diesel issue and public discussion pertaining to diesel vehicles, the persistently difficult market conditions and the new WLTP test procedure, we slightly lifted our deliveries to customers to 10.8 million vehicles, thus achieving a new sales record. We saw growth in Europe, South America and the Asia-Pacific region. The Group's sales revenue rose by 2.7%, within the expected range. Operating profit before special items amounted to €17.1 billion; at 7.2% the operating return on sales before special items was within the range forecast at the beginning of the year of 6.5–7.5%. Due to special items resulting from the diesel issue, the operating return on sales of 5.9% was moderately below the forecast range, as recently projected.

Our efforts to ensure the Company's future viability are reflected in research and development costs; at 6.8% the R&D ratio in the Automotive Division was within the expected range.

At 6.6%, the Automotive Division's ratio of capex to sales revenue was also within the forecast range as well. As expected, the Automotive Division's net cash flow considerably exceeded the comparable prior-year figure, but was negative at €–0.3 billion. This was particularly due to higher-than-expected cash outflows attributable to the diesel issue, owing to fines resulting from the administrative fine order issued by the public prosecutor's offices in Braunschweig and Munich II. In combination with the acquisition of MAN shares tendered, this resulted in a year-on-year decline in net liquidity, which stood at €19.4 billion.

The return on investment (ROI) in the Automotive Division of 11.0% was lower than in 2017 but exceeded the minimum required rate of return on invested capital.

FORECAST VERSUS ACTUAL FIGURES

	Actual 2017[1]	Original forecast for 2018	Adjusted forecast for 2018	Actual 2018
Deliveries to customers	10.7 million	moderate increase	moderate increase	10.8 million
Volkswagen Group				
Sales revenue	€229.6 billion	increase of up to 5%	increase of up to 5%	€235.8 billion
Operating return on sales before special items	7.4%	6.5–7.5%	6.5–7.5%	7.3%
Operating return on sales	6.0%	6.5–7.5%	moderately below 6.5%	5.9%
Operating result before special items	€17.0 billion	within the forecast range	within the forecast range	€17.1 billion
Operating result	€13.8 billion	within the forecast range	within the forecast range	€13.9 billion
Passenger Cars Business Area				
Sales revenue	€157.3 billion	increase of up to 5%	increase of up to 5%	€160.8 billion
Operating return on sales before special items	8.0%	6.5–7.5%	6.5–7.5%	7.7%
Operating return on sales	5.9%	6.5–7.5%	moderately below 6.5%	5.7%
Operating result before special items	€12.5 billion	within the forecast range	within the forecast range	€12.4 billion
Operating result	€9.3 billion	within the forecast range	within the forecast range	€9.2 billion
Commercial Vehicles Business Area				
Sales revenue	€35.2 billion	increase of up to 5%	increase of up to 5%	€36.7 billion
Operating return on sales	5.4%	5.0–6.0%	5.0–6.0%	5.4%
Operating result	€1.9 billion	within the forecast range	within the forecast range	€2.0 billion
Power Engineering Business Area				
Sales revenue	€3.3 billion	increase of up to 5%	increase of up to 5%	€3.6 billion
Operating result	€–0.1 billion	lower loss	around the prior-year level	€–0.1 billion
Financial Services Division				
Sales revenue	€33.7 billion	increase of up to 5%	increase of up to 5%	€34.8 billion
Operating result	€2.7 billion	at prior-year level	at prior-year level	€2.8 billion
R&D ratio in the Automotive Division	6.7%	6.5–7.0%	6.5–7.0%	6.8%
Capex/sales revenue in the Automotive Division	6.5%	6.5–7.0%	6.5–7.0%	6.6%
Net cash flow in the Automotive Division	€–6.0 billion	significant increase, positive	significant increase, positive	€–0.3 billion
Net liquidity in the Automotive Division	€22.4 billion	moderate increase	moderate decline	€19.4 billion
Return on investment (ROI) in the Automotive Division	12.1%	slight increase, >9%	slight decline, >9%	11.0%

1 Adjusted; see disclosures about the application of new International Financial Reporting Standards on page 114.

Volkswagen AG

(Condensed, in accordance with the German Commercial Code)

Unit sales of Volkswagen AG were on a level with the previous year in 2018, while sales and profit increased.

ANNUAL RESULT

Additional special items in connection with the diesel issue amounting to €2.0 billion were recognized in fiscal year 2018. These were mainly attributable to the administrative fine order of €1.0 billion imposed by the Braunschweig public prosecutor's office, higher legal risks and legal defense costs and an increase in expenses for technical measures. Special items had an impact of €0.1 (–2.0) billion on cost of sales and of €–2.0 (–0.9) billion on other operating income.

In the reporting period, sales were 1.7% higher than in the previous year, at €78.0 billion. Sales generated abroad accounted for a share of 64.7 (62.5)%. Due to a decline in special items, cost of sales decreased by 0.9% to €72.7 billion. Gross profit rose accordingly to €5.3 (3.4) billion.

At €7.6 billion, distribution, general and administrative expenses were up €0.5 billion on the prior-year figure.

The net other operating result was €0.3 billion lower, at €–0.4 (–0.2) billion. The decline was mainly attributable to the year-on-year rise of €1.1 billion in special items.

At €8.3 (8.6) billion, the financial result stood at the prior-year level.

Including the income tax expense of €–0.9 (–0.4) billion, net income for the year amounted to €4.6 (4.4) billion in fiscal year 2018.

INCOME STATEMENT OF VOLKSWAGEN AG

€ million	2018	2017
Sales	78,001	76,729
Cost of sales	–72,700	–73,355
Gross profit on sales	**5,301**	**3,375**
Distribution, general and administrative expenses	–7,624	–7,104
Net other operating result	–415	–154
Financial result[1]	8,264	8,644
Taxes on income	–907	–409
Earnings after tax	**4,620**	**4,353**
Net income for the fiscal year	**4,620**	**4,353**
Retained profits brought forward	3	2
Appropriations to revenue reserves	–2,204	–2,174
Net retained profits	**2,419**	**2,181**

1 Including write-downs of long-term financial assets.

BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

€ million	2018	2017
Fixed assets	119,713	113,703
Inventories	5,140	4,889
Receivables[1]	36,965	32,303
Cash-in-hand and bank balances	14,595	5,798
Total assets	**176,412**	**156,693**
Equity	33,090	30,438
Special tax-allowable reserves	19	21
Long-term debt	40,348	33,060
Medium-term debt	37,422	33,415
Short-term debt	65,533	59,759

1 Including prepaid expenses.

NET ASSETS AND FINANCIAL POSITION

Total assets amounted to €176.4 billion on December 31, 2018, up €19.7 billion on the prior-year figure. Property, plant and equipment was down by €0.2 billion, capital expenditure was lower than depreciation charges. Financial assets increased, driven in particular by capital increases at Volkswagen Finance Luxemburg S.A. (€2.7 billion), Volkswagen Klassik GmbH (€2.3 billion) and Porsche Holding Stuttgart GmbH (€0.9 billion) and by the increased stake in Volkswagen Klassik GmbH recognized directly in equity due to an intragroup reorganization (€2.6 billion). Particularly the capital decrease of €3.3 billion implemented at TRATON SE (formerly TRATON AG) had an offsetting effect.

Fixed assets accounted for a share of 67.9 (72.6)% of total assets.

Current assets (including prepaid expenses) amounted to €56.6 (43.0) billion on December 31, 2018.

At €33.1 billion, equity increased due in particular to the improved net income for the year at the end of the reporting period. The equity ratio was 18.8 (19.4)%.

Other provisions decreased by €2.1 billion to €20.0 (22.1) billion, due primarily to the utilization of provisions in connection with the diesel issue. Provisions for pensions and similar obligations rose by €1.8 billion to €16.1 billion, primarily as a result of a change in measurement inputs, while provisions for taxes increased by €0.2 billion to €3.7 billion.

The €17.1 billion rise in total liabilities (including deferred income) to €103.4 billion is, above all, attributable to higher liabilities to affiliated companies.

Volkswagen AG's cash funds, comprising cash instruments with a maturity of less than three months, less bank and cash pooling liabilities repayable on demand, improved year-on-year from €–8.5 billion to €–0.2 billion. The interest-bearing portion of debt amounted to €87.9 (74.0) billion. In our assessment, the economic position of Volkswagen AG is just as positive overall as that of the Volkswagen Group.

DIVIDEND PROPOSAL

In fiscal year 2018, net retained profits amounted to €2.4 billion. The Board of Management and Supervisory Board are proposing to pay a total dividend of €2.4 billion, i.e. €4.80 per ordinary share and €4.86 per preferred share.

PROPOSAL ON THE APPROPRIATION OF NET PROFIT

€	2018
Dividend distribution on subscribed capital (€1,283 million)	2,418,589,589.10
of which on: ordinary shares	1,416,431,126.40
preferred shares	1,002,158,462.70
Balance (carried forward to new account)	338,837.15
Net retained profits	**2,418,928,426.25**

EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG

€ million	2018	%	2017	%
Direct pay including cash benefits	8,175	70.6	7,637	70.7
Social security contributions	1,437	12.4	1,361	12.6
Compensated absence	1,350	11.7	1,161	10.7
Retirement benefits	611	5.3	640	5.9
Total expense	**11,573**	**100.0**	**10,799**	**100.0**

VEHICLE SALES

Volkswagen AG sold a total of 2,597,126 (2,584,375) vehicles in fiscal year 2018. Vehicles sold abroad accounted for a share of 71.0 (70.0)%.

PRODUCTION

Volkswagen AG produced a total of 1,113,415 vehicles at its vehicle production plants in Wolfsburg, Hanover and Emden in the reporting period (–9.1%).

EMPLOYEES

As of December 31, 2018, a total of 119,394 (117,420) people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. Of this figure, 5,009 (4,953) were vocational trainees. 4,785 (4,380) employees were in the passive phase of their partial retirement.

Female employees accounted for 17.3 (17.1)% of the workforce. Volkswagen AG employed 5,883 (5,069) part-time workers. The percentage of foreign employees was 6.3 (6.1)%. 83.2 (83.4)% of the employees in Volkswagen AG's production area were in possession of vocational or additional training in the reporting period. The proportion of graduates was 19.5 (18.9)% in the same period. The average age of employees in fiscal year 2018 was 43.9 (43.6) years.

RESEARCH AND DEVELOPMENT

Volkswagen AG's research and development costs as defined in the German Commercial Code increased to €5.6 (4.8) billion in the reporting period. 12,796 (12,332) people were employed in this area at the end of the reporting period.

EXPENDITURE ON ENVIRONMENTAL PROTECTION

When measuring expenditure on environmental protection, a distinction is made between investments and operating costs for production-related environmental protection measures. Of our total investments, only 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 measures upstream or downstream of the production process. In contrast to additive environmental protection measures, integrated measures reduce the environmental impact already during the production process. In 2018 we invested primarily in soil and water pollution control.

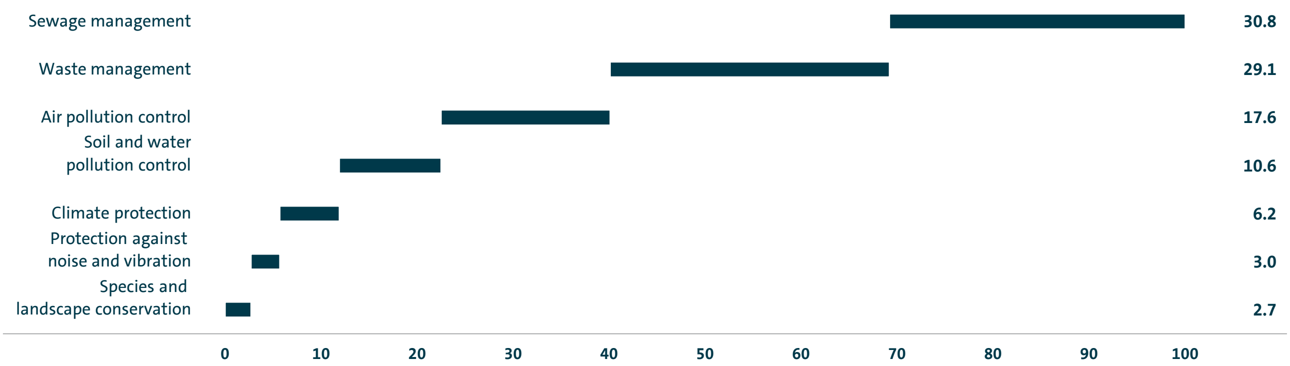
The recognized operating costs relate to measures that protect the environment against harmful factors by avoiding, reducing, or eliminating emissions by the Company. Resources are also conserved. For example, these include expenditures incurred to operate equipment that protects the environment as well as expenditures for measures not relating to such equipment. As in previous years, the emphasis in 2018 was on sewage and waste management.

VOLKSWAGEN AG EXPENDITURE ON ENVIRONMENTAL PROTECTION

€ million	2018	2017	2016	2015	2014
Investments	13	17	11	21	19
Operating costs	230	227	223	244	226

OPERATING COSTS FOR ENVIRONMENTAL PROTECTION AT VOLKSWAGEN AG 2018

Share of environmental protection areas in percent



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 163 to 187 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 185 to 186 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 German Commercial Code can be accessed from the electronic company register at www.unternehmensregister.de.

Sustainable Value Enhancement

Our goal is to run our business responsibly along the entire value chain. Everyone should benefit from this – our customers, our employees, the environment and society. Our future program TOGETHER – Strategy 2025 describes this change process in the Company. The starting point is our vision of being one of the world's leading providers of sustainable mobility.

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 efficiency of our Company's value drivers. These include the 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 aware of our responsibility towards our customers, our employees, the environment and society. In this chapter we provide examples of how we are increasing the value of our Company in a sustainable way.

SUSTAINABILITY

The Volkswagen Group is committed to sustainable, transparent and responsible corporate governance. The biggest challenge we face in implementing this at all levels and at every step in the value chain is the complexity of our Company, with its twelve brands, around 665 thousand employees and 123 production locations. In order to tackle this complexity in the best way possible, our focus is on coordinating our sustainability activities across the entire Group. We have a forward-looking system of risk management in place, a clear framework for dealing with future environmental issues, and attach great weight to social commitment and employee responsibility. Moreover, we are oriented towards the recommendations of the German Corporate Governance Code.

For us, sustainability means simultaneously striving for economic, social and environmental goals in a way that gives them equal priority. The future program TOGETHER – Strategy 2025 places sustainable growth at the heart of our Group strategy: we want to be an excellent employer and a role model for the environment, safety and integrity, to excite customers and to ensure that we achieve competitive profitability at the same time. Our corporate citizenship activities also support us in this endeavor. We understand corporate citizenship as voluntary services that our company performs for society above and beyond our core business. These services address social challenges, but are also designed to promote business objectives such as improving our reputation, credibility and/or attractiveness as an employer. Specifically, they may take the form of financial donations or donations in kind, social sponsoring, operational projects founded on the Company's initiative but also different forms of corporate volunteering.

By 2025, we aim to make the Volkswagen Group the world's number one in electric mobility. We have therefore set new priorities with Roadmap E. We also need to ensure that we detect risks and opportunities in the areas of environment, society and governance at an early stage at every step along the value chain.

Management and Coordination

The Volkswagen Group has created a clear management structure to coordinate the Group's activities as regards sustainability – including corporate citizenship. Its highest committee is the Group Board of Management. It is regularly briefed by the Group Sustainability steering group on all issues related to the topics of sustainability and corporate responsibility. The members of the Group Sustainability steering group include executives from central Board of Management business areas and representatives of the Group Works Council and the brands. The steering group's tasks include identifying the key action areas, making decisions on the strategic sustainability goals and programs, using indicators to monitor the extent to which these goals are being met and approving the sustainability report.

THE VOLKSWAGEN GROUP'S KEY ACTION AREAS

Sustainability activities are planned and managed by the functional area Group Sustainability. Its duties include coordinating all sustainability activities within the Group, the brands and the regions. These also include stakeholder management at Group level, for example contact with sustainability-driven analysts and investors. In addition, project teams work across business areas on topics such as decarbonization, human rights and sustainability in supplier relationships. This coordination and working structure is also largely established across the brands and is constantly expanding. Activities in fiscal year 2018 focused on strategically realigning the functional area Group Sustainability and anchoring sustainability in our core business, as well as on developing a sustainability program that places emphasis on climate protection and sustainable supply chains, among other things.

Sustainability Council

To support its strategic sustainability goal, the Volkswagen Group appointed a Sustainability Council in September 2016. This is made up of internationally renowned experts from the academic world, politics and society. The Council establishes its own working methods and areas of focus independently, has extensive rights for the purposes of exchanging information, consultation and initiating action, and consults regularly with the Board of Management, top management and the employee representatives.

In 2018, the projects initiated by the Council the year before were commenced: a dialog platform for innovations and cultural change in the area of sustainable mobility, an international program for mitigating the effects of climate change through forecast-based civil protection financing and a scientific study for designing future traffic policy in line with international climate targets. In addition, the Council decided on a further project for the strategic focus of sustainability at Volkswagen and the establishment of a visiting professorship for open labs and cultural change at the Einstein Center Digital Future in Berlin. Furthermore, the Sustainability Council formulated recommendations for how technological, political and cultural change should be organized to win back trust and lay the foundations for future success.

Materiality analysis

Two developments in 2018 continued to influence the detailed analysis as to which issues are material to the Volkswagen Group: the alingment of the Group as part of the future program TOGETHER – Strategy 2025 and dealing with the consequences of the diesel issue.

As the starting point for our analysis, we are oriented towards the Sustainable Development Goals (SDGs) formulated by the United Nations, which describe the social challenges facing companies. Based on the results, we defined 18 key action areas for achieving our goal of becoming one of the world's leading providers of sustainable mobility. In order to identify key topics, we took into account external studies, sector and media analyses, ratings, stakeholder surveys, internal and external guidelines and codes, the Group-wide future program TOGETHER – Strategy 2025 and the individual departmental strategies.

As the details of the Group strategy have not yet been finalized, we are still in the process of specifying the content of the key action areas and defining corresponding values, targets and indicators.

Principles and guidelines

Voluntary commitments and principles that apply throughout the Group form the basis of our sustainable focus. In addition, our sustainability model provides the framework for sustainable and responsible action. The Volkswagen Group's Code of Conduct applies to the entire Group and helps managers and employees alike to deal with legal and ethical challenges in their day-to-day work.

THE VOLKSWAGEN GROUP'S STAKEHOLDERS

We expressly support the United Nations Global Compact, an agreement between the UN and the business world aimed at enhancing the social and ecological aspects of globalization. As long ago as 2002, the Volkswagen Group made a commitment to promoting human rights, labor standards, environmental protection and combating corruption. We are seeking reincorporation of our membership in the United Nations Global Compact, which had been suspended following the diesel issue; talks on this were resumed in 2018. In addition, our objective is to ensure that our actions are in line with the declarations of the International Labor Organization (ILO), the principles and conventions of the Organisation for Economic Co-operation and Development (OECD) and the international covenants of the United Nations on basic rights and freedom.

We have established our own internal guidelines in the form of the Volkswagen Social Charter, the Charter on Labor Relations, the Charter on Vocational Education and Training, and the Charter on Temporary Work. The environmental policy and the environmental principles for products and production, which apply throughout the Group, are mandatory for environmental protection.

Strategic stakeholder management

Our stakeholders are individuals, groups, or organizations who have a material influence on or are materially influenced by the way in which the Group reaches its corporate decisions and the implications of those decisions. Our customers and our employees are our key stakeholders. Around this core, we have defined eight types of stakeholders. This classification is the product of a stakeholder analysis in which we regularly identify the Group's key stakeholder groups.

The role of stakeholder management is to enter into dialog with stakeholder groups in order to manage the many demands placed on us and integrate them into decision-making processes. To be able to systematically incorporate our stakeholders' suggestions and recommendations, we have set up councils such as the Sustainability Council and the Stakeholder Panel. The Panel is comprised of 300 national and international opinion leaders. In addition, we offer our stakeholders a broad range of opportunities for interaction and feedback channels including regular stakeholder discussion events, stakeholder surveys and international partnerships.

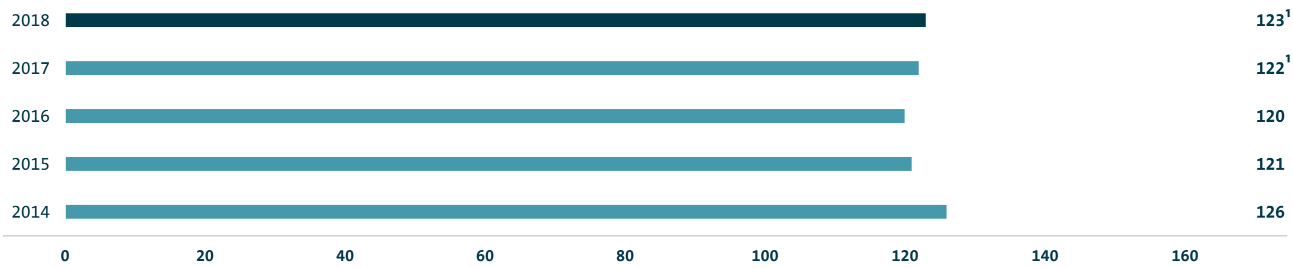
RESEARCH AND DEVELOPMENT

Forward-looking mobility solutions with brand-defining products and services would be unthinkable without innovations. This makes our research and development work essential for sustainably increasing the value of the Company.

Together with our Group brands, we have launched strategic initiatives for networking development activities across the Group based on our future program TOGETHER – Strategy 2025. At the heart of this is an efficient, cross-brand development alliance characterized by a close network of our experts, collaboration on an equal footing, an innovative working environment and the pooling of development activities. With this, we aim to make use of synergy effects across the Group and act as a role model for the environment, safety and integrity. The alliance is playing a major part in the Volkswagen Group's transformation into a leading provider of sustainable mobility and helping to make the Group fit for the future.

Based on this strategic focus, we concentrated in the reporting period on continuing to develop forward-looking mobility solutions, establishing technological expertise to strengthen our competitiveness, expanding our range of products and services and improving the functionality, quality, safety and environmental compatibility of our products and services, for example through cooperation across brands.

CO_2 EMISSIONS OF THE VOLKSWAGEN GROUP'S EUROPEAN (EU28) NEW PASSENGER CAR FLEET
in grams per kilometer



1 Subject to official publication by the European Commission in the annual CO_2 fleet monitoring report.

Fuel and drivetrain strategy

The Volkswagen Group's new passenger car fleet in the EU (excluding Lamborghini and Bentley) emitted an average of 123 g CO_2/km[1] in the reporting period and was thus below the 2018 European limit of 130 g CO_2/km. The small year-on-year increase is mainly attributable to the new measurement techniques to be applied. As small volume manufacturers, the Lamborghini and Bentley brands each have an independent fleet for the purposes of the European CO_2 legislation; Bentley complied with its individual target, Lamborghini was slightly above its target.

As part of a Group-wide initiative – and with a view to the legal regulations on emissions – we are currently developing a forward-looking vehicle and drivetrain portfolio: to achieve our goal of sustainable mobility, we have set ourselves the objective of increasing drive system efficiency with each new model generation – irrespective of whether the means of propulsion is a combustion engine, a hybrid, a plug-in hybrid, a purely electric drive, or a fuel cell drive system. The Volkswagen Group closely coordinates technology and product planning with its brands so as to avoid breaches of fleet fuel consumption limits, since these would entail severe financial penalties.

We anticipate that already by the year 2025, one in four new Volkswagen Group vehicles worldwide will have a purely electric drive; depending on the market development, this could be up to three million electric vehicles a year. The Volkswagen Group has launched a comprehensive electrification offensive in the form of Roadmap E. By 2025, we plan to offer our customers around the world more than 80 new electric models, including some 50 purely battery-electric vehicles and 30 plug-in hybrids. By 2030, the Volkswagen Group aims to electrify its entire model portfolio – from high-volume models to premium vehicles. This will mean offering at least one electric version – battery-electric, hybrid or mild hybrid vehicles – of each of our approximately 300 passenger car models across all Group brands. We are therefore developing two new electric platforms for vehicles with a range of up to 600 km.

The Volkswagen Group is committed to achieving the Paris climate targets and is pursuing the goal of making its vehicle fleet completely carbon neutral by 2050.

To enable sustainable, affordable mobility in the future for as many people around the world as possible, we will offer the full range of drivetrains – from conventional combustion engines to all-electric drive. From today's perspective, conventional combustion engines look set to make up the lion's share of drive technology in the coming years. In the interest of using resources responsibly, it is therefore essential to further enhance this engine segment and systematically consolidate it for specific markets. Powertrain measures such as far more sophisticated exhaust gas purification or mild hybridization of the vehicles, but also vehicle measures such as optimized aerodynamics or reduced rolling resistance will be necessary to fulfill future emissions standards.

In addition to electric drives and more efficient combustion engines, renewable, reduced-CO_2 fuels (in gas or liquid form) are playing an increasingly important role. We support the expansion of the natural gas (CNG) infrastructure and are conducting intensive research into options for producing fuels from renewable electricity, enabling carbon-neutral operation of combustion engines.

Last but not least, we are working under Audi's leadership to make fuel cell technology ready for market.

It is more important to us than ever to rigorously pursue our modular approach. We are reducing the number of individual modules so that we can make a large product portfolio economically viable. Over the long term, we will reduce the number of versions of conventional combustion engines in the Group by more than a third. This will create capacity for the development and production of new hybrid and electric drives.

Life cycle engineering and recycling

On their own, technological innovations for reducing fuel consumption are not enough to minimize the effect of vehicles on the environment. That is why we examine the entire product life cycle of our vehicles – from the extraction of raw materials to the production of components and the provision of fuel and energy during vehicle use to their final disposal. We identify the stages of the life cycle at which improvements will have the greatest effect and develop appropriate solutions. We call this life cycle engineering. Recycling, for example, is an important means of reducing environmental impact and conserving resources. Already when developing new vehicles, we therefore pay attention to the recyclability of the required materials, use high-quality recycled material and avoid pollutants. At the end of their lives, our vehicles are 85% recyclable and 95% recoverable.

Leveraging synergies increases efficiency

When developing vehicles, we cooperate closely with our brands to leverage synergies. The joint strategy of our development alliance aims, for example, to make the Group more competitive and viable in the long term by deploying resources more effectively and efficiently in the research and development of new mobility-related technologies, products and services. In our Group-wide development alliance, the brands not only work with each other, but also for each other on key technologies, forming cross-brand networks of expertise to address the topics of the future. For example, we consolidated the Group's activities and responsibility for the development, procurement and quality assurance of all battery cells centrally in a Center of Excellence under the umbrella of the Volkswagen Passenger Cars brand. There, a pilot line for cell production will be put into operation in 2019 to build up expertise for the Group in cell design, as well as throughout the entire value chain.

Our modules are also managed centrally to reduce costs, capital expenditure and complexity. With the aid of a Group initiative, we are seeking to reduce expenditure in the toolkits, while at the same time implementing a wide-reaching electrification offensive and focusing on autonomous systems. We will achieve this through a considerable reduction in complexity using streamlined platforms that synergize but do not overlap. The individual Group brands are using the modular toolkits, thus creating synergies between the various models of a model line and across model lines. The streamlined toolkits are creating the financial leeway for development of the future trends of digitalization and autonomous driving. As part of the TOGETHER – Strategy 2025 program, the high-volume passenger car brands have introduced model line organization through a Group initiative, consequently strengthening the brands' responsibility for the success of vehicle projects, improving project work across different cross-departmental areas, accelerating decision-making and intensifying the focus on results of projects.

We are also creating synergy effects by continuing to widely share best practices, for instance in virtual development and testing. Finally, the centralized development and consolidation of IT systems is also helping to strengthen cooperation across brands, make development activities more comparable and reduce the Group's IT costs.

Sustainable mobility, connectivity and automated driving

Mobility is a prerequisite for economic growth. But while the need to always be mobile is rising, natural resources are dwindling. This calls for holistic mobility concepts to minimize the environmental impact. Such solutions need to be efficient, sustainable, customer-oriented and accessible anytime and anywhere.

We are researching and developing such pioneering concepts and solutions in our Group-wide alliance. In shaping the future of mobility, we are looking not only at the automobile but at all modes of transport and transport infrastructures, at people's mobility habits and at other relevant factors. Innovations such as digital connectivity and automated driving allow for completely new problem-solving approaches. We strive to utilize these in order to play our part in a comprehensive mobility system in the future and to help shape our industry's transformation.

Another initiative of our future program TOGETHER – Strategy 2025 focuses on establishing a cross-brand mobility solutions business. Our mobility business MOIA is to become one of the leading providers of innovative transport services and will develop profitable and globally scalable business models. Strategic investments and partnerships are also being sought. Our strategic goal is to make Volkswagen one of the world's leading providers of efficient and convenient smart mobility services by 2025, with a portfolio encompassing all brands and both “mobility as a service” and “vehicle on demand” services.

On the road to autonomous driving, the Volkswagen Group further improved its assistance systems and automated driving functions in 2018 and fitted them in vehicles. The strategic objective is to market highly automated driving functions for private vehicles, shared mobility systems and commercial mobility providers as a core competency of the Group. The Volkswagen Group has introduced its vision of an autonomous mobility system in the form of the Sedric family, comprising fully autonomous vehicles for short- and long-distance mobility, as well as sports cars, self-driving delivery vehicles and heavy trucks. In both, cities and rural areas, these vehicles will enable new forms of mobility – particularly for user groups that have so far been excluded from access to mobility.

Autonomous driving in complex urban environments places especially heavy demands on technology. We are dedicated to meeting these challenges. Our Autonomous Intelligent Driving GmbH is working on developing a Group-wide system for self-driving vehicles.

Given the growing number of digital and software-based vehicle-related components, customer satisfaction with these elements is becoming increasingly important. The goal of a Group initiative is therefore to make Volkswagen one of the best companies worldwide in terms of user experience. Close collaboration among our Group brands in this area provides the basis for this.

Pooling strengths with strategic alliances

The future program TOGETHER – Strategy 2025 plans to transform our core business and to establish a new mobility solutions business area at the same time. It is decisive to the success of this plan that we place our great innovative strength on even broader foundations.

Growth in the mobility sector is currently a global phenomenon, above all in the economy segment. As part of a Group initiative, Volkswagen is therefore increasingly entering into local partnerships to develop and offer economy products in line with the market. This is helping us to identify regional customer needs more precisely, to adjust our product range accordingly and to establish competitive cost structures. We are therefore concentrating to a greater extent on partnerships, acquisitions and venture capital investments and managing investment selection centrally so as to generate maximum value for the Group and its brands. In light of this aspect, we have formed a large-scale alliance with the Ford Motor Company. The first step involves a collaboration regarding the development of vans and mid-sized pickups starting in 2022. This alliance allows us, in addition to making optimal use of manufacturing capacity, to share the development costs and improve the performance and competitiveness of the vehicles. This generates cost savings, while further strengthening our innovative power. Beyond this specific agreement, we are considering collaboration for additional mobility and vehicle concepts.

Thanks to our strategic partnership with Microsoft, we are accelerating our transformation into a mobility service provider with a fully connected vehicle fleet and our digital ecosystem “Volkswagen We”. Working together, we aim to press ahead with software development for the automobile of tomorrow and new services for our customers. This enables the comprehensive strengthening and expansion of our IT expertise and solutions.

Developing battery technology as a core competency has also been defined in a strategic initiative of the Volkswagen Group. The battery accounts for 20 to 30% of the cost of materials in electric vehicles; in future, it will be one of the most important components for differentiating between products. We have already pooled our in-house expertise in battery cells in a Center of Excellence and also plan to accelerate the building up of expertise and technological change through intelligent partnerships. We anticipate that our own electric fleet with lithium-ion batteries will require a battery capacity of more than 150 GWh a year in the period to 2025. To cover this enormous demand, we have defined strategic battery cell suppliers for our most important markets and the first MEB models, and we aim to initiate further long-term strategic partnerships in China, Europe and the USA. Looking ahead, we are already preparing for the next generation: together with partners, we aim to develop solid-state batteries to market readiness.

As part of the joint involvement of our Group brands Volkswagen Passenger Cars, Audi and Porsche in the pan-European High-Power Charging (HPC) joint venture IONITY, a comprehensive charging infrastructure is being built to safeguard long-distance mobility: by 2020, we aim to jointly build and operate fast-charging stations at 400 locations along major transport arteries in Europe.

As part of forward-looking mobility concepts, the Volkswagen Group is also working on robot-based service solution for a variety of tasks. Rapid charging of an electric vehicle for example – be it in the user's garage at home, in underground car parks or in car parks – is something that could be done by a service robot in the future: when the driver gets out of the vehicle in front of the car park, their self-driving electric car autonomously looks for a free parking space and is charged there by "CarLa" – a charging robot that the Volkswagen Group and automation specialist KUKA presented at the Geneva International Motor Show in 2018.

In view of the growing importance of e-mobility, lightweight automotive engineering is considered a key technology for future competitiveness because a lighter vehicle weight increases the range of electric vehicles. Our Material Research team plays a major role in the Open Hybrid LabFactory, a public-private partnership in which various industry and research partners work together to develop lightweight construction solutions for mass production.

We are actively involved in public projects to help shape the framework conditions for the approval and introduction of our own self-driving system. The experience we are gathering here will benefit the Group brands and thus also our customers.

Key R&D figures

In fiscal year 2018, we filed 7,639 (6,566) patent applications worldwide for employee inventions, around half of them in Germany. The fact that an ever increasing share of these patents is for important cutting-edge fields underscores our Company's innovative power. These fields include driver assistance systems and automation, connectivity, alternative drive systems and lightweight construction.

The Automotive Division's total research and development costs in the reporting period were 3.8% higher than in the previous year; their percentage of the Automotive Division's sales revenue – the R&D ratio – came to 6.8 (6.7)%. Along with new models, above all the main focus was on the electrification of our vehicle portfolio, a more efficient range of engines, digitalization and new technologies. The capitalization ratio was 38.4 (40.0)%. Research and development expenditure recognized in profit or loss in accordance with IFRSs increased to €12.1 (11.6) billion.

As of December 31, 2018, our Research and Development departments – including the equity-accounted Chinese joint ventures – employed 51,948 people (+5.3%) Group-wide or 7.8% of the total headcount.

RESEARCH AND DEVELOPMENT COSTS IN THE AUTOMOTIVE DIVISION

€ million	2018	2017
Total research and development costs	13,640	13,135
of which capitalized development costs	5,234	5,260
Capitalization ratio in %	38.4	40.0
Amortization of capitalized development costs	3,710	3,734
Research and development costs recognized in profit or loss	12,116	11,609
Sales revenue	201,067	196,949
Total research and development costs	13,640	13,135
R&D ratio	**6.8**	**6.7**

PROCUREMENT

In fiscal year 2018, the main task for Procurement was once again to safeguard the supplies and to help create competitive, innovative products and optimize cost structures. In addition, we continued to digitalize procurement processes.

Procurement strategy

A global network of strong business partners and suppliers is paramount for achieving the goals of the Group strategy known as TOGETHER – Strategy 2025. We are implementing our Group-wide vision TOGETHER – Best in Customer Value and Cost with our procurement strategy 2025. This involves using our strengths to deliver products with a high customer value and optimum cost structures that meet the needs of the market. We integrate knowledge from our global supplier networks, secure expertise for the global procurement markets of the future and ensure well-timed industrialization and market implementation in line with cost requirements. Six goals were agreed upon with the brands and regions:

- Access to supplier innovations
- Active cost structures
- Forward-looking structures
- People, expertise and attractiveness
- Supply chain excellence
- Group-wide synergies

We intend to achieve these goals with initiatives that accomplished noticeable results in 2018.

By simplifying technical component concepts and bringing these into line with global standards, we generated significant savings. Based on these results, we are now rolling out the approaches to other regions and vehicle projects. Over half of our purchasing projects have already benefited from an extended cost analysis.

We have secured important innovations for the Company with our innovation contracts. In the case of new technologies, we selected suitable partners early on to allow innovations to be implemented in the market.

We are tackling the challenges of the transformation in our procurement markets by setting up a Connectivity, eMobility & Driver Assistance Systems division. The redesign of our procurement process for software and data will pave the way for partnerships that are secure for the future.

Implementation of the Group Procurement Suite is a means of revamping our procurement systems, automating procurement operations and facilitating the support of strategic procurement activities through analyses and artificial intelligence.

Volkswagen FAST – Supplier network as the basis for success

FAST is the central initiative of Group procurement, introduced in 2015 with the aim of making the Volkswagen Group and its supply network future-proof. The goal of FAST is to successfully implement the key topics of innovation and globalization by involving suppliers at an earlier stage and more intensively. The FAST initiative enhances the quality and speed of collaboration with our key partners, and thus enables us to coordinate global strategies and points of technological focus even more closely. The common goal is to make impressive technologies available to our customers more quickly and to implement worldwide vehicle projects more effectively and efficiently.

After incorporating additional partners into the FAST program in 2017, we worked with these partners in the reporting period to exploit the benefits of the strategic integration.

Digitalization of supply

We are working systematically to implement a completely digitalized supply chain. This will help us to ensure supply, leverage synergies throughout the Group and become a leader in terms of cost and innovation. We are therefore creating a shared database and using innovative technologies to enable efficient, networked collaboration in real time – both within the Group and with our partners. The cornerstone for the future of Procurement was laid in 2018 in the form of Group Procurement's digitalization strategy. This strategy aims not only to eliminate the weaknesses of Procurement's IT system environment but also to increase the organization's effectiveness, efficiency and future viability.

Structure of key procurement markets

Our procurement is organized at global level, with a presence in the key markets around the world. This ensures that production materials, investments in property, plant and equipment, and services can be procured worldwide to the quality required on the best possible terms. Networking of the brands' procurement organizations enables us to leverage synergies across the Group in the various procurement markets.

In addition to the brands' procurement units, the Volkswagen Group operates eight regional offices. In growth markets, we identify and train local suppliers to generate cost advantages for all the Group's production sites. In familiar and established markets, the regional offices support access to the latest technologies and innovations.

Supply situation for purchase parts and upstream materials
Systematic safeguarding of the supply of purchase parts is one of Procurement's goals. As a result of the new WLTP test procedure and the related changes in the production programs, we required a high degree of flexibility from our suppliers. Adverse effects on production in the Group caused by unforeseeable events such as natural disasters were minimized to the best of our ability.

Management of purchased parts and suppliers
The importance of managing purchased parts and suppliers is steadily growing due to the continued globalization of supply chains. We support and supervise the processes from development to series production of the purchased parts, making a substantial contribution to ensuring production start-ups for vehicles and powertrains all around the world. Our activities in purchased parts management focus on safeguarding component quality and the industrialization process at the individual supplier locations. At the same time, increased complexity in the automotive industry requires regular monitoring and safeguarding of supplies for series production. In order to identify any disruptions at an early stage and take necessary countermeasures, we simulate series production at suppliers as part of the pre-production process. Purchased Parts Management works closely with Quality Assurance at the production sites and conducts multi-stage performance testing.

Sustainability in supplier relationships
Successful relationships with our business partners are based upon observance of human rights, compliance with occupational health and safety standards, active environmental protection and combating corruption. These sustainability standards are defined in the contractually binding Volkswagen Group requirements for sustainability in relations with business partners (Code of Conduct for Business Partners).

Especially in view of the more stringent sustainability requirements being imposed worldwide, training and professional development for our suppliers is a key aspect of our sustainability in supplier relationships concept. By the end of the reporting period, more than 31,000 supplier locations had completed our online training program since 2012. In the Asia-Pacific, South America and European regions, we trained over 900 employees from more than 550 suppliers at face-to-face events addressing topics such as sustainability, and informed them of region-specific challenges. In addition, we raised awareness of sustainability risks in Procurement with face-to-face events attended by over 2,000 Procurement employees.

Our supplier checks for verifying compliance with sustainability requirements retained their importance in 2018. For this reason, we once again considerably increased the number of checks performed year-on-year and conducted local audits at 947 supplier locations. In 551 cases, an action plan was agreed upon that led to an improvement in suppliers' sustainability performance. Furthermore, checks of more than 28,000 supplier locations were carried out by means of questionaires relating to sustainability since 2012, allowing improvements in sustainability performance to be achieved in more than 2,100 cases during the reporting period.

In 2018, we also decided to introduce a comprehensive sustainability rating for the awarding of contracts in which the criteria environment, society and compliance will be systematically reviewed prior to the conclusion of all contracts starting in 2019. Only suppliers with a positive sustainability rating will have the opportunity to enter into a business relationship with us.

COMPONENTS BUSINESS
A realignment of the Group-wide components business was decided upon as part of the future program TOGETHER – Strategy 2025. The aim is further improvement in competitiveness through cross-brand management of components activities and a value creation strategy coordinated throughout the Group. For traditional technologies and topics of the future, synergies will be leveraged to advance the progressive transition to e-mobility.

The expertise of the components business, which employs some 80,000 people worldwide, lies in the development and manufacture of vehicle components. In order to realign these competencies in a future-oriented way, it was decided as part of the Group strategy to combine components activities around the world into an independent entity, Volkswagen Group Components.

To this end, five new business areas were formed in 2018: Engine and Foundry, Transmissions and Electric Drive Systems, E-Mobility, Chassis and Seats. In each of the five business areas, the different departments such as Development, Procurement and Production will cooperate closely at an early stage to boost innovative power and competitiveness.

To achieve efficiency targets, manufacturing and administration processes will consistently be made leaner; shop floor management, which ensures uniform communication between management, foremen and employees, will be enhanced and savings will be generated by implementing optimization measures at the sites.

For its product portfolio, the components business relies on sustainable economic products. Products that are not competitive will be progressively phased out in the medium to long term. E-mobility components will instead become an integral part of the portfolio.

Employees who take on new responsibilities in this respect will receive appropriate training.

PRODUCTION

Our global, cross-brand production network safeguards the processes from the supplier to the factory and assembly line, and from the factory to dealers and customers. Enduring efficiency is a prerequisite for our competitiveness. We meet challenges of the future with holistic optimizations, forward-looking innovations, flexible supply streams and structures, and an agile team. In fiscal year 2018, the global vehicle production volume surpassed the previous year's level, reaching 11.0 million units. Productivity increased by around 5.3% year-on-year, despite the continuing difficult conditions in many markets.

"Intelligently networked" production strategy

Production is supporting the future program TOGETHER – Strategy 2025 with their "intelligently networked" functional area strategy. By intelligently connecting people, brands and machines, we aim to pool the strengths and potential of our global production and logistics and take advantage of the resulting synergy effects. We are guided in this by four strategic goals:

- Versatile production network
- Efficient production
- Intelligent production processes
- Future-ready production

With division-specific initiatives we have created content clusters in which expert teams work on the strategic topics relevant for production in the Group. Examples include the competitive design of our global production network, the reduction and offsetting of environmental impact throughout the production process, and digitalization with its implications for production and working processes and for collaboration. The overarching aim is to increase productivity and profitability.

With the production strategy, we have laid the foundations for the successful and sustainable enhancement of our production. We use regular reviews to ensure that we constantly align our activities to the current challenges.

Global production network

With twelve brands and 123 production locations, aspects such as consistent standards for product concepts, plants, operational equipment and production processes are key to forward-looking production. These standards enable us to achieve synergy effects, respond flexibly to market challenges, make optimal use of a flexible production network and realize multibrand locations. Currently, almost half of the 45 passenger car locations are already multibrand locations. The Bratislava site continues to serve as a prime example, producing vehicles for the Volkswagen Passenger Cars, Audi, Porsche, SEAT and ŠKODA brands. The newest multibrand location is Wolfsburg, where production of the SEAT Taracco began in the autumn of 2018.

The Volkswagen Group has set itself the goal of becoming one of the world's leading providers of battery-electric vehicles by 2025. The basis for this is the introduction of the Modular Electric Drive Toolkit MEB, which we will use to complement our range with additional battery-electric vehicles.

In order to design multibrand projects and for electric mobility to be cost-effective in conjunction with existing concepts, it is important to make production highly flexible and efficient. Making maximum use of potential synergy effects is also a decisive factor for the success of future vehicle projects. Using common parts and concepts as well as identical production processes enables reduced capital expenditure and provides the opportunity to better utilize existing capacities. The future will also see electric vehicle projects at multibrand locations such as Zwickau, Germany and Anting, China.

We are constantly enhancing our production concepts and aligning them with new technologies. The targeting process anchored in our strategy serves to realize ambitious targets in individual projects as part of a cross-divisional approach.

Production locations

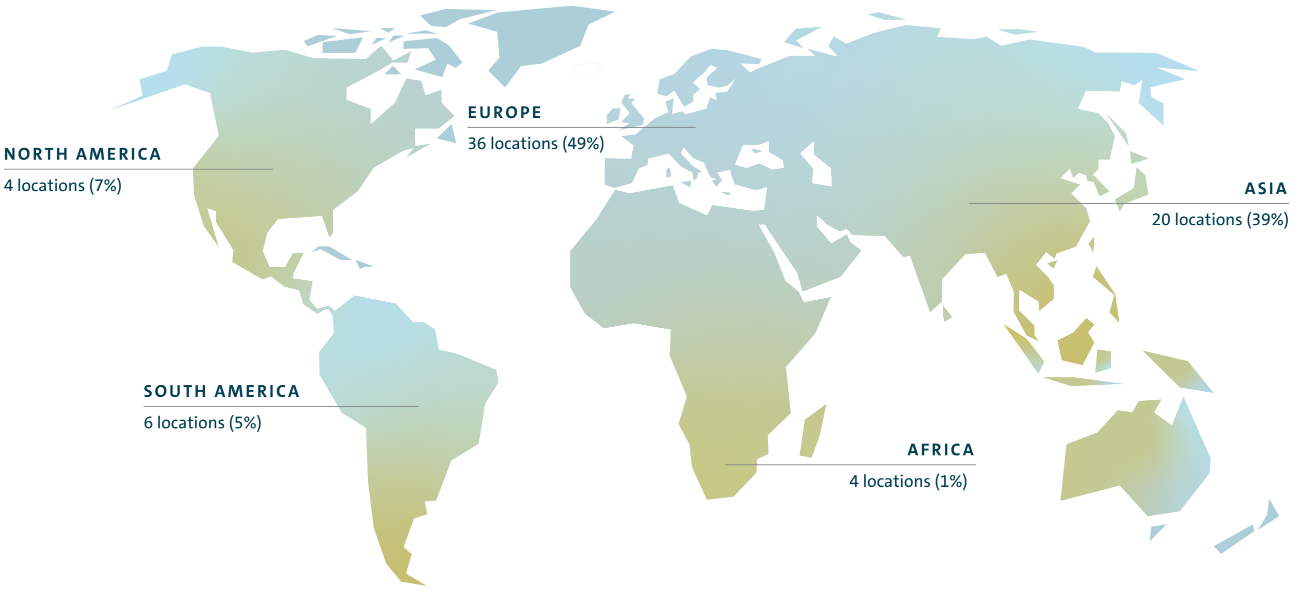
The Volkswagen Group's production network is comprised of 123 locations in which passenger cars, commercial vehicles and motorcycles, as well as powertrains and components are manufactured.

With 71 locations, Europe remains our most important production region for vehicles and components. There are 28 sites in Germany alone. The Asia-Pacific region has 34 locations. We have five locations in North America and nine in South America. The Group operates four locations in Africa.

2018 saw 52 production start-ups: 29 for new products and successor products and 23 for product upgrades and derivatives.

Capacity utilization of the locations in the Volkswagen Group's production network is further enhanced by supplying the locations with complete knock-down (CKD) kits for local assembly.

VEHICLE PRODUCTION LOCATIONS OF THE VOLKSWAGEN GROUP
Share of total production 2018 in percent



The Group's production system

Our aim is to continuously and sustainably improve our production workflows at all the brands' and regions' locations. A key component for achieving excellence in processes in production and production-related environments is the Group production system; we are further consolidating this and increasing the extent to which it is used.

Leadership and individual responsibility are the foremost factors, embedded in a culture of respect and collaboration.

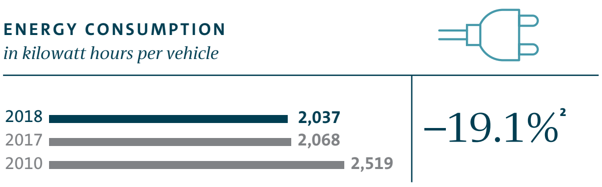
A factory must work at optimal capacity if it is to achieve the goal of continuing to manufacture high-quality products that give customers maximum benefits at competitive prices. This is made possible by the standardization of production processes and operating equipment early on in the line, based on the principle of concept consistency. This ensures that common design principles, joining techniques and joining sequences, but also installation and connection concepts are applied in the brands' development and production areas. The principle of concept consistency is used to establish a foundation for creating efficient logistics and manufacturing processes.

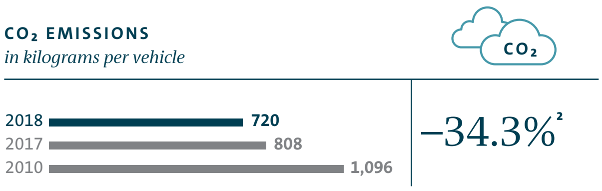
New technologies and product innovations

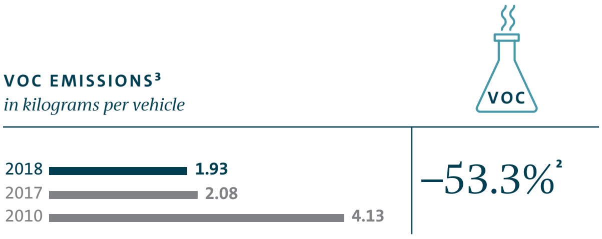
3D printing is one of the key technologies for Industry 4.0 and digitalizing the automotive value chain. The process opens up wholly new opportunities in the areas of development, design and production. Due to the digital nature of the technology, which requires no tools whatsoever, components can be flexibly implemented directly from digital drawings, and completely new designs and component geometries can be created. The technology of 3D printing has been successfully used for building prototypes for many years now and has advanced rapidly in recent years – also accompanied by new areas of application at Volkswagen. The specific characteristic of this technology, an additive manufacturing technique, is its influence along the entire automotive value chain. It is used for early design studies, for building prototypes, for manufacturing tools and operational equipment, for producing parts in small batches and for the manufacturing of replacement parts in after sales. The materials available for 3D printing range from plastics to fiber composite materials and metallic materials.

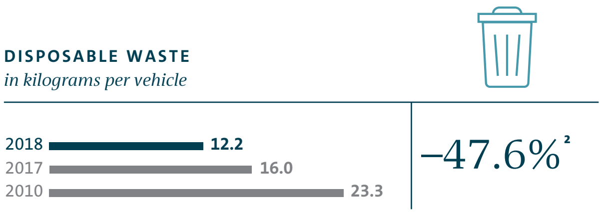
However, there is still a long way to go before large-scale automotive production applications are possible. Here, Volkswagen leverages the diversity of the Group, achieved through close collaboration between its brands, and cooperates with leading technology providers and research institutions. For example, the Volkswagen Passenger Cars brand has partnered with printer manufacturer HP and component producer GKN Powder Metallurgy to become the first automaker to use HP Metal Jet, the latest 3D printing technology.

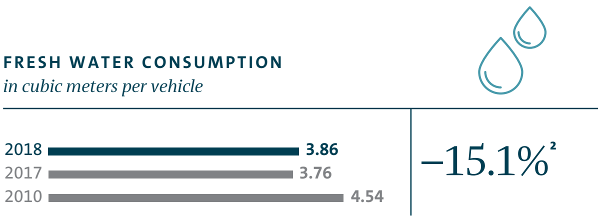
KEY ENVIRONMENTAL INDICATORS FOR PRODUCTION IN THE VOLKSWAGEN GROUP[1]











1 Production of passenger cars and light commercial vehicles. Prior-year figures adjusted.
2 Change 2018 as against 2010.
3 Volatile organic compounds (VOCs).

Where the design and introduction of new production technologies is concerned, affected staff are involved in the redesign of workplaces and processes from the outset. This is an important prerequisite if new technologies and solutions are to find the necessary acceptance.

Environmentally efficient production

One element of the production strategy is the environmentally exemplary production initiative. This involves us working on four key issues in the period leading up to 2025:

- Setting and achieving ambitious environmental targets for production
- Developing a long-term vision for environmental targets in production and rolling it out across the Group
- Strengthening employees' environmental awareness and integrating relevant environmental aspects into processes
- Achieving top positions in renowned environmental rankings

In this context, the Volkswagen Group has set itself the goal of reducing the five key environmental indicators of energy and water consumption, waste for disposal, and CO_2 and VOC emissions in production by 45% for each vehicle produced by 2025 – starting from 2010 levels. This objective applies to all of the Group's production locations and is derived from our environmental requirements for production processes, which are anchored in the Group's environmental principles. The charts above show the development of these indicators.

We are encouraging networking and communication between the brands worldwide in order to leverage synergies. Our environmental experts meet regularly in working groups; in addition, we train our employees on the topic of environmental protection.

To identify and implement site-specific cost-cutting measures, the Environmental Task Force analyzes manufacturing processes, factory supply systems and resource and energy flows at the Group's locations and evaluates the impact of the efficiency measures. Based on the experience from the analyses in several brands and regions, the team can systematically reinforce and spur on the transfer of measures.

We record and catalog environmental measures in an IT system and make these available for a Group-wide exchange of best practices. In the reporting period, around 1,500 implemented measures in the area of environment and energy were documented in this system. They serve to improve infrastructure and production processes for passenger cars and light commercial vehicles. These activities are beneficial from an environmental and economic perspective.

With a series of effective, innovative measures, we were once again able to reduce environmental indicator levels in the reporting period, while at the same time improving production processes.

Green logistics

Logistics contributes to the Volkswagen Group's focus on the environment by analyzing the emissions of the entire transport chain. The Green Logistics initiative promotes alternative means of transport and sustainable, energy-efficient transport systems.

Building on the dialog established between Group Logistics, Scania, forwarders, authorities and oil companies at the LNG Truck Day in September 2017, the concept of LNG-trucks (liquefied natural gas) will now be put into practice. The aim is to have LNG trucks drive on many routes in the future, which will require an appropriate fuel station network. Together with its service providers, Group Logistics is planning to deploy approximately 100 LNG trucks in northern Germany in the medium term. The first trucks hit the roads in January 2019.

Where transport activities are concerned, maritime transport represents another important starting point for reducing CO_2 emissions. In mid-2019, Volkswagen Group Logistics will put two LNG-powered charter ships into service. The low-emission LNG ships will transport vehicle models produced by the Volkswagen Group between Europe and North America.

To ensure that our employees can provide the best possible support along the path to achieving our environmental targets and can also help shape this path, in-house training courses on green logistics and lectures at universities are a fixed part of the vocational training program.

SALES AND MARKETING

As part of our future program, we have developed a sales and marketing strategy aimed at exciting customers on a whole new level under the slogan "customer delight". We regard ourselves as an innovative and sustainable mobility provider for all commercial and private customers worldwide – with a unique product portfolio encompassing twelve successful brands and innovative financial services.

In the 2018 fiscal year, we achieved a milestone in our TOGETHER sales strategy: together with their sales partners and importers, our passenger car brands agreed on a procedure for integrating innovative products and services into the sales network. The priority is safe handling of customer data and the way in which this is processed for digital products and services or in connection with the vehicle purchase. The legal requirements for handling customer data have been tightened in many countries. At the same time, new Group vehicles that are permanently connected to the Internet are about to be launched. We are increasingly investing in distribution systems and processes with the goal of further digitalizing and improving the individual customer experience in all distribution channels.

Optimal coverage of markets, customer segments and customer budgets is at the heart of a strategic Group initiative. To this end, we are establishing automobile-specific customer segmentation to steer the positioning of our brands. At the same time, we are examining global markets for potential revenue sources. This methodology has already been established for Europe and China and was rolled out to further markets including the United States and Brazil in 2018. It will be continuously applied in the strategy and product process and regularly reviewed and adjusted as necessary whenever new market requirements arise.

Customer satisfaction and customer loyalty

The Volkswagen Group aims its sales activities at exciting its customers. This is our top priority, as excited customers remain loyal to our brands and recommend our products and services to others. In addition to satisfaction with our products and services, we value our customers' emotional connection to our brands. It is important for us to retain customers and win new ones. To measure our success in this area, we compile and analyze two strategic indicators for the major passenger car-producing brands:

- Loyalty rate. Proportion of customers of our passenger car brands who have bought another Group model. The loyalty of Volkswagen Passenger Cars, Audi, Porsche and ŠKODA customers has kept these brands in the upper loyalty rankings in the core European markets in comparison with competitors for a number of years even though the Volkswagen Passenger Cars and Audi brand have seen a slight decrease in the loyalty rate as a consequence of the diesel issue. Compared to other manufacturer groups, the Volkswagen Group continues to hold a top spot in the core European markets in terms of loyalty, with a considerable margin over the competition.
- Conquest rate. Newly acquired passenger car customers as a proportion of all potential new customers. Here, too, the Volkswagen Group has a top ranking in comparison with competitors, primarily thanks to the good scores achieved by the Volkswagen Passenger Cars brand.

In the core European markets, the downward trend in brand image and brand trust at the Volkswagen Passenger Cars brand as a consequence of the diesel issue did not continue in 2018. After the first signs of recovery had been seen in 2017, the figures continued to stabilize in the reporting period. Porsche remains in top position in the image ranking.

We also use a strategic indicator to measure the satisfaction of customers with our products and services in the truck business:

- Customer satisfaction. In the markets relevant for the Volkswagen Group, we aim to be one of the industry leaders in terms of the satisfaction rate for our commercial vehicle brands. To evaluate these criteria, we use customer satisfaction studies, which again delivered exceedingly positive satisfaction figures in line with our targets in the reporting period.

In the financial services business, we use two strategic indicators:

- Customer satisfaction. Satisfaction of our customers results from a customer-oriented product range and the service focus of our staff. In the annual assessment, these two aspects serve as suitable indicators for the critical evaluation as to whether we will achieve our customer satisfaction target of 90% in 2025. In 2018, we were within the expected range with a satisfaction rate of 82%. Our goal is to satisfy our customers completely. To do so, we are developing current measures at country level.
- Customer loyalty. Trust in and loyalty to our services rely on customer satisfaction with our product range and service. New contract rates are regularly determined based on product sales to our customers – financing and leasing agreements for purchases of new Volkswagen Group vehicles. Currently at 20%, these are proof of customers' trust in our financial services. With ambitious targets of 50% for 2025, we underscore the focus on fulfilling the needs of our customers.

E-mobility and digitalization in Group Sales

As part of our Roadmap E, we aim to offer our customers around the world more than 80 new electric models, including around 50 pure battery-electric vehicles and 30 plug-in hybrids by 2025. This campaign will be complemented by vehicle-related, customer-focused offerings, such as customized charging infrastructure solutions and mobile online services. This is turning the Volkswagen Group from an automotive manufacturer into a mobility service provider, posing completely new challenges for sales.

We are making highly targeted use of the opportunities of digitalization in sales, which include an improved customer approach. Our actions are guided by a clearly defined strategy that requires extensive cooperation between the brands to achieve the greatest possible synergies. Our aim here is to create a completely new product experience for the customers of our brands – one which impresses with its seamless communications, from the initial interest in purchasing a vehicle, to servicing and ultimately to the sale of the used car. In doing so, we are opening up new business models relating to every aspect of the connected vehicle – in particular with regard to mobility and other services. Vehicles are becoming an integral part of the customer's digital world of experience.

We also gear our internal processes and structures to the methods and new forms of working created by digital innovation. The result is project teams operating across different business areas, new forms of cooperation, a more intensive relationship with the international start-up scene, a consolidation of venture capital expertise – as a form of supporting innovative ideas and business models – as well as new lean systems and cloud-based IT solutions.

Fleet customer business

Business relationships with fleet customers are often long-term partnerships. In a volatile environment, this customer group guarantees more stable vehicle sales than the private customer segment.

The Volkswagen Group has an established base of business fleet customers in Germany and the rest of Europe in particular. Our extensive product range enables us to satisfy their individual mobility needs from a single source.

In the German passenger car market, which declined as a whole by 0.2% in 2018, the share of fleet customers in total registrations fell to 13.6 (14.1)%. The Volkswagen Group's share of this customer segment decreased to 44.0 (44.7)%. Outside Germany, the Group's share of registrations by fleet customers in Europe remained stable at 25.2 (25.2)%. The upward trend until August shows that fleet customers still have considerable confidence in the Group. The temporary limitation of the model range as a consequence of the changeover to the WLTP had a negative impact from September 2018 onwards.

After Sales and Service

In addition to individual service, the timely provision of genuine parts is essential to ensure passenger car customer satisfaction in After Sales. The genuine parts supplied by our passenger cars brands and the expertise of the service centers represent the highest level of quality and ensure the safety and value retention of our customers' vehicles. With our global after sales network including more than 130 of our own warehouses, we ensure that almost all our authorized service facilities around the world can be supplied within 24 hours. We regard ourselves as a complete provider of all products and services relevant to customers in the after sales business. Together with our partners, we ensure the worldwide mobility of our customers. The partner businesses offer the entire portfolio of services in all vehicle classes. We are continuously expanding our range of tailored services in order to improve convenience for our customers and increase customer satisfaction.

In the Digital After Sales project, we are modernizing processes and IT systems in After Sales. By adopting an approach that focuses product and service development on the specific needs of both dealers and customers, we aim to reduce the time needed for administrative tasks at the dealers through automated, interrelated services and also stabilize existing IT systems and boost efficiency. Innovative digital after-sales services will additionally improve the customer experience.

Around the world, our commercial vehicles business also prides itself on products of the highest quality and on customer focus. Our range of trucks, buses and engines is complemented by services that guarantee fuel efficiency, reliability and good vehicle availability. The workshop service and service contracts offer customers a high degree of certainty, in addition to a high level of quality. We are reducing servicing times and costs with a view to the vehicles' total operating costs and helping to retain their value.

In the Power Engineering segment, we help our customers ensure the availability of machinery with MAN PrimeServ. The global network of more than 100 PrimeServ locations guarantees excellent customer focus and offers, among other things, replacement parts of genuine-parts quality, qualified technical service and long-term maintenance contracts.

GROUP QUALITY MANAGEMENT

The quality of our products and services plays a key role in maintaining customer satisfaction. Customers are particularly satisfied and loyal when their expectations of a product or service are met or even exceeded. Appeal, reliability and service determine quality as it is perceived by the customer throughout the entire product experience. Our objective is to positively surprise our customers and fill them with enthusiasm in all areas, and thus to win them over with our outstanding quality.

Strategy of Group Quality Management

We embody outstanding quality and ensure dependable mobility for our customers worldwide – this is the strategic goal that guides the work of Group Quality Management. Group Quality Management and the brands' quality organizations play an active role at all stages of product emergence and testing, making an important contribution to successful product launches, high customer satisfaction and low warranty and goodwill costs.

In consultation with the brands, we developed the Group Quality Management strategy as part of our future program TOGETHER – Strategy 2025. Focal areas include digitalization, new technologies and business fields, as well as uniform processes, methods and standards at all brands.

Advancing digitalization is also a major challenge for the Volkswagen Group: an ever increasing number of digital products and services is being developed and brought to market. To continue to ensure our customary level of quality and safety amid this diversity, we must adapt our quality measures accordingly. For example, the increased functional diversity and complexity of the driver assistance systems, extending all the way to autonomous vehicles, means that the software is also growing in scope. We have therefore introduced the processes and structures of what are known as smart quality organizations in the Group and the brands, completing this in the reporting period. Among other things, smart quality organizations refine the methods we use to support the development of software for selected critical features, and with which we can ensure that quality requirements are met. At the same time, we are taking advantage of the progress in digital technology to further optimize our existing processes and structures. For example, we use virtual measurement technologies or big data analyses when vehicles on the market encounter quality problems.

The strategy of Group Quality Management developed in this context comprises the following four goals:

- We will impress our customers with our outstanding quality by understanding what exactly they perceive as quality and implementing this in our products.
- We will contribute to competitive products with optimal quality costs by ensuring robust processes, thereby reducing the expense involved in testing each vehicle.
- In critical business processes, we will reinforce the principle of multiple-party verification and monitor achievement of milestones even more closely.
- We will become an excellent employer by promoting the personal development of every single employee even more intensively.

To achieve our goals, we are working on a variety of quality initiatives. All are focused on the topics that are decisive to the success of the quality organizations in the Volkswagen Group.

Contributing to the Group's strategic indicators

We use a strategic indicator to measure the contribution of Quality Management in the major passenger car-producing brands.

- Tow-in 12 MIS. This indicator shows the number of vehicles that need to be towed to a dealer per 1,000 vehicles after 12 months in service (MIS). It includes all Group vehicles categorized as tow-ins by dealers in the German market. After a continuous fall in the number of Volkswagen Group tow-ins in the German market since 2014, a slight overall increase was recorded again in the 2017 production year. Of the six brands featured, Audi, SEAT and Porsche saw their performance improve year-on-year. The Volkswagen Passenger Cars, ŠKODA and Volkswagen Commercial Vehicles brands recorded a slight upward trend. The brands' ratios for the 2017 production year are within or slightly above the target corridor in each case. Quality is the Volkswagen Group's top priority. All of the Group brands are therefore striving to continuously reduce the number of vehicles that need to be towed to a dealer.

We also use a strategic indicator to measure our success in the truck and bus area:

- Claims per vehicle 12 MIS Truck. This figure incorporates the number of claims related to liability for material defects per 1,000 vehicles after 12 months in service. MAN and Scania each collect this data for their products from across the globe. MAN recorded a slight increase in the number of claims at the beginning of the fiscal year due to a cross-sector problem that has now been resolved. Systematic quality management enabled both brands to keep their figures at a good level for the rest of the year.

Legal and regulatory compliance

The legal and regulatory compliance of our products is paramount in our work. We have further reinforced application of the principle of multiple-party verification – which involves mutual support and control between the divisions – and introduced additional important processes, including in software security. With effect from the reporting period, software development is accompanied by quality milestones at all brands, whereby all systems, components and parts that directly influence a vehicle's safety, type approval and functioning and therefore require particular vigilance are safeguarded through multiple-party verification. At the series production stage, we are also ensuring even more stringently than before that the conformity checks on our products are carried out and assessed with the participation of all business units involved. This applies particularly to emissions and fuel consumption.

We are also placing even greater emphasis on our quality management system than before, reinforcing the process-driven approach Group-wide across all business areas. Quality management in the Volkswagen Group is based on the ISO 9001 standard, which was revised in 2015: the requirements of this standard must be met to obtain the type approval needed to produce and sell our vehicles. We conducted numerous system audits in the reporting period to verify that our locations and brands comply with the requirements of the standard. Particular focus was placed on assessing the risk of non-compliance with defined processes. Our quality management consultants pay attention to ensuring that these and other new requirements, as well as official regulations are implemented and complied with; they are supported in this endeavor by Group Quality Management.

With these and other measures, Group Quality Management is helping to ensure that we as a manufacturer meet the legal requirements, and that our products do so, too.

Observing regional requirements

Our customers in the different regions of the world have very diverse needs as far as new vehicle models are concerned. Another important task of Group Quality Management is therefore to identify and prioritize these regional factors so that they can be reflected in the development of new products and the production of established vehicle models – together with other important criteria such as the quality of locally available fuel, road conditions, traffic density, country-specific usage patterns and, last but not least, local legislation. We mainly use market studies and customer surveys to determine region-specific customer requirements.

To ensure that the perceived quality of our vehicles is at a level commensurate with that of our competitors, we already realigned our vehicle audit back in 2017 and tailored it more closely to regional customer needs. Every brand works together with the individual regions to decide how its product is to be positioned there. This enables us to strengthen the responsibility of the brands and invest less in features that do not resonate with customers. To ensure that the audit returns comparable results, consistent quality benchmarks apply across all markets and regions. We are continually adapting these to changing requirements. For more than 40 years now, we have been deploying auditors around the world to assess from the customer's perspective the vehicles that are ready for delivery and to ensure that these vehicles comply with the benchmarks defined.

EMPLOYEES

The Volkswagen Group is one of the world's largest employers in the private sector. As of December 31, 2018, we employed 664,496 people, including the Chinese joint ventures, 3.5% more than at the end of 2017. The ratio of Group employees in Germany to those abroad remained largely stable over the past year: at the end of 2018, 44.1 (44.8)% of the employees worked in Germany.

Human resources strategy and principles of the human resources policy

With the human resources strategy "Empower to transform", the Group is continuing with key and successful approaches to human resource management. These include the pronounced stakeholder focus on corporate governance, comprehensive participation rights for employees, outstanding training opportunities, the principle of long-term service through systematic employee retention and the aspiration to appropriately balance performance and remuneration. At the same time, the new human resources strategy is setting innovative trends. Hierarchies are being dismantled, and modern forms of working such as agile working – an approach whereby most responsibility for the work organization is transferred to the teams – are set to be expanded. In the future, collaborative robots will ease heavy physical work in factories and digital processes will simplify administration.

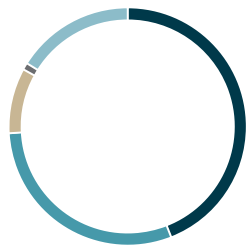
In the Human Resources division, we are guided by five overarching objectives:

- The Volkswagen Group aims to be an excellent employer with all of its brands and companies worldwide.
- Highly competent and dedicated employees strive for excellence in terms of innovation, added value and customer focus.
- A forward-looking work organization ensures optimal working conditions in factories and offices.
- An exemplary corporate culture creates an open work climate that is characterized by mutual trust and collaboration.
- The Company's human resources work is highly employee-oriented while also aiming for operational excellence and providing strategic value-added contributions.

In the course of the 2018 reporting period, we continued to work on our diversity management program that we are rolling out throughout the Company. Given the cultural diversity in our global markets and the growing economic momentum, competitive success requires an ever-broader range of experience, world views, problem-solving and product ideas. The diversity of our staff provides potential for innovation in this area, which we aim to make better use of in the future. Mandatory rules on the percentage of women in management, combined with targets for the internationalization of senior management, are at the heart of diversity management at Volkswagen.

EMPLOYEES BY CONTINENT

in percent, as of December 31, 2018



We are also driving large-scale cultural change to achieve greater openness and transparency in line with our corporate strategy. Seven Volkswagen Group Essentials formulated in 2018 provide shared values and the foundation for cultural change across all brands and companies:

- We take on responsibility for the environment and society.
- We are honest and speak up when something is wrong.
- We break new ground.
- We live diversity.
- We are proud of the work we do.
- We not me.
- We keep our word.

Group-wide activities such as team dialog encourage employees to analyze the Group Essentials.

In 2018, we also began to implement our new approach throughout Human Resources departments across the Group. Going forward, the development paths into management will be characterized by greater individual responsibility, transparency and practical relevance and will include employees from different levels of the hierarchy in the evaluation of candidates.

When implementing our Group strategy TOGETHER – Strategy 2025, we paid particular attention in the reporting period to the level of achievement regarding the goals set by the applicable strategic KPIs. For the passenger car-producing brands, we compile and analyze the following information:

- Internal employer attractiveness. The indicator is determined by asking respondents, as part of the Group-wide opinion survey, whether they perceive the respective company as an attractive employer. The target for 2025 is 89.1 out of a possible total of 100 index points. A score of 84.2 index points was achieved throughout the Group in the reporting period, contrasting with 85.2 points in the previous year.

- External employer attractiveness. The ability to recruit top talent is of decisive importance, particularly in view of the Company's transformation into a world-leading provider of sustainable mobility solutions and the associated development of new business fields. Using this strategic indicator, we check the positioning of the major passenger car-producing brands on the labor markets once a year with regard to graduates and young professionals. Rankings in surveys by renowned institutions, in which we aim to achieve top scores for all Group brands, serve as the basis for this.
- Diversity index. As we establish diversity management across the Group, this strategic indicator for the active workforce is used worldwide to report the development of the proportion of women in management and the internationalization of top management. In particular, it underpins the objective of the human resources strategy, which is aimed at contributing to an exemplary leadership and corporate culture. The proportion of women in management amounted to 13.8% in 2018 and was therefore at the prior-year level; we aim to raise this to 20.2% by 2025. We aim to increase the level of internationalization in top management, the uppermost of our three management tiers, to 25.0% in 2025; in the past fiscal year this was 19.2 (18.7)%.

In the truck and bus business, we look at the opinion survey and cross-brand exchange of employees to identify how well strategic targets are being achieved:

- Opinion survey. The sentiment rating is used to determine the level of employee satisfaction and identification with the company. The sentiment rating is calculated as the average score of all responses regularly submitted as part of the opinion survey. In the truck and bus business, the 2018 result amounts to 76.4 (74.7) index points and is therefore higher than the previous year's level.
- Cross-brand exchange and rotation. The aim is to continuously intensify collaboration between the commercial vehicle brands. It is also designed to enable the creation of specialist and international networks at the same time. We use this indicator to analyze how many employees work at another brand through rotation. In 2018, this opportunity for career development again saw an increase in uptake.

One strategic indicator has been defined for the financial services business:

- External employer ranking. This involves taking part in an external benchmarking, in general once every two years. The aim is to position ourselves as an attractive employer and identify measures to become a top-20 employer by 2025, not just in Europe, but globally. Volkswagen Financial Services AG was represented in various national and international best-employer rankings the last time it participated in 2016. In 12th place, it was among the top European employers in the "Great Place to Work" employer competition.

Training and professional development

At Volkswagen, our capacity for innovation and competitiveness depends to a large extent on the commitment and knowledge of our staff. Training at Volkswagen is organized systematically and according to the so-called vocational groups. These comprise all employees whose tasks are based on similar technical skills and who require related expertise in order to perform their jobs. A skills profile lays down the functional and interdisciplinary skills for each job and serves as a guide for training measures.

Volkswagen Group employees have access to a wide range of training measures – from further training in general Company-related issues to specific training or personal development programs. Thanks to these opportunities, Volkswagen employees are able to further develop and steadily deepen their knowledge throughout their working lives. In this process, they are also able to learn from more experienced colleagues, who pass on their knowledge as experts in the vocational group academies. Training measures are based on the dual training principle, which combines theoretical content with practical experience on the job by means of specific tasks.

New technologies can usefully complement learning and the transfer of expertise. The Volkswagen Group Academy, the central training organization in the Group, incorporates this idea into different projects. One example is the Education Lab, where the Volkswagen Group Academy conducts educational research, analyzes training trends and tests technologies at Volkswagen together with start-ups, thereby generating new ways to develop skills at the Company.

One branch of the Volkswagen Group Academy is the AutoUni. It provides the Group with knowledge that is relevant for the future by engaging in-house senior experts and universities. Its events are offered as programs and as cooperative study modules in what is known as a blended learning format, which combines classroom training with online content, supplemented by lectures and conferences.

Volkswagen is striking out in new directions with the Faculty 73 program it kicked off in October 2018. From 2019 onwards it will train 100 software developers per academic year who are needed for the digital transformation in the Company. The AutoUni program is designed for employees with basic IT skills as well as in-house and external candidates with other suitable basic qualifications.

Vocational training and cooperative education

The core component of training at Volkswagen is vocational training or for young people eligible to enter university, cooperative education (dual study programs combining university studies with on-the-job training). As of the end of 2018, the Volkswagen Group had trained 19,244 young people in approximately 50 trades. We have introduced the principle of dual vocational training at many of the Group's international locations over the past few years and are continuously working on improvements. The Group's vocational trainees predominantly learn their trade through dual vocational training. Once a year, Volkswagen honors its highest-achieving vocational trainees in the Group with the Best Apprentice Award.

Even after their vocational training has been completed, young people at the start of their careers are encouraged to continue their professional development in our Company. This is why we promote particularly talented young specialists in talent groups. These two-year development and training programs accept the highest-achieving 10% of fully qualified vocational trainees at Volkswagen AG each year. In addition, fully qualified vocational trainees have the option to work at a Group company outside Germany for twelve months as part of the "Wanderjahre" (Year Abroad) program. In the reporting period, 27 Volkswagen Group locations in 17 countries took part in this program.

Last but not least, we developed the AGEBI+ program. It promotes fully qualified vocational trainees who are eligible for university and wish to combine a degree program in subjects that are crucial for Volkswagen's future with closley related practical experience.

Development of university graduates

Volkswagen offers two structured entry and development programs for university graduates and young professionals. In the StartUp Direct trainee program, graduate trainees gain an overview of the Company over two years while working in their own department and take part in supplementary training measures. University graduates interested in working internationally can participate in the 18-month StartUp Cross program. The aim here is to get to know the Company in all its diversity and to build up a broad network. During their participation in the program, young professionals become familiarized with several locations in Germany and other countries by working in various departments. Both programs also include several weeks' experience working in production. In 2018, Volkswagen AG hired a total of 164 graduate trainees as part of these programs, 28.7% of whom were women.

Young people can also take part in graduate trainee programs at the other Group companies as well as at the Group's international locations, such as ŠKODA in the Czech Republic, SEAT in Spain or Scania in Sweden.

Increasing attractiveness as an employer and target-group-specific development programs

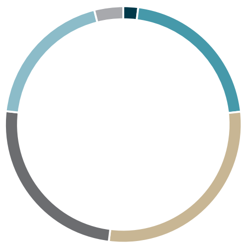
A family-friendly human resources policy is a major component of Volkswagen's appeal as an employer; in particular, it helps to achieve greater gender equality. We work continuously to develop family-friendly working time models and to increase the number of women in management positions. In line with German law on the equal participation of women and men in leadership positions (FührposGleichberG – German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors), Volkswagen AG is aiming to have a 13.0% share of women at the first management level and 16.9% at the second management level by the end of 2021. As of December 31, 2018, the proportion of women in the active workforce at the first level of management was 10.7 (10.4)% and at the second level of management it was 15.4 (14.0)%.

PROPORTION OF WOMEN
as of December 31

%	2018	2017
Employees	16.5	16.3
Vocational trainees[1]	27.5	28.8
Graduate recruits[2]	28.7	30.3
Total management[1]	12.1	11.4
Management[1]	14.4	13.2
Senior management[1]	9.4	9.2
Top management[1]	7.0	6.5

1 Germany, excluding Scania, MAN and Porsche.
2 Volkswagen AG

AGE STRUCTURE IN YEARS OF VOLKSWAGEN GROUP EMPLOYEES
as of December 31, 2018; in percent



For every board-level division in the Company we have set targets for the development of the proportion of women in management to encourage women with high potential to advance within the Company. This approach is supported by many different measures including cross-brand mentoring programs.

In recent years, a large number of company regulations have also come into effect in the Group to make it easier for employees to balance the demands of work and home life and allow staff to arrange their own individual working model. These include flexible working hours, variable part-time work and shift models, leave of absence programs enabling employees to care for close family members, child-care services that are connected to the company or are company-owned, and mobile working.

At Volkswagen AG, which entered into its works agreement for mobile working back in 2016, more than 17,800 employees are making use of a more flexible working arrangement as of the end of the reporting period.

Preventive healthcare and occupational safety

Volkswagen's holistic healthcare management system also covers work organization, workstation design, behavioral ergonomics, psychosocial aspects, rehabilitation and reintegration into working life as well as programs for preventing lifestyle diseases.

In addition to conventional preventive healthcare and occupational safety, a free and comprehensive voluntary screening (the Check-up) is provided for all employees at almost all production sites. To maintain and improve employees' health, fitness levels and performance, the Check-up is followed by measures to promote exercise, healthy eating and mental balance, for example.

Another important area for action in the Volkswagen Group is workstation ergonomics. Continuously improving these along the entire production chain and in all work processes is of great importance to us. Together with scientific partners, we are working resolutely to introduce state-of-the-art ergonomic workstations and innovative work processes in as many areas as possible.

Employee participation

Codetermination and employee participation are important pillars of our human resources strategy. Volkswagen aims to promote high levels of expertise and a strong sense of team spirit. This includes employees' opinions, assessments and criticisms being heard.

With the opinion survey, a Group-wide poll, the Company not only regularly gathers information regarding employee satisfaction, but also inquires about the shape of our corporate culture and the manner in which, for example, compliance requirements are implemented. Based on the results, follow-up processes are implemented in which measures are developed and implemented. Over 600,000 employees from 175 locations and companies in 50 countries were invited to take part in the survey. The participation rate was 79%. The average result that is regularly received through the opinion survey – the sentiment rating – is an important parameter in the opinion survey; in 2018 it stood at 78.9 out of a possible total of 100 index points. The score achieved in 2018 was thus slightly higher than the previous year's figure that amounted to 78.3 points.

In addition, we also encourage our employees' commitment through idea management: employees can use their creativity and knowledge to contribute their ideas for improvements, thus helping to streamline workflows, further enhance ergonomics in the workplace, reduce costs and continuously increase efficiency. Idea management enables employees to participate actively in the planning and organization of their work. The system also provides monetary incentives by offering set rewards.

INFORMATION TECHNOLOGY (IT)

Volkswagen is working hard on strengthening its digital competencies with a view to shaping and safeguarding the Company's future viability. To this end we are continuously upgrading our IT systems so that they are sustainable in the long term and we are progressively moving our systems and applications over to new cloud platforms. Our primary concern is further increasing the efficiency of the IT systems used throughout the Group and standardizing these as far as possible. We are also concentrating on building up our expertise and specialist IT knowledge, especially in key digital technologies such as artificial intelligence and the use of new IT technologies in products, services and business processes.

Volkswagen is embracing on digitalization, particularly at its in-house IT labs in Wolfsburg, Munich, Berlin, San Francisco and Barcelona. Group IT, research institutions and technology partners are working closely together at these innovation centers on future trends in information technology, such as artificial intelligence and machine learning, quantum computing, digital ecosystems, intelligent human-robot collaboration and smart mobility. These labs act as test laboratories for the Group, as centers of expertise for these future trends and as liaison offices for start-ups. They enable us to work and experiment with new technologies outside the line organization. This allows the experience and strategic expertise of a large company like Volkswagen to be combined with the pragmatism and speed of young start-ups. Highly specialized experts at the IT labs in San Francisco and Munich, for example, are working on exploiting the potential of quantum computers for areas that have a commercial application. The focus here is on optimization of flows of traffic and simulation of materials and alloys. Initial experimental projects are also investigating opportunities for combining the potential of quantum computers with self-learning systems (quantum machine learning).

In IT test projects we are using artificial intelligence to develop so-called self-learning systems. These learn through intelligent data analysis and are, for example, designed to assist staff in recurring administrative work steps by preparing these activities independently and giving them to staff for a decision.

The growing convergence of different business areas and IT is also opening up opportunities. In production, for example, big data processes help us to analyze faulty machinery and take action at an early stage. Our experts from Production and Group IT are therefore working together on a digital platform that combines the systems and equipment in the factory into an integrated overall system. This will allow efficiency to be increased and digital pilot projects to be integrated into the existing architecture much more easily than before. Applied research in the field of intelligent human-robot collaboration and IT systems to control mobile assistive robotics and networked infrastructure (Industrial Internet of Things) are also important elements of the digitalization of production at the Volkswagen Group. Group IT is likewise contributing its expertise in the field of research and development in conjunction with the different departments. For instance, digitalized work tools such as the virtual concept vehicle make the product development process faster and more efficient.

In software development centers we develop cross-brand software for digital ecosystems and for new business processes in the Group. We thereby maintain in-house expertise in the rapid, demand-oriented development of software and IT solutions. This capability will become increasingly important as the Group's digital transformation evolves.

The "IT for everyone" initiative aims to give all employees of Volkswagen AG access to digital media and work tools. The objective is to further improve communication and collaboration among production and administrative employees. An important issue in this connection is the growing volume of official work being performed on mobile devices. The Company's internal network Group Connect promotes knowledge transfer and networking among all employees. The platform puts experts in touch with one another across brands and internationally. The introduction of the Group Connect application for personal mobile devices further simplifies access for employees of the direct units.

Safeguarding data and systems at the Volkswagen Group is another focus of our IT. To also protect our customers against cyber-attacks and ensure that our solutions are in conformity with national and international legislation, we continued setting up an integrated, cross-brand, cross-regional Information Security Management System (ISMS) as part of the Protected Customer program. The Group offers documents, templates and tools to all Group companies and brands in the form of an ISMS toolbox to help them implement their own ISMS. Key information security processes have been audited and certified within the international ISO 27001 framework. This is the most important standard for information security and extends beyond IT to also cover issues such as personal security, compliance, physical security and legal requirements. One of the aims of the program, which is set to run until 2021, is also to safeguard the complete life cycle of our vehicles and the digital mobility services.

In fiscal year 2018, another focus of IT was on the systematic implementation of the European General Data Protection Regulation (GDPR), which was combined in a Group program and rolled out in all corporate functions. In the course of the sustainable implementation of the GDPR, the data protection processes and procedures in place in the brands will be consolidated and standardized. When new IT solutions are being developed, the requirements will be enforced from the outset. Transparency in the processing and minimization of data are key goals on which we will continue to work. To ensure sustainable observance of the GDPR, the Group program will be gradually transferred to a company-wide data protection management system as well as a data protection organization in 2019.

In 2015, Volkswagen AG co-founded Deutsche Cyber-Sicherheitsorganisation GmbH (DCSO). DCSO is accumulating specialist knowledge on cybersecurity and aims to become the preferred service provider to European businesses in this field. DCSO is a competence center and a managed security service provider for protecting companies against criminal hackers, industrial espionage, government attacks and sabotage.

ENVIRONMENTAL STRATEGY

Protecting the environment is firmly anchored in the main goals of our future program TOGETHER – Strategy 2025. As a world-leading provider of sustainable mobility, we want to be a role model on environmental issues. We are working towards this goal, taking responsibility for the environment every single day. In striving to achieve our goal of becoming a role model, we consider the environmental impact throughout the entire product life cycle: from manufacturing (including the supply chain) to use and disposal. In addition to the global challenges of climate change, our approach also looks at other important environmental resources, particularly water, soil, air, energy and raw materials. We use major sustainability ratings as our benchmark and aim to achieve top rankings in these. To this end, we have defined the following target areas:

- To continuously improve our carbon footprint
- To continuously reduce harmful emissions
- To continuously reduce resource consumption

We use the decarbonization index (DCI) as a strategic indicator to document our progress. This measures the products' CO_2 emissions along the entire value chain. The DCI is calculated from the ratio of the carbon footprint to the number of vehicles sold. It encompasses both direct and indirect CO_2 emissions at the individual production sites (Scope 1 and 2) as well as all further CO_2 emissions over the life cycle of the vehicles sold – from the extraction of raw materials, to vehicle use and final disposal of old vehicles (Scope 3). The DCI thus enables transparent, comprehensive tracking of progress toward climate-friendly mobility. We are currently defining the DCI target figures for 2025 together with the Volkswagen Group brands. The 2°C target of the Paris Agreement adopted at the UN Climate Change Conference in late 2015 serves as an important parameter for us in this endeavor.

We are also calculating the environmental impact reduction production indicator. We have set a target for the Group and brands to reduce the environmental impact of production by 45% per vehicle compared with 2010 levels. This indicator includes energy and water consumption, CO_2 and VOC emissions and the volume of waste; the charts on page 144 show the development of these indicators.

Organization of Environmental Protection

The Group Board of Management is the highest internal decision-making authority on environmental matters. Since 2012, it has simultaneously functioned as the Group's Sustainability Board. The Group-wide management of environmental protection is the responsibility of the Group Steering Committee for the Environment and Energy, which is supported by numerous specialist bodies.

The brands and companies are responsible for their own environmental organization. They base their own environmental policies on the targets, guidelines and principles that apply throughout the Group. The Group Steering Committee for the Environment and Energy coordinates the brands and companies. It reports on progress to the Board of Management.

Environmental officers from throughout the Group meet regularly for the Group Environmental Conference in order to optimize the environmental focus along the entire value chain.

Our production sites, including the central development areas, are certified in accordance with ISO 14001 or EMAS (101 of 123 production sites in 2018). Many production locations have also certified their energy management systems in accordance with ISO 50001. Since 2009, the "integration of environmental aspects into the product development at the Volkswagen brand" has also been certified in accordance with ISO TR 14062 in the Technical Development department at the Volkswagen Passenger Cars brand.

Biodiversity

Biodiversity means the variety of life on our planet, and covers the variety of species, the genetic differences within species and the diversity of ecosystems. We rely on it as the basis for our continued existence: healthy food, clean water, fertile soils and a balanced climate. Due to the global decline in biodiversity, the United Nations has declared the current decade to be the "UN Decade on Biodiversity".

Volkswagen has been committed to protecting biodiversity since 2007 and is a founding member of the Biodiversity in Good Company e.V. initiative. In our mission statement, we have committed to supporting the protection of species at all of our locations. For this, we are collaborating with local partners and suppliers. We are in the process of developing a suitable evaluation model to show the effect of biodiversity projects and promote biodiversity at our production locations. Our membership in Biodiversity in Good Company e.V. had been temporarily suspended as a result of the diesel issue, but we were reincorporated as an active member at the beginning of 2019.

Protecting biodiversity is an integral part of our environmental management. We contribute to achieving the targets of the UN Convention on Biological Diversity (CBD) by reducing greenhouse gas emissions and utilizing resources as efficiently as possible. Volkswagen supports networking between the various players in the fields of business, politics, society and academia with a view to increasing public awareness of biodiversity conservation and to increase knowledge of the issue.

SEPARATE NONFINANCIAL GROUP REPORT

The combined separate nonfinancial report of Volkswagen AG and the Volkswagen Group in accordance with sections 289b and 315b Handelsgesetzbuch (HGB – German Commercial Code) for fiscal year 2018 will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2018/Nichtfinanzieller_Bericht_2018_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2018/Nonfinancial_Report_2018_e.pdf in English by no later than April 30, 2019.

REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no significant events after the end of fiscal year 2018.

Report on Expected Developments

The global economic growth is expected to slow down somewhat in 2019. We also assume that global demand for vehicles will vary from region to region and remain at the prior-year level on the whole. With its brand diversity, broad product range and pioneering technologies and services, the Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed conditions in the markets.

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

Our assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

DEVELOPMENTS IN THE GLOBAL ECONOMY

Our forecasts are based on the assumption that global economic growth will slow down somewhat in 2019. We still believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively affected by continuing geopolitical tensions and conflicts. We therefore anticipate weaker momentum than in 2018 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2020 to 2023.

Europe/Other Markets

In Western Europe, economic growth is likely to slow down in 2019 compared with the reporting period. Resolving structural problems continues to pose a major challenge, as do the uncertain impacts of the United Kingdom's planned exit from the EU.

In Central Europe, we estimate that growth rates in 2019 will be lower than those for the past fiscal year. The economic situation in Eastern Europe should stabilize further, providing the conflict between Russia and Ukraine does not worsen. The growth of the Russian economy is expected to lose some of its momentum.

For Turkey, we expect the growth rate to taper off further amid higher inflation. The South African economy will probably be dominated by political uncertainty and social tensions again in 2019 resulting, in particular, from high unemployment. Growth is therefore likely to remain at a low level.

Germany

We expect that gross domestic product (GDP) in Germany will increase slower in 2019 than in the reporting period. The situation in the labor market will probably remain stable and bolster consumer spending.

North America

We assume that the economic situation in the USA will remain stable in 2019. GDP growth should be lower than in the reporting period, however. The US Federal Reserve could further raise the key interest rate throughout 2019. Economic growth is likely to continue to slow down in Canada and Mexico.

South America

The Brazilian economy will most likely stabilize further in 2019 and record somewhat stronger growth than in the reporting period. Amid sustained high inflation, the economic situation in Argentina is expected to remain tense.

Asia-Pacific

In 2019, the Chinese economy is expected to continue growing at a relatively high level, but will lose some of its momentum compared with prior years owing to the trade disputes with the USA. For India, we anticipate an expansion rate on a similar scale to the previous years. In Japan, growth is forecast to remain weak.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

We expect trends in the markets for passenger cars in the individual regions to be mixed in 2019. Overall, global demand for new vehicles will probably be at the 2018 level. We are forecasting growing demand for passenger cars worldwide in the period from 2020 to 2023.

Trends in the markets for light commercial vehicles in the individual regions will be mixed again in 2019; on the whole, we anticipate a slight dip in demand in 2019. We expect a return to the growth trajectory for the years 2020 to 2023.

The Volkswagen Group is well prepared for the future challenges pertaining to the automotive mobility business and the mixed developments in regional automotive markets. Our brand diversity, our presence in all major world markets, our broad, selectively expanded product range and pioneering technologies and services place us in a good competitive position worldwide. Our goal is to offer all customers mobility and innovations suited to their needs and thus ensuring long-term success.

Europe/Other Markets

For 2019, we anticipate that the volume of new passenger car registrations in Western Europe will be in line with that seen in the reporting period. The uncertain impact of the United Kingdom's planned exit from the EU is likely to further exacerbate the ongoing uncertainty among consumers, continuing to put a damper on demand. We expect to see slight growth in the Italian market in 2019, whereas growth momentum in Spain will probably slow somewhat. We anticipate volumes in the French passenger car market to be on a level with the previous year. In the United Kingdom, we estimate that new vehicle registrations in 2019 will be at the prior-year level.

For light commercial vehicles we expect demand in Western Europe in 2019 to narrowly miss the prior-year level owing to the uncertain impact of the United Kingdom's planned exit from the EU. We estimate a marked decline in Italy and a moderate decline in the United Kingdom and France. In Spain, we anticipate a noticeable increase in demand.

Sales of passenger cars in 2019 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, we anticipate a market volume that is slightly higher than in the previous year following the marked recovery in the reporting period. The number of new registrations should continue to grow in most of the other markets in this region.

Registrations of light commercial vehicles in the Central and Eastern European markets in 2019 will probably be somewhat lower than in the previous year. In Russia, we expect the market volume to decline perceptibly compared with 2018.

We anticipate a further substantial downturn in the passenger car market in Turkey. The volume of new registrations in South Africa in 2019 is likely to increase slightly year-on-year.

Germany

After a positive performance overall in recent years, we expect demand in the German passenger car market to fall slightly year-on-year in 2019.

We anticipate that registrations of light commercial vehicles will be around the previous year's level.

North America

The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole and in the United States of America is likely to be slightly lower in 2019 than in the prior year. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is also projected to be on a level with the previous year. By contrast, in Mexico we anticipate that demand will pick up slightly year-on-year.

South America

Owing to their dependence on demand for raw materials worldwide, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. We expect to see an overall moderate increase in new registrations in the South American markets in 2019 compared with the previous year. In Brazil, demand volume is expected to rise markedly again in 2019 following the increase in the reporting period. However, we anticipate that demand in Argentina will be perceptibly lower year-on-year.

Asia-Pacific

In 2019, the passenger car markets in the Asia-Pacific region are expected at the prior-year level. Demand in China should be around the previous year's level. Attractively priced entry-level models in the SUV segment in particular should continue to see strong demand. For as long as there is no resolution in sight, the trade dispute between China and the United States will continue to weigh on business and consumer confidence. In the Indian market we anticipate somewhat stronger growth than in the previous year. Japan's market volume is forecast to diminish moderately in 2019.

The market volume for light commercial vehicles in 2019 will probably just miss the previous year's figure. We are expecting demand in the Chinese market to fall noticeably short of the prior-year level. For India, we are forecasting a moderately higher volume in 2019 than in the reporting period. In the Japanese market, demand is likely to be moderately below the previous year's level.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2019 are set to be slightly up on the level seen in 2018. We anticipate a solid increase for the period from 2020 to 2023.

We assume that demand in Western Europe will taper off moderately year-on-year in 2019. In Germany, we expect the market to decline slightly compared to the previous year.

Central and Eastern European markets should record a moderate increase in demand. In Russia we expect to see a marked rebound in demand in 2019.

We assume that demand in the South America region will pick up perceptibly in 2019.

In the bus markets that are relevant for the Volkswagen Group, we anticipate a slight increase in demand in 2019 compared with the prior-year level. We forecast moderate growth for the market in Western Europe in the same period. In Central and Eastern Europe, we anticipate a slight drop in demand. In South America, new registrations will probably be moderately higher than the prior-year level.

For the period 2020 to 2023, we expect noticeable growth overall in the demand for buses in the markets that are relevant for the Volkswagen Group.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

We expect the market environment in power engineering to remain difficult in 2019, with undiminished price and competitive pressures.

In 2019, the market volume for two-stroke engines used in merchant shipping is likely to reach a level similar to that seen in the reporting period. Calls for high energy efficiency and low pollutant emissions will continue to have a significant influence on ship designs in the future. We expect sustained stable demand in the market for four-stroke engines used in ferries, dredgers and government vessels. In the offshore sector, new order volumes of special applications look set to be on the low side due to existing overcapacity. Overall, we expect the marine market to remain at a similar level to that seen in the reporting period. The competitive pressure will continue unabated.

Demand for energy correlates strongly with macroeconomic and demographic trends, especially in emerging markets. The global trend toward decentralized power stations and gas-based applications shows no sign of losing momentum. For 2019, we expect demand to rise slightly but remain at a low level overall.

In turbomachinery, demand looks set to recover in 2019 due to price increases in our customers' sales markets. As capacity utilization of their production facilities increases, the number of projects for turbocompressors is likely to rise. In energy generation, demand for steam and gas turbines will probably continue to vary from region to region. Sustained stable demand is expected in the countries with strong industrial growth or a low level of electrification. By contrast, electricity producers in the industrialized countries are still experiencing overcapacity. Possible growth will be satisfied above all by renewable energy sources, whose irregular electricity production requires a significant increase in storage capacity. As a consequence of the shortage of raw materials for batteries, we expect that the development and construction of thermal storage will be pushed, thereby invigorating the market for turbocompressors and turboexpanders. Overall, the price and competitive pressures will ease somewhat but remain high due to existing overcapacity.

We anticipate a positive trend in the marine and power plant after-sales business for diesel engines in 2019. In turbomachinery, we expect a slight upward trend.

For the period 2020 to 2023, we expect to see growing demand in the power engineering markets. The extent and timing of this growth will vary in the individual business fields, however.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We believe that automotive financial services will be very important for vehicle sales worldwide in 2019. We expect demand to continue rising in emerging markets where market penetration has so far been low, such as China. Regions with already developed automotive financial services markets will see a continuation of the trend towards enabling mobility at the lowest possible total cost. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, will become increasingly important for this. Additionally, we expect demand to increase for new forms of mobility, such as rental services, and for integrated mobility services, for example parking, refueling and charging. We estimate that this trend will continue in the years 2020 to 2023.

In the mid-sized and heavy commercial vehicles category, we anticipate rising demand for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In the developed markets, we expect to see increased demand for telematics services and services aimed at reducing total cost of ownership in 2019. This trend is also expected to continue in the period 2020 to 2023.

EXCHANGE RATE TRENDS

The global economy continued its robust growth in 2018 with declining momentum. Average prices for energy and other commodities were up year-on-year but remained at a relatively low level. As the year went on, the euro lost ground against the US dollar. By contrast, the euro/sterling exchange rate remained virtually unchanged in spite of the uncertainty surrounding the outcome of the Brexit negotiations and the question of what form the relationship between the United Kingdom and the EU will take in the future. The currencies of major emerging markets lost further ground against the euro in the reporting period. For 2019, we are forecasting that the euro will strengthen against the US dollar, sterling and the Chinese renminbi. The expectation is that the Russian ruble, Brazilian real and Indian rupee will remain relatively weak. For 2020 to 2023, we currently expect that the euro will then be stable against the key currencies, but that the comparative weakness of the currencies in the above-mentioned emerging markets will probably continue. However, there is still a general event risk – defined as the risk arising from unforeseen market developments.

INTEREST RATE TRENDS

Interest rates remained low with a few exceptions in fiscal year 2018 due to the continuation of the prevailing expansionary monetary policy worldwide and the challenging overall economic environment. In the major Western industrialized nations, key interest rates persisted at a historic low level on the whole. While it became apparent in the USA that the extremely loose monetary policy was gradually drawing to an end, the European Central Bank continued to pursue this course. In light of further expansionary monetary policy measures in the eurozone, we therefore expect no more than a slight rise in interest rates in 2019. In the United States of America, it is possible that the key interest rate will be raised again, depending on the future development of the economy. For the years 2020 to 2023, we anticipate a rise in interest rates, though the pace will vary from region to region.

COMMODITY PRICE TRENDS

Geopolitical and economic uncertainty in different forms caused the prices for many raw and input materials to vary in 2018. For example, average prices for raw materials such as iron ore, rare earths, natural rubber and lead fell, while prices for coking coal, crude oil, aluminium, copper and the precious metals palladium and rhodium, among others, rose. For the raw materials lithium and cobalt, which are relevant for e-mobility and also saw higher year-on-year average price levels, market prices eased in the course of the year. Based on analyses of factors of influence and trends in the commodity markets, we expect the prices of most commodities to rise in 2019. For the years 2020 to 2023, we continue to expect volatility in the commodity markets with prices trending upwards. We preventively analyze and limit these risks using system-based procurement methods. Long-term, stable supply agreements ensure that the Group's needs are satisfied and guarantee a high degree of supply reliability.

NEW MODELS IN 2019

In 2019, the Volkswagen Passenger Cars brand will expand its range of SUVs worldwide by adding the T-Cross. The compact crossover model impresses with its striking design and an innovative interior concept, and will be available in Europe as well as in South America and China. In addition, the Passat will be revamped and fitted with a large number of new driver assistance systems. In the United States, the GLI, the sporty derivative of the Jetta, will enter the market. A new version of the Passat designed for the US market will also make its debut. The Passat will celebrate its market launch in South America. Plug-in hybrid versions of the Passat and Magotan will be launched in China. Furthermore, the e-Golf and derivatives of the Lavida and the Bora will complement the range of all-electric vehicles. The Teramont coupé and the revamped Sagitar and Magotan will round off the portfolio in China.

In early 2019, Audi will roll out the e-tron, the first all-electric model from the brand with the four rings. Other electric models are waiting in the wings. The product upgrades of the A4 and the Q7 will also raise the bar.

ŠKODA is redefining the compact class with the Scala. Based on the Modular Transverse Toolkit, the hatchback represents the next step in the development of ŠKODA's design language. The Kamiq, a completely new crossover model, will also expand the SUV family in Europe. It combines the merits of an SUV with the agility of a compact vehicle.

SEAT will present the first electric vehicle from the Spanish brand: a derivative of the Mii.

Porsche will start its rollout of the eighth generation of the 911 in 2019. This will be kicked off by the models 911 Carrera S and 911 Carrera 4S, followed by cabriolet models and the 911 Speedster. The Cayenne model range will be expanded in 2019 by the addition of the Turbo S with a plug-in hybrid drive and – for the first time ever – coupé models. Around mid-year, the new Macan Turbo will delight the first customers with its performance and everyday practicality. In the second half of the year, Porsche will focus on the market launch of the Taycan, with which the brand will take the next step into the age of e-mobility.

Bentley will deliver its first hybrid model in 2019, a derivative of the successful SUV Bentayga. In addition, the powerful Bentayga Speed will make its debut as the series' latest top model. Further on in the year, this will be followed by the new Flying Spur, which will give customers a new driving experience with impressive performance and innovative technologies.

From the beginning of 2019, Lamborghini will start delivering the V12 top model Aventador SVJ to customers. Following this, the roadster version of the Aventador SVJ will also become available in the course of the year. The Huracán coupé and Spyder will receive a product upgrade in the form of a new design, higher performance and improved handling.

In 2019, Volkswagen Commercial Vehicles will put a product upgrade of the Multivan/Transporter on the market that features a revamped interior and exterior plus new infotainment functions.

Scania will also work steadily on introducing new products and services in 2019.

MAN will bring out additional engines in 2019 that comply with the Euro 6d emission standard.

Ducati will launch numerous new models in 2019, including the Panigale V4 R, two versions of the Multistrada and four new members of the Scrambler family.

INVESTMENT AND FINANCIAL PLANNING

To ensure the Volkswagen Group's future viability, we will continue to mobilize our pronounced strengths in innovation and technology further and vigorously invest in e-mobility, digitalization, new mobility services and autonomous driving in the coming years.

In our current planning for 2019, the majority of capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) will be spent on new products and the continued rollout and further development of the modular toolkit. The focus is on the electrification and digitalization of our vehicles, in particular through the development of the Modular Electric Drive Toolkit (MEB). At the same time, we will primarily expand our SUV range further. We are also investing in the modification of selected locations for the production of electric vehicles. The Automotive Division's ratio of capex to sales revenue will fluctuate around a level of 6.5–7.0%.

Besides capex, investing activities will include additions to capitalized development costs. Among other things, these reflect upfront expenditures in connection with the electrification and updating of our model range.

With the investments in our facilities and models, as well as in the development of alternative drives and modular toolkits, we are laying the foundations for profitable, sustainable growth at Volkswagen. These investments also include commitments arising from decisions taken in previous fiscal years.

We aim to finance the investments in our Automotive Division from our own capital resources and expect cash flows from operating activities to exceed the Automotive Division's investment requirements. Cash outflows resulting from the diesel issue will negatively impact the cash flow again in 2019, but will probably be significantly lower than in the reporting period. Consequently, we anticipate a positive net cash flow for 2019 that will be up significantly on the prior-year figure.

The tendering of shares held by MAN's noncontrolling interest shareholders as a consequence of the judgment issued on the award proceedings and the resulting termination of the control and profit and loss transfer agreement with MAN SE is reflected in the amount of €1.7 billion, reducing net liquidity.

Current estimates indicate that the change in the accounting for leases (IFRS 16), which entered into force in January 2019, will give rise to a negative one-off effect on the net liquidity reported by the Automotive Division, amounting to approximately 1% of the Volkswagen Group's total assets.

We therefore expect net liquidity in the Automotive Division in 2019 to be down significantly on the level seen in the reporting period.

These plans are based on the Volkswagen Group's current structures. A possible IPO of TRATON SE and related cash inflows are not taken into account.

Our joint ventures in China are included using the equity method and are therefore not included in the figures above. For 2019, the joint ventures plan to invest in e-mobility and the digitalization of their model range, in new technologies and mobility services, in strengthening their development and manufacturing capacity, and in new products. Their capex will exceed the 2018 level and be financed from the companies' own funds.

In the Financial Services Division, we are planning slightly higher investments in 2019 than in the previous year. We expect the growth in lease assets and in receivables from leasing, customer and dealer financing to lead to funds tied up in working capital, of which around half will be financed from the gross cash flow. As is common in the sector, the remaining funds needed will be met primarily through unsecured bonds on the money and capital markets, the issuing of asset-backed securities, customer deposits from direct banking business, as well as through the use of international credit lines.

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%.

In spite of the adverse effects of the special items on earnings, we exceeded the minimum rate of return on invested capital in the reporting period, with a return on investment (ROI) of 11.0 (12.1)% (see also page 127). Invested capital will continue to increase further in 2019 as a result of investments in new models, in the development of alternative drives and modular toolkits and in future technologies. Invested capital will also rise as a consequence of the change in the accounting for leases (IFRS 16) that entered into force in January 2019. The return on investment (ROI) in the Automotive Division will probably exceed our minimum required rate of return on invested capital and be slightly higher than in the previous year.

FUTURE ORGANIZATIONAL STRUCTURE OF THE GROUP

As part of the changes in the management structure of the Volkswagen Group, the Volkswagen Commercial Vehicles brand will be allocated to the Passenger Cars segment from January 1, 2019 and the segment will be renamed Passenger Cars and Light Commercial Vehicles. Consequently, the Passenger Cars Business Area will then include the Volkswagen Commercial Vehicles brand in the financial reporting. The Commercial Vehicles segment will continue to comprise the Commercial Vehicles Business Area, but from January 1, 2019, will exclude the Volkswagen Commercial Vehicles brand. The Automotive Division will remain unchanged.

The following tables show the forecast-related effects that the reclassification of the Volkswagen Commercial Vehicles brand will have on the Passenger Cars and Commercial Vehicles Business Areas.

ADJUSTMENT OF THE PASSENGER CARS BUSINESS AREA

€ million	Actual 2018	Actual 2018 after adjustments[1]
Sales revenue	160,802	172,678
Operating result	9,220	10,000
Operating return on sales (%)	5.7	5.8

1 Passenger Cars Business Area including the Volkswagen Commercial Vehicles brand in accordance with the reporting from January 1, 2019.

ADJUSTMENT OF THE COMMERCIAL VEHICLES BUSINESS AREA

€ million	Actual 2018	Actual 2018 after adjustments[1]
Sales revenue	36,656	24,781
Operating result	1,971	1,191
Operating return on sales (%)	5.4	4.8

1 Commercial Vehicles Business Area excluding the Volkswagen Commercial Vehicles brand in accordance with the reporting from January 1, 2019.

SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Group's Board of Management expects the growth of the global economy to slow somewhat in 2019. We still believe that risks will continue to arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts. We therefore expect both the advanced economies and the emerging markets to show weaker momentum than in 2018. We anticipate the strongest rates of expansion in Asia's emerging economies.

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further.

We expect trends in the passenger car markets in the individual regions to be mixed in 2019. Overall, global demand for new vehicles will probably be at the prior-year level. We anticipate that the volume of new registrations for passenger cars in Western Europe will be in line with the figure seen in the reporting period. After a positive performance overall in recent years, we estimate that demand in the German passenger car market will fall slightly year-on-year. Sales of passenger cars in 2019 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect new registrations in the South American markets for passenger cars and light commercial vehicles to grow moderately overall compared with the previous year. The passenger car markets in the Asia-Pacific region are expected at the prior-year level.

Trends in the markets for light commercial vehicles in the individual regions will be mixed again in 2019; on the whole, we anticipate a slight dip in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2019 are expected to slightly exceed the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2019.

The Volkswagen Group is well prepared overall for the future challenges pertaining to the automobility business and the mixed developments in regional vehicle markets. Our brand diversity, our presence in all major world markets, our broad, selectively expanded product range and pioneering technologies and services put us in a good competitive position worldwide. As part of the transformation of our core business, we are positioning our Group brands with a stronger focus on their individual characteristics and optimizing the vehicle and drive portfolio. The focus hereby is primarily on our vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, we are working to make even more focused use of the advantages of our multibrand group by continuously developing new technologies and our toolkits. Our goal is to offer all customers mobility and innovations suited to their needs and thus ensuring long-term success. We will unveil additional SUV models, integrate digitalization into our products even more systematically and provide important stimuli for the future with e-mobility offerings.

We expect that deliveries to customers of the Volkswagen Group in 2019 will slightly exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and more stringent WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) requirements.

We expect the sales revenues of the Volkswagen Group and its Passenger Cars and Commercial Vehicles business areas to grow by as much as 5% year-on-year. In terms of the operating profit for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2019. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 6.0% and 7.0%. In the Power Engineering Business Area, we expect a loss around the previous year's level amid a slight rise in sales revenue. For the Financial Services Division, we are forecasting a moderate increase in sales revenues and an operating profit at the prior-year level.

In the Automotive Division, the R&D ratio and the ratio of capex to sales revenue will probably fluctuate in the range of 6.5–7.0% in 2019. Cash outflows resulting from the diesel issue will negatively impact the cash flow again in 2019, but will probably be significantly lower than in the reporting period. Consequently, we anticipate a positive net cash flow for 2019 that will be up significantly on the prior-year figure. Net liquidity in the Automotive Division is likely to be considerably lower, primarily due to a negative one-off effect arising from the change brought by IFRS 16, which will not affect cash outflows. We expect a slight increase in return on investment (ROI) compared with the previous year. Our unchanged stated goal is to continue our solid liquidity policy.

The commitment and considerable technical expertise of our staff are key prerequisites to successfully shaping the transformation into the world's leading provider of sustainable mobility. With our future program, TOGETHER – Strategy 2025, we are attaching even greater importance to our responsibility in relation to the environment, safety and society. We are also aiming for operational excellence in all business processes and intensifying our focus on profitable growth.

Report on Risks and Opportunities

(CONTAINS THE REPORT IN ACCORDANCE WITH SECTION 289(4) OF THE HGB)

Promptly identifying the risks and opportunities arising from our operating activities and taking a forward-looking approach to managing them is crucial to our Company's long-term success. A comprehensive risk management and internal control system help the Volkswagen Group deal with risks in a responsible manner.

In this section, we first explain the objective and structure of the Volkswagen Group's risk management system (RMS) and internal control system (ICS) and describe these systems with regard to the financial reporting process. We then outline the main 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 and efficiently managing the risks and opportunities arising from our business activities can we ensure the Volkswagen Group's sustainable success. The aim of the RMS/ICS is 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.

Assessing the probability and extent of future events and developments is, by its nature, subject to uncertainty. We are therefore aware that even the best RMS cannot foresee all potential risks and even the best ICS can never completely prevent irregular acts.

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 framework for enterprise risk management (COSO: Committee of Sponsoring Organizations of the Treadway Commission). Structuring the RMS/ICS in accordance with the COSO frame-

THE THREE LINES OF DEFENSE MODEL

work for enterprise risk management ensures that potential risk areas are covered in full. Uniform Group principles are used as the basis for managing risks in a standardized manner. Opportunities are not recorded.

Another key element of the RMS/ICS at Volkswagen is the three lines of defense model, a basic element required, among other bodies, 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 defense that are designed to protect the Company from significant risks occurring.

First line of defense: operational risk management

The primary line of defense comprises the operational risk management and internal control systems at the individual Group companies and business 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 assessed, and the information 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 also has access to an overall picture of the current risk situation via the documented reporting channels during the year.

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.

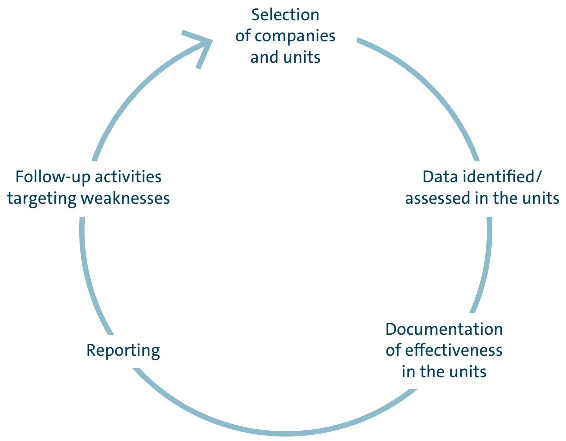
Operational risk management also includes compliance with the Golden Rules in the areas of control unit software development, emission classification and escalation management. These rules are the minimum requirements in the organization, processes and tools & systems categories. We continued to reinforce the internal control system in the area of product compliance in 2018.

Second line of defense: identifying and reporting systemic and current risks using Group-wide processes

In addition to the ongoing operational risk management, the Group Risk Management department each year sends standardized surveys on the risk situation and the effectiveness of the RMS/ICS to the significant Group companies and units worldwide (regular Governance, Risk & Compliance (GRC) process). The feedback is used to update the overall picture of the potential risk situation and assess the effectiveness of the system.

Each systemic risk reported is assessed using the expected likelihood of occurrence and various risk criteria (financial and nonfinancial). In addition, the measures taken to manage and control risk are documented at management level. This means that risks are assessed in the context of any risk management measures initiated, 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.

ANNUAL STANDARD GOVERNANCE, RISK AND COMPLIANCE PROCESS



All Group companies and units selected from among the entities in the consolidated Group on the basis of materiality and risk criteria were subject to the regular GRC process in fiscal year 2018.

In addition to the ad hoc and annual risk assessment, the Board of Management also receives quarterly risk reports. Similar to the annual standard GRC process, the assessment takes risk-minimizing control measures into account (net assessment). All Group brands are included in this process along with Porsche Holding Salzburg, Volkswagen Financial Services AG and Volkswagen Bank GmbH.

Information on relevant systemic and current risks is regularly reported to the Group Board of Management and the Audit Committee of the Supervisory Board of Volkswagen AG.

In addition, the Company set up the Group Board of Management Committee for Risk Management in 2017. This met quarterly in the reporting year. The committee has the following tasks, among others:

- to further increase transparency in relation to significant risks to the Group and their management,
- to explain specific issues where these constitute a significant risk to the Group,
- to make recommendations on the further development of the RMS/ICS,
- to support the open approach to dealing with risks and promote an open risk culture.

The Scania brand was incorporated into the standard GRC process in 2018. The brand has already been included in quarterly risk reporting since 2016.

Third line of defense: 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 and the compliance management system (CMS) 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 by means of the RMS/ICS elements described above (first and second lines of defense). Independently of this, the external auditors check both the processes and procedures implemented in this respect and the adequacy of the documentation on an annual basis. The plausibility and adequacy of the risk reports are examined on a random basis in detailed interviews with the divisions and companies concerned that also involve the external auditors. The latter assessed our risk early warning system based on this volume of data and ascertained that the risks identified were presented and communicated accurately. The risk early warning system meets the requirements of the KonTraG.

In addition, scheduled examinations as part of the audit of the annual financial statements are conducted at companies in the Financial Services Division. As a credit institution, Volkswagen Bank GmbH, including its subsidiaries, is subject to supervision by the European Central Bank, while Volkswagen Leasing GmbH as a financial services institution and Volkswagen Versicherung AG as an insurance company are subject to supervision by the relevant division of the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – the German Federal Financial Supervisory Authority). As part of the scheduled supervisory process and unscheduled audits, the competent supervisory authority assesses whether the requirements, strategies, processes and mechanisms ensure solid risk management and solid risk cover. Furthermore, the Prüfungsverband deutscher Banken (Auditing Association of German Banks) audits Volkswagen Bank GmbH from time to time.

Volkswagen Financial Services AG, which is responsible for the leasing, insurance, services and mobility business and the lending business outside Europe, operates a risk early warning and management system. This system ensures that the locally applicable regulatory requirements are adhered to and at the same time enables appropriate and effective risk management at Group level. Important components of it are regularly reviewed as part of the audit of the annual financial statements.

Monitoring the effectiveness of the risk management system and the internal control system

To ensure the effectiveness of the RMS/ICS, we regularly optimize it as part of our continuous monitoring and improvement processes. In the process, we give equal consideration to both internal and external requirements. On a case-by-case basis, external experts assist in the continuous enhancement of our 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 as well as its subsidiaries comprises measures intended to ensure that the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the combined management report of the Volkswagen Group and Volkswagen AG is complete, accurate and transmitted in a timely manner. 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 essentially 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. In principle, the audited financial statements of Volkswagen AG and its subsidiaries prepared in accordance with IFRSs and the Volkswagen IFRS accounting manual are transmitted to the Group in encrypted form. A standard market product is used for encryption.

The Volkswagen IFRS Accounting Manual, which has been prepared using external expert opinions in certain cases, ensures the application and assessment 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 for 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, other 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 combined management report of the Volkswagen Group and Volkswagen AG 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 significant risks and opportunities that arise in the course of our business activities. We have grouped them into categories. Unless explicitly mentioned, there were no material changes to the specific risks and opportunities compared with the previous year. The increasing number of partnerships generates both opportunities as well as risks.

The diesel issue gives rise to its own risks for the Volkswagen Group and also has an impact on existing risks. These are described under the respective risk category.

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. Where they can be assessed, 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.

Risks from the diesel issue

The Volkswagen Group has recognized provisions arising from the diesel issue, in particular for the service measures, recalls and customer-related measures as well as for legal risks.

Further significant financial liabilities may emerge due to existing estimation risks particularly from legal risks, such as criminal, administrative and civil proceedings, technical solutions, lower market prices, repurchase obligations, customer-related measures and possible official or statutory requirements for diesel vehicles.

Demand may decrease – possibly exacerbated by a loss of reputation or insufficient communication. Other potential consequences include lower margins in the new and used car businesses and a temporary increase in funds tied up in working capital.

The funding needed to cover the risks may lead to assets having to be sold due to the situation and equivalent proceeds for them not being achieved as a result.

As a result of the diesel issue, the ability to use refinancing instruments may possibly be restricted or precluded for the Volkswagen Group. A downgrade of the Company's rating could adversely affect the terms associated with the Volkswagen Group's borrowings.

We are cooperating with all the responsible authorities to clarify these matters completely and transparently.

Additional information about the litigation can be found on pages 94 and 177 to 183 of this annual report.

Macroeconomic risks and opportunities

We believe that risks to continued global economic growth arise primarily from turbulence in the financial markets, increasingly protectionist tendencies and structural deficits, which pose a threat to the performance of individual advanced economies and emerging markets. The worldwide transition from an expansionary monetary policy to a more restrictive one also presents risks for the macroeconomic environment. Persistently high private- and public-sector debt in many places is clouding the outlook for growth and may likewise cause markets to respond negatively. 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. In particular, the Volkswagen Group would be adversely affected by a disorderly Brexit and by other trade policy measures such as tariffs.

The economic development of some emerging economies is being hampered primarily by dependence on energy and commodity prices and capital inflows, but also by sociopolitical tensions. Corruption, inadequate government structures and a lack of legal certainty also pose risks.

Geopolitical tensions and conflicts are a further major risk factor to the performance of individual economies and regions. As the global economy becomes increasingly interconnected, it is also vulnerable to local developments. Any escalation of the conflicts in Eastern Europe, the Middle East, or Africa, for example, could cause upheaval on the global energy and commodity markets and exacerbate migration trends. An aggravation of the situation in East Asia could put further strain on the global economy. The same applies to violent conflicts, terrorist activities and the spread of infectious diseases, which may prompt unexpected, short-term responses from the markets.

On the whole, we do not anticipate a global recession next year. Due to the risk factors mentioned, however, a decline in global economic growth or a period of below-average growth rates is possible.

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 risks and market opportunities/potential

Western Europe and China are our main sales markets. A drop in demand in these regions due to the economic climate would have a particularly strong negative impact on the Company's earnings. We counter this risk with a clear, customer-oriented and innovative product and pricing policy.

Outside Western Europe and China, delivery volumes are spread widely across the key regions: Central and Eastern Europe, North America and South America. In addition, we either already have a strong presence in numerous existing and developing markets or are working systematically towards this goal. Particularly in smaller markets with growth potential, we are increasing our presence with the help of strategic partnerships and are catering to requirements there.

Price pressure in established automotive markets as a result of high market saturation is a particular challenge for the Volkswagen Group as a supplier of volume and premium models. Competitive pressures are likely to remain high in the future. Individual manufacturers may respond by offering incentives in order to meet their sales targets, putting the entire sector under additional pressure.

The growth markets of Central and Eastern Europe, South America and Asia are particularly important to the Volkswagen Group. These markets harbor considerable potential; however, the underlying conditions in some countries in these regions make it difficult to increase unit sales figures there. Some have high customs barriers or minimum local content requirements for production, for example. At the same time, wherever the economic and regulatory situation permits, there are opportunities above and beyond current projections. These arise from faster growth in the emerging markets where vehicle densities are currently still low.

In Europe, there is a risk that further municipalities and cities will impose a driving ban on diesel vehicles in order to comply with emission limits. In China, restrictions on vehicle registrations could enter into force in further metropolitan areas in the future. Furthermore, China will impose a so-called "new energy vehicle quota" from 2019 onwards, which means that battery-electric vehicles, plug-in hybrids and fuel cell vehicles will have to account for a certain proportion of a manufacturer's new passenger car fleet. To ensure compliance with emissions standards, we continuously tailor our range of vehicle models and engines to the conditions in the relevant markets. These requirements may lead to higher costs and consequently to price increases and declines in volumes.

The demand that built up in individual established markets in times of crisis could bring a more marked recovery in these markets if the economic environment eases more quickly than expected.

Economic performance varied in individual regions in fiscal year 2018. The resulting challenges for our trading and sales companies, such as efficient inventory 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 Kreditwesengesetz (KWG – German Banking Act).

Volkswagen may be exposed to increased competition in aftermarkets for two reasons in particular: firstly, because of the provisions of the block exemption regulations, which have applied to after-sales services since June 2010, and, secondly, because of the amendments included in EU Regulation 566/2011 as of June 8, 2011 regarding access by independent market participants to technical information.

In Germany, legislation is currently being prepared to restrict or abolish design protection for repair parts through the introduction of a repair clause. In addition, the European Commission is evaluating the market with regard to existing design protection. A possible restriction or abolition of design protection for visible replacement parts could adversely affect the Volkswagen Group's genuine parts business.

The automotive industry faces a process of transformation with far-reaching changes. Electric drives, connected vehicles and autonomous driving are associated with both opportunities and risks for our sales. In particular, more rapidly evolving customer requirements, swift implementation of legislative initiatives and the market entry of new competitors from outside the industry will require changed products, a faster pace of innovation and adjustments to business models.

Furthermore, we cannot entirely rule out the possibility of freight deliveries worldwide being shifted from trucks to other means of transport, and of demand for the Group's commercial vehicles falling as a result.

Below, we outline the greatest growth and market potential for the Volkswagen Group.

China

In China, the largest market in the Asia-Pacific region, there was a slight year-on-year decline in the passenger car market in the reporting year. Though demand for vehicles will rise in the coming years due to the need for individual mobility, the trade conflict with the USA means that this will be at a slower pace than in the past. Demand will also shift from the large coastal cities to the interior of the country. In order to leverage the considerable opportunities offered by the Chinese market – also with regard to e-mobility – and to defend our strong market position in China over the long term, we are continuously expanding our product range to include models that have been specially developed for this market. We are further extending our production capacity in this growing market through additional production facilities.

India

The political and economic situation in India further stabilized in 2018. The vehicle markets continued their growth path. We expect this trend to continue. Against this backdrop, the Group is currently consolidating its activities, as India remains an important strategic future market for the Group.

USA

The volume of the US vehicle market in 2018 was in line with the previous year. For 2019, the market volume is expected to be slightly down on the reporting period. In the USA, Volkswagen Group of America is systematically pursuing our strategy of becoming a full-fledged volume supplier. The expansion of local production capacity – also including a production facility for electric vehicles in the future – will allow the Group to better serve the market in the North America region. We are also pressing forward with additional products tailored specifically to the US market.

Brazil

The economic environment eased somewhat in the reporting year, while Brazil's political path is uncertain after the presidential elections. The volume of demand in the vehicle market recovered markedly compared with the weak prior year. We anticipate a continued upturn in demand in 2019. 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 are locally produced, such as the Gol and the Virtus.

Russia

Russia has the potential to grow into one of the largest automotive markets in the world. The volume of the Russian vehicle market in 2018 was up markedly on the previous year and we are forecasting that the passenger car market will slightly exceed the reporting year in 2019. However, the heavy reliance on oil and gas income, rising taxes, currency volatility resulting at present in high vehicle prices, the political crisis and the related sanctions imposed by the EU and the USA continue to impact the development of demand negatively. The market remains strategically important to the Volkswagen Group, which is why we are working intensively there.

The Middle East

Political and economic uncertainty is weighing on the region's main sales markets, particularly Turkey. Increased tariffs along with the dramatic depreciation of the Turkish lira, which is accompanied by very high inflation and rising interest rates, are weakening demand in the country. Despite the instability, however, the Middle East region offers long-term growth potential. We are leveraging the potential for growth with a range of vehicles that has been specifically tailored to this market, but do not have our own production facilities.

Power Engineering

The underlying trends in the global economy, such as sustained growth and a greater international division of labor, are set to continue, despite increased geopolitical and macroeconomic risks compared with the previous year. This also applies to the resulting transport routes and volumes and to the demand for touristic offers such as cruises. Growing global energy needs call for innovation in industry and a growing willingness on the part of governments to invest in relation to global climate policy.

We are working systematically to leverage market opportunities across the world, for example by positioning ourselves as a solution provider for reduced-carbon drive system and energy generation technologies as well as for storage technologies. Moreover, significant potential can be leveraged in the medium term by enhancing our after-sales business through the introduction of new products and the expansion of our service network. Going forward, stricter requirements with respect to reliability, the availability of the plants that are already in operation, the increase in environmental compatibility and efficient operation, together with the large number of engines and plants, will provide the basis for growth.

As part of the capital goods industry, the Power Engineering business is affected by fluctuations in the investment climate. Even minor changes in growth rates or growth forecasts, resulting from geopolitical uncertainties or volatile commodities and foreign exchange markets, for example, can lead to significant changes in demand or the cancellation of already existing orders. The measures we use to counter the considerable economic risks include flexible production concepts and cost flexibility by means of temporary employment, working time accounts and short-time work, and – if necessary – structural adjustments.

Research and development risk

The automotive industry is undergoing a radical transformation process. Multinational corporations like Volkswagen are facing major challenges in the areas of customer/market, technological advances and legislation. Key aspects are the implementation of increasingly stringent emission and consumption regulations, taking new test procedures and test cycles (e.g. WLTP) into account, as well as compliance with approval processes (homologation), which are becoming increasingly more complex and time-consuming and may vary by country. On a national and international level there are numerous legal requirements regarding the use, handling and storage of substances and mixtures (including restrictions concerning chemicals, heavy metals, biocides, persistent organic pollutants), which apply to both the manufacturing of automobiles and the automobile itself.

The economic success and competitiveness of the Volkswagen Group depend on how successful we are in promptly tailoring our portfolio of products and services to the changing conditions. Due to the intensity of the competition and the speed of technological development, identifying relevant trends at an early stage and reacting accordingly is crucial.

Among other things, we therefore conduct trend analyses and customer surveys and examine the relevance of the results for our customers. We counter the risk that it may not be possible to develop modules, vehicles or services 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. To avoid patent infringements, we intensively analyze third-party industrial property rights, increasingly in relation to communication technologies. We regularly compare the results of all the analyses with the respective project's targets; in the event of variances, we introduce appropriate countermeasures 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.

Risks and opportunities from the modular toolkit strategy

We are continuously expanding our modular toolkits, focusing on future customer requirements, legal requirements and infrastructural requirements.

The Modular Transverse Toolkit (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 utilized flexibly. Other dimensions, for example the distance between the pedals and the middle of the front wheels, are always the same, ensuring a uniform system in the front of the car. Based on the synergy effects thereby achieved, we are able to cut both development costs and the necessary one-time expenses and manufacturing times. The toolkits also allow us to produce different models from different brands in various quantities, using the same system in a single plant. This means that our capacities can be used with greater flexibility throughout the entire Group, enabling us to achieve efficiency gains.

We are currently transferring this principle of standardization with maximum flexibility to the Modular Electric Drive Toolkit (MEB), a concept developed for all-electric drives. The synergy effects and efficiency gains achieved from the modular toolkit strategy will give us the opportunity to bring e-mobility into mass production manufacturing worldwide from 2020 with the introduction of the first MEB-based vehicle.

Higher volumes will, however, increase the risk that quality problems will affect an increasing number of vehicles.

Opportunities and risks from partnerships

As part of our future program TOGETHER – Strategy 2025, we are stepping up our efforts to forge collaborations, both for the transformation of our core business and for the establishment of the new mobility solutions business. By entering into partnerships at a local level, we aim to identify regional customer needs more precisely, establish competitive cost structures and develop and offer market-driven products. Going forward, we will concentrate to a greater extent than previously on partnerships, acquisitions and venture capital investments. This will enable us to generate maximum value for the Group and its brands and to expand our expertise, particularly in new areas of business.

Volkswagen owns a large number of patents and other industrial property rights and copyrights. Partnerships can lead to patent and licensing infringements and thus to the unauthorized disclosure of company-specific expertise. Volkswagen monitors the sales markets and also protects its expertise with legal action.

Procurement risks and opportunities

Current trends in the automotive industry such as e-mobility and automated driving are resulting in an increased need for financing among suppliers. The Volkswagen Group's procurement risk management system assesses suppliers before they are commissioned to perform projects. Among other things, the procurement function considers the risk of insufficient competition if it concentrates on a few financially strong suppliers when awarding contracts.

The positive economic trend in Europe, North America and China weakened over the course of the year. Moreover, shifts in demand from our customers and restrictions in the availability of model variants as a result of the WLTP test procedure posed a challenge to suppliers. These changed circumstances restricted suppliers' financing opportunities, particularly in areas where alternative technologies are gaining importance. The procurement risk management system continuously and globally monitors the financial situation of our suppliers and takes targeted measures to avoid supply bottlenecks.

The number of crises and insolvencies among suppliers worldwide fell in 2018 in line with the global economic situation. Specialists in restructuring and supply reliability are coordinating the measures to be taken on a Group-wide basis to safeguard production in a timely and sustainable manner.

The current trends in the automotive industry will also affect the availability of special raw materials, which are principally used in electrified vehicles. The raw material and demand trend was continuously analyzed and assessed on an interdisciplinary basis over the reporting year to enable steps to be taken in a timely manner in the event of potential bottlenecks.

New bilateral and multilateral trade agreements, including those for steel, for the expected shift in the product mix from diesel to petrol engines and for short-term demand fluctuations relating to the WLTP test procedure, present challenges that must be tackled together with suppliers. As a result of the new trade agreement between the USA, Mexico and Canada, there is a risk of additional costs due to more expensive deliveries.

Quality problems may necessitate technical intervention involving a considerable financial outlay where costs cannot be passed on to the supplier or can only be passed on to a limited extent. It is not possible at present to rule out the possibility of a further increase in recalls of various models produced by different manufacturers in which certain airbags manufactured by Takata were installed. This could also affect Volkswagen Group models.

In addition to financial difficulties, supply risks may arise, for example, as a result of fires or accidents at suppliers. Supply risks are identified without delay in the procurement function through early warning systems and mitigated immediately by applying derived measures.

Additional measures were taken to safeguard supply and avert future assembly line stoppages caused by suspensions of deliveries.

Antitrust investigations into suppliers on grounds of price-fixing agreements are being monitored by Risk Management. The effects on Volkswagen are being systematically reviewed.

Production risk

Volatile developments in the global automotive markets, accidents at suppliers and disruption in the supply chain caused production volumes of individual vehicle models to fluctuate at some plants. In specific markets, we also recorded a change in incoming orders: the number of orders for diesel vehicles fell, while orders for petrol engines rose. We address such fluctuations using tried-and-tested tools, such as flexible working time models. The design of the production network enables us to respond dynamically to varying changes in demand at the sites. "Turntable concepts" even out capacity utilization between production facilities. At multibrand sites, volatile demand can also be smoothed across brands.

Legal changes, for instance in the context of the changeover to the WLTP test procedure, may impact production. For one thing, a temporary reduction in the range causes demand to focus on the available variants. Moreover, gaps in production can occur if model variants have not been approved. These fluctuations necessitate measures to stabilize production, such as the temporary storage of vehicles until official approval.

Short-term changes in customer demand for specific equipment features in our products, and the decreasing predictability of demand, may lead to supply bottlenecks. We minimize this risk, for example, by continuously comparing our available resources against future demand scenarios. If we identify bottlenecks in the supply of materials, we can introduce countermeasures far enough in advance.

Production capacity is planned several years in advance for each vehicle project on the basis of expected sales trends. These are subject to market changes and generally entail a degree of uncertainty. If forecasts are too optimistic, there is a risk that capacity will not be fully utilized. However, forecasts that are too pessimistic pose a risk of undercapacity, as a result of which it may not be possible to meet customer demand.

The range of our models is growing, while at the same time product life cycles are becoming shorter; the number of new vehicle start-ups at our sites worldwide is therefore increasing. The processes and technical systems we use for this are complex and there is thus a risk that vehicle deliveries may be delayed. We address this risk by drawing on experience of past start-ups and identifying weaknesses at an early stage so as to ensure that production volumes and quality standards are met during our new vehicle start-ups throughout the Group.

In order to prevent downtime, lost output, rejects and reworking in general, we use the TPM (Total Productive Maintenance) method at our production facilities. TPM is a continuous process, that involves the entire workforce. Round-the-clock maintenance of the technical facilities means that they are always operational and guaranteed to function reliably.

Particular events beyond our control such as natural disasters or other events such as fires, explosions or the leakage of substances hazardous to health and/or the environment, may adversely affect production to a significant extent. As a consequence, bottlenecks or even outages may occur, thus preventing the planned volume of production from being achieved. We address such risks with, among other things, fire protection measures and hazardous goods management, and, where financially viable, ensure that they are covered by insurance policies.

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. They may result in particular from contract drafting errors, miscosting, post-contract changes in economic and technical conditions, weaknesses in project management, or poor performance by subcontractors. In particular, omissions or errors made at the start of a project are usually difficult to compensate for or correct, and often entail substantial additional expenses.

We endeavor to identify these risks at an even earlier stage and to take appropriate measures to eliminate or minimize them before they occur by constantly optimizing the project control process across all project phases and by using a lessons-learned process and regular project reviews. We can thus further reduce risk, particularly during the bidding and planning phase for large upcoming projects.

Risks arising from changes in demand

As a result of the diesel issue, the Volkswagen Group may experience decreases in demand, possibly exacerbated by media reports.

Consumer demand is shaped not only by real factors such as disposable income, but also by psychological factors that cannot be planned for. Unexpected buyer reluctance could stem from households' worries about the future economic situation, 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. We are countering the buyer reluctance with our attractive range of models and systematic customer orientation.

A combination of buyer reluctance in some markets as a result of the crisis and increases in some vehicle taxes based on CO_2 emissions – as already exist in many European countries – may shift demand towards smaller segments and engines. 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.

Automotive markets around the world are exposed to risks from government intervention such as tax increases, which curb private consumption, or from protectionist tendencies.

Commercial vehicles are capital goods: even minor changes in growth rates or growth forecasts can significantly affect transport requirements and thus demand. The production fluctuations arising as a result require a high degree of flexibility from manufacturers. Although production volumes are significantly lower, the complexity of the trucks and buses range in fact significantly exceeds the already very high complexity of the passenger cars range. Key factors for commercial vehicle customers are total cost of ownership, vehicle reliability and the service provided. In addition, customers are increasingly interested in additional services such as freight optimization and fleet utilization, which we offer in the commercial vehicle segment through the newly established digital brand RIO, for example.

MAN Power Engineering's two-stroke engines are produced exclusively by licensees, particularly in South Korea, China and Japan. On account of volatile demand in new ship construction, there is excess capacity in the market for marine engines, which may result in a decline in license revenues and bad debt losses. Due to changes in the competitive environment, especially in China, there is also the risk of losing market share. We address these risks by constantly monitoring the markets, working closely with all licensees and introducing new technologies.

Dependence on fleet customer business

Viewed over an extended period, the fleet customer business is generally more stable than the business with retail customers; in 2018, it continued to be characterized by increasing concentration and internationalization.

The Volkswagen Group is well positioned with its broad portfolio of products and drive systems, as well as its target-group-focused customer care. There is no concentration of default risks at individual fleet customers or markets. The high market share in Europe shows that fleet customers still have confidence in the Group.

Quality risk

Right from the product development stage, we aim to identify and rectify quality problems at the earliest possible point, so as to avoid delays to the start of production. As we are using an increasing number of modular components as part of our modular toolkit strategy, it is particularly important when malfunctions do occur to identify the cause and eliminate the malfunctions as quickly as possible. We further optimized the processes with which we can prevent these defects at our brands and improved our organizational processes during the reporting period so that we are able to counter the associated risks more effectively.

Increasing technical complexity and the use of the toolkit system in the Group mean that the need for high-grade supplier components and software of impeccable quality is rising. To ensure the continuity of production, it is also extremely important that our own plants and our suppliers deliver components on time. We ensure long-term quality and supply capability from the very start of the supply chain using a risk management system that we first tested internally and then introduced with suppliers. In this way, Group Quality Management contributes to fulfilling customer expectations and consequently to boosting our Company's reputation, sales figures and earnings.

Assuring quality is of fundamental importance especially in the Brazilian, Russian, Indian and Chinese markets, for which we develop dedicated vehicles and where local manufacturers and suppliers have been established, particularly as it may be very difficult to predict the impact of regulations or official measures. We continuously analyze the conditions specific to each market and adapt quality requirements individually to them. We counter the local risks we identify by continuously developing measures and implementing them locally, thereby effectively preventing quality defects from arising.

Vehicle registration and operation criteria are defined and monitored by national and, in some cases, international authorities. Several countries also have special – and in some cases new – rules aimed at protecting customers in their dealings with vehicle manufacturers. With our established and revised quality assurance processes, we ensure that the Volkswagen Group brands and their products fulfill all respective applicable requirements and that local authorities receive timely notification of all issues requiring reporting. By doing so, we reduce the risk of customer complaints or other negative consequences.

Personnel risk

We counter economic risks as well as changes in the market and competitive situation with a range of instruments that help the Volkswagen Group to remain flexible with a fluctuating order situation – whether orders decline or demand for our products increases. These include time accounts which are filled when overtime is necessary and reduced through time off in quiet periods, enabling our factories to adjust their capacity to the production volume with measures such as extra shifts, closure days and flexible shift models. The use of temporary workers also allows us to plan more flexibly. All of these measures help the Volkswagen Group to generally maintain a stable permanent workforce even when orders fluctuate.

The technical expertise and individual commitment of employees are indispensable prerequisites for the success of the Volkswagen Group. Our strategically oriented and holistic human resource development gives all employees attractive training and development opportunities, with particular emphasis being placed on strengthening professional skills in the Company's different vocational groups. By boosting our training programs, particularly at our international locations, we are able to adequately address the challenges of technological change.

We are continuously expanding our recruitment tools. Our systematic talent relationship management, for example, enables us to make contact with talented candidates from strategically relevant target groups at an early stage and to build a long-term relationship between them and the Group. In addition to the standard dual vocational training, programs such as our StIP integrated degree and traineeship scheme ensure a pipeline of highly qualified and motivated employees. By systematically increasing our attractiveness as an employer, we gain talented people in the future-critical areas of IT, design and social media. With tools such as these, we ensure that we can cover our requirement for highly qualified new staff even amid a shortage of skilled labor.

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 established a base of senior experts in the Group. With this instrument, we use the valuable knowledge of our experienced specialists who have retired from Volkswagen.

The advancing digitalization of our human resources processes entails risks arising from the processing of personal data. Volkswagen is aware of its responsibility in the processing of this data. We address these risks as part of our data protection management system by implementing a wide range of measures.

One challenge of our collaboration with the monitor lies in the tension, in some regards, between the monitor's requests for information on the one hand and both German and international data-protection requirements on the other. This is true particularly against the backdrop of the existing scopes of assessment and interpretation regarding data-protection requirements. In the interest of precluding infringements of the law as best as possible – despite a partially unclear legal situation – Volkswagen is advised by external law firms on these issues.

IT Risks

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 exist in relation to the three protection goals of confidentiality, integrity and availability, and comprise in particular unauthorized access to, modification of and extraction of sensitive electronic corporate or customer data as well as limited systems availability as a consequence of downtime and disasters. Handling data with integrity ensures that it is correct and uncorrupted, and that systems function without error.

The high standards we set for the quality of our products also apply to the way in which we handle our customers' and employees' data. In particular, the digital services for our mobility services must be secured. Our guiding principles are data security, transparency and informational self-determination.

We address the risk of unauthorized access to, modification of, or extraction of corporate and customer data with the use of IT security technologies (e.g. firewall and intrusion prevention systems) and a multiple-authentication procedure. Additionally, we increase protection by restricting the allocation of access rights to systems and information and by keeping backup copies of critical data resources. Redundant IT infrastructures protect us against risks that occur in the event of a systems failure or natural or other disasters.

We used commercially available technologies to protect our IT landscape, adhering to standards applicable throughout the Company. We future-proof our IT through continual standardization and updates. Continuously increasing automation enhances process reliability and the quality of processing.

The further development and Group-wide use of IT governance processes, particularly the further standardization of the IT risk management process, also helps to identify risks at an early stage and reduce them effectively.

The focus of our IT security program is the ongoing enhancement of Group-wide security measures. This currently includes the setting up of an IT security command center. The center's role is to detect cyber-attacks quickly, helping us to successfully defeat them using the latest tools. Volkswagen complements these technical measures by systematically raising awareness and providing training for employees.

Environmental protection regulations

The specific emission limits for all new passenger car and light commercial vehicle fleets for brands and groups in the EU for the period up to 2019 are set out in Regulation (EC) No 443/2009 on CO_2 emissions from passenger cars and Regulation (EU) No 510/2011 on light commercial vehicles of up to 3.5 tonnes, which came into effect in April 2009 and June 2011, respectively. These regulations are important components of the European climate protection policy and therefore form the key regulatory framework for product design and marketing by all vehicle manufacturers selling in the European market.

The average CO_2 emissions of new European passenger car fleets have not been allowed to exceed 130 g CO_2/km since 2012. Compliance with this requirement was introduced in phases; since 2015 the entire fleet has to meet this limit. Regulation (EU) No 333/2014, which was adopted in 2014, states that the average emissions of European passenger car fleets may be no higher than just 95 g CO_2/km from 2021 onwards; in 2020, this emissions limit will already apply to 95% of the fleet. Up to and including 2020, European fleet legislation will be complied with on the basis of the New European Driving Cycle (NEDC). After 2021, the NEDC target value will be changed into a WLTP target value through a process defined by lawmakers; this change is not expected to lead to additional tightening of the target value.

The EU's CO_2 regulation for light commercial vehicles requires limits to be met from 2014 onwards, with targets being phased in over the period to 2017. Under this regulation, the average CO_2 emissions of new vehicle registrations in Europe may not exceed 175 g CO_2/km. From 2020 onwards, the limit under Regulation (EU) No 253/2014, which was adopted in 2014, is 147 g CO_2/km.

In the fourth quarter of 2017, the European Commission published a regulatory proposal for the CO_2 regime after 2020. In December 2018, the European Council, Parliament and Commission agreed on post-2020 fleet legislation, which has yet to be conclusively published in the Official Journal of the European Union. This legislation stipulates a reduction of 15% from 2025 and 37.5% from 2030 for the European new passenger car fleets and a reduction of 15% in 2025 and 31% in 2030 for the new light commercial vehicle fleets. In each case, the starting point is the fleet value in 2021. Policymakers are already discussing reduction targets for the transport sector for the period to 2050, such as the 60% reduction in greenhouse gas emissions compared to 1990 levels cited in the EU White Paper on transport published in March 2011. These long-term targets can only be achieved through a high proportion of electric vehicles.

At the same time, regulations governing fleet fuel consumption are also being developed or introduced outside the EU28, for example in Brazil, Canada, China, India, Japan, Mexico, Saudi Arabia, South Korea, Switzerland, Taiwan and the USA. Brazil has introduced a fleet efficiency target as part of a voluntary program for granting a tax advantage. To receive a 30% tax advantage, vehicle manufacturers must, among other things, achieve a specified fleet efficiency. The fuel consumption regulations in China, which set an average fleet target of 6.9 liters/100 km for the period 2012–2015, were continued into the period 2016–2020 with a target of 5.0 liters/100 km. Preparations for legislation up to 2025 have begun. In addition to this legislation on fleet consumption, China will impose a so-called "new energy vehicle quota" in the future. This means that from 2019 onwards, battery-electric vehicles, plug-in hybrids and fuel cell vehicles will have to account for a certain proportion of a manufacturer's new passenger car fleet. Due to the extension of greenhouse gas legislation in the USA (the law was signed in 2012), uniform fuel consumption and greenhouse gas standards will continue to apply in all federal states in the period from 2017 to 2025.

The increased regulation of fleet-based CO_2 emissions and fuel consumption makes it necessary to use the latest mobility technologies in all key markets worldwide. At the same time, electrified and also purely electric drives will become increasingly common. The Volkswagen Group closely coordinates technology and product planning with its brands so as to avoid breaches of fleet fuel consumption limits, since these would entail severe financial penalties. Volkswagen continues to regard diesel technology as an important element in the fulfillment of CO_2 emissions targets.

EU legislation allows excess emissions and emission shortfalls to be offset between vehicle models within a fleet of new vehicles. Furthermore, the EU permits some flexibility in fulfilling the emissions targets, for example:

- Emission pools may be formed,
- Relief opportunities may be provided for additional innovative technologies contained in the vehicle that apply outside the test cycle (eco-innovations),
- Special rules are in place for small-series producers and niche manufacturers,
- Particularly efficient vehicles qualify for super-credits.

Whether the Group meets its fleet targets depends crucially on its technological and financial capabilities, which are reflected in, among other things, our drivetrain and fuel strategy.

In the EU, a new, more time-consuming test procedure – the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP), – for determining pollutant and CO_2 emissions as well as fuel consumption in passenger cars and light commercial vehicles has applied to new vehicle types since September 2017 and to all new vehicles since September 2018. Other challenges arise in connection with stricter processes and requirements regarding WLTP, such as from test criteria and from homologation (achievement of approval).

The Real Driving Emissions (RDE) regulation for passenger cars and light commercial vehicles is also one of the main European regulations. New, uniform limits for nitrogen oxide and particulate emissions in real road traffic have applied to new vehicle types across the EU since September 2017. This makes the RDE test procedure fundamentally different from the Euro 6 standard still in force, which stipulates that the limits on the chassis dynamometer are authoritative. The RDE regulation is intended primarily to improve air quality in urban areas and areas close to traffic. It leads to stricter requirements for exhaust gas aftertreatment in passenger cars and light commercial vehicles. There are challenges associated with stricter processes and requirements regarding RDE, such as from test criteria and from homologation (achievement of approval).

The other main EU regulations affecting the automotive industry include:

- EU Directive 2007/46/EC establishing a framework for the approval of motor vehicles,
- 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,
- The Car Labeling Directive 1999/94/EC,
- The Fuel Quality Directive (FQD) 2009/30/EC updating the fuel quality specifications and introducing energy efficiency specifications for fuel production,
- Renewable Energy Directive (RED) (2009/28/EC) introducing sustainability criteria; the follow-up regulation (RED2) contains higher quotas for advanced biofuels,
- The revised Energy Taxation Directive 2003/96/EC updating the minimum tax rates for all energy products and power.

The implementation of the above-mentioned directives by the EU member states serves to support the CO_2 regulations in Europe. These are aimed not only at vehicle manufacturers, but also at other sectors such as the mineral oil industry. Vehicle taxes based on CO_2 emissions are having a similar steering effect; many EU member states have already incorporated CO_2 elements into their rules on vehicle taxation.

There is particular momentum in the debate on driving bans for diesel vehicles in Germany. This was triggered by the failure of some municipalities and cities to comply with the limits for nitrogen dioxide (NO_2) immissions. In many places, lawsuits have been filed and judgments issued. It is argued in this context that only driving bans for diesel vehicles can bring about the necessary short-term reduction in NO_2 immissions. The discussion may result in sales volumes of diesel vehicles to decline further and to financial liabilities arising from customer-related measures and possible official or statutory requirements.

Local driving bans are already in place in a number of countries, though these mainly affect older vehicles. Regulations in Belgium that successively bar older vehicles from larger cities are one corresponding example. With a view to the future, large urban areas such as Paris and London are discussing banning vehicles with combustion engines.

Heavy commercial vehicles first put into operation from 2014 onwards are already subject to the stricter emission requirements of the Euro 6 standard in accordance with Regulation (EU) No 582/2011. Alongside the CO_2 legislation for passenger cars and light commercial vehicles, the EU has prepared more comprehensive regulation of CO_2 emissions in heavy commercial vehicles. Simply setting an overarching limit for these vehicles – such as that in place for passenger cars and light commercial vehicles – would require an extremely complex set of rules because of the wide range of variants. For this reason, the European Commission has worked with independent scientific institutions and the European Automobile Manufacturers' Association (ACEA) to prepare a simulation-based method called the Vehicle Energy Consumption Calculation Tool (VECTO). This can be used to determine the CO_2 emissions of heavy commercial vehicles of over 7.5 tonnes based on their typical use (short-haul, regional, distribution and long-haul trips, service on construction sites and as municipal vehicles, city buses, intercity buses and coaches). A legislative proposal for the CO_2 certification of heavy commercial vehicles and regulations on the reporting and monitoring of CO_2 figures was presented in May 2017; the legislation for the declaration of CO_2 figures for heavy commercial vehicles came into effect in January 2018. A CO_2 declaration will be compulsory for selected vehicle categories from 2019 (initially long-haul and regional distribution vehicles, later also buses and other segments), with the captured data first being used to enable the customer to compare information and for certification and monitoring purposes. Further vehicle categories are likely to be included as time progresses. As part of its strategy to decarbonize transport, the European Commission has also announced that it will be proposing CO_2 standards for heavy commercial vehicles in order to achieve the targets of the Paris climate agreement. During trilogue negotiations in February 2019, the European Parliament and EU member states agreed on a joint proposal regarding the CO_2 regulation for heavy trucks. Accordingly, truck manufacturers have to achieve the intermediate goal by 2025, namely a 15% reduction of CO_2 emissions for their new vehicle fleets within the EU. The goal of achieving a reduction provision of 30% shall apply by 2030. The reference year for all reduction goals is 2019. The current proposal also provides for fines if the limits are exceeded. Before these provisions can bindingly enter into force, the Council and the Parliament must approve the resolutions.

As part of its efforts to reduce the CO_2 emissions of heavy commercial vehicles, the European Commission has also amended the provisions regarding the maximum permissible dimensions and weights of trucks (Directive 1996/53/EC, the Weights and Dimensions Directive) and revised them through EU Directive 2015/719. According to these, cabs with a rounded shape and air conduction devices at the rear of the vehicle will make it possible to improve aerodynamics in future. In addition, the legislators increased the overall weight permitted for vehicles with alternative drive technologies by up to one tonne. The specific technical requirements for the development of aerodynamic cabs are currently being examined.

The European commercial vehicles industry supports the goals of reducing CO_2 emissions and improving transport safety. However, it is not just the vehicles themselves that affect future CO_2 emissions; individual components also play an important role, such as reduced rolling resistance tires or the aerodynamic trim of the trailer, as do driving behavior, alternative fuels including the required filling stations, transport infrastructure and transport conditions. As part of a field trial that took place up to the end of 2016, longer and heavier vehicles that can decrease fuel consumption and thus CO_2 emissions by up to 25% according to scientific studies by the German Federal Highway Research Institute, were also driving on German roads. Since the beginning of 2017, these longer vehicles have been used in regular operations on a certified road network.

Networking and digitalizing the transport system will also eliminate existing inefficiencies such as inadequate utilization of existing load capacities, empty trips or unnetworked route planning: vehicles that move in networked, intermodal transport systems in which flows of traffic are optimized through the use of artificial intelligence, save fuel and hence reduce CO_2 emissions. Automated driving also presents considerable potential for more sustainable organization of goods transport in road traffic, for example through platooning, in which the driver of the first truck in a convoy of networked, partially self-driving trucks specifies the direction and speed. Driving in the slipstream of other trucks on motorways allows fuel consumption to be reduced and safety to be increased. However, platooning requires changes in the legal framework and establishment of the necessary infrastructure.

In the Power Engineering segment, the International Maritime Organization (IMO) has introduced the International Convention for the Prevention of Pollution from Ships (MARine POLlution – MARPOL), with which limits on emissions from marine engines will be lowered in phases. A reduction of the sulfur content in marine fuel has been confirmed with effect from January 1, 2020. In addition, the IMO has decided on a number of emission control areas in Europe and in the USA/Canada that will be subject to special environmental regulations. Expansion to further regions such as the Mediterranean or Japan is already being planned; other regions such as the Black Sea, Alaska, Australia or South Korea are also in discussion. In addition, emission limits also apply, for example, under Regulation (EU) 2016/1628 and in accordance with the regulations of the U.S. Environmental Protection Agency (EPA). On specialist bodies and in public, we are emphatically championing a “maritime energy transition”. In a first step, we are supporting the switch to liquefied natural gas (LNG) as a fuel for maritime applications and also offer dual fuel and gas-powered engines for new and retrofitted vessels. For long-term, climate-neutral operation of seagoing vessels, we advocate power-to-X technology, in which excess sustainably generated electricity is converted into carbon-neutral gas or liquid fuel.

As regards stationary equipment, there are a number of national rules in place worldwide that limit permitted emissions. 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 required to be applied if individual countries have adopted no national requirements of their own, or ones that are less strict than those of the World Bank Group. These are currently being revised. In addition, the United Nations adopted the Convention on Long-range Transboundary Air Pollution back in 1979, setting limits on total emissions as well as nitrogen oxide 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 focus on improving the efficiency of the equipment and systems.

The allocation method for emissions certificates changed fundamentally when the third emissions trading period (2013–2020) began. As a general rule, all emission allowances for power generators have been sold at auction since 2013.

For the 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 portion of certificates allocated free of charge will gradually decrease as the trading period progresses: the remaining quantities required will have to be bought at auction. Furthermore, installation operators can partly fulfill their obligation to hold emission allowances using certificates from climate change projects (Joint Implementation and Clean Development Mechanism projects). In certain (sub-) sectors of industry, 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 to these sectors free of charge for the period from 2013 to 2020 on the basis of the pan-EU benchmarks. The automotive industry was included in the new carbon leakage list that came into effect in 2015. As a result, individual facilities at Volkswagen Group locations in Europe will receive additional certificates free of charge by the end of the third trading period. Already back in 2013, the European Commission decided to initially withhold a portion of the certificates to be auctioned and not to release them for auction until a later date during the third trading period (backloading). The certificates will be directed into a market stability reserve that was established in 2018. The reserve will serve to offset any imbalance between the supply of and demand for certificates in emissions trading in the fourth trading period. Furthermore, the European Commission is planning further modifications in emissions trading when the fourth trading period begins (from 2021) that may lead to a tightening of the system and thus to price increases for the certificates.

In addition to the EU member states, other countries in which the Volkswagen Group has production sites are also considering introducing an emissions trading system. In China, for example, seven corresponding pilot projects are underway, which do not affect the Volkswagen Group. The Chinese government officially implemented a national emissions trading system at the end of 2017. Initially, this will only impact the power generation sector; a gradual expansion is being planned.

Litigation

In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested are involved in a great number of legal disputes and governmental proceedings in Germany and abroad. Such legal disputes and other proceedings occur in relation to employees, dealers, investors, customers, or suppliers, among others, or in relation to relevant public authorities. For the companies involved, these may result in payment or other obligations. In particular, substantial compensatory or punitive damages may have to be paid and cost-intensive measures may have to be implemented. In this context, specific quantification of the objectively likely consequences is often possible only to a very limited extent, if at all.

Risks may also emerge in connection with the adherence to regulatory requirements. This particularly applies in the case of regulatory vagueness that may be interpreted differently by Volkswagen and the authorities responsible for the respective regulations. In addition, legal risks can arise from the criminal activities of individual persons, which even the best compliance management system can never completely prevent.

Where transparent and economically viable, adequate insurance coverage was taken out for these risks. For the identifiable and measurable risks, provisions considered appropriate based on existing information were recognized and information about contingent liabilities disclosed. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not covered by the insured amounts and provisions cannot be ruled out. This applies particularly to legal risk assessment regarding the diesel issue.

Diesel issue

In the USA Volkswagen AG and certain affiliates reached settlement agreements (including various consent decrees) with the US Department of Justice (DOJ), the US Environmental Protection Agency (EPA), the State of California, the California Air Resources Board (CARB), the California Attorney General, the US Federal Trade Commission, and private plaintiffs represented by a Plaintiffs' Steering Committee in a multi- district litigation in California. These settlement agreements resolved certain civil claims made in relation to affected diesel vehicles in the United States of America.

Volkswagen AG also entered into agreements to resolve US federal criminal liability and certain civil penalties and claims relating to the diesel issue. As part of its plea agreement, Volkswagen AG agreed to plead guilty to three felony counts under US law – including conspiracy to commit fraud, obstruction of justice and using false statements to import cars into the United States of America – and has been sentenced to three years' probation.

A description of the diesel issue can be found starting on page 92. In connection with the diesel issue, potential consequences for Volkswagen's results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Coordination with the authorities on technical measures worldwide
In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines.

Within its area of responsibility, the German Federal Motor Transport Authority (Kraftfahrt-Bundesamt or KBA) ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emission figures, engine power, maximum torque, and noise emissions.

AUDI AG has worked intensively for many months to check all relevant diesel concepts for possible discrepancies and retrofit potentials. The measures proposed by AUDI AG have been adopted and mandated in various recall notices issued by the KBA for vehicle models with V6 and V8 TDI engines.

Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. The measures submitted by AUDI AG are being examined by the KBA and can only be made available to customers after corresponding approval by the KBA.

The Ministry of Environment in South Korea qualified certain emissions strategies in the engine control software of various diesel vehicles with V6 or V8-TDI engines meeting the Euro 6 emission standard as an unlawful defeat device and ordered a recall on April 4, 2018; the same applies to the Dynamic Shift Program (DSP) in the transmission control of a number of Audi models.

In the USA, in fiscal year 2018, the EPA and CARB issued the outstanding official approvals needed for the technical solutions for the affected vehicles with 2.0 l TDI and with V6 3.0 l TDI engines. In the case of 2.0 l Generation 2 diesel vehicles with manual transmissions, Volkswagen Group of America, Inc. elected to withdraw the approved emissions modification proposal, whereby owners were given the option of a buyback and lessees were given the option of early lease termination.

On October 31, 2018, after discussions with DOJ, EPA, and CARB, the parties agreed to modify the First and Second Partial Consent Decrees to clarify that Volkswagen may repair certain technical issues with approved emissions modifications through an "AEM Correction" (Approved Emissions Modifications).

2. Criminal and administrative proceedings worldwide (excluding the USA/Canada)
Criminal investigations, regulatory offense proceedings, and/or administrative proceedings (in Germany for example by the Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin – Federal Financial Supervisory Authority) have been opened in some countries. The public prosecutor's offices in Braunschweig and Munich are investigating the core issues of the criminal investigations.

The Braunschweig Office of the Public Prosecutor is investigating approximately 40 (current and former) employees and a former member of the Board of Management for possible fraud, among other things. The investigations are ongoing. The defendants and Volkswagen AG were permitted to inspect the investigation files.

The regulatory offense proceeding that was opened against Volkswagen AG in this connection in April 2016 has been terminated by the administrative fine order issued against Volkswagen AG by the Braunschweig Office of the Public Prosecutor on June 13, 2018. The administrative fine order is based on a negligent breach in the Powertrain Development department of the obligation to supervise, relating to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a total fine of €1.0 billion, consisting of a penalty payment of €5 million and the forfeiture of economic benefits in the amount of €995 million. After thorough examination, the fine has been accepted and paid in full by Volkswagen AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Volkswagen AG. Further sanctions against or forfeitures by Volkswagen AG and its Group companies are therefore not expected in Germany in connection with the unitary factual situation covered by the administrative order concerning diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. As a result, Volkswagen expects that the conclusion of this proceeding will have a substantially positive impact on other governmental proceedings being conducted in Europe against Volkswagen AG and its Group companies.

The Braunschweig Office of the Public Prosecutor is conducting another proceeding against three (current or former) members of the Board of Management for alleged market manipulation with respect to capital market disclosure obligations in connection with the diesel issue. In this context, the Office of the Public Prosecutor has been conducting a regulatory offense proceeding against Volkswagen AG under §30 OWiG (German Regulatory Offenses Act) since July 30, 2018. Volkswagen AG has since been permitted to inspect the public prosecutor's investigation files several times. The investigations are ongoing.

The Munich II Office of the Public Prosecutor is conducting investigations against 24 persons, including the former Chairman of the Board of Management of AUDI AG (who is also a former member of the Board of Management of Volkswagen AG) and another active member of the Board of Management of AUDI AG. The investigations are ongoing. AUDI AG has appointed two renowned major law firms to clarify the matters underlying the public prosecutor's accusations. The Board of Management and Supervisory Board of AUDI AG are being regularly updated on the current state of affairs.

The administrative fine order issued on October 16, 2018 by the Munich II Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against AUDI AG in this connection. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit "Emissions Service/Engine Type Approval". The administrative order imposes a total fine of €800 million, consisting of a penalty payment of €5 million and the forfeiture of economic benefits in the amount of €795 million. After thorough examination, the fine has been accepted and paid in full by AUDI AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against AUDI AG. Further sanctions against or forfeitures by AUDI AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

The Stuttgart Office of the Public Prosecutor has commenced a criminal investigation relating to the diesel issue against one board member, one employee, and one former employee of Dr. Ing. h.c. F. Porsche AG on suspicion of fraud and illegal advertising as well as an analogous regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG under §30 OWiG. Dr. Ing. h.c. F. Porsche AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor's accusations. The Board of Management and Supervisory Board of Dr. Ing. h.c. F. Porsche AG are being regularly updated on the current state of affairs.

On July 6, 2018, the Federal Constitutional Court rendered its decision on the constitutional complaints filed in connection with the search of the premises of the law firm Jones Day, holding that the lower court ruling affirming the provisional seizure of client engagement documents and data of Volkswagen AG did not violate constitutional law. The companies of the Volkswagen Group will continue to cooperate with the German government authorities with due regard for the ruling of the German Federal Constitutional Court.

Whether the criminal and administrative proceedings will ultimately result in fines for the Company, and if so in what amount, is currently subject to estimation risks. According to Volkswagen's estimates so far, the likelihood that a sanction will be imposed is 50% or less in the majority of these proceedings. Contingent liabilities have therefore been disclosed where the amount of such liabilities could be measured and the likelihood of a sanction being imposed was assessed at not lower than 10%. Provisions were recognized to a small extent.

3. Product-related lawsuits worldwide (excluding the USA/ Canada)

In principle, it is possible that customers in the affected markets will file civil lawsuits or that importers and dealers will assert recourse claims against Volkswagen AG and other Volkswagen Group companies. Besides individual lawsuits, various forms of collective actions (i.e. assertion of individual claims by plaintiffs acting jointly or as representatives of a class) are available in various jurisdictions. Furthermore, in a number of markets it is possible for consumer and/or environmental organizations to bring suit to enforce alleged rights to injunctive relief, declaratory judgment, or damages.

Customer class action lawsuits and actions brought by consumer and/or environmental associations are pending against Volkswagen AG and other companies of the Volkswagen Group in various countries including Argentina, Austria, Australia, Belgium, Brazil, Chile, China, the Czech Republic, Germany, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, Spain, South Africa, South Korea, Switzerland, Taiwan, and the United Kingdom. Alleged rights to damages and other relief are asserted in these actions.

The actions pending in the aforementioned countries include in particular the following:

Various class action lawsuits with opt-out mechanism, one individual lawsuit, and two civil suits by the Australian Competition and Consumer Commission are currently pending in Australia against Volkswagen AG and other Group companies, including the Australian subsidiaries. These proceedings have been joined with each other. Given the opt-out rule, the class actions have the potential to automatically cover all vehicles with type EA 189 engines unless the right to opt out is actively exercised. In all, approximately 100 thousand vehicles in the Australian market with type EA 189 engines are affected. An initial court hearing lasting several weeks was held in March 2018 on technical questions; further issues are to be argued in September 2019.

In Belgium, the Belgian consumer organization Test Aankoop VZW has filed a class action to which an opt-out mechanism has been held to apply. The class action pertains to vehicles purchased by consumers on the Belgian market after September 1, 2014. The asserted claims are based on purported violations of unfair competition and consumer protection law as well as on alleged breach of contract. An initial hearing for oral argument has yet to take place in this matter. The court has extended the statutorily mandated negotiation phase until July 8, 2019.

In Brazil two class actions are pending. One of them pertains to approximately 17 thousand vehicles. In this proceeding, a judgment, which is not yet final, has been rendered holding Volkswagen do Brasil liable in an amount of €0.3 billion plus interest. The judgment has been appealed. In the second class action alleged compensation claims are made based on purported breaches of environmental regulations.

In Germany, the Verbraucherzentrale Bundesverband e. V. (Federation of Consumer Organizations) filed an action on November 1, 2018 with the Braunschweig Higher Regional Court for model declaratory judgment against Volkswagen AG. The complaint is seeking a ruling that certain preconditions for potential consumer claims against Volkswagen AG are met; however, no specific payment obligations would result from any determinations the court may make. Individual claims then would have to be enforced afterwards in subsequent separate proceedings.

In addition, various actions have been brought against companies of the Volkswagen Group in several German Regional Courts (Landgericht) by financialright GmbH, which is asserting rights assigned to it by a total of approximately 46 thousand customers in Germany, Slovenia, and Switzerland.

In England and Wales, suits filed in court by various law firms have been joined in a single collective action (group litigation). Roughly 117 thousand claimants joined the group litigation prior to expiration of the opt-in deadline on December 19, 2018; around 40 thousand additional plaintiffs not currently covered by the group litigation could still be added. Because of the opt-in mechanism, not all vehicles with type EA 189 engines are automatically covered by the group litigation; potential claimants must instead take action in order to join. A judicial case management conference is scheduled for March 2019. No oral argument on the substantive merits of the claims has as yet taken place.

In Italy, two class action lawsuits have been filed with the Venice Regional Court by two consumer associations (Altroconsumo and Codacons) acting on behalf of Italian customers. Damage claims based on alleged breach of contract as well as claims based on purported violations of Italian consumer protection law are being asserted in these proceedings. In the Codacons proceeding, the court dismissed the class action as inadmissible on December 18, 2018. In the Altroconsumo proceeding, the deadline for the filing of claims has passed and those filed are currently being tabulated by an appointed expert.

In the Netherlands, Stichting Volkswagen Car Claim has brought an opt-in class action seeking declaratory rulings. Any individual claims would then have to be reduced to judgment afterwards in a separate proceeding.

Several lawsuits filed by the Austrian consumer protection organization (VKI – Verein für Konsumentenschutz) and by the Cobin Claims platform are pending in Austria. In these actions, damage claims assigned for collection to VKI or to the Cobin Claims platform are being asserted on behalf of roughly 10 thousand customers.

A Portuguese consumer organization has filed a class action with opt-out mechanism in Portugal. There are approximately 126 thousand affected vehicles in the Portuguese market. The complaint seeks vehicle return and alleges damages as well.

Volkswagen estimates the likelihood that the plaintiffs will prevail to be 50% or less for the majority of the customer class actions and the complaints filed by consumer and/or environmental organizations. Contingent liabilities are disclosed for these proceedings where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not implausible. Since most of these proceedings are still in an early stage, it is in many cases not yet possible to quantify the realistic risk exposure. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in various countries, most of which are seeking damages or rescission of the purchase contract. In Germany, there are around 46 thousand such individual lawsuits. A total of approximately one thousand additional individual lawsuits are pending in other countries. According to Volkswagen's estimates, the likelihood that the plaintiffs will prevail is 50% or less in the vast majority of the individual lawsuits. Contingent liabilities are disclosed for these actions where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not implausible. In addition, provisions were recognized to the extent necessary based on the current assessment.

At this time it cannot be estimated how many customers will choose to file lawsuits in the future in addition to those already pending given the action for model declaratory judgment in Germany, among other things, and what their prospect of success will be.

4. Lawsuits filed by investors worldwide (excluding the USA/Canada)
Investors from Germany and abroad have filed claims for damages against Volkswagen AG – in some cases along with Porsche Automobil Holding SE (Porsche SE) as joint and several debtors – based on purported losses due to alleged misconduct in capital market communications in connection with the diesel issue.

The vast majority of these investor lawsuits are currently pending at the Regional Court in Braunschweig. On August 5, 2016, the Regional Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the Regional Court in Braunschweig be referred to the Higher Regional Court (Oberlandesgericht) in Braunschweig for binding declaratory rulings pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (KapMuG – Kapitalanleger-Musterverfahrensgesetz). In this proceeding, common questions of law and fact relevant to these actions are to be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig (model case proceedings). All lawsuits at the Regional Court in Braunschweig will be stayed pending resolution of the common issues, unless the cases can be dismissed for reasons independent of the common issues that are to be adjudicated in the model case proceedings. The resolution in the model case proceedings of the common questions of law and fact will be binding for all pending cases that have been stayed in the described manner. In the model case action, hearing for oral argument before the Braunschweig Higher Regional Court began on September 10, 2018 and was continued in subsequent sessions. Tracking the objects of declaratory judgment, the Court gave indications as to its preliminary assessment. Oral argument is to continue in 2019.

At the Regional Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtor. On December 6, 2017, the Regional Court in Stuttgart issued an order for reference to the Higher Regional Court in Stuttgart in relation to procedural issues, particularly for clarification of jurisdiction. An action for model declaratory judgment concerning the diesel issue is also pending against Porsche SE before the Stuttgart Higher Regional Court; as the case currently stands, Volkswagen AG is model case defendant in this action as well.

Further investor lawsuits have been filed at various courts in Germany and the Netherlands. In Austria, the first-instance dismissal of the last investor complaint pending in connection with the diesel issue became binding in the reporting period.

Worldwide (excluding USA and Canada), investor lawsuits, judicial applications for dunning procedures and conciliation proceedings, and claims under the KapMuG are currently pending against Volkswagen AG in connection with the diesel issue, with the claims totaling roughly €9.6 billion. Volkswagen AG remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

5. Proceedings in the USA/Canada
Following the publication of the EPA's "Notices of Violation," Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal), and civil litigation. Volkswagen AG and other Volkswagen Group companies have received subpoenas and inquiries from state attorneys general and other governmental authorities.

Volkswagen AG and other Volkswagen Group companies are facing litigation in the USA/Canada on a number of different fronts relating to the matters described in the EPA's "Notices of Violation". In that respect, investigations by various US and Canadian regulatory and government authorities are ongoing, particularly in areas relating to securities, financing and tax. Additionally, in the USA and Canada, certain putative class actions by customers, investors, salespersons and dealers; individual customers' lawsuits and claims by state, provincial or municipal authorities have been filed in various courts, including state and provincial courts. A large number of these putative class action lawsuits have been filed in US federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

In the USA, Volkswagen has reached separate agreements with the attorneys general of 49 states, the District of Columbia and Puerto Rico to resolve their existing or potential consumer protection and unfair trade practices claims in connection with both 2.0 l TDI and 3.0 l TDI vehicles in the USA. New Mexico still has consumer protection claims outstanding. Volkswagen has also reached separate agreements with the attorneys general of thirteen US states (California, Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws. The attorneys general of eight other US states (Alabama, Illinois, Montana, New Hampshire, New Mexico, Ohio, Tennessee, and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, alleging violations of environmental laws. The environmental claims of eight states – Alabama, Illinois, Missouri, Minnesota, Ohio, Tennessee, Texas, and Wyoming – as well as Hillsborough County (Florida), Salt Lake County (Utah), and two Texas counties, have been dismissed in full or in part by trial or appellate courts as preempted by federal law. Alabama, Illinois, Ohio, Tennessee, Hillsborough County, and Salt Lake County have appealed or may still appeal the dismissal of their claims.

The U.S. Securities and Exchange Commission (the "SEC") has requested information from Volkswagen regarding potential violations of securities laws in connection with issuances of bonds and asset-backed securities, as a result of nondisclosure of certain Volkswagen diesel vehicles' noncompliance with US emission standards. The SEC informed Volkswagen that it had issued a formal order of investigation in January 2017; this investigation is ongoing. The SEC Staff subsequently informed Volkswagen that the SEC might bring an enforcement action against Volkswagen arising out of this investigation.

On August 28, 2018, Volkswagen AG and a putative class of purchasers of Volkswagen AG American Depositary Receipts agreed to settle the class' claims alleging a drop in price purportedly resulting from the matters described in the EPA's "Notices of Violation" in exchange for a cash payment of USD 48 million. The proposed settlement was granted preliminary approval by the court in November 2018.

On December 21, 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving 3.0 l diesel vehicles that was approved by the courts in Ontario and Quebec in April 2018. Also in Canada, a criminal enforcement-related investigation related to 2.0 l and 3.0 l diesel vehicles by the federal environmental regulator is ongoing, and a quasi-criminal enforcement-related offense has been charged by the Ontario provincial environmental regulator related to 2.0 l diesel vehicles. Additionally, in Quebec, a certified environmental class action on behalf of residents is pending. This environmental class action was authorized on the sole issue of whether punitive damages could be recovered. Volkswagen is seeking leave to appeal this authorization ruling. Class action and joinder lawsuits have also been filed in Canada, including alleged consumer protection and securities claims asserting damages among other things.

To the extent a matter is not separately described above, an assessment is not yet possible at the current stage of the proceedings or has, in accordance with IAS 37.92, not been presented so as not to compromise the results of the proceedings and the interests of the Company.

6. Additional proceedings

With its ruling of November 8, 2017, the Higher Regional Court of Celle ordered, upon the request of three US funds, the appointment of a special auditor for Volkswagen AG. The special auditor is to examine whether there was a breach of duties on the part of the members of the Board of Management and Supervisory Board of Volkswagen AG in connection with the diesel issue on or after June 22, 2006 and, if so, whether this resulted in damages for Volkswagen AG. The ruling by the Higher Regional Court of Celle is formally unappealable. However, Volkswagen AG has filed a constitutional complaint with the German Federal Constitutional Court alleging infringement of its constitutionally guaranteed rights. It is currently unclear when the German Federal Constitutional Court will reach a decision on this matter. Following the formally unappealable ruling from the Higher Regional Court of Celle, the special auditor appointed by the court indicated that he was not available to conduct the special audit on grounds of age. The US funds then applied to the Regional Court of Hanover to appoint another special auditor. Volkswagen AG is of the opinion that replacing the court-appointed special auditor in this manner is impermissible and has requested that the application for the appointment of a new special auditor be denied. A decision by the Regional Court of Hanover is expected in the course of 2019.

In addition, a second motion seeking appointment of a special auditor for Volkswagen AG to examine matters relating to the diesel issue has been filed with the Regional Court of Hanover. This proceeding has been suspended until the German Federal Constitutional Court renders its decision in the first special auditor litigation.

7. Risk assessment regarding the diesel issue

An amount of around €2.4 billion has been included in the provisions for litigation and legal risks as of December 31, 2018 to protect against the currently known legal risks related to the diesel issue based on existing information and current assessments. Insofar as these can be adequately measured at this stage, contingent liabilities relating to the diesel issue were disclosed in the notes in an aggregate amount of €5.4 billion (previous year: €4.3 billion), whereby approximately €3.4 billion (previous year: €3.4 billion) of this amount results from lawsuits filed by investors in Germany. The provisions recognized and the contingent liabilities disclosed as well as the other latent legal risks in the context of diesel issue are in part subject to substantial estimation risks given that the fact finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further considerable financial charges.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to the diesel issue. This is so as to not compromise the results of the proceedings or the interests of the Company.

Additional important legal cases

In 2011, ARFB Anlegerschutz UG (haftungsbeschränkt) brought an action against Volkswagen AG and Porsche SE for claims for damages for allegedly violating disclosure requirements under capital market law in connection with the acquisition of ordinary shares in Volkswagen AG by Porsche SE in 2008. The damages currently being sought based on allegedly assigned rights amounted to approximately €2.26 billion plus interest. In April 2016, the Regional Court in Hanover had formulated numerous objects of declaratory judgment that the cartel senate of the Higher Regional Court in Celle will decide on in model case proceedings under the KapMuG. In the first hearing on October 12, 2017, the Court already indicated that it currently does not see claims against Volkswagen AG as justified, both for want of sufficiently specific pleadings and for reasons of law. Volkswagen AG sees the statements of the court's senate as confirmation that the claims made against the Company have absolutely no basis.

At the time in question (2010/2011), other investors had also asserted claims – including claims against Volkswagen AG – arising out of the same circumstances in an approximate total amount of €4.6 billion and initiated conciliation proceedings. Volkswagen AG always refused to participate in these conciliation proceedings; since then, these claims have not been pursued further.

In June 2013, the Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and TRATON SE (at that time Truck & Bus GmbH), a subsidiary of Volkswagen AG. In July 2013, an award proceeding was instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with §305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with §304 of the AktG. By ruling of June 26, 2018 (supplemented and amended by the rulings of July 30, 2018 and December 17, 2018), the Munich Higher Regional Court rendered a final decision increasing the annual compensation claim under §304 AktG to €5.47 gross per share (less any corporate income tax and any solidarity surcharge at the respective tax rate applicable to these taxes for the financial year in question). The cash settlement in the amount of €90.29 per share, increased in the first instance by the Munich I Regional Court, was affirmed. The decisions by the Munich Higher Regional Court are final and were published in the German Federal Gazette on August 6, 2018 and January 10, 2019.

In Brazil, the Brazilian tax authorities commenced tax proceedings against MAN Latin America; at issue in these proceedings are the tax consequences of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment that was negative for MAN Latin America was rendered in administrative court proceedings. MAN Latin America initiated proceedings against this judgment before the regular court in 2018. Due to the difference in the penalties plus interest which could potentially apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is laden with uncertainty. However, a positive outcome continues to be expected for MAN Latin America. Should the opposite occur, this could result in a risk of about €0.7 billion for the contested period from 2009 onwards, which has been stated within the contingent liabilities in the notes.

In 2011, the European Commission conducted searches at European truck manufacturers on suspicion of an unlawful exchange of information during the period 1997–2011 and issued a statement of objections to MAN, Scania and the other truck manufacturers concerned in November 2014. With its settlement decision in July 2016, the European Commission fined five European truck manufacturers. MAN's fine was waived in full as the company had informed the European Commission about the irregularities as a key witness.

In September 2017, the European Commission fined Scania €0.88 billion. Scania has appealed to the European Court of Justice in Luxembourg and will use all means at its disposal to defend itself. Scania had already recognized a provision of €0.4 billion in 2016.

Furthermore, antitrust lawsuits for damages from customers were received. As is the case in any antitrust proceedings, this may result in further lawsuits for damages. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

As part of the cartel investigations in the automotive industry already known to the public, the European Commission took the procedural step of initiating formal proceedings against affected undertakings on September 18, 2018. The investigations have been ongoing for some time. As the European Commission's press statement indicates, the European Commission is now restricting the scope of the investigation to the subject of emissions. The formal initiation of proceedings is standard and is a purely procedural step in the process, which was expected by Volkswagen. The Volkswagen Group and the relevant Group brands have been cooperating fully with the European Commission and will continue to cooperate.

In addition, the Italian Competition Authority initiated proceedings to investigate potential competition law infringements (alleged exchange of competitively sensitive information) by a number of captive automotive finance companies, including Volkswagen Bank GmbH. The proceedings were later extended to the relevant parent companies, including Volkswagen AG. In October 2018, Volkswagen Bank GmbH and Volkswagen AG received a statement of objections summarizing the findings by the authority and describing the alleged infringement. Volkswagen AG and Volkswagen Bank GmbH transmitted their respective replies to the Italian Competition Authority in November 2018. In January 2019, the Italian Competition Authority imposed a fine of €163 million against Volkswagen AG and Volkswagen Bank GmbH. Provisions were recognized by Volkswagen Bank GmbH. Volkswagen AG and Volkswagen Bank GmbH intend to appeal this decision. Lawsuits seeking damages are possible in this proceeding as well.

In 2017, plaintiffs filed numerous complaints in various US jurisdictions on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen AG and other Group companies, that are now pending in two consolidated class actions in the multidistrict litigation in the State of California. The complaints allege that since the 1990s, defendants engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. Plaintiffs in Canada filed claims with similar allegations on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Canada Inc., Audi Canada Inc., and other Group companies. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In addition, a few national and international authorities have initiated antitrust investigations. Volkswagen is cooperating closely with the responsible authorities in these investigations. An assessment of the underlying situation is not possible at this early stage.

For certain T6 models (M1 class) with Euro 6 diesel engines registered as passenger cars, the inspection regarding the conformity of the current production of new vehicles with the approved type (conformity of production) identified that certain technical data could not be fully confirmed. To ensure this conformity of production for new vehicles, Volkswagen AG developed a software measure, which was approved by the KBA at the end of February 2018 and was applied to newly produced vehicles as well as to new vehicles (approximately 30 thousand in all) that had not been delivered by then. Volkswagen AG also conducted in-use tests (tests to verify the conformity of vehicles in use to their type approval) to determine whether the roughly 200 thousand T6 used vehicles already on the market conform to the technical data. The tests carried out on the proposal of Volkswagen AG were taking place in close collaboration with the KBA, which included this process in a decision dated March 1, 2018. Following further tests in August 2018, at the proposal of Volkswagen AG and in accordance with this decision, there is also a software measure for used T6 vehicles to ensure conformity with the approved vehicle type.

Since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles with gasoline engines.

Additionally, putative class actions filed against Audi AG and certain affiliates have been transferred to the federal multidistrict litigation proceeding in the State of California and consolidated. The lawsuits allege that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. Other actions alleging similar claims are also pending in the Northern District of California and two provincial courts in Canada.

In the summer of 2017, plaintiffs filed a complaint, on behalf of a putative class of purchasers of Volkswagen AG's American Depositary Receipts, against Volkswagen AG and against three former and one current member of Volkswagen AG's Board of Management, in the US District Court for the Eastern District of New York. On July 13, 2018, plaintiffs filed an amended complaint, which defendants moved to dismiss. Plaintiffs assert securities claims alleging that defendants made material misstatements and omissions concerning Volkswagen AG's compliance measures, in particular those relating to competition and antitrust law as well as allegations in an antitrust litigation against Volkswagen AG in the Northern District of California. Defendants believe that the alleged claims are without merit.

Provisions were recognized by Volkswagen Bank GmbH and Volkswagen Leasing GmbH for possible claims in connection with financial services provided to consumers.

In addition, various proceedings are pending worldwide, particularly in the USA, in which customers are asserting purported claims either individually or in class actions. These claims are as a rule based on alleged vehicle defects, including defects alleged in vehicle parts supplied to the Volkswagen Group (for instance, in the Takata case).

Risks may also result from patent infringement actions, particularly in Germany and the USA. These actions seeking injunctive relief and damages pertain among other things to patents for semiconductor technology used in vehicles.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to additional important legal cases. This is so as to not compromise the results of the proceedings or the interests of the Company.

Strategies for hedging financial risks

In the course of our business activities, financial risks may arise from changes in interest rates, exchange rates, raw material 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 interest rate swaps and other interest rate contracts with generally matching amounts and maturities. 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. We hedge the residual foreign currency risk using hedging instruments. These include currency forwards, currency options and cross-currency interest rate swaps. We use these transactions to limit the currency risk associated with forecasted cash flows from operating activities, intragroup financing and liquidity positions in currencies other than the respective functional currency, for example as a result of restrictions on capital movements. The currency forwards and currency options can have a term of up to six years. We thus hedge our principal foreign currency risks, mostly against the euro and primarily in Argentine pesos, Australian dollars, Brazilian real, British pound sterling, Canadian dollars, Chinese renminbi, Czech koruna, Hong Kong dollars, Hungarian forints, Indian rupees, Japanese yen, Mexican pesos, Norwegian kroner, Polish zloty, Russian rubles, Singapore dollars, South African rand, South Korean won, Swedish kronor, Swiss francs, Taiwan dollars and US dollars.

The purchasing of raw materials entails risks relating to the availability of raw materials and price trends. We continuously analyze potential risks arising from changes in commodity and energy prices in the market so that immediate action can be taken whenever these arise. 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, lead, coal, copper, nickel, platinum, palladium and rhodium over a period of up to six years. We have entered into similar transactions in order to supplement and improve allocations of CO_2 emission certificates.

Pages 289 to 310 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 disclose information on market risk within the meaning of IFRS 7.

Risks arising from financial instruments

Channeling excess liquidity into investments and entering into derivatives contracts gives rise to counterparty risk. Partial or complete failure by a counterparty to perform its obligation to pay interest and repay principal, for example, 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 118. The financial instruments held for hedging purposes give rise to both counterparty risks and balance sheet risks, which we limit using hedge accounting.

By diversifying when selecting business partners, we ensure that the impact of a default is limited and 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 289.

Liquidity risk

We ensure that the Company remains solvent at all times by holding liquidity reserves, through confirmed credit lines and through our money market and capital market programs. We cover the capital requirements of the 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.

Projects are financed by, among other things, loans provided by supranational or international development banks such as the European Investment Bank (EIB) 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). Confirmed and unconfirmed lines of credit from banks supplement our broadly diversified refinancing structure.

As a result of the diesel issue, the ability to use refinancing instruments may possibly be restricted or precluded for the Volkswagen Group. A downgrade of the Company's rating could adversely affect the terms associated with the Volkswagen Group's borrowings.

Information on the ratings of Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH can be found on page 113 of this report.

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 at a realistic amount so that we are able to leverage market opportunities. We evaluate the underlying lease and financing 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 – also with a view to the public debate on further driving bans for diesel vehicles in major European cities. 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 can be found in the 2018 Annual Report of Volkswagen Financial Services AG and Volkswagen Bank GmbH.

Reputational risks

The reputation of the Volkswagen Group and its brands is one of the most important assets and forms the basis for long-term business success. Our policy on issues such as integrity, ethics and sustainability is in the public focus. One of the basic principles of running our business is therefore to pay particular attention to compliance with legal requirements and ethical principles. However, we are aware that misconduct or criminal acts by individuals and the resulting reputational damage can never be fully prevented. In addition, media reactions can have a negative effect on the reputation of the Volkswagen Group and its brands. This impact could be amplified through insufficient crisis communication.

Moreover, the above-described individual risks that may arise in the course of our operating activities may turn into a threat to the Volkswagen Group's reputation.

Other factors

Going beyond the risks already outlined, there are other factors that cannot be predicted and whose repercussions are therefore difficult to control. Should these transpire, they could have an adverse effect on the further development of the Volkswagen Group. In particular, such occurrences include natural disasters, epidemics, violent conflicts and terrorist 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 regulations as well as from quality problems. Risks relating to the diesel issue still remain for the Volkswagen Group which, when aggregated, are among the most significant risks. 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.

Prospects for 2019

The Volkswagen Group's Board of Management expects the growth of the global economy to slow somewhat in 2019. We still believe that risks will continue to arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts. We therefore expect both the advanced economies and the emerging markets to show weaker momentum than in 2018. We anticipate the strongest rates of expansion in Asia's emerging economies.

We expect trends in the passenger car markets in the individual regions to be mixed in 2019. Overall, global demand for new vehicles will probably be at the prior-year level. We anticipate that the volume of new registrations for passenger cars in Western Europe will be in line with the figure seen in the reporting period. After a positive performance overall in recent years, we estimate that demand in the German passenger car market will fall slightly year-on-year. Sales of passenger cars in 2019 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect new registrations in the South American markets for passenger cars and light commercial vehicles to grow moderately overall compared with the previous year. The passenger car markets in the Asia-Pacific region are expected at the prior-year level.

Trends in the markets for light commercial vehicles in the individual regions will be mixed again in 2019; on the whole, we anticipate a slight dip in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2019 are expected to slightly exceed the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2019.

The Volkswagen Group is well prepared overall for the future challenges pertaining to the automobility business and the mixed developments in regional vehicle markets. Our brand diversity, our presence in all major world markets, our broad, selectively expanded product range and pioneering technologies and services put us in a good competitive position worldwide. As part of the transformation of our core business, we are positioning our Group brands with a stronger focus on their individual characteristics and optimizing the vehicle and drive portfolio. The focus hereby is primarily on our vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, we are working to make even more focused use of the advantages of our multibrand group by continuously developing new technologies and our toolkits.

We expect that deliveries to customers of the Volkswagen Group in 2019 will slightly exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and more stringent WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) requirements.

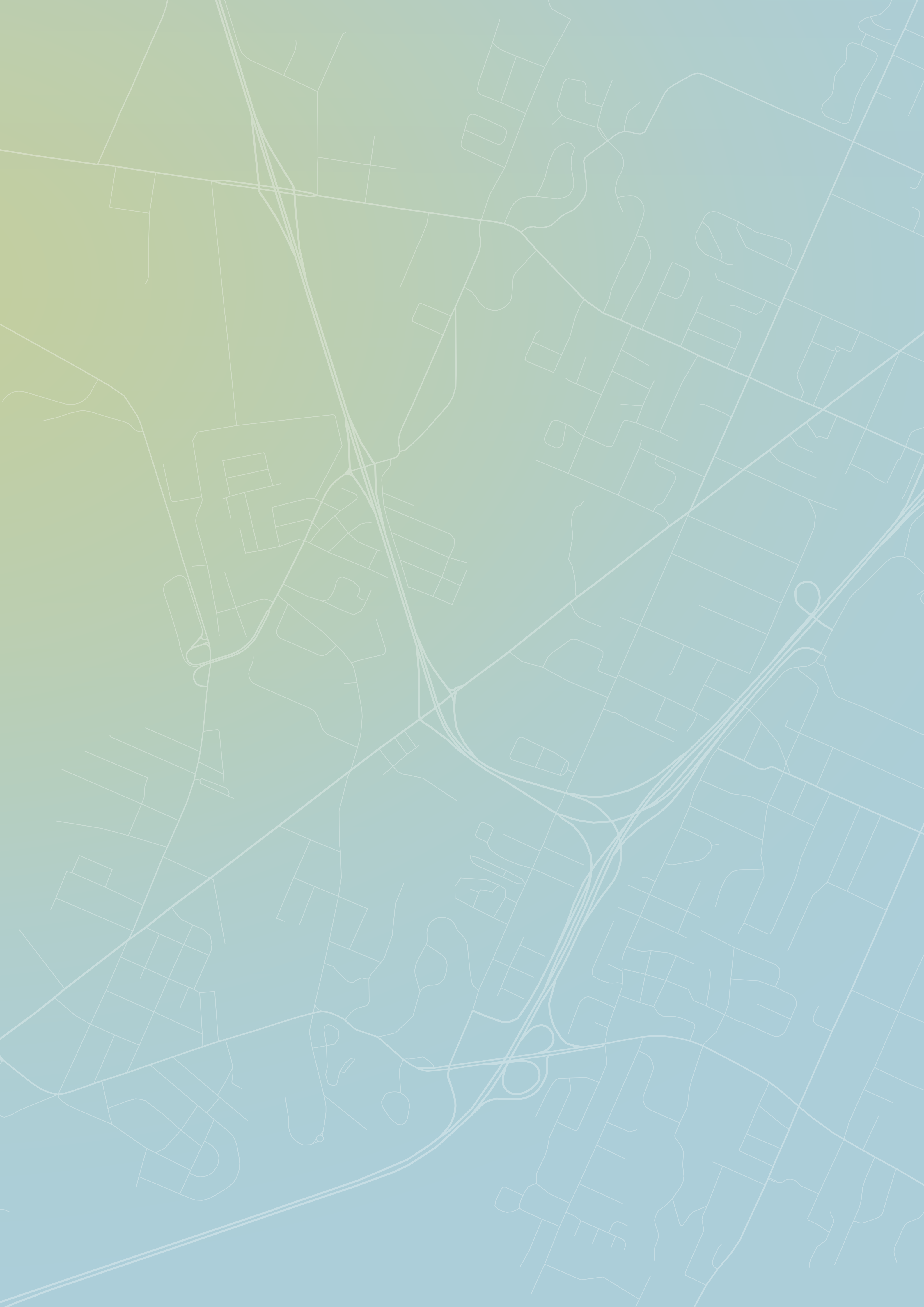
We expect the sales revenues of the Volkswagen Group and its Passenger Cars and Commercial Vehicles business areas to grow by as much as 5% year-on-year. In terms of the operating profit for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2019. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 6.0% and 7.0%. In the Power Engineering Business Area, we expect a loss around the previous year's level amid a slight rise in sales revenue. For the Financial Services Division, we are forecasting a moderate increase in sales revenues and an operating profit at the prior-year level.

Wolfsburg, February 22, 2019
The Board of Management

4

Consolidated Financial Statements

CONSOLIDATED FINANCIAL STATEMENTS



Income Statement

of the Volkswagen Group for the period January 1 to December 31, 2018

€ million	Note	2018	2017[1]
Sales revenue	**1**	**235,849**	**229,550**
Cost of sales	2	–189,500	–186,001
Gross result		**46,350**	**43,549**
Distribution expenses	3	–20,510	–20,859
Administrative expenses	4	–8,819	–8,126
Other operating income	5	11,631	11,514
Other operating expenses	6	–14,731	–12,259
Operating result		**13,920**	**13,818**
Share of the result of equity-accounted investments	7	3,369	3,482
Interest income	8	967	951
Interest expenses	8	–1,547	–2,317
Other financial result	9	–1,066	–2,262
Financial result		**1,723**	**–146**
Earnings before tax		**15,643**	**13,673**
Income tax income/expense	10	–3,489	–2,210
Current		–3,533	–3,205
Deferred		43	995
Earnings after tax		**12,153**	**11,463**
of which attributable to			
Noncontrolling interests		17	10
Volkswagen AG hybrid capital investors		309	274
Volkswagen AG shareholders		11,827	11,179
Basic earnings per ordinary share in €	**11**	**23.57**	**22.28**
Diluted earnings per ordinary share in €	**11**	**23.57**	**22.28**
Basic earnings per preferred share in €	**11**	**23.63**	**22.34**
Diluted earnings per preferred share in €	**11**	**23.63**	**22.34**

1 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

Statement of Comprehensive Income

Changes in comprehensive income for the period January 1 to December 31, 2017[1]

€ million	Total	Equity attributable to Volkswagen AG shareholders	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to noncontrolling interests
Earnings after tax	**11,463**	**11,179**	**274**	**10**
Pension plan remeasurements recognized in other comprehensive income				
Pension plan remeasurements recognized in other comprehensive income, before tax	785	784	–	1
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–198	–198	–	0
Pension plan remeasurements recognized in other comprehensive income, net of tax	588	586	–	1
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	106	106	–	–
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	96	96	–	–
Items that will not be reclassified to profit or loss	**789**	**788**	**–**	**1**
Exchange differences on translating foreign operations				
Gains/losses on currency translation recognized in other comprehensive income	–2,095	–2,094	–	–1
Transferred to profit or loss	–4	–4	–	–
Exchange differences on translating foreign operations, before tax	–2,099	–2,098	–	–1
Deferred taxes relating to exchange differences on translating foreign operations	–8	–8	–	–
Exchange differences on translating foreign operations, net of tax	–2,107	–2,106	–	–1
Hedging				
Fair value changes recognized in other comprehensive income (OCI I)	6,216	6,216	–	0
Transferred to profit or loss (OCI I)	–558	–558	–	0
Cash flow hedges (OCI I), before tax	5,659	5,658	–	0
Deferred taxes relating to cash flow hedges (OCI I)	–1,621	–1,621	–	0
Cash flow hedges (OCI I), net of tax	4,038	4,038	–	0
Fair value changes recognized in other comprehensive income (OCI II)	171	171	–	–
Transferred to profit or loss (OCI II)	–	–	–	–
Cash flow hedges (OCI II), before tax	171	171	–	–
Deferred taxes relating to cash flow hedges (OCI II)	–51	–51	–	–
Cash flow hedges (OCI II), net of tax	120	120	–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss				
Fair value changes recognized in other comprehensive income	–19	–19	–	–
Transferred to profit or loss	–1	–1	–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	–20	–20	–	–
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	7	7	–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	–13	–13	–	–
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–346	–346	–	–
Items that may be reclassified to profit or loss	**1,691**	**1,691**	**–**	**–1**
Other comprehensive income, before tax	4,351	4,350	–	1
Deferred taxes relating to other comprehensive income	–1,871	–1,871	–	0
Other comprehensive income, net of tax	**2,480**	**2,479**	**–**	**1**
Total comprehensive income	**13,943**	**13,658**	**274**	**11**

1 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

Changes in comprehensive income for the period January 1 to December 31, 2018

€ million	Total	Equity attributable to Volkswagen AG shareholders	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to noncontrolling interests
Earnings after tax	**12,153**	**11,827**	**309**	**17**
Pension plan remeasurements recognized in other comprehensive income				
Pension plan remeasurements recognized in other comprehensive income, before tax	144	145	–	–1
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–88	–88	–	0
Pension plan remeasurements recognized in other comprehensive income, net of tax	56	57	–	–1
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	19	19	–	–
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	34	34	–	–
Items that will not be reclassified to profit or loss	**110**	**110**	**–**	**–1**
Exchange differences on translating foreign operations				
Gains/losses on currency translation recognized in other comprehensive income	–406	–406	–	1
Transferred to profit or loss	61	61	–	0
Exchange differences on translating foreign operations, before tax	–345	–345	–	1
Deferred taxes relating to exchange differences on translating foreign operations	–8	–8	–	–
Exchange differences on translating foreign operations, net of tax	–353	–353	–	1
Hedging				
Fair value changes recognized in other comprehensive income (OCI I)	–568	–568	–	0
Transferred to profit or loss (OCI I)	–1,939	–1,939	–	0
Cash flow hedges (OCI I), before tax	–2,506	–2,506	–	0
Deferred taxes relating to cash flow hedges (OCI I)	715	715	–	0
Cash flow hedges (OCI I), net of tax	–1,792	–1,791	–	0
Fair value changes recognized in other comprehensive income (OCI II)	–1,360	–1,360	–	–
Transferred to profit or loss (OCI II)	377	377	–	–
Cash flow hedges (OCI II), before tax	–983	–983	–	–
Deferred taxes relating to cash flow hedges (OCI II)	291	291	–	–
Cash flow hedges (OCI II), net of tax	–692	–692	–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss				
Fair value changes recognized in other comprehensive income	–5	–5	–	–
Transferred to profit or loss	1	1	–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	–4	–4	–	–
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	1	1	–	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	–3	–3	–	0
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	28	28	–	–
Items that may be reclassified to profit or loss	**–2,811**	**–2,812**	**–**	**0**
Other comprehensive income, before tax	–3,612	–3,612	–	0
Deferred taxes relating to other comprehensive income	911	911	–	0
Other comprehensive income, net of tax	**–2,701**	**–2,701**	**–**	**0**
Total comprehensive income	**9,452**	**9,126**	**309**	**17**

Balance Sheet

of the Volkswagen Group as of December 31, 2018

€ million	Note	Dec. 31, 2018	Dec. 31, 2017
Assets			
Noncurrent assets			
Intangible assets	12	64,613	63,419
Property, plant and equipment	13	57,630	55,243
Lease assets	14	43,545	39,254
Investment property	14	496	468
Equity-accounted investments	15	8,434	8,205
Other equity investments	15	1,474	1,318
Financial services receivables	16	78,692	73,249
Other financial assets	17	6,521	8,455
Other receivables	18	2,608	2,252
Tax receivables	19	476	407
Deferred tax assets	19	10,131	9,810
		274,620	**262,081**
Current assets			
Inventories	20	45,745	40,415
Trade receivables	21	17,888	13,357
Financial services receivables	16	54,216	53,145
Other financial assets	17	11,586	11,998
Other receivables	18	6,203	5,346
Tax receivables	19	1,879	1,339
Marketable securities	22	17,080	15,939
Cash, cash equivalents and time deposits	23	28,938	18,457
Assets held for sale		–	115
		183,536	**160,112**
Total assets		**458,156**	**422,193**

€ million	Note	Dec. 31, 2018	Dec. 31, 2017
Equity and Liabilities			
Equity	**24**		
Subscribed capital		1,283	1,283
Capital reserve		14,551	14,551
Retained earnings[1]		91,105	81,248
Other reserves[1]		–2,417	678
Equity attributable to Volkswagen AG hybrid capital investors		12,596	11,088
Equity attributable to Volkswagen AG shareholders and hybrid capital investors		117,117	108,849
Noncontrolling interests		225	229
		117,342	**109,077**
Noncurrent liabilities			
Financial liabilities	25	101,126	81,628
Other financial liabilities	26	3,219	2,665
Other liabilities	27	6,448	6,199
Deferred tax liabilities	28	5,030	5,636
Provisions for pensions	29	33,097	32,730
Provisions for taxes	28	3,047	3,030
Other provisions	30	20,879	20,839
		172,846	**152,726**
Current liabilities			
Put options and compensation rights granted to noncontrolling interest shareholders	31	1,853	3,795
Financial liabilities	25	89,757	81,844
Trade payables	32	23,607	23,046
Tax payables	28	456	430
Other financial liabilities	26	9,416	8,570
Other liabilities	27	17,593	15,961
Provisions for taxes	28	1,412	1,397
Other provisions	30	23,874	25,347
		167,968	**160,389**
Total equity and liabilities		**458,156**	**422,193**

1 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

Statement of Changes in Equity

of the Volkswagen Group for the period January 1 to December 31, 2018

				OTHER RESERVES
€ million	Subscribed capital	Capital reserve	Retained earnings	Currency translation reserve
Unadjusted balance at Jan. 1, 2017	**1,283**	**14,551**	**70,446**	**–1,117**
Changes in accounting policy to reflect IFRS 9	–	–	57	–
Balance at Jan. 1, 2017	**1,283**	**14,551**	**70,503**	**–1,117**
Earnings after tax	–	–	11,179	–
Other comprehensive income, net of tax	–	–	586	–2,106
Total comprehensive income	**–**	**–**	**11,765**	**–2,106**
Disposal of equity instruments	–	–	–	–
Capital increases[1]	–	–	–	–
Dividends payment	–	–	–1,015	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	–4	–
Balance at Dec. 31, 2017	**1,283**	**14,551**	**81,248**	**–3,223**
Unadjusted balance at Jan. 1, 2018	**1,283**	**14,551**	**81,367**	**–3,223**
Changes in accounting policy to reflect IFRS 9 and 15	–	–	–282	–
Balance at Jan. 1, 2018	**1,283**	**14,551**	**81,085**	**–3,223**
Earnings after tax	–	–	11,827	–
Other comprehensive income, net of tax	–	–	57	–353
Total comprehensive income	**–**	**–**	**11,884**	**–353**
Disposal of equity instruments	–	–	113	–
Capital increases/Capital decreases[2]	–	–	–	–
Dividends payment	–	–	–1,967	–
Capital transactions involving a change in ownership interest	–	–	–10	–
Other changes	–	–	0	–
Balance at Dec. 31, 2018	**1,283**	**14,551**	**91,105**	**–3,576**

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

2 Volkswagen AG recorded an inflow of cash funds amounting to €2,750 million, less transaction costs of €19 million, from the hybrid capital issued in June 2018. Additionally, there were noncash effects from the deferral of taxes amounting to €6 million. The hybrid capital is required to be classified as equity instruments granted. The calling of the first tranche of the hybrid capital issued in September 2013 resulted in an outflow of cash funds of €1,250 million in September 2018. In addition, other effects of €14 million had to be recognized in equity.

Explanatory notes on equity are presented in the note relating to equity.

HEDGING							
Cash flow hedges (OCI I)	Deferred costs of hedging (OCI II)	Equity and debt instruments	Equity-accounted investments	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to Volkswagen AG shareholders and hybrid capital investors	Noncontrolling interests	**Total equity**
–457	**–**	**–2**	**417**	**7,567**	**92,689**	**221**	**92,910**
–	–57	–	–	–	–	–	–
–457	**–57**	**–2**	**417**	**7,567**	**92,689**	**221**	**92,910**
–	–	–	–	274	11,453	10	11,463
4,038	120	93	–251	–	2,479	1	2,480
4,038	**120**	**93**	**–251**	**274**	**13,932**	**11**	**13,943**
–	–	–	–	–	–	–	–
–	–	–	–	3,481	3,481	–	3,481
–	–	–	–	–311	–1,326	–5	–1,332
–	–	–	–	–	–	–	–
–	–	–	–	78	73	1	75
3,581	**63**	**91**	**166**	**11,088**	**108,849**	**229**	**109,077**
3,525	**–**	**91**	**166**	**11,088**	**108,849**	**229**	**109,077**
56	63	–225	–	–	–388	1	–387
3,581	**63**	**–133**	**166**	**11,088**	**108,461**	**229**	**108,690**
–	–	–	–	309	12,136	17	12,153
–1,791	–692	16	62	–	–2,701	0	–2,701
–1,791	**–692**	**16**	**62**	**309**	**9,435**	**17**	**9,452**
–	–	–113	–	–	–	–	–
–	–	–	–	1,501	1,501	–	1,501
–	–	–	–	–403	–2,370	–4	–2,375
–	–	–	–	–	–10	–18	–28
–	–	–	–	101	101	2	102
1,790	**–629**	**–230**	**228**	**12,596**	**117,117**	**225**	**117,342**

Cash flow statement

of the Volkswagen Group for the period January 1 to December 31, 2018

€ million	2018	2017[1]
Cash and cash equivalents at beginning of period	**18,038**	**18,833**
Earnings before tax	15,643	13,673
Income taxes paid	–3,804	–3,664
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant and equipment, and investment property[2]	11,034	10,562
Amortization of and impairment losses on capitalized development costs[2]	3,668	3,734
Impairment losses on equity investments[2]	170	136
Depreciation of and impairment losses on lease assets[2]	7,689	7,734
Gain/loss on disposal of noncurrent assets and equity investments	98	–25
Share of the result of equity-accounted investments	244	274
Other noncash expense/income	347	–240
Change in inventories	–5,372	–4,198
Change in receivables (excluding financial services)	–6,400	–1,660
Change in liabilities (excluding financial liabilities)	3,645	5,302
Change in provisions	–762	–9,443
Change in lease assets	–11,647	–11,478
Change in financial services receivables	–7,282	–11,891
Cash flows from operating activities	**7,272**	**–1,185**
Investments in intangible assets (excluding development costs), property, plant and equipment, and investment property	–13,729	–13,052
Additions to capitalized development costs	–5,234	–5,260
Acquisition of subsidiaries	–470	–277
Acquisition of other equity investments	–420	–561
Disposal of subsidiaries	–26	496
Disposal of other equity investments	210	24
Proceeds from disposal of intangible assets, property, plant and equipment, and investment property	282	411
Change in investments in securities	–1,378	1,376
Change in loans and time deposits	–826	335
Cash flows from investing activities	**–21,590**	**–16,508**
Capital contributions/capital redemptions	1,491	3,473
Dividends paid	–2,375	–1,332
Capital transactions with noncontrolling interest shareholders	–28	–
Proceeds from issuance of bonds	35,308	30,279
Repayments of bonds	–15,290	–17,877
Changes in other financial liabilities	5,488	3,109
Lease payments	–29	–28
Cash flows from financing activities	**24,566**	**17,625**
Effect of exchange rate changes on cash and cash equivalents	–173	–727
Net change in cash and cash equivalents	**10,075**	**–796**
Cash and cash equivalents at end of period	**28,113**	**18,038**
Cash and cash equivalents at end of period	28,113	18,038
Securities, loans and time deposits	28,036	26,291
Gross liquidity	**56,148**	**44,329**
Total third-party borrowings	–190,883	–163,472
Net liquidity	**–134,735**	**–119,143**

1 Prior-year figures adjusted (see disclosures on IFRS 9).
2 Net of impairment reversals.

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

Notes to the Consolidated Financial Statements

of the Volkswagen Group as of December 31, 2018

Basis of presentation

Volkswagen AG is domiciled in Wolfsburg, Germany, and entered in the commercial register at the Braunschweig Local Court under No. HRB100484. The fiscal year corresponds to the calendar year.

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2018 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. We have complied with all the IFRSs adopted by the EU and required to be applied.

The accounting policies applied in the previous year were retained, with the exception of the changes due to the new or amended standards.

In addition, we have complied with all the provisions of German commercial law that we are also required to apply, as well as with the German Corporate Governance Code. For information on notices and disclosures of changes regarding the ownership of voting rights in Volkswagen AG in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), please refer to the annual financial statements of Volkswagen AG.

The consolidated financial statements were prepared in euros. Unless otherwise stated, all amounts are given in millions of euros (€ million).

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

The income statement was prepared using the internationally accepted cost of sales method.

Preparation of the consolidated financial statements in accordance with the above-mentioned standards requires management to make estimates that affect the reported amounts of certain items in the consolidated balance sheet and in the consolidated income statement, as well as the related disclosure of contingent assets and liabilities. The consolidated financial statements present fairly the net assets, financial position and results of operations as well as the cash flows of the Volkswagen Group.

The Board of Management completed preparation of the consolidated financial statements on February 22, 2019. On that date, the period ended in which adjusting events after the reporting period are recognized.

Effects of new and amended IFRSs

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning in fiscal year 2018.

Amendments to IAS 40 (Investment Property) have been applicable since January 1, 2018; they clarify when a property is transferred to or from investment property and thus the scope of IAS 40.

In addition, amendments to IFRS 1 and IAS 28 are applicable, which the International Accounting Standards Board issued as part of the improvements to International Financial Reporting Standards (Annual Improvement Project 2016). In IFRS 1 (First-time Adoption of IFRSs), short-term exemptions for first-time adopters of the IFRSs have been deleted. In IAS 28 (Investments in Associates and Joint Ventures), guidance on investment entities has been clarified.

In addition, IFRS 2 (Share-based Payment) was amended. These amendments relate to the clarification of how transactions with share-based payment are classified and measured.

Moreover, amendments to IFRS 4 (Insurance Contracts) have come into effect, which reduce the impact of the different initial application dates of IFRS 9 and IFRS 17.

IFRIC 22 (Foreign Currency Transactions and Advance Consideration) also applies; this interpretation clarifies the exchange rates to be used in foreign currency transactions with advance consideration.

The amendments referred to above do not materially affect the Volkswagen Group's net assets, financial position and results of operations.

IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9 changes the accounting requirements for classifying and measuring financial assets, for impairment of financial assets, and for hedge accounting.

Financial assets are classified and measured on the basis of the entity's business model and the characteristics of the financial asset's cash flows. A financial asset is initially measured either "at amortized cost", "at fair value through other comprehensive income", or "at fair value through profit or loss". The classification and measurement of financial liabilities under IFRS 9 are largely unchanged compared with the accounting requirements of IAS 39.

The basis for measuring impairment losses and recognizing loss allowances switched from an incurred credit loss model to an expected credit loss model. The change in measurement method leads to an increase in the loss allowance. The increase in the loss allowance results firstly from the requirement to recognize a loss allowance even for financial assets not classified as non-performing and whose credit risk has not increased significantly since initial recognition. Secondly, the increase results from the requirement to recognize loss allowances on the basis of the entire expected remaining life of the contractual asset for financial assets for which there has been a significant increase in credit risk since initial recognition.

In the case of hedge accounting, IFRS 9 contains both extended designation options and the need to implement more complex recognition and measurement methods. In addition, IFRS 9 also eliminates the quantitative limits for effectiveness measurement.

Furthermore, IFRS 9 has an impact on the entity's reclassification practice. Depending on market trends, there is an expectation that operating profit or loss will be affected by hedging transactions to a greater extent. Due to the retrospective application of the guidance on designating options, the prior-year figures were adjusted. This resulted in an effect of €–0.2 billion on earnings after tax in fiscal year 2017.

This also results in far more extensive disclosures in the notes.

The tables below show the main effects of the new accounting rules under IFRS 9 on the classification and measurement of financial assets, the impairment of financial assets and hedge accounting.

For the class of derivatives in hedge accounting, IFRS 9 did not result in any reclassifications from or to other classes.

ADJUSTMENTS TO BALANCE SHEET AMOUNTS AS OF JANUARY 1, 2018 AS A RESULT OF IFRS 9

	DEC. 31, 2017		JAN. 1, 2018
€ million	Before adjustments	Adjustments	After adjustments
Assets			
Noncurrent assets			
Financial services receivables	73,249	–173	73,076
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	30,916	52	30,967
Current assets			
Financial services receivables	53,145	–122	53,023
Other receivables and financial assets	32,040	–206	31,834
Marketable securities	15,939	2	15,941
Cash, cash equivalents and time deposits	18,457	–2	18,456
Equity and liabilities			
Equity			
Total Equity	109,077	–391	108,687
Noncurrent liabilities			
Other liabilities	38,368	–67	38,302
Current liabilities			
Other liabilities	51,705	7	51,712

In addition to the changes described above, the new rules on the recognition of loss allowances had an impact on the measurement of lease assets. This resulted in an adjustment of €43 million (of which €35 million recognized in lease assets and €7 million in inventories). This transition effect, net of deferred taxes, was recognized directly in equity.

RECONCILIATION OF THE CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

		TRANSFERS		
	MEASURED AT FAIR VALUE IAS 39	FROM MEASURED AT AMORTIZED COST	TO MEASURED AT AMORTIZED COST	MEASURED AT FAIR VALUE IFRS 9
€ million	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount Jan. 1, 2018
Noncurrent assets				
Equity-accounted investments	–	–	–	–
Other equity investments	243	–	–	243
Financial services receivables	–	533	–	533
Other financial assets	776	–	–	776
Current assets				
Trade receivables	–	44	–	44
Financial services receivables	–	0	–	0
Other financial assets	936	5	–	941
Marketable securities	15,939	–	79	15,861
Cash, cash equivalents and time deposits	–	–	–	–
Noncurrent liabilities				
Noncurrent financial liabilities	–	–	–	–
Other noncurrent financial liabilities	774	–	–	774
Current liabilities				
Put options and compensation rights granted to noncontrolling interest shareholders	–	–	–	–
Current financial liabilities	–	–	–	–
Trade payables	–	–	–	–
Other current financial liabilities	766	–	–	766

RECONCILIATION OF THE CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	MEASURED AT AMORTIZED COST IAS 39		TRANSFERS: FROM MEASURED AT FAIR VALUE				TRANSFERS: TO MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST IFRS 9	
	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount adjust-ment Jan. 1, 2018	Provision for credit risks ad-justment Jan. 1, 2018	Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	**Carrying amount Jan. 1, 2018**	**Fair value Jan. 1, 2018**
Noncurrent assets										
Equity-accounted investments	–	–	–	–	–	–	–	–	–	–
Other equity investments	–	–	–	–	–	–	–	–	–	–
Financial services receivables	43,096	44,093	–	–	–	–	533	533	42,563	43,560
Other financial assets	4,364	4,391	–	–	–	–	–	–	4,364	4,391
Current assets										
Trade receivables	13,357	13,357	–	–	–	–	44	44	13,313	13,313
Financial services receivables	37,142	37,142	–	–	–	–	0	0	37,142	37,142
Other financial assets	9,153	9,153	–	–	–	–	5	5	9,148	9,148
Marketable securities	–	–	79	–	0	78	–	–	78	78
Cash, cash equivalents and time deposits	18,457	18,457	–	–	–	–	–	–	18,457	18,457
Noncurrent liabilities										
Noncurrent financial liabilities	81,200	82,108	–	–	–	–	–	–	81,200	82,108
Other noncurrent financial liabilities	1,630	1,633	–	–	–	–	–	–	1,630	1,633
Current liabilities										
Put options and compensation rights granted to noncontrolling interest shareholders	3,795	3,811	–	–	–	–	–	–	3,795	3,811
Current financial liabilities	81,793	81,793	–	–	–	–	–	–	81,793	81,793
Trade payables	23,046	23,046	–	–	–	–	–	–	23,046	23,046
Other current financial liabilities	7,358	7,358	–	–	–	–	–	–	7,358	7,358

The categories of financial instruments have been added as part of the implementation of IFRS 9 (see the section on “Accounting policies”). The principal movement in this context was the reclassification of lease receivables and liabilities in the “measured at amortized cost” category to “not allocated to any measurement category”. Prior-year values under financial services receivables and financial liabilities have been restated. The carrying amount of lease receivables was €49,166 million (previous year €46,156 million) and their fair value (fair value hierarchy level 3) was €49,791 million (previous year €46,959 million). The carrying amount of lease liabilities was €449 million (previous year €479 million) and their fair value (fair value hierarchy level 2) was €466 million (previous year €510 million).

RECONCILIATION OF THE PROVISION FOR CREDIT RISKS IN RESPECT OF FINANCIAL ASSETS FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	From financial assets measured at fair value through other comprehensive income IAS 39	From financial assets measured at amortized cost IAS 39	No measurement category under IAS 39	Total
To financial assets measured at fair value through profit or loss IFRS 9				
Dec. 31, 2017	63	–	–	63
Adjustments	–63	–	–	–63
Jan. 1, 2018	–	–	–	–
To financial assets measured at fair value through other comprehensive income IFRS 9 (equity instruments)				
Dec. 31, 2017	333	–	–	333
Adjustments	–333	–	–	–333
Jan. 1, 2018	–	–	–	–
To financial assets measured at fair value through other comprehensive income IFRS 9 (debt instruments)				
Dec. 31, 2017	–	–	–	–
Adjustments	2	–	–	2
Jan. 1, 2018	2	–	–	2
To financial assets measured at amortized cost IFRS 9				
Dec. 31, 2017	–	3,046	–	3,046
Adjustments	–	318	–	318
Jan. 1, 2018	–	3,364	–	3,364
To lease receivables				
Dec. 31, 2017	–	–	982	982
Adjustments	–	–	238	238
Jan. 1, 2018	–	–	1,221	1,221
To assets IFRS 15				
Dec. 31, 2017	–	–	25	25
Adjustments	–	–	3	3
Jan. 1, 2018	–	–	29	29
To credit commitments				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	11	11
Jan. 1, 2018	–	–	11	11
To financial guarantees				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	5	5
Jan. 1, 2018	–	–	5	5
Total Jan. 1, 2018	**2**	**3,364**	**1,266**	**4,631**

RECONCILIATION OF THE CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS FROM IAS 39 TO IFRS 9

€ million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifications	Adjustments IFRS 9	Carrying amount IFRS 9 Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at fair value through profit or loss IAS 39	**1,712**				
Additions					
Available for sale financial assets IAS 39		13,124	–230	12,894	–230
Financial assets measured at amortized cost IAS 39		580	–9	571	–9
Deductions					
Financial assets measured at amortized cost IFRS 9		–	–	–	–
Financial assets measured at fair value through other comprehensive income IFRS 9		–	–	–	–
Financial assets measured at fair value through profit or loss IFRS 9				**15,177**	

RECONCILIATION OF THE CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FROM IAS 39 TO IFRS 9

€ million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifications	Adjustments IFRS 9	Carrying amount IFRS 9 Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Available for sale financial assets IAS 39	**16,182**				
Additions					
Financial assets measured at amortized cost IAS 39		5	–	5	–
Deductions					
Financial assets measured at amortized cost IFRS 9		79	–	79	–
Financial assets measured at fair value through profit or loss IFRS 9		13,124	–	13,124	–
Financial assets measured at fair value through other comprehensive income IFRS 9				**2,984**	

RECONCILIATION OF THE CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST FROM IAS 39 TO IFRS 9

€ million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifications	Adjustments IFRS 9	Carrying amount IFRS 9 Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at amortized cost IAS 39	**125,550**				
Additions					
Available for sale financial assets IAS 39		79	0	78	0
Deductions					
Financial assets measured at fair value through other comprehensive income IFRS 9		5	–	5	–
Financial assets measured at fair value through profit or loss IFRS 9		580	–	580	–
Financial assets measured at amortized cost IFRS 9				**125,044**	

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 specifies new accounting rules for revenue recognition. The Volkswagen Group applies the modified retrospective transition method. This did not result in material transition effects for the Volkswagen Group as of January 1, 2018, because the existing approach used by the Volkswagen Group is already largely in line with the new guidance.

In the MAN subgroup, sales revenue for certain types of contracts are recognized at a later point in time than under the previous accounting treatment. Other provisions and other liabilities were adjusted accordingly. The recognition of prepayments due but not yet transferred by the customer in the form of cash increased total assets by €0.2 billion in the balance sheet as of January 1, 2018 compared with the previous year.

Starting in fiscal year 2018, certain items previously recognized in distribution expenses (in particular financing cost subsidies granted to third parties) are allocated to sales allowances.

In addition, from 2018 onward, the reversal of provisions for sales allowances is no longer presented under other operating income, but under sales revenue. As a result, an amount of €0.6 billion has been moved between other operating income and sales revenue.

To make the presentation more consistent and easier to compare, the way other income from the reversal of provisions and accrued liabilities is reported was also adjusted in this context; these items were allocated to those functional areas in which they were originally recognized. As a result, cost of sales declined in the reporting period because of income from the reversal of provisions and accrued liabilities of €2.5 billion (previous year: €2.1 billion). In addition, distribution expenses were down by €0.5 billion (previous year: €0.7 billion) and administrative expenses by €0.2 billion (previous year: €0.1 billion). There was a corresponding €3.3 billion (previous year: €3.0 billion) decrease in other operating income.

In addition, it was established in connection with the introduction of IFRS 15 that certain sales programs in certain countries should be allocated to sales allowances rather than distribution expenses. The prior-period distribution expenses were therefore adjusted by €1.1 billion. There was a corresponding decrease in sales revenue.

New and amended IFRSs not applied

In its 2018 consolidated financial statements, Volkswagen AG did not apply the following accounting pronouncements that have already been adopted by the IASB, but were not yet required to be applied for the fiscal year.

Standard/Interpretation		Published by the IASB	Application mandatory[1]	Adopted by the EU	Expected impact
IFRS 3	Business Combinations: Definition of a Business	Oct. 22, 2018	Jan. 1, 2020	No	No material impact
IFRS 9	Financial Instruments: Prepayment Features with Negative Compensation	Oct. 12, 2017	Jan. 1, 2019	Yes	None
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Sep. 11, 2014	deferred[2]	–	None
IFRS 16	Leases	Jan. 13, 2016	Jan. 1, 2019	Yes	Described in detail below this table
IFRS 17	Insurance Contracts	May 18, 2017	Jan. 1, 2021	No	No material impact
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material	Oct. 31, 2018	Jan. 1, 2020	No	No material impact
IAS 19	Employee Benefits: Remeasurement on a Plan Amendment, Curtailment or Settlement	Feb. 7, 2018	Jan. 1, 2019	No	No material impact
IAS 28	Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures	Oct. 12, 2017	Jan. 1, 2019	Yes	None
	Annual improvements to International Financial Reporting Standards 2017[3]	Dec. 12, 2017	Jan. 1, 2019	No	No material impact
IFRIC 23	Uncertainty over Income Tax Treatments	Jun. 7, 2017	Jan. 1, 2019	Yes	No material impact

1 Effective date from Volkswagen AG's perspective.
2 The IASB decided on December 15, 2015 to defer the effective date indefinitely.
3 Minor amendments to a number of IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23).

IFRS 16 – LEASES

IFRS 16 amends the rules for lease accounting and replaces the previous IAS 17 standard and related interpretations.

The main objective of IFRS 16 is to recognize all leases. It establishes that lessees are no longer required to classify their leases as either finance leases or operating leases. They will instead be required to recognize a right-of-use asset and a lease liability for all leases in the balance sheet. The lease liability is measured on the basis of the outstanding lease payments, discounted using the incremental borrowing rate, while the right-of-use asset is always measured at the amount of the lease liability plus any initial direct costs. During the lease term, the right-of-use asset must be depreciated and the lease liability adjusted using the effective interest method and taking the lease payments into account. Exceptions will be made for short-term leases and leases of low-value assets. For these cases, the Volkswagen Group will make use of the practical expedient provided for in IFRS 16, and opt not to recognize a right-of-use asset or a lease liability arising from such lease agreements; instead it will continue to recognize the lease payments as expenses in profit or loss.

Lessor accounting essentially follows the current guidance of IAS 17. In the future, lessors will continue to classify their leases as finance leases or operating leases on the basis of the risks and rewards incidental to ownership of the leased asset.

As of January 1, 2019, the Volkswagen Group will for the first time account for leases in accordance with IFRS 16, using the modified retrospective transition method. This requires the recognition of the lease liability at the present value of the remaining lease payments, discounted using an incremental borrowing rate at the transition date. To simplify, the right-of-use assets are recognized in the amount of the corresponding lease liability, adjusted for any prepaid or accrued lease payments. As a result of the first-time recognition of right-of-use assets and lease liabilities in almost the same amounts, current estimates indicate that the balance sheet total will increase by around 1%. The rise in financial liabilities will have a negative effect on the Volkswagen Group's net liquidity. No significant effect on equity is expected.

Unlike the previous procedure, under which all operating lease expenses were reported under operating profit, the only items allocated to operating profit under IFRS 16 are depreciation charges on right-of-use assets. Interest expense from adding interest on lease liabilities is reported in the financial result. Based on leases in place as of January 1, 2019, current estimates indicate that there will be an improvement in operating profit by an amount in the low three-digit million range.

The change in the way operating lease expenses are presented in the cash flow statement will result in a slight improvement in cash flows from operating activities and a corresponding reduction in cash flows from financing activities.

This standard also results in far more extensive disclosures in the notes.

Key events

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. In this context, Volkswagen AG announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On November 2, 2015, the EPA issued a "Notice of Violation" alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines.

In the months following publication of a study by the International Council on Clean Transportation in May 2014, Volkswagen AG's Powertrain Development department checked the test set-ups on which the study was based for plausibility, confirming the unusually high NO_x emissions from certain US vehicles with type EA 189 2.0 l diesel engines. The California Air Resources Board (CARB) – a part of the environmental regulatory authority of California – was informed of this result, and, at the same time, an offer was made to recalibrate the engine control unit software of type EA 189 diesel engines in the USA as part of a service measure that was already planned in the USA. This measure was evaluated and adopted by the Ausschuss für Produktsicherheit (APS – Product Safety Committee), which initiates necessary and appropriate measures to ensure the safety and conformity of Volkswagen AG's products that are placed in the market. There are no findings that an unlawful "defeat device" under US law was disclosed to the APS as the cause of the discrepancies or to the persons responsible for preparing the 2014 annual and consolidated financial statements. Instead, at the time the 2014 annual and consolidated financial statements were being prepared, the persons responsible for preparing the 2014 annual and consolidated financial statements remained under the impression that the issue could be solved with comparatively little effort as part of a service measure.

In the course of the summer of 2015, however, it became successively apparent to individual members of Volkswagen AG's Board of Management that the cause of the discrepancies in the USA was a modification of parts of the software of the engine control unit, which was later identified as an unlawful "defeat device" as defined by US law. This culminated in the disclosure of a "defeat device" to EPA and CARB on September 3, 2015. According to the assessment at that time of the responsible persons dealing with the matter, the scope of the costs expected by the Volkswagen Group (recall costs, retrofitting costs and financial penalties) was not fundamentally dissimilar to that of previous cases involving other vehicle manufacturers, and, therefore, appeared to be controllable overall with a view to the business activities of the Volkswagen Group. This assessment by the Volkswagen Group was based, among other things, on the advice of a law firm engaged in the USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. The publication of the "Notice of Violation" by the EPA on September 18, 2015, which, especially at that time, came unexpectedly to the Board of Management, then presented the situation in an entirely different light.

Additional special items in connection with the diesel issue amounting to €3.2 billion (previous year: €3.2 billion) were recognized in the reporting period. The main reasons for the expenses are the administrative fine orders totaling €1.8 billion imposed by the Braunschweig public prosecutor and the Munich II public prosecutor's office in connection with the diesel issue, as well as higher legal risks and legal defense costs and an increase in expenses for technical measures.

Apart from the above, there are no conclusive findings or assessments of facts available to the Board of Management of Volkswagen AG that would suggest that a different assessment of the associated risks (e.g. investor lawsuits) should have been made.

Further details can be found in the "Diesel Issue" section of the management report.

In the award proceedings regarding the appropriateness of the cash settlement and the right to compensation for the noncontrolling interest shareholders of MAN SE, the Higher Regional Court in Munich made a final decision at the end of June 2018, ruling that the right to annual compensation per share must be increased. The cash settlement per share, raised in a first instance ruling by the First Regional Court in Munich, was confirmed.

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of January 1, 2019.

Cash outflows for compensation payments and the acquisition of shares tendered amounted to €2.1 billion in the period to December 31, 2018. There was a corresponding decline in the amount of "put options and compensation rights granted to noncontrolling interest shareholders" reported in the balance sheet.

Further information can be found in the "Litigation" section.

Basis of consolidation

In addition to Volkswagen AG, the consolidated financial statements comprise all significant German and non-German subsidiaries, including structured entities that are controlled directly or indirectly by Volkswagen AG. This is the case if Volkswagen AG obtains power over the potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the subsidiaries, and is able to influence those returns. In the case of the structured entities consolidated in the Volkswagen Group, Volkswagen is able to direct the material relevant activities remaining after the change in the structure even if it is not invested in the structured entity concerned and is thus able to influence the variable returns from its involvement. The structured entities are used primarily to enter into asset-backed securities transactions to refinance the financial services business and to invest surplus liquidity in special securities funds. Consolidation of subsidiaries begins at the first date on which control exists, and ends when such control no longer exists.

Subsidiaries whose business is dormant or insignificant, both individually and in the aggregate, for the fair presentation of the net assets, financial position and results of operations as well as the cash flows of the Volkswagen Group are not consolidated. They were carried in the consolidated financial statements at cost net of any impairment losses and reversals of impairment losses required to be recognized.

Significant companies where Volkswagen AG is able, directly or indirectly, to significantly influence financial and operating policy decisions (associates), or that are directly or indirectly jointly controlled (joint ventures), are accounted for using the equity method. Joint ventures also include companies in which the Volkswagen Group holds the majority of voting rights, but whose articles of association or partnership agreements stipulate that important decisions may only be resolved unanimously. Insignificant associates and joint ventures are carried at cost net of any impairment losses and reversals of impairment losses required to be recognized.

The composition of the Volkswagen Group is shown in the following table:

	2018	2017
Volkswagen AG and consolidated subsidiaries		
Germany	152	156
Abroad	712	717
Subsidiaries carried at cost		
Germany	70	69
Abroad	251	238
Associates, joint ventures and other equity investments[1]		
Germany	64	59
Abroad	79	71
	1,328	**1,310**

1 The prior-year figures were adjusted to reflect the number of joint ventures.

The list of all shareholdings that forms part of the annual financial statements of Volkswagen AG can be downloaded from the electronic companies register at www.unternehmensregister.de and from www.volkswagenag.com/ir.

The following consolidated German subsidiaries with the legal form of a corporation or partnership meet the criteria set out in section 264(3) or section 264b of the Handelsgesetzbuch (HGB – German Commercial Code) due to their inclusion in the consolidated financial statements and have as far as possible exercised the option not to publish annual financial statements:

- Audi Berlin GmbH, Berlin
- Audi Frankfurt GmbH, Frankfurt am Main
- Audi Hamburg GmbH, Hamburg
- Audi Hannover GmbH, Hanover
- Audi Leipzig GmbH, Leipzig
- Audi Stuttgart GmbH, Stuttgart
- Autostadt GmbH, Wolfsburg
- Bugatti Engineering GmbH, Wolfsburg

- Dr. Ing. h.c. F. Porsche AG, Stuttgart
- GETAS Verwaltung GmbH & Co. Objekt Augsburg KG, Pullach i. Isartal
- GETAS Verwaltung GmbH & Co. Objekt Heinrich-von-Buz-Straße KG, Pullach i. Isartal
- HABAMO Verwaltung GmbH & Co. Objekt Sterkrade KG, Pullach i. Isartal
- Haberl Beteiligungs-GmbH, Munich
- Karosseriewerk Porsche GmbH & Co. KG, Stuttgart
- MAHAG GmbH, Munich
- MAN Energy Solutions SE, Augsburg
- MOIA GmbH, Berlin
- Porsche Consulting GmbH, Bietigheim-Bissingen
- Porsche Deutschland GmbH, Bietigheim-Bissingen
- Porsche Dienstleistungs GmbH, Stuttgart
- Porsche Engineering Group GmbH, Weissach
- Porsche Engineering Services GmbH, Bietigheim-Bissingen
- Porsche Erste Beteiligungsgesellschaft mbH, Stuttgart
- Porsche Financial Services GmbH & Co. KG, Bietigheim-Bissingen
- Porsche Financial Services GmbH, Bietigheim-Bissingen
- Porsche Holding Stuttgart GmbH, Stuttgart
- Porsche Leipzig GmbH, Leipzig
- Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg
- Porsche Logistik GmbH, Stuttgart
- Porsche Niederlassung Berlin GmbH, Berlin
- Porsche Niederlassung Berlin-Potsdam GmbH, Kleinmachnow
- Porsche Niederlassung Hamburg GmbH, Hamburg
- Porsche Niederlassung Leipzig GmbH, Leipzig
- Porsche Niederlassung Stuttgart GmbH, Stuttgart
- Porsche Nordamerika Holding GmbH, Ludwigsburg
- Porsche Siebte Vermögensverwaltung GmbH, Wolfsburg
- Porsche Smart Mobility GmbH, Stuttgart
- Porsche Zentrum Hoppegarten GmbH, Stuttgart
- Raffay Versicherungsdienst GmbH, Hamburg
- SEAT Deutschland Niederlassung GmbH, Frankfurt am Main
- SKODA AUTO Deutschland GmbH, Weiterstadt
- TRATON SE, Munich (previously TRATON AG, Munich)
- TB Digital Services GmbH, Munich
- VfL Wolfsburg-Fußball GmbH, Wolfsburg
- VGRD GmbH, Wolfsburg
- Volkswagen AirService GmbH, Braunschweig
- Volkswagen Automobile Berlin GmbH, Berlin
- Volkswagen Automobile Chemnitz GmbH, Chemnitz
- Volkswagen Automobile Frankfurt GmbH, Frankfurt am Main
- Volkswagen Automobile Hamburg GmbH, Hamburg
- Volkswagen Automobile Hannover GmbH, Hanover
- VOLKSWAGEN Automobile Leipzig GmbH, Leipzig
- Volkswagen Automobile Region Hannover GmbH, Hanover
- Volkswagen Automobile Rhein-Neckar GmbH, Mannheim
- Volkswagen Automobile Stuttgart GmbH, Stuttgart
- Volkswagen Beteiligungsverwaltung GmbH, Wolfsburg
- Volkswagen Dritte Leasingobjekt GmbH, Braunschweig
- Volkswagen Erste Leasingobjekt GmbH, Braunschweig
- Volkswagen Fünfte Leasingobjekt GmbH, Braunschweig
- Volkswagen Gebrauchtfahrzeughandels und Service GmbH, Langenhagen
- Volkswagen Group IT Services GmbH, Wolfsburg
- Volkswagen Group Real Estate GmbH & Co. KG, Wolfsburg

- Volkswagen Group Services GmbH, Wolfsburg
- Volkswagen Immobilien GmbH, Wolfsburg
- Volkswagen Klassik GmbH, Wolfsburg
- Volkswagen Konzernlogistik GmbH & Co. OHG, Wolfsburg
- Volkswagen Original Teile Logistik GmbH & Co. KG, Baunatal
- Volkswagen Osnabrück GmbH, Osnabrück
- Volkswagen R GmbH, Wolfsburg
- Volkswagen Sachsen GmbH, Zwickau
- Volkswagen Sechste Leasingobjekt GmbH, Braunschweig
- Volkswagen Siebte Leasingobjekt GmbH, Braunschweig
- Volkswagen Vertriebsbetreuungsgesellschaft mbH, Chemnitz
- Volkswagen Vierte Leasingobjekt GmbH, Braunschweig
- Volkswagen Zubehör GmbH, Dreieich
- Volkswagen Zweite Leasingobjekt GmbH, Braunschweig

CONSOLIDATED SUBSIDIARIES

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

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

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

The fiscal year's changes in the consolidated Group are shown in the following table:

Number	Germany	Abroad
Initially consolidated		
Subsidiaries previously carried at cost	4	26
Newly acquired subsidiaries	–	–
Newly formed subsidiaries	1	9
	5	**35**
Deconsolidated		
Mergers	3	18
Liquidations	6	8
Sales/other	–	14
	9	**40**

The initial consolidation or deconsolidation of these subsidiaries, either individually or collectively, did not have a significant effect on the presentation of the net assets, financial position and results of operations. The unconsolidated structured entities are immaterial from a Group perspective. In particular, they do not give rise to any significant risks to the Group.

INVESTMENTS IN ASSOCIATES

From a Group perspective, the associates Sinotruk (Hong Kong) Ltd., Hongkong, China (Sinotruk), Bertrandt AG, Ehningen (Bertrandt), There Holding B.V., Rijswijk, the Netherlands (There Holding), and Navistar International Corporation, Lisle, USA (Navistar), were material at the reporting date.

Sinotruk

Sinotruk is one of the largest truck manufacturers in the Chinese market. There is an agreement in place between Group companies and Sinotruk regarding a long-term strategic partnership, under which the Group participates in the local market. In addition to the partnership with Sinotruk in the volume segment, exports of MAN vehicles to China are also helping to expand access to the small, but fast-growing premium truck market. Sinotruk's principal place of business is in Hongkong, China.

As of December 31, 2018, the quoted market price of the shares in Sinotruk amounted to €908 million (previous year: €648 million).

Bertrandt

Bertrandt is an engineering partner to companies in the automotive and aviation industry. Its portfolio of services ranges from developing individual components through complex modules to end-to-end solutions. Bertrandt's principal place of business is in Ehningen.

As of December 31, 2018, the quoted market price of the shares in Bertrandt amounted to €201 million (previous year: €299 million).

There Holding

The Audi Subgroup, the BMW Group and Daimler AG each held a 33.3% interest in There Holding B.V., Rijswijk, the Netherlands, which was established in 2015. In December 2016, There Holding B.V. signed a contract with Intel Holdings B.V., Schiphol-Rijk, the Netherlands, for the sale of 15% of the shares in HERE International B.V., Rijswijk, the Netherlands. The transaction with Intel Holdings B.V. was completed on January 31, 2017. This resulted in a loss of control within the meaning of IFRS 10 at the There Holding B.V. level. The deconsolidation gave rise to a proportionate effect for the Volkswagen Group of €183 million, which was shown in the share of profits or losses of equity-accounted investments in the previous year. Since a significant influence continues to exist, HERE International B.V. is included in the financial statement of There Holding B.V. as an associated company using the equity method. There was no change in the Volkswagen Group's participating interest in There Holding B.V. as a result of the sale.

In December 2017, agreements for the sale of shares in There Holding B.V. were signed with Robert Bosch Investment Nederland B.V., Boxtel, the Netherlands and Continental Automotive Holding Netherlands B.V., Maastricht, the Netherlands. In this process, Robert Bosch Investment Nederland B.V. and Continental Automotive Holding Netherlands B.V. acquired an interest of 5.9% each in There Holding B.V. The transactions were completed on February 28, 2018. The Audi Subgroup, the BMW Group and Daimler AG sold the equivalent number of shares. As a result, the interest held by the Volkswagen Group declined to 29.4% as of this date. There was no material effect on financial position or financial performance.

A capital reduction was carried out at There Holding B.V. in February 2018. The share attributable to the Volkswagen Group amounted to €96 million. In addition, in June 2018 and November 2018, There Holding B.V. implemented capital increases in which the Volkswagen Group participated. As a result, the shares accounted for using the equity method increased by €62 million and the participating interest was 29.6% as of December 31, 2018.

Navistar

Within the framework of a capital increase, TRATON SE, a wholly owned subsidiary of Volkswagen AG, acquired 16.6% of the shares in Navistar, paying USD 15.76 per share in 2017. The purchase price came to €0.3 billion. Due to Volkswagen's representation on the Board of Directors of Navistar and the agreed cooperation, the investment in Navistar is reported as an equity-accounted investment in the consolidated financial statements. As of December 31, 2018, an interest of 16.8% was held in Navistar, and the quoted market price of the shares in Navistar amounted to €377 million (previous year: €595 million).

SUMMARIZED FINANCIAL INFORMATION ON MATERIAL ASSOCIATES ON A 100 % BASIS

€ million	Sinotruk[1]	Bertrandt[2]	There Holding	Navistar[3]
2018				
Equity interest (%)	25	29	30	17
Noncurrent assets	2,239	586	1,763	1,846
Current assets	6,461	469	2	4,528
Noncurrent liabilities	54	306	–	6,478
Current liabilities	5,250	167	1	3,356
Net assets	3,395	583	1,764	–3,461
Sales revenue	8,047	1,020	–	8,625
Earnings after tax from continuing operations	558	25	–351	310
Earnings after tax from discontinued operations	–	–	–	–
Other comprehensive income	0	0	–7	245
Total comprehensive income	558	25	–358	555
Dividends received[4]	50	7	–	–
2017				
Equity interest (%)	25	29	33	17
Noncurrent assets	2,086	600	1,906	1,648
Current assets	5,449	478	289	3,470
Noncurrent liabilities	55	338	–	5,893
Current liabilities	4,420	157	0	3,041
Net assets	3,060	583	2,195	–3,816
Sales revenue	5,961	992	71	5,507
Earnings after tax from continuing operations	260	21	–151	95
Earnings after tax from discontinued operations	–	–	513	1
Other comprehensive income	13	0	2	341
Total comprehensive income	272	21	364	437
Dividends received	6	7	–	–

1 Balance sheet amounts refer to the June 30 reporting date and income statement amounts refer to the period from July 1 to June 30.
2 Balance sheet amounts refer to the September 30 reporting date and income statement amounts refer to the period from October 1 to September 30.
3 Balance sheet amounts refer to the October 31, 2018 reporting date. The income statement amounts for fiscal year 2018 refer to the period from November 1, 2017 to October 31, 2018, while those for fiscal year 2017 refer to the period from March 1, 2017 to October 31, 2017.
4 Proportionate dividends are shown net of withholding tax.

RECONCILIATION OF THE FINANCIAL INFORMATION TO THE CARRYING AMOUNT OF THE EQUITY-ACCOUNTED INVESTMENTS

€ million	Sinotruk	Bertrandt	There Holding	Navistar[1]
2018				
Net assets at January 1[2]	3,060	583	2,209	–3,816
Profit or loss	558	25	–351	310
Other comprehensive income	0	0	–7	245
Changes in reserves	–3	–	–87	13
Foreign exchange differences	13	–	–	–191
Dividends[3]	–232	–25	–	–22
Net assets at December 31	3,395	583	1,764	–3,461
Proportionate equity	849	168	522	–582
Consolidation/Goodwill/Others	–402	163	–	1,012
Carrying amount of equity-accounted investments	447	331	522	430
2017				
Net assets at January 1	2,956	587	1,832	–4,270
Profit or loss	260	21	362	96
Other comprehensive income	13	0	2	341
Changes in reserves	1	–	–	11
Foreign exchange differences	–135	–	–	7
Dividends	–34	–25	–	–
Net assets at December 31	3,060	583	2,195	–3,816
Proportionate equity	765	168	646	–644
Consolidation/Goodwill/Others	–387	163	–	946
Carrying amount of equity-accounted investments	378	331	646	301

1 Reconciliation presented for Navistar in 2017 as of March 1, 2017, the date of the first time inclusion of Navistar.
2 Value in the opening balance of There Holding adjusted due to IFRS 15.
3 Dividends are shown before withholding tax.

SUMMARIZED FINANCIAL INFORMATION ON INDIVIDUALLY IMMATERIAL ASSOCIATES ON THE BASIS OF THE VOLKSWAGEN GROUP'S PROPORTIONATE INTEREST

€ million	2018	2017
Earnings after tax from continuing operations	–20	–29
Earnings after tax from discontinued operations	–	–
Other comprehensive income	1	0
Total comprehensive income	–20	–29
Carrying amount of equity-accounted investments	332	90

There were no unrecognized losses relating to investments in associates. Furthermore, there were also no contingent liabilities or financial guarantees relating to associates.

INTERESTS IN JOINT VENTURES

From a Group perspective, the joint ventures FAW-Volkswagen Automotive Company Ltd., Changchun, China, SAIC-Volkswagen Automotive Company Ltd., Shanghai, China, and SAIC-Volkswagen Sales Company Ltd., Shanghai, China, were material at the reporting date due to their size.

FAW-Volkswagen Automotive Company

FAW-Volkswagen Automotive Company develops, produces and sells passenger cars. There is an agreement in place between Group companies and the joint venture partner China FAW Corporation Limited regarding a long-term strategic partnership. The principal place of business is in Changchun, China.

SAIC-Volkswagen Automotive Company

SAIC-Volkswagen Automotive Company develops and produces passenger cars. There is an agreement in place between Group companies and the joint venture partner Shanghai Automotive Industry Corporation regarding a long-term strategic partnership. The principal place of business is in Shanghai, China.

SAIC-Volkswagen Sales Company

SAIC-Volkswagen Sales Company sells passenger cars for SAIC-Volkswagen Automotive Company. There is an agreement in place between Group companies and the joint venture partner Shanghai Automotive Industry Corporation regarding a long-term strategic partnership. The principal place of business is in Shanghai, China.

SUMMARIZED FINANCIAL INFORMATION ON THE MATERIAL JOINT VENTURES ON A 100 % BASIS

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company[1]	SAIC-Volkswagen Sales Company
2018			
Equity interest (%)	40	50	30
Noncurrent assets	10,651	8,580	671
Current assets	10,903	6,689	3,680
of which: cash, cash equivalents and time deposits	3,764	4,412	206
Noncurrent liabilities	1,260	1,205	110
of which: financial liabilities[2]	–	–	–
Current liabilities	12,936	8,526	3,692
of which: financial liabilities[2]	–	4	–
Net assets	7,358	5,538	549
Sales revenue	41,607	28,863	33,212
Depreciation and amortization	1,335	1,479	8
Interest income	123	64	5
Interest expenses	–	1	–
Earnings before tax from continuing operations	4,851	4,588	665
Income tax expense	1,186	1,040	167
Earnings after tax from continuing operations	3,665	3,548	498
Earnings after tax from discontinued operations	–	–	–
Other comprehensive income	47	1	–
Total comprehensive income	3,712	3,549	498
Dividends received[3]	1,209	1,626	148
2017			
Equity interest (%)	40	50	30
Noncurrent assets	10,071	8,266	626
Current assets	13,018	9,304	4,383
of which: cash, cash equivalents and time deposits	7,385	6,198	214
Noncurrent liabilities	1,470	0	61
of which: financial liabilities	–	–	–
Current liabilities	14,768	12,157	4,402
of which: financial liabilities	–	6	–
Net assets	6,851	5,414	546
Sales revenue	40,828	28,767	33,398
Depreciation and amortization	1,212	1,279	6
Interest income	72	36	–
Interest expenses	–	35	–
Earnings before tax from continuing operations	4,907	4,555	669
Income tax expense	1,369	1,086	168
Earnings after tax from continuing operations	3,538	3,469	501
Earnings after tax from discontinued operations	–	10	–
Other comprehensive income	–49	–5	–
Total comprehensive income	3,489	3,473	501
Dividends received	1,502	1,702	137

1 SAIC-Volkswagen Sales Company sells passenger cars for SAIC-Volkswagen Automotive Company. Therefore, the sales revenue reported for SAIC-Volkswagen Automotive Company was mostly generated from its business with SAIC-Volkswagen Sales Company.
2 Excluding trade liabilities.
3 Proportionate dividends are shown net of withholding tax.

RECONCILIATION OF THE FINANCIAL INFORMATION TO THE CARRYING AMOUNT OF THE EQUITY-ACCOUNTED INVESTMENTS

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company	SAIC-Volkswagen Sales Company
2018			
Net assets at January 1[1]	6,851	5,405	546
Profit or loss	3,665	3,548	498
Other comprehensive income	47	1	–
Changes in share capital	–	–	–
Changes in reserves	–	–	–
Foreign exchange differences	68	–23	–1
Dividends[2]	–3,273	–3,393	–494
Net assets at December 31	7,358	5,538	549
Proportionate equity	2,943	2,769	165
Consolidation/Goodwill/Others	–593	–851	–
Carrying amount of equity-accounted investments	2,350	1,918	165
2017			
Net assets at January 1	7,466	5,579	520
Profit or loss	3,538	3,479	501
Other comprehensive income	–49	–5	–
Changes in share capital	–	–	–
Changes in reserves	–	–	–
Foreign exchange differences	–350	–236	–18
Dividends	–3,755	–3,403	–458
Net assets at December 31	6,851	5,414	546
Proportionate equity	2,740	2,707	164
Consolidation/Goodwill/Others	–456	–576	–
Carrying amount of equity-accounted investments	2,284	2,131	164

1 Values in the opening balance adjusted due to IFRS 9.
2 Dividends are shown before withholding tax.

SUMMARIZED FINANCIAL INFORMATION ON INDIVIDUALLY IMMATERIAL JOINT VENTURES ON THE BASIS OF THE VOLKSWAGEN GROUP'S PROPORTIONATE INTEREST

€ million	2018	2017
Earnings after tax from continuing operations	319	290
Earnings after tax from discontinued operations	–	10
Other comprehensive income	–2	0
Total comprehensive income	317	299
Carrying amount of equity-accounted investments	1,939	1,881

There were no unrecognized losses relating to interests in joint ventures. Contingent liabilities to joint ventures amounted to €183 million (previous year: €186 million) and financial guarantees to joint ventures amounted to €146 million (previous year: €82 million). Cash funds of €268 million (previous year: €260 million) are deposited as collateral for asset-backed securities transactions and are therefore not available to the Volkswagen Group.

IFRS 5 – NON-CURRENT ASSETS HELD FOR SALE

As of December 31, 2017, assets in a total amount of €115 million were classified as assets "held for sale" and reported in a separate line item of the balance sheet in accordance with IFRS 5. The assets "held for sale" were measured at the lower of carrying amount and fair value, less expected costs to sell. The assets were no longer depreciated or amortized. The amount reported was mainly attributable to the sale of property, plant and equipment (€24 million) and the sale of shares in There Holding B.V. (€86 million). The sales did not have any material impact on the Volkswagen Group's results of operations or net liquidity.

Consolidation methods

The assets and liabilities of the German and foreign companies included in the consolidated financial statements are recognized in accordance with the uniform accounting policies used within the Volkswagen Group. In the case of companies accounted for using the equity method, the same accounting policies are applied to determine the proportionate equity, based on the most recent audited annual financial statements of each company.

In the case of subsidiaries consolidated for the first time, assets and liabilities are measured at their fair value at the date of acquisition. Their carrying amounts are adjusted in subsequent years. Goodwill arises when the purchase price of the investment exceeds the fair value of identifiable net assets. Goodwill is tested for impairment once a year to determine whether its carrying amount is recoverable. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss must be recognized. If this is not the case, there is no change in the carrying amount of goodwill compared with the previous year. If the purchase price of the investment is less than the identifiable net assets, the difference is recognized in the income statement in the year of acquisition. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries. Any difference that arises from the acquisition of additional shares of an already consolidated subsidiary is taken directly to equity. Unless otherwise stated, the proportionate equity directly attributable to noncontrolling interests is determined at the acquisition date as the share of the fair value of the assets (excluding goodwill) and liabilities attributable to them. Contingent consideration is measured at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration do not generally result in the adjustment of the acquisition-date measurement. Acquisition-related costs that are not equity transaction costs are not added to the purchase price, but instead recognized as expenses in the period in which they are incurred.

The consolidation process involves adjusting the items in the separate financial statements of the parent and its subsidiaries and presenting them as if they were those of a single economic entity. Intragroup assets, liabilities, equity, income, expenses and cash flows are eliminated in full. Intercompany profits or losses are eliminated in Group inventories and noncurrent assets. Deferred taxes are recognized for consolidation adjustments, and deferred tax assets and liabilities are offset where taxes are levied by the same tax authority and have the same maturity.

Currency translation

Transactions in foreign currencies are translated in the single-entity financial statements of Volkswagen AG and its consolidated subsidiaries at the rates prevailing at the transaction date. Foreign currency monetary items are recorded in the balance sheet using the middle rate at the closing date. Foreign exchange gains and losses are recognized in the income statement. This does not apply to foreign exchange differences from loans receivable that represent part of a net investment in a foreign operation. The financial statements of foreign companies are translated into euros using the functional currency concept, under which asset and liability items are translated at the closing rate. With the exception of income and expenses recognized directly in equity, equity is translated at historical rates. The resulting foreign exchange differences are recognized in other comprehensive income until disposal of the subsidiary concerned, and are presented as a separate item in equity.

Income statement items are translated into euros at weighted average rates.

The rates applied are presented in the following table:

		BALANCE SHEET MIDDLE RATE ON DECEMBER 31		INCOME STATEMENT AVERAGE RATE	
	€1 =	2018	2017	2018	2017
Argentina	ARS	43.15687	22.99203	32.89363	18.72636
Australia	AUD	1.62240	1.53285	1.58021	1.47300
Brazil	BRL	4.44485	3.97065	4.30729	3.60471
Canada	CAD	1.55930	1.50260	1.53032	1.46444
Czech Republic	CZK	25.72450	25.57900	25.64308	26.32920
India	INR	79.90650	76.56700	80.71466	73.50146
Japan	JPY	125.91000	134.87000	130.40158	126.66763
Mexico	MXN	22.52035	23.61420	22.71496	21.33175
People's Republic of China	CNY	7.87725	7.80085	7.80766	7.62688
Poland	PLN	4.29780	4.17490	4.26098	4.25727
Republic of Korea	KRW	1,276.90000	1,278.22000	1,299.41384	1,275.94974
Russia	RUB	79.83765	69.33520	74.08214	65.88875
South Africa	ZAR	16.46690	14.75715	15.62243	15.04543
Sweden	SEK	10.25070	9.83140	10.25830	9.63700
United Kingdom	GBP	0.89690	0.88730	0.88476	0.87626
USA	USD	1.14525	1.19875	1.18156	1.12933

Accounting policies

MEASUREMENT PRINCIPLES

With certain exceptions, such as financial instruments measured at fair value and provisions for pensions and other post-employment benefits, items in the Volkswagen Group are accounted for under the historical cost convention. The methods used to measure the individual items are explained in more detail below.

INTANGIBLE ASSETS

Purchased intangible assets are recognized at cost and amortized over their useful life using the straight-line method. This relates in particular to software, which is normally amortized over three years.

In accordance with IAS 38, research costs are recognized as expenses when incurred.

Development costs for future series products and other internally generated intangible assets are capitalized at cost, provided manufacture of the products is likely to bring the Volkswagen Group an economic benefit. If the criteria for recognition as assets are not met, the expenses are recognized in the income statement in the year in which they are incurred.

Capitalized development costs include all direct and indirect costs that are directly attributable to the development process. The costs are amortized using the straight-line method from the start of production over the expected life cycle of the models or powertrains developed – generally between two and ten years.

Amortization recognized during the year is allocated to the relevant functional areas in the income statement.

Brand names from business combinations usually have an indefinite useful life and are therefore not amortized. An indefinite useful life is usually the result of a brand's further use and maintenance.

Goodwill, intangible assets with indefinite useful lives and intangible assets that are not yet available for use are tested for impairment at least once a year. Assets in use and other intangible assets with finite useful lives are tested for impairment only if there are specific indications that they may be impaired. The Volkswagen Group generally applies the higher of value in use and fair value less costs to sell of the relevant cash-generating unit (brands or products) to determine the recoverable amount of goodwill and indefinite-lived intangible assets. Measurement of value in use is based on management's current planning. This planning is based on expectations regarding future global economic trends and on assumptions derived from those trends about the markets for passenger cars and commercial vehicles, market shares and the profitability of the products. The planning for the Financial Services segment is likewise prepared on the basis of these expectations, and also reflects the relevant market penetration rates and regulatory requirements. The planning for the Power Engineering segment reflects expectations about trends in the various individual markets. The planning includes reasonable assumptions about macroeconomic trends (exchange rate, interest rate and commodity price trends) and historical developments. The planning period generally covers five years. For information on the assumptions applied to the detailed planning period, please refer to the Report on Expected Developments, which is part of the Management Report. For subsequent years, plausible assumptions are made regarding future trends. The planning assumptions are adapted to reflect the current state of knowledge.

Estimation of cash flows is generally based on the expected growth trends for the markets concerned. The estimates for the cash flows following the end of the planning period are generally based on a growth rate of up to 1% p.a. (previous year: up to 1% p.a.) in the Passenger Cars segment, and on a growth rate of up to 1% p.a. (previous year: up to 1% p.a.) in the Power Engineering and Commercial Vehicles segments.

Value in use is determined for the purpose of impairment testing of goodwill, indefinite-lived intangible assets and finite-lived intangible assets – mainly capitalized development costs – using the following pretax weighted average cost of capital (WACC) rates, which are adjusted if necessary for country-specific discount factors:

WACC	2018	2017
Passenger Cars segment	5.5%	5.8%
Commercial Vehicles segment	6.8%	6.8%
Power Engineering segment	7.8%	8.0%

The WACC rates are calculated based on the risk-free rate of interest, a market risk premium and the cost of debt. Additionally, specific peer group information on beta factors and leverage are taken into account. The composition of the peer groups used to determine beta factors is continuously reviewed and adjusted if necessary.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost less depreciation and – where necessary – write-downs for impairment. Investment grants are generally deducted from cost. Cost is determined on the basis of the direct and indirect costs that are directly attributable. Special tools are reported under other equipment, operating and office equipment. Property, plant and equipment is depreciated using the straight-line method over its estimated useful life. The useful lives of items of property, plant and equipment are reviewed on a regular basis and adjusted if required.

Depreciation is based mainly on the following useful lives:

	Useful life
Buildings	20 to 50 years
Site improvements	10 to 20 years
Technical equipment and machinery	6 to 12 years
Other equipment, operating and office equipment, including special tools	3 to 15 years

Impairment losses on property, plant and equipment are recognized in accordance with IAS 36 where the recoverable amount of the asset concerned has fallen below the carrying amount. Recoverable amount is the higher of value in use and fair value less costs to sell. Value in use is determined using the principles described for intangible assets. The discount rates for product-specific tools and investments are the same as the discount rates for capitalized development costs given above for each segment. If the reasons for impairments recognized in previous years no longer apply, the impairment losses are reversed up to a maximum of the amount that would have been determined if no impairment loss had been recognized.

In accordance with the principle of substance over form, assets that have been formally transferred to third parties under a sale and leaseback transaction including a repurchase option also continue to be accounted for as separate assets.

Where leased items of property, plant and equipment are used, the criteria for classification as a finance lease as set out in IAS 17 are met if all material risks and rewards incidental to ownership have been transferred to the Group company concerned. In such cases, the assets concerned are recognized at fair value or at the present value of the minimum lease payments (if lower) and depreciated using the straight-line method over the asset's useful life, or over the term of the lease if this is shorter. The payment obligations arising from the future lease payments are discounted and recorded as a liability in the balance sheet.

Where Group companies are the lessees of assets under operating leases, i.e. if not all material risks and rewards are transferred, lease and rental payments are recorded directly as expenses in profit or loss.

LEASE ASSETS

Vehicles leased out under operating leases are recognized at cost and depreciated to their estimated residual value using the straight-line method over the term of the lease. Impairment losses identified as a result of an impairment test in accordance with IAS 36 are recognized and the future depreciation rate is adjusted. The forecast residual values are adjusted to include constantly updated internal and external information on residual values, depending on specific local factors and the experiences gained in the marketing of used cars. This requires management to make assumptions in particular about vehicle supply and demand in the future, as well as about vehicle price trends. Such assumptions are based either on qualified estimates or on data published by external experts. Qualified estimates are based on external data – if available – that reflects additional information that is available internally, such as historical experience and current sales data.

INVESTMENT PROPERTY

Real estate and buildings held in order to obtain rental income (investment property) are carried at amortized cost; the useful lives applied to depreciation generally correspond to those of the property, plant and equipment used by the Company itself. The fair value of investment property must be disclosed in the notes if it is carried at amortized cost. Fair value is generally estimated using an investment method based on internal calculations. This involves determining the income value for a specific building on the basis of gross income, taking into account additional factors such as land value, remaining useful life and a multiplier specific to property.

CAPITALIZATION OF BORROWING COSTS

Borrowing costs of qualifying assets are capitalized as part of the cost of these assets. A qualifying asset is an asset that necessarily takes at least a year to get ready for its intended use or sale.

EQUITY-ACCOUNTED INVESTMENTS

The cost of equity-accounted investments is adjusted to reflect the share of increases or reductions in equity at the associates and joint ventures after the acquisition that is attributable to the Volkswagen Group, as well as any effects from purchase price allocation. Additionally, the investment is tested for impairment if there are indications of impairment and written down to the lower recoverable amount if necessary. The recoverable amount is determined using the principles described for indefinite-lived intangible assets. If the reason for impairment ceases to apply at a later date, the impairment loss is reversed to the carrying amount that would have been determined had no impairment loss been recognized.

FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise to a financial asset of one company and a financial liability or an equity instrument of another. Regular way purchases or sales of financial instruments are accounted for at the settlement date – that is, at the date on which the asset is delivered.

Financial assets are classified and measured on the basis of the entity's business model and the characteristics of the financial asset's cash flows.

IFRS 9 classifies financial assets into the following categories:
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income (debt instruments);
- financial assets at fair value through other comprehensive income (equity instruments); and
- financial assets at amortized cost.

Financial liabilities are classified into the following categories:
- financial liabilities at fair value through profit or loss; and
- financial liabilities measured at amortized cost.

In the Volkswagen Group, the categories presented above are allocated to the "at amortized cost" and "at fair value" classes.

FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST

Financial assets measured at amortized cost are held under a business model that is aimed at collecting contractual cash flows ("hold" business model). The cash flows of these assets relate solely to payments of principal and interest on the principal amount outstanding. The amortized cost of a financial asset or liability is the amount:
- at which a financial asset or liability is measured at initial recognition;
- minus any principal repayments;
- taking account of any loss allowances, write-downs for impairment and uncollectibility relating to financial assets; and
- plus or minus the cumulative amortization of any difference between the original amount and the amount repayable at maturity (premium, discount), amortized using the effective interest method over the term of the financial asset or liability.

Financial liabilities measured at amortized cost using the effective interest method relate to liabilities to banks, bonds, commercial paper and notes, loans and other liabilities. Gains or losses resulting from changes in amortized cost, including the effects of changes in exchange rates, are recognized through profit or loss. For reasons of materiality, discounting or unwinding of discounting is not applied to current liabilities (due within one year).

Financial assets and liabilities measured at amortized cost are
- receivables from financing business;
- trade receivables and payables;
- other receivables and financial assets and liabilities;
- financial liabilities; and
- cash, cash equivalents and time deposits.

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

Changes in the carrying amount of financial assets measured at fair value are recognized either through OCI or through profit or loss.

The fair value through OCI (debt instruments) category comprises exclusively debt instruments. Changes in fair value are always recognized directly in equity, net of deferred taxes. Certain changes in the fair value of these debt instruments (impairment losses, foreign exchange gains and losses, interest calculated using the effective interest method) are recognized immediately in profit or loss.

Financial assets measured at fair value through other comprehensive income (debt instruments) are held under a business model aimed at both collecting contractual cash flows and selling financial assets ("hold and sell" business model).

Financial assets that are equity instruments are also measured at fair value. Here Volkswagen exercises the option to recognize changes in fair value are always recognized through other comprehensive income, i.e. gains and losses from the measurement of equity investments are never recycled to the income statement and instead reclassified to revenue reserves on disposal (no reclassification).

Any financial assets not measured at either amortized cost or through other comprehensive income are allocated to the fair value through profit or loss category. Financial assets at fair value through profit or loss are aimed in particular at generating cash flows by selling financial instruments ("sell" business model).

At Volkswagen, this category primarily comprises

- hedging relationships to which hedge accounting is not applied and
- investment fund units.

All financial liabilities at fair value through profit or loss relate to derivatives to which hedge accounting is not applied.

Fair value generally corresponds to the market or quoted market price. If no active market exists, fair value is determined using other observable inputs as far as possible. If no observable inputs are available, fair value is determined using valuation techniques, such as by discounting the future cash flows at the market interest rate, or by using recognized option pricing models, and, as far as possible, verified by confirmations from the banks that handle the transactions.

In the case of current financial receivables and liabilities, amortized cost generally corresponds to the principal or repayment amount.

The fair value option for financial assets and financial liabilities is not used in the Volkswagen Group.

Financial assets and financial liabilities are generally presented at their gross amounts and only offset if the Volkswagen Group currently has a legally enforceable right to set off the amounts and intends to settle on a net basis.

Subsidiaries, associates and joint ventures that are not consolidated for reasons of materiality do not fall within the scope of IFRS 9 and IFRS 7.

Likewise, the accounting policies for financial instruments accounted for pursuant to IAS 39, on which the prior-year figures are based, have not been modified. In this context, please refer to the notes provided in the 2017 annual report.

DERIVATIVES AND HEDGE ACCOUNTING

Volkswagen Group companies use derivatives to hedge balance sheet items and future cash flows (hedged items). Appropriate derivatives such as swaps, forward transactions and options are used as hedging instruments. The criteria for the application of hedge accounting are that the hedging relationship between the hedged item and the hedging instrument is clearly documented and that the hedge is highly effective.

The accounting treatment of changes in the fair value of hedging instruments depends on the nature of the hedging relationship. In the case of hedges against the risk of change in the fair value of balance sheet items (fair value hedges), both the hedging instrument and the hedged risk portion of the hedged item are measured at fair value. Several risk portions of hedged items are grouped into a portfolio if appropriate. In the case of a fair value portfolio hedge, the changes in fair value are accounted for in the same way as for a fair value hedge of an individual underlying. Gains or losses from the measurement of hedging instruments and hedged items are recognized in profit or loss. The Volkswagen Group has opted not to retain IAS 39 hedge accounting for all its hedges. This means that, as of the beginning of fiscal year 2018, the only area where IAS 39 accounting is relevant alongside IFRS 9 is the guidance on portfolio hedges of interest rate risk in the Financial Services Division.

In the case of hedges of future cash flows (cash flow hedges), the hedging instruments are also measured at fair value. The designated effective portion of the hedging instrument is accounted for through OCI I and the non-designated portion through OCI II. They are only recognized in the income statement when the hedged item is recognized in profit or loss. The ineffective portion of cash flow hedges is recognized through profit or loss immediately.

Derivatives used by the Volkswagen Group for financial management purposes to hedge against interest rate, foreign currency, commodity price, equity price, or fund price risks, but that do not meet the strict hedge accounting criteria of IFRS 9, are classified as financial assets or liabilities at fair value through profit or loss (also referred to below as derivatives to which hedge accounting is not applied). This also applies to options on shares. External hedging instruments of intragroup hedged items that are subsequently eliminated in the consolidated financial statements are also assigned to this category as a general rule. Assets and liabilities measured at fair value through profit or loss consist of derivatives or components of derivatives that are not included in hedge accounting. These relate for example to the non-designated currency forwards used to hedge sales revenue, interest rate hedges, commodity futures and currency forwards relating to commodity futures.

RECEIVABLES FROM FINANCE LEASES

Where a Group company is the lessor – generally of vehicles – a receivable in the amount of the net investment in the lease is recognized in the case of finance leases, in other words where substantially all the risks and rewards are transferred to the lessee.

IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

Financial assets are exposed to default risk, which is taken into account by recognizing loss allowances or, if losses have already been incurred, by recognizing impairment losses. Default risk on loans and receivables in the financial services segment is accounted for by recognizing specific loss allowances and portfolio-based loss allowances.

In particular, a loss allowance is recognized on these financial assets in the amount of the expected loss in accordance with Group-wide standards. The actual specific loss allowances for the losses incurred are then charged to this loss allowance. A potential impairment is assumed not only for a number of situations such as delayed payment over a certain period, the institution of enforcement measures, the threat of insolvency or overindebtedness, application for or the opening of bankruptcy proceedings, or the failure of reorganization measures, but also for receivables that are not past due.

Portfolio-based loss allowances are recognized by grouping together insignificant receivables and significant individual receivables for which there is no indication of impairment into homogeneous portfolios on the basis of comparable credit risk features and allocating them by risk class. Average historical default probabilities are used in combination with forward-looking parameters for the portfolio concerned to calculate the amount of the impairment loss.

Credit risks must be considered for all financial assets measured at amortized cost or fair value through profit or loss (debt instruments), as well as for contract assets in accordance with IFRS 15 and lease receivables within the scope of IAS 17. The rules on impairment also apply to risks from irrevocable credit commitments not recognized in the balance sheet and to the measurement of financial guarantees.

As a matter of principle, a simplified process, which takes historical default rates and forward-looking information into account, and specific loss allowances are used to account for impairment losses on receivables outside the Financial Services segment.

DEFERRED TAXES

Deferred tax assets are generally recognized for tax-deductible temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated balance sheet, as well as on tax loss carryforwards and tax credits provided it is probable that they can be used in future periods. Deferred tax liabilities are generally recognized for all taxable temporary differences between the tax base of assets and liabilities and their carrying amounts in the consolidated balance sheet.

Deferred tax liabilities and assets are recognized in the amount of the expected tax liability or tax benefit, as appropriate, in subsequent fiscal years, based on the expected enacted tax rate at the time of realization. The tax consequences of dividend payments are generally not taken into account until the resolution on appropriation of earnings available for distribution has been adopted.

Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by loss allowances.

Deferred tax assets for tax loss carryforwards are usually measured on the basis of future taxable income over a planning period of five fiscal years.

Deferred tax assets and deferred tax liabilities are offset where taxes are levied by the same taxation authority and relate to the same tax period.

INVENTORIES

Raw materials, consumables and supplies, merchandise, work in progress and self-produced finished goods reported in inventories are carried at the lower of cost or net realizable value. Cost is determined on the basis of the direct and indirect costs that are directly attributable. Borrowing costs are not capitalized. The measurement of same or similar inventories is generally based on the weighted average cost method.

NONCURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Under IFRS 5, noncurrent assets or groups of assets and liabilities (disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such assets are carried at the lower of their carrying amount and fair value less costs to sell, and are presented separately in current assets and liabilities in the balance sheet.

Discontinued operations are components of an entity that have either been disposed of or are classified as held for sale. The assets and liabilities of operations that are held for sale represent disposal groups that must be measured and reported using the same principles as noncurrent assets held for sale. The income and expenses from discontinued operations are presented in the income statement as profit or loss from discontinued operations below the profit or loss from continuing operations. Corresponding disposal gains or losses are contained in the profit or loss from discontinued operations. The prior-year figures in the income statement are adjusted accordingly.

PENSION PROVISIONS

The actuarial valuation of pension provisions is based on the projected unit credit method stipulated by IAS 19 for defined benefit plans. The valuation is not only based on pension payments and vested entitlements known at the balance sheet date, but also reflects future salary and pension trends, as well as experience-based staff turnover rates. Remeasurements are recognized in retained earnings in other comprehensive income, net of deferred taxes.

PROVISIONS FOR INCOME TAXES

Tax provisions contain obligations resulting from current income taxes. Deferred taxes are presented in separate items of the balance sheet and income statement. Provisions are recognized for potential tax risks on the basis of the best estimate of the liability.

SHARE-BASED PAYMENT

The share-based payment consists of phantom shares and performance shares. The obligations arising from the share-based payment are accounted for as cash-settled plans in accordance with IFRS 2. The cash-settled share-based payments are measured at fair value until maturity. Fair value is determined using a recognized valuation technique. The compensation cost is allocated over the vesting period.

OTHER PROVISIONS

In accordance with IAS 37, provisions are recognized where a present obligation exists to third parties as a result of a past event, where a future outflow of resources is probable and where a reliable estimate of that outflow can be made.

Provisions not resulting in an outflow of resources in the year immediately following are recognized at their settlement value discounted to the balance sheet date. Discounting is based on market interest rates. An average discount rate of 0.20% (previous year: 0.08%) was used in the Eurozone. The settlement value also reflects cost increases expected at the balance sheet date.

Provisions are not offset against claims for reimbursement.

Insurance contracts that form part of the insurance business are recognized in accordance with IFRS 4. Reinsurance acceptances are accounted for without any time delay in the year in which they arise. Provisions are generally recognized based on the cedant's contractual duties. Estimation techniques based on assumptions about future changes in claims are used to calculate the claims provision. Other technical provisions relate to the provision for cancellations.

The share of the provisions attributable to reinsurers is calculated in accordance with the contractual agreements with the retrocessionaries and reported under other assets.

CONTINGENT LIABILITIES

If the criteria for recognizing a provision are not met, but the outflow of financial resources is not remote, such obligations are disclosed in the notes to the consolidated financial statements (see the "Contingent liabilities" section). Contingent liabilities are only recognized if the obligations are more certain, i.e. the outflow of financial resources has become probable and their amount can be reliably estimated.

LIABILITIES

Noncurrent liabilities are recorded at amortized cost in the balance sheet. Differences between historical cost and the repayment amount are amortized using the effective interest method.

Liabilities to members of partnerships from puttable shares are recognized in the income statement at the present value of the redemption amount at the balance sheet date.

Liabilities under finance leases are carried at the present value of the lease payments.

Current liabilities are recognized at their repayment or settlement value.

REVENUE AND EXPENSE RECOGNITION

Sales revenue, interest and commission income from financial services and other operating income are recognized only when the relevant service has been rendered or the goods have been delivered, i.e. when the customer has obtained control of the good or service. Where new and used vehicles and original parts are sold, the Company's performance invariably occurs upon delivery, because that is the point when control is transferred, and the inventory risk and, for deliveries to a dealer, invariably also the pricing decision pass to the customer. Revenue is reported net of sales allowances (discounts, rebates, or customer bonuses). The Volkswagen Group measures sales allowances and other variable consideration on the basis of experience and by taking account of current circumstances. Vehicles are normally sold on payment terms. A trade receivable is recognized for the period between vehicle delivery and receipt of payment. Any financing component included in the transaction is only recognized if the period between the transfer of the goods and the payment of consideration is longer than one year and the amount to be accrued is significant.

Sales revenue from financing and finance lease agreements is recognized using the effective interest method. If non-interest-bearing or low-interest vehicle financing arrangements are agreed, sales revenue is reduced by the interest benefits granted. Sales revenue from operate leases is recognized over the term of the contract on a straight line basis.

In contracts under which the goods or services are transferred over a period of time, revenue is recognized, depending on the type of goods or services provided, either according to the stage of completion or, to simplify, on a straight-line basis; the latter is only allowed, if revenue recognition on a straight-line basis does not differ materially from recognition according to the stage of completion. As a rule, the stage of completion is determined as the proportion that contract costs incurred by the end of the reporting period bear to the estimated total contract costs (cost-to-cost method). Contract costs incurred invariably represent the best way to measure the stage of completion for the performance obligation. If the outcome of a performance obligation satisfied over time is not sufficiently certain, but the company expects, as a minimum, to recover its costs, revenue is only recognized in the amount of contract costs incurred (zero profit margin method). If the expected costs exceed the expected revenue, the expected losses are recognized immediately in full as expenses by recognizing impairment losses on the associated contract assets recognized, and additionally by recognizing provisions for any amounts in excess of the impairment losses. Since long-term construction contracts invariably give rise to contingent receivables from customers for the period to completion or payment by the customer, contract assets are recognized for the corresponding amounts. A trade receivable is recognized as soon as the Company has transferred the goods or services in full.

If a contract comprises several separately identifiable components (multiple-element arrangements), these components are recognized separately in accordance with the principles outlined above.

If services are sold to the customer at the same time as the vehicle, and the customer pays for them in advance, the Group recognizes a corresponding contract liability until the services have been transferred. Examples of services that customers pay for in advance are servicing, maintenance and certain warranty contracts as well as mobile online services. For extended warranties granted to customers for a particular model, a provision is normally recognized in the same way as for statutory warranties. If the warranty is optional for the customer or includes an additional service component, the sales revenue is deferred and recognized over the term of the warranty.

Income from the sale of assets for which a Group company has a buyback obligation is recognized only when the assets have definitively left the Group. If a fixed repurchase price was agreed when the contract was entered into, the difference between the selling price and the present value of the repurchase price is recognized as income ratably over the term of the contract. Prior to that time, the assets are carried as inventories in the case of short contract terms and as lease assets in the case of long contract terms.

Sales revenue is always determined on the basis of the price stated in the contract. If variable consideration (e.g. volume-based bonus payments) has been agreed in a contract, the large number of contracts involved means that revenue has to be estimated using the expected value method. In exceptional cases, the most probable amount method may also be used. Once the expected sales revenue has been estimated, an additional check is carried out to determine whether there is any uncertainty that necessitates the reversal of the revenue initially recognized so that it can be virtually ruled out that sales revenue subsequently has to be adjusted downward. Provisions for reimbursements arise mainly from dealer bonuses.

In multiple element arrangements, the transaction price is allocated to the different performance obligations of the contract on the basis of relative standalone selling prices. In the Automotive Division, non-vehicle-related services are invariably measured at their standalone selling prices for reasons of materiality.

Cost of sales includes the costs incurred to generate the sales revenue and the cost of goods purchased for resale. This item also includes the costs of additions to warranty provisions. Research and development costs not eligible for capitalization in the period and amortization of development costs are likewise carried under cost of sales. Reflecting the presentation of interest and commission income in sales revenue, the interest and commission expenses attributable to the financial services business are presented in cost of sales.

Dividend income is recognized on the date when the dividend is legally approved.

GOVERNMENT GRANTS

Government grants related to assets are deducted when arriving at the carrying amount of the asset and are recognized in profit or loss over the life of the depreciable asset as a reduced depreciation expense. If the Group becomes entitled to a grant subsequently, the amount of the grant attributable to prior periods is recognized in profit or loss.

Government grants related to income, i.e. that compensate the Group for expenses incurred, are recognized in profit or loss for the period in those items in which the expenses to be compensated by the grants are also recognized. Grants in the form of nonmonetary assets (e.g. the use of land free of charge or the transfer of resources free of charge) are disclosed as a memo item.

ESTIMATES AND ASSUMPTIONS BY MANAGEMENT

Preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and income and expenses, as well as the related disclosure of contingent assets and liabilities of the reporting period. The estimates and assumptions relate largely to the following matters:

The impairment testing of nonfinancial assets (especially goodwill, brand names, capitalized development costs and special tools) and equity-accounted investments, or investments accounted at cost, and the measurement of options on shares in companies that are not traded in an active market require assumptions about the future cash flows during the planning period, and possibly beyond it, as well as about the discount rate to be applied. The estimates made in order to separate cash flows mainly relate to future market shares, the trend in the respective markets and the profitability of the Volkswagen Group's products. In addition, the recoverability of the Group's lease assets depends in particular on the residual value of the leased vehicles after expiration of the lease term, because this represents a significant portion of the expected cash flows. More detailed information on impairment tests and the measurement parameters used for those tests can be found in the explanations on the accounting policies for intangible assets.

If there are no observable market inputs, the fair values of assets acquired and liabilities assumed in a business combination are measured using recognized valuation techniques, such as the relief-from-royalty method or the residual method.

Impairment testing of financial assets requires estimates about the extent and probability of occurrence of future events. As far as possible, estimates are derived from experience taking into account current market data as well as rating categories and scoring information. The more detailed balance sheet disclosures in accordance with IFRS 7 (Financial Instruments) contain further details on how to determine loss allowances.

Accounting for provisions is also based on estimates of the extent and probability of occurrence of future events, as well as estimates of the discount rate. As far as possible, these are also based on experience or external opinions. The assumptions applied in the measurement of pension provisions are described in the "Provisions for pensions and other post-employment benefits" section. Remeasurements are recognized in other comprehensive income and do not affect profit or loss reported in the income statement. Any change in the estimates of the amount of other provisions is always recognized in profit or loss. The provisions are regularly adjusted to reflect new information obtained. The use of expected values means that additional amounts must frequently be recognized for provisions, or that unused provisions are reversed. Similarly to expenses for the recognition of provisions, income from the reversal of provisions is allocated to the respective functions. Warranty claims from sales transactions are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. Assumptions were made in respect of the provisions recognized in connection with the diesel issues. These depend on the series, model year and country concerned and relate in particular to the effort, material costs and hourly wage rates involved. In addition, assumptions are made about future resale prices of repurchased vehicles. These assumptions are based on qualified estimates, which are based in turn on external data, and also reflect additional information available internally, such as values derived from experience. An overview of other provisions can be found in the "Noncurrent and current other provisions" section. Further information on the legal proceedings and on the legal risks associated with the diesel issue can be found in the "Litigation" section.

Government grants are recognized based on an assessment as to whether there is reasonable assurance that the Group companies will fulfill the attached conditions and the grants will be awarded. This assessment is based on the nature of the legal entitlement and past experience.

Estimates of the useful life of finite-lived assets are based on experience and are reviewed regularly. Where estimates are modified the residual useful life is adjusted and an impairment loss is recognized, if necessary.

Measuring deferred tax assets requires assumptions regarding future taxable income and the timing of the realization of deferred tax assets.

The estimates and assumptions are based on underlying assumptions that reflect the current state of available knowledge. Specifically, the expected future development of business was based on the circumstances known at the date of preparation of these consolidated financial statements and a realistic assessment of the future development of the global and sector-specific environment. Our estimates and assumptions remain subject to a high degree of uncertainty because future business developments are subject to uncertainties that in part cannot be influenced by the Group. This applies in particular to short- and medium-term cash flow forecasts and to the discount rates used.

Developments in this environment that differ from the assumptions and that cannot be influenced by management could result in amounts that differ from the original estimates. If actual developments differ from the expected developments, the underlying assumptions and, if necessary, the carrying amounts of the assets and liabilities affected are adjusted.

Global gross domestic product (GDP) rose by 3.2% (previous year: 3.3%) in 2018. Our forecasts are based on the assumption that global economic growth will slow down slightly in 2019. As a result, from today's perspective, we are not expecting material adjustments in the following fiscal year in the carrying amounts of the assets and liabilities reported in the consolidated balance sheet.

Estimates and assumptions by management were based in particular on assumptions relating to the development of the general economic environment, the automotive markets and the legal environment. These and further assumptions are explained in detail in the Report on Expected Developments, which is part of the Group Management Report.

Segment reporting

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

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

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

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

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

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

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

In the segment reporting, the share of the result of joint ventures is contained in the share of the result of equity-accounted investments in the corresponding segments.

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

Investments in intangible assets, property, plant and equipment, and investment property are reported net of investments under finance leases.

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

REPORTING SEGMENTS 2017[1]

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	168,381	27,632	3,280	30,191	229,486	64	229,550
Intersegment sales revenue	18,892	7,568	3	3,541	30,004	–30,004	–
Total sales revenue	187,273	35,200	3,283	33,733	259,489	–29,939	229,550
Depreciation and amortization	11,363	2,557	371	6,797	21,089	–147	20,941
Impairment losses	704	2	0	574	1,280	0	1,280
Reversal of impairment losses	14	1	–	41	56	–	56
Segment result (operating result)	12,644	1,892	–55	2,673	17,153	–3,335	13,818
Share of the result of equity-accounted investments	3,390	83	1	9	3,482	–	3,482
Interest result and other financial result	–1,964	–220	–2	–180	–2,366	–1,262	–3,628
Equity-accounted investments	6,724	753	18	710	8,205	–	8,205
Investments in intangible assets, property, plant and equipment, and investment property	15,713	1,915	159	421	18,208	104	18,313

1 Prior-year figures adjusted (see disclosures on IFRS 15).

REPORTING SEGMENTS 2018

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	171,028	29,388	3,605	31,592	235,613	236	235,849
Intersegment sales revenue	17,059	7,269	3	3,190	27,521	–27,521	–
Total sales revenue	188,088	36,656	3,608	34,782	263,134	–27,285	235,849
Depreciation and amortization	12,143	2,524	378	6,523	21,567	–56	21,511
Impairment losses	629	89	–	469	1,186	110	1,296
Reversal of impairment losses	156	6	2	98	262	–	262
Segment result (operating result)	12,245	1,971	–64	2,793	16,945	–3,025	13,920
Share of the result of equity-accounted investments	3,094	213	3	58	3,369	–	3,369
Interest result and other financial result	214	248	2	–70	393	–2,039	–1,646
Equity-accounted investments	6,731	971	18	712	8,434	–	8,434
Investments in intangible assets, property, plant and equipment, and investment property	15,599	2,491	176	510	18,776	187	18,962

RECONCILIATION

€ million	2018	2017[1]
Segment sales revenue	**263,134**	**259,489**
Unallocated activities	981	948
Group financing	24	25
Consolidation	–28,290	–30,912
Group sales revenue	**235,849**	**229,550**
Segment result (operating result)	**16,945**	**17,153**
Unallocated activities	–22	10
Group financing	–17	–16
Consolidation	–2,987	–3,328
Operating result	**13,920**	**13,818**
Financial result	**1,723**	**–146**
Consolidated result before tax	**15,643**	**13,673**

1 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

BY REGION 2017

€ million	Germany	Europe/Other markets[1]	North America	South America	Asia-Pacific	Total
Sales revenue from external customers[2]	44,333	98,420	37,686	9,988	39,123	229,550
Intangible assets, property, plant and equipment, lease assets and investment property	89,905	35,936	26,855	2,850	2,837	158,384

1 Excluding Germany.
2 Prior-year figures adjusted (see disclosures on IFRS 15).

BY REGION 2018

€ million	Germany	Europe/Other markets[1]	North America	South America	Asia-Pacific	Hedges sales revenue	Total
Sales revenue from external customers	43,526	99,563	37,656	10,405	43,166	1,535	235,849
Intangible assets, property, plant and equipment, lease assets and investment property	95,217	36,110	29,332	2,795	2,830	–	166,285

1 Excluding Germany.

Allocation of sales revenue to the regions follows the destination principle.

Since 2018, the allocation of interregional intragroup transactions has been unitary presented according to the economic ownership regarding the segment assets. The prior-year figures have been adjusted accordingly.

Income statement disclosures

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE 2017[1]

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Vehicles	138,697	25,535	–	–	164,232	–19,407	144,826
Genuine parts	12,539	3,197	–	–	15,736	–108	15,628
Used vehicles and third-party products	12,049	1,780	–	–	13,829	–474	13,355
Engines, powertrains and parts deliveries	11,760	733	–	–	12,493	–1,175	11,318
Power Engineering	–	–	3,283	–	3,283	–3	3,280
Motorcycles	601	–	–	–	601	–	601
Leasing business	779	1,947	–	25,989	28,714	–4,144	24,570
Interest and similar income	245	4	–	7,035	7,283	–164	7,119
Hedges sales revenue	–	–	–	–	–	–	–
Other sales revenue	10,605	2,005	–	709	13,319	–4,465	8,853
	187,273	**35,200**	**3,283**	**33,733**	**259,489**	**–29,939**	**229,550**

1 Prior-year figures adjusted (see disclosures on IFRS 15).

STRUCTURE OF GROUP SALES REVENUE 2018

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Vehicles	136,331	26,166	–	–	162,497	–15,671	146,826
Genuine parts	12,705	3,321	–	–	16,026	–107	15,919
Used vehicles and third-party products	11,379	1,825	–	–	13,204	–650	12,554
Engines, powertrains and parts deliveries	12,976	1,192	–	–	14,168	–1,728	12,440
Power Engineering	–	–	3,608	–	3,608	–3	3,605
Motorcycles	582	–	–	–	582	–	582
Leasing business	826	1,714	–	26,667	29,207	–4,200	25,006
Interest and similar income	230	6	–	7,302	7,537	–187	7,351
Hedges sales revenue	1,362	89	–	–	1,451	83	1,535
Other sales revenue	11,697	2,343	–	814	14,854	–4,824	10,031
	188,088	**36,656**	**3,608**	**34,782**	**263,134**	**–27,285**	**235,849**

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

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

Of the sales revenue recognized in the period under review, an amount of €6,333 million was included in contract liabilities as of January 1, 2018.

€667 million of the sales revenue recognized in the period under review is attributable to performance obligations satisfied in a prior period.

In addition to existing performance obligations of €3,614 million in the Power Engineering segment, most of which are expected to be satisfied or for which sales revenue is expected to be recognized by December 31, 2019, the vast majority of the Volkswagen Group's performance obligations that are unsatisfied as of the reporting date relate to vehicle deliveries. Most of these deliveries had already been made at the time this report was prepared, or will be made in the first quarter of 2019. The calculation of the amounts for the Power Engineering Business Area took account of both contracts with a term of more than one year and service contracts under which the Volkswagen Group realizes sales revenue in exactly the same amount as the customer benefits from the provision of services by the Company. In the case of variable consideration, sales revenue is only recognized to the extent that there is reasonable assurance that this sales revenue will not subsequently have to be reversed or adjusted downward.

2. Cost of sales

Cost of sales includes interest expenses of €2,270 million (previous year: €1,961 million) attributable to the financial services business.

This item also includes impairment losses on intangible assets (primarily development costs), property, plant and equipment (primarily other equipment, operating and office equipment), and lease assets in the amount of €1,165 million (previous year: €1,185 million). The impairment losses totaling €631 million (previous year: €700 million) recognized during the reporting period on intangible assets and items of property, plant and equipment result in particular from lower values in use of various products in the Passenger Cars segment, from market and exchange rate risks, and in particular from expected declines in volumes. The impairment losses on lease assets in the amount of €534 million (previous year: €485 million) are predominantly attributable to the Financial Services segment. They are based on constantly updated internal and external information that is factored into the forecast residual values of the vehicles. Thereof, €24 million (previous year: €37 million) are reported in current lease assets.

To make the presentation more consistent and easier to compare, the way income from the reversal of provisions and accrued liabilities is reported was adjusted during the implementation of IFRS 15; these items have been allocated to those functional areas in which they were originally recognized. Prior-year figures adjusted (see disclosures on IFRS 15).

Government grants related to income amounted to €466 million in the fiscal year (previous year: €424 million) and were generally allocated to the functional areas.

3. Distribution expenses

Distribution expenses amounting to €20.5 billion (previous year: €20.9 billion) include nonstaff overheads and personnel costs, and depreciation and amortization applicable to the distribution function, as well as the costs of shipping, advertising and sales promotions. To make the presentation more consistent and easier to compare, the way income from the reversal of provisions and accrued liabilities is reported was adjusted during the implementation of IFRS 15; these items have been allocated to those functional areas in which they were originally recognized. Prior-year figures have been restated (see disclosures on IFRS 15).

4. Administrative expenses

Administrative expenses of €8.8 billion (previous year: €8.1 billion) mainly include nonstaff overheads and personnel costs, as well as depreciation and amortization charges applicable to the administrative function. To make the presentation more consistent and easier to compare, the way income from the reversal of provisions and accrued liabilities is reported was adjusted during the implementation of IFRS 15; these items have been allocated to those functional areas in which they were originally recognized. Prior-year figures have been restated (see disclosures on IFRS 15).

5. Other operating income

€ million	2018	2017
Income from reversal of loss allowances on receivables and other assets	1,586	1,043
Income from reversal of provisions and accruals[1]	1,144	1,398
Income from foreign currency hedging derivatives within hedge accounting	822	2,259
Income from foreign exchange gains	2,530	2,656
Income from other hedges	1,138	–
Income from sale of promotional material	483	502
Income from cost allocations	1,139	1,386
Income from investment property	14	16
Gains on asset disposals and the reversal of impairment losses	390	212
Miscellaneous other operating income	2,383	2,041
	11,631	**11,514**

1 Prior-year figures adjusted (see disclosures on IFRS 15).

Foreign exchange gains mainly comprise gains from changes in exchange rates between the dates of recognition and payment of receivables and liabilities denominated in foreign currencies, as well as exchange rate gains resulting from measurement at the closing rate. Foreign exchange losses from these items are included in other operating expenses.

Income from other hedges includes primarily foreign exchange gains from the fair value measurement of financial instruments used to hedge exchange rates and commodity prices and that are not designated in a hedging relationship. Foreign exchange losses are included in other operating expenses. In the previous year, these effects were recognized in the financial result. Under IFRS 9, they are included in operating profit.

6. Other operating expenses

€ million	2018	2017
Loss allowances on trade receivables including construction contracts	315	–
Loss allowances on other receivables and other assets	1,833	1,650
Losses from foreign currency hedging derivatives within hedge accounting	856	1,753
Expenses from other hedges	1,592	–
Foreign exchange losses	2,800	2,839
Expenses from cost allocations	650	609
Expenses for termination agreements	36	35
Losses on disposal of noncurrent assets	161	175
Miscellaneous other operating expenses	6,488	5,197
	14,731	**12,259**

The implementation of IFRS 15, requires loss allowances on trade receivables, including receivables from long-term construction contracts, to be presented separately. The prior-year amount is included in the loss allowances on other receivables and other assets item.

In addition, the changes in the currency hedging derivatives are due to the exchange rate changes between the trade price and the price on realization; this applies in particular to the US dollar, the Chinese renminbi and sterling.

Expenses from other hedges include primarily foreign exchange losses from the fair value measurement of financial instruments used to hedge exchange rates and commodity prices and that are not designated in a hedging relationship. In the previous year, these effects were recognized in the financial result. Under IFRS 9, they are included in operating profit.

Miscellaneous other operating expenses consist of litigation expenses of €3.0 billion (previous year: €1.0 billion) in connection with the diesel issue.

7. Share of the result of equity-accounted investments

€ million	2018	2017
Share of profits of equity-accounted investments	3,551	3,519
of which: from joint ventures	(3,320)	(3,327)
of which: from associates	(231)	(191)
Share of losses of equity-accounted investments	182	36
of which: from joint ventures	(23)	(2)
of which: from associates	(159)	(34)
	3,369	**3,482**

8. Interest result

€ million	2018	2017
Interest income	**967**	**951**
Other interest and similar income	950	839
Income from valuation of interest derivatives	17	113
Interest expenses	**–1,547**	**–2,317**
Other interest and similar expenses	–974	–1,305
Expenses from valuation of interest derivatives	–1	–368
Interest expenses included in lease payments	–27	–29
Interest result on other liabilities	77	–13
Net interest on the net defined benefit liability	–623	–602
Interest result	**–580**	**–1,366**

9. Other financial result

€ million	2018	2017[1]
Income from profit and loss transfer agreements	77	35
Cost of loss absorption	–54	–76
Other income from equity investments	101	71
Other expenses from equity investments	–360	–289
Income from marketable securities and loans	–355	–222
Realized income of loan receivables and payables in foreign currency	1,161	734
Realized expenses of loan receivables and payables in foreign currency	–1,130	–1,107
Gains and losses from remeasurement and impairment of financial instruments	–41	–475
Gains and losses from fair value changes of derivatives not included in hedge accounting	–453	–1,050
Gains and losses from fair value changes of derivatives included in hedge accounting	–12	117
Other financial result	**–1,066**	**–2,262**

1 Prior-year figures adjusted (see disclosures on IFRS 9).

The implementation of IFRS 9 resulted in some hedging gains or losses being allocated to sales revenue and some to other operating income (see disclosures on IFRS 9).

10. Income tax income/expense

COMPONENTS OF TAX INCOME AND EXPENSE

€ million	2018	2017[1]
Current tax expense, Germany	1,131	614
Current tax expense, abroad	2,401	2,590
Current income tax expense	**3,533**	**3,205**
of which prior-period income (–)/expense (+)	(79)	(216)
Deferred tax income (–)/expense (+), Germany	429	321
Deferred tax income (–)/expense (+), abroad	–472	–1,315
Deferred tax income (–)/expense (+)	**–43**	**–995**
Income tax income/expense	**3,489**	**2,210**

1 Prior-year figures adjusted (see disclosures on IFRS 9).

The statutory corporation tax rate in Germany for the 2018 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.9% (previous year: 29.9%).

A tax rate of 29.8% (previous year: 29.9%) was used to measure deferred taxes in the German consolidated tax group.

The local income tax rates applied for companies outside Germany vary between 0% and 45%. In the case of split tax rates, the tax rate applicable to undistributed profits is applied.

The realization of tax benefits from tax loss carryforwards from previous years resulted in a reduction in current income taxes in 2018 of €732 million (previous year: €422 million).

Previously unused tax loss carryforwards amounted to €20,501 million (previous year: €14,931 million). Tax loss carryforwards amounting to €13,217 million (previous year: €9,660 million) can be used indefinitely, while €636 million (previous year: €3,834 million) must be used within the next ten years. There are additional tax loss carryforwards amounting to €6,648 million (previous year: €1,437 million) that can be used within a period of 15 or 20 years. Tax loss carryforwards of €7,995 million (previous year: €7,222 million) were estimated not to be usable overall. Of these, €315 million (previous year: €343 million) will expire within five years, €2,165 million (previous year: €2,152 million) within 6 to 20 years and €126 million (previous year: €93 million) after 20 years. Tax loss carryforwards of €5,390 million (previous year: €4,634 million) that are estimated not to be usable will not expire.

The benefit arising from previously unrecognized tax losses or tax credits of a prior period that is used to reduce current tax expense in the current fiscal year amounts to €94 million (previous year: €114 million). Deferred tax expense was reduced by €116 million (previous year: €75 million) because of a benefit arising from previously unrecognized tax losses and tax credits of a prior period. Deferred tax expense resulting from the write-down of a deferred tax asset amounts to €95 million (previous year: €130 million). Deferred tax income resulting from the reversal of a write-down of deferred tax assets amounts to €231 million (previous year: €40 million).

Tax credits granted by various countries amounted to €385 million (previous year: €500 million).

No deferred tax assets were recognized for deductible temporary differences of €1,123 million (previous year: €1,028 million) and for tax credits of €123 million (previous year: €228 million) that would expire in the next 20 years, or for tax credits of €3 million (previous year: €0 million) that will not expire.

In accordance with IAS 12.39, deferred tax liabilities of €213 million (previous year: €266 million) for temporary differences and undistributed profits of Volkswagen AG subsidiaries were not recognized because control exists.

Deferred tax expense resulting from changes in tax rates amounted to €79 million at Group level (previous year: income of €1,044 million).

Deferred taxes in respect of temporary differences and tax loss carryforwards of €8,235 million (previous year: €8,344 million) were recognized without being offset by deferred tax liabilities in the same amount. The deferred tax assets of companies within the German tax group were recognized due to positive results in the past and are included in this analysis. The companies concerned are expecting positive tax income in the future, following losses in the reporting period or the previous year. €4,532 million (previous year: €3,655 million) of the deferred taxes recognized in the balance sheet was credited to equity and relates to other comprehensive income. €2 million (previous year: €2 million) of this figure is attributable to noncontrolling interests.

In the fiscal year under review, there were only immaterial changes arising from items that will not be reclassified to profit or loss and were recognized directly in equity. Changes in deferred taxes classified by balance sheet item are presented in the statement of comprehensive income.

The first-time application of IFRS 9 in the past fiscal year resulted in adjustments and reclassifications totaling €33 million, which were accounted for as a deduction from equity. In fiscal year 2018, tax effects of €6 million resulting from equity transaction costs were recognized in equity. The calling of the first tranche of the hybrid capital issued in September 2013 resulted in a reduction of equity in the amount of €5 million in the reporting period.

DEFERRED TAXES CLASSIFIED BY BALANCE SHEET ITEM

The following recognized deferred tax assets and liabilities were attributable to recognition and measurement differences in the individual balance sheet items and to tax loss carryforwards:

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
€ million	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Intangible assets	370	363	10,402	10,055
Property, plant and equipment, and lease assets	4,677	4,567	6,996	6,017
Noncurrent financial assets	35	35	179	43
Inventories	2,458	2,653	838	784
Receivables and other assets (including Financial Services Division)	2,113	1,879	7,990	8,889
Other current assets	3,653	3,884	5	42
Pension provisions	6,429	6,652	33	24
Liabilities and other provisions	10,173	9,603	3,581	4,109
Loss allowances on deferred tax assets from temporary differences	–151	–327	–	–
Temporary differences, net of loss allowances	29,758	29,307	30,024	29,963
Tax loss carryforwards, net of loss allowances	3,246	2,090	–	–
Tax credits, net of loss allowances	259	273	–	–
Value before consolidation and offset	**33,262**	**31,670**	**30,024**	**29,963**
of which noncurrent	(21,530)	(18,858)	(23,147)	(22,863)
Offset	26,038	24,816	26,038	24,816
Consolidation	2,906	2,956	1,044	489
Amount recognized	**10,131**	**9,810**	**5,030**	**5,636**

In accordance with IAS 12, deferred tax assets and liabilities are offset if, and only if, they relate to income taxes levied by the same taxation authority and relate to the same tax period.

The tax expense reported for 2018 of €3,489 million (previous year: €2,210 million) was €1,188 million lower (previous year: €1,878 million lower) than the expected tax expense of €4,677 million that would have resulted from application of a tax rate for the Group of 29.9% (previous year: 29.9%) to the earnings before tax of the Group.

RECONCILIATION OF EXPECTED TO EFFECTIVE INCOME TAX

€ million	2018	2017[1]
Profit before tax	15,643	13,673
Expected income tax income (–) / expense (+) (tax rate 29.9%; previous year: 29.9%)	**4,677**	**4,088**
Reconciliation:		
Effect of different tax rates outside Germany	–684	–541
Proportion of taxation relating to:		
tax-exempt income	–1,152	–1,237
expenses not deductible for tax purposes	440	407
effects of loss carryforwards and tax credits	255	476
permanent differences	61	5
Tax credits	–69	–50
Prior-period tax expense	–406	–212
Effect of tax rate changes	79	–1,044
Nondeductible withholding tax	502	383
Other taxation changes	–214	–65
Effective income tax expense	**3,489**	**2,210**
Effective tax rate (%)	22.3	16.2

1 Prior-year figures adjusted (see disclosures on IFRS 9).

In the preceding 2017 fiscal year, the effects of changes in the tax rate had been impacted by the tax reform in the USA which brought a reduction in the corporate income tax rate from 35% to 21%, among other things.

11. Earnings per share

Basic earnings per share are calculated by dividing earnings attributable to Volkswagen AG shareholders by the weighted average number of ordinary and preferred shares outstanding during the reporting period. Since the basic and diluted number of shares is identical, basic earnings per share also correspond to diluted earnings per share.

The distribution of dividends is in accordance with Article 27(2) Nos. 2 and 3 of the Articles of Association of Volkswagen AG, whereby, in the case of a full distribution, the dividend paid for each preferred share is €0.06 higher than that paid for each ordinary share.

	ORDINARY		PREFERRED	
Quantity	2018	2017	2018	2017
Weighted average number of shares outstanding – basic	295,089,818	295,089,818	206,205,445	206,205,445
Weighted average number of shares outstanding – diluted	295,089,818	295,089,818	206,205,445	206,205,445

€ million	2018	2017[1]
Earnings after tax	12,153	11,463
Noncontrolling interests	17	10
Earnings attributable to Volkswagen AG hybrid capital investors	309	274
Earnings attributable to Volkswagen AG shareholders	11,827	11,179
Basic earnings attributable to ordinary shares	6,955	6,573
Diluted earnings attributable to ordinary shares	6,955	6,573
Basic earnings attributable to preferred shares	4,872	4,606
Diluted earnings attributable to preferred shares	4,872	4,606

1 Prior-year figures adjusted (see disclosures on IFRS 9).

€	2018	2017[1]
Basic earnings per ordinary share	23.57	22.28
Diluted earnings per ordinary share	23.57	22.28
Basic earnings per preferred share	23.63	22.34
Diluted earnings per preferred share	23.63	22.34

1 Prior-year figures adjusted (see disclosures on IFRS 9).

Additional Income Statement Disclosures in accordance with IAS 23 (Borrowing Costs)

Capitalized borrowing costs amounted to €62 million (previous year: €83 million) and related mainly to capitalized development costs. An average cost of debt of 1.5% (previous year: 1.5%) was used as a basis for capitalization in the Volkswagen Group.

Additional Income Statement Disclosures in accordance with IFRS 7 (Financial Instruments)

The tables below show net gains and losses on financial assets and financial liabilities by measurement category, followed by a detailed explanation of key aspects:

NET GAINS OR LOSSES FROM FINANCIAL INSTRUMENTS BY IAS 39 MEASUREMENT CATEGORY IN 2017

€ million	2017[1]
Financial instruments at fair value through profit or loss	–1,080
Loans and receivables	2,105
Available-for-sale financial assets	–206
Financial liabilities measured at amortized cost	1,689
	2,508

1 Prior-year figures adjusted (see disclosures on IFRS 9).

NET GAINS OR LOSSES FROM FINANCIAL INSTRUMENTS BY IFRS 9 MEASUREMENT CATEGORY IN 2018

€ million	2018
Financial instruments at fair value through profit or loss	–763
Financial assets measured at amortized cost	6,241
Financial assets at fair value through other comprehensive income (debt instruments)	17
Financial liabilities measured at amortized cost	–4,963
	531

Net gains and losses in the category at "financial instruments at fair value through profit or loss" are mainly composed of the fair value measurement gains and losses on derivatives, including interest and gains and losses on currency translation.

Net gains and losses from financial assets measured at fair value through other comprehensive income (debt instruments) relate to interest income from fixed-income securities.

Net gains and losses from financial assets and liabilities measured at amortized cost mainly comprise interest income and expenses calculated according to the effective interest method pursuant to IFRS 9, currency translation effects, and the recognition of loss allowances. Interest also includes interest income and expenses from the lending business of the Financial Services Division.

The table below presents total interest income and expenses from financial assets and liabilities measured at amortized cost, separately from financial assets measured at fair value through other comprehensive income.

TOTAL INTEREST INCOME AND EXPENSES ATTRIBUTABLE TO FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS IN 2017

€ million	2017
Interest income	4,794
Interest expenses	3,509
	1,285

TOTAL INTEREST INCOME AND EXPENSES ATTRIBUTABLE TO FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS IN 2018

€ million	2018
Financial Assets and liabilities measured at amortized cost	
Interest income	5,022
Interest expenses	3,183
Financial Assets (debt instruments) measured at fair value through other comprehensive income	
Interest income	17
Interest expenses	1

IMPAIRMENT LOSSES ON FINANCIAL ASSETS BY CLASS IN 2017

€ million	2017
Measured at fair value	3
Measured at amortized cost	1,628
	1,631

In fiscal year 2018, €2 million (previous year: €3 million) was recognized as an expense and €51 million (previous year: €58 million) as income from fees and commissions for trust activities and from financial assets and liabilities not measured at fair value that are not accounted for using the effective interest method.

Balance sheet disclosures

12. Intangible assets

CHANGES IN INTANGIBLE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2017

€ million	Brand names	Goodwill	Capitalized development costs for products under development	Capitalized development costs for products currently in use	Other intangible assets	Total
Cost						
Balance at Jan. 1, 2017	**17,024**	**23,559**	**7,285**	**27,366**	**8,637**	**83,870**
Foreign exchange differences	–30	–91	–44	–183	–192	–539
Changes in consolidated Group	–	–18	–	–	–112	–130
Additions	–	–	4,080	1,180	528	5,788
Transfers	–	–	–4,197	4,197	–7	–7
Disposals	–	7	10	3,607	266	3,890
Balance at Dec. 31, 2017	**16,995**	**23,443**	**7,115**	**28,952**	**8,588**	**85,093**
Amortization and impairment						
Balance at Jan. 1, 2017	**84**	**0**	**39**	**15,040**	**6,109**	**21,271**
Foreign exchange differences	–3	0	0	–122	–138	–263
Changes in consolidated Group	–	0	–	–	–84	–84
Additions to cumulative amortization	3	–	–	3,345	831	4,178
Additions to cumulative impairment losses	–	7	57	332	1	397
Transfers	–	–	–	–	2	2
Disposals	–	7	–	3,595	226	3,827
Reversal of impairment losses	–	–	–	–	–	–
Balance at Dec. 31, 2017	**83**	**0**	**95**	**14,999**	**6,496**	**21,674**
Carrying amount at Dec. 31, 2017	**16,911**	**23,442**	**7,020**	**13,953**	**2,093**	**63,419**

CHANGES IN INTANGIBLE ASSETS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

€ million	Brand names	Goodwill	Capitalized development costs for products under development	Capitalized development costs for products currently in use	Other intangible assets	Total
Cost						
Balance at Jan. 1, 2018	**16,995**	**23,443**	**7,115**	**28,952**	**8,588**	**85,093**
Foreign exchange differences	–43	–131	–20	–125	–103	–421
Changes in consolidated Group	–	6	–	0	12	18
Additions	–	–	4,192	1,042	581	5,815
Transfers	–	–	–4,040	4,040	41	41
Disposals	–	–	32	1,890	127	2,049
Balance at Dec. 31, 2018	**16,952**	**23,318**	**7,215**	**32,020**	**8,992**	**88,496**
Amortization and impairment						
Balance at Jan. 1, 2018	**83**	**0**	**95**	**14,999**	**6,496**	**21,674**
Foreign exchange differences	–2	0	–1	–55	–79	–137
Changes in consolidated Group	–	0	0	–	–1	–1
Additions to cumulative amortization	3	–	–	3,665	669	4,337
Additions to cumulative impairment losses	–	–	3	41	13	57
Transfers	–	–	–15	15	1	1
Disposals	–	–	–	1,897	109	2,005
Reversal of impairment losses	–	–	42	–	0	42
Balance at Dec. 31, 2018	**84**	**1**	**42**	**16,768**	**6,989**	**23,883**
Carrying amount at Dec. 31, 2018	**16,868**	**23,317**	**7,173**	**15,251**	**2,003**	**64,613**

Other intangible assets comprise in particular concessions, purchased customer lists and dealer relationships, industrial and similar rights, and licenses in such rights and assets.

The allocation of the brand names and goodwill to the operating segments is shown in the following table:

€ million	2018	2017
Brand names by operating segment		
Porsche	13,823	13,823
Scania Vehicles and Services	949	990
MAN Truck & Bus	1,127	1,127
MAN Diesel & Turbo	415	415
Ducati	404	404
Other	150	153
	16,868	**16,911**
Goodwill by operating segment		
Porsche	18,825	18,825
Scania Vehicles and Services	2,755	2,866
MAN Truck & Bus	587	595
MAN Diesel & Turbo	267	268
Ducati	290	290
ŠKODA	158	159
Porsche Holding Salzburg	156	151
Other	280	289
	23,317	**23,442**

The impairment test for recognized goodwill is based on value in use. Recoverability is not affected by a variation in the growth forecast with respect to the perpetual annuity or in the discount rate of +/–0.5 percentage points.

Research and development costs developed as follows:

€ million	2018	2017	%
Total research and development costs	13,640	13,141	3.8
of which: capitalized development costs	5,234	5,260	–0.5
Capitalization ratio in %	38.4	40.0	–
Amortization of capitalized development costs	3,710	3,734	–0.6
Research and development costs recognized in profit or loss	**12,116**	**11,614**	**4.3**

13. Property, plant and equipment

CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2017

€ million	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Total
Cost					
Balance at Jan. 1, 2017	**33,534**	**43,353**	**64,595**	**7,008**	**148,490**
Foreign exchange differences	–440	–824	–1,056	–152	–2,473
Changes in consolidated Group	–303	–71	–117	–11	–501
Additions	630	1,355	5,056	5,474	12,516
Transfers	1,063	2,509	1,829	–5,411	–11
Disposals	149	873	1,399	31	2,452
Balance at Dec. 31, 2017	**34,335**	**45,450**	**68,909**	**6,876**	**155,569**
Depreciation and impairment					
Balance at Jan. 1, 2017	**13,887**	**30,531**	**49,999**	**39**	**94,456**
Foreign exchange differences	–153	–560	–790	–5	–1,508
Changes in consolidated Group	–117	–62	–80	–	–259
Additions to cumulative depreciation	1,058	3,211	5,152	–	9,421
Additions to cumulative impairment losses	3	–9	254	55	303
Transfers	14	–16	–1	0	–3
Disposals	71	807	1,183	7	2,068
Reversal of impairment losses	0	2	0	13	15
Balance at Dec. 31, 2017	**14,621**	**32,286**	**53,352**	**69**	**100,327**
Carrying amount at Dec. 31, 2017	**19,714**	**13,164**	**15,557**	**6,807**	**55,243**
of which assets leased under finance leases Carrying amount at Dec. 31, 2017	286	6	46	–	339

Future finance lease payments due, and their present values, are shown in the following table:

€ million	2018	2019 – 2022	from 2023	Total
Finance lease payments	67	263	390	721
Interest component of finance lease payments	16	87	139	242
Carrying amount of liabilites	**51**	**176**	**252**	**479**

CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

€ million	Land, land rights and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Total
Cost					
Balance at Jan. 1, 2018	**34,335**	**45,450**	**68,909**	**6,876**	**155,569**
Foreign exchange differences	–98	–216	–79	–59	–452
Changes in consolidated Group	168	9	6	6	189
Additions	597	1,103	4,960	6,452	13,112
Transfers	858	1,753	2,048	–4,703	–43
Disposals	117	1,424	1,495	35	3,071
Balance at Dec. 31, 2018	**35,743**	**46,676**	**74,350**	**8,537**	**165,305**
Depreciation and impairment					
Balance at Jan. 1, 2018	**14,621**	**32,286**	**53,352**	**69**	**100,327**
Foreign exchange differences	–39	–130	–59	–5	–232
Changes in consolidated Group	10	7	1	–	18
Additions to cumulative depreciation	1,062	3,222	5,593	–	9,876
Additions to cumulative impairment losses	22	21	273	258	574
Transfers	–5	47	–25	–18	–1
Disposals	83	1,370	1,318	0	2,770
Reversal of impairment losses	36	26	14	41	117
Balance at Dec. 31, 2018	**15,552**	**34,057**	**57,803**	**263**	**107,675**
Carrying amount at Dec. 31, 2018	**20,191**	**12,618**	**16,546**	**8,274**	**57,630**
of which assets leased under finance leases Carrying amount at Dec. 31, 2018	267	5	41	0	314

Options to purchase buildings and plant leased under the terms of finance leases exist in most cases, and are also expected to be exercised.

Future finance lease payments due, and their present values, are shown in the following table:

€ million	2019	2020 – 2023	from 2024	Total
Finance lease payments	68	231	360	659
Interest component of finance lease payments	18	73	119	210
Carrying amount of liabilites	**51**	**158**	**241**	**449**

For assets leased under operating leases, payments recognized in the income statement amounted to €1,690 million (previous year: €1,449 million). With respect to internally used assets, €1,544 million (previous year: €1,302 million) of this figure is attributable to minimum lease payments and €13 million (previous year: €55 million) to contingent lease payments. The payments of €133 million (previous year: €92 million) under subleases primarily relate to minimum lease payments.

Government grants of €207 million (previous year: €135 million) were deducted from the cost of property, plant and equipment and noncash benefits received amounting to €0 million (previous year: €12 million) were not capitalized as the cost of assets.

In connection with land and buildings, real property liens of €1,062 million (previous year: €916 million) are pledged as collateral for partial retirement obligations, financial liabilities and other liabilities.

14. Lease assets and investment property

CHANGES IN LEASE ASSETS AND INVESTMENT PROPERTY IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2017

€ million	Lease assets	Investment property	Total
Cost			
Balance at Jan. 1, 2017	**51,483**	**780**	**52,262**
Foreign exchange differences	–3,093	–36	–3,129
Changes in consolidated Group	–873	–	–873
Additions	21,319	18	21,336
Transfers	6	12	18
Disposals	16,616	26	16,641
Balance at Dec. 31, 2017	**52,226**	**748**	**52,973**
Depreciation and impairment			
Balance at Jan. 1, 2017	**13,044**	**268**	**13,312**
Foreign exchange differences	–803	–5	–808
Changes in consolidated Group	–228	0	–228
Additions to cumulative depreciation	7,327	15	7,343
Additions to cumulative impairment losses	448	3	451
Transfers	0	1	1
Disposals	6,775	4	6,779
Reversal of impairment losses	41	–	41
Balance at Dec. 31, 2017	**12,972**	**279**	**13,251**
Carrying amount at Dec. 31, 2017	**39,254**	**468**	**39,722**

The following payments from noncancelable leases and rental agreements were expected to be received over the coming years:

€ million	2018	2019 – 2022	from 2023	Total
Lease payments	3,392	4,675	46	8,112

CHANGES IN LEASE ASSETS AND INVESTMENT PROPERTY IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

€ million	Lease assets	Investment property	Total
Cost			
Balance at Jan. 1, 2018	**52,226**	**748**	**52,973**
Foreign exchange differences	609	12	621
Changes in consolidated Group	–138	–	–138
Additions	21,256	38	21,294
Transfers	–106	2	–104
Disposals	16,354	13	16,367
Balance at Dec. 31, 2018	**57,493**	**786**	**58,279**
Depreciation and impairment			
Balance at Jan. 1, 2018[1]	**13,007**	**279**	**13,287**
Foreign exchange differences	60	2	62
Changes in consolidated Group	–57	–	–57
Additions to cumulative depreciation	7,282	16	7,298
Additions to cumulative impairment losses	510	0	511
Transfers	–8	0	–8
Disposals	6,744	8	6,752
Reversal of impairment losses	103	0	103
Balance at Dec. 31, 2018	**13,947**	**290**	**14,237**
Carrying amount at Dec. 31, 2018	**43,545**	**496**	**44,042**

1 Values in the opening balance adjusted (see disclosures on IFRS 9).

Lease assets include assets leased out under the terms of operating leases and assets covered by long-term buyback agreements.

Investment property includes apartments rented out and leased dealerships with a fair value of €1,106 million (previous year: €993 million). Fair value is estimated using an investment method based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses of €46 million (previous year: €52 million) were incurred for the maintenance of investment property in use. Expenses of €1 million (previous year: €3 million) were incurred for unused investment property.

The following payments from noncancelable leases and rental agreements are expected to be received over the coming years:

€ million	2019	2020 – 2023	from 2024	Total
Lease payments	4,108	5,187	17	9,312

15. Equity-accounted investments and other equity investments

CHANGES IN EQUITY-ACCOUNTED INVESTMENTS AND OTHER EQUITY INVESTMENTS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2017

€ million	Equity-accounted investments	Other equity investments	Total
Gross carrying amount at Jan. 1, 2017	**8,727**	**1,417**	**10,143**
Foreign exchange differences	–129	–17	–146
Changes in consolidated Group	–13	–90	–104
Additions	348	519	867
Transfers	–	0	0
Assets held for sale	–86	–	–86
Disposals	7	34	40
Changes recognized in profit or loss	3,495	–	3,495
Dividends	–3,640	–	–3,640
Other changes recognized in other comprehensive income	–251	30	–221
Balance at Dec. 31, 2017	**8,443**	**1,825**	**10,268**
Impairment losses Balance at Jan. 1, 2017	**110**	**420**	**531**
Foreign exchange differences	–1	–3	–4
Changes in consolidated Group	–	–15	–15
Additions	129	129	258
Transfers	–	–	–
Disposals	–	24	24
Reversal of impairment losses	–	1	1
Balance at Dec. 31, 2017	**238**	**507**	**745**
Carrying amount at Dec. 31, 2017	**8,205**	**1,318**	**9,523**

CHANGES IN EQUITY-ACCOUNTED INVESTMENTS AND OTHER EQUITY INVESTMENTS IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2018

€ million	Equity-accounted investments	Other equity investments	Total
Gross carrying amount at Jan. 1, 2018[1]	**8,431**	**1,827**	**10,259**
Foreign exchange differences	–9	9	0
Changes in consolidated Group	269	–368	–99
Additions	247	693	939
Transfers	–	0	0
Disposals	84	19	103
Changes recognized in profit or loss	3,371	–	3,371
Dividends[2]	–3,460	–	–3,460
Other changes recognized in other comprehensive income	62	1	62
Balance at Dec. 31, 2018	**8,826**	**2,142**	**10,968**
Impairment losses Balance at Jan. 1, 2018	**238**	**507**	**745**
Foreign exchange differences	–1	–1	–2
Changes in consolidated Group	–	–4	–4
Additions	155	172	326
Transfers	–	0	0
Disposals	–	5	5
Reversal of impairment losses	–	1	1
Balance at Dec. 31, 2018	**392**	**668**	**1,060**
Carrying amount at Dec. 31, 2018	**8,434**	**1,474**	**9,908**

1 Values in the opening balance adjusted (see disclosures on IFRS 9 and IFRS 15).
2 Dividends before withholding tax.

Equity-accounted investments include joint ventures in the amount of €6,372 million (previous year: €6,459 million) and associates in the amount of €2,062 million (previous year: €1,746 million).

Of the other changes recognized in other comprehensive income, €7 million (previous year: €–249 million) is attributable to joint ventures and €55 million (previous year: €–2 million) to associates. They are mainly the result of foreign exchange differences in the amount of €9 million (previous year: €–327 million), pension plan remeasurements in the amount of €31 million (previous year: €112 million) and fair value measurement of cash flow hedges in the amount of €28 million (previous year: €–30 million).

16. Noncurrent and current financial services receivables

€ million	Carrying amount Current	Carrying amount Noncurrent	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018	Carrying amount Current	Carrying amount Noncurrent	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017
Receivables from financing business								
Customer financing	21,487	45,089	66,575	67,500	19,841	40,899	60,739	61,763
Dealer financing	14,781	2,099	16,879	16,839	17,033	2,194	19,227	19,200
Direct banking	284	3	288	288	269	4	272	272
	36,551	**47,191**	**83,742**	**84,627**	**37,142**	**43,096**	**80,239**	**81,236**
Receivables from operating leases	219	–	219	219	193	–	193	193
Receivables from finance leases	17,446	31,501	48,948	49,572	15,810	30,153	45,963	46,766
	54,216	**78,692**	**132,909**	**134,418**	**53,145**	**73,249**	**126,395**	**128,195**

The receivables from customer financing and finance leases contained in financial services receivables of €132.9 billion (previous year: €126.4 billion) decreased by €26 million (previous year: €31 million) as a result of a fair value adjustment from portfolio hedging.

The receivables from customer and dealer financing are secured by vehicles or real property liens. Of the receivables, €175 million (previous year: €287 million) was furnished as collateral for financial liabilities and contingent liabilities.

The receivables from dealer financing include €24 million (previous year: €51 million) receivable from unconsolidated affiliated companies.

The receivables from finance leases – almost all of them for vehicles – were based on the following expected cash flows as of December 31, 2017 and December 31, 2018:

€ million	2018	2019 – 2022	from 2023	Total
Future payments from finance lease receivables	16,952	32,280	145	49,377
Unearned finance income from finance leases (discounting)	–1,142	–2,261	–11	–3,414
Present value of minimum lease payments outstanding at the reporting date	**15,810**	**30,018**	**135**	**45,963**

€ million	2019	2020 – 2023	from 2024	Total
Future payments from finance lease receivables	18,768	33,611	156	52,534
Unearned finance income from finance leases (discounting)	–1,321	–2,256	–9	–3,586
Present value of minimum lease payments outstanding at the reporting date	**17,446**	**31,355**	**146**	**48,948**

Accumulated loss allowances for uncollectible minimum lease payments receivable amount to €103 million (previous year: €116 million).

17. Noncurrent and current other financial assets

	CARRYING AMOUNT			CARRYING AMOUNT		
€ million	Current	Noncurrent	Dec. 31, 2018	Current	Noncurrent	Dec. 31, 2017
Positive fair value of derivatives	2,047	1,932	3,979	2,845	4,091	6,936
Marketable securities	–	–	–	–	3	3
Receivables from loans, bonds, profit participation rights (excluding interest)	5,513	3,441	8,953	5,367	2,531	7,898
Miscellaneous financial assets	4,026	1,149	5,175	3,786	1,829	5,615
	11,586	**6,521**	**18,107**	**11,998**	**8,455**	**20,453**

Other financial assets include receivables from related parties of €8.8 billion (previous year: €7.7 billion). Other financial assets amounting to €89 million (previous year: €75 million) were furnished as collateral for financial liabilities and contingent liabilities. There is no original right of disposal or pledge for the furnished collateral on the part of the collateral taker.

In addition, the miscellaneous financial assets include cash and cash equivalents that serve as collateral (mainly under asset-backed securities transactions).

The positive fair values of derivatives relate to the following items:

€ million	Dec. 31, 2018	Dec. 31, 2017
Transactions for hedging		
foreign currency risk from assets using fair value hedges	109	228
foreign currency risk from liabilities using fair value hedges	77	108
interest rate risk using fair value hedges	561	400
interest rate risk using cash flow hedges	54	86
foreign currency and price risk from future cash flows (cash flow hedges)	2,049	4,401
Hedging transactions Total	**2,851**	**5,224**
Assets related to derivatives not included in hedging relationships	1,128	1,712
Total	**3,979**	**6,936**

Positive fair values of €24 million (previous year: €17 million) were recognized from transactions for hedging interest rate risk (fair value hedges) used in portfolio hedges.

Further details on derivative financial instruments as a whole are given in the section entitled "Financial risk management and financial instruments".

18. Noncurrent and current other receivables

	CARRYING AMOUNT			CARRYING AMOUNT		
€ million	Current	Noncurrent	Dec. 31, 2018	Current	Noncurrent	Dec. 31, 2017
Other recoverable income taxes	4,189	773	4,962	3,881	896	4,777
Miscellaneous receivables	2,015	1,835	3,849	1,465	1,356	2,821
	6,203	**2,608**	**8,811**	**5,346**	**2,252**	**7,598**

Miscellaneous receivables include assets to fund post-employment benefits in the amount of €76 million (previous year: €64 million). This item also includes the share of the technical provisions attributable to reinsurers amounting to €60 million (previous year: €73 million).

Current other receivables are predominantly non-interest-bearing.

19. Tax assets

	CARRYING AMOUNT			CARRYING AMOUNT		
€ million	Current	Noncurrent	Dec. 31, 2018	Current	Noncurrent	Dec. 31, 2017
Deferred tax assets	–	10,131	10,131	–	9,810	9,810
Tax receivables	1,879	476	2,355	1,339	407	1,746
	1,879	**10,606**	**12,486**	**1,339**	**10,217**	**11,557**

€6,036 million (previous year: €7,456 million) of the deferred tax assets are due within one year.

20. Inventories

€ million	Dec. 31, 2018	Dec. 31, 2017
Raw materials, consumables and supplies	5,543	4,858
Work in progress	4,382	4,143
Finished goods and purchased merchandise	30,553	26,514
Current lease assets	5,107	4,774
Prepayments	168	127
Hedges on inventories	–8	–
	45,745	**40,415**

At the same time as the relevant revenue was recognized, inventories in the amount of €179 billion (previous year: €173 billion) were included in cost of sales. Loss allowances (excluding lease assets) recognized as expenses in the reporting period amounted to €902 million (previous year: €878 million). Vehicles amounting to €316 million (previous year: €271 million) were assigned as collateral for partial retirement obligations.

21. Trade receivables

€ million	Dec. 31, 2018	Dec. 31, 2017
Trade receivables from		
third parties	13,356	9,667
unconsolidated subsidiaries	206	220
joint ventures	3,958	3,341
associates	51	44
other investees and investors	317	86
	17,888	**13,357**

The fair values of the trade receivables correspond to the carrying amounts.

In connection with the revised classification of financial instruments required by IFRS 9, receivables from dealer financing of €2.9 billion were reclassified to trade receivables as of January 1, 2018.

The trade receivables include contingent receivables from long-term construction contracts recognized using the percentage of completion (PoC) method. They correspond to the contract assets recognized under contracts with customers; they changed as follows:

€ million	2018
Contingent construction contract receivables Balance at Jan. 1	**338**
Additions and disposals	4
Changes in consolidated Group	–
Change in loss allowances	10
Changes in estimates and assumptions as well as contract modifications	–
Foreign exchange differences	0
Contingent construction contract receivables at Dec. 31	**352**

22. Marketable securities

The marketable securities serve to safeguard liquidity. They are short-term fixed-income securities and shares. Most securities are measured at fair value. Noncurrent marketable securities amounting to €997 million (previous year: €1,744 million) were pledged as collateral for financial liabilities and contingent liabilities. There is no original right of disposal or pledge for the furnished collateral on the part of the collateral taker.

23. Cash, cash equivalents and time deposits

€ million	Dec. 31, 2018	Dec. 31, 2017
Bank balances	28,522	18,343
Checks, cash-in-hand, bills and call deposits	416	114
	28,938	**18,457**

Bank balances are held at various banks in different currencies and include time deposits, for example.

24. Equity

The subscribed capital of Volkswagen AG is composed of no-par value bearer shares with a notional value of €2.56. As well as ordinary shares, there are preferred shares that entitle the bearer to a €0.06 higher dividend than ordinary shares, but do not carry voting rights.

Authorized capital of up to €110 million created by a resolution of the Annual General Meeting on April 19, 2012 for the issue of new ordinary bearer shares or preferred shares expired on April 18, 2017. Apart from an amount of €83 million, the authorized capital was utilized.

The Annual General Meeting on May 5, 2015 resolved to create authorized capital of up to €179 million, expiring on May 4, 2020, to issue new preferred bearer shares.

In June 2017, Volkswagen AG placed unsecured subordinated hybrid notes with an aggregate principal amount of €3.5 billion via a subsidiary, Volkswagen International Finance N.V. Amsterdam, the Netherlands (VIF). The perpetual hybrid notes were issued in two tranches and can be called by VIF. The first call date for the first tranche (€1.5 billion and a coupon of 2.700%) is after 5.5 years, and the first call date for the second tranche (€2.0 billion and a coupon of 3.875%) is after ten years.

In June 2018, Volkswagen AG placed unsecured subordinated hybrid notes with an aggregate principal amount of €2.8 billion via a subsidiary, Volkswagen International Finance N.V. Amsterdam, the Netherlands (VIF). The perpetual hybrid notes were issued in two tranches and can be called by VIF. The first call date for the first tranche (€1.3 billion and a coupon of 3.375%) is after 6 years, and the first call date for the second tranche (€1.5 billion and a coupon of 4.625%) is after ten years.

Interest may be accumulated depending on whether a dividend is paid to Volkswagen AG shareholders. Under IAS 32, these hybrid notes must be classified in their entirety as equity. The capital raised was recognized in equity, less a discount and transaction costs and net of deferred taxes. The interest payments payable to the noteholders will be recognized directly in equity, net of income taxes. IAS 32 only allows these hybrid notes to be classified as debt once the respective hybrid note was called.

In July 2018, Volkswagen AG called the first tranche of hybrid notes with an aggregate principal amount of €1.3 billion placed in 2013 via a subsidiary, Volkswagen International Finance N.V., Amsterdam, the Netherlands, (issuer). In this figure, effects of €14 million were considered in equity.

CHANGE IN ORDINARY AND PREFERRED SHARES AND SUBSCRIBED CAPITAL

	SHARES		€	
	2018	2017	2018	2017
Balance at January 1	501,295,263	501,295,263	1,283,315,873	1,283,315,873
Capital increase	–	–	–	–
Balance at December 31	501,295,263	501,295,263	1,283,315,873	1,283,315,873

The capital reserves comprise the share premium totaling €14,225 million (previous year: €14,225 million) from capital increases, the share premium of €219 million from the issuance of bonds with warrants and an amount of €107 million appropriated on the basis of the capital reduction implemented in 2006. No amounts were withdrawn from the capital reserves.

DIVIDEND PROPOSAL

In accordance with section 58(2) of the Aktiengesetz (AktG – German Stock Corporation Act), the dividend payment by Volkswagen AG is based on the net retained profits reported in the annual financial statements of Volkswagen AG prepared in accordance with the German Commercial Code. Based on these annual financial statements of Volkswagen AG, net retained profits of €2,419 million are eligible for distribution following the transfer of €2,204 million to the revenue reserves. The Board of Management and Supervisory Board will propose to the Annual General Meeting that a total dividend of €2,419 million, i.e. €4.80 per ordinary share and €4.86 per preferred share, be paid from the net retained profits. Shareholders are not entitled to a dividend payment until it has been resolved by the Annual General Meeting.

A dividend of €3.90 per ordinary share and €3.96 per preferred share was distributed in fiscal year 2018.

NONCONTROLLING INTERESTS

As of December 31, 2018, total noncontrolling interests amounted to €225 million (previous year: €229 million). The noncontrolling interests in equity are attributable primarily to shareholders of RENK AG and AUDI AG and are immaterial individually and in the aggregate.

25. Noncurrent and current financial liabilities

The details of noncurrent and current financial liabilities are presented in the following table:

	CARRYING AMOUNT			CARRYING AMOUNT		
€ million	Current	Noncurrent	Dec. 31, 2018	Current	Noncurrent	Dec. 31, 2017
Bonds	19,132	62,416	81,549	14,146	48,971	63,118
Commercial paper and notes	22,381	18,975	41,356	22,506	13,399	35,905
Liabilities to banks	18,455	15,447	33,903	14,487	15,357	29,844
Deposits business	28,555	1,455	30,010	29,291	2,114	31,405
Loans and miscellaneous liabilities	1,183	2,433	3,617	1,363	1,358	2,721
Finance lease liabilities	51	399	449	51	428	479
	89,757	**101,126**	**190,883**	**81,844**	**81,628**	**163,472**

26. Noncurrent and current other financial liabilities

	CARRYING AMOUNT			CARRYING AMOUNT		
€ million	Current	Noncurrent	Dec. 31, 2018	Current	Noncurrent	Dec. 31, 2017
Negative fair values of derivative financial instruments	1,439	1,134	2,573	1,212	1,034	2,246
Interest payable	661	113	774	570	44	614
Miscellaneous financial liabilities	7,316	1,972	9,288	6,788	1,586	8,374
	9,416	**3,219**	**12,635**	**8,570**	**2,665**	**11,234**

The negative fair values of derivatives relate to the following items:

€ million	Dec. 31, 2018	Dec. 31, 2017
Transactions for hedging		
foreign currency risk from assets using fair value hedges	65	58
foreign currency risk from liabilities using fair value hedges	10	19
interest rate risk using fair value hedges	61	64
interest rate risk using cash flow hedges	17	24
foreign currency and price risk from future cash flows (cash flow hedges)	936	542
Hedging transactions Total	**1,088**	**706**
Liabilities related to derivatives not included in hedging relationships	1,484	1,540
Total	**2,573**	**2,246**

Negative fair values of €22 million (previous year: €22 million) were recognized from transactions for hedging interest rate risk (fair value hedges) used in portfolio hedges.

Further details on derivative financial instruments as a whole are given in the section entitled “Financial risk management and financial instruments".

27. Noncurrent and current other liabilities

	CARRYING AMOUNT			CARRYING AMOUNT		
€ million	Current	Noncurrent	Dec. 31, 2018	Current	Noncurrent	Dec. 31, 2017
Payments received on account of orders	6,936	4,300	11,235	5,427	2,789	8,216
Liabilities relating to						
other taxes	2,273	112	2,384	2,301	249	2,550
social security	546	43	589	564	38	601
wages and salaries	5,299	947	6,247	4,941	844	5,785
Miscellaneous liabilities	2,539	1,046	3,585	2,728	2,280	5,009
	17,593	**6,448**	**24,041**	**15,961**	**6,199**	**22,160**

The liabilities from payments on account received under contracts with customers correspond to contract liabilities under contracts with customers.

During the implementation of IFRS 15, adjustments were made to the structure of payments received on account within noncurrent and current other liabilities. In this context, amounts were reclassified from “miscellaneous liabilities” to “payments received on account of orders”. The prior-year figures were adjusted by an amount of €3,437 million.

The “payments received on account of orders” item includes liabilities from payments on account received under contracts with customers. They changed as follows:

CHANGES IN LIABILITIES FROM PAYMENTS ON ACCOUNT RECEIVED UNDER CONTRACTS WITH CUSTOMERS IN 2018

€ million	2018
Liabilities from advance payments received under contracts with customers at Jan. 1	**7,261**
Additions and disposals	2,395
Changes in consolidated Group	4
Changes in estimates and assumptions as well as contract modifications	–
Foreign exchange differences	8
Liabilities from advance payments received under contracts with customers at Dec. 31	**9,669**

28. Tax liabilities

	CARRYING AMOUNT			CARRYING AMOUNT		
€ million	Current	Noncurrent	Dec. 31, 2018	Current	Noncurrent	Dec. 31, 2017
Deferred tax liabilities	–	5,030	5,030	–	5,636	5,636
Provisions for taxes	1,412	3,047	4,458	1,397	3,030	4,427
Tax payables	456	–	456	430	–	430
	1,867	**8,077**	**9,944**	**1,827**	**8,666**	**10,492**

€407 million (previous year: €320 million) of the deferred tax liabilities are due within one year.

29. Provisions for pensions and other post-employment benefits

Provisions for pensions are recognized for commitments in the form of retirement, invalidity and dependents’ benefits payable under pension plans. The benefits provided by the Group vary according to the legal, tax and economic circumstances of the country concerned, and usually depend on the length of service and remuneration of the employees.

Volkswagen Group companies provide occupational pensions under both defined contribution and defined benefit plans. In the case of defined contribution plans, the Company makes contributions to state or private pension schemes based on legal or contractual requirements, or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the Volkswagen Group. Current contributions are recognized as pension expenses of the period concerned. In 2018, they amounted to a total of €2,385 million (previous year: €2,214 million) in the Volkswagen Group. Of this figure, contributions to the compulsory state pension system in Germany amounted to €1,745 million (previous year: €1,634 million).

In the case of defined benefit plans, a distinction is made between pensions funded by provisions and externally funded plans.

The pension provisions for defined benefits are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19, under which the future obligations are measured on the basis of the ratable benefit entitlements earned as of the balance sheet date. Measurement reflects actuarial assumptions as to discount rates, salary and pension trends, employee turnover rates, longevity and increases in healthcare costs, which were determined for each Group company depending on the economic environment. Remeasurements arise from differences between what has actually occurred and the prior-year assumptions as well as from changes in assumptions. They are recognized in other comprehensive income, net of deferred taxes, in the period in which they arise.

Multi-employer pension plans exist in the Volkswagen Group in the United Kingdom, Switzerland, Sweden and the Netherlands. These plans are defined benefit plans. A small proportion of them are accounted for as defined contribution plans, as the Volkswagen Group is not authorized to receive the information required in order to account for them as defined benefit plans. Under the terms of the multi-employer plans, the Volkswagen Group is not liable for the obligations of the other employers. In the event of its withdrawal from the plans or their winding-up, the proportionate share of the surplus of assets attributable to the Volkswagen Group will be credited or the proportionate share of the deficit attributable to the Volkswagen Group will have to be funded. In the case of the defined benefit plans accounted for as defined contribution plans, the Volkswagen Group's share of the obligations represents a small proportion of the total obligations. No probable significant risks arising from multi-employer defined benefit pension plans that are accounted for as defined contribution plans have been identified. The expected contributions to those plans will amount to €20 million for fiscal year 2019.

Owing to their benefit character, the obligations of the US Group companies in respect of post-employment medical care in particular are also carried under provisions for pensions and other post-employment benefits. These post-employment benefit provisions take into account the expected long-term rise in the cost of healthcare. In fiscal year 2018, €14 million (previous year: €17 million) was recognized as an expense for health care costs. The related carrying amount as of December 31, 2018 was €231 million (previous year: €210 million).

The following amounts were recognized in the balance sheet for defined benefit plans:

€ million	Dec. 31, 2018	Dec. 31, 2017
Present value of funded obligations	15,606	15,605
Fair value of plan assets	10,920	11,192
Funded status (net)	4,686	4,413
Present value of unfunded obligations	28,312	28,224
Amount not recognized as an asset because of the ceiling in IAS 19	23	29
Net liability recognized in the balance sheet	**33,022**	**32,666**
of which provisions for pensions	33,097	32,730
of which other assets	76	64

SIGNIFICANT PENSION ARRANGEMENTS IN THE VOLKSWAGEN GROUP

For the period after their active working life, the Volkswagen Group offers its employees benefits under attractive, modern occupational pension arrangements. Most of the arrangements in the Volkswagen Group are pension plans for employees in Germany classified as defined benefit plans under IAS 19. The majority of these obligations are funded solely by recognized provisions. These plans are now largely closed to new members. To reduce the risks associated with defined benefit plans, in particular longevity, salary increases and inflation, the Volkswagen Group has introduced new defined benefit plans in recent years whose benefits are funded by appropriate external plan assets. The above-mentioned risks have been largely reduced in these pension plans. The proportion of the total defined benefit obligation attributable to pension obligations funded by plan assets will continue to rise in the future. The significant pension plans are described in the following.

German pension plans funded solely by recognized provisions

The pension plans funded solely by recognized provisions comprise both contribution-based plans with guarantees and final salary plans. For contribution-based plans, an annual pension expense dependent on income and status is converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlements). The annuity factors include a guaranteed rate of interest. At retirement, the modular pension entitlements earned annually are added together. For final salary plans, the underlying salary is multiplied at retirement by a percentage that depends on the years of service up until the retirement date.

The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk.

The pension system provides for lifelong pension payments. The companies bear the longevity risk in this respect. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the “Heubeck 2018 G” (previous year: "Heubeck 2005 G") mortality tables – which already reflect future increases in life expectancy.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

German pension plans funded by external plan assets

The pension plans funded by external plan assets are contribution-based plans with guarantees. In this case, an annual pension expense dependent on income and status is either converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlement) or paid out in a single lump sum or in installments. In some cases, employees also have the opportunity to provide for their own retirement through deferred compensation. The annuity factors include a guaranteed rate of interest. At retirement, the modular pension entitlements earned annually are added together. The pension expense is contributed on an ongoing basis to a separate pool of assets that is administered independently of the Company in trust and invested in the capital markets. If the plan assets exceed the present value of the obligations calculated using the guaranteed rate of interest, surpluses are allocated (modular pension bonuses).

Since the assets administered in trust meet the IAS 19 criteria for classification as plan assets, they are deducted from the obligations.

The amount of the pension assets is exposed to general market risk. The investment strategy and its implementation are therefore continuously monitored by the trusts’ governing bodies, on which the companies are also represented. For example, investment policies are stipulated in investment guidelines with the aim of limiting market risk and its impact on plan assets. In addition, asset-liability management studies are conducted if required so as to ensure that investments are in line with the obligations that need to be covered. The pension assets are currently invested primarily in fixed-income or equity funds. The main risks are therefore interest rate and equity price risk. To mitigate market risk, the pension system also provides for cash funds to be set aside in an equalization reserve before any surplus is allocated.

The present value of the obligation is the present value of the guaranteed obligation after deducting the plan assets. If the plan assets fall below the present value of the guaranteed obligation, a provision must be recognized in that amount. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk.

In the case of lifelong pension payments, the Volkswagen Group bears the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the “Heubeck 2018 G” (previous year: "Heubeck 2005 G") mortality tables – which already reflect future increases in life expectancy. In addition, the independent actuaries carry out annual risk monitoring as part of the review of the assets administered by the trusts.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

Calculation of the pension provisions was based on the following actuarial assumptions:

	GERMANY		ABROAD	
%	2018	2017	2018	2017
Discount rate at December 31	1.97	1.88	3.16	3.52
Payroll trend	3.48	3.56	2.66	3.00
Pension trend	1.50	1.50	2.41	2.48
Employee turnover rate	1.17	1.15	3.93	3.25
Annual increase in healthcare costs	–	–	5.50	4.98

These assumptions are averages that were weighted using the present value of the defined benefit obligation.

With regard to life expectancy, consideration is given to the latest mortality tables in each country.

The discount rates are generally defined to reflect the yields on prime-rated corporate bonds with matching maturities and currencies. The iBoxx AA 10+ Corporates index was taken as the basis for the obligations of German Group companies. Similar indices were used for foreign pension obligations.

The payroll trends cover expected wage and salary trends, which also include increases attributable to career development.

The pension trends either reflect the contractually guaranteed pension adjustments or are based on the rules on pension adjustments in force in each country.

The employee turnover rates are based on past experience and future expectations.

The following table shows changes in the net defined benefit liability recognized in the balance sheet:

€ million	2018	2017
Net liability recognized in the balance sheet at January 1	**32,666**	**32,967**
Current service cost	1,410	1,372
Net interest expense	620	600
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	399	33
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–957	–616
Actuarial gains (–)/losses (+) arising from experience adjustments	–105	–88
Income/expenses from plan assets not included in interest income	–530	117
Change in amount not recognized as an asset because of the ceiling in IAS 19	3	–6
Employer contributions to plan assets	708	582
Employee contributions to plan assets	–9	–8
Pension payments from company assets	842	841
Past service cost (including plan curtailments)	24	7
Gains (–) or losses (+) arising from plan settlements	2	–1
Changes in consolidated Group	10	0
Other changes	–5	–44
Foreign exchange differences from foreign plans	–30	–37
Net liability recognized in the balance sheet at December 31	**33,022**	**32,666**

The change in the amount not recognized as an asset because of the ceiling in IAS 19 contains an interest component, part of which was recognized in the financial result in profit or loss, and part of which was recognized outside profit or loss directly in equity.

The change in the present value of the defined benefit obligation is attributable to the following factors:

€ million	2018	2017
Present value of obligations at January 1	**43,829**	**43,689**
Current service cost	1,410	1,372
Interest cost	901	883
Actuarial gains(–)/losses (+) arising from changes in demographic assumptions	399	33
Actuarial gains(–)/losses (+) arising from changes in financial assumptions	–957	–616
Actuarial gains(–)/losses (+) arising from experience adjustments	–105	–88
Employee contributions to plan assets	19	33
Pension payments from company assets	842	841
Pension payments from plan assets	237	307
Past service cost (including plan curtailments)	24	7
Gains (–) or losses (+) arising from plan settlements	0	–3
Changes in consolidated Group	10	0
Other changes	–460	–41
Foreign exchange differences from foreign plans	–73	–290
Present value of obligations at December 31	**43,918**	**43,829**

Actuarial gains/losses arising from changes in demographic assumptions are mainly the result of the first-time application of the "Heubeck 2018 G" (previous year: "Heubeck 2005 G") mortality tables.

Following the regular review of our pension plans, one plan used by South American subsidiaries had to be classified as a defined contribution plan in fiscal year 2018, and this led to a change in the pension obligation reported in the above table. The decrease in the present value of the defined benefit obligation in the amount of €460 million is shown under other changes. This does not have any effect on the amount recognized in the balance sheet, because the present value of plan assets goes down by the same amount.

Changes in the relevant actuarial assumptions would have had the following effects on the defined benefit obligation:

Present value of defined benefit obligation if		Dec. 31, 2018 € million	Dec. 31, 2018 Change in percent	Dec. 31, 2017 € million	Dec. 31, 2017 Change in percent
Discount rate	is 0.5 percentage points higher	40,048	–8.81	39,979	–8.79
	is 0.5 percentage points lower	48,398	10.20	48,290	10.18
Pension trend	is 0.5 percentage points higher	46,147	5.07	46,055	5.08
	is 0.5 percentage points lower	41,892	–4.61	41,801	–4.63
Payroll trend	is 0.5 percentage points higher	44,382	1.05	44,398	1.30
	is 0.5 percentage points lower	43,507	–0.94	43,304	–1.20
Longevity	increases by one year	45,311	3.17	45,106	2.91

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation, i.e. any correlation effects between the individual assumptions are ignored.

To examine the sensitivity of the defined benefit obligation to a change in assumed longevity, the estimates of mortality were reduced as part of a comparative calculation to the extent that doing so increases life expectancy by approximately one year.

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 19 years (previous year: 19 years).

The present value of the defined benefit obligation is attributable as follows to the members of the plan:

€ million	2018	2017
Active members with pension entitlements	25,783	26,067
Members with vested entitlements who have left the Company	2,580	2,233
Pensioners	15,555	15,530
	43,918	**43,829**

The maturity profile of payments attributable to the defined benefit obligation is presented in the following table, which classifies the present value of the obligation by the maturity of the underlying payments:

€ million	2018	2017
Payments due within the next fiscal year	1,160	1,151
Payments due between two and five years	5,251	4,994
Payments due in more than five years	37,508	37,685
	43,918	**43,829**

Changes in plan assets are shown in the following table:

€ million	2018	2017
Fair value of plan assets at January 1	**11,192**	**10,749**
Interest income on plan assets determined using the discount rate	281	283
Income/expenses from plan assets not included in interest income	–530	117
Employer contributions to plan assets	708	582
Employee contributions to plan assets	9	25
Pension payments from plan assets	237	307
Gains (+) or losses (–) arising from plan settlements	2	2
Changes in consolidated Group	0	–1
Other changes	–455	3
Foreign exchange differences from foreign plans	–46	–258
Fair value of plan assets at December 31	**10,920**	**11,192**

Other changes are attributable to the change in the presentation of a plan used by South American subsidiaries.

The investment of the plan assets to cover future pension obligations resulted in expenses in the amount of €250 million (previous year: income of €400 million).

Employer contributions to plan assets are expected to amount to €769 million (previous year: €617 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2018 Quoted prices in active markets	No quoted prices in active markets	Total	DEC. 31, 2017 Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	666	2	669	585	5	590
Equity instruments	375	–	375	337	–	337
Debt instruments	1,041	4	1,044	1,578	0	1,578
Direct investments in real estate	11	100	112	2	101	104
Derivatives	–21	–17	–38	38	–60	–23
Equity funds	1,433	26	1,459	1,532	34	1,567
Bond funds	5,443	118	5,561	5,233	114	5,348
Real estate funds	193	–	193	207	–	207
Other funds	890	6	896	864	4	868
Other instruments	80	568	648	40	577	617

53.3% (previous year: 49.1%) of the plan assets are invested in German assets, 27.4% (previous year: 27.6%) in other European assets and 19.3% (previous year: 23.4%) in assets in other regions.

Plan assets include €3 million (previous year: €15 million) invested in Volkswagen Group assets and €12 million (previous year: €18 million) in Volkswagen Group debt instruments.

The following amounts were recognized in the income statement:

€ million	2018	2017
Current service cost	1,410	1,372
Net interest on the net defined benefit liability	623	602
Past service cost (including plan curtailments)	24	7
Gains (–) or losses (+) arising from plan settlements	2	–1
Net income (–) and expenses (+) recognized in profit or loss	**2,059**	**1,981**

The above amounts are generally included in the personnel costs of the functional areas in the income statement. Net interest on the net defined benefit liability is reported in interest expenses.

30. Noncurrent and current other provisions

€ million	Obligations arising from sales	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance at Jan. 1, 2017	**33,027**	**4,546**	**11,717**	**7,904**	**57,193**
Foreign exchange differences	–689	–61	–119	–169	–1,038
Changes in consolidated Group	13	3	–13	–27	–24
Utilization	17,546	1,450	7,444	2,334	28,774
Additions/New provisions	14,990	2,030	2,190	3,217	22,426
Unwinding of discount/effect of change in discount rate	–50	11	–25	6	–57
Reversals	1,881	193	504	962	3,540
Balance at Dec. 31, 2017	**27,865**	**4,886**	**5,802**	**7,634**	**46,186**
of which current	14,821	2,069	2,999	5,458	25,347
of which noncurrent	13,044	2,817	2,802	2,176	20,839
Balance at Jan. 1, 2018[1]	**27,867**	**4,886**	**5,802**	**7,631**	**46,185**
Foreign exchange differences	39	–17	–88	–21	–88
Changes in consolidated Group	–2	–7	–1	–44	–53
Utilization	10,437	1,632	2,396	2,415	16,880
Additions/New provisions	12,179	2,019	2,131	3,153	19,483
Unwinding of discount/effect of change in discount rate	–108	5	–19	9	–114
Reversals	2,503	99	516	662	3,780
Balance at Dec. 31, 2018	**27,035**	**5,155**	**4,913**	**7,651**	**44,754**
of which current	13,986	2,248	2,349	5,291	23,874
of which noncurrent	13,050	2,906	2,563	2,360	20,879

1 Value in the opening balance adjusted (see disclosures on IFRS 9 and IFRS 15).

The obligations arising from sales contain provisions covering all risks relating to the sale of vehicles, components and genuine parts through to the disposal of end-of-life vehicles. They primarily comprise warranty obligations, calculated on the basis of losses to date and estimated future losses. They also include provisions for discounts, bonuses and similar allowances which are incurred after the balance sheet date, but for which there is a legal or constructive obligation attributable to sales revenue before the balance sheet date.

Provisions for employee expenses are recognized for long-service awards, time credits, partial retirement arrangements, severance payments and similar obligations, among other things.

The decline in provisions for obligations regarding litigation and legal risks result primarily from the utilization of the provisions recognized in connection with the diesel issue. In addition to residual provisions relating to the diesel issue, the provisions for litigation and legal risks contain amounts related to a large number of legal disputes and official proceedings in which Volkswagen Group companies become involved in Germany and internationally in the course of their operating activities. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. Please refer to the “Litigation” section for a discussion of the legal risks.

Miscellaneous provisions relate to a wide range of identifiable specific risks, price risks and uncertain obligations, which are measured in the amount of the expected settlement value.

Miscellaneous provisions additionally include provisions amounting to €562 million (previous year: €534 million) relating to the insurance business.

31. Put options and compensation rights granted to noncontrolling interest shareholders

This balance sheet item consists primarily of the present value of the cash settlement of €90.29 per share in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) offered to MAN shareholders in connection with the control and profit and loss transfer agreement.

Further information can be found in the “Litigation” section.

32. Trade payables

€ million	Dec. 31, 2018	Dec. 31, 2017
Trade payables to		
third parties	22,928	22,661
unconsolidated subsidiaries	235	187
joint ventures	327	64
associates	113	127
other investees and investors	4	7
	23,607	**23,046**

Additional balance sheet disclosures in accordance with IFRS 7 (Financial Instruments)

The tables below show the carrying amounts of financial instruments by measurement category:

CARRYING AMOUNT OF FINANCIAL INSTRUMENTS BY IAS 39 MEASUREMENT CATEGORY IN 2017

€ million	Dec. 31, 2017
Financial assets at fair value through profit or loss	1,712
Loans and receivables	125,550
Available-for-sale financial assets	16,182
Financial liabilities at fair value through profit or loss	1,540
Financial liabilities measured at amortized cost	198,821

CARRYING AMOUNT OF FINANCIAL INSTRUMENTS BY IFRS 9 MEASUREMENT CATEGORY IN 2018

€ million	Dec. 31, 2018
Financial assets at fair value through profit or loss	15,556
Financial assets at fair value through other comprehensive income (debt instruments)	3,542
Financial assets at fair value through other comprehensive income (equity instruments)	148
Financial assets measured at amortized cost	143,466
Financial liabilities at fair value through profit or loss	1,484
Financial liabilities measured at amortized cost	225,989

CLASSES OF FINANCIAL INSTRUMENTS

Financial instruments are divided into the following classes at the Volkswagen Group:

- financial instruments measured at fair value;
- financial instruments measured at amortized cost;
- derivative financial instruments within hedge accounting;
- not allocated to any measurement category; and
- credit commitments and financial guarantees (off-balance sheet).

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS

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

The fair value of financial instruments measured at amortized cost, such as receivables and liabilities, is calculated by discounting using a market rate of interest for a similar risk and matching maturity. For reasons of materiality, the fair value of current balance sheet items is generally deemed to be their carrying amount.

As a result of the initial application of IFRS 9 and IFRS 15, the carrying amounts of contract assets, lease receivables and liabilities and equity-accounted associates and joint ventures have been classified as “not allocated to any measurement category” since fiscal year 2018. Apart from those, other amounts (excluding financial instruments) may also be included here for reconciliation to the carrying amounts.

The risk variables governing the fair value of the receivables are risk-adjusted interest rates.
Financial instruments measured at fair value also include shares in partnerships and corporations.

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2017

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT ALLOCATED TO A MEASUREMENT CATEGORY	BALANCE SHEET ITEM AT DEC. 31, 2017
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,205	8,205
Other equity investments	243	–	–	–	1,075	1,318
Financial services receivables	–	43,096	44,093	–	30,153	73,249
Other financial assets	776	4,364	4,391	3,315	–	8,455
Current assets						
Trade receivables	–	13,357	13,357	–	–	13,357
Financial services receivables	–	37,142	37,142	–	16,003	53,145
Other financial assets	936	9,153	9,153	1,909	–	11,998
Marketable securities	15,939	–	–	–	–	15,939
Cash, cash equivalents and time deposits	–	18,457	18,457	–	–	18,457
Assets held for sale	–	–	–	–	90	90
Noncurrent liabilities						
Noncurrent financial liabilities	–	81,200	82,108	–	428	81,628
Other noncurrent financial liabilities	774	1,630	1,633	261	–	2,665
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	3,795	3,811	–	–	3,795
Current financial liabilities	–	81,793	81,793	–	51	81,844
Trade payables	–	23,046	23,046	–	–	23,046
Other current financial liabilities	766	7,358	7,358	446	–	8,570

The classes of financial instruments have been added as part of the implementation of IFRS 9 (see the section on “Accounting policies”). The principal movement in this context was the reclassification of lease receivables and liabilities in the “measured at amortized cost” category to “not allocated to any measurement category”. Prior-year values under financial services receivables and financial liabilities have been restated. The carrying amount of lease receivables was €49,166 million (previous year: €46,156 million) and their fair value (fair value hierarchy level 3) was €49,791 million (previous year: €46,959 million). The carrying amount of lease liabilities was €449 million (previous year: €479 million) and their fair value (fair value hierarchy level 2) was €466 million (previous year: €510 million).

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2018

	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT ALLOCATED TO A MEASUREMENT CATEGORY	BALANCE SHEET ITEM AT DEC. 31, 2018
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,434	8,434
Other equity investments	134	–	–	–	1,340	1,474
Financial services receivables	286	46,905	47,789	–	31,501	78,692
Other financial assets	772	4,240	4,252	1,510	–	6,521
Current assets						
Trade receivables	–	17,537	17,537	–	352	17,888
Financial services receivables	22	36,529	36,529	–	17,665	54,216
Other financial assets	1,094	9,179	9,179	1,341	1	11,615
Marketable securities	16,940	140	140	–	–	17,080
Cash, cash equivalents and time deposits	–	28,938	28,938	–	–	28,938
Noncurrent liabilities						
Noncurrent financial liabilities	–	100,727	100,964	–	399	101,126
Other noncurrent financial liabilities	767	2,085	2,087	368	–	3,219
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	1,853	1,853	–	–	1,853
Current financial liabilities	–	89,707	89,707	–	51	89,757
Trade payables	–	23,607	23,607	–	–	23,607
Other current financial liabilities	718	8,010	8,010	721	–	9,449

Uniform valuation techniques and inputs are used to measure fair value. The fair value of Level 2 and 3 financial instruments is measured in the individual divisions on the basis of Group-wide specifications. The measurement techniques used are explained in the section on “Accounting policies”. The fair value of Level 3 receivables was measured by reference to individual expectations of losses; these are based to a significant extent on the Company’s assumptions about counterparty credit quality. The inputs used are not observable in an active market.

Other financial assets include receivables from tax allocations of €29 million, and other financial liabilities include liabilities from tax allocations of €33 million.

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

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE BY LEVEL

€ million	Dec. 31, 2017	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	243	103	–	140
Other financial assets	776	–	705	71
Current assets				
Other financial assets	936	–	933	3
Marketable securities	15,939	15,939	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	774	–	242	532
Current liabilities				
Other current financial liabilities	766	–	533	233

€ million	Dec. 31, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	134	56	25	53
Financial services receivables	286	–	–	286
Other financial assets	772	–	357	415
Current assets				
Financial services receivables	22	–	–	22
Other financial assets	1,094	–	880	214
Marketable securities	16,940	16,940	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	767	–	250	516
Current liabilities				
Other current financial liabilities	718	–	419	299

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTIZED COST BY LEVEL

€ million	Dec. 31, 2017	Level 1	Level 2	Level 3
Fair value of financial assets measured at amortized cost				
Financial services receivables[1]	81,236	–	–	81,236
Trade receivables	13,357	–	13,184	173
Other financial assets	13,544	170	5,925	7,449
Cash, cash equivalents and time deposits	18,457	18,043	414	–
Fair value of financial assets measured at amortized cost	**126,594**	**18,213**	**19,523**	**88,858**
Fair value of financial liabilities measured at amortized cost				
Put options and compensation rights granted to noncontrolling interest shareholders	3,811	–	–	3,811
Trade payables	23,046	–	23,046	–
Financial liabilities[1]	163,901	50,970	111,096	1,835
Other financial liabilities	8,992	596	8,184	212
Fair value of financial liabilities measured at amortized cost	**199,749**	**51,566**	**142,326**	**5,857**

1 Prior-year figures adjusted.

€ million	Dec. 31, 2018	Level 1	Level 2	Level 3
Fair value of financial assets measured at amortized cost				
Financial services receivables	84,319	–	–	84,319
Trade receivables	17,537	–	17,537	–
Other financial assets	13,432	378	5,033	8,020
Cash, cash equivalents and time deposits	28,938	28,115	823	–
Fair value of financial assets measured at amortized cost	**144,226**	**28,493**	**23,394**	**92,339**
Fair value of financial liabilities measured at amortized cost				
Put options and compensation rights granted to noncontrolling interest shareholders	1,853	–	–	1,853
Trade payables	23,607	–	23,607	–
Financial liabilities	190,671	59,089	131,316	266
Other financial liabilities	10,097	1,297	8,568	233
Fair value of financial liabilities measured at amortized cost	**226,228**	**60,386**	**163,491**	**2,352**

Other financial assets include receivables from tax allocations of €29 million, and other financial liabilities include liabilities from tax allocations of €33 million.

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

€ million	Dec. 31, 2017	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	3,315	–	3,315	–
Current assets				
Other financial assets	1,909	–	1,909	–
Noncurrent liabilities				
Other noncurrent financial liabilities	261	–	261	–
Current liabilities				
Other current financial liabilities	446	–	445	0

€ million	Dec. 31, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	1,510	–	1,510	–
Current assets				
Other financial assets	1,341	–	1,341	–
Noncurrent liabilities				
Other noncurrent financial liabilities	368	–	368	0
Current liabilities				
Other current financial liabilities	721	–	721	–

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

The table below provides a summary of changes in level 3 balance sheet items measured at fair value:

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

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2017	**152**	**230**
Foreign exchange differences	–9	–1
Total comprehensive income	68	526
recognized in profit or loss	72	526
recognized in other comprehensive income	–4	0
Additions (purchases)	47	115
Sales and settlements	–11	–104
Transfers into Level 2	–31	–2
Balance at Dec. 31, 2017	**215**	**765**
Total gains or losses recognized in profit or loss	**72**	**–526**
Net other operating expense/income	–	–
of which attributable to assets/liabilities held at the reporting date	–	–
Financial result	72	–526
of which attributable to assets/liabilities held at the reporting date	32	–525

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2018	**823**[1]	**765**
Foreign exchange differences	–33	–3
Changes in consolidated Group	–184	–
Total comprehensive income	78	204
recognized in profit or loss	27	204
recognized in other comprehensive income	51	–
Additions (purchases)	339	28
Sales and settlements	–2	–183
Transfers into Level 2	–32	5
Balance at Dec. 31, 2018	**990**	**816**
Total gains or losses recognized in profit or loss	**27**	**–204**
Net other operating expense/income	31	–203
of which attributable to assets/liabilities held at the reporting date	58	–235
Financial result	–4	0
of which attributable to assets/liabilities held at the reporting date	–5	–

1 Value in the opening balance adjusted (see disclosures on IFRS 9).

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

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

If commodity prices for commodity futures classified as Level 3 had been 10% higher (lower) as of December 31, 2018, earnings after tax would have been €59 million (previous year: €10 million) higher (lower). The equity is not affected.

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

If the assumed enterprise values at December 31, 2018 had been 10% higher, earnings after tax would have been €3 million (previous year: €3 million) higher. If the assumed enterprise values at December 31, 2018 had been 10% lower, earnings after tax would have been €3 million (previous year: €3 million) lower.

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

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

If the prices of the used cars covered by the residual value protection model had been 10% higher as of December 31, 2018, earnings after tax would have been €325 million (previous year: €319 million) higher. If the prices of the used cars covered by the residual value protection model had been 10% lower as of December 31, 2018, earnings after tax would have been €352 million (previous year: €333 million) lower.

If the risk-adjusted interest rates applied to receivables measured at fair value had been 100 basis points higher as of December 31, 2018, earnings after tax would have been €1 million lower. If the risk-adjusted interest rates as of December 31, 2018 had been 100 basis points lower, earnings after tax would have been €4 million higher.

If the corresponding vehicle price used in the vehicle financing programs had been 10% higher as of December 31, 2018, earnings after tax would have been €8 million higher. If the corresponding vehicle prices used in the vehicle financing programs had been 10% lower as of December 31, 2018, earnings after tax would have been €8 million lower.

If the result of operations of equity investments measured at fair value had been 10% better as of December 31, 2018, the equity would have been €3 million higher. If the result of operations had been 10% worse, the equity would have been €3 million lower.

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following tables contain information about the effects of offsetting in the balance sheet and the potential financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting arrangement or a similar agreement.

€ million	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Amounts that are not set off in the balance sheet: Financial instruments	Amounts that are not set off in the balance sheet: Collateral received	Net amount at Dec. 31, 2017
Derivatives	6,936	0	6,936	–1,036	–197	5,704
Financial services receivables	126,877	–482	126,395	–	–67	126,328
Trade receivables	13,356	0	13,356	0	–1	13,355
Marketable securities	15,939	–	15,939	–	–	15,939
Cash, cash equivalents and time deposits	18,457	–	18,457	–	–	18,457
Other financial assets	13,780	–20	13,760	–	–	13,760

€ million	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Amounts that are not set off in the balance sheet: Financial instruments	Amounts that are not set off in the balance sheet: Collateral received	Net amount at Dec. 31, 2018
Derivatives	3,979	0	3,979	–1,819	–171	1,989
Financial services receivables	132,909	–	132,909	–	–77	132,831
Trade receivables	17,537	0	17,537	0	–	17,536
Marketable securities	17,080	–	17,080	–	–	17,080
Cash, cash equivalents and time deposits	28,938	–	28,938	–	–	28,938
Other financial assets	14,307	–15	14,291	–	–	14,291

Other financial assets include receivables from tax allocations of €29 million.

€ million	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	AMOUNTS THAT ARE NOT SET OFF IN THE BALANCE SHEET		Net amount at Dec. 31, 2017
				Financial instruments	Collateral pledged	
Put options and compensation rights granted to noncontrolling interest shareholders	3,795	–	3,795	–	–	3,795
Derivatives	2,254	–7	2,246	–904	–12	1,330
Financial liabilities	163,472	–	163,472	–	–2,795	160,677
Trade payables	23,046	0	23,046	0	–	23,045
Other financial liabilities	9,483	–495	8,988	–	–	8,988

€ million	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	AMOUNTS THAT ARE NOT SET OFF IN THE BALANCE SHEET		Net amount at Dec. 31, 2018
				Financial instruments	Collateral pledged	
Put options and compensation rights granted to noncontrolling interest shareholders	1,853	–	1,853	–	–	1,853
Derivatives	2,573	0	2,573	–1,738	–1	834
Financial liabilities	190,883	–	190,883	–	–1,953	188,931
Trade payables	23,607	0	23,607	0	–	23,607
Other financial liabilities	10,111	–15	10,095	–	–	10,095

The Financial instruments column shows the amounts that are subject to a master netting arrangement but were not set off because they do not meet the criteria for offsetting in the balance sheet. The Collateral received and Collateral pledged columns show the amounts of cash collateral and collateral in the form of financial instruments received and pledged for the total assets and liabilities that do not meet the criteria for offsetting in the balance sheet.

Other financial liabilites include receivables from tax allocations of €33 million.

ASSET-BACKED SECURITIES TRANSACTIONS

Asset-backed securities transactions with financial assets amounting to €27,906 million (previous year: €24,561 million) entered into to refinance the financial services business are included in bonds, commercial paper and notes, and liabilities from loans. The corresponding carrying amount of the receivables from the customer and dealer financing and the finance lease business amounted to €32,669 million (previous year: €26,689 million). Collateral of €47,884 million (previous year: €41,799 million) in total was furnished as part of asset-backed securities transactions. The expected payments were assigned to structured entities and the equitable liens in the financed vehicles were transferred. These asset-backed securities transactions did not result in the receivables from financial services business being derecognized, as the Group retains nonpayment and late payment risks. The difference between the assigned receivables and the related liabilities is the result of different terms and conditions and the share of the securitized paper and notes held by the Volkswagen Group itself, as well as the proportion of vehicles financed within the Group.

Most of the public and private asset-backed securities transactions of the Volkswagen Group can be repaid in advance (clean-up call) if less than 9% or 10%, as appropriate, of the original transaction volume is outstanding. The assigned receivables cannot be assigned again or pledged elsewhere as collateral. The claims of the holders of commercial paper and notes are limited to the assigned receivables and the receipts from those receivables are earmarked for the repayment of the corresponding liability.

As of December 31, 2018, the fair value of the assigned receivables still recognized in the balance sheet was €32,944 million (previous year: €27,089 million). The fair value of the related liabilities was €30,122 million (previous year: €24,511 million) at that reporting date.

Companies of the Volkswagen Financial Services subgroup are contractually obliged, under certain conditions, to transfer funds to the structured entities that are included in its financial statements. Since the receivables are transferred to the special purpose entity by way of undisclosed assignment, the situation may occur in which the receivable has already been reduced in a legally binding manner at the originator, for example if the obligor effectively offsets it against receivables owed to it by a company belonging to the Volkswagen Group. In this case, collateral must be furnished for the resulting compensation claims against the special purpose entity, for example if the rating of the Group company concerned declines to a contractually agreed reference value.

Other disclosures

33. Cash flow statement

Cash flows are presented in the cash flow statement classified into cash flows from operating activities, investing activities and financing activities, irrespective of the balance sheet classification.

Cash flows from operating activities are derived indirectly from earnings before tax. Earnings before tax are adjusted to eliminate noncash expenditures (mainly depreciation, amortization and impairment losses) and income. Other noncash income and expense results mainly from measurement effects in connection with financial instruments and to fair value changes relating to hedging transactions (see section entitled “Other financial result”). This results in cash flows from operating activities after accounting for changes in working capital, which also include changes in lease assets and in financial services receivables.

Investing activities include additions to property, plant and equipment and equity investments, additions to capitalized development costs and investments in securities, loans and time deposits.

Financing activities include outflows of funds from dividend payments and redemption of bonds, inflows from the capital increases and issuance of bonds, and changes in other financial liabilities. Please refer to the “Equity” section for information on the in-/outflows from the issuance/repayment of hybrid capital contained in the capital contributions.

The changes in balance sheet items that are presented in the cash flow statement cannot be derived directly from the balance sheet, as the effects of currency translation and changes in the consolidated Group are non-cash transactions and are therefore eliminated.

In 2018, cash flows from operating activities include interest received amounting to €7,047 million (previous year: €6,641 million) and interest paid amounting to €1,857 million (previous year: €2,332 million). Cash flows from operating activities also include dividend payments received from joint ventures and associates of €3,493 million (previous year: €3,653 million).

Dividends amounting to €1,967 million (previous year: €1,015 million) were paid to Volkswagen AG shareholders.

€ million	Dec. 31, 2018	Dec. 31, 2017
Cash, cash equivalents and time deposits as reported in the balance sheet	28,938	18,457
Time deposits	–825	–420
Cash and cash equivalents as reported in the cash flow statement	28,113	18,038

Time deposits are not classified as cash equivalents. Time deposits have a contractual maturity of more than three months. The maximum default risk corresponds to its carrying amount.

The following table shows the classification of changes in financial liabilities into cash and non-cash transactions:

			NON-CASH CHANGES			
€ million	Jan. 1, 2017	Cash-effective changes	Foreign exchange differences	Changes in consolidated group	Changes in fair values	Dec. 31, 2017
Bonds	52,022	12,402	–1,018	–	–289	63,118
Other total third-party borrowings	102,259	3,501	–5,273	–370	–240	99,875
Finance lease liabilities	539	–28	–25	–16	9	479
Total third-party borrowings	**154,819**	**15,875**	**–6,316**	**–386**	**–520**	**163,472**
Put options and compensation rights granted to noncontrolling interest shareholders	3,849	–118	–	–	64	3,795
Other financial assets and liabilities	87	–274	17	–	10	–160
Financial assets and liabilities in financing activities	**158,755**	**15,483**	**–6,299**	**–386**	**–446**	**167,107**

			NON-CASH CHANGES			
€ million	Jan. 1, 2018	Cash-effective changes	Foreign exchange differences	Changes in consolidated group	Changes in fair values	Dec. 31, 2018
Bonds	63,118	20,018	–193	–	–1,395	81,549
Other total third-party borrowings	99,875	7,740	–414	11	1,674	108,886
Finance lease liabilities	479	–29	–1	–	0	449
Total third-party borrowings	**163,472**	**27,730**	**–607**	**11**	**279**	**190,883**
Put options and compensation rights granted to noncontrolling interest shareholders	3,795	–2,132	–	–	190	1,853
Other financial assets and liabilities	–160	–121	27	–	72	–182
Financial assets and liabilities in financing activities	**167,107**	**25,477**	**–581**	**11**	**541**	**192,555**

34. Financial risk management and financial instruments

1. HEDGING GUIDELINES AND FINANCIAL RISK MANAGEMENT PRINCIPLES

The principles and responsibilities for managing and controlling the risks that could arise from financial instruments are defined by the Board of Management and monitored by the Supervisory Board. General rules apply to the Group-wide risk policy; these are oriented on the statutory requirements and the "Minimum Requirements for Risk Management by Credit Institutions".

Group Treasury is responsible for operational risk management and control of risks from financial instruments. The main functions of the MAN and PHS subgroups are included in Group Treasury's operational risk management and control for risks relating to financial instruments, while the Scania subgroup is only included to a limited extent. Subgroups have their own risk management structures. The Risk Management Group Executive Committee is regularly informed about current financial risks. In addition, the Group Board of Management and the Supervisory Board are regularly updated on the current risk situation.

For more information, please see the management report on page 185-186.

2. CREDIT AND DEFAULT RISK

The credit and default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the amount of the claims under carrying amounts receivable from them and the irrevocable credit commitments. The maximum potential credit and default risk is reduced by collateral held and other credit enhancements. Collateral is held predominantly for financial assets in the "at amortized cost" category. It relates primarily to collateral for financial services receivables and trade receivables. Collateral comprises vehicles and assets transferred as security, as well as guarantees and real property liens. Cash collateral is also used in hedging transactions.

For level 3 and 4 financial assets with objective indications of impairment as of the reporting date, the collateral provided led to a reduction in risk by €1.3 billion. Collateral of €15 million has been accepted for assets measured at fair value through profit or loss.

Significant cash and capital investments, as well as derivatives, are only entered into with national and international banks. Risk is additionally limited by a limit system based primarily on the equity base of the counterparties concerned and on credit assessments by international rating agencies. Financial guarantees issued also give rise to credit and default risk. The maximum potential credit and default risk is calculated from the amount Volkswagen would have to pay if claims were to be asserted under the guarantees. The corresponding amounts are presented in the Liquidity risk section.

There were no material concentrations of risk at individual counterparties or counterparty groups in the past fiscal year due to the global allocation of the Group's business activities and the resulting diversification. There was a slight change in the concentration of credit and default risk exposures to the German public banking sector as a whole that has arisen from Group-wide cash and capital investments as well as derivatives: the portion attributable to this sector was 9.7% at the end of 2018 compared with 7.4% at the end of 2017. Any existing concentration of risk is assessed and monitored both at the level of individual counterparties or counterparty groups and with regard to the countries in which these are based, in each case using the share of all credit and default risk exposures accounted for by the risk exposure concerned.

For China, credit and default risk exposures accounted for 25.4% at the end of 2018, as against 29.5% at the end of 2017. There were no other concentrations of credit and default risk exposures in individual countries.

CHANGES IN CREDIT RISK LOSS ALLOWANCES ON FINANCIAL ASSETS FROM JANUARY 1 TO DECEMBER 31, 2017

€ million	Specific valuation allowances	Portfolio-based valuation allowances	2017
Balance at Jan. 1, 2017	**2,092**	**2,175**	**4,268**
Exchange rate and other changes	–87	–46	–132
Changes in consolidated Group	–18	0	–18
Additions	853	525	1,378
Utilization	427	–	427
Reversals	339	676	1,014
Reclassification	20	–20	–
Balance at Dec. 31, 2017	**2,094**	**1,959**	**4,054**

LOSS ALLOWANCE

The Volkswagen Group consistently uses the expected credit loss model of IFRS 9 for all financial assets and other risk exposures.

Regarding this, IFRS 9 differentiates between the general approach and the simplified approach. The expected credit loss model under IFRS 9 takes in both loss allowances for financial assets for which there are no objective indications of impairment and loss allowances for financial assets that are already impaired. For the calculation of impairment losses, IFRS 9 distinguishes between the general approach and the simplified approach.

Under the general approach, financial assets are allocated to one of three stages, plus an additional stage for financial assets that are already impaired when acquired (stage 4). Stage 1 comprises financial assets that are recognized for the first time or for which the probability of default has not increased significantly. The expected credit losses for the next twelve months are calculated at this stage. Stage 2 comprises financial assets with a significantly increased probability of default, while financial assets with objective indications of default are allocated to stage 3. The lifetime expected credit losses are calculated at these stages. Stage 4 financial assets, which are already impaired when acquired, are subsequently measured by recognizing a loss allowance on the basis of the accumulated lifetime expected losses. Financial assets classified as impaired on acquisition remain in this category until they are derecognized.

The Volkswagen Group applies the simplified approach to trade receivables and contract assets with a significant financing component in accordance with IFRS 15. The same applies to receivables under operating or finance leases accounted for under IAS 17. Under the simplified approach, the expected losses are consistently determined for the entire life of the asset.

The tables below show the reconciliation of the loss allowance for various financial assets and financial guarantees and credit commitments:

CHANGES IN LOSS ALLOWANCE FOR FINANCIAL ASSETS MEASURED AT AMORTIZED COST FROM JANUARY 1 TO DECEMBER 31, 2018

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount at Jan. 1, 2018	**800**	**802**	**1,002**	**622**	**138**	**3,364**
Foreign exchange differences	–2	–7	–35	–15	–4	–63
Changes in consolidated group	4	6	15	8	0	33
Newly extended/purchased financial assets (additions)	253	–	–	176	30	459
Other changes within a stage	–69	132	195	1	16	275
Transfers to						
Stage 1	22	–67	–13	–	–	–58
Stage 2	–102	275	–39	–	–	134
Stage 3	–33	–51	445	–	–	361
Financial instruments derecognized during the period (disposals)	–120	–148	–226	–127	–33	–653
Utilization	–	–	–459	–34	–1	–493
Changes to models or risk parameters	–1	4	10	3	–2	13
Carrying amount at Dec. 31, 2018	**750**	**946**	**896**	**634**	**146**	**3,372**

CHANGES IN LOSS ALLOWANCE FOR FINANCIAL GUARANTEES AND CREDIT COMMITMENTS FROM JANUARY 1 TO DECEMBER 31, 2018

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Carrying amount at Jan. 1, 2018	**11**	**4**	**1**	**0**	**16**
Foreign exchange differences	0	0	0	–	0
Changes in consolidated group	–	–	–	–	–
Newly extended/purchased financial assets (additions)	11	–	–	1	12
Other changes within a stage	0	0	0	0	0
Transfers to					
Stage 1	0	0	0	–	0
Stage 2	–1	0	0	–	0
Stage 3	0	0	1	–	1
Financial instruments derecognized during the period (disposals)	–4	–4	0	–1	–9
Utilization	–	–	0	–	0
Changes to models or risk parameters	0	0	0	0	0
Carrying amount at Dec. 31, 2018	**18**	**1**	**1**	**0**	**19**

CHANGES IN LOSS ALLOWANCE FOR LEASE RECEIVABLES FROM JANUARY 1 TO DECEMBER 31, 2018

€ million	Simplified approach
Carrying amount at Jan. 1, 2018	**1,250**
Foreign exchange differences	–6
Changes in consolidated group	–
Newly extended/purchased financial assets (additions)	450
Other changes	0
Financial instruments derecognized during the period (disposals)	–465
Utilization	–54
Changes to models or risk parameters	18
Carrying amount at Dec. 31, 2018	**1,193**

The loss allowance on “assets measured at fair value” amounted to €2 million in January 2018 (Stage 1) and did not change in the course of the fiscal year.

The amount contractually outstanding for financial assets that have been derecognized in the current year and are still subject to enforcement proceedings is €293 million.

MODIFICATIONS

There were contract modifications to financial assets in the reporting period that did not lead to the derecognition of the asset. They were primarily attributable to credit ratings and relate to financial assets for which loss allowances were measured in the amount of the lifetime credit losses. For trade and lease receivables, the treatment is simplified by considering the credit rating-based modifications where the receivables are more than 30 days past due. Before the modification, amortized cost amounted to €147 million. In the reporting period, contract modifications resulted in net income/net expenses of €2 million.

As of the reporting date, the gross carrying amounts of financial assets that have been modified since initial recognition and were simultaneously reclassified from stage 2 or 3 to stage 1 in the reporting period amounted to €19 million. As a result, the measurement of the loss allowance for these financial assets was changed from lifetime expected credit losses to 12-month expected credit losses.

MAXIMUM CREDIT RISK

The table below shows the maximum credit risk to which the Volkswagen Group was exposed as of the reporting date, broken down by class to which the impairment model is applied:

MAXIMUM CREDIT RISK BY CLASS AS OF DECEMBER 31, 2018

€ million	Dec. 31, 2018
Financial instruments measured at fair value	3,542
Financial instruments measured at amortized cost	143,466
Financial guarantees and credit commitments	4,640
not within the scope of IFRS 7	49,518
Total	**201,166**

RATING CATEGORIES

The Volkswagen Group performs a credit assessment of borrowers in all loan and lease agreements, using scoring systems for the high-volume business and rating systems for corporate customers and receivables from dealer financing. Receivables rated as good are contained in risk class 1. Receivables from customers whose credit rating is not good but have not yet defaulted are contained in risk class 2. Risk class 3 comprises all defaulted receivables.

The table below presents the gross carrying amounts of financial assets by rating category as of December 31, 2018:

GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS BY RATING CATEGORY AS OF DECEMBER 31, 2018

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Credit risk rating grade 1 (receivables with no credit risk – standard loans)	116,912	8,007	–	58,537	93
Credit risk rating grade 2 (receivables with credit risk – intensified loan management)	2,243	4,787	–	5,687	37
Credit risk rating grade 3 (cancelled receivables – non-performing loans)	–	–	1,719	1,017	467
Total	**119,155**	**12,794**	**1,719**	**65,241**	**597**

Furthermore, the default risk exposure for financial guarantees and credit commitments is presented below:

DEFAULT RISK FOR FINANCIAL GUARANTEES AND CREDIT COMMITMENTS AS OF DECEMBER 31,2018

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Credit risk rating grade 1 (receivables with no credit risk – standard loans)	4,243	304	–	1
Credit risk rating grade 2 (receivables with credit risk – intensified loan management)	76	15	–	0
Credit risk rating grade 3 (cancelled receivables – non-performing loans)	–	–	17	4
Total	**4,318**	**319**	**17**	**5**

In addition, the credit and default risk relating to financial assets, the credit rating of financial assets that are neither past due nor impaired, and the maturities of financial assets that are past due and not impaired are presented for the previous year in the table below:

CREDIT AND DEFAULT RISK RELATING TO FINANCIAL ASSETS BY GROSS CARRYING AMOUNT AS OF DECEMBER 31, 2017

€ million	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2017
Measured at amortized cost				
Financial services receivables	124,044	2,888	2,900	129,832
Trade receivables	10,395	2,833	562	13,791
Other receivables	13,403	102	196	13,700
Measured at fair value	16,862	–	290	17,152
	164,704	**5,822**	**3,948**	**174,475**

CREDIT RATING OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS THAT ARE NEITHER PAST DUE NOR IMPAIRED AS OF DECEMBER 31, 2017

€ million	Risk class 1	Risk class 2	Dec. 31, 2017
Measured at amortized cost			
Financial services receivables	104,143	19,901	124,044
Trade receivables	10,259	136	10,395
Other receivables	13,313	90	13,403
Measured at fair value	22,086	–	22,086
	149,802	**20,127**	**169,928**

MATURITY ANALYSIS OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS THAT ARE PAST DUE AND NOT IMPAIRED AS OF DECEMBER 31, 2017

	PAST DUE BY			GROSS CARRYING AMOUNT
€ million	up to 30 days	within 30 to 90 days	more than 90 days	Dec. 31, 2017
Measured at amortized cost				
Financial services receivables	2,148	728	12	2,888
Trade receivables	1,164	689	980	2,833
Other receivables	43	21	37	102
Measured at fair value	–	–	–	–
	3,355	**1,438**	**1,029**	**5,822**

Collateral that was accepted for financial assets in the current fiscal year was recognized in the balance sheet in the amount of €134 million (previous year: €109 million). This mainly relates to vehicles.

3. LIQUIDITY RISK

The solvency and liquidity of the Volkswagen Group are ensured at all times by rolling liquidity planning, a liquidity reserve in the form of cash, confirmed credit lines and the issuance of securities on the international money and capital markets. The volume of confirmed bilateral and syndicated credit lines stood at €16.8 billion as of December 31, 2018 (previous year: €19.9 billion), of which €3.4 billion (previous year: €3.4 billion) was drawn down.

Local cash funds in certain countries (e.g. China, Brazil, Argentina, South Africa and India) are only available to the Group for cross-border transactions subject to exchange controls. There are no significant restrictions over and above these.

The following overview shows the contractual undiscounted cash flows from financial instruments:

MATURITY ANALYSIS OF UNDISCOUNTED CASH FLOWS FROM FINANCIAL INSTRUMENTS

€ million	REMAINING CONTRACTUAL MATURITIES				REMAINING CONTRACTUAL MATURITIES			
	up to one year	within one to five years	more than five years	2018	up to one year	within one to five years	more than five years	2017
Put options and compensation rights granted to noncontrolling interest shareholders	1,853	–	–	1,853	3,379	–	–	3,379
Financial liabilities	91,891	84,965	23,380	200,235	83,867	69,968	16,113	169,949
Trade payables	23,607	0	–	23,607	23,041	5	–	23,046
Other financial liabilities	8,010	1,916	154	10,080	7,360	1,557	86	9,003
Derivatives	63,059	42,984	3,036	109,078	72,635	47,414	332	120,381
	188,419	**129,865**	**26,570**	**344,854**	**190,281**	**118,945**	**16,531**	**325,758**

When calculating cash outflows related to put options and compensation rights, it was assumed that shares would be tendered at the earliest possible date. The cash outflows on other financial liabilities include outflows on liabilities for tax allocations amounting to €33 million.

Derivatives comprise both cash flows from derivative financial instruments with negative fair values and cash flows from derivatives with positive fair values for which gross settlement has been agreed. Derivatives entered into through offsetting transactions are also accounted for as cash outflows. The cash outflows from derivatives for which gross settlement has been agreed are matched in part by cash inflows. These cash inflows are not reported in the maturity analysis. If these cash inflows were also recognized, the cash outflows presented would be substantially lower. This applies in particular also if hedges have been closed with offsetting transactions.

The cash outflows from irrevocable credit commitments are presented in section entitled "Other financial obligations", classified by contractual maturities.

As of December 31, 2018, the maximum potential liability under financial guarantees amounted to €315 million (previous year: €261 million). Financial guarantees are assumed to be due immediately in all cases.

4. MARKET RISK

4.1 Hedging policy and financial derivatives

During the course of its general business activities, the Volkswagen Group is exposed to foreign currency, interest rate, commodity price, equity price and fund price risk. Corporate policy is to limit or eliminate such risk by means of hedging. Generally, all necessary hedging transactions with the exception of the Scania, MAN and Porsche Holding GmbH (Salzburg) subgroups are executed or coordinated centrally by Group Treasury.

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES

Fair value hedges involve hedging against the risk of changes in the carrying amount of balance sheet items. As of the reporting date, both hedging instruments and hedged items are measured at fair value in relation to the hedged risk, and the resulting changes in value are recognized on a net basis in the corresponding income statement item. In the previous year, income from fair value hedges amounted to €7 million.

The following table shows the gains and losses from (fair value) hedges by risk type during the fiscal year:

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES IN 2018

€ million	Hedge ineffectiveness in hedging relationships
Hedging interest rate risk	
Other financial result	–
Other operating result	34
Hedging currency risk	
Other financial result	–
Other operating result	–30
Combined interest rate and currency risk hedging	
Other financial result	0
Other operating result	5

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES

Cash flow hedges are used to hedge against risks of fluctuations in future cash flows. These cash flows may arise from a recognized asset or liability, or from a highly probable forecast transaction. The following table shows the gains and losses from cash flow hedges by risk type:

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES IN 2018

€ million	2018
Hedging interest rate risk	
Gains or losses from changes in fair value of hedging instruments within hedge accounting	
Recognized in equity	–38
Recognized in profit or loss	0
Reclassification from the cash flow hedge reserve to profit or loss	
Due to early discontinuation of the hedging relationships	–
Due to realization of the hedged item	2
Hedging currency risk	
Gains or losses from changes in fair value of hedging instruments within hedge accounting	
Recognized in equity	–1,367
Recognized in profit or loss	–7
Reclassification from the cash flow hedge reserve to profit or loss	
Due to early discontinuation of the hedging relationships	–1
Due to realization of the hedged item	–1,074
Combined interest rate and currency risk hedging	
Gains or losses from changes in fair value of hedging instruments within hedge accounting	
Recognized in equity	8
Recognized in profit or loss	0
Reclassification from the cash flow hedge reserve to profit or loss	
Due to early discontinuation of the hedging relationships	–
Due to realization of the hedged item	–8
Hedging commodity price risk	
Gains or losses from changes in fair value of hedging instruments within hedge accounting	
Recognized in equity	–5
Recognized in profit or loss	–
Reclassification from the cash flow hedge reserve to profit or loss	
Due to early discontinuation of the hedging relationships	–
Due to realization of the hedged item	1

The table presents effects taken to equity, reduced by deferred taxes.

The gain or loss from changes in the fair value of hedging instruments used in hedge accounting corresponds to the basis for determining hedge ineffectiveness. The ineffective portion of a cash flow hedge is the income or expense resulting from changes in the fair value of the hedging instrument that exceed the changes in the fair value of the hedged item. This hedge ineffectiveness is attributable to parameter differences between the hedging instrument and the hedged item. Such income and expenses are recognized in other operating income/expenses or in the financial result. In fiscal year 2017, ineffectiveness amounting to €–11 million was recognized in the income statement. The Volkswagen Group uses two different methods to present market risk from nonderivative and derivative financial instruments in accordance with IFRS 7. For quantitative risk measurement, interest rate and foreign currency risk in the Volkswagen Financial Services subgroup are measured using a value-at-risk (VaR) model on the basis of a historical simulation, while market risk in the other Group companies is determined using a sensitivity analysis. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from nonderivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in calculating value at risk covers a period of 1,000 trading days. The sensitivity analysis calculates the effect on equity and profit or loss by modifying risk variables within the respective market risks.

DISCLOSURES ON HEDGING INSTRUMENTS IN HEDGE ACCOUNTING

The Volkswagen Group regularly enters into hedging instruments to hedge against changes in the carrying amount of balance sheet items. The summary below shows the notional amounts, fair values and base variables for determining the ineffectiveness of hedging instruments entered into to hedge against the risk of changes in carrying amounts in fair value hedges:

DISCLOSURES ON HEDGING TRANSACTIONS IN FAIR VALUE HEDGES IN 2018

€ million	Notional amount	Other assets	Other liabilities	Fair value changes to determine hedge ineffectiveness
Hedging interest rate risk				
Interest rate swaps and interest rate options contracts	48,609	467	61	309
Hedging currency risk				
Currency forwards, currency options, cross-currency swaps	6,811	222	75	95
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	901	58	0	108

In addition, hedging instruments are entered into to hedge against the risk of fluctuations in future cash flows. The table below shows the notional amounts, fair values and base variables for determining the ineffectiveness of hedging instruments designated as cash flow value hedges.

DISCLOSURES ON HEDGING TRANSACTIONS IN CASH FLOW HEDGES IN 2018

€ million	Notional amount	Other assets	Other liabilities	Fair value changes to determine hedge ineffectiveness
Hedging interest rate risk				
Interest rate swaps	12,477	39	15	17
Hedging currency risk				
Currency forwards and cross-currency swaps	66,505	1,834	836	2,794
Currency options	17,956	187	91	69
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,424	44	11	35

The change in the fair value to determine ineffectiveness corresponds to the change in fair value of the designated component.

DISCLOSURES ON HEDGED ITEMS IN HEDGE ACCOUNTING

In addition to disclosures on hedging instruments, disclosures are also required on the hedged items, broken down by risk category and type of designation for hedge accounting. Below follows a list of hedged items designated in fair value hedges, separately from those designated in cash flow hedges:

DISCLOSURES ON HEDGED ITEMS IN FAIR VALUE HEDGES IN 2018

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments (current period/fiscal year)	Cumulative hedge adjustments from discontinued hedging relationships
Hedging interest rate risk				
Financial services receivables	19,311	–10	20	–
Other financial assets	–	17	17	–
Financial liabilities	31,670	220	127	–
Other financial liabilities	–	–	–	–
Hedging currency risk				
Trade receivables	–	–	–	–
Financial services receivables	–	–	–	3
Other financial assets	640	28	77	–
Financial liabilities	26	36	38	–
Other financial liabilities	–	–	–	–
Trade payables	–	–	–	–
Other provisions	–	–	–	–
Combined interest rate and currency risk hedging				
Financial services receivables	–	4	4	–
Other financial assets	714	–32	–4	–
Financial liabilities	166	1	1	–
Other financial liabilities	–	–	–	–

DISCLOSURES ON HEDGED ITEMS IN CASH FLOW HEDGES IN 2018

€ million	Changes in fair value to determine hedge ineffectiveness	Reserve for: Active cash flow hedges	Reserve for: Discontinued cash flow hedges
Hedging interest rate risk			
Designated components	26	19	0
Non-designated components	–	–	–
Deferred taxes	–	–1	0
Total hedging interest rate risk	26	19	0
Hedging currency risk			
Designated components	2,526	2,524	0
Non-designated components	–	–885	–9
Deferred taxes	–	–478	1
Total hedging currency risk	2,526	1,162	–8
Combined interest rate and currency risk hedging			
Designated components	27	2	–26
Non-designated components	–	–	–
Deferred taxes	–	0	8
Total hedging combined interest rate and currency risk	27	1	–18
Hedging commodity price risk			
Designated components	–	–	7
Non-designated components	–	–	–
Deferred taxes	–	–	–2
Total hedging commodity price risk	–	–	5

CHANGES IN THE RESERVE

When accounting for cash flow hedges, the designated effective portions of a hedging relationship are recognized in OCI I. Any changes in excess of the fair value of the designated component are recognized as ineffectiveness through profit or loss.

The table below shows a reconciliation to the reserve:

CHANGES IN THE RESERVE FOR CASH FLOW HEDGES (OCI I) FROM JANUARY 1 TO DECEMBER 31, 2018

€ million	Interest rate risk	Currency risk	Interest rate/ currency risk	Commodity price risk	**Total**
Balance at Jan. 1, 2018	**55**	**3,533**	**–16**	**9**	**3,581**
Gains or losses from effective hedging relationships	–38	–414	8	–5	–450
Reclassifications due to changes in whether the hedged item is expected to occur	–	–1	–	–	–1
Reclassifications due to realization of the hedged item	2	–1,335	–8	1	–1,341
Balance at Dec. 31, 2018	**19**	**1,783**	**–17**	**5**	**1,790**

If expectations about the occurrence of the hedged item change, the arrangement is reclassified by terminating the hedging relationship prematurely. Changed expectations are primarily caused by a change in projections for hedging sales revenue.

Changes in the fair values of non-designated components of a derivative are likewise always recognized immediately through profit or loss. An exception from this principle is any change in the fair value attributable to non-designated time values of options, to the extent that they relate to the hedged item. Moreover, the Volkswagen Group initially recognizes in equity (hedging costs) changes in the fair values of non-designated forward components in currency forwards and currency hedges attributed to cash flow hedges. This means that the Volkswagen Group recognizes changes in the fair value of the non-designated component or parts thereof immediately through profit or loss only if there is ineffectiveness.

The tables below show a summary of changes in the reserve for hedging costs resulting from the non-designated portions of options and currency hedges:

CHANGES IN THE RESERVE FOR HEDGING COSTS – NON-DESIGNATED TIME VALUES OF OPTIONS FROM JANUARY 1 TO DECEMBER 31, 2018

€ million	Currency risk
Balance at Jan. 1, 2018	**63**
Gains and losses from non-designated time value of options	
Hedged item is recognized at a point in time	–86
Reclassification due to realization of the hedged item	
Hedged item is recognized at a point in time	23
Balance at Dec. 31, 2018	**–1**

CHANGES IN THE RESERVE FOR HEDGING COSTS – NON-DESIGNATED FORWARD COMPONENT AND CROSS CURRENCY BASIS SPREAD (CCBS) FROM JANUARY 1 TO DECEMBER 31, 2018

€ million	Currency risk
Balance at Jan. 1, 2018	**–**
Gains and losses from non-designated forward elements and CCBS	
Hedged item is recognized at a point in time	–866
Reclassification due to realization of the hedged item	
Hedged item is recognized at a point in time	238
Reclassification due to changes in whether the hedged item is expected to occur	
Hedged item is recognized at a point in time	0
Balance at Dec. 31, 2018	**–628**

4.2 Market risk in the Volkswagen Group (excluding Volkswagen Financial Services subgroup)

4.2.1 Foreign currency risk

Foreign currency risk in the Volkswagen Group (excluding Volkswagen Financial Services subgroup) is attributable to investments, financing measures and operating activities. Currency forwards, currency options, currency swaps and cross-currency interest rate swaps are used to limit foreign currency risk. These transactions relate to the exchange rate hedging of all material payments covering general business activities that are not made in the functional currency of the respective Group companies. The principle of matching currencies applies to the Group's financing activities.

Hedging transactions entered into in 2018 as part of foreign currency risk management were amongst others in Argentine pesos, Australian dollars, Brazilian real, sterling, Chinese renminbi, Hong Kong dollars, Indian rupees, Japanese yen, Canadian dollars, Mexican pesos, Norwegian kroner, Polish zloty, Russian rubles, Swedish kronor, Swiss francs, Singapore dollars, South African rand, South Korean won, Taiwan dollars, Czech koruna, Hungarian forints and US dollars.

All nonfunctional currencies in which the Volkswagen Group enters into financial instruments are included as relevant risk variables in the sensitivity analysis in accordance with IFRS 7.

If the functional currencies concerned had appreciated or depreciated by 10% against the other currencies, the exchange rates shown below would have resulted in the following effects on the hedging reserve in equity and on earnings after tax. It is not appropriate to add together the individual figures, since the results of the various functional currencies concerned are based on different scenarios.

The following table shows the sensitivities of the main currencies in the portfolio as of December 31, 2018:

€ million	DEC. 31, 2018 +10%	DEC. 31, 2018 –10%	DEC. 31, 2017 +10%	DEC. 31, 2017 –10%
Exchange rate				
EUR/USD				
Hedging reserve	1,329	–1,272	1,627	–1,303
Earnings after tax	–449	449	–365	193
EUR/GBP				
Hedging reserve	960	–959	1,126	–1,124
Earnings after tax	–205	205	–73	75
EUR/CNY				
Hedging reserve	729	–725	515	–491
Earnings after tax	–159	159	–58	62
EUR/CHF				
Hedging reserve	312	–298	246	–232
Earnings after tax	12	–12	16	–20
EUR/JPY				
Hedging reserve	287	–285	271	–244
Earnings after tax	–18	18	–40	20
EUR/CAD				
Hedging reserve	117	–113	121	–113
Earnings after tax	–30	30	–51	48
CZK/GBP				
Hedging reserve	135	–135	91	–91
Earnings after tax	–1	1	0	0
EUR/AUD				
Hedging reserve	97	–97	164	–164
Earnings after tax	–32	32	–36	37
EUR/SEK				
Hedging reserve	94	–92	105	–100
Earnings after tax	–35	35	–22	18
EUR/PLN				
Hedging reserve	–54	54	0	0
Earnings after tax	–52	52	–60	60
EUR/CZK				
Hedging reserve	65	–65	69	–69
Earnings after tax	–38	38	–20	20
EUR/TWD				
Hedging reserve	77	–77	72	–72
Earnings after tax	–6	6	–10	10
EUR/BRL				
Hedging reserve	8	–8	6	–6
Earnings after tax	–65	65	–20	20
EUR/HUF				
Hedging reserve	0	0	0	0
Earnings after tax	–63	63	–54	54
GBP/USD				
Hedging reserve	61	–61	63	–63
Earnings after tax	1	–1	–2	2

4.2.2 Interest rate risk

Interest rate risk in the Volkswagen Group (excluding Volkswagen Financial Services subgroup) results from changes in market interest rates, primarily for medium- and long-term variable interest receivables and liabilities. Interest rate swaps and cross-currency interest rate swaps are sometimes entered into to hedge against this risk primarily under fair value or cash flow hedges, and depending on market conditions. Intragroup financing arrangements are mainly structured to match the maturities of their refinancing. Departures from the Group standard are subject to centrally defined limits and monitored on an ongoing basis.

Interest rate risk within the meaning of IFRS 7 is calculated for these companies using sensitivity analyses. The effects of the risk-variable market rates of interest on the financial result and on equity are presented, net of tax.

If market interest rates had been 100 bps higher as of December 31, 2018, equity would have been €131 million (previous year: €88 million) lower. If market interest rates had been 100 bps lower as of December 31, 2018, equity would have been €66 million (previous year: €24 million) higher.

If market interest rates had been 100 bps higher as of December 31, 2018, earnings after tax would have been €24 million higher (previous year: €76 million lower). If market interest rates had been 100 bps lower as of December 31, 2018, earnings after tax would have been €26 million lower (previous year: €64 million higher).

4.2.3 Commodity price risk

Commodity price risk in the Volkswagen Group (excluding Volkswagen Financial Services subgroup) primarily results from price fluctuations and the availability of ferrous and non-ferrous metals, precious metals, commodities required in connection with the Group's digitalization and electrification strategy, as well as of coal, CO_2 certificates and rubber.

Commodity price risk is limited by entering into forward transactions and swaps.

Commodity price risk within the meaning of IFRS 7 is presented using sensitivity analyses. These show the effect on earnings after tax of changes in the risk variable commodity prices.

If the commodity prices of the hedged nonferrous metals, coal and rubber had been 10% higher (lower) as of December 31, 2018, earnings after tax would have been €197 million (previous year: €101 million) higher (lower).

4.2.4 Equity and bond price risk

The special funds launched using surplus liquidity and the equity interests measured at fair value are subject in particular to equity price and bond price risk, which can arise from fluctuations in quoted market prices, stock exchange indices and market rates of interest. The changes in bond prices resulting from variations in the market rates of interest are quantified in sections 4.2.1 and 4.2.2, as are the measurement of foreign currency and other interest rate risks arising from the special funds and the equity interests measured at fair value. As a rule, risks arising from the special funds are countered by ensuring a broad diversification of products, issuers and regional markets when investing funds, as stipulated by the Investment Guidelines of the Group. In addition, we hedge exchange rates when market conditions are appropriate.

As part of the presentation of market risk, IFRS 7 requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Potential risk variables here are in particular quoted market prices or indices, as well as interest rate changes as bond price parameters.

If share prices had been 10% higher as of December 31, 2018, earnings after tax would have been €16 million higher and equity would have been €4 million (previous year: €28 million effect on equity) higher. If share prices had been 10% lower as of December 31, 2018, earnings after tax would have been €25 million lower and the equity €4 million (previous year: €108 million effect on equity) lower.

4.3 Market risk at Volkswagen Financial Services subgroup

Exchange rate risk in the Volkswagen Financial Services subgroup is mainly attributable to assets that are not denominated in the functional currency and from refinancing within operating activities. Interest rate risk relates to refinancing without matching maturities and the varying interest rate elasticity of individual asset and liability items. The risks are limited by the use of currency and interest rate hedges.

Microhedges and portfolio hedges are used for interest rate hedging. Fixed-rate assets and liabilities included in the hedging strategy are recognized at fair value, as opposed to their original subsequent measurement at amortized cost. The resulting effects in the income statement are offset by the corresponding gains and losses on the interest rate hedging instruments (swaps). Currency hedges (currency forwards and cross-currency interest rate swaps) are used to mitigate foreign currency risk. All cash flows in foreign currency are hedged.

As of December 31, 2018, the value at risk was €122 million (previous year: €167 million) for interest rate risk and €187 million (previous year: €165 million) for foreign currency risk.

The entire value at risk for interest rate and foreign currency risk at the Volkswagen Financial Services subgroup was €214 million (previous year: €167 million).

5. METHODS FOR MONITORING HEDGE EFFECTIVENESS

Since the implementation of IFRS 9, the Volkswagen Group determines hedge effectiveness mainly on a prospective basis using the critical terms match method. Retrospective analysis of effectiveness uses effectiveness tests in the form of the dollar offset method. Under the dollar offset method, the changes in value of the hedged item expressed in monetary units are compared with the changes in value of the hedging instrument expressed in monetary units.

To this end, the accumulated changes in the fair value of the designated spot component of the hedging instrument and hedged item are compared. If the critical terms do not match, the same procedure is applied to the non-designated component.

NOTIONAL AMOUNT OF DERIVATIVES

The summary below presents the remaining maturities profile of the notional amounts of the hedging instruments, which are accounted for under the Volkswagen Group's hedge accounting rules, and of derivatives to which hedge accounting is not applied:

NOTIONAL AMOUNT OF DERIVATIVES IN 2017

	REMAINING TERM			TOTAL NOTIONAL AMOUNT
€ million	up to one year	within one to five years	more than five years	Dec. 31, 2017
Notional amount of hedging instruments used in cash flow hedges				
Interest rate swaps	3,490	8,999	38	12,527
Currency forwards	32,329	35,538	–	67,867
Currency options	8,128	11,435	–	19,563
Currency swaps	–	–	–	–
Cross-currency interest rate swaps	387	165	–	551
Commodity futures contracts	–	–	–	–
Notional amount of other derivatives				
Interest rate swaps	20,483	48,067	20,125	88,675
Interest rate option contracts	–	–	–	–
Currency forwards	19,592	2,942	2	22,535
Other currency options	10	–	–	10
Currency swaps	20,825	1,451	–	22,276
Cross-currency interest rate swaps	3,350	6,025	293	9,667
Commodity futures contracts	798	477	–	1,275

NOTIONAL AMOUNT OF DERIVATIVES IN 2018

€ million	REMAINING TERM up to one year	within one to five years	more than five years	TOTAL NOTIONAL AMOUNT Dec. 31, 2018
Notional amount of hedging instruments within hedge accounting				
Hedging interest rate risk				
Interest rate swap	11,136	43,360	6,590	61,086
Hedging currency risk				
Currency forwards/Cross-currency swaps				
Currency forwards/Cross-currency swaps in CNY	6,857	2,555	–	9,412
Currency forwards/Cross-currency swaps in GBP	11,524	6,746	–	18,270
Currency forwards/Cross-currency swaps in USD	7,451	11,412	–	18,863
Currency forwards/Cross-currency swaps in other currencies	16,905	9,866	–	26,770
Currency options				
Currency options in USD	5,903	3,781	–	9,683
Currency options in CNY	2,539	1,523	–	4,062
Currency options in other currencies	1,295	2,915	–	4,210
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,090	1,235	–	2,325
Notional amount of other derivatives				
Hedging Interest rate risk				
Interest rate swap	20,303	26,293	19,762	66,358
Hedging Currency risk				
Currency forwards/Cross-currency swaps				
Currency forwards/Cross-currency swaps in USD	8,626	3,777	1	12,403
Currency forwards/Cross-currency swaps in other currencies	15,732	1,804	0	17,537
Currency options				
Currency options	215	–	–	215
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	5,930	5,594	926	12,450
Hedging Commodity price risk				
Forward commodity contracts aluminum	923	1,208	–	2,131
Forward commodity contracts copper	241	445	–	686
Forward commodity contracts other	131	304	–	436

Both derivatives closed with offsetting transactions and the offsetting transactions themselves are included in the respective notional amount. The offsetting transactions cancel out the effects of the original hedging transactions. If the offsetting transactions were not included, the respective notional amount would be significantly lower. In addition to the derivatives used for hedging foreign currency, interest rate and price risk, the Group held options and other derivatives on equity instruments at the reporting date with a notional amount of €3,762 million (previous year: €29 million) whose remaining maturity is under one year, as well as credit default swaps in connection with fund investments with a notional amount of €21 billion.

Existing cash flow hedges in the notional amount of €53 million (previous year: €361 million) were discontinued because of a reduction in the projections. €3 million was transferred from the cash flow hedge reserve to the financial result in the previous year, reducing earnings. In addition, hedges were to be terminated due to internal risk regulations.

Items hedged under cash flow hedges are expected to be realized in accordance with the maturity buckets of the hedges reported in the table. For cash flow hedges, the Volkswagen Group achieved an average hedging interest rate of 1.65% for hedging interest rate risk. In addition, currency risk was hedged at the following hedging exchange rates for the major currency pairs: EUR/USD at 1.19; EUR/GBP at 0.86; EUR/CNY at 8.20.

The fair values of the derivatives are estimated using market data at the balance sheet date as well as by appropriate valuation techniques. The following term structures were used for the calculation:

in %	EUR	AUD	CHF	CNY	GBP	JPY	PLN	SEK	USD
Interest rate for six months	–0.3061	1.9938	–0.5510	3.2700	0.9170	0.0868	1.7892	–0.1043	2.7736
Interest rate for one year	–0.2631	1.9515	–0.5517	3.2174	0.9836	0.0087	1.7754	–0.0659	2.7653
Interest rate for five years	0.1970	2.2188	–0.1390	3.6600	1.3050	0.0238	2.1250	0.5080	2.5942
Interest rate for ten years	0.8150	2.5563	0.2950	4.1500	1.4365	0.1763	2.4810	1.1280	2.7330

35. Capital management

The Group's capital management ensures that its goals and strategies can be achieved in the interests of shareholders, employees and other stakeholders. In particular, management focuses on generating the minimum return on invested assets in the Automotive Division that is required by the capital markets, and on increasing the return on equity in the Financial Services Division. In the process, it aims overall to achieve the highest possible growth in the value of the Group and its divisions for the benefit of all the Company's stakeholder groups.

In order to maximize the use of resources in the Automotive Division and to measure the success of this, we have for a number of years been using a value-based management system, with value contribution as an absolute performance measure and return on investment (ROI) as a relative indicator.

Value contribution is defined as the difference between operating profit after tax and the opportunity cost of invested capital. The opportunity cost of capital is calculated by multiplying the market cost of capital by average invested capital. Invested capital is calculated by taking the operating assets reported in the balance sheet (property, plant and equipment, intangible assets, lease assets, inventories and receivables) and deducting non-interest-bearing liabilities (trade payables and payments on account received). Average invested capital is derived from the balance sheet at the beginning and the end of the reporting period. Despite the charges relating to the special items recognized in the operating result, the Automotive Division disclosed a positive value contribution of €4,964 million in the reporting period which, due to the improvement in the operating result before special items and an only slight increase in the cost of capital, was significantly higher than the prior-year figure.

The return on investment is defined as the return on invested capital for a particular period based on the operating result after tax. If the return on investment exceeds the market cost of capital, there is an increase in the value of the invested capital and a positive value contribution. In the Group, a minimum required rate of return on invested capital of 9% is defined, which applies to both the business units and the individual products and product lines. Our goal of generating a sustained return on investment of over 15% is anchored in Strategy 2025. The return on investment therefore serves as a consistent target in operational and strategic management and is used to measure target attainment for the Automotive Division, the individual business units, and projects and products. The return on investment achieved for the Automotive Division was 11.0%, which is above our minimum rate of return on invested capital of 9% and significantly exceeds the current cost of capital of 6.2%.

Due to the specific features of the Financial Services Division, its management focuses on return on equity, a special target linked to invested capital. This measure is calculated as the ratio of earnings before tax to average equity. Average equity is calculated from the balance at the beginning and the end of the reporting period. In addition, the goals of the Financial Services Division are to meet the banking supervisory authorities' regulatory capital requirements, to procure equity for the growth planned in the coming fiscal years and to support its external rating by ensuring capital adequacy. To ensure compliance with prudential requirements at all times, a planning procedure integrated into internal reporting has been put in place at the Volkswagen Bank, allowing the required equity to be continuously determined on the basis of actual and expected business performance. In the reporting period, this again ensured that regulatory minimum capital requirements were always met both at Group level and at the level of subordinate companies' individual, specific capital requirements.

The return on investment and value contribution in the Automotive Division as well as the return on equity and the equity ratio in the Financial Services Division are shown in the following table:

€ million	2018	2017
Automotive Division[1]		
Operating result after tax	11,438	11,756
Invested capital (average)	104,424	97,021
Return on investment (ROI) in %	**11.0**	**12.1**
Cost of capital in %	6.2	6.0
Opportunity cost of invested capital	6,474	5,821
Value contribution[2]	**4,964**	**5,935**
Financial Services Division		
Earnings before tax	2,782	2,502
Average equity	27,982	25,626
Return on equity before tax in %	**9.9**	**9.8**
Equity ratio in %	**12.7**	**13.7**

1 Including proportionate inclusion of the Chinese joint ventures and allocation of consolidation adjustments between the Automotive and Financial Services Divisions; excluding effects on earnings and assets from purchase price allocation.
2 The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.

36. Contingent liabilities

€ million	Dec. 31, 2018	Dec. 31, 2017
Liabilities under guarantees	511	423
Liabilities under warranty contracts	138	60
Assets pledged as security for third-party liabilities	18	21
Other contingent liabilities	8,607	7,909
	9,274	**8,413**

The trust assets and liabilities of the savings and trust entities belonging to the South American subsidiaries not included in the consolidated balance sheet amount to €558 million (previous year: €768 million).

In the case of liabilities from guarantees, the Group is required to make specific payments if the debtors fail to meet their obligations.

The other contingent liabilities primarily comprise potential liabilities arising from matters relating to taxes and customs duties, as well as litigation and proceedings relating to suppliers, dealers, customers, employees and investors. The contingent liabilities recognized in connection with the diesel issue totaled €5.4 billion (previous year: €4.3 billion), of which €3.4 billion (previous year: €3.4 billion) was attributable to investor lawsuits. Also included are certain elements of the class action lawsuits and proceedings/misdemeanor proceedings relating to the diesel issue as far as these can be quantified. As some of these proceedings are still at a very early stage, the plaintiffs have in a number of cases so far not specified the basis of their claims and/or there is insufficient certainty about the number of plaintiffs or the amounts being claimed. These lawsuits meet the definition of a contingent liability but cannot, as a rule, be disclosed because it is impossible to measure the amount involved. The administrative fine proceedings in accordance with section 30, 130 of the Gesetz über Ordnungswidrigkeiten (OWiG – Act on Regulatory Offenses) instituted against Porsche AG on January 21, 2019 are likewise at a very early stage. In the absence of measurable data, no contingent liability has therefore been recognized for these proceedings.

In addition, other contingent liabilities include an amount of €0.7 billion for potential liabilities resulting from the risk of tax proceedings instituted by the Brazilian tax authorities against MAN Latin America.

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

As permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Company, we have not made any further disclosures about estimates in connection with the financial effects of, and disclosures about, uncertainty regarding the timing or amount of contingent liabilities in connection with the diesel issue and investigations by the European Commission. Further information can be found under the section entitled “Litigation”.

37. Litigation

In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested are involved in a great number of legal disputes and governmental proceedings in Germany and abroad. Such legal disputes and other proceedings occur in relation to employees, dealers, investors, customers, or suppliers, among others, or in relation to relevant public authorities. For the companies involved, these may result in payment or other obligations. In particular, substantial compensatory or punitive damages may have to be paid and cost-intensive measures may have to be implemented. In this context, specific quantification of the objectively likely consequences is often possible only to a very limited extent, if at all.

Risks may also emerge in connection with the adherence to regulatory requirements. This particularly applies in the case of regulatory vagueness that may be interpreted differently by Volkswagen and the authorities responsible for the respective regulations. In addition, legal risks can arise from the criminal activities of individual persons, which even the best compliance management system can never completely prevent.

Where transparent and economically viable, adequate insurance coverage was taken out for these risks. For the identifiable and measurable risks, provisions considered appropriate based on existing information were recognized and information about contingent liabilities disclosed. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not covered by the insured amounts and provisions cannot be ruled out. This applies particularly to legal risk assessment regarding the diesel issue.

Diesel issue

In the USA Volkswagen AG and certain affiliates reached settlement agreements (including various consent decrees) with the US Department of Justice (DOJ), the US Environmental Protection Agency (EPA), the State of California, the California Air Resources Board (CARB), the California Attorney General, the US Federal Trade Commission, and private plaintiffs represented by a Plaintiffs' Steering Committee in a multi- district litigation in California. These settlement agreements resolved certain civil claims made in relation to affected diesel vehicles in the United States of America.

Volkswagen AG also entered into agreements to resolve US federal criminal liability and certain civil penalties and claims relating to the diesel issue. As part of its plea agreement, Volkswagen AG agreed to plead guilty to three felony counts under US law – including conspiracy to commit fraud, obstruction of justice and using false statements to import cars into the United States of America – and has been sentenced to three years' probation.

A description of the diesel issue can be found starting on page 92. In connection with the diesel issue, potential consequences for Volkswagen’s results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Coordination with the authorities on technical measures worldwide

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines.

Within its area of responsibility, the German Federal Motor Transport Authority (Kraftfahrt-Bundesamt or KBA) ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emission figures, engine power, maximum torque, and noise emissions.

AUDI AG has worked intensively for many months to check all relevant diesel concepts for possible discrepancies and retrofit potentials. The measures proposed by AUDI AG have been adopted and mandated in various recall notices issued by the KBA for vehicle models with V6 and V8 TDI engines.

Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. The measures submitted by AUDI AG are being examined by the KBA and can only be made available to customers after corresponding approval by the KBA.

The Ministry of Environment in South Korea qualified certain emissions strategies in the engine control software of various diesel vehicles with V6 or V8-TDI engines meeting the Euro 6 emission standard as an unlawful defeat device and ordered a recall on April 4, 2018; the same applies to the Dynamic Shift Program (DSP) in the transmission control of a number of Audi models.

In the USA, in fiscal year 2018, the EPA and CARB issued the outstanding official approvals needed for the technical solutions for the affected vehicles with 2.0 l TDI and with V6 3.0 l TDI engines. In the case of 2.0 l Generation 2 diesel vehicles with manual transmissions, Volkswagen Group of America, Inc. elected to withdraw the approved emissions modification proposal, whereby owners were given the option of a buyback and lessees were given the option of early lease termination.

On October 31, 2018, after discussions with DOJ, EPA, and CARB, the parties agreed to modify the First and Second Partial Consent Decrees to clarify that Volkswagen may repair certain technical issues with approved emissions modifications through an “AEM Correction” (Approved Emissions Modifications).

2. Criminal and administrative proceedings worldwide (excluding the USA/Canada)

Criminal investigations, regulatory offense proceedings, and/or administrative proceedings (in Germany for example by the Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin – Federal Financial Supervisory Authority) have been opened in some countries. The public prosecutor’s offices in Braunschweig and Munich are investigating the core issues of the criminal investigations.

The Braunschweig Office of the Public Prosecutor is investigating approximately 40 (current and former) employees and a former member of the Board of Management for possible fraud, among other things. The investigations are ongoing. The defendants and Volkswagen AG were permitted to inspect the investigation files.

The regulatory offense proceeding that was opened against Volkswagen AG in this connection in April 2016 has been terminated by the administrative fine order issued against Volkswagen AG by the Braunschweig Office of the Public Prosecutor on June 13, 2018. The administrative fine order is based on a negligent breach in the Powertrain Development department of the obligation to supervise, relating to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a total fine of €1.0 billion, consisting of a penalty payment of €5 million and the forfeiture of economic benefits in the amount of €995 million. After thorough examination, the fine has been accepted and paid in full by Volkswagen AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Volkswagen AG. Further sanctions against or forfeitures by Volkswagen AG and its Group companies are therefore not expected in Germany in connection with the unitary factual situation covered by the administrative order concerning diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. As a result, Volkswagen expects that the conclusion of this proceeding will have a substantially positive impact on other governmental proceedings being conducted in Europe against Volkswagen AG and its Group companies.

The Braunschweig Office of the Public Prosecutor is conducting another proceeding against three (current or former) members of the Board of Management for alleged market manipulation with respect to capital market disclosure obligations in connection with the diesel issue. In this context, the Office of the Public Prosecutor has been conducting a regulatory offense proceeding against Volkswagen AG under § 30 OWiG (German Regulatory Offenses Act) since July 30, 2018. Volkswagen AG has since been permitted to inspect the public prosecutor's investigation files several times. The investigations are ongoing.

The Munich II Office of the Public Prosecutor is conducting investigations against 24 persons, including the former Chairman of the Board of Management of AUDI AG (who is also a former member of the Board of Management of Volkswagen AG) and another active member of the Board of Management of AUDI AG. The investigations are ongoing. AUDI AG has appointed two renowned major law firms to clarify the matters underlying the public prosecutor’s accusations. The Board of Management and Supervisory Board of AUDI AG are being regularly updated on the current state of affairs.

The administrative fine order issued on October 16, 2018 by the Munich II Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against AUDI AG in this connection. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit "Emissions Service/Engine Type Approval". The administrative order imposes a total fine of €800 million, consisting of a penalty payment of €5 million and the forfeiture of economic benefits in the amount of €795 million. After thorough examination, the fine has been accepted and paid in full by AUDI AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against AUDI AG. Further sanctions against or forfeitures by AUDI AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

The Stuttgart Office of the Public Prosecutor has commenced a criminal investigation relating to the diesel issue against one board member, one employee, and one former employee of Dr. Ing. h.c. F. Porsche AG on suspicion of fraud and illegal advertising as well as an analogous regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG under § 30 OWiG. Dr. Ing. h.c. F. Porsche AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor's accusations. The Board of Management and Supervisory Board of Dr. Ing. h.c. F. Porsche AG are being regularly updated on the current state of affairs.

On July 6, 2018, the Federal Constitutional Court rendered its decision on the constitutional complaints filed in connection with the search of the premises of the law firm Jones Day, holding that the lower court ruling affirming the provisional seizure of client engagement documents and data of Volkswagen AG did not violate constitutional law. The companies of the Volkswagen Group will continue to cooperate with the German government authorities with due regard for the ruling of the German Federal Constitutional Court.

Whether the criminal and administrative proceedings will ultimately result in fines for the Company, and if so in what amount, is currently subject to estimation risks. According to Volkswagen's estimates so far, the likelihood that a sanction will be imposed is 50 % or less in the majority of these proceedings. Contingent liabilities have therefore been disclosed where the amount of such liabilities could be measured and the likelihood of a sanction being imposed was assessed at not lower than 10 %. Provisions were recognized to a small extent.

3. Product-related lawsuits worldwide (excluding the USA/Canada)

In principle, it is possible that customers in the affected markets will file civil lawsuits or that importers and dealers will assert recourse claims against Volkswagen AG and other Volkswagen Group companies. Besides individual lawsuits, various forms of collective actions (i.e. assertion of individual claims by plaintiffs acting jointly or as representatives of a class) are available in various jurisdictions. Furthermore, in a number of markets it is possible for consumer and/or environmental organizations to bring suit to enforce alleged rights to injunctive relief, declaratory judgment, or damages.

Customer class action lawsuits and actions brought by consumer and/or environmental associations are pending against Volkswagen AG and other companies of the Volkswagen Group in various countries including Argentina, Austria, Australia, Belgium, Brazil, Chile, China, the Czech Republic, Germany, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, Spain, South Africa, South Korea, Switzerland, Taiwan, and the United Kingdom. Alleged rights to damages and other relief are asserted in these actions.

The actions pending in the aforementioned countries include in particular the following:

Various class action lawsuits with opt-out mechanism, one individual lawsuit, and two civil suits by the Australian Competition and Consumer Commission are currently pending in Australia against Volkswagen AG and other Group companies, including the Australian subsidiaries. These proceedings have been joined with each other. Given the opt-out rule, the class actions have the potential to automatically cover all vehicles with type EA 189 engines unless the right to opt out is actively exercised. In all, approximately 100 thousand vehicles in the Australian market with type EA 189 engines are affected. An initial court hearing lasting several weeks was held in March 2018 on technical questions; further issues are to be argued in September 2019.

In Belgium, the Belgian consumer organization Test Aankoop VZW has filed a class action to which an opt-out mechanism has been held to apply. The class action pertains to vehicles purchased by consumers on the Belgian market after September 1, 2014. The asserted claims are based on purported violations of unfair competition and consumer protection law as well as on alleged breach of contract. An initial hearing for oral argument has yet to take place in this matter. The court has extended the statutorily mandated negotiation phase until July 8, 2019.

In Brazil two class actions are pending. One of them pertains to approximately 17 thousand vehicles. In this proceeding, a judgment, which is not yet final, has been rendered holding Volkswagen do Brasil liable in an amount of €0.3 billion plus interest. The judgment has been appealed. In the second class action alleged compensation claims are made based on purported breaches of environmental regulations.

In Germany, the Verbraucherzentrale Bundesverband e. V. (Federation of Consumer Organizations) filed an action on November 1, 2018 with the Braunschweig Higher Regional Court for model declaratory judgment against Volkswagen AG. The complaint is seeking a ruling that certain preconditions for potential consumer claims against Volkswagen AG are met; however, no specific payment obligations would result from any determinations the court may make. Individual claims then would have to be enforced afterwards in subsequent separate proceedings.

In addition, various actions have been brought against companies of the Volkswagen Group in several German Regional Courts (Landgericht) by financialright GmbH, which is asserting rights assigned to it by a total of approximately 46 thousand customers in Germany, Slovenia, and Switzerland.

In England and Wales, suits filed in court by various law firms have been joined in a single collective action (group litigation). Roughly 117 thousand claimants joined the group litigation prior to expiration of the opt-in deadline on December 19, 2018; around 40 thousand additional plaintiffs not currently covered by the group litigation could still be added. Because of the opt-in mechanism, not all vehicles with type EA 189 engines are automatically covered by the group litigation; potential claimants must instead take action in order to join. A judicial case management conference is scheduled for March 2019. No oral argument on the substantive merits of the claims has as yet taken place.

In Italy, two class action lawsuits have been filed with the Venice Regional Court by two consumer associations (Altroconsumo and Codacons) acting on behalf of Italian customers. Damage claims based on alleged breach of contract as well as claims based on purported violations of Italian consumer protection law are being asserted in these proceedings. In the Codacons proceeding, the court dismissed the class action as inadmissible on December 18, 2018. In the Altroconsumo proceeding, the deadline for the filing of claims has passed and those filed are currently being tabulated by an appointed expert.

In the Netherlands, Stichting Volkswagen Car Claim has brought an opt-in class action seeking declaratory rulings. Any individual claims would then have to be reduced to judgment afterwards in a separate proceeding.

Several lawsuits filed by the Austrian consumer protection organization (VKI Verein für Konsumentenschutz) and by the Cobin Claims platform are pending in Austria. In these actions, damage claims assigned for collection to VKI or to the Cobin Claims platform are being asserted on behalf of roughly 10 thousand customers.

A Portuguese consumer organization has filed a class action with opt-out mechanism in Portugal. There are approximately 126 thousand affected vehicles in the Portuguese market. The complaint seeks vehicle return and alleges damages as well.

Volkswagen estimates the likelihood that the plaintiffs will prevail to be 50 % or less for the majority of the customer class actions and the complaints filed by consumer and/or environmental organizations. Contingent liabilities are disclosed for these proceedings where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not implausible. Since most of these proceedings are still in an early stage, it is in many cases not yet possible to quantify the realistic risk exposure. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in various countries, most of which are seeking damages or rescission of the purchase contract. In Germany, there are around 46 thousand such individual lawsuits. A total of approximately one thousand additional individual lawsuits are pending in other countries. According to Volkswagen's estimates, the likelihood that the plaintiffs will prevail is 50 % or less in the vast majority of the individual lawsuits. Contingent liabilities are disclosed for these actions where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not implausible. In addition, provisions were recognized to the extent necessary based on the current assessment.

At this time it cannot be estimated how many customers will choose to file lawsuits in the future in addition to those already pending given the action for model declaratory judgment in Germany, among other things, and what their prospect of success will be.

4. Lawsuits filed by investors worldwide (excluding the USA/Canada)
Investors from Germany and abroad have filed claims for damages against Volkswagen AG – in some cases along with Porsche Automobil Holding SE (Porsche SE) as joint and several debtors – based on purported losses due to alleged misconduct in capital market communications in connection with the diesel issue.

The vast majority of these investor lawsuits are currently pending at the Regional Court in Braunschweig. On August 5, 2016, the Regional Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the Regional Court in Braunschweig be referred to the Higher Regional Court (Oberlandesgericht) in Braunschweig for binding declaratory rulings pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (Kapitalanleger-Musterverfahrensgesetz – KapMuG). In this proceeding, common questions of law and fact relevant to these actions are to be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig (model case proceedings). All lawsuits at the Regional Court in Braunschweig will be stayed pending resolution of the common issues, unless the cases can be dismissed for reasons independent of the common issues that are to be adjudicated in the model case proceedings. The resolution in the model case proceedings of the common questions of law and fact will be binding for all pending cases that have been stayed in the described manner. In the model case action, hearing for oral argument before the Braunschweig Higher Regional Court began on September 10, 2018 and was continued in subsequent sessions. Tracking the objects of declaratory judgment, the Court gave indications as to its preliminary assessment. Oral argument is to continue in 2019.

At the Regional Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtor. On December 6, 2017, the Regional Court in Stuttgart issued an order for reference to the Higher Regional Court in Stuttgart in relation to procedural issues, particularly for clarification of jurisdiction. An action for model declaratory judgment concerning the diesel issue is also pending against Porsche SE before the Stuttgart Higher Regional Court; as the case currently stands, Volkswagen AG is model case defendant in this action as well.

Further investor lawsuits have been filed at various courts in Germany and the Netherlands. In Austria, the first-instance dismissal of the last investor complaint pending in connection with the diesel issue became binding in the reporting period.

Worldwide (excluding USA and Canada), investor lawsuits, judicial applications for dunning procedures and conciliation proceedings, and claims under the KapMuG are currently pending against Volkswagen AG in connection with the diesel issue, with the claims totaling roughly €9.6 billion. Volkswagen AG remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

5. Proceedings in the USA/Canada
Following the publication of the EPA's "Notices of Violation," Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal), and civil litigation. Volkswagen AG and other Volkswagen Group companies have received subpoenas and inquiries from state attorneys general and other governmental authorities.

Volkswagen AG and other Volkswagen Group companies are facing litigation in the USA/Canada on a number of different fronts relating to the matters described in the EPA's "Notices of Violation". In that respect, investigations by various US and Canadian regulatory and government authorities are ongoing, particularly in areas relating to securities, financing and tax. Additionally, in the USA and Canada, certain putative class actions by customers, investors, salespersons and dealers; individual customers' lawsuits and claims by state, provincial or municipal authorities have been filed in various courts, including state and provincial courts. A large number of these putative class action lawsuits have been filed in US federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

In the USA, Volkswagen has reached separate agreements with the attorneys general of 49 states, the District of Columbia and Puerto Rico to resolve their existing or potential consumer protection and unfair trade practices claims in connection with both 2.0 l TDI and 3.0 l TDI vehicles in the USA. New Mexico still has consumer protection claims outstanding. Volkswagen has also reached separate agreements with the attorneys general of thirteen US states (California, Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws. The attorneys general of eight other US states (Alabama, Illinois, Montana, New Hampshire, New Mexico, Ohio, Tennessee, and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, alleging violations of environmental laws. The environmental claims of eight states – Alabama, Illinois, Missouri, Minnesota, Ohio, Tennessee, Texas, and Wyoming – as well as Hillsborough County (Florida), Salt Lake County (Utah), and two Texas counties, have been dismissed in full or in part by trial or appellate courts as preempted by federal law. Alabama, Illinois, Ohio, Tennessee, Hillsborough County, and Salt Lake County have appealed or may still appeal the dismissal of their claims.

The U.S. Securities and Exchange Commission (the “SEC”) has requested information from Volkswagen regarding potential violations of securities laws in connection with issuances of bonds and asset-backed securities, as a result of nondisclosure of certain Volkswagen diesel vehicles' noncompliance with US emission standards. The SEC informed Volkswagen that it had issued a formal order of investigation in January 2017; this investigation is ongoing. The SEC Staff subsequently informed Volkswagen that the SEC might bring an enforcement action against Volkswagen arising out of this investigation.

On August 28, 2018, Volkswagen AG and a putative class of purchasers of Volkswagen AG American Depositary Receipts agreed to settle the class’ claims alleging a drop in price purportedly resulting from the matters described in the EPA’s “Notices of Violation” in exchange for a cash payment of USD 48 million. The proposed settlement was granted preliminary approval by the court in November 2018.

On December 21, 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving 3.0 l diesel vehicles that was approved by the courts in Ontario and Quebec in April 2018. Also in Canada, a criminal enforcement-related investigation related to 2.0 l and 3.0 l diesel vehicles by the federal environmental regulator is ongoing, and a quasi-criminal enforcement-related offense has been charged by the Ontario provincial environmental regulator related to 2.0 l diesel vehicles. Additionally, in Quebec, a certified environmental class action on behalf of residents is pending. This environmental class action was authorized on the sole issue of whether punitive damages could be recovered. Volkswagen is seeking leave to appeal this authorization ruling. Class action and joinder lawsuits have also been filed in Canada, including alleged consumer protection and securities claims asserting damages among other things.

To the extent a matter is not separately described above, an assessment is not yet possible at the current stage of the proceedings or has, in accordance with IAS 37.92, not been presented so as not to compromise the results of the proceedings and the interests of the Company.

6. Additional proceedings

With its ruling of November 8, 2017, the Higher Regional Court of Celle ordered, upon the request of three US funds, the appointment of a special auditor for Volkswagen AG. The special auditor is to examine whether there was a breach of duties on the part of the members of the Board of Management and Supervisory Board of Volkswagen AG in connection with the diesel issue on or after June 22, 2006 and, if so, whether this resulted in damages for Volkswagen AG. The ruling by the Higher Regional Court of Celle is formally unappealable. However, Volkswagen AG has filed a constitutional complaint with the German Federal Constitutional Court alleging infringement of its constitutionally guaranteed rights. It is currently unclear when the German Federal Constitutional Court will reach a decision on this matter. Following the formally unappealable ruling from the Higher Regional Court of Celle, the special auditor appointed by the court indicated that he was not available to conduct the special audit on grounds of age. The US funds then applied to the Regional Court of Hanover to appoint another special auditor. Volkswagen AG is of the opinion that replacing the court-appointed special auditor in this manner is impermissible and has requested that the application for the appointment of a new special auditor be denied. A decision by the Regional Court of Hanover is expected in the course of 2019.

In addition, a second motion seeking appointment of a special auditor for Volkswagen AG to examine matters relating to the diesel issue has been filed with the Regional Court of Hanover. This proceeding has been suspended until the German Federal Constitutional Court renders its decision in the first special auditor litigation.

7. Risk assessment regarding the diesel issue
An amount of around €2.4 billion has been included in the provisions for litigation and legal risks as of December 31, 2018 to protect against the currently known legal risks related to the diesel issue based on existing information and current assessments. Insofar as these can be adequately measured at this stage, contingent liabilities relating to the diesel issue were disclosed in the notes in an aggregate amount of €5.4 billion (previous year: €4.3 billion), whereby approximately €3.4 billion (previous year: €3.4 billion) of this amount results from lawsuits filed by investors in Germany. The provisions recognized and the contingent liabilities disclosed as well as the other latent legal risks in the context of diesel issue are in part subject to substantial estimation risks given that the fact finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further considerable financial charges.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to the diesel issue. This is so as to not compromise the results of the proceedings or the interests of the Company.

Additional important legal cases

In 2011, ARFB Anlegerschutz UG (haftungsbeschränkt) brought an action against Volkswagen AG and Porsche SE for claims for damages for allegedly violating disclosure requirements under capital market law in connection with the acquisition of ordinary shares in Volkswagen AG by Porsche SE in 2008. The damages currently being sought based on allegedly assigned rights amounted to approximately €2.26 billion plus interest. In April 2016, the Regional Court in Hanover had formulated numerous objects of declaratory judgment that the cartel senate of the Higher Regional Court in Celle will decide on in model case proceedings under the KapMuG. In the first hearing on October 12, 2017, the Court already indicated that it currently does not see claims against Volkswagen AG as justified, both for want of sufficiently specific pleadings and for reasons of law. Volkswagen AG sees the statements of the court's senate as confirmation that the claims made against the Company have absolutely no basis.

At the time in question (2010/2011), other investors had also asserted claims – including claims against Volkswagen AG – arising out of the same circumstances in an approximate total amount of €4.6 billion and initiated conciliation proceedings. Volkswagen AG always refused to participate in these conciliation proceedings; since then, these claims have not been pursued further.

In June 2013, the Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and TRATON SE (at that time Truck & Bus GmbH), a subsidiary of Volkswagen AG. In July 2013, an award proceeding was instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with § 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with § 304 of the AktG. By ruling of June 26, 2018 (supplemented and amended by the rulings of July 30, 2018 and December 17, 2018), the Munich Higher Regional Court rendered a final decision increasing the annual compensation claim under § 304 AktG to €5.47 gross per share (less any corporate income tax and any solidarity surcharge at the respective tax rate applicable to these taxes for the financial year in question). The cash settlement in the amount of €90.29 per share, increased in the first instance by the Munich I Regional Court, was affirmed. The decisions by the Munich Higher Regional Court are final and were published in the German Federal Gazette on August 6, 2018 and January 10, 2019.

In Brazil, the Brazilian tax authorities commenced tax proceedings against MAN Latin America; at issue in these proceedings are the tax consequences of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment that was negative for MAN Latin America was rendered in administrative court proceedings. MAN Latin America initiated proceedings against this judgment before the regular court in 2018. Due to the difference in the penalties plus interest which could potentially apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is laden with uncertainty. However, a positive outcome continues to be expected for MAN Latin America. Should the opposite occur, this could result in a risk of about €0.7 billion for the contested period from 2009 onwards, which has been stated within the contingent liabilities in the notes.

In 2011, the European Commission conducted searches at European truck manufacturers on suspicion of an unlawful exchange of information during the period 1997–2011 and issued a statement of objections to MAN, Scania and the other truck manufacturers concerned in November 2014. With its settlement decision in July 2016, the European Commission fined five European truck manufacturers. MAN's fine was waived in full as the company had informed the European Commission about the irregularities as a key witness.

In September 2017, the European Commission fined Scania €0.88 billion. Scania has appealed to the European Court of Justice in Luxembourg and will use all means at its disposal to defend itself. Scania had already recognized a provision of €0.4 billion in 2016.

Furthermore, antitrust lawsuits for damages from customers were received. As is the case in any antitrust proceedings, this may result in further lawsuits for damages. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

As part of the cartel investigations in the automotive industry already known to the public, the European Commission took the procedural step of initiating formal proceedings against affected undertakings on September 18, 2018. The investigations have been ongoing for some time. As the European Commission's press statement indicates, the European Commission is now restricting the scope of the investigation to the subject of emissions. The formal initiation of proceedings is standard and is a purely procedural step in the process, which was expected by Volkswagen. The Volkswagen Group and the relevant Group brands have been cooperating fully with the European Commission and will continue to cooperate.

In addition, the Italian Competition Authority initiated proceedings to investigate potential competition law infringements (alleged exchange of competitively sensitive information) by a number of captive automotive finance companies, including Volkswagen Bank GmbH. The proceedings were later extended to the relevant parent companies, including Volkswagen AG. In October 2018, Volkswagen Bank GmbH and Volkswagen AG received a statement of objections summarizing the findings by the authority and describing the alleged infringement. Volkswagen AG and Volkswagen Bank GmbH transmitted their respective replies to the Italian Competition Authority in November 2018. In January 2019, the Italian Competition Authority imposed a fine of €163 million against Volkswagen AG and Volkswagen Bank GmbH. Provisions were recognized by Volkswagen Bank GmbH. Volkswagen AG and Volkswagen Bank GmbH intend to appeal this decision. Lawsuits seeking damages are possible in this proceeding as well.

In 2017, plaintiffs filed numerous complaints in various US jurisdictions on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen AG and other Group companies, that are now pending in two consolidated class actions in the multidistrict litigation in the State of California. The complaints allege that since the 1990s, defendants engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. Plaintiffs in Canada filed claims with similar allegations on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Canada Inc., Audi Canada Inc., and other Group companies. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In addition, a few national and international authorities have initiated antitrust investigations. Volkswagen is cooperating closely with the responsible authorities in these investigations. An assessment of the underlying situation is not possible at this early stage.

For certain T6 models (M1 class) with Euro 6 diesel engines registered as passenger cars, the inspection regarding the conformity of the current production of new vehicles with the approved type (conformity of production) identified that certain technical data could not be fully confirmed. To ensure this conformity of production for new vehicles, Volkswagen AG developed a software measure, which was approved by the KBA at the end of February 2018 and was applied to newly produced vehicles as well as to new vehicles (approximately 30 thousand in all) that had not been delivered by then. Volkswagen AG also conducted in-use tests (tests to verify the conformity of vehicles in use to their type approval) to determine whether the roughly 200 thousand T6 used vehicles already on the market conform to the technical data. The tests carried out on the proposal of Volkswagen AG were taking place in close collaboration with the KBA, which included this process in a decision dated March 1, 2018. Following further tests in August 2018, at the proposal of Volkswagen AG and in accordance with this decision, there is also a software measure for used T6 vehicles to ensure conformity with the approved vehicle type.

Since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles with gasoline engines.

Additionally, putative class actions filed against Audi AG and certain affiliates have been transferred to the federal multidistrict litigation proceeding in the State of California and consolidated. The lawsuits allege that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. Other actions alleging similar claims are also pending in the Northern District of California and two provincial courts in Canada.

In the summer of 2017, plaintiffs filed a complaint, on behalf of a putative class of purchasers of Volkswagen AG's American Depositary Receipts, against Volkswagen AG and against three former and one current member of Volkswagen AG's Board of Management, in the US District Court for the Eastern District of New York. On July 13, 2018, plaintiffs filed an amended complaint, which defendants moved to dismiss. Plaintiffs assert securities claims alleging that defendants made material misstatements and omissions concerning Volkswagen AG's compliance measures, in particular those relating to competition and antitrust law as well as allegations in an antitrust litigation against Volkswagen AG in the Northern District of California. Defendants believe that the alleged claims are without merit.

Provisions were recognized by Volkswagen Bank GmbH and Volkswagen Leasing GmbH for possible claims in connection with financial services provided to consumers.

In addition, various proceedings are pending worldwide, particularly in the USA, in which customers are asserting purported claims either individually or in class actions. These claims are as a rule based on alleged vehicle defects, including defects alleged in vehicle parts supplied to the Volkswagen Group (for instance, in the Takata case).

Risks may also result from patent infringement actions, particularly in Germany and the USA. These actions seeking injunctive relief and damages pertain among other things to patents for semiconductor technology used in vehicles.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to additional important legal cases. This is so as to not compromise the results of the proceedings or the interests of the Company.

38. Other financial obligations

€ million	PAYABLE 2018	PAYABLE 2019 – 2022	PAYABLE from 2023	TOTAL Dec. 31, 2017
Purchase commitments in respect of				
property, plant and equipment	7,347	1,394	–	8,740
intangible assets	946	479	–	1,425
investment property	41	–	–	41
Obligations from				
loan commitments to unconsolidated subsidiaries	186	21	–	207
irrevocable credit commitments to customers[1]	2,655	0	44	2,699
long-term leasing and rental contracts	1,026	2,389	2,133	5,548
Miscellaneous other financial obligations	2,476	1,469	929	4,874

1 Prior-year figures adjusted.

€ million	PAYABLE 2019	PAYABLE 2020 – 2023	PAYABLE from 2024	TOTAL Dec. 31, 2018
Purchase commitments in respect of				
property, plant and equipment	8,362	1,621	0	9,983
intangible assets	1,022	85	–	1,107
investment property	39	–	–	39
Obligations from				
loan commitments to unconsolidated subsidiaries	326	–	–	326
irrevocable credit commitments to customers	3,010	70	5	3,085
long-term leasing and rental contracts	1,190	2,847	2,334	6,372
Miscellaneous other financial obligations	2,971	1,762	966	5,699

As part of the implementation of IFRS 9, obligations under irrevocable credit commitments to customers were analyzed. This led to an adjustment of the data applied. The prior-year figures were adjusted in the amount of €–997 million.

Other financial obligations from long-term leasing and rental contracts are partly offset by expected income from subleases of €1,535 million (previous year: €1,467 million).

Other financial obligations include an amount of €1.3 billion for investments to which the Group has committed itself, in the infrastructure for zero-emission vehicles and in initiatives to promote access to and awareness of these technologies. These commitments were made as part of the settlement agreements in the USA in connection with the diesel issue.

39. Total audit fees of the Group auditor

Under the provisions of the Handelsgesetzbuch (HGB – German Commercial Code), Volkswagen AG is obliged to disclose the total audit fee of the Group auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.

€ million	2018	2017
Financial statement audit services	20	17
Other assurance services	6	2
Tax advisory services	1	1
Other services	26	13
	52	**33**

The financial statement audit services were attributable to the audit of the consolidated financial statements of Volkswagen AG and of annual financial statements of German Group companies as well as to reviews of the interim consolidated financial statements of Volkswagen AG and of interim financial statements of German Group companies. The auditors provided assurance services and tax advice only to a small extent. Other services provided by the auditors in the reporting period focused on advice on how to implement new legal standards and on support for measures in connection with the diesel issue.

40. Personnel expenses

€ million	2018	2017
Wages and salaries	33,368	31,432
Social security, post-employment and other employee benefit costs	7,791	7,518
	41,158	**38,950**

41. Average number of employees during the year

	2018	2017
Performance-related wage-earners	256,684	253,469
Salaried staff	302,554	288,478
	559,238	**541,947**
of which in the passive phase of partial retirement	(8,791)	(7,156)
Vocational trainees	17,905	17,891
	577,143	**559,838**
Employees of Chinese joint ventures	78,579	74,558
	655,722	**634,396**

42. Events after the balance sheet date

There were no events with a significant effect on net assets, financial position and results of operations after the end of fiscal year 2018.

43. Remuneration based on performance shares and phantom shares (share-based payment)

At the beginning of 2017, the Supervisory Board of Volkswagen AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2017. The remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of a performance-related annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (share-based payment). In addition, a bonus was converted into phantom preferred shares (phantom shares) in 2016.

The group of beneficiaries of the performance share plan was expanded at the end of 2018 by including members of top management. At the beginning of 2019, they will be granted performance shares for the first time for the 2019-2021 performance period. The way the performance shares allocated to them work is essentially the same as the performance shares allocated to members of the Board of Management.

PERFORMANCE SHARES

Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted, on the basis of the initial reference price of Volkswagen's preferred shares, into performance shares of Volkswagen AG, which are allocated to the respective beneficiary as a pure calculation position. After the end of the three-year term of the performance share plan, a cash settlement shall take place. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the three-year period plus a dividend equivalent for the relevant term. The payment amount under the performance share plan is limited to 200% of the target amount. If 100% of the targets agreed in each case are achieved, the target amount is €1.8 million for each member of the Board of Management and €3.8 million for the Chairman of the Board of Management. A total of 276,382 performance shares were allocated to the members of the Board of Management.

The total target amounts of the members of the top management tier for the 2019-2021 performance period came to €95.2 million on aggregate.

The fair value of the obligation arising from the performance shares amounted to €48.4 million as of December 31, 2018 (previous year: €43.8 million). The compensation cost of €18.2 million (previous year: €43.8 million) was recognized under personnel costs. If the beneficiaries of the performance share plan had left the Company as of December 31, 2018, the obligation (intrinsic value) would have amounted to a total of €33.7 million (previous year: €20.3 million).

PHANTOM SHARES

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance by means of phantom shares. The amount withheld led to the creation of 50,703 phantom preferred shares. The fair value of the obligation to current and former members of the Board of Management amounted to €5.0 million as of December 31, 2018 (previous year: €7.0 million). In 2018, Mr. Stadler received a cash payment of the value of 8,633 shares in an amount of €1.0 million as part of the termination of his contract of service. The decrease in the fair value of all phantom shares by €1.0 million (previous year: increase in fair value by €2.0 million) was recognized as income (previous year: expense). If the other members of the Board of Management had also left the Company as of December 31, 2018, the obligation (intrinsic value) would have amounted to a total of €5.3 million (previous year: €7.3 million). For further details on performance shares and phantom shares, please refer to our disclosures in the remuneration report, which is part of the Group management report.

44. Related party disclosures in accordance with IAS 24

Related parties as defined by IAS 24 are natural persons and entities that Volkswagen AG has the ability to control or on which it can exercise significant influence, or natural persons and entities that have the ability to control or exercise significant influence on Volkswagen AG, or that are influenced by another related party of Volkswagen AG.

All transactions with related parties are conducted on an arm's length basis.

At 52.2%, Porsche SE held the majority of the voting rights in Volkswagen AG as of the reporting date. The creation of rights of appointment for the State of Lower Saxony was resolved at the Extraordinary General Meeting of Volkswagen AG on December 3, 2009. As a result, Porsche SE cannot appoint the majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore classified as a related party as defined by IAS 24.

The contribution of Porsche SE's holding company operating business to Volkswagen AG on August 1, 2012 has the following effects on the agreements between Porsche SE, Volkswagen AG and companies of the Porsche Holding Stuttgart Group that existed prior to the contribution and were entered into on the basis of the Comprehensive Agreement and its related implementation agreements:

- As part of the contribution of Porsche SE's holding company operating business to Volkswagen AG, Volkswagen AG undertook to assume standard market liability compensation effective August 1, 2012 for guarantees issued to external creditors, whereby it is indemnified internally.
- Volkswagen AG continues to indemnify Porsche SE internally against claims by the Einlagensicherungsfonds (German deposit protection fund) after Porsche SE submitted an indemnification agreement required by the Bundesverband Deutscher Banken (Association of German Banks) to the Einlagensicherungsfonds in August 2009. Volkswagen AG has also undertaken to indemnify the Einlagensicherungsfonds against any losses caused by measures taken by the latter in favor of a bank in which Volkswagen AG holds a majority interest.
- Under certain conditions, Porsche SE continues to indemnify Porsche Holding Stuttgart, Porsche AG and their legal predecessors against tax disadvantages that exceed the obligations recognized in the financial statements of those companies relating to periods up to and including July 31, 2009. In return, Volkswagen AG has undertaken to reimburse Porsche SE for any tax advantages of Porsche Holding Stuttgart, Porsche AG and their legal predecessors and subsidiaries relating to tax assessment periods up to July 31, 2009. Based on the results of the external tax audit for the assessment periods 2006 to 2008, which has now been completed, and based on information for the 2009 assessment period available at the date of preparing these consolidated financial

statements, a compensation obligation in the low triple-digit million euro range would arise for Volkswagen AG. New information emerging in the future from the external tax audit that commenced at the end of 2015 for the 2009 assessment period could result in an increase or decrease in the potential compensation obligation.

Under the terms of the Comprehensive Agreement, Porsche SE and Volkswagen AG had granted each other put and call options with regard to the remaining 50.1% interest in Porsche Holding Stuttgart held by Porsche SE until the contribution of its holding company operating business to Volkswagen AG. Both Volkswagen AG (if it had exercised its call option) and Porsche SE (if it had exercised its put option) had undertaken to bear the tax burden resulting from the exercise of the options and any subsequent activities in relation to the equity investment in Porsche Holding Stuttgart (e.g. from recapture taxation on the spin-off in 2007 and/or 2009). If tax benefits had accrued to Volkswagen AG, Porsche Holding Stuttgart, Porsche AG, or their respective subsidiaries as a result of recapture taxation on the spin-off in 2007 and/or 2009, the purchase price to be paid by Volkswagen AG for the transfer of the outstanding 50.1% equity investment in Porsche Holding Stuttgart if the put option had been exercised by Porsche SE would have been increased by the present value of the tax benefit. This arrangement was taken over under the terms of the contribution agreement to the effect that Porsche SE has a claim against Volkswagen AG for payment in the amount of the present value of the realizable tax benefits from any recapture taxation of the spin-off in 2007 as a result of the contribution. It was also agreed under the terms of the contribution that Porsche SE will indemnify Volkswagen AG, Porsche Holding Stuttgart and their subsidiaries against taxes if measures taken by or not taken by Porsche SE result in recapture taxation for 2012 at these companies in the course of or following implementation of the contribution. In this case, too, Porsche SE is entitled to assert a claim for payment against Volkswagen AG in the amount of the present value of the realizable tax benefits that arise at the level of Volkswagen AG or one of its subsidiaries as a result of such a transaction.

Further agreements were entered into and declarations were issued in connection with the contribution of Porsche SE's holding company operating business to Volkswagen AG, in particular:

- Porsche SE indemnifies its contributed subsidiaries, Porsche Holding Stuttgart, Porsche AG and their subsidiaries against certain liabilities to Porsche SE that relate to the period up to and including December 31, 2011 and that exceed the obligations recognized in the financial statements of those companies for that period.
- Porsche SE indemnifies Porsche Holding Stuttgart and Porsche AG against obligations arising from certain legal disputes; this includes the costs of an appropriate legal defense.
- Moreover, Porsche SE indemnifies Volkswagen AG, Porsche Holding Stuttgart, Porsche AG and their subsidiaries against half of the taxes (other than taxes on income) arising at those companies in conjunction with the contribution that would not have been incurred in the event of the exercise of the call option on the shares of Porsche Holding Stuttgart that continued to be held by Porsche SE until the contribution. Volkswagen AG therefore indemnifies Porsche SE against half of such taxes that it incurs. In addition, Porsche Holding Stuttgart is indemnified against half of the land transfer tax and other costs triggered by the merger.
- Additionally, Porsche SE and Porsche AG agreed to allocate any subsequent VAT receivables or liabilities from transactions in the period up to December 31, 2009 to the company entitled to the receivable or incurring the liability.
- A range of information, conduct and cooperation obligations were agreed by Porsche SE and the Volkswagen Group.

According to a notification dated January 8, 2019, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft Niedersachsen mbH, Hanover, held 20.00% of the voting rights of Volkswagen AG on December 31, 2018. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

The following tables present the amounts of supplies and services transacted, as well as outstanding receivables and liabilities, between consolidated companies of the Volkswagen Group and related parties:

RELATED PARTIES

€ million	SUPPLIES AND SERVICES RENDERED 2018	SUPPLIES AND SERVICES RENDERED 2017	SUPPLIES AND SERVICES RECEIVED 2018	SUPPLIES AND SERVICES RECEIVED 2017
Porsche SE and its majority interests	3	7	3	1
Supervisory Board members	4	2	2	2
Board of Management members	0	0	0	0
Unconsolidated subsidiaries	1,137	1,039	1,649	1,300
Joint ventures and their majority interests	16,724	14,294	491	1,225
Associates and their majority interests	194	214	1,267	733
Pension plans	1	1	2	0
Other related parties	0	0	1	0
State of Lower Saxony, its majority interests and joint ventures	10	11	8	9

€ million	RECEIVABLES FROM Dec. 31, 2018	RECEIVABLES FROM Dec. 31, 2017	LIABILITIES (INCLUDING OBLIGATIONS) TO Dec. 31, 2018	LIABILITIES (INCLUDING OBLIGATIONS) TO Dec. 31, 2017
Porsche SE and its majority interests	4	13	1	0
Supervisory Board members	0	0	205	254
Board of Management members	0	0	78	72
Unconsolidated subsidiaries	1,319	1,480	1,869	1,773
Joint ventures and their majority interests	11,989	9,889	2,671	2,168
Associates and their majority interests	112	76	487	572
Pension plans	1	1	–	–
Other related parties	–	–	100	63
State of Lower Saxony, its majority interests and joint ventures	1	2	2	1

The tables above do not contain the dividend payments of €3,493 million (previous year: €3,653 million) received from joint ventures and associates and dividends of €601 million (previous year: €308 million) paid to Porsche SE.

Receivables from joint ventures are primarily attributable to loans granted in an amount of €7,606 million (previous year: €6,277 million) as well as trade receivables in an amount of €4,045 million (previous year: €3,354 million). Receivables from non-consolidated subsidiaries also result primarily from loans granted in an amount of €741 million (previous year: €1,038 million) as well as trade receivables in an amount of €214 million (previous year: €224 million).

Impairment losses of €56 million (previous year: €56 million) were recognized on the outstanding related party receivables. In fiscal year 2018, expenses of €29 million (previous year: €36 million) were incurred in this context.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €239 million (previous year: €220 million).

In the reporting period, the Volkswagen Group made capital contributions of €298 million (previous year: €203 million) to related parties.

The changes in supplies and services rendered to joint ventures and their majority interests are primarily attributable to deliveries to the Chinese joint ventures.

As in the previous year, obligations to members of the Supervisory Board relate primarily to interest-bearing bank balances of Supervisory Board members that were invested at standard market terms and conditions at Volkswagen Group companies.

Obligations to the Board of Management comprise outstanding balances for the annual bonus and the fair values of the performance shares and phantom shares in the amount of €64.8 million (previous year: €67.0 million) granted to Board of Management members.

In addition to the amounts shown above, the following expenses were recognized for the members of the Board of Management and Supervisory Board of the Volkswagen Group in the course of their activities as members of these bodies:

€	2018	2017
Short-term benefits	32,417,428	33,967,996
Benefits based on performance shares and phantom shares	10,022,492	45,777,248
Post-employment benefits	10,519,369	10,872,088
Termination benefits	12,994,964	6,940,142
	65,954,253	**97,557,473**

Benefits paid on the basis of performance shares include the cost of €10.6 million (previous year: €43.8 million) attributable to the performance shares granted to Board of Management members under the remuneration system applicable as from 2017. Pursuant to the guidance of IFRS 2, this requires inclusion of not only the performance share plan for 2017 and 2018, but also of a pro-rated amount for future share plans to be granted during the current employment contract.

In fiscal year 2018, the share price performance led to the recognition of income of €0.6 million (previous year: expense of €2.0 million) for the phantom shares.

The employee representatives and the representative of the senior executives on the Supervisory Board are also entitled to a regular salary as set out in their employment contracts. For members of German works councils, this is based on the provisions of the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act). Investigations by the authorities are currently under way to determine whether the remuneration of some works council members can be justified. As a precaution, components of the remuneration of some works council members has been retained in this context until the matter is clarified. Volkswagen AG currently assumes that the proceedings will be completed in fiscal year 2019.

The post-employment benefits relate to additions to pension provisions for current members of the Board of Management. The termination benefits relate to the severance payment made to Mr. Garcia Sanz and Mr. Stadler in connection with their early departure from the Board of Management. The payment of a potential severance payment to Mr. Stadler depends on the development and outcome of the criminal proceedings.

Disclosures on the pension provisions for members of the Board of Management and more detailed explanations of the remuneration of the Board of Management and the Supervisory Board can be found in the section entitled “Remuneration of the Board of Management and the Supervisory Board” and in the remuneration report, which is part of the management report.

45. German Corporate Governance Code

On November 16, 2018, the Board of Management and Supervisory Board of Volkswagen AG issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) and made it permanently available to the shareholders of Volkswagen AG on the Company's website at www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html.

On November 29, 2018, the Board of Management and Supervisory Board of AUDI AG likewise issued their declaration of conformity with the German Corporate Governance Code and made it permanently available to the shareholders at www.audi.com/cgk-declaration.

In December 2018, the Executive Board and Supervisory Board of MAN SE issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the AktG and made it permanently available to the shareholders at www.corporate.man.eu/en/investor-relations/corporate-governance/corporate-governance-at-man/Corporate-Governance-at-MAN.html.

The Executive and Supervisory Boards of RENK AG issued a declaration of conformity in December, 2018 and made it permanently available to the shareholders at www.renk-ag.com/en/investor-relations/financial-reports.

46. Remuneration of the Board of Management and the Supervisory Board

€	2018	2017
Board of Management remuneration		
Non-performance-related remuneration	13,051,264	14,337,116
Performance-related remuneration	14,827,178	15,844,041
Long-term incentive component	22,457,869	20,104,770
	50,336,310	**50,285,927**
Supervisory Board remuneration		
Non-performance-related remuneration	4,004,372	3,516,389
Performance-related remuneration	534,614	270,450
	4,538,986	**3,786,839**

NON-PERFORMANCE-RELATED REMUNERATION OF THE BOARD OF MANAGEMENT

The non-performance-related remuneration of the Board of Management comprises fixed remuneration and fringe benefits. Since 2018, appointments assumed at Group companies have not been remunerated separately; instead they are deemed to be included in the remuneration. The fringe benefits relate to noncash benefits granted and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these noncash benefits were mainly borne by Volkswagen AG.

PERFORMANCE-RELATED REMUNERATION AND LONG-TERM INCENTIVE COMPONENT OF THE BOARD OF MANAGEMENT

Performance-related remuneration includes the annual bonus with a one-year assessment period. The long-term incentive component contains the long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term. The performance shares granted to the incumbent members of the Board of Management under the remuneration system in 2018 (134,956 performance shares) had a fair value of €22.5 million (previous year: €20.1 million) at the grant date; this amount represents remuneration under German GAAP.

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance by means of phantom shares. The resulting effects on remuneration were reported as appropriate in previous years.

In fiscal year 2018, expenses totaling €10.6 million (previous year: €43.8 million) were recognized for the performance shares, while income for the phantom shares totaled €0.6 million (previous year: expense of €2.0 million). They do not represent remuneration under German GAAP and are therefore not included in the tables above.

As in the previous year, no interest-free advances were paid to members of the Board of Management.

SUPERVISORY BOARD REMUNERATION

As a result of its regular review of the Supervisory Board remuneration, the Supervisory Board proposed a reorganization of the system of Supervisory Board remuneration to the 2017 Annual General Meeting, which was approved on May 10, 2017 with 99.98 % of the votes cast. The remuneration of the members of the Supervisory Board of Volkswagen AG then no longer contains any performance-related remuneration components but consists entirely of non-performance-related remuneration components. Remuneration for supervisory board work at subsidiaries continues to comprise a mix of non-performance-related and performance-related components.

PENSION ENTITLEMENTS

On December 31, 2018, the pension provisions for members of the Board of Management amounted to €55.8 million (previous year: €125.4 million). 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 higher increase.

In connection with their departure from the Board of Management Mr. Blessing, Mr. Garcia Sanz, Mr. Müller and Mr. Stadler were promised the following amounts:

For Mr. Blessing

- a non-performance-related component of €3.8 million,
- a performance-related component of €4.2 million and
- a long-term incentive component of €3.9 million were recognized.

For Mr. Garcia Sanz

- a non-performance-related component of €1.6 million,
- a performance-related component of €1.8 million and
- a long-term incentive component of €1.6 million were recognized.

For Mr. Müller

- a non-performance-related component of €4.0 million,
- a performance-related component of €6.6 million and
- a long-term incentive component of €7.2 million were recognized.

For Mr. Stadler

- a non-performance-related component of €3.2 million,
- a performance-related component of €1.9 million and
- a long-term incentive component of €1.8 million were recognized.

The payment of the amounts mentioned above for Mr. Stadler is linked to the development and outcome of the criminal proceedings. For the amounts promised, in general, Volkswagen AG and AUDI AG are jointly and severally liable.

For former members of the Board of Management and their surviving dependents €44.0 million (previous year: €19.9 million) were granted. Pension provisions in accordance with IFRSs for this group of individuals amounted to €324.0 million (previous year: €269.0 million).

The individual remuneration of the members of the Board of Management and the Supervisory Board is explained in the remuneration report in the management report on page 68. A comprehensive assessment of the individual remuneration components, including the LTI, in the form of the performance share plan can also be found there.

Responsibility Statement

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

Wolfsburg, February 22, 2019

Volkswagen Aktiengesellschaft
The Board of Management

Herbert Diess

Oliver Blume

Gunnar Kilian

Andreas Renschler

Abraham Schot

Stefan Sommer

Hiltrud Dorothea Werner

Frank Witter

Independent Auditor's Report

On completion of our audit, we issued an unqualified auditor's report dated February 22, 2019 in German language. The following text is a translation of this auditor's report. The German text is authoritative:

To VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2018, and the income statement and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of VOLKSWAGEN AKTIENGESELLSCHAFT, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

EMPHASIS OF MATTER – DIESEL ISSUE

We draw attention to the information provided and statements made in section "Key Events" of the notes to the consolidated financial statements and in section "Diesel Issue" of the group management report with regard to the diesel issue including information about the allegations made and claims filed, the underlying causes, the non-involvement of members of the board of management as well as the impact on these financial statements.

Based on the results of the various measures taken to investigate the issue presented so far, which underlie the consolidated financial statements and the group management report, there is still no evidence that members of the Company's board of management were aware of the deliberate manipulation of engine management software before summer 2015. Nevertheless, should as a result of the ongoing investigation new solid knowledge be obtained showing that members of the board of management were informed earlier about the diesel issue, this could eventually have an impact on the consolidated financial statements and on the group management report for financial year 2018 and prior years.

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

Our opinions on the consolidated financial statements and on the group management report are not modified in respect of this matter.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Accounting treatment of risk provisions for the diesel issue
❷ Recoverability of goodwill and brand names
❸ Recoverability of capitalized development costs
❹ Completeness and measurement of provisions for warranty obligations arising from sales
❺ Financial instruments – hedge accounting

Our presentation of these key audit matters has been structured in each case as follows:
① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Accounting treatment of risk provisions for the diesel issue

① Companies of the Volkswagen Group are involved in investigations by government authorities in numerous countries (in particular in Europe, the United States and Canada) with respect to irregularities in the exhaust gas emissions from diesel engines in certain vehicles of the Volkswagen Group. Different measures are being implemented in various countries for affected vehicles. These include hardware and/or software solutions, vehicle repurchases or the early termination of leases and, in some cases, cash payments to vehicle owners. Furthermore, payments are being made as a result of criminal proceedings and civil law settlements with various parties. In addition, there are civil lawsuits pending from customers, dealers and holders of securities. Further direct and indirect effects concern in particular impairment of assets and customer-specific sales programs.

The Volkswagen Group recognizes the expenses directly related to the diesel issue in its operating income. The special items expensed in financial year 2018 amount to €3.2 billion and relate to fines paid (€1.8 billion) and to further additions to reserves for legal risks and legal defense cost as well as technical measures. In addition to provisions, contingent liabilities for legal risks in the amount of €5.4 billion are reported as of December 31, 2018.

The reported provisions and contingent liabilities are exposed to considerable estimation risk due to the wide-ranging investigations and proceedings that are ongoing, the complexity of the various negotiations and pending approval procedures by authorities, and developments in market conditions. This matter was of particular significance for our audit due to the material amounts of the provisions as well as the scope of assumptions and discretion on the part of the executive directors.

② In order to audit the recognition and measurement of provisions for field activities and vehicle repurchases arising as a result of the diesel issue, we critically examined the processes put in place by the companies of the Volkswagen Group to make substantive preparations to address the diesel issue, and assessed the progress made in implementing the technical solutions developed to remedy it. We compared this knowledge with the technical and legal substantiations of independent experts, as presented to us. We used in particular an IT data analysis solution to examine the quantity structure underlying the field activities and repurchases. We assessed the inputs used to measure the repair solutions and the repurchases. We used this as a basis to evaluate the calculation of the provisions.

In order to audit the recognition and measurement of the provisions for legal risks and the disclosure of contingent liabilities for legal risks resulting from the diesel issue, we assessed both the available official documents as well as in particular the work delivered and opinions prepared by experts commissioned by the Volkswagen Group. As part of a targeted selection of key procedures and supplemented by additional samples, we inspected the correspondence relating to the litigation and, in talks with officials from the affected companies and the lawyers involved, and including our own legal experts, we discussed the assessments made.

Taking into consideration the information provided and statements made in the section entitled "Key events" in the notes to the consolidated financial statements and in the section entitled "Diesel Issue" in the group management report with regard to the diesel issue including information about the underlying causes, the non-involvement of members of the board of management as well as the impact on these financial statements, we believe that, overall, the assumptions and inputs underlying the calculation of the risk provisions for the diesel issue are appropriate to properly recognize and measure the provisions.

③ The Company's disclosures on the diesel issue are contained in the sections entitled "Key events" and "Litigation" in the notes to the consolidated financial statements, and in the sections entitled "Diesel Issue" and "Report on Risks and Opportunities", sub-sections "Risks from the Diesel Issue" and "Litigation" in the group management report.

❷ Recoverability of goodwill and brand names

① The intangible assets reported in the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT include €23.3 billion in goodwill and €16.9 billion purchased brand names (intangible assets with indefinite useful lives). The Company allocates goodwill and brand names to the subgroups and brands, respectively, within the Volkswagen Group. As part of the regular impairment testing of goodwill and brand names, the Company compares the carrying amount of the subgroups and brands, respectively, against their respective recoverable amount. In general, the recoverable amount is calculated on the basis of the value in use. The value in use is calculated using discounted cash flow models on the basis of the Volkswagen Group's five-year operating plan prepared by the executive directors and acknowledged by the Supervisory Board and extrapolated based on assumptions about long-term growth rates. The discount rate used is the weighted average cost of capital for the relevant reporting segment. The result of this measurement depends to a large extent on the executive directors' assessment with regard to the future cash inflows of the respective subgroups and brands, respectively, and on the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the measurement models, this matter was of particular importance for our audit.

② As part of our audit, we assessed, among other things, the method used to perform impairment tests and the calculation of the weighted cost of capital. We evaluated the appropriateness of the future cash inflows used in the measurement, including by comparing this data with the five-year operating plan prepared by the executive directors and acknowledged by the Supervisory Board, and through reconciliation with general and sector-specific market expectations. We also evaluated that the costs for Group functions not recognized in a segment were properly included in the impairment test for the respective subgroup and brand, respectively. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, due to the materiality of the goodwill and brand names, we also performed our own sensitivity analyses for the subgroups and brands, respectively, (comparison of carrying amounts and recoverable amounts) and determined that the respective goodwill and brand names were sufficiently covered by the discounted future cash flows. Overall, we consider the measurement inputs and assumptions used by the executive directors to be in line with our expectations and to lie also within a range that we consider reasonable.

③ The Company's disclosures on goodwill and brand names are contained in section entitled "Intangible assets" in the notes to the consolidated financial statements.

❸ Recoverability of capitalized development costs

① In the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT capitalized development costs amounting to €22.4 billion are reported under the "Intangible assets" balance sheet item. In accordance with IAS 38, research costs are treated as expenses incurred, while development costs for future series products are capitalized provided that sale of these products is likely to bring an economic benefit. Until amortization begins, developments must be tested for impairment in accordance with IAS 36 at least once a year based on the cash-generating units to which they are allocated. To meet this requirement, over the period from capitalization until completion of development the Company assesses whether the costs incurred are covered by future cash flows. Once amortization begins, an assessment must be carried out at each reporting date as to whether there are indications of impairment. If this is the case, an impairment test must be performed and any impairment loss recognized. For impairment losses recognized in prior periods, an annual assessment must be carried out as to whether there are indications that the reason for the impairment has ceased to apply.

The Volkswagen Group generally applies the present value of the future cash flows (value in use) from the relevant cash-generating units to test these intangible assets for impairment. The value in use is determined using the discounted cash flow method based on the Group's five-year financial planning prepared by the executive directors. The discount rate used is the weighted average cost of capital (WACC). The weighted average cost of capital applied in the Volkswagen Group includes the weighted average cost of equity and debt before taxes.

The impairment identified during the impairment testing was recognized under the "Cost of sales" line item in the income statement as impairment losses amounting to €0.4 billion.

The result of this measurement depends to a large extent on the executive directors' assessment of future cash inflows and the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit we assessed whether, overall, the assumptions underlying the measurements particularly in the form of future cash inflows, and the discount rates used provide an appropriate basis by which to test the individual cash-generating units for impairment. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as the executive directors' detailed explanations regarding key planning value drivers. We also evaluated that the costs for Group functions were properly included in the impairment tests of the respective cash-generating units. With the knowledge that even relatively small changes in the discount rate applied can in some cases have material effects on values, we also focused our testing on the parameters used to determine the discount rate applied, and evaluated the measurement model. We also assessed the consistency of the measurement model applied and evaluated the mathematical accuracy of the calculations. Furthermore, we performed our own additional sensitivity analysis for those cash-generating units with little headroom (present value exceeds carrying amount) in order to gauge the impairment risk and enable us to adapt our audit procedures accordingly. With respect to completed development projects, we inquired the executive directors about whether or not there were indications of impairment or that reasons for impairment had ceased to apply, and critically examined these assumptions based on our knowledge of the Group's legal and economic environment. In the case of impairment losses or a reversal of impairment losses, we assessed that these were properly assigned to the assets allocated to the cash-generating unit. In our view, the measurement inputs and assumptions used by the executive directors, and the measurement model, were properly derived for the purposes of conducting impairment tests.

③ Company's disclosures on capitalized development costs and the associated impairment testing are contained in sections entitled "Accounting policies" and "Intangible assets" in the notes to the consolidated financial statements.

❹ Completeness and measurement of provisions for warranty obligations arising from sales

① In the consolidated financial statements of the Volkswagen Group €27.0 billion in provisions for obligations arising from sales are reported under the "Other provisions" balance sheet item. These obligations primarily relate to warranty claims arising from the sale of vehicles, motorcycles, components and genuine parts. Warranty claims are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. An estimate is also made of the discount rate. In addition, assumptions must be made about the nature and extent of future warranty and ex gratia claims. These assumptions are based on qualified estimates.

From our point of view, this matter was of particular significance for our audit because the recognition and measurement of this material item is to a large extent based on estimates and assumptions made by the Company's executive directors.

② With the knowledge that estimated values result in an increased risk of accounting misstatements and that the measurement decisions made by the executive directors have a direct and significant effect on consolidated net profit/loss, we assessed the appropriateness of the carrying amounts, including by comparing these figures with historical data and using the measurement bases presented to us. Furthermore, we assessed that the interest rates with matching terms were properly derived from market data. We evaluated the entire cal-culations (including discounting) for the provisions using the applicable measurement inputs and assessed the planned timetable for utilizing the provisions.
In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by the executive directors were sufficiently documented and supported to justify the recognition and measurement of the provisions for warranty obligations arising from sales.

③ The Company's disclosures on other provisions are contained in sections entitled "Accounting policies" and "Noncurrent and current other provisions" in the notes to the consolidated financial statements.

❺ Financial instruments – hedge accounting

① The companies of the Volkswagen Group use a variety of derivative financial instruments to hedge in particular against currency and interest rate risks arising from their ordinary business activities. The executive directors' hedging policy is documented in corresponding internal guidelines and serves as the basis for these transactions. Currency risk arises primarily from sales and procurement transactions and financing denominated in foreign currencies. The means of limiting this risk include entering into currency forwards, currency options and cross-currency interest rate swaps. The companies enter into interest rate hedges for the purpose of achieving an economically sensible ratio of variable to fixed interest rate exposures. Interest rate risk is minimized by entering into interest rate swaps and cross-currency interest rate swaps.

Derivatives are measured at fair value as of the balance sheet date. The positive fair values of all of the derivatives used for hedging purposes amount to €4.0 billion as of the balance sheet date, while the negative fair values amount to €2.6 billion. Insofar the financial instruments used by the Volkswagen Group are effective hedges of future cash flows in the context of hedging pursuant to the requirements of IFRS 9 (cash flow hedges), the effective portion of the changes in fair value is recognized in other comprehensive income over the duration of the hedging relationships until the maturity of the hedged cash flows. Changes in the value of derivative financial instruments caused by changes in the spot price are shown under the cash flow hedge reserve, as usual. Changes in the value of hedging instruments caused by changes in forward rates, and in the case of options caused by changes in fair value respectively, and changes in the value of the so called cross-currency basis spread are shown under the line item "cost of hedging reserve", which was newly introduced under IFRS 9. As of the balance sheet date, a cumulative amount of €1.2 billion was recognized in equity (cash flow hedge reserve of €1.8 billion and in the cost of hedging reserve €–0.6 billion) net of deferred taxes as the effective portion of fair value changes. Insofar derivative financial instruments are used to hedge against changes in the carrying amount of balance sheet items pursuant to the requirements of IFRS 9, changes in the fair value of both the hedged items and the hedging instruments are recognized on a net basis in the corresponding income statement items (fair value hedges).

At the time of transitioning from hedge accounting under IAS 39 to IFRS 9 at the beginning of the financial year, Volkswagen exercised as far as possible the option of implementing the transition prospectively, without restating prior-period figures. For currency options, the transition was carried out retrospectively with restating prior-period figures, as required by the standard. Changes in the fair value of currency options recognized in the income statement in the prior period were reclassified retrospectively to the cost of hedging reserve.

From our point of view these matters were of particular significance for our audit due to the high complexity and number of transactions as well as the extensive accounting and disclosure requirements of IFRS 9 and IFRS 7.

② As part of our audit, we assessed, with the assistance of our internal specialists, the changes to processes and systems in connection with the introduction if IFRS 9, among other things. A particular focus was placed on assessing how the effects from transition and the changes to prior-period figures in relation to the introduction of IFRS 9 were determined. Both the treasury management system and the corresponding adjustments in the consolidation system were subject to separate examinations. In addition, we assessed the contractual and financial parameters and evaluated the accounting treatment, including the effects on equity and profit or loss, of the various hedging relationships. Together with our specialists, we also evaluated the Company's internal control system with regard to derivative financial instruments, including the internal activities to monitor compliance with the hedging policy. In addition, for the purpose of auditing the fair value measurement of financial instruments, we also assessed the methods of calculation employed on the basis of market data. In addition to evaluating the internal control system, we obtained bank confirmations for the hedging instruments in order to assess completeness. With regard to the expected cash flows and the assessment of the effectiveness of hedges, we essentially conducted a retrospective assessment of past hedging levels. In doing so, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors were substantiated and sufficiently documented.

③ The Company's disclosures on hedge accounting are contained in sections entitled "Accounting policies", "Noncurrent and current other financial assets", "Noncurrent and current other financial liabilities", "Additional balance sheet disclosures in accordance with IFRS 7 (Financial Instruments)" in the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate Governance Report" of the group management report the corporate
- governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report, – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 consolidated financial statements and this group management report. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. 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.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. 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 the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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 deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 3, 2018. We were engaged by the supervisory board on May 4, 2018. We have been the group auditor of the VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, without interruption since the financial year 1948/1949.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Frank Hübner.

Hanover, February 22, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Harald Kayser Wirtschaftsprüfer (German Public Auditor)	Frank Hübner Wirtschaftsprüfer (German Public Auditor)

Five-Year Review

	2018	2017[1]	2016	2015	2014
Volume Data (thousands)					
Vehicle sales (units)	**10,900**	**10,777**	**10,391**	**10,010**	**10,217**
Germany	1,236	1,264	1,257	1,279	1,247
Abroad	9,664	9,513	9,135	8,731	8,970
Production (units)	**11,018**	**10,875**	**10,405**	**10,017**	**10,213**
Germany	2,303	2,579	2,685	2,681	2,559
Abroad	8,715	8,296	7,720	7,336	7,653
Employees (yearly average)	**656**	**634**	**619**	**604**	**583**
Germany	291	285	280	276	265
Abroad	365	350	339	329	318
Financial Data (in € million)					
Income Statement					
Sales revenue	**235,849**	**229,550**	**217,267**	**213,292**	**202,458**
Cost of sales	–189,500	–186,001	–176,270	–179,382	–165,934
Gross profit	**46,350**	**43,549**	**40,997**	**33,911**	**36,524**
Distribution expenses	–20,510	–20,859	–22,700	–23,515	–20,292
Administrative expenses	–8,819	–8,126	–7,336	–7,197	–6,841
Net other operating result	–3,100	–745	–3,858	–7,267	3,306
Operating result	**13,920**	**13,818**	**7,103**	**–4,069**	**12,697**
Financial result	1,723	–146	189	2,767	2,097
Earnings before tax	**15,643**	**13,673**	**7,292**	**–1,301**	**14,794**
Income tax expense	–3,489	–2,210	1,912	–59	–3,726
Earnings after tax	**12,153**	**11,463**	**5,379**	**–1,361**	**11,068**
Personnel expenses	**41,158**	**38,950**	**37,017**	**36,268**	**33,834**
Balance Sheet (at December 31)					
Noncurrent assets	274,620	262,081	254,010	236,548	220,106
Current assets	183,536	160,112	155,722	145,387	131,102
Total assets	**458,156**	**422,193**	**409,732**	**381,935**	**351,209**
Equity	117,342	109,077	92,910	88,270	90,189
of which: noncontrolling interests	225	229	221	210	198
Noncurrent liabilities	172,846	152,726	139,306	145,175	130,314
Current liabilities	167,968	160,389	177,515	148,489	130,706
Total equity and liabilities	**458,156**	**422,193**	**409,732**	**381,935**	**351,209**
Cash flows from operating activities	**7,272**	**–1,185**	**9,430**	**13,679**	**10,784**
Cash flows from investing activities attributable to operating activities	**19,386**	**18,218**	**16,797**	**15,523**	**16,452**
Cash flows from financing activities	**24,566**	**17,625**	**9,712**	**9,068**	**4,645**

1 Adjusted; see disclosures about the application of new International Financial Reporting Standards on page 114.

Financial Key Performance Indicators

%	2018	2017[1]	2016	2015	2014
Volkswagen Group					
Gross margin	19.7	19.0	18.9	15.9	18.0
Personnel expense ratio	17.5	17.0	17.0	17.0	16.7
Operating return on sales	5.9	6.0	3.3	–1.9	6.3
Return on sales before tax	6.6	6.0	3.4	–0.6	7.3
Return on sales after tax	5.2	5.0	2.5	–0.6	5.5
Equity ratio	25.6	25.8	22.7	23.1	25.7
Automotive Division[2]					
Change in unit sales year-on-year[3]	+1.1	+3.7	+3.8	–2.0	+5.0
Change in sales revenue year-on-year	+2.7	+5.3	+1.1	+3.6	+1.4
Research and development costs as a percentage of sales revenue	6.8	6.7	7.3	7.4	7.4
Operating return on sales	5.5	5.7	2.5	–3.4	6.1
EBITDA (in € million)[4]	26,707	26,094	18,999	7,212	23,100
Return on investment (ROI)[5]	11.0	12.1	8.2	–0.2	14.9
Cash flows from operating activities as a percentage of sales revenue	9.2	6.0	10.9	12.9	12.2
Cash flows from investing activities attributable to operating activities as a percentage of sales revenue	9.4	9.0	8.6	8.1	8.7
Capex as a percentage of sales revenue	6.6	6.5	6.9	6.9	6.5
Net liquidity as a percentage of sales revenue	8.2	9.7	12.5	11.5	8.7
Ratio of noncurrent assets to total assets[6]	23.3	23.7	23.4	23.1	22.3
Ratio of current assets to total assets[7]	17.6	16.3	15.9	15.2	14.3
Inventory turnover[8]	5.0	5.1	5.5	5.8	6.2
Equity ratio	37.9	36.9	31.4	32.6	36.9
Financial Services Division					
Increase in total assets	11.2	6.0	8.3	13.9	15.1
Return on equity before tax[9]	9.9	9.8	10.8	12.2	12.5
Equity ratio	12.7	13.7	12.5	11.9	11.3

1 Adjusted; see disclosures about the application of new International Financial Reporting Standards on page 114.
2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
3 Including the Chinese joint ventures. These companies are accounted for using the equity method.
4 Operating result plus net depreciation/amortization and impairment losses/reversals of impairment losses on property, plant and equipment, capitalized development costs, lease assets, goodwill and financial assets as reported in the cash flow statement.
5 For details, see Value-based management on page 127.
6 Ratio of property, plant and equipment to total ass.
7 Ratio of inventories to total assets at the balance sheet date.
8 Ratio of sales revenue to average monthly inventories.
9 Earnings before tax as a percentage of average equity.

Glossary

Selected terms at a glance

Big Data
Big data is a term used to describe new ways of analyzing and evaluating data volumes that are too vast and too complex to be processed using manual or conventional methods.

Compliance
Adherence to statutory provisions, internal company policies and ethical principles.

Compressed Natural Gas (CNG)
Burning this compressed natural gas releases approximately 25% less CO_2 than petrol because of its low carbon and high energy content.

Corporate Governance
International term for responsible corporate management and supervision driven by long-term value added.

Hybrid drive
Drive combining two different types of engine and energy storage systems (usually an internal combustion engine and an electric motor).

Hybrid notes
Hybrid notes issued by Volkswagen are classified in their entirety as equity. The issuer has call options at defined dates during their perpetual maturities. They pay a fixed coupon until the first possible call date, followed by a variable rate depending on their terms and conditions.

Industry 4.0
Describes the fourth industrial revolution and the systematic development of real-time and intelligent networks between people, objects and systems, exploiting all of the opportunities of information technology along the entire value added chain. Intelligent machines, inventory systems and operating equipment that independently exchange information, trigger actions and control each other will be integrated into production and logistics at a technical level. This offers tremendous versatility, efficient resource utilization, ergonomics and the integration of customers and business partners in operational processes throughout the entire value chain.

Liquefied Natural Gas (LNG)
LNG is needed so that natural gas engines can be used in long-distance trucks and buses, since this is the only way of achieving the required energy density.

Modular Electric Drive Toolkit (MEB)
The modular system is being developed for the manufacturing of electric vehicles. The MEB establishes parameters for axles, drive systems, high-voltage batteries, wheelbases and weight ratios to ensure a vehicle optimally fulfills the requirements of e-mobility. The first vehicle based on the MEB should go into series production in 2020.

Modular Transverse Toolkit (MQB)
As an extension of the modular strategy, this platform can be deployed in vehicles whose architecture permits a transverse arrangement of the engine components. The modular perspective enables high synergies to be achieved between the vehicles in the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles, Audi, SEAT and ŠKODA brands.

Plug-in hybrid
Performance levels of hybrid vehicles. Plug-in hybrid electric vehicles (PHEVs) have a larger battery with a correspondingly higher capacity that can be charged via the combustion engine, the brake system, or an electrical outlet. This increases the range of the vehicle.

Rating
Systematic assessment of companies in terms of their credit quality. Ratings are expressed by means of rating classes, which are defined differently by the individual rating agencies.

Test procedure
Levels of fuel consumption and exhaust gas emissions for vehicles registered in Europe were previously measured on a chassis dynamometer with the help of the “New European Driving Cycle (NEDC)”. Since fall 2017, the existing test procedure for emissions and fuel consumption used in the EU is being gradually replaced by the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP). This has been in place for new vehicle types since fall 2017 and will apply to all new vehicles since fall 2018. The aim of this new test cycle is to state CO_2 emissions and fuel consumption in a more practice-oriented manner. A further important European regulation is the Real Driving Emissions (RDE) for passenger cars and light commercial vehicles, which also monitors emissions using portable emission measuring technology in real road traffic.

Turntable concept
Concept of flexible manufacturing enabling the production of different models in variable daily volumes within a single plant, as well as offering the facility to vary daily production volumes of one model between two or more plants.

Vocational groups
For example, electronics, logistics, marketing, or finance. A new teaching and learning culture is gradually being established by promoting training in the vocational groups. The specialists are actively involved in the teaching process by passing on their skills and knowledge to their colleagues.

Zero-Emissions Vehicle (ZEV)
Vehicles that operate without exhibiting any harmful emissions from combustion gases. Examples of zero-emissions vehicles include purely battery-powered electric vehicles (BEV) or fuel cell vehicles.

Capitalization ratio

The capitalization ratio is defined as the ratio of capitalized development costs to total research and development costs in the Automotive Division. It shows the proportion of primary research and development costs subject to capitalization.

Distribution ratio

The distribution ratio is the ratio of total dividends attributable to ordinary and preferred shares to earnings after tax attributable to the shareholders of Volkswagen AG. The distribution ratio provides information on how earnings are distributed.

Dividend yield

The dividend yield is the ratio of the dividend for the reporting year to the closing price per share class on the last trading day of the reporting year; it represents the interest rate earned per share. The dividend yield is used in particular for measuring and comparing shares.

Equity ratio

The equity ratio measures the percentage of total assets attributable to shareholders' equity as of a reporting date. This ratio indicates the stability and financial strength of the company and shows the degree of financial independence.

Gross margin

Gross margin is the percentage of sales revenue attributable to gross profit in a period. Gross margin provides information on profitability net of cost of sales.

Price-earnings ratio

The price-earnings ratio is calculated by dividing the share price per share class at the end of the year by the earnings per share. It reflects a company's profitability per share; a comparison over several years shows how its performance has developed over time.

Return on equity before tax

The return on equity shows the ratio of profit before tax to average shareholders' equity of a period, expressed as a percentage. It reflects the company's profitability per share and indicates the interest rate earned on equity.

Return on sales before tax

The return on sales is the ratio of profit before tax to sales revenue in a period, expressed as a percentage. It shows the level of profit generated for each unit of sales revenue. The return on sales provides information on the profitability of all business activities before deducting income tax expense.

Tax rate

The tax rate is the ratio of income tax expense to profit before tax, expressed in percent. It shows what percentage of the profit generated has to be paid over as tax.

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Scheduled Dates 2019

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Volkswagen AG Annual Media Conference
and Investor Conference, Wolfsburg

May 2
Interim Report January – March

May 14
Volkswagen AG Annual General Meeting (CityCube Berlin)

July 25
Half-Yearly Financial Report

October 30
Interim Report January – September

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