

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 busi-

ness 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

€ million	VOLKSWAGEN GROUP		AUTOMOTIVE ¹		FINANCIAL SERVICES	
	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.

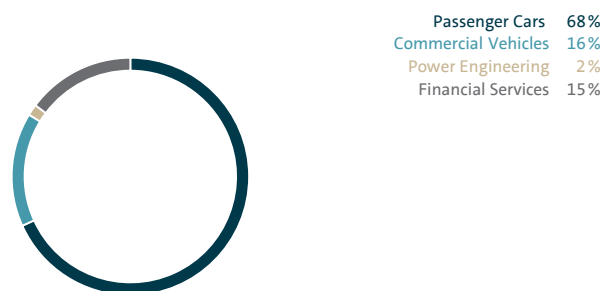
² Adjusted

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 invest-

ment 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		AUTOMOTIVE ¹		FINANCIAL SERVICES	
	2018	2017 ²	2018	2017 ²	2018	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 flow⁵	-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. 31⁶	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 liquidity⁷	-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.

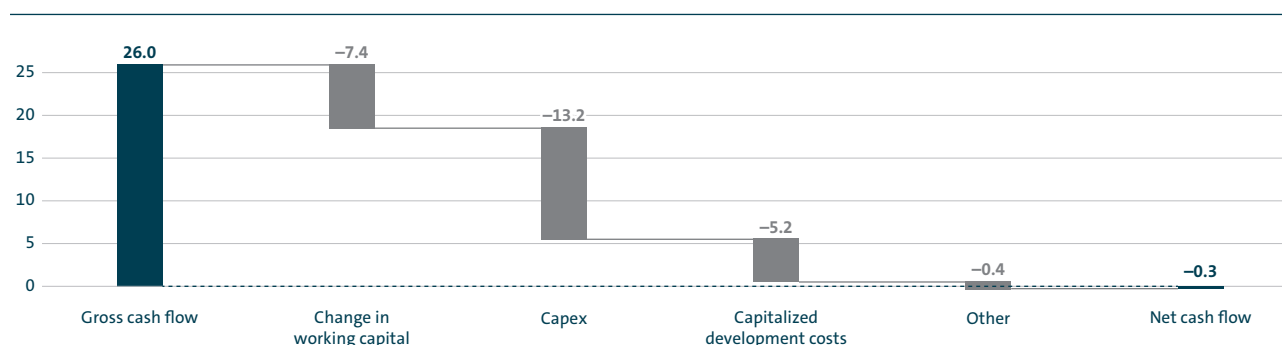
5 Net cash flow: cash flows from operating activities net of cash flows from investing activities attributable to operating activities (investing activities excluding change in investments in securities, loans and time deposits).

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.

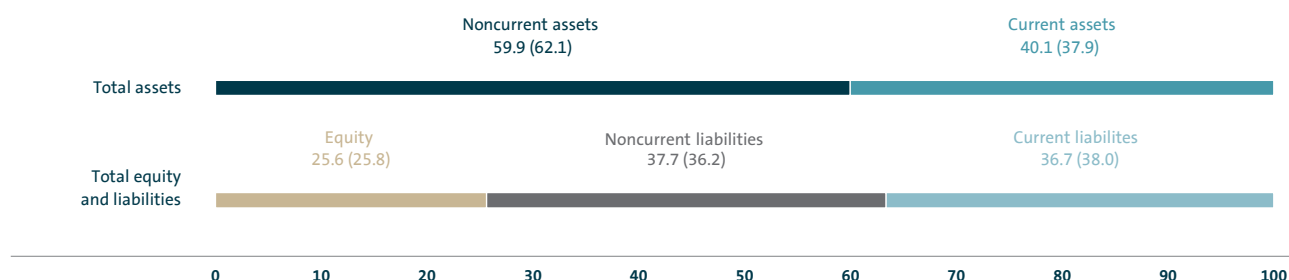
CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31

€ million	VOLKSWAGEN GROUP		AUTOMOTIVE ¹		FINANCIAL SERVICES	
	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.

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.

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.

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% increase 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, non-current 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

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.

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

In the Power Engineering Business Area, the decline in non-current 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 non-current 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 contribution¹, 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 DIVISION¹

€ 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 7.3% 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.