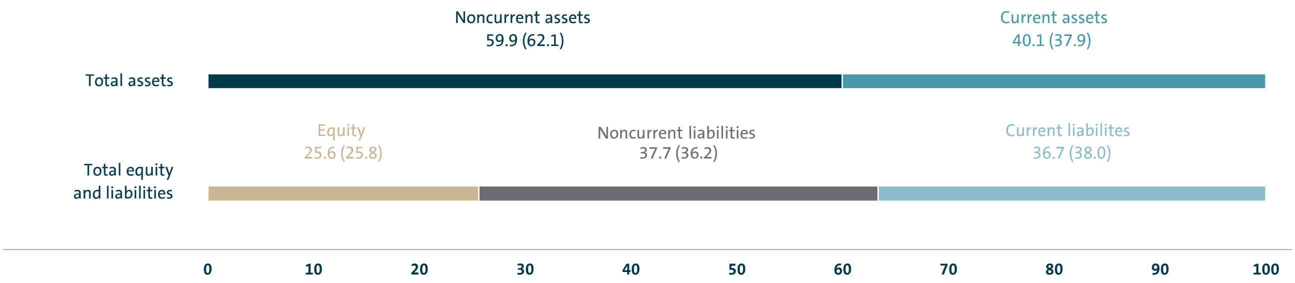
CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31

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

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

CONSOLIDATED BALANCE SHEET STRUCTURE 2018
in percent



Financial position in the Financial Services Division

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

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

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

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

NET ASSETS

Consolidated balance sheet structure

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

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

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

Automotive Division balance sheet structure

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

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

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

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

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

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

PASSENGER CARS BUSINESS AREA BALANCE SHEET STRUCTURE

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

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

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

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

COMMERCIAL VEHICLES BUSINESS AREA BALANCE SHEET STRUCTURE

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

POWER ENGINEERING BUSINESS AREA BALANCE SHEET STRUCTURE

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

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

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

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

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

Financial Services Division balance sheet structure

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

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

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

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

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

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

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

RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION

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

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

Components of value contribution

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

The operating result shows the economic performance of the Automotive Division and is initially a pre-tax figure. Using the various international income tax rates of the relevant companies, we assume an overall average tax rate of 30% when calculating the operating result after tax.

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

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

Determining the current cost of capital

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

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

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

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

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

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