

Notes to the Consolidated Financial Statements

of the Volkswagen Group as of December 31, 2017

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 2017 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 23, 2018. 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 2017.

From January 1, 2017, IAS 7 (Statement of Cash Flows) requires entities to make additional disclosures on changes arising from cash flows and noncash changes in financial liabilities arising from financing activities as reported in the statement of cash flows.

Since January 1, 2017, the amendments to IAS 12 (Income Taxes) have clarified the recognition of deferred tax assets for unrealized losses in the case of assets carried at fair value.

The IASB amended IFRS 12 (Disclosures of Interests in Other Entities) as part of its 2016 annual improvements project, with effect from January 1, 2017. This clarifies that, as a matter of principle, disclosures in accordance with IFRS 12 must also be made for the entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities even if these are classified as held for sale, held for distribution to owners or as discontinued operations.

The amendments presented and other amendments do not materially affect the Volkswagen Group's net assets, financial position and results of operations.

New and amended IFRSs not applied

In its 2017 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 2	Classification and Measurement of Share-based Payment Transactions June 20, 2016	January 1, 2018	No	None
IFRS 4	Insurance Contracts: Application of IFRS 9 for Insurers September 12, 2016	January 1, 2018	Yes	None
IFRS 9	Financial Instruments July 24, 2014	January 1, 2018	Yes	Detailed descriptions after the tabular overview
IFRS 9	Prepayment Features with Negative Compensation October 12, 2017	January 1, 2019	No	None
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sales or Contributions of Assets between an Investor and its Associate/Joint Venture September 11, 2014	Deferred ²	–	None
IFRS 15	Revenue from Contracts with Customers May 28, 2014	January 1, 2018 ³	Yes	Detailed descriptions after the tabular overview
IFRS 15	Clarifications to IFRS 15 – Revenue from Contracts with Customers April 12, 2016	January 1, 2018	Yes	Additional transitional expedients, otherwise no material impact
IFRS 16	Leases January 13, 2016	January 1, 2019	Yes	Detailed descriptions after the tabular overview
IFRS 17	Insurance Contracts May 18, 2017	January 1, 2021	No	No material impact
IAS 28	Investments in Associates: Long-term Interests in Associates and Joint Ventures October 12, 2017	January 1, 2019	No	None
IAS 40	Transfers of Investment Property December 8, 2016	January 1, 2018	No	No material impact
	Annual Improvements to International Financial Reporting Standards 2016 ⁴ December 8, 2016	January 1, 2018 ⁵	Yes	No material impact
	Annual Improvements to International Financial Reporting Standards 2017 ⁶ December 12, 2017	January 1, 2019	No	No material impact
IFRIC 22	Foreign Currency Transactions and Advance Consideration December 8, 2016	January 1, 2018	No	Translation of advance payments denominated in foreign currency into the functional currency at the spot rate on the day of payment
IFRIC 23	Uncertainty over Income Tax Treatments June 7, 2017	January 1, 2019	No	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 Deferred until January 1, 2018 (IASB decision of September 11, 2015).

4 Minor amendments to a number of IFRSs (IFRS 1 and IAS 28).

5 This relates to the effective date of the amendments to IFRS 1 and IAS 28.

6 Minor amendments to a number of IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23).

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 change in method for classifying and measuring financial assets is expected to have a transition effect of €0.3 billion. The effect, net of deferred taxes, of the first-time application increases the retained earnings directly in equity. The classification and measurement of financial liabilities under IFRS 9 are largely unchanged compared with the current accounting requirements of IAS 39.

The basis for measuring impairment losses and recognizing loss allowances will switch from an incurred credit loss model to an expected credit loss model. The change in measurement method will lead to a €0.3 billion to €0.5 billion increase in the loss allowance on initial application. These amounts, net of deferred taxes, reduce the retained earnings directly in equity. 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 testing.

IFRS 9 will have a particularly significant 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 option transactions, a transition effect of €0.1 billion is expected. The effect, net of deferred taxes, of the first-time application increases the retained earnings directly in equity. Since the new guidance for hedging with currency forwards will be applied prospectively, these hedges will not result in any initial application effect.

This will also result in far more extensive disclosures in the notes.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 specifies new accounting rules for revenue recognition. In the MAN subgroup, sales revenue is expected to be recognized at a later point in time than under the current accounting treatment for certain types of contract. Other provisions and other liabilities will be adjusted accordingly. The recognition of prepayments due but not yet transferred by the customer in the form of cash will additionally inflate the balance sheet by an amount in the three-digit million range.

In addition, from next year onward, the Volkswagen Group will no longer present the reversal of sales allowances under other operating income, but under sales revenue.

The Volkswagen Group will apply the modified retrospective transition method. This is not expected to result in material transition effects for the Volkswagen Group, because the existing approach used by the Volkswagen Group is already largely in line with the new guidance.

This will also result in far more extensive disclosures in the notes.

IFRS 16 – LEASES

IFRS 16 changes the accounting treatment for leases. 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. In the future, they will instead be required to recognize a right-of-use asset and a lease liability for all leases in the statement of financial position. Exceptions will only be made for short-term leases and leases of low-value assets. During the lease term, the right-of-use asset must be depreciated and the lease liability adjusted using an effective interest method and taking the lease payments into account. The new lessee accounting model will therefore tend to increase noncurrent assets and noncurrent liabilities. In the income statement this change is expected to improve the operating result and reduce the financial result. 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.

This will also result 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 after the International Council on Clean Transportation (ICCT) study was published in May 2014, the test set-ups on which the ICCT study was based were repeated in-house at Volkswagen AG and confirmed the unusually high NO_x emissions from certain type EA 189 2.0 l diesel engines in the USA. The California Air Resources Board (CARB) – a part of the environmental authority of California – was informed of this result, and, at the same time, an offer was made to recalibrate the 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 type V6 3.0 l diesel engines. The investigation conducted by Jones Day for Volkswagen AG also comprehensively covered this issue.

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 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-cylinder diesel engines such as the type V6 3.0 l diesel engines.

Nothing from the publications made up to the time this report was prepared or from the ongoing investigations and interviews on the diesel issue has presented the Volkswagen AG Board of Management with any conclusive findings or assessments of fact that would result in a different assessment of the associated risks (e.g. investor lawsuits).

Additional expenses of €3.2 billion were recognized in fiscal year 2017. This is due to an increase of €2.2 billion in expenses for warranties and of €1.0 billion in expenses for legal risks. The main reason for this rise in provisions is that the buyback/retrofit programs for 2.0 l TDI vehicles in North America, which have to be implemented under the settlement deal, are more complex. Continuous monitoring of the program has shown that the scheme is more comprehensive and technically more challenging than expected; this also entails an extension to the program period.

Further information on the litigation in connection with the diesel issue can be found in the “Litigation” section.

Further details can be found in the “Diesel Issue” section of the management report.

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:

	2017	2016
Volkswagen AG and consolidated subsidiaries		
Germany	156	149
Abroad	717	919
Subsidiaries carried at cost		
Germany	69	74
Abroad	238	251
Associates, joint ventures and other equity investments		
Germany	61	47
Abroad	88	70
	1,329	1,510

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
- › Haberl Beteiligungs-GmbH, Munich
- › Karosseriewerk Porsche GmbH & Co. KG, Stuttgart
- › MAHAG GmbH, Munich
- › MOIA GmbH, Berlin
- › Porsche Connect GmbH, Stuttgart
- › 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 Zentrum Hoppegarten GmbH, Stuttgart
- › Raffay Versicherungsdienst GmbH, Hamburg
- › SKODA AUTO Deutschland GmbH, Weiterstadt
- › 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 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 Truck & Bus 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 other changes in the consolidated Group are shown in the following table:

Number	Germany	Abroad
Initially consolidated		
Subsidiaries previously carried at cost	10	10
Newly acquired subsidiaries	1	1
Newly formed subsidiaries	1	15
	12	26
Deconsolidated		
Mergers	1	6
Liquidations	4	11
Sales/other	0	211
	5	228

The initial inclusion 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, 2017, the quoted market price of the shares in Sinotruk amounted to €648 million (previous year: €466 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, 2017, the quoted market price of the shares in Bertrandt amounted to €299 million (previous year: €284 million).

There Holding

The Audi Subgroup, the BMW Group and Daimler AG each hold 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 is shown in the share of the result of equity-accounted investments. Since a significant influence continues to exist, HERE International B.V. is included in the financial statement of There Holding B.V. as an associate using the equity method. There is no change in the Volkswagen Group's participating interest in There Holding B.V. as a result of the sale.

Moreover, in December 2016, an agreement for the sale of 10% of the shares in HERE International B.V. was signed with a consortium consisting of NavInfo Co. Ltd., Beijing, China, Tencent Holdings Ltd., Shenzhen, China, and GIC Private Ltd., Singapore, Singapore. The completion of the transaction with the consortium was dependent on the approval of the relevant authorities. In the third quarter of 2017, a decision was taken not to pursue the transaction any further, because it could no longer be envisaged during the official review process that the necessary approvals would be obtained.

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. are acquiring an interest of 5.9% each in There Holding B.V. Audi, BMW and Daimler are selling their shareholdings in the same amount. The transactions are expected to be completed in the first quarter of 2018, subject to approvals by the authorities. The share attributable to Volkswagen is reported under assets held for sale. The transactions are not expected to have a material effect on the financial position and results of operations.

Navistar

At the beginning of September 2016, Volkswagen Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, and the US-based commercial vehicle manufacturer Navistar International Corporation, Lisle, USA (Navistar), announced that they had signed an agreement to forge a wide-ranging alliance. The cooperation primarily involves working together on technical components and in procurement. The transaction closed on February 28, 2017. Within the framework of a capital increase, Volkswagen Truck & Bus acquired 16.6% of the shares in Navistar, paying USD 15.76 per share. 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. The interest held in Navistar was increased to 16.9% by the balance sheet date.

As of December 31, 2017, the quoted market price of the shares in Navistar amounted to €595 million.

SUMMARIZED FINANCIAL INFORMATION ON MATERIAL ASSOCIATES ON A 100% BASIS:

€ million	Sinotruk ¹	Bertrandt ²	There Holding	Navistar ³
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	–	–
2016				
Equity interest (%)	25	29	33	
Noncurrent assets	2,075	603	2,802	
Current assets	4,034	492	592	
Noncurrent liabilities	123	340	1,044	
Current liabilities	3,029	168	518	
Net assets	2,956	587	1,832	
Sales revenue	4,116	992	1,240	
Earnings after tax from continuing operations	46	28	–167	
Earnings after tax from discontinued operations	–	–	–	
Other comprehensive income	11	–1	–4	
Total comprehensive income	57	27	–171	
Dividends received	2	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 Due to the first-time inclusion of Navistar and the fact that it has a different fiscal year, the income statement disclosures for the current fiscal year relate to the period from March 1, 2017 to October 31, 2017. Balance sheet disclosures relate to the balance sheet date as of October 31.

RECONCILIATION OF THE FINANCIAL INFORMATION TO THE CARRYING AMOUNT OF THE EQUITY-ACCOUNTED INVESTMENTS:

€ million	Sinotruk	Bertrandt	There Holding	Navistar ¹
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
2016				
Net assets at January 1	3,083	585	2,003	
Profit or loss	46	28	-167	
Other comprehensive income	11	-1	-4	
Changes in reserves	30	-	-	
Foreign exchange differences	-198	-	-	
Dividends	-17	-25	-	
Net assets at December 31	2,956	587	1,832	
Proportionate equity	739	170	611	
Consolidation/Goodwill/Others	-411	163	-	
Carrying amount of equity-accounted investments	328	333	611	

1 Due to the first-time inclusion of Navistar, the reconciliation of the net carrying amount relates to the period from March 1, 2017 to December 31, 2017.

SUMMARIZED FINANCIAL INFORMATION ON INDIVIDUALLY IMMATERIAL ASSOCIATES ON THE BASIS OF THE VOLKSWAGEN GROUP'S PROPORTIONATE INTEREST:

€ million	2017	2016
Earnings after tax from continuing operations	-29	2
Earnings after tax from discontinued operations	-	-
Other comprehensive income	0	-1
Total comprehensive income	-29	0
Carrying amount of equity-accounted investments	90	277

Unrecognized losses relating to investments in associates totaled €- million (previous year: €5 million). There were 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, SAIC-Volkswagen Sales Company Ltd., Shanghai, China (SAIC-Volkswagen Sales Company), and Global Mobility Holding B.V., Amsterdam, the Netherlands (Global Mobility Holding), were material at the reporting date or the prior-year 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.

Global Mobility Holding

Through its 50% interest in the joint venture Global Mobility Holding B.V., Amsterdam, the Netherlands (GMH), the Volkswagen Group held a 50% indirect stake in the joint venture's subsidiary, LeasePlan Corporation N.V., Amsterdam, the Netherlands (LeasePlan). GMH's business activity consisted of holding the interest in LeasePlan. LeasePlan is a Dutch financial services group whose core business is leasing and fleet management.

On July 23, 2015, GMH sold its 100% interest in LeasePlan to a consortium of international investors. The final approvals for the sale of LeasePlan to the consortium of investors were issued by the competent authorities in January 2016. Legal transfer of the LeasePlan shares was completed on March 21, 2016.

The total value of the transaction was approximately €3.7 billion plus interest in the amount of €31.5 million. In 2016, this had a positive effect of €2.2 billion on investing activities attributable to operating activities and net liquidity and, taking into account the disposal of equity-accounted investment in GMH, resulted in an income amount of €0.2 billion for the Volkswagen Group, which is reported in the financial result. On completion of the transaction, the existing credit line of €1.3 billion provided by the Volkswagen Group was canceled.

SUMMARIZED FINANCIAL INFORMATION ON THE MATERIAL JOINT VENTURES ON A 100% BASIS:

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company ¹	Global Mobility Holding ²	SAIC-Volkswagen Sales Company
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
2016				
Equity interest (%)	40	50		30
Noncurrent assets	9,341	7,254		517
Current assets	12,962	8,521		3,739
of which: cash, cash equivalents and time deposits	7,073	5,265		212
Noncurrent liabilities	1,774	1,437		22
of which: financial liabilities	–	–		–
Current liabilities	13,063	8,759		3,713
of which: financial liabilities	1	0		–
Net assets	7,466	5,579		520
Sales revenue	40,875	26,064	1,879	30,707
Depreciation and amortization	1,120	1,091	12	4
Interest income	82	40	168	–
Interest expenses	–	4	70	–
Earnings before tax from continuing operations	5,546	4,589	142	614
Income tax expense	1,576	1,127	38	154
Earnings after tax from continuing operations	3,970	3,462	105	460
Earnings after tax from discontinued operations	–	–	–	–
Other comprehensive income	37	21	–20	–
Total comprehensive income	4,007	3,483	85	460
Dividends received	1,634	1,661	–	127

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 GMH transferred the LeasePlan shares to third parties on March 21, 2016 (see further disclosures in this section).

RECONCILIATION OF THE FINANCIAL INFORMATION TO THE CARRYING AMOUNT OF THE EQUITY-ACCOUNTED INVESTMENTS:

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company	Global Mobility Holding	SAIC-Volkswagen Sales Company
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
2016				
Net assets at January 1	7,825	5,618	3,927	506
Profit or loss	3,970	3,462	105	460
Other comprehensive income	37	21	-20	-
Changes in share capital	-	-	-	-
Changes in reserves	-	-	-	-
Foreign exchange differences	-281	-200	-20	-21
Dividends	-4,085	-3,321	-	-425
Net assets at December 31	7,466	5,579	3,991 ¹	520
Proportionate equity	2,987	2,790	1,996	156
Consolidation/Goodwill/Others	-339	-415	-1,996	-
Carrying amount of equity-accounted investments	2,647	2,375	-	156

1 As of March 21, 2016.

SUMMARIZED FINANCIAL INFORMATION ON INDIVIDUALLY IMMATERIAL JOINT VENTURES ON THE BASIS OF THE VOLKSWAGEN GROUP'S PROPORTIONATE INTEREST:

€ million	2017	2016
Earnings after tax from continuing operations	290	304
Earnings after tax from discontinued operations	10	-
Other comprehensive income	0	3
Total comprehensive income	299	307
Carrying amount of equity-accounted investments	1,881	1,890

There were no unrecognized losses relating to interests in joint ventures. Contingent liabilities to joint ventures amounted to €186 million (previous year: €183 million) and financial guarantees to joint ventures amounted to €82 million (previous year: €- million). Cash funds of €260 million (previous year: €173 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. These assets are no longer depreciated. The amount reported is mainly attributable to the planned sale of property, plant and equipment (€24 million) and the planned sale of shares in There Holding B.V. (€86 million). The sales will not have any material impact on the Volkswagen Group’s results of operations or net liquidity. The sales are expected to be completed in the first half of fiscal year 2018.

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 relate to the same tax period.

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	
		2017	2016	2017	2016
	€1 =				
Argentina	ARS	22.99203	16.80096	18.72636	16.33207
Australia	AUD	1.53285	1.46150	1.47300	1.48880
Brazil	BRL	3.97065	3.43720	3.60471	3.86217
Canada	CAD	1.50260	1.42280	1.46444	1.46659
Czech Republic	CZK	25.57900	27.02400	26.32920	27.03433
India	INR	76.56700	71.65500	73.50146	74.37058
Japan	JPY	134.87000	123.50000	126.66763	120.31663
Mexico	MXN	23.61420	21.84800	21.33175	20.66535
People's Republic of China	CNY	7.80085	7.33320	7.62688	7.35067
Poland	PLN	4.17490	4.41530	4.25727	4.36416
Republic of Korea	KRW	1,278.22000	1,269.11000	1,275.94974	1,284.79543
Russia	RUB	69.33520	64.67550	65.88875	74.23443
South Africa	ZAR	14.75715	14.48480	15.04543	16.28336
Sweden	SEK	9.83140	9.56720	9.63700	9.46712
United Kingdom	GBP	0.88730	0.85850	0.87626	0.81897
USA	USD	1.19875	1.05600	1.12933	1.10675

Accounting policies

MEASUREMENT PRINCIPLES

With certain exceptions such as financial instruments at fair value through profit or loss, available-for-sale financial assets 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 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 functions 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 of 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	2017	2016
Passenger Cars segment	5.8%	5.4%
Commercial Vehicles segment	6.8%	6.5%
Power Engineering segment	8.0%	7.7%

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 that are directly attributable to the acquisition of qualifying assets on or after January 1, 2009 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.

IAS 39 classifies financial assets into the following categories:

- › financial assets at fair value through profit or loss;
- › held-to-maturity financial assets;
- › loans and receivables; and
- › available-for-sale financial assets.

Financial liabilities are classified into the following categories:

- › financial liabilities at fair value through profit or loss; and
- › financial liabilities measured at amortized cost.

We recognize financial instruments at amortized cost or at fair value.

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;
- › minus any write-down for impairment or uncollectibility;
- › 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.

In the case of current receivables and liabilities, amortized cost generally corresponds to the principal or repayment amount.

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.

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 IAS 39 and IFRS 7. Other equity investments that are required by IAS 39.46(c) to be measured at cost, net of any impairment losses to be recognized, are presented as “measured at fair value”.

LOANS AND RECEIVABLES, FINANCIAL LIABILITIES AND HELD-TO-MATURITY FINANCIAL ASSETS

Loans, receivables and financial liabilities, as well as held-to-maturity financial assets, are measured at amortized cost, unless hedged. Specifically, these relate to:

- › receivables from financing business;
- › trade receivables and payables;
- › other receivables and financial assets and liabilities;
- › financial liabilities; and
- › cash, cash equivalents and time deposits.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are either allocated specifically to this category or are financial assets that cannot be assigned to any other category.

Available-for-sale financial assets (debt instruments) are carried at fair value. Changes in fair value are recognized directly in equity, net of deferred taxes. Prolonged changes in the fair value of debt instruments (impairment losses, foreign exchange gains and losses, interest calculated using the effective interest method) are recognized in profit or loss.

Other equity investments (shares representing an ownership interest of less than 20% as a rule) are also classified as available-for-sale financial assets. They are recognized at cost in the consolidated financial statements if there is no active market for those shares and fair values cannot be reliably ascertained without undue cost or effort. The lower present value of the estimated future cash flows is recognized if there are indications of impairment. There is currently no intention to sell these financial assets. Foreign exchange gains and losses attributable to equity instruments are recognized in other comprehensive income.

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 carrying amount 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 remeasurement of hedging instruments and hedged items are recognized in profit or loss. In the case of hedges of future cash flows (cash flow hedges), the hedging instruments are also measured at fair value. Gains or losses from remeasurement of the effective portion of the derivative are initially recognized in the reserve for cash flow hedges directly in equity, and are only recognized in the income statement when the hedged item is recognized in profit or loss; the ineffective portion of a cash flow hedge is recognized immediately in profit or loss.

Derivatives used by the Volkswagen Group for financial management purposes to hedge against interest rate, foreign currency, commodity, or price risks, but that do not meet the strict hedge accounting criteria of IAS 39, are classified as financial assets or liabilities at fair value through profit or loss (also referred to below as derivatives not included in hedging relationships). 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 primarily to the interest component of currency forwards used to hedge sales revenue, commodity futures and currency forwards relating to commodity futures. Gains and losses from the remeasurement and settlement of financial instruments at fair value through profit or loss are reported in the financial result.

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.

OTHER RECEIVABLES AND FINANCIAL ASSETS

Other receivables and financial assets (except for derivatives) are recognized at amortized cost.

IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

Default risk on loans and receivables in the financial services business is accounted for by recognizing specific valuation allowances and portfolio-based valuation allowances.

More specifically, in the case of significant individual receivables (e.g. dealer finance receivables and fleet customer business receivables) specific valuation allowances are recognized in accordance with Group-wide standards in the amount of the incurred loss. A potential impairment is assumed in the case of 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.

Portfolio-based valuation 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. As long as no definite information is available as to which receivables are in default, average historical default probabilities for the portfolio concerned are used to calculate the amount of the valuation allowances.

As a matter of principle, specific valuation allowances are recognized on receivables outside the Financial Services segment.

Valuation allowances on receivables are regularly recognized in separate allowance accounts.

An impairment loss is recognized on available-for-sale financial assets if there is objective evidence of permanent impairment. In the case of equity instruments, evidence of impairment is taken to exist, among other things, if the fair value decreases below cost significantly (by more than 20%) or the decrease is prolonged (by more than 10% of the average market prices over one year). If impairment is identified, the cumulative loss is recognized in the reserve and charged to profit and loss. In the case of equity instruments, reversals of impairment losses are taken directly to equity. Impairment losses are recognized on debt instruments if a decrease in the future cash flows of the financial asset is expected. An increase in the risk-free interest rate or an increase in credit risk premiums is not in itself evidence of impairment.

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 valuation 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 0.08% (previous year: 0.04%) 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.

We recognize insurance contracts that form part of the insurance business 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 improbable, 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, that is, when the risk has passed to the customer, the amount of sales revenue can be reliably determined and settlement of the amount can be assumed. Revenue is reported net of sales allowances (discounts, rebates, or customer bonuses). Sales revenue from financing and 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. Customer financing and finance lease income is determined using the effective interest method and recognized under sales revenue. Sales revenue from extended warranties or maintenance agreements is recognized when deliveries take place or services are rendered. In the case of prepayments, deferred income is recognized proportionately by reference to the costs expected to be incurred, based on experience. Revenue is recognized on a straight-line basis if there is insufficient experience. If the expected costs exceed the accrued sales revenue, a loss is recognized from these agreements.

If a contract comprises several separately identifiable components (multiple-element arrangements), these components are recognized separately in accordance with the principles outlined above.

Income from assets for which a Group company has a buy-back 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.

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.

Construction contracts are recognized using the percentage of completion (PoC) method, under which revenue and cost of sales are recognized by reference to the stage of completion at the end of the reporting period, based on the contract revenue agreed with the customer and the expected contract costs. 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). In certain cases, in particular those involving innovative, complex contracts, the stage of completion is measured using contractually agreed milestones (milestone method). If the outcome of a construction contract cannot yet be estimated reliably, contract revenue is recognized only in the amount of the contract costs incurred to date (zero profit method). In the balance sheet, contract components whose revenue is recognized using the percentage of completion method are reported as trade receivables, net of prepayments received. Expected

losses from construction contracts are recognized immediately in full as expenses by recognizing impairment losses on recognized contract assets, and additionally by recognizing provisions for amounts in excess of the impairment losses.

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 past experience taking into account current market data as well as rating categories and scoring information. In the case of financial services receivables, both specific and portfolio-based valuation allowances are recognized. The more detailed balance sheet disclosures on IFRS 7 (Financial Instruments) contain an overview of these specific and portfolio-based valuation 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 past 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. Reversals of provisions are recognized as other operating income, whereas expenses relating to the recognition of provisions are allocated directly to the 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. This requires assumptions to be made about the nature and extent of future guarantee and ex gratia claims. 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, or to vehicle values in the case of repurchases. In addition, assumptions are made about future

resale prices of repurchased vehicles. They 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 past 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. The put options and compensation rights of free float shareholders recognized within liabilities depend in particular on the outcome of the MAN award proceedings. The liability was based on estimates of the length of the award proceedings and the amount of the put options and compensation rights. The length was estimated based on the fact that proceedings take seven years on average. The amount of the put options and compensation rights of MAN’s free float shareholders is derived from the cash settlement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act).

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 past 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: 2.5%) in 2017. In our forecasts, we assume that global economic growth will weaken slightly in 2018. 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 permits.

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 2016

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	160,461	25,385	3,590	27,884	217,320	-54	217,267
Intersegment sales revenue	17,354	6,695	3	3,367	27,418	-27,418	-
Total sales revenue	177,815	32,080	3,593	31,251	244,739	-27,472	217,267
Depreciation and amortization	10,846	2,293	368	6,224	19,731	-159	19,572
Impairment losses	886	126	3	491	1,506	-137	1,368
Reversal of impairment losses	152	0	-	92	245	-139	106
Segment result (operating result)	5,235	718	-217	2,435	8,171	-1,068	7,103
Share of the result of equity-accounted investments	3,147	25	-	64	3,236	261	3,497
Net interest result and other financial result	-1,674	-379	-8	-91	-2,152	-1,157	-3,308
Equity-accounted investments	7,349	418	-	849	8,616	-	8,616
Investments in intangible assets, property, plant and equipment, and investment property	15,891	2,433	194	357	18,875	27	18,902

REPORTING SEGMENTS 2017

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	169,513	27,632	3,280	30,191	230,618	64	230,682
Intersegment sales revenue	18,892	7,568	3	3,541	30,004	-30,004	-
Total sales revenue	188,405	35,200	3,283	33,733	260,621	-29,939	230,682
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
Net interest result and other financial result	-1,920	-220	-2	-180	-2,321	-1,067	-3,388
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

RECONCILIATION

€ million	2017	2016
Segment sales revenue	260,621	244,739
Unallocated activities	948	749
Group financing	25	42
Consolidation	-30,912	-28,263
Group sales revenue	230,682	217,267
Segment result (operating result)	17,153	8,171
Unallocated activities	10	86
Group financing	-16	22
Consolidation	-3,328	-1,176
Operating result	13,818	7,103
Financial result	94	189
Consolidated result before tax	13,913	7,292

BY REGION 2016

€ million	Germany	Europe/Other markets ¹	North America	South America	Asia-Pacific	Total
Sales revenue from external customers	43,634	94,445	35,454	7,973	35,761	217,267
Intangible assets, property, plant and equipment, lease assets and investment property	84,525	40,717	23,958	3,320	3,064	155,583

¹ Excluding Germany.

BY REGION 2017

€ million	Germany	Europe/Other markets ¹	North America	South America	Asia-Pacific	Total
Sales revenue from external customers	44,333	98,420	38,818	9,988	39,123	230,682
Intangible assets, property, plant and equipment, lease assets and investment property	89,594	37,050	26,076	2,851	2,812	158,384

¹ Excluding Germany.

Allocation of sales revenue to the regions follows the destination principle.

Income statement disclosures

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE

€ million	2017	2016
Vehicles	145,958	137,293
Genuine parts	15,628	15,220
Used vehicles and third-party products	13,355	13,324
Engines, powertrains and parts deliveries	11,318	9,770
Power Engineering	3,280	3,590
Motorcycles	601	589
Leasing business	24,570	22,306
Interest and similar income	7,119	6,695
Other sales revenue	8,853	8,481
	230,682	217,267

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.

Sales revenue from construction contracts amounted to €965 million (previous year: €1,069 million) and mainly related to the Power Engineering segment.

2. Cost of sales

Cost of sales includes interest expenses of €1,961 million (previous year: €1,930 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 €1,185 million (previous year: €1,369 million). The impairment losses amounting to a total of €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 €485 million (including €37 million reported in current lease assets), which are attributable predominantly to the Financial Services segment, are based on constantly updated internal and external information that is factored into the forecast residual values of the vehicles.

Government grants related to income amounted to €424 million in the fiscal year (previous year: €435 million) and were generally allocated to the functions.

3. Distribution expenses

Distribution expenses amounting to €22.7 billion (previous year: €22.7 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.

4. Administrative expenses

The administrative expenses of €8.3 billion (previous year: €7.3 billion) mainly include nonstaff overheads and personnel costs, as well as depreciation and amortization applicable to the administrative function.

5. Other operating income

€ million	2017	2016
Income from reversal of valuation allowances on receivables and other assets	1,043	847
Income from reversal of provisions and accruals	4,384	3,738
Income from foreign currency hedging derivatives	2,259	1,739
Income from foreign exchange gains	2,656	2,842
Income from sale of promotional material	502	440
Income from cost allocations	1,386	1,222
Income from investment property	16	14
Gains on asset disposals and the reversal of impairment losses	212	363
Miscellaneous other operating income	2,041	1,843
	14,500	13,049

Income from the reversal of provisions and accrued liabilities is mainly attributable to a reduction in provisions. A further breakdown can be found in the “Noncurrent and current other provisions” section. 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.

6. Other operating expenses

€ million	2017	2016
Valuation allowances on receivables and other assets	1,650	1,787
Losses from foreign currency hedging derivatives	1,753	2,964
Foreign exchange losses	2,839	3,077
Expenses from cost allocations	609	542
Expenses for termination agreements	35	424
Losses on disposal of noncurrent assets	175	144
Miscellaneous other operating expenses	5,197	7,970
	12,259	16,907

Miscellaneous other operating expenses consist of litigation expenses of €1.0 billion (previous year: €5.1 billion) in connection with the diesel issue. In the previous year, they had also included provisions of €0.4 billion for the antitrust proceedings that the European Commission opened against European truck manufacturers including MAN and Scania. The prior-year expenses for termination agreements result primarily from the restructuring expenses for the South American market and at MAN. 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.

7. Share of the result of equity-accounted investments

€ million	2017	2016
Share of profits of equity-accounted investments	3,519	3,563
of which: from joint ventures	(3,327)	(3,534)
of which: from associates	(191)	(29)
Share of losses of equity-accounted investments	36	66
of which: from joint ventures	(2)	–
of which: from associates	(34)	(66)
	3,482	3,497

8. Interest result

€ million	2017	2016 ¹
Interest income	951	1,285
Other interest and similar income	839	915
Income from valuation of interest derivatives	113	370
Interest expenses	-2,317	-2,955
Other interest and similar expenses	-1,305	-1,400
Expenses from valuation of interest derivatives	-368	-448
Interest cost included in lease payments	-29	-29
Interest result on other liabilities	-13	-347
Net interest on the net defined benefit liability	-602	-731
Interest result	-1,366	-1,670

1 Prior-year figures adjusted.

To enhance comparability, the structure within the financial result has been changed. The presentation of finance costs has been replaced with the interest result. The new structure has led to changes in various items in the financial result. Specifically, the realized expenses from loan receivables and liabilities in foreign currency reported in the finance cost item in previous years have been reclassified to other financial result. In addition, income and expenses from the measurement and realization of interest rate risk, which were previously reported in income and expenses from fair value changes relating to hedging transactions within hedge accounting are now presented in the interest result. The prior-year figures for other financial result have been adjusted accordingly by an amount of €1.6 billion.

9. Other financial result

€ million	2017	2016
Income from profit and loss transfer agreements	35	33
Cost of loss absorption	-76	-24
Other income from equity investments	71	110
Other expenses from equity investments	-289	-155
Income from marketable securities and loans ^{1,2}	-222	-58
Realized income of loan receivables and payables in foreign currency	734	882
Realized expenses of loan receivables and payables in foreign currency	-1,107	-810
Gains and losses from remeasurement and impairment of financial instruments ¹	-475	-303
Gains and losses from fair value changes of derivatives not included in hedge accounting	-810	-1,148
Gains and losses from fair value changes of derivatives included in hedge accounting ¹	117	-166
Other financial result¹	-2,022	-1,638

1 Prior-year figures adjusted.

2 Including disposal gains/losses.

10. Income tax income/expense

COMPONENTS OF TAX INCOME AND EXPENSE

€ million	2017	2016
Current tax expense, Germany	614	885
Current tax expense, abroad	2,590	2,388
Current income tax expense	3,205	3,273
of which prior-period income (-)/expense (+)	(216)	(188)
Deferred tax income (-)/expense (+), Germany	385	-736
Deferred tax income (-)/expense (+), abroad	-1,315	-625
Deferred tax income (-)/expense (+)	-930	-1,361
Income tax income/expense	2,275	1,912

The statutory corporation tax rate in Germany for the 2017 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 29.9% (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 2017 of €422 million (previous year: €146 million).

Previously unused tax loss carryforwards amounted to €14,931 million (previous year: €17,686 million). Tax loss carryforwards amounting to €9,660 million (previous year: €11,494 million) can be used indefinitely, while €3,834 million (previous year: €4,237 million) must be used within the next ten years. There are additional tax loss carryforwards amounting to €1,437 million (previous year: €1,956 million) that can be used within a period of 15 or 20 years. Tax loss carryforwards of €7,222 million (previous year: €6,380 million) were estimated not to be usable overall. Of these, €343 million (previous year: €276 million) will expire within five years, €2,152 million (previous year: €2,341 million) within 6 to 20 years and €93 million (previous year: €38 million) after 20 years. Tax loss carryforwards of €4,634 million (previous year: €3,725 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 €114 million (previous year: €135 million). Deferred tax expense was reduced by €75 million (previous year: €211 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 €130 million (previous year: €297 million). Deferred tax income resulting from the reversal of a write-down of deferred tax assets amounts to €40 million (previous year: €304 million).

Tax credits granted by various countries amounted to €500 million (previous year: €756 million).

No deferred tax assets were recognized for deductible temporary differences of €1,028 million (previous year: €1,533 million) and for tax credits of €228 million (previous year: €353 million) that would expire in the next 20 years, or for tax credits of €0 million (previous year: €65 million) that will not expire.

In accordance with IAS 12.39, deferred tax liabilities of €266 million (previous year: €326 million) for temporary differences and undistributed profits of Volkswagen AG subsidiaries were not recognized because control exists.

Due to the change in the statutory provisions in Germany, a refund claim for corporation tax was recognized as a current tax asset for the first time in fiscal year 2006. As of the balance sheet date, the previous year's refund claim (€134 million) had been amortized in full.

Deferred tax income resulting from changes in tax rates amounted to €1,044 million at Group level (previous year: expense of €120 million). This is primarily attributable to the effects of the tax reform in the United States.

Deferred taxes in respect of temporary differences and tax loss carryforwards of €8,344 million (previous year: €9,890 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.

€3,655 million (previous year: €5,486 million) of the deferred taxes recognized in the balance sheet was credited to equity and relates to other comprehensive income. €2 million (previous year: €3 million) of this figure is attributable to noncontrolling interests. In the fiscal year under review, changes of €–3 million arising from items that will not be reclassified to profit or loss were recognized directly in equity. Changes in deferred taxes classified by balance sheet item are presented in the statement of comprehensive income.

In fiscal year 2017, tax effects of €8 million resulting from equity transaction costs were recognized in equity.

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:

€ million	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Intangible assets	363	302	10,055	9,884
Property, plant and equipment, and lease assets	4,567	4,387	6,017	8,315
Noncurrent financial assets	35	26	43	24
Inventories	2,653	2,223	784	792
Receivables and other assets (including Financial Services Division)	1,879	2,107	8,889	7,273
Other current assets	3,884	2,768	42	92
Pension provisions	6,652	6,776	24	22
Liabilities and other provisions	9,603	10,746	4,109	2,750
Valuation allowances on deferred tax assets from temporary differences	–327	–368	–	–
Temporary differences, net of valuation allowances	29,307	28,967	29,963	29,152
Tax loss carryforwards, net of valuation allowances	2,090	3,365	–	–
Tax credits, net of valuation allowances	273	337	–	–
Value before consolidation and offset	31,670	32,670	29,963	29,152
of which noncurrent	(18,858)	(21,736)	(22,863)	(23,681)
Offset	24,816	25,198	24,816	25,198
Consolidation	2,956	2,284	489	791
Amount recognized	9,810	9,756	5,636	4,745

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 2017 of €2,275 million (previous year: €1,912 million) was €1,885 million lower (previous year: €268 million lower) than the expected tax expense of €4,160 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	2017	2016
Profit before tax	13,913	7,292
Expected income tax income (–) / expense (+) (tax rate 29.9%; previous year: 29.9%)	4,160	2,180
Reconciliation:		
Effect of different tax rates outside Germany	–541	–446
Proportion of taxation relating to:		
tax-exempt income	–1,237	–1,226
expenses not deductible for tax purposes	407	409
effects of loss carryforwards and tax credits	476	35
permanent differences	5	12
Tax credits	–50	–137
Prior-period tax expense	–212	234
Effect of tax rate changes	–1,044	139
Nondeductible withholding tax	383	437
Other taxation changes	–73	275
Effective income tax expense	2,275	1,912

The tax expense recognized in the fiscal year was reduced by €1,007 million on the basis of the tax reform passed in the United States, which envisages a reduction in the corporate income tax rate from 35% to 21%, among other things. The reduction resulted mainly from the remeasurement of deferred taxes of subsidiaries in the United States.

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. Article 27(2) No. 1 of the Articles of Association of Volkswagen AG sets out that, even in the event of a deficit, a preferred dividend of €0.11 per preferred share must be paid out in the subsequent fiscal years based on the cumulative arrangement if no dividend is paid for the year under review; consequently, this must be factored into the calculation of earnings per share for the current fiscal year. The dividend proposal that is based on Volkswagen AG's net income for the year under the German Commercial Code is not relevant for the calculation of earnings per share in accordance with IAS 33. The distribution of further dividends 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, is only included in the calculation of earnings per share if there is a profit after tax attributable to the shareholders of Volkswagen AG.

Quantity	ORDINARY		PREFERRED	
	2017	2016	2017	2016
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	2017	2016
Earnings after tax	11,638	5,379
Noncontrolling interests	10	10
Earnings attributable to Volkswagen AG hybrid capital investors	274	225
Earnings attributable to Volkswagen AG shareholders	11,354	5,144
Basic earnings attributable to ordinary shares	6,676	3,021
Diluted earnings attributable to ordinary shares	6,676	3,021
Basic earnings attributable to preferred shares	4,678	2,123
Diluted earnings attributable to preferred shares	4,678	2,123

€	2017	2016
Basic earnings per ordinary share	22.63	10.24
Diluted earnings per ordinary share	22.63	10.24
Basic earnings per preferred share	22.69	10.30
Diluted earnings per preferred share	22.69	10.30

Additional Income Statement Disclosures in accordance with IAS 23 (Borrowing Costs)

Capitalized borrowing costs amounted to €83 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)

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 and
- financial instruments not falling within the scope of IFRS 7.

Financial instruments not falling within the scope of IFRS 7 include in particular investments in associates and joint ventures accounted for using the equity method.

NET GAINS OR LOSSES FROM FINANCIAL INSTRUMENTS BY IAS 39 MEASUREMENT CATEGORY

€ million	2017	2016
Financial instruments at fair value through profit or loss	–840	–1,203
Loans and receivables ¹	2,105	3,434
Available-for-sale financial assets	–206	–39
Financial liabilities measured at amortized cost	1,689	–3,480
	2,748	–1,288

1 Prior-year figures adjusted. Further details can be found in the disclosures in the section entitled "Noncurrent and current financial services receivables".

Net gains and losses from financial assets and liabilities at fair value through profit or loss are 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 available-for-sale financial assets primarily comprise income and expenses from marketable securities including disposal gains/losses, impairment losses on investments and currency translation effects.

Net gains and losses from loans and receivables and from financial liabilities carried at amortized cost comprise interest income and expenses in accordance with the effective interest method under IAS 39, including currency translation effects. Interest also includes interest income and expenses from the lending business of the financial services operations.

TOTAL INTEREST INCOME AND EXPENSES ATTRIBUTABLE TO FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

€ million	2017	2016
Interest income ¹	4,794	4,670
Interest expenses	3,509	3,534
	1,285	1,136

1 Prior-year figures adjusted. Further details can be found in the disclosures in the section entitled "Noncurrent and current financial services receivables".

IMPAIRMENT LOSSES ON FINANCIAL ASSETS BY CLASS

€ million	2017	2016
Measured at fair value	3	18
Measured at amortized cost	1,628	1,707
	1,631	1,725

Impairment losses relate to write-downs of financial assets, such as valuation allowances on receivables and marketable securities. Interest income on impaired financial assets amounted to €56 million in the fiscal year (previous year: €48 million).

In fiscal year 2017, €3 million (previous year: €3 million) was recognized as an expense and €58 million (previous year: €67 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, 2016

€ 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, 2016	17,062	23,646	6,781	23,681	8,529	79,699
Foreign exchange differences	-37	-86	-12	-90	137	-89
Changes in consolidated Group	-	9	-	-	29	37
Additions	-	-	4,857	893	385	6,135
Transfers	-	-	-4,324	4,324	12	12
Disposals	-	10	17	1,442	456	1,925
Balance at Dec. 31, 2016	17,024	23,559	7,285	27,366	8,637	83,870
Amortization and impairment						
Balance at Jan. 1, 2016	76	-	37	12,968	5,472	18,553
Foreign exchange differences	5	0	0	-80	84	9
Changes in consolidated Group	-	-	-	-	7	7
Additions to cumulative amortization	3	-	-	3,278	906	4,187
Additions to cumulative impairment losses	-	10	16	293	55	375
Transfers	-	-	0	-	-3	-3
Disposals	-	10	14	1,419	412	1,855
Reversal of impairment losses	-	-	-	1	0	1
Balance at Dec. 31, 2016	84	0	39	15,040	6,109	21,271
Carrying amount at Dec. 31, 2016	16,941	23,558	7,246	12,326	2,527	62,599

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

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	2017	2016
Brand names by operating segment		
Porsche	13,823	13,823
Scania Vehicles and Services	990	1,017
MAN Truck & Bus	1,127	1,127
MAN Diesel & Turbo	415	415
Ducati	404	404
Other	153	155
	16,911	16,941
Goodwill by operating segment		
Porsche	18,825	18,825
Scania Vehicles and Services	2,866	2,947
MAN Truck & Bus	595	608
MAN Diesel & Turbo	268	249
Ducati	290	290
ŠKODA	159	150
Porsche Holding Salzburg	151	197
Other	289	293
	23,442	23,558

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	2017	2016	%
Total research and development costs	13,141	13,672	-3.9
of which: capitalized development costs	5,260	5,750	-8.5
Capitalization ratio in %	40.0	42.1	-
Amortization of capitalized development costs	3,734	3,587	4.1
Research and development costs recognized in profit or loss	11,614	11,509	0.9

13. Property, plant and equipment

CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2016

€ 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, 2016	31,036	39,836	58,243	7,717	136,832
Foreign exchange differences	228	429	498	51	1,206
Changes in consolidated Group	42	26	30	1	98
Additions	742	1,843	5,150	5,025	12,760
Transfers	1,639	2,296	1,879	-5,758	55
Disposals	154	1,076	1,203	28	2,461
Balance at Dec. 31, 2016	33,534	43,353	64,595	7,008	148,490
Depreciation and impairment					
Balance at Jan. 1, 2016	12,789	28,148	45,645	79	86,661
Foreign exchange differences	90	305	397	5	796
Changes in consolidated Group	6	14	16	-	36
Additions to cumulative depreciation	1,000	2,918	4,707	-	8,625
Additions to cumulative impairment losses	67	143	291	8	508
Transfers	17	21	15	-46	7
Disposals	81	1,011	1,071	0	2,164
Reversal of impairment losses	-	7	0	7	13
Balance at Dec. 31, 2016	13,887	30,531	49,999	39	94,456
Carrying amount at Dec. 31, 2016	19,647	12,822	14,596	6,969	54,033
of which assets leased under finance leases					
Carrying amount at Dec. 31, 2016	318	9	45	-	372

Future finance lease payments due, and their present values, are shown in the following table:

€ million	2017	2018 – 2021	from 2022	Total
Finance lease payments	79	306	480	865
Interest component of finance lease payments	26	100	200	326
Carrying amount of liabilities	53	206	279	539

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

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	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 liabilities	51	176	252	479

For assets leased under operating leases, payments recognized in the income statement amounted to €1,449 million (previous year: €1,498 million). With respect to internally used assets, €1,302 million (previous year: €1,320 million) of this figure is attributable to minimum lease payments and €55 million (previous year: €60 million) to contingent lease payments. The payments of €92 million (previous year: €118 million) under subleases primarily relate to minimum lease payments.

Government grants of €135 million (previous year: €218 million) were deducted from the cost of property, plant and equipment and noncash benefits received amounting to €12 million (previous year: €12 million) were not capitalized as the cost of assets.

Real property liens of €916 million (previous year: €762 million) are pledged as collateral for financial liabilities related to land and buildings.

14. Lease assets and investment property

CHANGES IN LEASE ASSETS AND INVESTMENT PROPERTY IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2016

€ million	Leasing assets	Investment property	Total
Cost			
Balance at Jan. 1, 2016	45,118	761	45,879
Foreign exchange differences	321	12	333
Changes in consolidated Group	64	66	130
Additions	20,628	33	20,661
Transfers	3	-70	-67
Disposals	14,652	21	14,673
Balance at Dec. 31, 2016	51,483	780	52,262
Depreciation and impairment			
Balance at Jan. 1, 2016	11,945	257	12,202
Foreign exchange differences	74	2	76
Changes in consolidated Group	15	1	16
Additions to cumulative depreciation	6,743	17	6,760
Additions to cumulative impairment losses	455	0	455
Transfers	0	-4	-4
Disposals	6,097	4	6,101
Reversal of impairment losses	92	-	92
Balance at Dec. 31, 2016	13,044	268	13,312
Carrying amount at Dec. 31, 2016	38,439	512	38,950

The following payments from noncancelable leases and rental agreements were expected to be received over the coming years:

€ million	2017	2018 – 2021	from 2022	Total
Lease payments	3,649	4,759	56	8,464

CHANGES IN LEASE ASSETS AND INVESTMENT PROPERTY IN THE PERIOD JANUARY 1 TO DECEMBER 31, 2017

€ million	Leasing 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

Lease assets include assets leased out under the terms of operating leases and assets covered by long-term buy-back agreements.

Investment property includes apartments rented out and leased dealerships with a fair value of €993 million (previous year: €1,150 million). Fair value is estimated using an investment method based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses of €52 million (previous year: €46 million) were incurred for the maintenance of investment property in use. Expenses of €3 million (previous year: €1 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	2018	2019 – 2022	from 2023	Total
Lease payments	3,392	4,675	46	8,112

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, 2016

€ million	Equity-accounted investments	Other equity investments	Total
Gross carrying amount at Jan. 1, 2016	10,985	1,333	12,318
Foreign exchange differences	-100	-1	-101
Changes in consolidated Group	-11	-103	-114
Additions	525	191	716
Transfers	-	-	-
Disposals	2,193	3	2,197
Changes recognized in profit or loss	3,250	-	3,250
Dividends	-3,598	-	-3,598
Other changes recognized in other comprehensive income	-131	-	-131
Balance at Dec. 31, 2016	8,727	1,417	10,143
Impairment losses			
Balance at Jan. 1, 2016	81	358	439
Foreign exchange differences	-1	1	0
Changes in consolidated Group	-	-57	-57
Additions	30	120	150
Transfers	-	-	-
Disposals	-	1	1
Reversal of impairment losses	-	0	0
Balance at Dec. 31, 2016	110	420	531
Carrying amount at Dec. 31, 2016	8,616	996	9,613

**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
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

Equity-accounted investments include joint ventures in the amount of €6,459 million (previous year: €7,068 million) and associates in the amount of €1,746 million (previous year: €1,548 million).

The additions of equity-accounted investments are mainly attributable to the acquisition of the investment in Navistar in the amount of €0.3 billion (previous year: acquisition of investment in Gett and measurement of shares in GMH at the selling price). In the previous year, the disposals resulted from the divestment of LeasePlan by GMH. Further details can be found in the disclosures in the section entitled "Basis of consolidation".

Of the other changes recognized in other comprehensive income, €-249 million (previous year: €-132 million) is attributable to joint ventures and €-2 million (previous year: €1 million) to associates. They are mainly the result of foreign exchange differences in the amount of €-327 million (previous year: €-156 million), pension plan remeasurements in the amount of €112 million (previous year: €-1 million) and losses on the fair value measurement of cash flow hedges in the amount of €-30 million (previous year: €33 million).

16. Noncurrent and current financial services receivables

€ million	CARRYING AMOUNT			FAIR VALUE	CARRYING AMOUNT			FAIR VALUE
	Current	Noncurrent	Dec. 31, 2017	Dec. 31, 2017	Current	Noncurrent	Dec. 31, 2016	Dec. 31, 2016
Receivables from financing business								
Customer financing ¹	19,841	40,899	60,739	61,763	19,630	38,907	58,537	60,119
Dealer financing	17,033	2,194	19,227	19,200	15,531	2,108	17,639	17,626
Direct banking	269	4	272	272	254	2	256	256
	37,142	43,096	80,239	81,236	35,415	41,018	76,433	78,002
Receivables from operating leases	193	–	193	193	197	–	197	197
Receivables from finance leases ¹	15,810	30,153	45,963	46,766	14,060	27,384	41,445	42,240
	53,145	73,249	126,395	128,195	49,673	68,402	118,075	120,438

1 Prior-year figures adjusted.

The receivables from customer financing and finance leases contained in financial services receivables of €126.4 billion (previous year: €118.1 billion) decreased by €31 million (previous year: €7 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, €287 million (previous year: €251 million) was furnished as collateral for financial liabilities and contingent liabilities.

The receivables from dealer financing include €51 million (previous year: €51 million) receivable from unconsolidated affiliated companies.

In the consolidated financial statements, some of the receivables previously reported as customer financing in individual markets are now presented as receivables from finance leases. The prior-year figures have been restated, resulting in a €12.2 billion reduction in receivables from customer financing and a corresponding €12.2 billion increase in receivables from finance leases as of December 31, 2016. The adjustments as of January 1, 2016 amounted to €11.9 billion. In addition, the expected cash flows from finance leases have been adjusted accordingly.

The receivables from finance leases – almost entirely in respect of vehicles – were or are expected to generate the following cash flows as of December 31, 2016 and December 31, 2017:

€ million	2017	2018 – 2021	from 2022	Total
Future payments from finance lease receivables	15,117	29,352	137	44,605
Unearned finance income from finance leases (discounting)	–1,058	–2,094	–11	–3,162
Present value of minimum lease payments outstanding at the reporting date	14,059	27,258	126	41,443

€ 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

Accumulated valuation allowances for uncollectible minimum lease payments receivable amount to €116 million (previous year: €94 million).

17. Noncurrent and current other financial assets

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2017	Current	Noncurrent	Dec. 31, 2016
Positive fair value of derivatives	2,845	4,091	6,936	2,317	3,274	5,591
Marketable securities	–	3	3	–	46	46
Receivables from loans, bonds, profit participation rights (excluding interest)	5,367	2,531	7,898	5,352	2,338	7,690
Miscellaneous financial assets	3,786	1,829	5,615	4,175	2,598	6,773
	11,998	8,455	20,453	11,844	8,256	20,099

Other financial assets include receivables from related parties of €7.7 billion (previous year: €6.9 billion). Other financial assets and noncurrent marketable securities amounting to €1,819 million (previous year: €1,870 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, 2017	Dec. 31, 2016
Transactions for hedging		
foreign currency risk from assets using fair value hedges	228	239
foreign currency risk from liabilities using fair value hedges	108	186
interest rate risk using fair value hedges	400	592
interest rate risk using cash flow hedges	86	65
foreign currency and price risk from future cash flows (cash flow hedges)	4,401	3,032
Hedging transactions	5,224	4,114
Assets related to derivatives not included in hedging relationships	1,712	1,477
	6,936	5,591

The positive fair value of transactions for hedging price risk from future cash flows (cash flow hedges) amounted to €– million (previous year: €36 million).

Positive fair values of €17 million (previous year: €1 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

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2017	Current	Noncurrent	Dec. 31, 2016
Other recoverable income taxes	3,881	896	4,777	4,037	841	4,878
Miscellaneous receivables	1,465	1,356	2,821	1,093	1,169	2,261
	5,346	2,252	7,598	5,130	2,009	7,139

Miscellaneous receivables include assets to fund post-employment benefits in the amount of €64 million (previous year: €46 million). This item also includes the share of the technical provisions attributable to reinsurers amounting to €73 million (previous year: €73 million).

Current other receivables are predominantly non-interest-bearing.

19. Tax assets

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2017	Current	Noncurrent	Dec. 31, 2016
Deferred tax assets	–	9,810	9,810	–	9,756	9,756
Tax receivables	1,339	407	1,746	1,126	392	1,518
	1,339	10,217	11,557	1,126	10,148	11,274

€7,456 million (previous year: €6,294 million) of the deferred tax assets are due within one year.

20. Inventories

€ million	Dec. 31, 2017	Dec. 31, 2016
Raw materials, consumables and supplies	4,858	4,396
Work in progress	4,143	4,408
Finished goods and purchased merchandise	26,514	25,719
Current lease assets	4,774	4,276
Prepayments	127	178
	40,415	38,978

At the same time as the relevant revenue was recognized, inventories in the amount of €173 billion (previous year: €166 billion) were included in cost of sales. Valuation allowances (excluding lease assets) recognized as expenses in the reporting period amounted to €878 million (previous year: €1,310 million). Vehicles amounting to €271 million (previous year: €263 million) were assigned as collateral for partial retirement obligations.

21. Trade receivables

€ million	Dec. 31, 2017	Dec. 31, 2016
Trade receivables from		
third parties	9,667	9,110
unconsolidated subsidiaries	220	179
joint ventures	3,341	2,847
associates	44	47
other investees and investors	86	4
	13,357	12,187

The fair values of the trade receivables correspond to the carrying amounts.

The trade receivables include receivables from construction contracts accounted for using the percentage of completion (PoC) method. These are calculated as follows:

€ million	Dec. 31, 2017	Dec. 31, 2016
Contract costs and proportionate contract profit/loss of construction contracts	1,122	955
Progress billings	-38	-91
Exchange rate effects	-3	2
PoC receivables, gross	1,081	865
Prepayments received	-739	-652
PoC receivables, net	342	213

Other payments received on account of construction contracts in the amount of €270 million (previous year: €225 million), for which no construction costs have yet been incurred, are recognized under other liabilities.

22. Marketable securities

The marketable securities serve to safeguard liquidity. Marketable securities are quoted, mainly short-term fixed-income securities and shares allocated to the available-for-sale financial assets category.

23. Cash, cash equivalents and time deposits

€ million	Dec. 31, 2017	Dec. 31, 2016
Bank balances	18,343	19,093
Checks, cash-in-hand, bills and call deposits	114	171
	18,457	19,265

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. Interest may be accumulated depending on whether a dividend is paid to Volkswagen AG shareholders. Under IAS 32, the 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.

CHANGE IN ORDINARY AND PREFERRED SHARES AND SUBSCRIBED CAPITAL

	SHARES		€	
	2017	2016	2017	2016
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 €2,181 million are eligible for distribution following the transfer of €2,174 million to the revenue reserves. The Board of Management and Supervisory Board will propose to the Annual General Meeting that a total dividend of €1,967 million, i.e. €3.90 per ordinary share and €3.96 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 €2.00 per ordinary share and €2.06 per preferred share was distributed in fiscal year 2017.

NONCONTROLLING INTERESTS

As of December 31, 2017, total noncontrolling interests amounted to €229 million (previous year: €221 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:

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2017	Current	Noncurrent	Dec. 31, 2016
Bonds	14,146	48,971	63,118	18,831	33,191	52,022
Commercial paper and notes	22,506	13,399	35,905	23,173	18,004	41,178
Liabilities to banks	14,487	15,357	29,844	14,180	10,816	24,996
Deposits business	29,291	2,114	31,405	31,019	2,759	33,779
Loans and miscellaneous liabilities	1,363	1,358	2,721	1,204	1,102	2,306
Bills of exchange	–	–	–	–	–	–
Finance lease liabilities	51	428	479	53	486	539
	81,844	81,628	163,472	88,461	66,358	154,819

26. Noncurrent and current other financial liabilities

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2017	Current	Noncurrent	Dec. 31, 2016
Negative fair values of derivative financial instruments	1,212	1,034	2,246	3,428	2,630	6,058
Interest payable	570	44	614	581	48	630
Miscellaneous financial liabilities	6,788	1,586	8,374	5,428	1,810	7,239
	8,570	2,665	11,234	9,438	4,488	13,926

The negative fair values of derivatives relate to the following items:

€ million	Dec. 31, 2017	Dec. 31, 2016
Transactions for hedging		
foreign currency risk from assets using fair value hedges	58	74
foreign currency risk from liabilities using fair value hedges	19	286
interest rate risk using fair value hedges	64	147
interest rate risk using cash flow hedges	24	11
foreign currency and price risk from future cash flows (cash flow hedges)	542	4,135
Hedging transactions	706	4,652
Liabilities related to derivatives not included in hedging relationships	1,540	1,406
	2,246	6,058

The negative fair value of transactions for hedging price risk from future cash flows (cash flow hedges) amounted to €- million (previous year: €21 million).

Negative fair values of €22million (previous year: €85million) 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

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2017	Current	Noncurrent	Dec. 31, 2016
Payments received on account of orders	4,084	694	4,779	4,042	572	4,614
Liabilities relating to						
other taxes	2,301	249	2,550	2,611	204	2,815
social security	564	38	601	536	35	571
wages and salaries	4,941	844	5,785	4,495	750	5,245
Miscellaneous liabilities	4,071	4,375	8,446	3,777	4,103	7,880
	15,961	6,199	22,160	15,461	5,664	21,125

28. Tax liabilities

€ million	CARRYING AMOUNT			CARRYING AMOUNT		
	Current	Noncurrent	Dec. 31, 2017	Current	Noncurrent	Dec. 31, 2016
Deferred tax liabilities	–	5,636	5,636	–	4,745	4,745
Provisions for taxes	1,397	3,030	4,427	1,301	3,556	4,857
Tax payables	430	–	430	500	–	500
	1,827	8,666	10,492	1,801	8,301	10,102

€320 million (previous year: €328 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 2017, they amounted to a total of €2,214 million (previous year: €2,084 million) in the Volkswagen Group. Of this figure, contributions to the compulsory state pension system in Germany amounted to €1,634 million (previous year: €1,552 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 €25 million for fiscal year 2018.

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 health-care. In fiscal year 2017, €17 million (previous year: €19 million) was recognized as an expense for health care costs. The related carrying amount as of December 31, 2017 was €210 million (previous year: €232 million).

The following amounts were recognized in the balance sheet for defined benefit plans:

€ million	Dec. 31, 2017	Dec. 31, 2016
Present value of funded obligations	15,605	15,104
Fair value of plan assets	11,192	10,749
Funded status (net)	4,413	4,355
Present value of unfunded obligations	28,224	28,585
Amount not recognized as an asset because of the ceiling in IAS 19	29	26
Net liability recognized in the balance sheet	32,666	32,967
of which provisions for pensions	32,730	33,012
of which other assets	64	46

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 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 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	
	2017	2016	2017	2016
%				
Discount rate at December 31	1.88	1.79	3.52	3.82
Payroll trend	3.56	3.46	3.00	3.32
Pension trend	1.50	1.50	2.48	2.44
Employee turnover rate	1.15	1.13	3.25	3.63
Annual increase in healthcare costs	–	–	4.98	4.88

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	2017	2016
Net liability recognized in the balance sheet at January 1	32,967	27,464
Current service cost	1,372	1,066
Net interest expense	600	729
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	33	17
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–616	5,862
Actuarial gains (–)/losses (+) arising from experience adjustments	–88	–283
Income/expenses from plan assets not included in interest income	117	349
Change in amount not recognized as an asset because of the ceiling in IAS 19	–6	–4
Employer contributions to plan assets	582	680
Employee contributions to plan assets	–8	–7
Pension payments from company assets	841	833
Past service cost (including plan curtailments)	7	–24
Gains (–) or losses (+) arising from plan settlements	–1	4
Changes in consolidated Group	0	0
Other changes	–44	–42
Foreign exchange differences from foreign plans	–37	25
Net liability recognized in the balance sheet at December 31	32,666	32,967

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	2017	2016
Present value of obligations at January 1	43,689	37,215
Current service cost	1,372	1,066
Interest cost	883	1,075
Actuarial gains(–)/losses (+) arising from changes in demographic assumptions	33	17
Actuarial gains(–)/losses (+) arising from changes in financial assumptions	–616	5,862
Actuarial gains(–)/losses (+) arising from experience adjustments	–88	–283
Employee contributions to plan assets	33	31
Pension payments from company assets	841	833
Pension payments from plan assets	307	308
Past service cost (including plan curtailments)	7	–24
Gains (–) or losses (+) arising from plan settlements	–3	–64
Changes in consolidated Group	0	0
Other changes	–41	–4
Foreign exchange differences from foreign plans	–290	–62
Present value of obligations at December 31	43,829	43,689

Changes in the relevant actuarial assumptions would have had the following effects on the defined benefit obligation:

		DEC. 31, 2017		DEC. 31, 2016	
Present value of defined benefit obligation if		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	39,979	–8.79	39,761	–8.99
	is 0.5 percentage points lower	48,290	10.18	48,249	10.44
Pension trend	is 0.5 percentage points higher	46,055	5.08	45,985	5.25
	is 0.5 percentage points lower	41,801	–4.63	41,601	–4.78
Payroll trend	is 0.5 percentage points higher	44,398	1.30	44,297	1.39
	is 0.5 percentage points lower	43,304	–1.20	43,145	–1.25
Longevity	increases by one year	45,106	2.91	44,986	2.97

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: 20 years).

The present value of the defined benefit obligation is attributable as follows to the members of the plan:

€ million	2017	2016
Active members with pension entitlements	26,067	25,622
Members with vested entitlements who have left the Company	2,233	2,222
Pensioners	15,530	15,846
	43,829	43,689

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	2017	2016
Payments due within the next fiscal year	1,151	1,126
Payments due between two and five years	4,994	4,801
Payments due in more than five years	37,685	37,762
	43,829	43,689

Changes in plan assets are shown in the following table:

€ million	2017	2016
Fair value of plan assets at January 1	10,749	9,769
Interest income on plan assets determined using the discount rate	283	346
Income/expenses from plan assets not included in interest income	117	349
Employer contributions to plan assets	582	680
Employee contributions to plan assets	25	25
Pension payments from plan assets	307	308
Gains (+) or losses (–) arising from plan settlements	2	68
Changes in consolidated Group	–1	–
Other changes	3	38
Foreign exchange differences from foreign plans	–258	–82
Fair value of plan assets at December 31	11,192	10,749

The investment of the plan assets to cover future pension obligations resulted in income in the amount of €400 million (previous year: €695 million).

Employer contributions to plan assets are expected to amount to €617 million (previous year: €594 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2017			DEC. 31, 2016		
	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	585	5	590	269	–	269
Equity instruments	337	–	337	360	–	360
Debt instruments	1,578	0	1,578	1,658	0	1,659
Direct investments in real estate	2	101	104	2	107	109
Derivatives	38	–60	–23	–15	–	–15
Equity funds	1,532	34	1,567	1,531	43	1,574
Bond funds	5,233	114	5,348	5,310	108	5,418
Real estate funds	207	–	207	192	–	192
Other funds	864	4	868	591	2	593
Other instruments	40	577	617	32	559	591

49.1% (previous year: 48.1%) of the plan assets are invested in German assets, 27.6% (previous year: 26.7%) in other European assets and 23.4 % (previous year: 25.2%) in assets in other regions.

Plan assets include €15 million (previous year: €19 million) invested in Volkswagen Group assets and €18 million (previous year: €9 million) in Volkswagen Group debt instruments.

The following amounts were recognized in the income statement:

€ million	2017	2016
Current service cost	1,372	1,066
Net interest on the net defined benefit liability	602	731
Past service cost (including plan curtailments)	7	–24
Gains (–) or losses (+) arising from plan settlements	–1	4
Net income (–) and expenses (+) recognized in profit or loss	1,981	1,777

The above amounts are generally included in the personnel costs of the functions 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, 2016	31,326	4,148	8,409	7,075	50,958
Foreign exchange differences	174	35	93	100	402
Changes in consolidated Group	23	1	3	124	151
Utilized	9,265	1,344	1,583	2,103	14,295
Additions/New provisions	12,180	1,736	5,605	3,419	22,939
Unwinding of discount/effect of change in discount rate	123	196	-84	3	238
Reversals	1,533	227	726	713	3,199
Balance at Dec. 31, 2016	33,027	4,546	11,717	7,904	57,193
of which current	19,521	1,900	8,624	5,666	35,711
of which noncurrent	13,506	2,646	3,092	2,238	21,482
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
Utilized	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

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 arising from sales and for 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 €534 million (previous year: €490 million) relating to the insurance business.

31. Put options and compensation rights granted to noncontrolling interest share-holders

This balance sheet item consists primarily of the present value of the cash settlement 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, including the basic interest rate in accordance with section 247 of the Bürgerliches Gesetzbuch (BGB – German Civil Code) assumed until the end of the award proceedings. The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Volkswagen Truck & Bus GmbH, a subsidiary of Volkswagen AG, in June 2013. The agreement sets out that the noncontrolling interest shareholders of MAN SE are entitled to either a cash settlement in accordance with section 305 of the AktG amounting to €80.89 per tendered ordinary or preferred share, or cash compensation in accordance with section 304 of the AktG in the amount of €3.07 per ordinary or preferred share (after corporate taxes, before the shareholder's individual tax liability) for each full fiscal year. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. In July 2015, the Munich Regional Court ruled in the first instance that the amount of the cash settlement payable to the noncontrolling interest shareholders of MAN should be increased from €80.89 to €90.29; at the same time, the amount of the cash compensation was confirmed. The ruling is not yet legally effective, and both parties to the proceedings have since appealed. Volkswagen continues to maintain that the results of the valuation are correct. The appropriateness of the valuation was confirmed by the audit firms and by the court-appointed auditor of the agreement. As a precaution, the measurement was adjusted in 2015 to the higher settlement payable.

32. Trade payables

€ million	Dec. 31, 2017	Dec. 31, 2016
Trade payables to		
third parties	22,661	22,311
unconsolidated subsidiaries	187	182
joint ventures	64	157
associates	127	141
other investees and investors	7	3
	23,046	22,794

Additional balance sheet disclosures in accordance with IFRS 7 (Financial Instruments)

CARRYING AMOUNT OF FINANCIAL INSTRUMENTS BY IAS 39 MEASUREMENT CATEGORY

€ million	Dec. 31, 2017	Dec. 31, 2016
Financial assets at fair value through profit or loss	1,712	990
Loans and receivables ¹	125,550	122,376
Available-for-sale financial assets	16,182	17,707
Financial liabilities at fair value through profit or loss	1,540	2,358
Financial liabilities measured at amortized cost	198,821	188,791

1 Prior-year figures adjusted. Further details can be found in the disclosures in the section entitled "Noncurrent and current financial services receivables".

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.

Financial instruments measured at fair value also include shares in partnerships and corporations. There is no active market for these instruments. Since the future cash flows cannot be reliably determined, fair value cannot be determined using measurement models. The shares in these companies are carried at cost.

**RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS
AS OF DECEMBER 31, 2016**

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT WITHIN SCOPE OF IFRS 7	BALANCE SHEET ITEM AT DEC. 31, 2016
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,616	8,616
Other equity investments	187	–	–	–	809	996
Financial services receivables	–	68,402	70,766	–	–	68,402
Other financial assets	251	4,982	5,008	3,023	–	8,256
Current assets						
Trade receivables	–	12,187	12,187	–	–	12,187
Financial services receivables	–	49,673	49,673	–	–	49,673
Other financial assets	740	9,527	9,527	1,577	–	11,844
Marketable securities	17,520	–	–	–	–	17,520
Cash, cash equivalents and time deposits	–	19,265	19,265	–	–	19,265
Noncurrent liabilities						
Noncurrent financial liabilities	–	66,358	66,932	–	–	66,358
Other noncurrent financial liabilities	885	1,859	1,863	1,745	–	4,488
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	3,849	3,861	–	–	3,849
Current financial liabilities	–	88,461	88,461	–	–	88,461
Trade payables	–	22,794	22,794	–	–	22,794
Other current financial liabilities	1,473	6,010	6,010	1,956	–	9,438

**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 WITHIN SCOPE OF IFRS 7	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	–	73,249	75,049	–	–	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	–	53,145	53,145	–	–	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	–	81,628	82,567	–	–	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	–	81,844	81,844	–	–	81,844
Trade payables	–	23,046	23,046	–	–	23,046
Other current financial liabilities	766	7,358	7,358	446	–	8,570

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 put options and compensation rights granted to noncontrolling interest shareholders is calculated using a present value model based on the cash settlement determined by the Munich Regional Court in the award proceedings, including cash compensation, as well as the minimum statutory interest rate and a risk-adjusted discount rate for a matching maturity. For further information, please see section entitled “Put options and compensation rights granted to noncontrolling interest shareholders”. 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. Financial services receivables are allocated to Level 3 because their fair value was measured using inputs that are not observable in an active market.

The following table contains 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, 2016	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	187	76	–	111
Other financial assets	251	–	216	34
Current assets				
Other financial assets	740	–	734	6
Marketable securities	17,520	17,520	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	885	–	722	163
Current liabilities				
Other current financial liabilities	1,473	–	1,406	67

€ 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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTIZED COST BY LEVEL

€ million	Dec. 31, 2016	Level 1	Level 2	Level 3
Fair value of financial assets measured at amortized cost				
Financial services receivables	120,438	–	–	120,438
Trade receivables	12,187	–	11,977	210
Other financial assets	14,535	550	6,695	7,289
Cash, cash equivalents and time deposits	19,265	18,838	426	–
Fair value of financial assets measured at amortized cost	166,425	19,389	19,099	127,937
Fair value of financial liabilities measured at amortized cost				
Put options and compensation rights granted to noncontrolling interest shareholders	3,861	–	–	3,861
Trade payables	22,794	–	22,794	–
Financial liabilities	155,394	39,391	114,198	1,804
Other financial liabilities	7,873	537	7,159	177
Fair value of financial liabilities measured at amortized cost	189,921	39,928	144,151	5,842

€ million	Dec. 31, 2017	Level 1	Level 2	Level 3
Fair value of financial assets measured at amortized cost				
Financial services receivables	128,195	–	–	128,195
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	173,553	18,213	19,524	135,817
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	164,411	50,970	111,606	1,835
Other financial liabilities	8,992	596	8,184	212
Fair value of financial liabilities measured at amortized cost	200,259	51,566	142,836	5,857

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

€ million	Dec. 31, 2016	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	3,023	–	3,019	4
Current assets				
Other financial assets	1,577	–	1,577	–
Noncurrent liabilities				
Other noncurrent financial liabilities	1,745	–	1,745	0
Current liabilities				
Other current financial liabilities	1,956	–	1,956	–

€ 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

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. Fair values in Level 2, for example of derivatives, are measured on the basis of observable 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. Level 3 fair values are calculated using valuation techniques that incorporate inputs that are not 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 and residual value protection models 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.

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, 2016	119	251
Foreign exchange differences	0	0
Total comprehensive income	24	97
recognized in profit or loss	17	100
recognized in other comprehensive income	7	-3
Additions (purchases)	23	-
Sales and settlements	-9	-89
Transfers into Level 2	-6	-30
Balance at Dec. 31, 2016	152	230
Total gains or losses recognized in profit or loss	17	-100
Net other operating expense/income	-	-
of which attributable to assets/liabilities held at the reporting date	-	-
Financial result	17	-100
of which attributable to assets/liabilities held at the reporting date	14	-74

€ 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

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, 2017, earnings after tax would have been €10 million (previous year: €6 million) higher (lower) and equity would have been €– million (previous year: €3 million) higher (lower).

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 had been 10% higher, earnings after tax would have been €3 million (previous year: €1 million) higher. If the assumed enterprise values had been 10% lower, earnings after tax would have been €3 million (previous year: €1 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 buy-back 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 for the used cars covered by the residual value protection model had been 10% higher as of December 31, 2017, earnings after tax would have been €319 million (previous year: €249 million) higher. If the prices for the used cars covered by the residual value protection model had been 10% lower as of December 31, 2017, earnings after tax would have been €333 million (previous year: €249 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		Net amount at Dec. 31, 2016
				Financial instruments	Collateral received	
Derivatives	5,591	–	5,591	–3,425	–175	1,990
Financial services receivables	118,470	–395	118,075	–	–65	118,010
Trade receivables	12,188	–2	12,187	0	–7	12,179
Marketable securities	17,520	–	17,520	–	–	17,520
Cash, cash equivalents and time deposits	19,265	–	19,265	–	–	19,265
Other financial assets	14,709	–14	14,695	0	–	14,695

€ 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		Net amount at Dec. 31, 2017
				Financial instruments	Collateral received	
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 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, 2016
				Financial instruments	Collateral pledged	
Put options and compensation rights granted to noncontrolling interest shareholders	3,849	–	3,849	–	–	3,849
Derivatives	6,058	–	6,058	–3,427	–24	2,607
Financial liabilities	154,819	–	154,819	–	–3,041	151,778
Trade payables	22,796	–2	22,794	0	–	22,794
Other financial liabilities	8,278	–409	7,869	–	–	7,869

€ 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

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.

CHANGES IN CREDIT RISK VALUATION ALLOWANCES ON FINANCIAL ASSETS

€ million	Specific valuation allowances	Portfolio-based valuation allowances	2017	Specific valuation allowances	Portfolio-based valuation allowances	2016
Balance at Jan. 1	2,092	2,175	4,268	2,142	1,970	4,112
Exchange rate and other changes	-87	-46	-132	90	-12	78
Changes in consolidated Group	-18	0	-18	-25	0	-25
Additions	853	525	1,378	663	727	1,390
Utilization	427	-	427	429	-	429
Reversals	339	676	1,014	404	453	857
Reclassification	20	-20	-	56	-56	0
Balance at Dec. 31	2,094	1,959	4,054	2,092	2,175	4,268

The valuation allowances mainly relate to the credit risks associated with receivables from the financial services business.

ASSET-BACKED SECURITIES TRANSACTIONS

Asset-backed securities transactions with financial assets amounting to €24,561 million (previous year: €24,191 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 €26,689 million (previous year: €26,184 million). Collateral of €41,799 million (previous year: €43,847 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, 2017, the fair value of the assigned receivables still recognized in the balance sheet was €27,089 million (previous year: €27,856 million). The fair value of the related liabilities was €24,511 million (previous year: €24,424 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 inflows from the issuance of hybrid capital in June 2017 in the amount of €3,473 million 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 noncash transactions and are therefore eliminated.

In 2017, cash flows from operating activities include interest received amounting to €6,641 million (previous year: €6,364 million) and interest paid amounting to €2,332 million (previous year: €2,716 million). Cash flows from operating activities also include dividend payments received from joint ventures and associates of €3,653 million (previous year: €3,613 million).

Dividends amounting to €1,015 million (previous year: €68 million) were paid to Volkswagen AG shareholders.

€ million	Dec. 31, 2017	Dec. 31, 2016
Cash, cash equivalents and time deposits as reported in the balance sheet	18,457	19,265
Time deposits	–420	–431
Cash and cash equivalents as reported in the cash flow statement	18,038	18,833

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:

€ million	Jan. 1, 2017	Cash-effective changes	NON-CASH CHANGES			Dec. 31, 2017
			Foreign exchange differences	Changes in consolidated group	Changes in fair values	
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

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 187-188.

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 in the amount of €78,934 million (previous year: €77,465 million). Collateral is held exclusively for financial assets in the “measured 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. The risk arising from nonderivative financial instruments is also accounted for by recognizing bad debt losses. 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 7.4% at the end of 2017 compared with 13.0% at the end of 2016. 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 29.5% at the end of 2017, as against 27.9% at the end of 2016. There were no other concentrations of credit and default risk exposures in individual countries.

CREDIT AND DEFAULT RISK RELATING TO FINANCIAL ASSETS BY GROSS CARRYING AMOUNT

€ million	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2017	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2016
Measured at amortized cost								
Financial services receivables	124,044	2,888	2,900	129,832	115,747	3,001	3,003	121,751
Trade receivables	10,395	2,833	562	13,791	9,421	2,596	607	12,624
Other receivables	13,403	102	196	13,700	14,391	110	162	14,663
Measured at fair value	16,862	–	290	17,152	17,907	–	259	18,166
	164,704	5,822	3,948	174,475	157,466	5,706	4,031	167,203

There are no past due financial instruments measured at fair value in the Volkswagen Group. In fiscal year 2017, marketable securities measured at fair value with a cost of €86 million (previous year: €83 million) were individually impaired. In addition, portfolio-based impairment losses are recognized in respect of the financial services receivables presented above that are not past due and not individually impaired, as well as of the financial services receivables presented above that are past due and not individually impaired. The assets in the class used for hedging are neither past due nor impaired.

**CREDIT RATING OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS
THAT ARE NEITHER PAST DUE NOR IMPAIRED**

€ million	Risk class 1	Risk class 2	Dec. 31, 2017	Risk class 1	Risk class 2	Dec. 31, 2016
Measured at amortized cost						
Financial services receivables	104,143	19,901	124,044	99,153	16,595	115,747
Trade receivables	10,259	136	10,395	9,284	137	9,421
Other receivables	13,313	90	13,403	14,238	153	14,391
Measured at fair value	22,086	–	22,086	22,021	–	22,021
	149,802	20,127	169,928	144,694	16,885	161,580

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. The financial assets measured at fair value include derivative financial instruments within hedge accounting in an amount of €5.2 billion (previous year: €4.1 billion); they are allocated to risk class 1.

**MATURITY ANALYSIS OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS
THAT ARE PAST DUE AND NOT IMPAIRED**

€ million	PAST DUE BY			GROSS CARRYING AMOUNT
	up to 30 days	30 to 90 days	more than 90 days	Dec. 31, 2016
Measured at amortized cost				
Financial services receivables	2,205	788	8	3,001
Trade receivables	1,080	720	795	2,596
Other receivables	49	36	24	110
Measured at fair value	–	–	–	–
	3,334	1,544	828	5,706

€ million	PAST DUE BY			GROSS CARRYING AMOUNT
	up to 30 days	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 €109 million (previous year: €120 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 €19.9 billion as of December 31 2017, of which €3.4 billion was drawn down.

Local cash funds in certain countries (e.g. China, Brazil, Argentina, India and South Africa) 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			2017	REMAINING CONTRACTUAL MATURITIES			2016
	under one year	within one to five years	over five years		under one year	within one to five years	over five years	
Put options and compensation rights granted to noncontrolling interest shareholders	3,379	–	–	3,379	3,382	–	–	3,382
Financial liabilities	83,867	69,968	16,113	169,949	90,044	60,603	10,955	161,602
Trade payables	23,041	5	–	23,046	22,788	6	–	22,794
Other financial liabilities	7,360	1,557	86	9,003	6,009	1,789	83	7,880
Derivatives	72,635	47,414	332	120,381	77,294	59,007	119	136,420
	190,281	118,945	16,531	325,758	199,517	121,405	11,157	332,079

When calculating cash outflows related to put options and compensation rights, it was assumed that shares would be tendered at the earliest possible repayment date.

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, 2017, the maximum potential liability under financial guarantees amounted to €261 million (previous year: €173 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. 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.

The following table shows the gains and losses on hedges:

€ million	2017	2016
Hedging instruments used in fair value hedges	307	670
Hedged items used in fair value hedges	-300	-739
Ineffective portion of cash flow hedges	-11	6

The ineffective portion of cash flow hedges represents the income and expenses from changes in the fair value of hedging instruments that exceed the changes in the fair value of the hedged items but that are documented to be within the permitted range of 80% to 125% overall when measuring effectiveness. Such income or expenses are recognized directly in the financial result.

During the fiscal year, €554 million increasing earnings (previous year: €1,222 million reducing earnings) was transferred from the cash flow hedge reserve to the other operating result, €11 million increasing earnings (previous year: €10 million reducing earnings), was transferred to the financial result, and €7 million (previous year: €90 million), both reducing earnings, was transferred to cost of sales and the financial result.

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.

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 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 2017 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, 2017.

€ million	DEC. 31, 2017		DEC. 31, 2016	
	+10%	-10%	+10%	-10%
Exchange rate				
EUR/USD				
Hedging reserve	1,627	-1,303	1,929	-2,294
Profit/loss after tax	-365	193	-338	649
EUR/GBP				
Hedging reserve	1,126	-1,124	1,202	-1,189
Profit/loss after tax	-73	75	-58	51
EUR/CNY				
Hedging reserve	515	-491	665	-662
Profit/loss after tax	-58	62	6	25
EUR/JPY				
Hedging reserve	271	-244	318	-318
Profit/loss after tax	-40	20	-7	7
EUR/CHF				
Hedging reserve	246	-232	380	-375
Profit/loss after tax	16	-20	-9	2
EUR/AUD				
Hedging reserve	164	-164	178	-182
Profit/loss after tax	-36	37	-23	26
EUR/CAD				
Hedging reserve	121	-113	145	-154
Profit/loss after tax	-51	48	-54	63
EUR/SEK				
Hedging reserve	105	-100	91	-89
Profit/loss after tax	-22	18	-24	23
CZK/GBP				
Hedging reserve	91	-91	106	-106
Profit/loss after tax	0	0	0	0
EUR/CZK				
Hedging reserve	69	-69	31	-31
Profit/loss after tax	-20	20	-43	43
EUR/TWD				
Hedging reserve	72	-72	36	-36
Profit/loss after tax	-10	10	-10	10
GBP/USD				
Hedging reserve	63	-63	106	-106
Profit/loss after tax	-2	2	2	-2
EUR/KRW				
Hedging reserve	55	-59	77	-82
Profit/loss after tax	-3	6	-8	13
EUR/PLN				
Hedging reserve	-	-	-107	108
Profit/loss after tax	-60	60	-21	21
PLN/CZK				
Hedging reserve	58	-58	14	-14
Profit/loss after tax	0	0	0	0
BRL/USD				
Hedging reserve	-16	16	-20	20
Profit/loss after tax	41	-41	82	-82

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 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, 2017, equity would have been €88 million (previous year: €60 million) lower. If market interest rates had been 100 bps lower as of December 31, 2017, equity would have been €24 million (previous year: €60 million) higher.

If market interest rates had been 100 bps higher as of December 31, 2017, earnings after tax would have been €76 million (previous year: €10 million) higher. If market interest rates had been 100 bps lower as of December 31, 2017, earnings after tax would have been €64 million (previous year: €24 million) lower.

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, CO₂ certificates and rubber.

Commodity price risk is limited by entering into forward transactions and swaps.

Up to the end of 2016, hedge accounting in accordance with IAS 39 was applied in some cases to the hedging of commodity risk associated with aluminum and coal. Since the beginning of 2017, hedge accounting has not been applied to these hedging relationships.

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, 2017, earnings after tax would have been €101 million (previous year: €82 million) higher (lower).

If the commodity prices of the hedges included in hedge accounting had been 10% higher (lower) as of December 31, 2016, equity would have been €48 million higher (lower). As of the end of 2017, hedge accounting was not applied to these hedging relationships.

4.2.4 Equity and bond price risk

The Spezialfonds (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, we counter the risks arising from the special funds by ensuring a broad diversification of products, issuers and regional markets when investing funds, as stipulated by our Investment Guidelines. 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, 2017, equity would have been €28 million (previous year: €4 million) higher. If share prices had been 10% lower as of December 31, 2017, equity would have been €108 million (previous year: €28 million) 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, 2017, the value at risk was €167 million (previous year: €95 million) for interest rate risk and €165 million (previous year: €199 million) for foreign currency risk.

The entire value at risk for interest rate and foreign currency risk at the Volkswagen Financial Services subgroup was €167 million (previous year: €197 million).

5. METHODS FOR MONITORING HEDGE EFFECTIVENESS

In the Volkswagen Group, hedge effectiveness is assessed prospectively using the critical terms match method and using statistical methods in the form of a regression analysis. Retrospective analysis of effectiveness uses effectiveness tests in the form of the dollar offset method or a regression analysis.

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.

Where regression analysis is used, the change in value of the hedged item is presented as an independent variable, and that of the hedging instrument as a dependent variable. Hedge relationships are classified as effective if they have sufficient coefficients of determination and slope factors.

NOTIONAL AMOUNT OF DERIVATIVES

€ million	REMAINING TERM			TOTAL NOTIONAL AMOUNT	TOTAL NOTIONAL AMOUNT
	under one year	within one to five years	over five years	Dec. 31, 2017	Dec. 31, 2016
Notional amount of hedging instruments used in cash flow hedges:					
Interest rate swaps	3,490	8,999	38	12,527	17,054
Currency forwards	32,329	35,538	–	67,867	84,754
Currency options	8,128	11,435	–	19,563	26,081
Cross-currency swaps	–	–	–	–	2,295
Cross-currency interest rate swaps	387	165	–	551	1,951
Commodity future contracts	–	–	–	–	679
Notional amount of other derivatives:					
Interest rate swaps	20,483	48,067	20,125	88,675	84,612
Interest rate option contracts	–	–	–	–	–
Currency forwards	19,592	2,942	2	22,535	28,436
Other currency options	10	–	–	10	45
Cross-currency swaps	20,825	1,451	–	22,276	12,207
Cross-currency interest rate swaps	3,350	6,025	293	9,667	8,839
Commodity future contracts	798	477	–	1,275	1,235

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 €29 million (previous year: €45 million) whose remaining maturity is under one year.

Existing cash flow hedges in the notional amount of €361 million (previous year: €811 million) were discontinued because of a reduction in the projections. €3 million (previous year: €5 million) was transferred from the cash flow hedge reserve to the financial result, 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.

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	CHF	CNY	CZK	GBP	JPY	KRW	SEK	USD
Interest rate for six months	–0.3214	–0.5535	4.9281	0.4824	0.5446	0.0281	1.7108	–0.3815	1.7499
Interest rate for one year	–0.2826	–0.4924	4.7799	0.4543	0.6229	0.0295	1.8385	–0.3298	1.9011
Interest rate for five years	0.3170	–0.1410	4.7400	1.6200	1.0325	0.1013	2.1275	0.4980	2.2400
Interest rate for ten years	0.8840	0.2690	4.6300	1.8450	1.2735	0.2613	2.2000	1.2000	2.3920

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 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 €5,935 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 (ROI) 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 12.1%, which is above our minimum rate of return on invested capital of 9% and significantly exceeds the current cost of capital of 6.0%.

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	2017	2016
Automotive Division¹		
Operating result after tax	11,756	7,419
Invested capital (average)	97,021	91,020
Return on investment (RoI) in %	12.1	8.2
Cost of capital in %	6.0	6.2
Opportunity cost of invested capital	5,821	5,643
Value contribution²	5,935	1,775
Financial Services Division		
Earnings before tax	2,502	2,408
Average equity	25,626	22,342
Return on equity before tax in %	9.8	10.8
Equity ratio in %	13.7	12.5

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, 2017	Dec. 31, 2016
Liabilities under guarantees	423	419
Liabilities under warranty contracts	60	75
Assets pledged as security for third-party liabilities	21	20
Other contingent liabilities	7,909	6,305
	8,413	6,819

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 €768 million (previous year: €944 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 €4.3 billion, of which €3.4 billion was attributable to investor lawsuits. Also included are certain elements of the class action lawsuits relating to the diesel issue as well as criminal proceedings/misdemeanor proceedings 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.

In addition, other contingent liabilities include an amount of €0.7 billion for potential liabilities from tax risks at MAN Latin America. In the tax proceedings involving MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities take a different position with regard to the tax effects of the acquisition structure for MAN Latin America chosen by MAN in 2009. It is not currently considered likely that a claim will be made against MAN Latin America in connection with these liabilities.

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 become involved in a great number of legal disputes and governmental proceedings in Germany and abroad. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. For the companies involved, these may result in payment or other obligations. Above all, in cases where US customers assert claims for vehicle defects individually or by way of a class action, highly cost-intensive measures may have to be taken and substantial compensation or punitive damages paid. Corresponding risks also result from US patent infringement proceedings.

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 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 being covered by the insured amounts and provisions cannot be ruled out. This particularly applies to legal risk assessment regarding the diesel issue.

Diesel issue

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 2.0l diesel engines in the USA. It was alleged that Volkswagen had installed undisclosed engine management software installed in 2009 to 2015 model year 2.0l diesel engines to circumvent NO_x emissions testing regulations in the USA in order to comply with certification requirements. The California Air Resources Board (CARB), a unit of the US environmental authority of California, announced its own enforcement investigation into this matter.

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. The vast majority of these engines were type EA 189 Euro 5 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 3.0l diesel engines. CARB also issued a letter announcing its own enforcement investigation into this matter. AUDI AG has confirmed that at least three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines were affected in the USA and Canada, where regulations governing NO_x emissions limits for vehicles are stricter than those in other parts of the world.

Numerous court and governmental proceedings were subsequently initiated in the USA and the rest of the world. During the reporting period, we succeeded in ending most significant court and governmental proceedings in the USA by concluding settlement agreements. This includes, in particular, settlements with the US Department of Justice (DOJ). Outside the USA, we also reached agreements with regard to the implementation of the technical measures with numerous authorities.

The Supervisory Board of Volkswagen AG formed a special committee that coordinates the activities relating to the diesel issue for the Supervisory Board.

The global law firm Jones Day was instructed by Volkswagen AG to carry out an extensive investigation of the diesel issue in light of the DOJ's and the Braunschweig public prosecutor's criminal investigations as well as other investigations and proceedings which were expected. Jones Day was instructed by Volkswagen AG to present factual evidence to the DOJ.

To resolve US criminal law charges, Volkswagen AG and the DOJ entered into a Plea Agreement, which includes a Statement of Facts containing a summary of the factual allegations which the DOJ considered relevant to the settlement with Volkswagen AG. The Statement of Facts is based in part on Jones Day's factual findings as well as the evidence identified by the DOJ itself.

Jones Day has completed the work required to assist Volkswagen AG in assessing the criminal charges in the USA with respect to the diesel issue. However, work in respect of the legal proceedings which are still pending in the USA and the rest of the world is ongoing and will require considerable efforts and a considerable period of time. In connection with this work, Volkswagen AG is being advised by a number of external law firms.

Furthermore, in September 2015, Volkswagen AG filed a criminal complaint in Germany against unknown persons as did AUDI AG. Volkswagen AG and AUDI AG are cooperating with all responsible authorities in the scope of reviewing the incidents.

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

Based on decisions dated October 15, 2015, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles and SEAT brands to recall all the diesel vehicles that had been issued with vehicle type approval by the KBA from among the eleven million vehicles affected with type EA 189 engines. The recall concerns the member states of the European Union (EU28). On December 10, 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order corresponded to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the concerned remedial actions, this means that the Volkswagen Group has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU28 countries, to the service workshops since January 2016. The remedial actions differ in scope depending on the engine variant. The technical measures cover software and in some cases hardware modifications, depending on the series and model year. The technical measures for all vehicles in the European Union have since been approved without exception. The 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, CO₂ emissions figures, engine power, maximum torque and noise emissions. Once the modifications have been made, the vehicles will thus also continue to comply with the legal requirements and the emission standards applicable in each case. The technical measures for all affected vehicles with type EA 189 engines in the European Union were approved without exception, and implemented in most cases.

In some countries outside the EU – among others South Korea, Taiwan and Turkey – national type approval is based on prior recognition of the EC/ECE type approval; the technical measures must therefore be approved by the national authorities. With the exception of South Korea and Chile, we were able to conclude this approval process in all countries. There, the majority of approvals were likewise granted; in relation to the pending approvals, Volkswagen is in close contact with the authorities.

In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen's proposed modifications in relation to the four-cylinder and the six-cylinder diesel engines also have to be approved. 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 refit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. A systematic review process for all engine and gear variants has been underway since 2016.

On June 14, 2017, based on a technical error in the parameterization of the transmission software for a limited number of specific Audi A7/A8 models that AUDI AG itself discovered and reported to the KBA, the KBA issued an order under which a correction proposed by AUDI AG will be submitted. The technical error lies in the fact that, in the cases concerned, by way of exception a specific function that is standard in all other vehicle concepts is not implemented in actual road use. In Europe, this affects around 24,800 units of certain Audi A7/A8 models. The KBA has not categorized this error as an unlawful defeat device.

On July 21, 2017, AUDI AG offered a software-based retrofit program for up to 850,000 vehicles with V6 and V8 TDI engines meeting the Euro 5 and Euro 6 emission standards in Europe and other markets except the USA and Canada. The measure will mainly serve to further improve the vehicles' emissions in real driving conditions in inner city areas beyond the legal requirements. This was done in close cooperation with the authorities, which were provided with detailed reports, especially the German Federal Ministry of Transport and the KBA. The retrofit package comprises voluntary measures and, to a small extent, measures directed by the authorities; these are measures taken within the scope of a recall, which were proposed by AUDI AG itself, reported to the KBA and taken up and ordered by the latter. The voluntary tests have already reached an advanced stage, but have not yet been completed. The measures adopted and mandated by the KBA involved the recall of different diesel vehicles with a V6 or V8 engine meeting the Euro 6 emission standard, for which the KBA categorized certain emission strategies as an unlawful defeat device. From July 2017 to January 2018, the measures proposed by AUDI AG were adopted and mandated in various decisions by the KBA on vehicle models with V6 and V8 TDI engines.

Currently, AUDI AG assumes that the total costs of the software-based retrofit program including the amount based on recalls will be manageable and has recognized corresponding balance-sheet risk provisions. Should additional measures become necessary as a result of the investigations by AUDI AG and the consultations with the KBA, AUDI AG will quickly implement these as part of the retrofit program in the interest of customers.

2. Criminal and administrative proceedings worldwide (excluding the USA/Canada)

In addition to the described approval processes with the responsible registration authorities, in some countries criminal investigations/misdemeanor proceedings (for example, by the public prosecutor's office in Braunschweig and Munich, Germany) and/or administrative proceedings (for example, by the Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin – the German Federal Financial Supervisory Authority) have been opened. The public prosecutor's offices in Braunschweig and Munich are investigating the core issue of the criminal investigations. Whether this will result in fines for the Company, and if so what their amount might be, is currently subject to estimation risks. According to Volkswagen's estimates so far, the likelihood of a sanction in the majority of these proceedings is less than 50%. Contingent liabilities have therefore been disclosed in cases where they can be assessed and for which the likelihood of a sanction was deemed not lower than 10%.

3. Product-related lawsuits worldwide (excluding the USA/ Canada)

In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany). Furthermore, in a number of markets it is possible that consumer and/or environmental organizations will apply for an injunction or assert claims for a declaratory judgment or for damages.

In the context of the diesel issue, various lawsuits are currently pending against Volkswagen AG and other Volkswagen Group companies at present.

There are pending class action proceedings and lawsuits brought by consumer and/or environmental associations against Volkswagen AG and other companies of the Volkswagen Group in various countries such as Argentina, Australia, Belgium, Brazil, China, the Czech Republic, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, Switzerland, Taiwan and the United Kingdom. The class action proceedings are lawsuits aimed among other things at asserting damages or, as is the case in the Netherlands, at a declaratory judgment that customers are entitled to damages. With the exception of Brazil, where there has already been a non-binding judgment in the first instance, the amount of these damages cannot yet be quantified more precisely due to the early stage of the proceedings. Volkswagen does not estimate the litigants' prospect of success to be more than 50% in any of the class action proceedings.

In South Korea, various mass proceedings are pending (in some of these individual lawsuits several hundred litigants have been aggregated). These lawsuits have been filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Due to special circumstances in the market and specific characteristics of the South Korean legal system, Volkswagen estimates the litigants' prospects of success in the South Korean mass proceedings mentioned above to be inherently higher than in other jurisdictions outside the USA and Canada. On May 12, 2017, one first-instance judgment was delivered in these proceedings in South Korea during the fiscal year, in which the court completely dismissed an action filed to assert criminal damages over pollution. The judgment has since become binding.

Contingent liabilities have been disclosed for pending class action and mass proceedings that can be assessed and for which the chance of success was deemed not implausible. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany, there are around 9,500 individual lawsuits. In Italy, Austria and Spain, lawsuits numbering in the low three-digit range and in France and Ireland individual lawsuits in the two-digit range are pending against Volkswagen AG and other companies of the Volkswagen Group, most of which are aimed at asserting damages or rescinding the purchase contract.

In addition, on November 29, 2017, Volkswagen AG was served with an action brought by financialright GmbH asserting the rights assigned to it by a total of approximately 15,000 customers in Germany. This action seeks the payment of around €350 million in return for restitution of the vehicles.

In Switzerland, a claim for damages was brought against Volkswagen AG in December 2017 from the assigned rights of some 6,000 customers; the stated amount in dispute is approximately 30 million Swiss francs.

According to Volkswagen's estimates so far, the litigants' prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed for those lawsuits that can be assessed and for which the chance of success was deemed not implausible.

It is too early to estimate how many customers will take advantage of the option to file lawsuits in the future, beyond the existing lawsuits, or what their prospects 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 District Court (Landgericht) in Braunschweig. On August 5, 2016, the District Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the District Court in Braunschweig be referred to the Higher Regional Court (Oberlandesgericht) in Braunschweig for a binding declaratory decision 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 shall be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig (model case proceedings). All lawsuits at the District Court in Braunschweig will be stayed pending up until resolution of the common issues, unless they can be dismissed for reasons independent of the common issues that are adjudicated in the model case proceedings. The resolution of the common questions of law and fact in the model case proceedings will be binding for all pending cases in the stayed lawsuits.

At the District Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtors. On December 6, 2017, the District 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. On account of the diesel issue, model case proceedings against Porsche SE are also pending before the Higher Regional Court in Stuttgart.

Further investor lawsuits have been filed at various courts in Germany as well as in Austria and the Netherlands. In Austria, the Supreme Court ruled on July 7, 2017 that the investor lawsuits against Volkswagen AG do not fall within the jurisdiction of the Austrian courts. Consequently, all but one of the investor lawsuits that were formerly pending in Austria have been dismissed or withdrawn. The last pending lawsuit has been dismissed at first instance.

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 in connection with the diesel issue, with the claims totaling approximately €9 billion. Volkswagen 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 and are responding to such investigations and inquiries.

In addition, Volkswagen AG and other Volkswagen Group companies in the USA/Canada are facing litigation on a number of different fronts relating to the matters described in the EPA's "Notices of Violation".

A large number of putative class action lawsuits by customers and dealers have been filed in US federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

On January 4, 2016, the DOJ, Civil Division, on behalf of the EPA, initiated a civil complaint against Volkswagen AG, AUDI AG and certain other Volkswagen Group companies. The action sought statutory penalties under the US Clean Air Act, as well as certain injunctive relief, and was consolidated for pretrial coordination purposes in the California multidistrict litigation.

On January 12, 2016, CARB announced that it intended to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

In June 2016, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements with the DOJ on behalf of the EPA, CARB and the California Attorney General, private plaintiffs represented by a Plaintiffs' Steering Committee (PSC) in the multidistrict litigation pending in California, and the U.S. Federal Trade Commission (FTC). These settlement agreements resolved certain civil claims made in relation to affected diesel vehicles with 2.0 l TDI engines from the Volkswagen Passenger Cars and Audi brands

in the USA. Volkswagen AG and certain affiliates also entered into a First Partial Consent Decree with the DOJ, EPA, CARB and the California Attorney General, which was lodged with the court on June 28, 2016. On October 18, 2016, a fairness hearing on whether final approval should be granted was held, and on October 25, 2016, the court granted final approval of the settlement agreements and the partial consent order. A number of class members have filed appeals to an US appellate court from the order approving the settlements.

The settlements include buyback or, for leased vehicles, early lease termination, or a free emissions modification of the vehicles, provided that the EPA and CARB approve the modification. Volkswagen will also make additional cash payments to affected current owners or lessees as well as certain former owners or lessees.

Volkswagen also agreed to support environmental programs. The company will pay USD 2.7 billion over three years into an environmental trust, managed by a trustee appointed by the court, to offset excess nitrogen oxide (NO_x) emissions. Volkswagen will also invest a total of USD 2.0 billion over ten years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives.

Volkswagen AG and certain affiliates also entered into a separate Partial Consent Decree with CARB and the California Attorney General resolving certain claims under California unfair competition, false advertising, and consumer protection laws related to both the 2.0 l and 3.0 l TDI vehicles, which was lodged with the court on July 7, 2016. Under the terms of the agreement, Volkswagen agreed to pay California USD 86 million. The court entered judgment on the Partial Consent Decree on September 1, 2016 and the USD 86 million payment was made on September 28, 2016.

On December 20, 2016, Volkswagen entered into a Second Partial Consent Decree, subject to court approval, with the DOJ, EPA, CARB and the California Attorney General that resolved claims for injunctive relief under the Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this Consent Decree, Volkswagen agreed to implement a buyback and lease termination program for Generation 1 3.0 l TDI vehicles and a free emissions recall and modification program for Generation 2 3.0 l TDI vehicles, and to pay USD 225 million into the environmental mitigation trust that has been established pursuant to the First Partial Consent Decree. The Second Partial Consent Decree was lodged with the court on December 20, 2016 and approved on May 17, 2017.

In addition, on December 20, 2016, Volkswagen entered into an additional, concurrent California Second Partial Consent Decree, subject to court approval, with CARB and the California Attorney General that resolved claims for injunctive relief under California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this Consent Decree, Volkswagen agreed to provide additional injunctive relief to California, including the implementation of a "Green City" initiative and the introduction of three new Battery Electric Vehicle (BEV) models in California by 2020, as well as a USD 25 million payment to CARB to support the availability of BEVs in California.

On January 11, 2017, Volkswagen entered into a Third Partial Consent Decree with the DOJ and EPA that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0 l and 3.0 l TDI vehicles. Volkswagen agreed to pay USD 1.45 billion (plus any accrued interest) to resolve the civil penalty and injunctive relief claims under the Clean Air Act, as well as the customs claims of the US Customs and Border Protection. Under the Third Partial Consent Decree, the injunctive relief includes monitoring, auditing and compliance obligations. This Consent Decree, which was subject to public comment, was lodged with the court on January 11, 2017 and approved on April 13, 2017. Also on January 11, 2017, Volkswagen entered into a settlement agreement with the DOJ to resolve any claims under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and agreed to pay USD 50 million (plus any accrued interest), specifically denying any liability and expressly disputing any claims.

On July 21, 2017, the federal court in the multidistrict litigation in California approved the Third California Partial Consent Decree, in which Volkswagen AG and certain affiliates agreed with the California Attorney General and CARB to pay USD 153.8 million in civil penalties and cost reimbursements. These penalties covered California environmental penalties for both the 2.0 l and 3.0 l TDI vehicles. An agreement in principle had been reached on January 11, 2017.

The DOJ also opened a criminal investigation focusing on allegations that various federal law criminal offenses were committed. On January 11, 2017, Volkswagen AG agreed to plead guilty to three federal criminal felony counts, and to pay a USD 2.8 billion criminal penalty. Pursuant to the terms of this agreement, Volkswagen will be on probation for three years and will work with an independent monitor for three years. The independent monitor will assess and oversee the company's compliance with the terms of the resolution. This includes overseeing the implementation of measures to further strengthen compliance, reporting and monitoring systems, and an enhanced ethics program. Volkswagen will also continue to cooperate with the DOJ's ongoing investigation of individual employees or former employees who may be responsible for criminal violations.

Moreover, investigations by various US regulatory and government authorities are ongoing, including in areas relating to securities, financing and tax.

On January 31, 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement with private plaintiffs represented by the PSC in the multidistrict litigation pending in California, and a consent order with the FTC. These agreements resolved certain civil claims made in relation to affected diesel vehicles with 3.0 l TDI engines from the Volkswagen, Audi and Porsche brands in the USA. On February 14, 2017, the court preliminarily approved the settlement agreement with private plaintiffs. On May 11, 2017, the court held a fairness hearing on whether approval should be granted and on May 17, 2017, the court granted final approval of the settlement agreement and the partial stipulated consent order.

Under the settlements, consumers' options and compensation will depend on whether their vehicles are classified as Generation 1 or Generation 2. Generation 1 (model years 2009-2012) consumers will have the option of a buyback, early lease termination, trade-in, or a free emissions modification, provided that EPA and CARB approve the modification. Additionally, Generation 1 owners and lessees, as well as certain former owners and lessees, will be eligible to receive cash payments.

Generation 2 (model years 2013-2016) consumers will receive a free emissions-compliant repair to bring the vehicles into compliance with the emissions standards to which they were originally certified, as well as cash payments. Volkswagen has received approval from the EPA and CARB for emissions-compliant repairs within the time limits set out in the settlement agreement. Volkswagen will also make cash payments to certain former Generation 2 owners or lessees.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of Volkswagen branded franchise dealers in the USA relating to TDI vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to USD 1,208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. On January 18, 2017, a fairness hearing on whether final approval should be granted was held, and on January 23, 2017, the court granted final approval of the settlement agreement.

Additionally, in the USA, some putative class actions, some individual customers' lawsuits and some state or municipal claims have been filed in state courts.

Volkswagen reached separate agreements with the attorneys general of 45 US 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 2.0l TDI and 3.0l TDI vehicles in the USA – for a settlement amount of USD 622 million. Five states did not join these settlements and still have consumer claims outstanding: Arizona, New Mexico, Oklahoma, Vermont and West Virginia. Volkswagen has also reached separate agreements with the attorneys general of eleven US states (Connecticut, Delaware, Maine, 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 for a settlement amount of 207 million. The attorneys general of ten other US states (Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, New Mexico, Ohio, Tennessee and Texas) and some municipalities have also filed suits in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, seeking civil penalties and injunctive relief for alleged violations of environmental laws. Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, Ohio, Tennessee and Texas participated in the state settlements described above with respect to consumer protection and unfair trade practices claims, but those settlements did not include claims for environmental penalties. The environmental claims of two other states – Alabama and Wyoming – have been dismissed as preempted by federal law. Alabama has appealed this dismissal.

In addition to the lawsuits described above, for which provisions have been recognized, a putative class action has been filed on behalf of purchasers of Volkswagen AG American Depositary Receipts, alleging a drop in price purportedly resulting from the matters described in the EPA's "Notices of Violation". A putative class action has also been filed on behalf of purchasers of certain USD-denominated Volkswagen bonds, alleging that these bonds were trading at artificially inflated prices due to Volkswagen's alleged misstatements and that the value of these bonds declined after the EPA issued its "Notices of Violation".

These lawsuits have also been consolidated in the federal multidistrict litigation proceeding in the State of California described above. Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. In addition, contingent liabilities have not been disclosed as they currently cannot be measured.

In Canada, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0l and 3.0l TDI engines. On December 19, 2016, Volkswagen AG and other Canadian and US Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0l diesel vehicles. Also on December 19, 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution regarding its regulatory inquiry into consumer protection issues as to those vehicles. On December 21, 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving 3.0l diesel vehicles. The court preliminarily approved the settlement agreement on January 12, 2018, and the notice and opt out period began on January 17, 2018. Final approval hearings are scheduled in Quebec and Ontario for April 3 and 5, 2018, respectively. On January 12, 2018, Volkswagen and the Canadian Commissioner of Competition reached a resolution related to civil consumer protection issues relating to 3.0l diesel vehicles. Also, criminal enforcement-related investigations by the federal environmental regulator and quasi-criminal enforcement-related investigations by a provincial environmental regulator are ongoing in Canada related to 2.0l and 3.0l diesel vehicles. On September 15, 2017, a provincial regulator in Canada, the Ontario Ministry of the Environment and Climate Change, charged Volkswagen AG under the province's environmental statute with one count alleging that it caused or permitted the operation of model year 2010–2014 Volkswagen and Audi brand 2.0l diesel vehicles that did not comply with prescribed emission standards. Following initial court appearances on November 15, 2017 and February 7, 2018, the matter was put over to April 4, 2018 pending ongoing evidence disclosure. No trial date has been set. Provisions have been recognized for possible obligations stemming from pending lawsuits in Canada.

Moreover, in Canada, two securities class actions by investors in Volkswagen AG American Depositary Receipts and shares are pending against Volkswagen AG in the Quebec and Ontario provincial courts. These actions allege misrepresentations and omissions in financial reporting issued from 2009–2015 stemming from the diesel issue. The proposed class periods are for residents in the provinces who purchased the relevant securities between March 12, 2009 and September 18, 2015, and held all or some of the acquired securities until after the alleged first corrective disclosures. Discovery has not begun. In both actions, motions for certification were filed. In the Quebec matter, the motion was heard on February 5 and 6, 2018 and the court's decision is on reserve. In the Ontario matter, the motion is scheduled for hearing on July 10 and 11, 2018.

In addition, putative class action and joinder lawsuits by customers, and a certified environmental class action on behalf of residents, remain pending in certain provincial courts in Canada.

An assessment of the underlying situation is not possible at this early stage of those proceedings.

6. Additional proceedings

With its ruling from 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 should examine whether there was a breach of duties on behalf of the members of the Board of Management and Supervisory Board of Volkswagen AG in connection with the diesel issue starting from June 22, 2006 and if this resulted in damages for Volkswagen AG. The ruling from the Higher Regional Court of Celle is formally legally binding. However, Volkswagen AG lodged a constitutional complaint toward the German Federal Constitutional Court regarding the infringement of its constitutionally guaranteed rights. It is currently unclear when the Federal Constitutional Court will reach a decision on this matter.

In addition, the District Court of Hanover has filed a second motion for the appointment of a special auditor for Volkswagen AG, which is also aimed at the examination of transactions in connection with the diesel issue. This proceeding will be suspended until the ruling has been announced by the Federal Constitutional Court.

7. Risk assessment regarding the diesel issue

To protect against the currently known legal risks related to the diesel issue, provisions of approximately €2.0 billion exist as of December 31, 2017 on the basis of existing information and current assessments. Beyond this, appropriate provisions have been recognized for defense and legal advice expenses. Insofar as these can be adequately measured at this stage, total contingent liabilities in relation to the diesel issue to the aggregate amount of €4.3 billion (previous year: €3.2 billion), of which lawsuits filed by investors account for €3.4 billion (previous year: €3.1 billion), were disclosed in the notes. The provisions recognized for this matter and the contingent liabilities disclosed as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

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 Automobil Holding 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 in 2008. The damages currently being sought based on allegedly assigned rights amounted to approximately €2.26 billion plus interest. In April 2016, the District 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 senate indicated that it currently does not see claims against Volkswagen AG as justified, both in view of a lack of substantiated evidence and for legal reasons. Some of the desired objects of declaratory judgment on the litigants' side may also be inadmissible, it said. 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 (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 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 then fined Scania €0.88 billion. Scania has appealed to the European Court 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.

The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Volkswagen Truck & Bus GmbH (formerly Truck & Bus GmbH), a subsidiary of Volkswagen AG, in June 2013. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG. It is not uncommon for noncontrolling interest shareholders to institute such proceedings. In July 2015, the Munich Regional Court ruled in the first instance that the amount of the cash settlement payable to the noncontrolling interest shareholders of MAN should be increased from €80.89 to €90.29 per share; at the same time, the amount of the cash compensation was confirmed. The assessment of liability for put options and compensation rights granted to noncontrolling interest shareholders was adjusted in 2015. Both applicants and Volkswagen Truck & Bus GmbH have appealed to the Higher Regional Court in Munich. Volkswagen continues to maintain that the results of the valuation are correct. The appropriateness of the valuation was confirmed by the audit firms engaged by the parties and by the court-appointed auditor of the agreement.

Within the scope of the European Commission's ongoing antitrust investigations regarding German automakers, authorities examined documents in the offices of Volkswagen AG in Wolfsburg and AUDI AG in Ingolstadt as part of an announced review. The Volkswagen Group and the Group brands concerned have been cooperating fully and for a long time with the European Commission and have submitted a corresponding application. It is currently unclear whether the European Commission will instigate formal proceedings.

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.

Since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles with petrol engines.

Additionally, fourteen putative class actions have been filed against Audi and certain affiliates alleging that defendants concealed the existence of “defeat devices” in Audi brand vehicles with automatic transmissions. All of these putative class actions have been transferred to the federal multidistrict litigation proceeding in the State of California, and plaintiffs filed a consolidated class action complaint on October 12, 2017, which Volkswagen AG and certain of its affiliates moved to dismiss on December 11, 2017. On January 16, 2018, plaintiffs filed an opposition to the motion to dismiss and the court has set a deadline of February 16, 2018 for defendants to file a reply. A hearing is scheduled for May 11, 2018. On December 22, 2017, a mass action on behalf of approximately 75 individual plaintiffs alleging similar claims was filed in a California state court, which was removed to the Northern District of California on January 25, 2018.

In Canada, two similar putative class actions, including a national class, have been filed in Ontario and Quebec provincial courts against AUDI AG, Volkswagen AG and US and Canadian affiliates regarding alleged CO₂ “defeat devices” in certain petrol Audi models with automatic transmissions. Both of the Canadian actions are in the pre-certification stage. Contingent liabilities have therefore been disclosed in cases where they can be assessed and for which the likelihood of a sanction was deemed not lower than 10%.

From July through November 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. These complaints assert claims under the US Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act, state unfair competition and consumer protection statutes, and common law unjust enrichment. The complaints allege that since the 1990s, defendants engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles by agreeing to share commercially sensitive information and to reach unlawful agreements regarding technology, costs, and suppliers. Moreover, the plaintiffs allege that the defendants agreed to limit the size of AdBlue tanks to ensure that US emissions regulators did not scrutinize the emissions control systems in defendants’ vehicles, and that such an agreement for Volkswagen was the impetus for the creation of the defeat device. On September 28, 2017, a hearing before the Judicial Panel on Multidistrict Litigation (JPML) was held, and on October 4, 2017 the JPML issued its decision consolidating and transferring these cases to Judge Breyer in the Northern District of California. On December 14, 2017, co-lead counsel were appointed representing the interests of a putative class of indirect purchasers and a putative class of direct purchasers, as well as Plaintiffs’ Steering Committee. On December 20, 2017, deadlines were set for the filing of initial and responsive pleadings and an initial case status conference scheduled for April 5, 2018, and co-lead counsel were directed to file consolidated class action complaints on behalf of the two putative classes by March 15, 2018. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

From July through October 2017, plaintiffs filed claims in Ontario, Quebec and British Columbia 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. The claims assert causes of action under the Competition Act, common law, and Quebec’s civil law and contain similar allegations to the US complaints described in the paragraph above. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In the tax proceedings between MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment was rendered in administrative court proceedings, which was negative for MAN Latin America. MAN Latin America will initiate 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 section entitled “Contingent liabilities”.

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

	PAYABLE	PAYABLE	PAYABLE	TOTAL
€ million	2017	2018 – 2021	from 2022	Dec. 31, 2016
Purchase commitments in respect of				
property, plant and equipment	7,170	1,585	–	8,756
intangible assets	1,243	386	–	1,629
investment property	13	–	–	13
Obligations from				
loan commitments to unconsolidated subsidiaries	126	2	–	128
irrevocable credit and lease commitments to customers	4,551	0	44	4,595
long-term leasing and rental contracts	995	2,489	2,261	5,745
Miscellaneous other financial obligations	2,569	1,416	1,072	5,056

	PAYABLE	PAYABLE	PAYABLE	TOTAL
€ million	2018	2019 – 2022	from 2023	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	3,436	201	59	3,695
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

Other financial obligations from long-term leasing and rental contracts are partly offset by expected income from subleases of €1,467 million (previous year: €1,664 million).

To enhance comparability, irrevocable credit commitments to customers are reported without leasing commitments from fiscal year 2017 onward. As of December 31, 2016, the corresponding amount was €2.1 billion.

Other financial obligations include an amount of €1.3 billion for investments in zero emissions vehicle infrastructure to which the Volkswagen Group had committed itself in the settlement agreements in the USA in connection with the diesel issue and in corresponding access and awareness initiatives for these technologies.

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	2017	2016 ¹
Financial statement audit services	17	19
Other assurance services	2	4
Tax advisory services	1	0
Other services	13	4
	33	27

1 Some services, which were previously reported as other assurance services, are now classified as audit services. Prior-year figures have been adjusted accordingly.

The fee paid to the auditors in 2017 was mostly 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. Total expense for the period

€ million	2017	2016
Cost of materials		
Cost of raw materials, consumables and supplies, purchased merchandise and services	151,449	140,307
Personnel expenses		
Wages and salaries	31,432	29,971
Social security, post-employment and other employee benefit costs	7,518	7,046
	38,950	37,017

41. Average number of employees during the year

	2017	2016
Performance-related wage-earners	253,469	236,204
Salaried staff	288,478	292,240
	541,947	528,444
of which in the passive phase of partial retirement	(7,156)	(5,915)
Vocational trainees	17,891	17,962
	559,838	546,406
Employees of Chinese joint ventures	74,558	72,940
	634,396	619,346

42. Events after the balance sheet date

There were no significant events after the end of fiscal year 2017.

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. All members of the Board of Management voted in favor of switching to the new remuneration system in the course of fiscal year 2017. The new 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.

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 member of the Board of Management 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 shall be 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 141,426 performance shares were allocated to the members of the Board of Management for 2017. The fair value of the obligation as of December 31, 2017 amounts to €43.8 million. The compensation cost of €43.8 million is recognized under personnel costs. If the members of the Board of Management had left the Company as of December 31, 2017, the obligation (intrinsic value) would have amounted to a total of €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 the members of the Board of Management as of December 31, 2017 amounted to €7.0 million. The change in the fair value of €2.0 million was recognized under personnel costs. If all members of the Board of Management had left as of December 31, 2017, the obligation (intrinsic value) would have amounted to a total of €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:

- › Volkswagen AG continues to indemnify Porsche SE against certain financial guarantees issued by Porsche SE to creditors of the companies belonging to the Porsche Holding Stuttgart Group up to the amount of its share in the capital of Porsche Holding Stuttgart, which amounts to 100% since the contribution as of August 1, 2012. Porsche Holding Finance plc, Dublin, Ireland, was contributed to the Volkswagen Group in the course of the transfer of Porsche SE's holding company operating business. Until June 2017, the indemnification also included financial guarantees issued by Porsche SE to creditors of Porsche Holding Finance plc in relation to interest payments on, and the repayment of, bonds in the aggregate amount of €250 million. 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 liabilities 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 pay to Porsche SE any tax benefits or tax refunds of Porsche Holding Stuttgart, Porsche AG and their legal predecessors and subsidiaries for tax assessment periods up to July 31, 2009. Based on the results of the external tax audit for the assessment periods 2006 to 2008 that has now been completed, a compensation obligation running into the low triple-digit millions of euros 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 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 2, 2018, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft Niedersachsen mbH, Hanover, held 20.00% of the voting rights of Volkswagen AG on December 31, 2017. 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		SUPPLIES AND SERVICES RECEIVED	
	2017	2016	2017	2016
Porsche SE and its majority interests	7	12	1	2
Supervisory Board members	2	3	2	5
Board of Management members	0	0	0	0
Unconsolidated subsidiaries	1,039	890	1,300	973
Joint ventures and their majority interests	14,294	13,728	1,225	1,377
Associates and their majority interests	214	190	733	912
Pension plans	1	4	0	0
Other related parties	0	0	0	0
State of Lower Saxony, its majority interests and joint ventures	11	6	9	6

€ million	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Porsche SE and its majority interests	13	323	0	1
Supervisory Board members	0	0	254	297
Board of Management members	0	0	72	39
Unconsolidated subsidiaries	1,480	1,036	1,773	1,188
Joint ventures and their majority interests	9,889	8,808	2,168	1,784
Associates and their majority interests	76	53	572	495
Pension plans	1	1	–	8
Other related parties	–	–	63	64
State of Lower Saxony, its majority interests and joint ventures	2	2	1	1

The tables above do not contain the dividend payments of €3,653 million (previous year: €3,613 million) received from joint ventures and associates and dividends of €308 million (previous year: €17 million) paid to Porsche SE.

Receivables from joint ventures are primarily attributable to loans granted in an amount of €6,277 million (previous year: €5,769 million) as well as trade receivables in an amount of €3,354 million (previous year: €2,855 million). Receivables from non-consolidated subsidiaries also result mainly from loans granted in an amount of €1,038 million (previous year: €479 million) and from trade receivables in an amount of €224 million (previous year: €196 million).

Impairment losses of €56 million (previous year: €35 million) were recognized on the outstanding related party receivables. In fiscal year 2017, expenses of €36 million (previous year: €18 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 €220 million (previous year: €112 million).

In the reporting period, the Volkswagen Group made capital contributions of €203 million (previous year: €391 million) to related parties.

The changes in supplies and services received from and rendered to joint ventures and their majority interests are primarily attributable to deliveries to the Chinese joint ventures.

The decrease in receivables from Porsche SE is attributable to a loan repayment.

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 €67.0 million (previous year: €26.1 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:

€	2017	2016
Short-term benefits	33,967,996	45,456,678
Benefits based on performance shares and virtual shares	45,777,248	–670,296
Post-employment benefits	10,872,088	9,347,409
Termination benefits	6,940,142	–
	97,557,473	54,133,791

Benefits paid on the basis of performance shares include the cost of €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, but also of a pro-rated amount for future share plans to be granted during the current employment contract.

Overall, benefits based on phantom shares resulted in income in 2016, because the income from reversing the provision for performance-based Board of Management remuneration (€1.5 million) due to the waiver for fiscal year 2015 exceeded the cost attributable to the performance of the share price up to December 31, 2016 (€0.8 million). In fiscal year 2017, the share price performance led to the recognition of expenses 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.

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 Ms. Hohmann-Dennhardt in connection with her early departure from the Board of Management.

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 17, 2017, 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/ir.

On November 30, 2017, 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 2017, 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.

The Executive and Supervisory Boards of RENK AG issued a declaration of conformity on December 5, 2017 and made it permanently available to the shareholders at www.renk.biz/corporated-governance.html.

46. Remuneration of the Board of Management and the Supervisory Board

€	2017	2016
Board of Management remuneration		
Non-performance-related remuneration	14,337,116	18,093,835
Performance-related remuneration	15,844,041	21,453,778
Long-term incentive component	20,104,770	–
	50,285,927	39,547,612
Supervisory Board remuneration		
Non-performance-related remuneration	3,516,389	709,346
Performance-related remuneration	270,450	4,687,220
	3,786,839	5,396,565

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. In addition to the basic level of remuneration, the fixed remuneration also includes differing levels of remuneration for appointments assumed at Group companies. The prior-year figure also includes an amount of €6.3 million to compensate Ms. Hohmann-Dennhardt for lost entitlements resulting from the change in employer. The fringe benefits result from the grant of 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 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 new remuneration system in 2017 were recognized at their fair value of €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 2017, expenses of €43.8 million were recognized for the performance shares and of €2.0 million for the phantom shares. If these expenses exceed the fair value of the performance shares at the grant date, 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 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.

The remuneration disclosed for members of the Supervisory Board for 2016 shows the amounts determined on the basis of the old system of Supervisory Board remuneration. The members of the Supervisory Board declared to the Management Board that they would waive the portion of their remuneration for fiscal year 2016 that exceeds the amount that would have resulted for fiscal year 2016 from implementing the system of Supervisory Board remuneration resolved by the Annual General Meeting on May 10, 2017 with retroactive effect to January 1, 2017. The total amount waived for 2016 by all members of the Supervisory Board is €1.2 million. Mr. Pötsch additionally waived an amount of €0.1 million of his variable remuneration for fiscal year 2016 and waived his remuneration for fiscal year 2017 in full. The reason for this waiver is the agreement made in connection with Mr. Pötsch's transfer from the Management Board to the Supervisory Board as of October 8, 2015, which specified that the amount of Supervisory Board remuneration received up to December 31, 2017 would be deducted from the compensation payment to which he would have been entitled for the period from October 8, 2015 to December 31, 2017.

PENSION ENTITLEMENTS

On December 31, 2017, the pension provisions for members of the Board of Management in accordance with IFRSs amounted to €125.4 million (previous year: €113.5 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 larger increase.

Former members of the Board of Management and their surviving dependents received €19.9 million (previous year: €11.1 million). This includes the amounts promised to Ms. Hohmann-Dennhardt in connection with her departure from the Board of Management. Ms. Hohmann-Dennhardt received non-performance-related remuneration of €2.1 million and performance-related remuneration of €4.9 million for the period from February 1, 2017 to December 31, 2018.

Pension provisions in accordance with IFRSs for this group of individuals amounted to €269.0 million (previous year: €270.0 million).

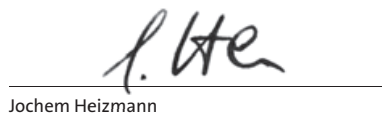
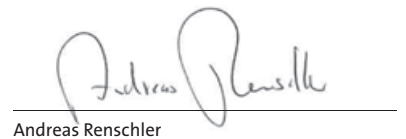
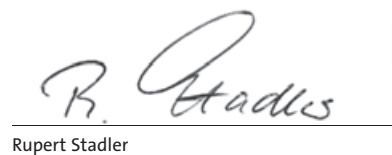
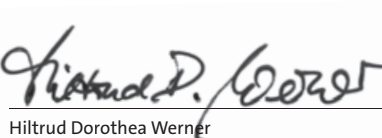
The individual remuneration of the members of the Board of Management and the Supervisory Board is explained in the remuneration report in the management report on page 67. A comprehensive assessment of the individual bonus components and of the LTI in the form of the performance share plan can also 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 23, 2018

Volkswagen Aktiengesellschaft
The Board of Management


Matthias Müller
Karlheinz Blessing
Herbert Diess
Francisco Javier García Sanz
Jochem Heizmann
Andreas Renschler
Rupert Stadler
Hiltrud Dorothea Werner
Frank Witter

Independent Auditor's Report

On completion of our audit, we issued the following unqualified auditor's report dated February 23, 2018. This report was originally prepared in German. In case of ambiguities the German version takes precedence:

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 income statement and the statement of comprehensive income, the balance sheet, the statement of changes in equity and the cash flow statement for the financial year from January 1 to December 31, 2017, 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, 2017. 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 accordance with the German legal requirements.

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, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, 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 underlying causes, the noninvolvement 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 2017 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, 2017. 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:

- ① Accounting treatment of risk provisions for the diesel issue
- ② Recoverability of goodwill and brand names
- ③ Impairment of capitalized development costs
- ④ Completeness and measurement of provisions for warranty obligations arising from sales
- ⑤ 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:

- ① 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, Canada and South Korea) 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 (intangible assets, property, plant and equipment, and inventories) and customer-specific sales programs.

The Volkswagen Group recognizes the expenses directly related to the diesel issue in its operating income. The expenses incurred in fiscal year 2017 amount to EUR 3.2 billion and relate in their entirety to further additions to reserves for field activities and repurchases (EUR 2.2 billion) as well as legal risks (EUR 1.0 billion). In addition to provisions, contingent liabilities for legal risks in the amount of EUR 4.3 billion are reported as of December 31, 2017.

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 importance for our audit due to the material amounts of the provisions as well as the scope of assumptions and discretion on the part of management.

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 opinions of independent experts, as presented to us. We used 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 that have been defined to date or are still in development and the planned 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 such as those from the US Department of Justice, 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 technical and 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 combined 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", subsections "Risks from the Diesel Issue" and "Litigation" in the combined management report.

② Recoverability of goodwill and brand names

① The intangible assets reported in the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT include EUR 40.4 billion in goodwill and 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 management 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 management's 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 management 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 management 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.

③ Impairment of capitalized development costs

① In the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT capitalized development costs amounting to EUR 21.0 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 management. 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 EUR 0.4 billion.

The result of this measurement depends to a large extent on management's 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 management's 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 management 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 management, 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.

④ Completeness and measurement of provisions for warranty obligations arising from sales

① In the consolidated financial statements of the Volkswagen Group EUR 27.9 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 importance 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 management.

② With the knowledge that estimated values result in an increased risk of accounting misstatements and that the measurement decisions made by management 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 calculations (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 management 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.

⑤ 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. Management's 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 EUR 6.9 billion as of the balance sheet date, while the negative fair values amount to EUR 2.2 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 IAS 39, 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 (cash flows hedges). As of the balance sheet date, a cumulative EUR 3.5 billion under consideration of income taxes was recognized in equity 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 IAS 39, 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 item (fair value hedges).

From our point of view these matters were of particular importance for our audit due to the high complexity and number of transactions as well as the extensive accounting and disclosure requirements of IAS 39.

② As a part of our audit and with the support of our internal specialists from Corporate Treasury Solutions, among other things 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 management 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, which we obtained prior to the date of our auditor's 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 10, 2017. We were engaged by the supervisory board on May 11, 2017. 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 (longform audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Frank Hübner.

Hanover, February 23, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Norbert Winkeljohann
Wirtschaftsprüfer
(German Public Auditor)

Frank Hübner
Wirtschaftsprüfer
(German Public Auditor)

Five-Year Review

	2017	2016	2015	2014	2013
Volume Data (thousands)					
Vehicle sales (units)	10,777	10,391	10,010	10,217	9,728
Germany	1,264	1,257	1,279	1,247	1,187
Abroad	9,513	9,135	8,731	8,970	8,541
Production (units)	10,875	10,405	10,017	10,213	9,728
Germany	2,579	2,685	2,681	2,559	2,458
Abroad	8,296	7,720	7,336	7,653	7,270
Employees (yearly average)	642	619	604	583	563
Germany	287	280	276	265	255
Abroad	355	339	329	318	308
Financial Data (in € million)					
Income Statement					
Sales revenue	230,682	217,267	213,292	202,458	197,007
Cost of sales	188,140	176,270	179,382	165,934	161,407
Gross profit	42,542	40,997	33,911	36,524	35,600
Distribution expenses	22,710	22,700	23,515	20,292	19,655
Administrative expenses	8,254	7,336	7,197	6,841	6,888
Net other operating result	2,240	-3,858	-7,267	3,306	2,613
Operating result	13,818	7,103	-4,069	12,697	11,671
Financial result	94	189	2,767	2,097	757
Earnings before tax	13,913	7,292	-1,301	14,794	12,428
Income tax expense	2,275	1,912	59	3,726	3,283
Earnings after tax	11,638	5,379	-1,361	11,068	9,145
Cost of materials	151,449	140,307	143,700	132,514	127,089
Personnel expenses	38,950	37,017	36,268	33,834	31,747
Balance Sheet (at December 31)					
Noncurrent assets	262,081	254,010	236,548	220,106	202,141
Current assets	160,112	155,722	145,387	131,102	122,192
Total assets	422,193	409,732	381,935	351,209	324,333
Equity	109,077	92,910	88,270	90,189	90,037
of which: noncontrolling interests	229	221	210	198	2,304
Noncurrent liabilities	152,726	139,306	145,175	130,314	115,672
Current liabilities	160,389	177,515	148,489	130,706	118,625
Total equity and liabilities	422,193	409,732	381,935	351,209	324,333
Cash flows from operating activities	-1,185	9,430	13,679	10,784	12,595
Cash flows from investing activities attributable to operating activities	18,218	16,797	15,523	16,452	14,936
Cash flows from financing activities	17,625	9,712	9,068	4,645	8,973

Financial Key Performance Indicators

%	2017	2016	2015	2014	2013
Volkswagen Group					
Gross margin	18.4	18.9	15.9	18.0	18.1
Personnel expense ratio	16.9	17.0	17.0	16.7	16.1
Operating result as a percentage of sales revenue	6.0	3.3	-1.9	6.3	5.9
Return on sales before tax	6.0	3.4	-0.6	7.3	6.3
Return on sales after tax	5.0	2.5	-0.6	5.5	4.6
Equity ratio	25.8	22.7	23.1	25.7	27.8
Dynamic gearing ¹ (years)	0.0	0.1	0.1	0.1	0.1
Automotive Division²					
Change in unit sales year-on-year ³	+ 3.7	+ 3.8	-2.0	+ 5.0	+ 4.1
Change in sales revenue year-on-year	+ 5.9	+ 1.1	+ 3.6	+ 1.4	+ 1.3
Research and development costs as a percentage of sales revenue	6.7	7.3	7.4	7.4	6.7
Operating result as a percentage of sales revenue	5.7	2.5	-3.4	6.1	5.6
EBITDA (in € million) ⁴	26,094	18,999	7,212	23,100	20,594
Return on investment (ROI) ⁵	12.1	8.2	-0.2	14.9	14.5
Cash flows from operating activities as a percentage of sales revenue	5.9	10.9	12.9	12.2	11.8
Cash flows from investing activities attributable to operating activities as a percentage of sales revenue	9.0	8.6	8.1	8.7	9.3
Capex as a percentage of sales revenue	6.4	6.9	6.9	6.5	6.3
Net liquidity as a percentage of sales revenue	9.7	12.5	11.5	8.7	8.6
Ratio of noncurrent assets to total assets ⁶	23.7	23.4	23.1	22.3	21.3
Ratio of current assets to total assets ⁷	16.3	15.9	15.2	14.3	13.4
Inventory turnover ⁸	5.2	5.5	5.8	6.2	6.5
Equity ratio	36.9	31.4	32.6	36.9	39.8
Financial Services Division					
Increase in total assets	6.0	8.3	13.9	15.1	3.9
Return on equity before tax ⁹	9.8	10.8	12.2	12.5	14.3
Equity ratio	13.7	12.5	11.9	11.3	10.5

1 Ratio of cash flows from operating activities to current and noncurrent financial liabilities.

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 assets.

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.