VOLKSWAGEN
AKTIENGESELLSCHAFT

Interim Report

JANUARY – MARCH 2019

Key Figures

VOLKSWAGEN GROUP

	Q1 2019	Q1 2018	%
Volume Data[1] in thousands			
Deliveries to customers (units)	2,606	2,680	–2.8
Vehicle sales (units)	2,583	2,769	–6.7
Production (units)	2,655	2,727	–2.6
Employees (on March 31, 2019/Dec. 31, 2018)	665.3	664.5	+0.1
Financial Data (IFRSs), € million			
Sales revenue	60,012	58,228	+3.1
Operating result before special items	4,849	4,211	+15.2
Operating return on sales before special items (%)	8.1	7.2	
Special items	–981	–	x
Operating result	3,868	4,211	–8.2
Operating return on sales (%)	6.4	7.2	
Earnings before tax	4,071	4,477	–9.1
Return on sales before tax (%)	6.8	7.7	
Earnings after tax	3,053	3,300	–7.5
Automotive Division[2]			
Total research and development costs	3,483	3,356	+3.8
R&D ratio (%)	6.9	6.7	
Cash flows from operating activities	5,364	5,455	–1.7
Cash flows from investing activities attributable to operating activities[3]	3,375	3,018	+11.8
of which: capex	2,008	1,918	+4.7
capex/sales revenue (%)	4.0	3.9	
Net cash flow	1,990	2,437	–18.4
Net liquidity at March 31	15,991	24,294	–34.2

1 Volume data including the unconsolidated Chinese joint ventures. These companies are accounted for using the equity method. Prior-year deliveries updated to reflect subsequent statistical trends.
2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
3 Excluding acquisition and disposal of equity investments: Q1 €3,100 (3,080) million.

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

Key Facts

- **Deliveries to Volkswagen Group customers at 2.6 million vehicles (–2.8%); decline in Asia-Pacific in particular, growth in Western Europe and South America; passenger car market share expanded in declining overall market worldwide**
- **Group sales revenue of €60.0 billion exceeds prior-year figure by 3.1%**
- **Operating profit before special items improved by €0.6 billion to €4.8 billion; herein fair value measurement gains and losses on derivatives €0.4 billion higher than in the previous year**
- **Operating profit of €3.9 (4.2) billion; negative special items of €–1.0 billion arising from legal risks**
- **Profit before tax at €4.1 (4.5) billion**
- **Automotive Division's net cash flow down by €0.4 billion to €2.0 billion; capex ratio of 4.0 (3.9)%**
- **Net liquidity in the Automotive Division of €16.0 billion; negative effect of €5.1 billion on the disclosure of net liquidity due to the application of the new IFRS 16**
- **Exciting products:**
  - **Volkswagen Passenger Cars presents the enhanced Passat; leisure-oriented ID. BUGGY concept car demonstrates versatility of the Modular Electric Drive Toolkit (MEB); JETTA launches as new brand of Volkswagen Passenger Cars in China**
  - **Audi celebrates world premiere of the Q4 e-tron, an all-electric concept vehicle based on the MEB**
  - **ŠKODA presents the Kamiq city SUV for the European market; the VISION iV concept gives a glimpse of the brand's first MEB vehicle**
  - **SEAT debuts electric-powered el-Born concept car**
  - **Porsche celebrates open-top driving with new 911 Convertible**
  - **Bentley marks its 100-year history with the Mulsanne W.O. Edition by Mulliner**
  - **Lamborghini presented the exclusive and powerful Aventador SVJ Roadster**

Key Events

GENEVA INTERNATIONAL MOTOR SHOW

Volkswagen's showings at the Geneva International Motor Show put emphasis on electric mobility. The Group announced that it would make its Modular Electric Drive Toolkit (MEB) available to other manufacturers as well. Aachen-based e.GO Mobile AG is expected to become the first external partner globally to use the MEB. The Group intends to launch almost 70 new electric models on the market in the next ten years. The expansion of electric mobility is an important step on the path to becoming carbon neutral.

The Volkswagen Passenger Cars brand celebrated no fewer than four world premieres at the motor show, shining a light on two key areas: e-mobility and performance. The brand's first new product was the ID. BUGGY, which demonstrates the versatility of the MEB, even for small series. The ID. BUGGY is already the fifth concept car based on the MEB, with which Volkswagen is showing a new, leisure-oriented facet of zero-emissions electric mobility. The Volkswagen Passenger Cars brand wants to bring out 20 electric models by 2025. Another highlight presented in Geneva was the new Passat. The enhanced bestseller stands out in particular thanks to its technological innovations such as Travel Assist, which permits semi-automated driving (Level 2 according to the German Automotive Industry Association, VDA – Verband der Automobilindustrie) from 0 to 210 km/h. Volkswagen Passenger Cars presented a new sporty top model for its successful crossover series, the T-Roc R. This features a four-cylinder TSI engine with an output of 221 kW (300 PS) that enables the vehicle to accelerate from 0 to 100 km/h in 4.9 seconds. The Touareg V8 TDI also celebrated its world premiere in Geneva. Its 310 kW (421 PS) TDI engine makes it one of the most powerful diesel SUVs.

Audi continued its electric car offensive in Geneva, presenting exclusively electrically powered vehicles. The Q4 e-tron concept SUV with its all-electric drive is based on the MEB and is positioned in the top third of the compact class. Two electric engines allow the vehicle to accelerate from 0 to 100 km/h in just 6.3 seconds. The battery installed in the vehicle floor can fast-charge to 80% of its total capacity in less than 30 minutes. Audi's Q4 e-tron concept is setting new standards in its category with a range of 450 km. The SUV's interior also offers spaciousness and comfort. Audi debuted a four-door coupé in Europe in the form of its e-tron GT concept show car. The flat-floor architecture with a low center of gravity, dynamic proportions and electric drive with an output of 434 kW (590 PS) ensure performance fit for a sports car. The torque is transferred to the wheels via the quattro permanent all-wheel drive with torque vectoring. The plug-in hybrid versions of the high-volume A6, A7, A8 and Q5 series were also presented to the public for the first time at the motor show.

The Kamiq city SUV for the European market and the all-electric concept vehicle ŠKODA VISION iV made their debut at the ŠKODA brand's booth. The Kamiq systematically continues the design language of the Kodiaq and Karoq models and rounds out the Czech automotive manufacturer's portfolio in the SUV segment. The VISION iV gives customers a detailed preview of the brand's first production model based on the MEB. The study stands out with an athletic, aerodynamic body and the generous interior space that is typical of the brand. Two electric motors – one on the front axle and one on the rear – provide emission-free drive. With the KLEMENT, ŠKODA also presented an innovative electric two-wheel concept for sustainable urban mobility.

SEAT's presence at the motor show centered on the world premiere of its el-Born concept car. Based on the MEB, this is SEAT's first all-electric vehicle. The highlight of the vehicle is its spacious interior, which guarantees practicality and functionality. The vehicle has a range of up to 420 kilometers and can accelerate from 0 to 100 km/h in just 7.5 seconds. The battery can be returned to 80% of its maximum capacity in only 47 minutes.

The highlight of the Porsche brand in Geneva was the presentation of the new 911 Convertible, which continues Porsche's long tradition of open-top driving. The 331 kW (450 PS) twin-turbo engine delivers top speeds of over 300 km/h, and acceleration of 0 to 100 km/h in less than 4 seconds. In addition to the 911 Convertible, the 718 T Boxster and Cayman were shown. The new touring version combines 220 kW (300 PS) output from the four-cylinder turbocharged boxer engine with state-of-the-art dynamic components and a sports chassis with a 20-millimeter-lowered body. The new Macan S was also presented in Geneva. Porsche has extensively enhanced the Macan in terms of design, comfort, connectivity and driving dynamics. The most eye-catching new features in the interior are the 10.9-inch touchscreen of the new Porsche Communication Management (PCM) and the GT sports steering wheel. The new V6 engine has a power output of 260 kW (354 PS).

Bentley celebrated a special anniversary at the motor show – its centenary. To mark the occasion, the luxury brand unveiled the Mulsanne W.O. Edition by Mulliner. With a production run limited to just 100 cars, the model pays tribute to Bentley's founder Walter Owen Bentley and is presented in classy black with an anniversary plaque and a range of chrome fittings. The new Bentayga Speed also premiered in

Geneva. Powered by a W12 TSI engine with 467 kW (635 PS), the dynamic SUV sprints to 100 km/h in just 3.9 seconds. Alongside the Bentayga Speed, the new Continental GT Convertible also made its debut. The powerful W12 TSI engine accelerates the breath-taking grand tourer convertible from 0 to 100 km/h in just 3.7 seconds. Its maximum speed is 333 km/h.

Lamborghini presented the Aventador SVJ Roadster, which is limited to 800 units, for an exclusive, powerful open-air driving experience. The V12 engine with 566 kW (770 PS) accelerates the vehicle to 100 km/h in just 2.9 seconds or to 200 km/h in 8.8 seconds. The high-powered car has a maximum speed of over 350 km/h. In addition, Lamborghini showed off the Huracán EVO Spyder. After the Coupé, this is the second version of the V10 Huracán EVO and impresses with predictive logic which controls the vehicle dynamics, and a new design for improved aerodynamics. The 5.2 l naturally-aspirated V10 engine features 470 kW (640 PS) and accelerates the convertible from 0 to 100 km/h in 3.1 seconds.

Bugatti debuted two models. The automaker celebrated its 110th anniversary with the Chiron Sport, of which only 20 units will be made. The second model, La Voiture Noire, is a modern interpretation of the iconic Bugatti Type 57 SC Atlantic. Above all, the supercar impresses with the use of jet-black carbon fiber and a 16-cylinder engine that generates 1,103 kW (1,500 PS) of power.

In Geneva, Group Components presented a flexible fast charging station at which up to four vehicles can be charged at the same time using the power bank principle. Charging capacity is up to 360 kWh; series production is expected to start at the Hanover site from 2020.

AWARDS

At the end of January 2019, the Volkswagen Passenger Cars brand's e-Golf and e-up! models took first and second place in the ADAC EcoTest 2018. The ADAC EcoTest determines, in realistic cycles, local CO_2 emissions along with levels of carbon monoxide (CO), nitrogen oxide (NO_x), hydrocarbon (HC) and fine dust particles present in exhaust gas.

Also at the end of January 2019, Auto Bild and Computer Bild magazines presented several awards to the Volkswagen Group at the Connected Car Award 2018. Audi won over readers in the entertainment category with its Audi Connect system. Porsche secured an award in the medium-sized cars category with its Macan, which is fitted with a Connect Plus module. In the van segment, the Volkswagen Commercial Vehicles brand scored with the on-board entertainment in the Grand California. The Connected Car Award focuses on the best overall package in connected vehicles.

Also at the end of January 2019, the Volkswagen Group won auto motor und sport magazine's "Best Cars 2019" award in several categories. The Volkswagen Passenger Cars brand won with the up!, Polo and Golf in the minicars, small cars and compact class categories. The Volkswagen Commercial Vehicles brand received an award in the vans category for its Multivan. Porsche took top honors in the luxury category with the Panamera and in the sports car and convertible categories with the 911. Audi won an award in the compact SUV class with the Q3. The "Best Cars" readers' choice awards are one of the most important competitions in Europe's car industry.

At the beginning of 2019, the Porsche 911 received an accolade for its product quality in two competitions. In TÜV Rheinland's annual used car report, the model took first place in all age brackets due to the lowest number of material defects. In addition, the US consulting firm J.D. Power honored the 911 as the most reliable model in its class.

In February 2019, the Volkswagen Touareg won the top gold award in the "Passenger Vehicles" category at the "German Design Awards". The Touareg did well in the evaluation thanks to its timeless and functional design, its technology, high quality and fun factor. The German Design Award is presented by the Rat für Formgebung (German Design Council), which is regarded as the German brand and design authority.

At the beginning of March 2019, Audi's A4 Avant 2.0 TFSI was put at the top of the leaderboard in "Auto Bild" magazine's endurance test. Audi now holds first and second place in the endurance test ranking: only the A3 Sportback g-tron ranks higher than the A4 Avant with a grade of 1+. The "Auto Bild" endurance test involves a 100,000-kilometer drive and ends with the car being dismantled and examined by an independent expert. The reliability of the car and the everyday experiences and impressions of the editors are also part of the assessment.

At the beginning of March 2019, the new SEAT Tarraco achieved a five-star safety rating in Euro NCAP's crash test, making it the benchmark for safety in large SUVs. SEAT's flagship achieved 97% of the maximum score for adult protection – an excellent result and also the best result ever in this category. Euro NCAP's crash test looks at and evaluates all safety aspects of the vehicle: occupant protection, the safety of vulnerable road users such as cyclists and pedestrians and provision of the latest safety systems.

At the end of March 2019, ŠKODA's new Scala won the "Red Dot Award" in the product design category. With its sculptural forms, dynamic lines and precise details, the Scala is the first production model to showcase the next step in the development of the ŠKODA design language. The "Red Dot Award" is considered to be a seal of high-quality product design and is one of the world's most famous design competitions. Composed of experts from around the globe, the jury brings together independent designers, academics and industry journalists.

Also at the end of March 2019, Audi was named the overall winner in the quality assessment of Auto Bild's "best brands in all classes" reader survey. In addition, readers voted Audi the overall brand winner with 55.2% approval – ahead of Porsche and ŠKODA. In the "Best Brands in All Classes" survey, readers of Auto Bild magazine rated 38 car brands in 14 vehicle categories. Quality, design and value for money were considered key criteria.

ANNIVERSARIES

In mid-January 2019, the Volkswagen Passenger Cars brand celebrated the production of five million Tiguans at the Wolfsburg plant. Since its market launch in 2007, the compact Tiguan has enjoyed success worldwide and provides valuable stimulus for the brand's growth strategy and SUV initiative.

In mid-February 2019, the Salzgitter plant of the Volkswagen Passenger Cars brand manufactured the 60 millionth engine since production began 49 years ago. The anniversary engine was a 1.5 l TSI engine.

At the beginning of March 2019, the 10 millionth vehicle rolled off the assembly line at the Volkswagen Commercial Vehicles brand's factory in Hanover – a red-and-white T6 Caravelle. Production of the T-series had begun on March 8, 1956 at the plant built specifically for this purpose.

PARTNERSHIPS

In January 2019, the Volkswagen Passenger Cars brand signed a memorandum of understanding with Ethiopia for further expansion of its involvement in the Sub-Saharan Africa region. The memorandum of understanding focuses on four pillars: the establishment of a vehicle assembly facility, localization of automotive component manufacturing, introduction of mobility concepts such as app-based carsharing and ride-hailing, and the opening of a training center.

In March 2019, Volkswagen China and FAW-Volkswagen established a joint venture for advancing connectivity and digitalization of models from FAW-Volkswagen. The two partners are investing around €121 million in the new company, Mobile Online Services Intelligent. The objective is to develop digital services for all models built by FAW-Volkswagen after 2019.

At the end of March 2019, the Volkswagen Group entered into a collaboration with Amazon Web Services aimed at developing the Volkswagen Industrial Cloud together. In future, the plan is for data from all the machinery, equipment and systems at every Volkswagen Group factory to be combined in the cloud. This will help to optimize workflows and processes in production, and enables considerable improvements in future productivity at the plants. The Volkswagen Industrial Cloud thus creates the essential technological prerequisites for achieving the productivity goals in production. In the long term, the global supply chain of the Volkswagen Group with more than 30,000 locations of over 1,500 suppliers and partner companies could also be integrated. The Cloud will be designed as an open industry platform which other partners from industry, logistics and sales may use in the future. Siemens is to be the first major integration partner for this project.

JETTA TO BECOME THE NEW VOLKSWAGEN PASSENGER CARS BRAND IN CHINA

The Jetta is one of the most popular models of Volkswagen Passenger Cars. Now, the model will be turned into a separate brand for the Chinese market with its own model family and a separate dealer network. In setting up the JETTA brand, Volkswagen Passenger Cars is focusing particularly on young Chinese customers striving for individual mobility and their first car. The new brand will bring out two SUVs and a saloon in China. Like all other Volkswagen vehicles, the models stand for quality, a clear design language, lasting value and safety.

INTRODUCING ELLI – ELECTRIC LIFE

Volkswagen is expanding its e-mobility initiative with Elli (Electric Life). Elli will develop products and services related to energy and charging and will supply green electricity not only for vehicles, but also for households. This will be carbon-free, TÜV-certified Volkswagen Naturstrom generated exclusively from renewable sources.

BOARD OF MANAGEMENT AND SUPERVISORY BOARD MATTERS

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

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

Volkswagen Shares

In the period from January to March 2019, prices on the international equity markets rose overall amid volatile trading.

The DAX recorded an increase compared with the end of 2018. The hopes of less restrictive US monetary policy had a positive effect, as did corporate data that in some cases exceeded expectations. Uncertainty regarding the economic policy of the US government, the continuing Brexit negotiations between the United Kingdom and the European Union (EU) and the growth of the global economy had a negative impact on share prices.

The prices of Volkswagen AG's preferred and ordinary shares exceeded the 2018 year-end level in the first three months of 2019. Healthy business figures for the past fiscal year were the main drivers of the uptrend. Share listings were negatively impacted in particular by uncertainty regarding the future regulatory framework for diesel and electric vehicles, the US tariff policy, the slowdown of the Chinese market and the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure), which is a test procedure for determining pollutant and CO_2 emissions and fuel consumption for passenger cars and light commercial vehicles.

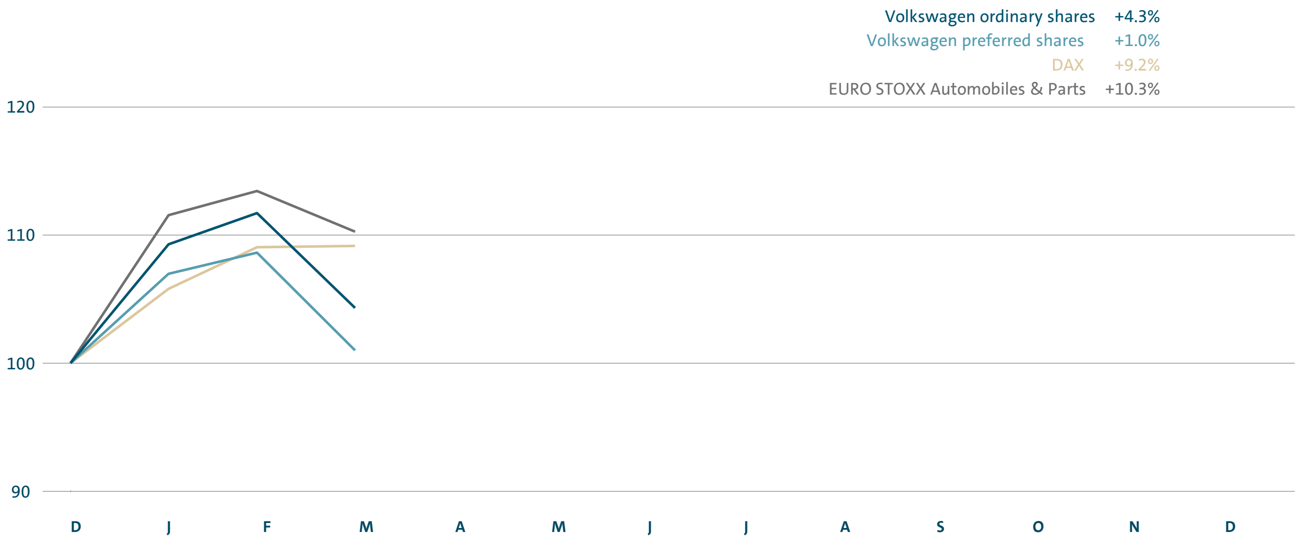
Information and explanations on earnings per share can be found in the notes to the interim consolidated financial statements. Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website at www.volkswagenag.com/en/InvestorRelations.html.

VOLKSWAGEN KEY SHARE FIGURES AND MARKET INDICES FROM JANUARY 1 TO MARCH 31, 2019

		High	Low	Closing
Ordinary share	Price (€)	157.60	135.60	145.10
	Date	Mar. 4	Jan. 3	Mar. 29
Preferred share	Price (€)	154.24	134.76	140.32
	Date	Mar. 4	Jan. 3	Mar. 29
DAX	Price	11,788	10,417	11,526
	Date	Mar. 19	Jan. 3	Mar. 29
ESTX Auto & Parts	Price	486	412	466
	Date	Mar. 4	Jan. 3	Mar. 29

PRICE DEVELOPMENT FROM DECEMBER 2018 TO MARCH 2019

Index based on month-end prices: December 31, 2018 = 100



Business Development

GENERAL ECONOMIC DEVELOPMENT

The global economy continued its robust growth in the first three months of 2019 with a decrease in momentum. The average expansion rate of gross domestic product (GDP) in this period was down year-on-year in both the advanced and the emerging market economies. Prices for energy and other commodities decreased on average compared with the prior-year period amid a still comparatively low – albeit higher – interest rate level. In connection with the upheaval in trade policy at international level, international goods trade declined in the first quarter of 2019.

As a whole, the economies of Western Europe recorded slight growth from January to March 2019, with a decline in momentum. This trend was recorded in nearly all countries in Northern and Southern Europe. The unknown outcome of the Brexit negotiations between the United Kingdom and the EU remained the primary source of uncertainty.

Amid a strong labor market, the growth trend in Germany continued at a slower pace in the period under review, with both business and consumer sentiment deteriorating further.

In the economies of Central Europe, growth rates remained relatively high in the first quarter of 2019, while declining in most cases. Overall, GDP growth in Eastern Europe rose, buoyed in particular by the economic recovery of the Russian market compared with the prior-year period.

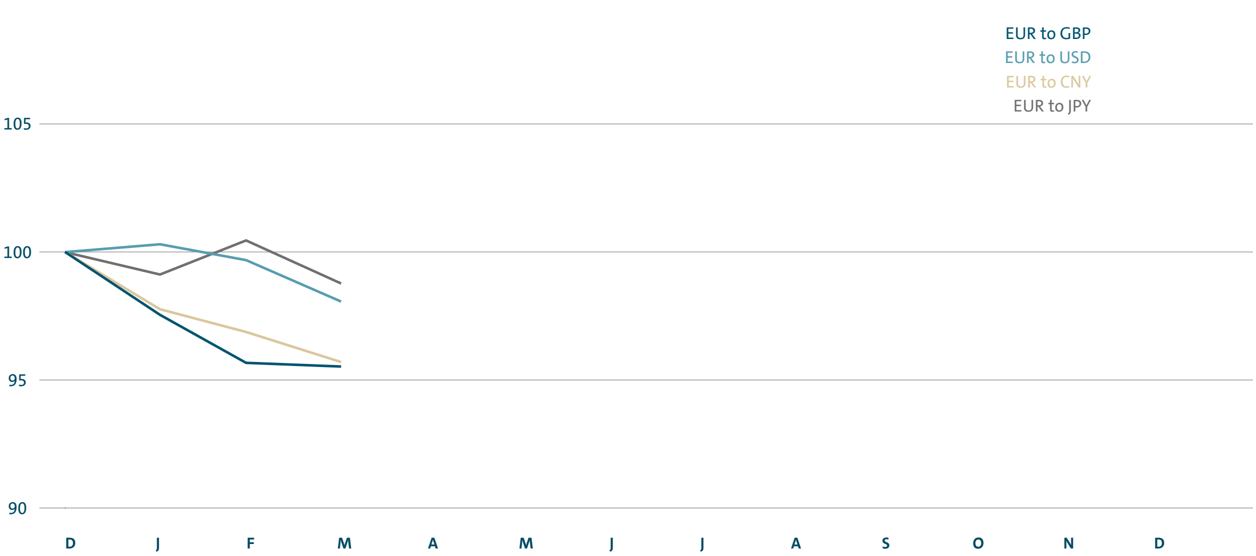
The economic downturn that began in Turkey already in 2018 continued in the opening quarter of 2019. Amid persistent structural deficits and political challenges, the growth rate of South Africa's GDP was lower than in the same period of the previous year.

The robust growth of the US economy continued in the reporting period, with considerable stimulus being provided by private domestic demand. The US Federal Reserve kept its key rate constant based on the stable situation in the labor market and declining inflation. Momentum decreased in both Canada and Mexico compared to the same period of 2018.

Between January and March 2019, Brazil continued the slight economic growth it had seen in preceding quarters, though the situation in South America's largest economy remained tense. Argentina's economic situation deteriorated significantly amid persistently high inflation.

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2018 TO MARCH 2019

Index based on month-end prices: as of December 31, 2018= 100



The high growth momentum in the Chinese economy remained virtually unchanged during the reporting period. Government support provided in response to the trade policy dispute between China and the US continued in the first quarter of 2019. With its strong economic performance, India set itself apart from the majority of emerging markets and continued to record a high pace of growth. Japan registered weaker GDP growth than in the same period of the previous year.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

Global demand for passenger cars between January and March 2019 was weaker than in the prior-year period (–5.6%). While new registrations in the Central and Eastern Europe region slightly exceeded the prior-year figure, the overall markets in Western Europe, North America, South America and Asia-Pacific recorded considerable dips in some cases.

Global demand for light commercial vehicles between January and March 2019 was up slightly on the previous year.

In Western Europe, passenger car demand in the reporting period fell short of the prior-year level due to the WLTP, among other factors. New vehicle registrations declined by varying degrees in the largest single markets. Passenger car sales in France fell slightly. In the United Kingdom, the passenger car market volume was also down on the prior-year figure. There, the uncertain outcome of the Brexit negotiations with the EU continued to weigh on demand. The passenger car markets in Italy and Spain contracted noticeably in the reporting period. The share of new registrations for diesel vehicles in the overall passenger car market in Western Europe slipped to 33.4 (38.4)% in the period from January to March 2019.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new light commercial vehicles registrations in Western Europe were slightly higher than the prior-year level.

In Germany, the number of passenger cars sold in the first three months of 2019 was on the high level seen in the prior-year period. In addition to the still solid economic situation, sales incentives from dealers, particularly in the form of an environmental bonus, underpinned this trend.

Demand for light commercial vehicles in Germany in the reporting period was considerable higher than in the same period in 2018.

In the Central and Eastern Europe region, demand for passenger cars in the reporting period was slightly higher than in the previous year. Developments in the individual markets of Central Europe were mixed. In spite of the value-added tax increase as of January 1, 2019, the Russian passenger car market developed robustly at the beginning of the year and matched the previous year's level.

Registration volumes of light commercial vehicles in Central and Eastern Europe were on a level with the previous year, although the number of vehicles sold in Russia between January and March 2019 was much lower than in the prior-year period.

Demand in the Turkish passenger car market fell dramatically from January to March 2019 compared to the first quarter of 2018 as a result of the deteriorating macroeconomic situation. In South Africa, the number of passenger cars sold was much lower than the weak level seen in the previous year.

In North America, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the reporting period were down slightly on the prior-year figure. The market volume in the USA remained below the high prior-year level. The decline affected the passenger car segment in particular, while light commercial vehicles such as SUV and pick-up models continued to record robust demand. In the Canadian automotive market, the downward trend seen since the second quarter of 2018 was still noticeable at the beginning of 2019. The number of vehicles sold in Mexico was slightly lower than the figure for the same period of the previous year.

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles decreased perceptibly on the whole in the first three months of 2019. In Brazil, the recovery in the demand for automobiles continued with a high growth rate, though new registrations still fell markedly short of the record level achieved in the first quarter of 2013. In the Argentinian market, the deterioration in the macroeconomic situation also had a negative impact on demand for passenger cars and light commercial vehicles, with sales figures plummeting in the first quarter of 2019.

The number of new passenger cars registered in the Asia-Pacific region in the reporting period was below the prior-year level. This is mainly attributable to the trend in the Chinese passenger car market, where the volume of demand fell considerably short of the previous year's level and has shown negative growth rates since mid-2018. The ongoing trade dispute between China and the USA continued to weigh on demand; another factor was the value-added tax cut announced for April. In the Indian passenger car market, sales in the opening quarter of 2019 fell moderately compared with a year earlier. In Japan, demand for vehicles was slightly higher in the year to date than in the previous year.

Demand for light commercial vehicles in the Asia-Pacific region was up moderately on the previous year. Registration volumes in China, the region's dominant market and the largest market worldwide, increased slightly year-on-year.

The number of new vehicle registrations in India also saw a slight increase versus the previous year. Marked growth was recorded in Thailand and a sharp increase in Indonesia.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was moderately higher than the prior-year figure between January and March 2019.

In the first quarter of 2019, demand in Western Europe climbed noticeably compared with 2018. New registrations in Germany, Western Europe's largest market, were much higher in the first three months of 2019 than in the prior-year period. While demand in Italy and in Spain witnessed a decline, it rose in the United Kingdom and in France.

The less positive economic performance in the Central and Eastern Europe region in the first quarter of 2019 led to slightly lower registration volumes than in the previous year. Demand in Russia also decreased slightly.

There was a considerable increase in the volume of registrations in South America compared to the first three months of 2018. In Brazil, the region's largest market, demand for trucks grew very sharply as a consequence of the economic recovery compared with the low figure for the prior-year period. By contrast, a dramatic decline in registration volumes was seen in Argentina.

Demand for buses in the markets that are relevant for the Volkswagen Group was perceptibly higher in the period from January to March 2019 than in the prior-year period. The markets in Brazil, the United Kingdom and France contributed in particular to this growth.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

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

The marine market saw a continuation of the muted order activity in the first quarter of 2019 and fell short of the previous year's level overall. In merchant shipping, orders of container ships and LNG carriers remained almost stable. Demand for bulk carriers and oil tankers fell to a lower level. Demand for cruise ships, passenger ferries and fishing vessels remained steady. In the offshore sector, the existing excess capacity continued to curb investment in offshore oil production. Planned tighter emission standards resulted in a positive trend toward gas-powered or dual-fuel-engined ships. On account of the low market volume, all market segments are continuing to experience marked competitive pressure and low prices as a result.

The market for power generation was unchanged in the first quarter of 2019 compared with the same period of the previous year. Steady demand was registered in all areas of application. Here too, there remained a recognizable trend away from oil-fired power plants toward dual-fuel and gas-fired power plants. Demand for energy solutions remained high, with a strong trend towards greater flexibility and decentralized availability. Continued strong pressure from competition and pricing was discernible in all projects, having a negative impact on the earnings quality of orders. Furthermore, order placement was often delayed due to persistently difficult financing conditions for customers, particularly on larger projects.

The market for turbomachinery improved slightly compared with the previous year. Particularly the key sales markets for turbo compressors in the raw materials, oil, gas and processing industry experienced an upturn in demand. By contrast, the steam and gas turbine business remained difficult due to existing overcapacity in power generation. There was only a marginal let-up in existing pressure from competition and pricing.

The marine and power plant after-sales business for diesel engines performed positively overall and benefited from a continued increase in interest in long-term maintenance contracts and retrofitting solutions. The after-sales market for turbomachinery saw a slow recovery. There were also new sales opportunities here in digitalization and long-term service agreements.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services was buoyant in the first quarter of 2019 due, among other things, to the persistently low key interest rates in the main currency areas.

Overall, a slight decrease in vehicle demand was recorded in the European market from January to March 2019. As a consequence, the number of new lease and financing contracts signed also fell slightly. While sales of used vehicles in Europe remained stable at the prior-year level, a slight increase was recorded in lease and financing contracts for used vehicles. After-sales products such as inspection contracts, maintenance and spare parts agreements and, in particular, automotive-related insurance were in high demand in the first three months of 2019.

In Germany, the share of loan-financed or leased new vehicles remained stable at a high level in the reporting period. There was greater demand for after-sales products, and the call for integrated mobility solutions in the business customer segment also continued to rise.

In South Africa, demand for financing and insurance products fell slightly.

In the markets of the USA and Mexico, automotive financial services remained very popular in the period from January to March 2019.

In Brazil, the consumer credit business and sales of the country-specific financial services product Consorcio, a lottery-style savings plan, continued the trend seen in 2018 and sustained their positive development in the reporting period. In the Argentinian market, the sharp rise in interest rates resulting from the recent economic crisis posed a challenge for sales of financing and leasing products.

Demand for automotive financial services across the Asia-Pacific region was mixed in the first three months of 2019. In China, the proportion of loan-financed vehicle purchases rose compared with the prior-year period, but new contract growth slowed on account of the decline in passenger car sales. Despite increasing restrictions on registrations in metropolitan areas, there is strong potential to acquire new customers for automotive-related financial services, particularly in the interior of the country and for used vehicles. The demand for automotive financial services rose in the Indian market, while it tapered off slightly in Japan.

The demand for financial services in the Commercial Vehicles Business Area also varied from region to region. The positive trend from 2018 continued in China, albeit at a slower pace. In Brazil, the truck and bus business and the related financial services market recorded strong growth.

VOLKSWAGEN GROUP DELIVERIES

The Volkswagen Group delivered 2,605,563 vehicles to customers worldwide in the first quarter of 2019. This was 2.8% or 74,258 fewer vehicles than in the prior-year period. While sales figures for the Commercial Vehicles Business Area exceeded the previous year's level, there was a decline in the number of models delivered to customers from the Passenger Cars Business Area. The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted accordingly. The chart on page 12 shows the trend in deliveries worldwide by month compared with the previous year. In the following, we report separately on deliveries in the Passenger Cars Business Area and Commercial Vehicles Business Area.

VOLKSWAGEN GROUP DELIVERIES FROM JANUARY 1 TO MARCH 31[1]

	2019	2018	%
Passenger Cars	2,548,400	2,626,600	−3.0
Commercial Vehicles	57,163	53,221	+7.4
Total	**2,605,563**	**2,679,821**	**−2.8**

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure. The figures include the Chinese joint ventures.

GLOBAL DELIVERIES BY THE PASSENGER CARS BUSINESS AREA

Global demand for the Volkswagen Group's passenger cars and light commercial vehicles was down amid challenging market conditions, falling 3.0% year-on-year in the reporting period to 2,548,400 units. This was mainly attributable to the Chinese market, where demand fell short of the volume seen in the previous year. The SEAT (+8.9%) and Volkswagen Commercial Vehicles (+9.4%) brands performed especially well, both recording the best first quarter in their corporate history. Bentley, Lamborghini and Bugatti also increased their deliveries. The Volkswagen Passenger Cars, Audi, ŠKODA and Porsche brands fell short of their high prior-year levels. The main reasons were the changeover to the WLTP, model changes and declining markets, particularly China. In the Western Europe and South America regions, demand for the Volkswagen Group's passenger cars and light commercial vehicles exceeded the equivalent prior-year figure, while fewer vehicles were delivered to customers in Central and Eastern Europe, North America and Asia-Pacific.

The table on the next page provides an overview of passenger car and light commercial vehicles deliveries to customers by market in the reporting period. Sales trends in the individual markets are as follows.

Deliveries in Europe/Other markets

In Western Europe, the Volkswagen Group delivered 934,716 vehicles to customers in the first quarter of this year and thereby 0.5% more than in the same period of the previous year. The successful launch of new models, among other things, compensated for negative effects arising from customer uncertainty due to the public debate on driving bans for diesel vehicles and, declines in particular, from the impact of the changeover to the WLTP. Encouraging increases were recorded by the Polo, T-Roc and Tiguan Allspace models from Volkswagen Passenger Cars, Audi's A3 Sportback, the Karoq and Kodiaq from the ŠKODA brand, SEAT's Arona and Ateca, and the Multivan from Volkswagen Commercial Vehicles. Additionally, the Touareg from the Volkswagen Passenger Cars brand and Audi's A1 Sportback, Q3, A6 and Q8, of which new models or successors had been introduced in the previous year, were very popular with customers. The e-tron – the Audi brand's first all-electric production model – and the SEAT Tarraco were successfully brought onto the market. The Volkswagen Group's share of the passenger car market in Western Europe rose to 22.3 (21.7)%.

In Germany, demand for Volkswagen Group vehicles rose by 1.5% year-on-year from January to March 2019. The most popular Group models included the Polo and T-Roc from the Volkswagen Passenger Cars brand, the Audi A3 Sportback, the ŠKODA Karoq, SEAT's Arona and Ateca, and the Multivan from Volkswagen Commercial Vehicles. The Touareg from the Volkswagen Passenger Cars brand and the ŠKODA Fabia, which were both introduced in the previous year, were also in high demand from customers. Seven Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the up!, Polo, Golf, T-Roc, Tiguan, Touran and Multivan. In the first three months of 2019, the Golf was again the most popular passenger car in Germany in terms of registrations.

In the Central and Eastern Europe region, we delivered 1.0% fewer vehicles to customers in the first quarter of this year than in the same period of 2018. While we recorded an increase in demand for Group models in Russia and Poland, the number of deliveries declined in the Czech Republic. Demand developed encouragingly for the Polo, T-Roc and Tiguan models from the Volkswagen Passenger Cars brand, for ŠKODA's Rapid and Kodiaq models, and for the SEAT Arona and Ateca. The Volkswagen Group's share of the passenger car market in the Central and Eastern Europe region amounted to 21.0 (21.9)%.

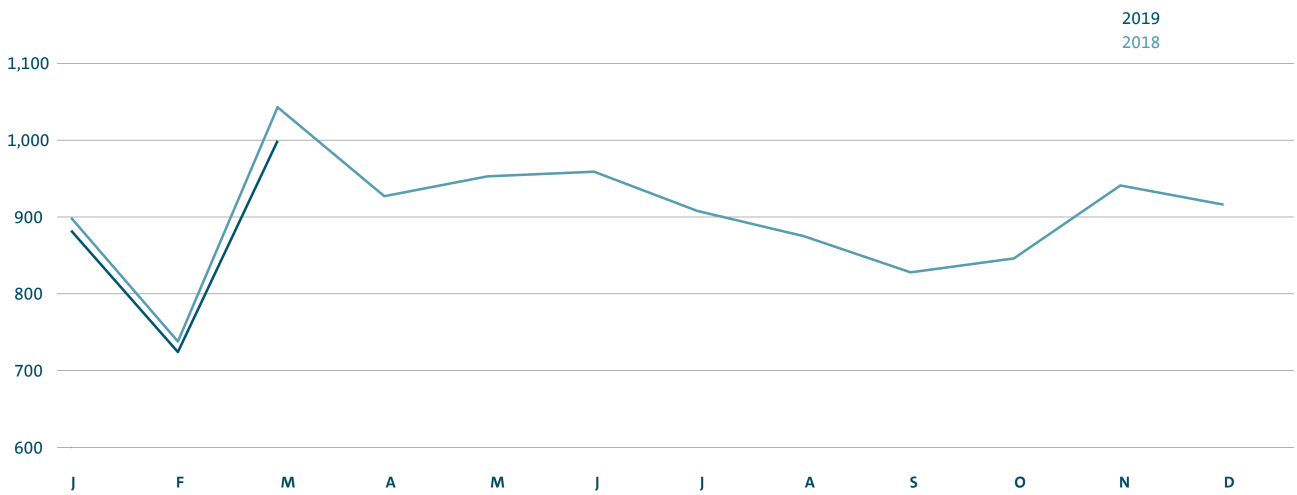
In Turkey, mirroring the downturn in the market, we delivered only half as many vehicles to customers from January to March this year as in the same period of 2018. On the South African market, the number of vehicles sold by the Volkswagen Group fell by 2.1%. The Polo from Volkswagen Passenger Cars remained the best-selling Group model there.

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET FROM JANUARY 1 TO MARCH 31[1]

	DELIVERIES (UNITS)		CHANGE
	2019	2018	(%)
Europe/Other markets	**1,198,129**	**1,202,198**	**−0.3**
Western Europe	**934,716**	**929,852**	**+0.5**
of which: Germany	326,993	322,053	+1.5
United Kingdom	158,355	160,998	−1.6
Italy	81,873	81,357	+0.6
Spain	79,810	79,279	+0.7
France	71,535	66,567	+7.5
Central and Eastern Europe	**178,612**	**180,390**	**−1.0**
of which: Russia	46,523	43,663	+6.6
Poland	43,503	41,238	+5.5
Czech Republic	32,823	37,814	−13.2
Other markets	**84,801**	**91,956**	**−7.8**
of which: Turkey	14,640	29,767	−50.8
South Africa	22,089	22,571	−2.1
North America	**215,905**	**220,255**	**−2.0**
of which: USA	149,985	148,857	+0.8
Mexico	43,919	47,927	−8.4
Canada	22,001	23,471	−6.3
South America	**119,309**	**117,695**	**+1.4**
of which: Brazil	84,032	66,327	+26.7
Argentina	22,054	37,489	−41.2
Asia-Pacific	**1,015,057**	**1,086,452**	**−6.6**
of which: China	945,273	1,009,679	−6.4
Japan	19,709	22,534	−12.5
India	14,255	15,647	−8.9
Worldwide	**2,548,400**	**2,626,600**	**−3.0**
Volkswagen Passenger Cars	1,456,386	1,525,300	−4.5
Audi	447,247	463,759	−3.6
ŠKODA	307,617	316,716	−2.9
SEAT	151,612	139,235	+8.9
Bentley	2,268	2,198	+3.2
Lamborghini	1,992	1,124	+77.2
Porsche	55,700	63,478	−12.3
Bugatti	20	17	+17.6
Volkswagen Commercial Vehicles	125,558	114,773	+9.4

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure. The figures include the Chinese joint ventures.

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



Deliveries in North America

In a declining passenger car and light commercial vehicle market, demand for Volkswagen Group models in North America between January and March of this year was 2.0% lower than a year before. The Group's share of the market in this region amounted to 4.5 (4.5)%. The Tiguan Allspace and Jetta from the Volkswagen Passenger Cars brand were the most in-demand Group models in North America.

In the first three months of 2019, the Volkswagen Group delivered 0.8% more vehicles to customers in the US market than in the previous year's reporting period. The market as a whole contracted in the same period. The biggest increases of all Group models were recorded by the Tiguan Allspace and Jetta from the Volkswagen Passenger Cars brand, the Audi Q5, Audi A6 and Porsche Cayenne.

In Canada, we delivered 6.3% fewer vehicles to customers in the reporting period than in the previous year. The market as a whole also declined during this period. The Tiguan Allspace and Jetta models from Volkswagen Passenger Cars were particularly popular.

In a slightly weaker overall market in Mexico, we delivered 8.4% fewer vehicles to customers between January and March 2019 than in the prior-year period. The Group models with the highest volume of demand were the Vento, Jetta and Tiguan Allspace from the Volkswagen Passenger Cars brand.

Deliveries in South America

In the first quarter of 2019, the number of vehicles delivered to Volkswagen Group customers in the South American passenger car and light commercial vehicles markets rose by 1.4% year-on-year. The Gol and Polo from the Volkswagen Passenger Cars brand achieved the highest demand volume of all Group models. The Group's share of the market in South America was 11.8 (10.7)%.

The Volkswagen Group benefited from the sustained recovery in the Brazilian market and recorded a year-on-year increase of 26.7% in its sales to customers there during the reporting period. This was primarily due to the market success of the Polo, Virtus and Tiguan Allspace models from the Volkswagen Passenger Cars brand, which were newly introduced to the market in the previous year. Demand for the Volkswagen Passenger Cars brand's Fox and Saveiro models, and for the Amarok from Volkswagen Commercial Vehicles, was also very encouraging.

In Argentina, the number of vehicles delivered to Volkswagen Group customers declined by 41.2% in the first three months of 2019 amid a dramatic contraction in the overall market. The Suran from Volkswagen Passenger Cars and the Amarok from Volkswagen Commercial Vehicles saw the highest demand of all Group models. The Virtus and Tiguan Allspace models, newly introduced by the Volkswagen Passenger Cars brand in the previous year, were also well received by customers.

Deliveries in the Asia-Pacific region

The Volkswagen Group recorded weaker demand in the Asia-Pacific region amid difficult market conditions and handed over 6.6% fewer vehicles to customers than a year earlier. The Group's share of the passenger car market in this region was at 11.7 (11.7)%.

In China, the number of Group models sold declined by 6.4% year-on-year from January to March 2019. The T-Roc, Tayron, Tharu, Bora, Lavida and Touareg models from Volkswagen Passenger Cars as well as the Audi Q2L e-tron and the ŠKODA Karoq and Kamiq, of which new models or successors had been introduced in the previous year, were in especially high demand.

Deliveries to Volkswagen Group customers were down 8.9% year-on-year in India. The Polo from the Volkswagen Passenger Cars brand was the Group's most in-demand model there.

In Japan, we handed over 12.5% fewer vehicles to customers in the reporting period than in the previous year. The Polo and Tiguan models from Volkswagen Passenger Cars achieved encouraging growth in demand.

COMMERCIAL VEHICLE DELIVERIES

In the first three months of 2019, the Volkswagen Group delivered a total of 57,163 commercial vehicles to customers worldwide (+7.4%). Trucks accounted for 49,831 units (+6.5%) and buses for 4,210 units (–17.6%). Deliveries of light commercial vehicles of the MAN brand amounted to 3,122 units.

In Western Europe, sales increased by 22.4% compared with the corresponding prior-year period to a total of 30,140 units, of which 26,280 were trucks and 1,133 were buses. Here, the MAN brand delivered 2,727 light commercial vehicles.

In the period from January to March 2019, deliveries in the markets of the Central and Eastern Europe region were on a level with the previous year at 8,497 vehicles; of this figure, 7,891 were trucks, 291 were buses and 315 were light commercial vehicles. In Russia, the region's largest market, sales declined year-on-year by 31.7% to 1,688 units.

In the Other markets, particularly in Turkey, deliveries of Volkswagen Group commercial vehicles decreased by 43.2% year-on-year to 2,583 units; of this total, 2,205 were trucks and 298 were buses.

Sales in North America declined in the first quarter of 2019 to 757 vehicles (–4.5%), which were handed over exclusively to customers in Mexico; this included 396 trucks and 361 buses.

Deliveries in South America rose to a total of 12,151 vehicles (+10.8%); of this total, 10,398 were trucks and 1,753 were buses. Following continued improvement in the economic climate in Brazil, we were able to increase our sales here by 33.0%. Of the units delivered, 9,226 were trucks and 1,178 were buses.

In the Asia-Pacific region, the Volkswagen Group sold 3,035 vehicles in the reporting period; 2,661 trucks and 374 buses. This was 19.8% less than in the previous year. In China, sales increased by 50.9% to 1,286 vehicles, of which 1,213 were trucks and 73 were buses.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET FROM JANUARY 1 TO MARCH 31[1]

	DELIVERIES (UNITS)		CHANGE
	2019	2018	(%)
Europe/Other markets	**41,220**	**37,675**	+9.4
Western Europe	30,140	24,625	+22.4
Central and Eastern Europe	8,497	8,501	–0.0
Other markets	2,583	4,549	–43.2
North America	**757**	**793**	**–4.5**
South America	**12,151**	**10,968**	**+10.8**
of which: Brazil	10,404	7,821	+33.0
Asia-Pacific	**3,035**	**3,785**	**–19.8**
of which: China	1,286	852	+50.9
Worldwide	**57,163**	**53,221**	**+7.4**
Scania	23,576	22,640	+4.1
MAN	33,587	30,581	+9.8

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure.

DELIVERIES IN THE POWER ENGINEERING SEGMENT

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

In the period from January to March 2019, sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated more than two-thirds of overall sales revenue.

GROUP FINANCIAL SERVICES

The Financial Services Division includes the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania and Porsche Holding Salzburg. Since January 1, 2019, contracts signed by our international joint ventures are also included; the comparison figures have been adjusted.

The Financial Services Division's products and services were very popular in the period from January to March 2019. The number of new financing, leasing, service and insurance contracts was 2.1 (2.1) million worldwide. The ratio of leased and financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets amounted to 33.8 (33.1)% in the reporting period. As of March 31, 2019, the total number of contracts was 22.7 million, up 2.6% on the figure as of December 31, 2018.

In the Europe/Other markets region, the number of new contracts signed in the first three months of 2019 rose by 3.2% to 1.6 million. At 16.6 million as of March 31, 2019, the total number of contracts rose by 3.5% compared with the end of 2018; the Customer Financing/Leasing area accounted for 7.3 million of these contracts (+2.4%).

In North America, the number of new contracts signed fell by 4.7% year-on-year to 221 thousand in the first quarter of 2019. At 3.0 (3.0) million, the number of contracts at the end of March was on a level with the figure at year-end 2018. The Customer Financing/Leasing area recorded 1.9 (1.9) million contracts.

In South America, 62 (66) thousand new contracts were concluded in the period from January to March of this year. The total number of contracts at the end of March stood at 587 (589) thousand and was thus virtually unchanged compared to the figure as of December 31, 2018. The contracts mainly related to the Customer Financing/Leasing area.

The number of new contracts signed in the Asia-Pacific region fell 5.6% year-on-year in the first quarter of 2019 to 231 thousand. As of March 31, 2019, the total number of contracts stood at 2.4 million, exceeding the figure for year-end 2018 by 0.7%. The Customer Financing/Leasing area accounted for 1.8 million contracts (+0.7%).

SALES TO THE DEALER ORGANIZATION

In the first three months of 2019, the Volkswagen Group's unit sales to the dealer organization (including the Chinese joint ventures) fell by 6.7% on the prior-year period to 2,583,207 vehicles. This was due to lower demand, especially in China, Turkey and Argentina. Unit sales outside Germany declined by 7.8% compared to the period from January to March 2018. In Germany, unit sales rose by 1.6% year-on-year. Vehicles sold in Germany as a proportion of overall sales increased to 13.2 (12.1)%.

PRODUCTION

Between January and March 2019, the Volkswagen Group's production decreased by 2.6% year-on-year to a total of 2,655,044 vehicles. Production in Germany fell by 14.2% to 554,432 units. The proportion of production in Germany declined to 20.9 (23.7)%.

INVENTORIES

Global inventories at Group companies and in the dealer organization were higher on March 31, 2019 than at year-end 2018, and also exceeded the corresponding prior-year figure.

EMPLOYEES

The Volkswagen Group had 638,845 active employees on March 31, 2019. A further 9,167 employees were in the passive phase of their partial retirement. In addition, there were 17,248 young people in vocational traineeships. At the end of the first quarter of 2019, the Volkswagen Group had a total of 665,260 employees worldwide. This was on a level with the figure at year-end 2018. At 292,437, the number of employees in Germany was also on a level with the end of 2018.

Results of Operations, Financial Position and Net Assets

APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

The new accounting standard IFRS 16, which came into effect on January 1, 2019, amends the previous lease accounting rules with the central aim of recognizing all leases in the balance sheet. Accordingly, it establishes that lessees are no longer required to classify their leases as either finance leases or operating leases. They will instead generally be required to recognize a right-of-use asset and a lease liability for every lease in the balance sheet. The right-of-use assets are recognized in the balance sheet under those items in which the assets underlying the lease would have been reported if they were owned by the Volkswagen Group. Using the modified retrospective method (adjustments to the opening balance sheet), right-of-use assets were recognized under noncurrent assets and lease liabilities as financial liabilities for the first time as of January 1, 2019. This led to an increase in total assets but did not affect equity.

The new approach results in a slight increase in operating profit in 2019, because the only items allocated to operating profit as from January 1, 2019 are depreciation charges on right-of-use assets. Interest expense on lease liabilities in the Automotive Division is recognized in the financial result and has a corresponding negative impact here.

In the cash flow statement, the modified presentation of leases in the statement of income as a result of the new IFRS 16 is expected to have a positive effect on full-year gross cash flow, and therefore subsequently also on net cash flow (depreciation is a non-cash expense) in an amount in the mid three-digit million euro range. Repayments of the principal portion of the lease liability have a corresponding negative impact on cash flows from financing activities.

The initial recognition of lease liabilities as financial liabilities in the balance sheet led to a significant increase in third-party borrowings in the cash flow statement, which in turn resulted in a negative one-off effect of €–4.8 billion on the disclosure of the Automotive Division's net liquidity as of January 1, 2019.

The prior-year figures have not been adjusted.

NEW REPORTING STRUCTURE

Since January 1, 2019, we have allocated the Volkswagen Commercial Vehicles brand to the Passenger Cars segment and renamed the segment Passenger Cars and Light Commercial Vehicles. Consequently, the Passenger Cars Business Area includes the Volkswagen Commercial Vehicles brand in the financial reporting. The Commercial Vehicles segment will continue to correspond to the Commercial Vehicles Business Area, but now excluding the Volkswagen Commercial Vehicles brand. The prior-year figures have been adjusted. The Automotive Division will remain unchanged.

SPECIAL ITEMS

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

In the period from January to March 2019, negative special items in connection with the diesel issue affected the Passenger Cars Business Area's operating profit in an amount of €–1.0 billion. They were the result of additional expenses for legal risks.

COMPENSATION PAID TO THE NONCONTROLLING INTEREST SHAREHOLDERS OF MAN SE

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of January 1, 2019. Following the announcement that the termination of the control and profit and loss transfer agreement had been recorded in the commercial register, the noncontrolling shareholders of MAN SE were entitled under the provisions of the control and profit and loss transfer agreement to tender their shares to Volkswagen within a two-month period. This resulted in cash outflows of €1.1 billion in the first quarter of this year for the acquisition of tendered shares and for compensation payments. The "Put options and compensation rights granted to noncontrolling interest shareholders" item reported in the balance sheet was reduced accordingly. The put options granted to noncontrolling interest shareholders of MAN SE expired on March 4, 2019. The remaining amount of €0.7 billion was reclassified directly to equity; €0.3 billion of this amount is attributable to noncontrolling interests.

RESULTS OF OPERATIONS OF THE GROUP

The Volkswagen Group's sales revenue in the first quarter of 2019 amounted to €60.0 billion, 3.1% more than in the previous year. The rise, which occurred despite declines in volumes, is mainly the result of mix and price improvements and the healthy business performance in the Financial Services Division. The Volkswagen Group generated 79.7 (80.1)% of its sales revenue outside Germany.

At €11.7 (11.6) billion, gross profit was in line with the previous year. The gross margin amounted to 19.5 (19.9)%.

The Volkswagen Group's operating profit before special items improved by €0.6 billion in the first three months of 2019 to €4.8 billion, while the operating return on sales before special items increased to 8.1 (7.2)%. Positive effects arising from the fair value measurement of certain derivatives, improvements in the mix and price positioning, and the favorable exchange rate trend more than offset the rise in fixed costs and lower vehicle sales. Special items in connection with the diesel issue amounting to €–1.0 billion weighed on operating profit. As a result, the Volkswagen Group's operating profit of €3.9 billion recorded in the period from January to March 2019 was €0.3 billion lower than in the previous year. The operating return on sales declined to 6.4 (7.2)%.

The financial result was virtually unchanged at €0.2 (0.3) billion. Higher interest expenses arising from the interest cost on provisions and from the application of the new IFRS 16 was offset by higher income from financial investments. The share of the result of equity-accounted investments and the result of the Chinese joint ventures included in that amount were on a level with the previous year.

The Volkswagen Group's profit before taxes was down on the prior-year period, at €4.1 (4.5) billion. Profit after tax decreased by €0.2 billion to €3.1 billion.

Results of operations in the Automotive Division

In the first three months of 2019, the Automotive division generated sales revenue of €50.8 billion, a year-on-year increase of €2.1%. Mix and price positioning improvements had a positive effect, while declines in volumes impacted negatively. In the Passenger Cars Business Area, sales revenue in the period from January to March 2019 was in line with the previous year. In the Commercial Vehicles and Power Engineering Business Areas, sales revenue was up significantly on the previous year. As our Chinese joint ventures are accounted for using the equity method, the Group's business performance in the Chinese passenger car market is reflected in consolidated sales revenue primarily by deliveries of vehicles and vehicle parts.

Cost of sales rose faster than sales revenue, mainly due to higher depreciation and amortization charges resulting from the large volume of capital expenditure, higher research and development costs recognized in profit or loss and increases in fixed costs. The ratio of cost of sales to sales revenue was up on the prior-year period. At 6.9 (6.7)%, total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) was higher than in the first quarter of 2018.

Distribution expenses rose in the period from January to March 2019. Their ratio to sales revenue remained virtually unchanged. Administrative expenses and their ratio to sales revenue were both higher. The other operating result was down by €0.2 billion to €–0.4 billion. Positive effects above all arising from the fair value measurement of derivatives to which hedge accounting is not applied, which are reported here, and the favorable exchange rate trend were unable to offset the negative special items in connection with the diesel issue.

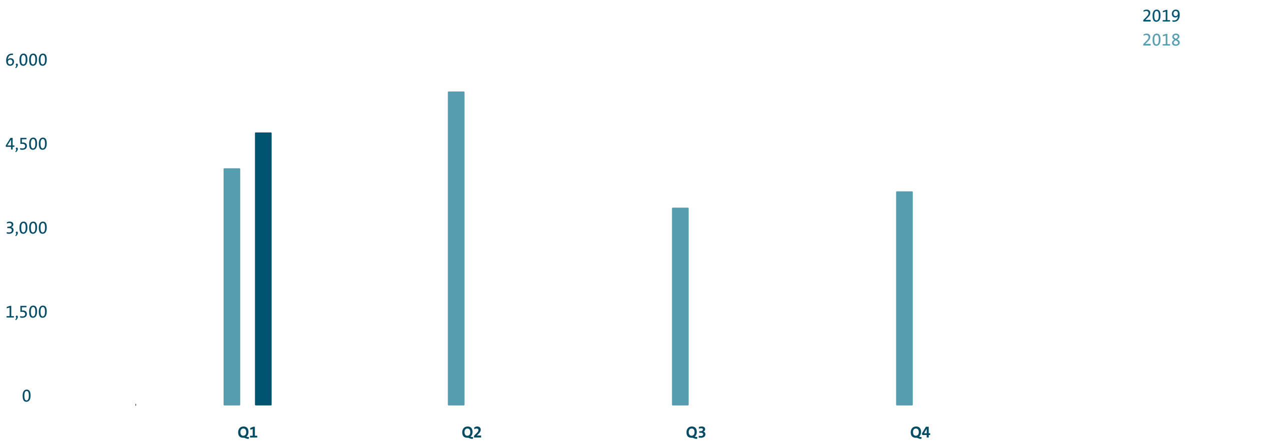
The Automotive Division's operating result stood at €3.2 billion in the first quarter of 2019, down €0.4 billion on the prior-year figure. Positive effects arising from the fair value measurement of certain derivatives and the mix, price and exchange rate trends were unable to offset the decline in new vehicle sales, increased depreciation and amortization and research and development costs and specifically the negative special items recognized in the first quarter of 2019. The operating return on sales amounted to 6.2 (7.2)%. Excluding the special items, the Automotive Division's operating profit rose to €4.1 (3.6) billion. The operating return on sales before special items increased to 8.2 (7.2)%. Our operating profit benefits from the business performance of our Chinese joint ventures only by deliveries of vehicles and vehicle parts and of license revenue, as the profit recorded by the joint venture companies is accounted for in the financial result using the equity method.

RESULTS OF OPERATIONS IN THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS FROM JANUARY 1 TO MARCH 31

€ million	2019	2018
Passenger Cars[1]		
Sales revenue	43,581	43,243
Operating result	2,803	3,301
Operating return on sales (%)	6.4	7.6
Commercial Vehicles[1]		
Sales revenue	6,305	5,734
Operating result	420	312
Operating return on sales (%)	6.7	5.4
Power Engineering		
Sales revenue	891	766
Operating result	−56	−42
Operating return on sales (%)	−6.3	−5.4

1 The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

OPERATING PROFIT BEFORE SPECIAL ITEMS BY QUARTER
Volkswagen Group in € million



Results of operations in the Financial Services Division

In the period from January to March 2019, the Financial Services Division generated sales revenue of €9.2 billion; the year-on-year increase of 8.9% was mainly attributable to the higher business volume.

Cost of sales expanded by €0.6 billion to €7.5 billion, growing slightly faster than sales revenue. Distribution expenses and their ratio to sales revenue were both higher due to volume-related factors. Administrative expenses were up slightly, but their ratio to sales revenue decreased.

The operating profit of the Financial Services Division improved by 9.7% to €0.7 billion in the reporting period. The operating return on sales stood at 7.6 (7.5)%.

FINANCIAL POSITION OF THE GROUP

The Volkswagen Group's gross cash flow of €10.4 billion recorded in the period from January to March 2019 was €1.8 billion higher than in the previous year. Due to an increase in funds tied up in working capital, the change in working capital rose by €–3.0 billion to €–7.6 billion, resulting in a decline in cash flows from operating activities to €2.8 (4.0) billion.

In the period from January to March 2019, the Volkswagen Group's investing activities attributable to operating activities were at the prior-year level, amounting to €3.4 (3.2) billion.

Cash outflows from financing activities amounted to €–7.4 (2.4) billion. This figure primarily includes the issuance and redemption of bonds and other financial liabilities and the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement. Following the application of the new IFRS 16, payments for the principal portion of the lease liability have had to be recognized under financing activities since January 1, 2019.

At the end of the first three months of 2019, the Volkswagen Group's cash and cash equivalents reported in the cash flow statement were €19.7 (21.5) billion.

On March 31, 2019, the Group's net liquidity amounted to €–144.1 billion, compared with €–134.7 billion at the end of 2018.

Financial position of the Automotive Division

The gross cash flow recorded in the Automotive Division was €8.1 (6.5) billion in the first quarter of 2019. Compared with the previous year, a dividend receivable from the Chinese joint venture SAIC VOLKSWAGEN, which was already recognized in the first quarter of 2019, had a positive effect on gross cash flow, but pushed up funds tied up in working capital for the amount still outstanding. In addition, the new IFRS 16 had a positive effect on gross cash flow in the reporting period. Special items in connection with the diesel issue, which led to a rise in other provisions and thus affected the change in working capital, had a negative impact here. In addition, the change in working capital, which amounted to €–2.7 billion, was €1.7 billion higher in total than in the prior-year period because of an increase in inventories. The cash outflows attributable to the diesel issue were significantly lower than in the prior-year period. Cash flows from operating activities were down by €0.1 billion to €5.4 billion.

Investing activities attributable to operating activities resulted in a total cash outflow of €3.4 (3.0) billion in the period from January to March 2019. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) increased by €0.1 billion to €2.0 billion. The ratio of capex to sales revenue was 4.0 (3.9)%. Capex was invested primarily in our production facilities and in models to be launched in 2019 and 2020, as well as in the ecological focus of our model range, the electrification and digitalization of our products and in our modular toolkits.

FINANCIAL POSITION OF THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS FROM JANUARY 1 TO MARCH 31

€ million	2019	2018
Passenger Cars[1]		
Gross cash flow	7,297	5,710
Change in working capital	−1,801	−541
Cash flows from operating activities	5,496	5,169
Cash flows from investing activities attributable to operating activities	−5,057	−2,739
Net cash flow	439	2,430
Commercial Vehicles[1]		
Gross cash flow	776	740
Change in working capital	−894	−457
Cash flows from operating activities	−118	283
Cash flows from investing activities attributable to operating activities	1,721	−254
Net cash flow	1,602	29
Power Engineering		
Gross cash flow	37	87
Change in working capital	−50	−83
Cash flows from operating activities	−13	3
Cash flows from investing activities attributable to operating activities	−38	−25
Net cash flow	−51	−22

1 The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

Additions to capitalized development costs amounting to €1.1 (1.2) billion were below the level recorded as of March 31, 2018.

In the first three months of 2019, net cash flow in the Automotive Division declined by €0.4 billion year-on-year to €2.0 billion.

The Automotive Division's financing activities resulted in a cash outflow of €–6.1 (–3.1) billion in the period from January to March 2019. Financing activities include the issuance and redemption of bonds and other financial liabilities and the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement with MAN SE. Since January 1, 2019, payments for the principal portion of the lease liability have also been reported in this item, as required following the application of the new IFRS 16.

The recognition of lease liabilities as financial liabilities required by IFRS 16 led to a €5.1 billion increase in third-party borrowings in the Automotive Division as of March 31, 2019. As a result of this non-cash effect, the Automotive Division's net liquidity of €16.0 billion reported at the end of March 2019 was down significantly on the figure of €19.4 billion as of December 31, 2018.

Financial position of the Financial Services Division

In the first quarter of 2019, the Financial Services Division generated gross cash flow of €2.3 (2.0) billion. Due to an increase in funds tied up in working capital, which was primarily attributable to the growth in business volumes, the change in working capital rose by €–1.3 billion to €–4.8 billion. As a result, cash flows from operating activities went down by €1.1 billion to €–2.5 billion.

At €0.0 (0.1) billion, investing activities attributable to operating activities fell short of the previous year's level.

The financing activities in the Financial Services Division resulted in a cash outflow of €1.3 billion in the reporting period, compared with a cash inflow of €5.5 billion in the prior-year quarter. This figure primarily includes the issuance and redemption of bonds and other financial liabilities.

The Financial Services Division's negative net liquidity, which is common in the industry, stood at €–160.0 billion on March 31, 2019; the figure as of December 31, 2018 was €–154.1 billion.

CONSOLIDATED BALANCE SHEET STRUCTURE

On March 31, 2019, the Volkswagen Group had total assets of €471.2 billion, an increase of 2.9% compared with the figure at the end of 2018. The rise is mainly attributable to the exchange rate trend and the application of the new IFRS 16. The Group's equity amounted to €117.5 billion, €0.2 billion more than at the end of 2018. The equity ratio was 24.9 (25.6)%.

Automotive Division balance sheet structure

At the end of March 2019, the Automotive Division's intangible assets were on a level with those on December 31, 2018. The new IFRS 16 resulted in a rise in property, plant and equipment. The dividend of the Chinese joint venture SAIC VOLKSWAGEN already resolved for fiscal year 2018 led to a decrease in the shares accounted for using the equity method. The business results of the Chinese joint ventures in the first three months of 2019 had an offsetting effect. In total, shares accounted for using the equity method at the end of the first quarter of 2019 were below the level for December 31, 2018. Overall, noncurrent assets were 3.5% higher than at the end of 2018.

Current assets rose by 5.3%; the inventories included in this figure increased, mainly for production-related reasons and due to exchange rate effects. The rise in current other receivables and financial assets is primarily attributable to dividend receivables from SAIC VOLKSWAGEN and higher trade receivables. For reasons that include the redemption of current financial liabilities, cash and cash equivalents in the Automotive Division declined by €7.4 billion to €16.8 billion.

At the end of the first quarter of 2019, the Automotive Division's equity was €89.2 (88.9) billion, and therefore on a level with the figure on December 31, 2018. Healthy earnings growth and a positive impact from currency translation increased equity; this was offset by a rise in actuarial losses from the measurement of pension provisions and negative effects from the measurement of derivatives recognized directly in equity. The amount of €0.7 billion remaining from the put options and compensation rights in MAN SE granted to noncontrolling interest shareholders was reclassified directly to equity as a result of the termination of the control and profit and loss transfer agreement; €0.3 billion of this amount is attributable to noncontrolling interests. These are now mainly held by MAN SE, RENK AG and AUDI AG. As the total noncontrolling interests were lower than the noncontrolling interests attributable to the Financial Services Division, the figure for the Automotive Division, where the deduction was recognized, was negative.

Noncurrent liabilities increased by 13.3% to €88.0 billion. The noncurrent financial liabilities included in this item were significantly higher as a result of the application of the new IFRS 16. Pension provisions rose, mainly because of the actuarial remeasurement following a change in the discount rate.

At €67.2 (68.0) billion, current liabilities declined slightly as of March 31, 2019. Because of the extraordinary termination of the control and profit and loss transfer agreement with MAN SE, the "put options and compensation rights granted to noncontrolling interest shareholders" account was settled: the tendered MAN shares were acquired, the cash compensation was paid and the remaining amount was reclassified directly to equity. Current financial liabilities stood at €–6.9 (–1.5) billion. 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 in both periods, a negative amount was disclosed in each case. Due, among other things, to the negative effects of the measurement of derivatives, current other liabilities increased significantly compared with December 31, 2018; the special items recognized in the first quarter of 2019 led to an increase in current other provisions.

At the end of the first quarter of 2019, the Automotive Division had total assets of €244.4 billion, 4.2% more than at the end of 2018.

BALANCE SHEET STRUCTURE OF THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS

€ million	Mar. 31, 2019	Dec. 31, 2018
Passenger Cars[1]		
Noncurrent assets	120,742	116,537
Current assets	79,727	70,408
Total assets	**200,470**	**186,945**
Equity	72,860	72,110
Noncurrent liabilities	76,550	66,406
Current liabilities	51,060	48,429
Commercial Vehicles[1]		
Noncurrent assets	24,854	24,117
Current assets	12,864	17,366
Total assets	**37,718**	**41,483**
Equity	13,456	13,788
Noncurrent liabilities	10,637	10,532
Current liabilities	13,625	17,162
Power Engineering		
Noncurrent assets	2,632	2,499
Current assets	3,612	3,597
Total assets	**6,244**	**6,097**
Equity	2,920	2,953
Noncurrent liabilities	851	754
Current liabilities	2,472	2,391

1 The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

Financial Services Division balance sheet structure

The Financial Services Division's total assets amounted to €226.8 (223.6) billion on March 31, 2019. In total, noncurrent assets were 4.0% above the level recorded at the end of 2018. The property, plant and equipment included in this item decreased. Investment property and lease assets increased because of business growth and as a result of the application of the new IFRS 16, while other receivables and financial assets declined by a corresponding amount. Noncurrent financial services receivables were higher, driven by higher volumes.

Current assets were down 2.2%. Current other receivables and financial assets decreased considerably, while current financial services receivables were up. As of the balance sheet date, cash and cash equivalents in the Financial Services Division were up €0.7 billion to €5.5 billion. At the end of the first quarter of 2019, the Financial Services Division accounted for approximately 48.1 (48.8)% of the Volkswagen Group's assets.

At €28.3 (28.5) billion, the Financial Services Division's equity at the end of the reporting period was almost on a level with the figure on December 31, 2018. The equity ratio was 12.5 (12.7)%.

Noncurrent liabilities were 3.2% higher, mainly due to a rise in noncurrent financial liabilities to refinance the business volume.

Under current liabilities, current financial liabilities declined, while trade payables increased. Overall, current liabilities of €100.3 (100.0) billion were nearly at the same level with the amount recorded at the end of 2018.

Deposits from the direct banking business amounted to €29.9 billion; at the end of 2018, they had also stood at €29.9 billion.

REPORT ON EXPECTED DEVELOPMENTS, RISKS AND OPPORTUNITIES

Special items resulting from the diesel issue had a negative impact on operating profit in the reporting period. Our forecast for operating profit before special items for the Group and the Passenger Cars Business Area remains unchanged. We have reduced the forecast for operating profit including special items.

The Outlook for fiscal year 2019 can be found on page 21.

Diesel issue

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

In Italy, the court decision dismissing the class action filed by the consumer association Codacons as inadmissible has become legally final.

In Germany more than 60,000 individual lawsuits are now pending against Volkswagen AG or other Group companies, with the plaintiffs suing for damages or rescission of the contract in most cases.

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

The Braunschweig Office of the Public Prosecutor has now issued indictments against, among other persons, a former chairman of the Board of Management of Volkswagen AG. Based on the information available at the present time, no change in the risk situation of the Volkswagen Group results from the indictment of the former chairman of the Board of Management.

3. Lawsuits filed by investors worldwide (excluding the USA/ Canada)

Holding that the factual situation at issue is by and large already covered by the model case proceedings being heard by the Braunschweig Higher Regional Court and that these proceedings, being paramount in this regard, preclude further such actions, the Stuttgart Higher Regional Court in March 2019 refused to proceed with the capital investor model case that had been referred to it by the Stuttgart Regional Court. The pertinent rulings by the Stuttgart Higher Regional Court are not yet legally final.

4. Proceedings in the USA/Canada

With respect to the consumer protection claims asserted by the New Mexico Attorney General, in March 2019 a New Mexico state court denied Volkswagen's motion to dismiss those claims against Volkswagen AG and certain affiliates, and in April 2019 the court declined to grant Volkswagen permission to appeal that decision.

Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliated companies continue to litigate claims asserted by the attorneys general of certain U.S. states and municipalities based on alleged violations of local environmental laws. In March 2019, the Tennessee Court of Appeals dismissed the claims of the Attorney General of the State of Tennessee as preempted by federal law. The State of Tennessee may file an application for permission to appeal. Also in March 2019, the New Mexico Attorney General voluntarily dismissed its environmental claims, and the Alabama Attorney General declined to appeal the dismissal of its claims against Volkswagen AG by the Alabama Supreme Court.

In March 2019 the U.S. Securities and Exchange Commission filed a lawsuit against Volkswagen AG, Volkswagen Group of America Finance, LLC, VW Credit, Inc. and a former chairman of the Board of Management of Volkswagen AG, asserting claims under U.S. federal securities law and alleging misstatements and omissions in connection with the offer and sale of certain bonds and asset-backed securities.

Additional important legal cases

In April 2019 the European Commission issued a statement of objections to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG in connection with the Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity to comment. Volkswagen will examine the statement of objections. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of SCR systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. Volkswagen has not yet been given access to the investigation files. In the same matter, the Chinese Competition Authority also issued an information request to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG in March 2019.

In the proceedings against a number of captive automobile finance companies regarding potential competition law infringements, Volkswagen AG and Volkswagen Bank GmbH filed an appeal in March 2019 against the administrative fine order issued by the Italian Competition Authority.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in fiscal year 2019 in the "Report on Expected Developments" and "Report on Risks and Opportunities" chapters – including the "Risks from the diesel issue" and "Litigation/Diesel issue" sections and the underlying description of the issues in the chapter entitled "Diesel Issue" – of the combined management report in the 2018 Annual Report. In particular, there continue to be no conclusive findings or assessments available to the Board of Management of Volkswagen AG regarding the described facts, that would suggest that a different assessment of the associated risks should have been made.

Outlook

The Volkswagen Group's Board of Management expects the growth of the global economy to slow somewhat in 2019. We still believe that risks will continue to arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts. We therefore expect both the advanced economies and the emerging markets to show weaker momentum than in 2018. We anticipate the strongest rates of expansion in Asia's emerging economies.

We expect trends in the passenger car markets in the individual regions to be mixed in 2019. Overall, global demand for new vehicles will probably be at the prior-year level. We anticipate that the volume of new registrations for passenger cars in Western Europe will be in line with the figure seen in the reporting period. After a positive performance overall in recent years, we estimate that demand in the German passenger car market will fall slightly year-on-year. Sales of passenger cars in 2019 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect new registrations in the South American markets for passenger cars and light commercial vehicles to grow moderately overall compared with the previous year. The passenger car markets in the Asia-Pacific region are expected at the prior-year level.

Trends in the markets for light commercial vehicles in the individual regions will be mixed again in 2019; on the whole, we anticipate a slight dip in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2019 are expected to slightly exceed the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2019.

The Volkswagen Group is well prepared overall for the future challenges pertaining to the automobility business and the mixed developments in regional vehicle markets. Our brand diversity, our presence in all major world markets, our broad, selectively expanded product range and pioneering technologies and services put us in a good competitive position worldwide. As part of the transformation of our core business, we are positioning our Group brands with a stronger focus on their individual characteristics and optimizing the vehicle and drive portfolio. The focus hereby is primarily on our vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, we are working to make even more focused use of the advantages of our multibrand group by continuously developing new technologies and our toolkits.

We expect that deliveries to customers of the Volkswagen Group in 2019 will slightly exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and more stringent WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) requirements.

We expect the sales revenues of the Volkswagen Group and its Passenger Cars and Commercial Vehicles business areas to grow by as much as 5% year-on-year. In terms of the operating profit before special items for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2019. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 6.0% and 7.0%. In the Power Engineering Business Area, we expect a loss around the previous year's level amid a slight rise in sales revenue. For the Financial Services Division, we are forecasting a moderate increase in sales revenues and an operating profit at the prior-year level.

After special items, we anticipate that the operating return on sales will be at the lower end of the expected range for both the Group and the Passenger Cars Business Area.

Brands and Business Fields

SALES REVENUE AND OPERATING PROFIT BY BRAND AND BUSINESS FIELD

In the first three months of 2019, the Volkswagen Group generated sales revenue of €60.0 (58.2) billion. Operating profit before special items amounted to €4.8 (4.2) billion. The diesel issue gave rise to special items of €–1.0 billion in the reporting period.

The Volkswagen Passenger Cars brand sold 910 (912) thousand vehicles in the reporting period. Above all, demand was strong for the T-Roc, Tiguan, Touareg and Atlas models. Sales revenue increased by 7.1% year-on-year to €21.5 billion. Operating profit before special items rose to €921 (879) million. Improvements in the mix and price positioning as well as positive cost development compensated for lower volumes and negative exchange rate effects. The diesel issue gave rise to special items of €–0.4 billion in the reporting period.

Effective 2019, the multibrand sales companies will be separated from the Audi brand and reported in the Others category to increase transparency and comparability. In the first quarter of 2019, the Audi brand recorded global sales of 305 (394) thousand vehicles. The Chinese joint venture FAW-Volkswagen sold a further 130 (159) thousand Audi vehicles. The A1, Q2 and Q8 models saw growth. March marked the gradual market launch of the Audi e-tron, the all-electric, mass-produced SUV. Sales revenue fell to €13.8 (15.3) billion due to, among other things, the new allocation of companies. At €1.1 (1.3) billion, operating profit was down on the prior-year figure. Improvements in the mix and margins as well as positive exchange rate effects could not compensate for the adverse impacts of model start-ups and phase-outs as part of the product initiative and WLTP-related fluctuations in the portfolio as well as higher upfront expenditure for new products and technologies. The financial key performance indicators for the Audi brand include the Lamborghini and Ducati brands. Ducati sold 13,806 (13,850) motorcycles in the reporting period.

The ŠKODA brand increased its sales by 7.2% to 275 thousand vehicles in the period from January to March 2019. The Karoq and Kodiaq models, in particular, were in high demand. Sales revenue increased by 8.2% to €4.9 billion. Operating profit decreased by 6.2% to €410 million. The decline resulted from negative exchange rate effects and cost increases. However, volume increases and pricing measures had a positive impact.

Sales by the SEAT brand rose by 5.5% in the reporting period to 176 thousand vehicles. This figure includes the A1 manufactured for Audi. The Arona and Ateca models were in high demand, and the Tarraco enjoyed a successful market launch. At €3.1 billion, sales revenue exceeded the prior-year period's good figure by 9.7%. Operating profit increased by 5.5% to €89 million due to volume and mix effects. This more than offset the negative impact of cost increases.

The Bentley brand lifted its unit sales in the first three months of 2019 to 2,584 (2,086) vehicles. As a result, sales revenue climbed to €456 (351) million. Operating profit improved to €49 (–44) million, which was mainly the result of the availability of the new Continental GT, favorable mix effects and exchange rate trends.

VOLKSWAGEN GROUP REPORTING STRUCTURE

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

Porsche Automotive sold 57 (61) thousand vehicles worldwide in the period from January to March 2019. Sales revenue was down on the figure for the same period in 2018 at €5.2 (5.4) billion. Operating profit fell by 11.6% to €829 million, due to market and production-related declining volumes.

Sales at Volkswagen Commercial Vehicles in the reporting period were up on the previous year at 129 (117) thousand units globally. The Multivan/Transporter and Crafter models recorded encouraging growth rates. At €3.3 billion, sales revenue was 11.8% higher than in the first quarter of 2018. In particular, higher volumes as well improvements in the mix and a favorable exchange rate trend led to a 29.9% rise in the operating profit to €291 million.

Scania's financial services business has been reported in the Others category since January 1, 2019. Scania Vehicles and Services increased sales to 24 (23) thousand vehicles in the first three months of 2019. Sales revenue amounted to €3.4 (3.0) billion. Scania Vehicles and Services improved its operating profit to €370 (301) million. Increased vehicle sales, an improved genuine parts and service business as well as the favorable exchange rate trend more than offset the negative impact of cost increases.

MAN Commercial Vehicles sold 34 thousand vehicles in the first quarter of this year, representing a 9.8% increase on the prior-year figure. Sales revenue amounted to €3.0 (2.8) billion. Operating profit increased, mainly due to volume effects, to €115 (83) million.

Power Engineering generated sales revenue of €891 (766) million in the first three months of 2019. Operating profit declined to €9 (21) million.

KEY FIGURES BY BRAND AND BUSINESS FIELD FROM JANUARY 1 TO MARCH 31

	VEHICLE SALES		SALES REVENUE		OPERATING RESULT	
Thousand vehicles/€ million	2019	2018	2019	2018	2019	2018
Volkswagen Passenger Cars	910	912	21,538	20,115	921	879
Audi[1]	305	394	13,812	15,320	1,100	1,300
ŠKODA	275	256	4,920	4,547	410	437
SEAT	176	167	3,053	2,782	89	85
Bentley	3	2	456	351	49	–44
Porsche Automotive[2]	57	61	5,224	5,438	829	939
Volkswagen Commercial Vehicles	129	117	3,294	2,945	291	224
Scania Vehicles and Services[3]	24	23	3,350	3,029	370	301
MAN Commercial Vehicles	34	31	2,988	2,771	115	83
Power Engineering	–	–	891	766	9	21
VW China[4]	901	1,040	–	–	–	–
Other[5]	–229	–233	–8,220	–7,834	28	–622
Volkswagen Financial Services	–	–	8,706	7,999	638	608
Volkswagen Group before special items	**–**	**–**	**–**	**–**	**4,849**	**4,211**
Special items	–	–	–	–	–981	–
Volkswagen Group	**2,583**	**2,769**	**60,012**	**58,228**	**3,868**	**4,211**
Automotive Division[6]	2,583	2,769	50,777	49,743	3,166	3,572
of which: Passenger Cars Business Area[7]	2,526	2,716	43,581	43,243	2,803	3,301
Commercial Vehicles Business Area[7]	57	53	6,305	5,734	420	312
Power Engineering Business Area	–	–	891	766	–56	–42
Financial Services Division	–	–	9,236	8,485	701	639

1 2019 in accordance with the new allocation of companies; the prior-year figures have not been adjusted.
2 Porsche (including financial services): sales revenue €5,799 (5,936) million, operating profit €868 (976) million.
3 Scania (including financial services): sales revenue €3,458 (3,118) million, operating profit €402 (331) million.
4 The sales revenue and operating profits of the joint venture companies in China are not included in the figures for the Group. These Chinese companies are accounted for using the equity method and recorded a proportionate operating profit of €1,074 (1,163) million.
5 In operating profit, mainly intragroup items recognized in profit or loss, in particular from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocations and the companies not allocated to a brand.
6 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
7 The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

Since January 1, 2019, Volkswagen Financial Services has also included the contracts concluded by the international joint ventures in its figures. The prior-year figures have been adjusted. The number of new financing, leasing, service and insurance contracts signed in the reporting period was 1.9 (1.9) million. Based on unchanged credit eligibility criteria, the penetration rate, expressed as the ratio of leased or financed vehicles to relevant Group delivery volumes, amounted to 33.5 (32.8)%. On March 31, 2019, there was a total of 20.5 million contracts, up 1.2% on the end of December 2018. The number of contracts in the Customer Financing/Leasing area increased by 1.5% to 10.9 million as against year-end 2018. At 9.6 (9.6) million, the number of contracts in the Service/Insurance area was in line with the 2018 year-end level. On March 31, 2019, Volkswagen Bank managed approximately 1.4 (1.5) million deposit accounts. Operating profit in the reporting period increased by 5.0% to €638 million, which was mainly due to the growth in business.

UNIT SALES AND SALES REVENUE BY MARKET

In the Europe/Other markets region, the Volkswagen Group's unit sales fell by 1.9% year-on-year in the first three months of 2019 to 1.2 million vehicles. Sales revenue amounted to €38.1 (36.5) billion. Mix effects had a positive impact.

At 226 thousand vehicles, the Volkswagen Group's unit sales in the North American markets were up by 4.2% year-on-year in the reporting period. Alongside volume increases, the exchange rate trend contributed to a 16.1% increase in sales revenue to €10.1 billion.

In South America, we sold 125 (143) thousand vehicles in the first quarter of this year. Sales revenue fell to €2.3 (2.6) billion due to volume and exchange rate effects.

In the Asia-Pacific region, sales by the Volkswagen Group – including the Chinese joint ventures – fell to a total of 1.0 (1.2) million vehicles in the reporting period. As a result, sales revenue also declined and was 6.2% lower than in the previous year, at €9.3 billion. This figure does not include the sales revenue of our Chinese joint ventures, as this is accounted for using the equity method.

In the period from January to March 2019, hedging transactions relating to the Volkswagen Group's sales revenue in foreign currency increased by €206 million.

KEY FIGURES BY MARKET FROM JANUARY 1 TO MARCH 31

	VEHICLE SALES		SALES REVENUE	
Thousand vehicles/€ million	2019	2018	2019	2018
Europe/Other markets	1,223	1,247	38,063	36,519
North America	226	216	10,140	8,735
South America	125	143	2,348	2,572
Asia-Pacific[1]	1,010	1,163	9,255	9,868
Hedges on sales revenue	–	–	206	534
Volkswagen Group[1]	**2,583**	**2,769**	**60,012**	**58,228**

1 The sales revenue of the joint venture companies in China is not included in the figures for the Group and the Asia-Pacific market.

Interim Consolidated Financial Statements (Condensed)

Income Statement for the Period January 1 to March 31

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Sales revenue	**60,012**	**58,228**	**50,777**	**49,743**	**9,236**	**8,485**
Cost of sales	–48,324	–46,657	–40,805	–39,783	–7,519	–6,874
Gross result	**11,688**	**11,570**	**9,971**	**9,960**	**1,717**	**1,610**
Distribution expenses	–4,941	–4,759	–4,559	–4,445	–383	–314
Administrative expenses	–2,271	–2,125	–1,809	–1,677	–463	–448
Other operating result	–608	–475	–437	–267	–171	–209
Operating result	**3,868**	**4,211**	**3,166**	**3,572**	**701**	**639**
Share of the result of equity-accounted investments	808	829	799	812	9	17
Interest result and other financial result	–605	–562	–629	–540	24	–22
Financial result	**203**	**266**	**169**	**272**	**34**	**–6**
Earnings before tax	**4,071**	**4,477**	**3,336**	**3,844**	**735**	**633**
Income tax expense	–1,018	–1,178	–833	–1,009	–185	–169
Earnings after tax	**3,053**	**3,300**	**2,503**	**2,835**	**550**	**465**
of which attributable to						
Noncontrolling interests	7	1	–8	–12	15	13
Volkswagen AG hybrid capital investors	134	77	134	77	–	–
Volkswagen AG shareholders	2,912	3,221	2,377	2,769	535	452
Basic earnings per ordinary share (€)[2]	**5.78**	**6.40**				
Diluted earnings per ordinary share (€)[2]	**5.78**	**6.40**				
Basic earnings per preferred share (€)[2]	**5.84**	**6.46**				
Diluted earnings per preferred share (€)[2]	**5.84**	**6.46**				

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Explanatory information on earnings per share is presented in the “Earnings per share” section.

Statement of Comprehensive Income for the Period January 1 to March 31

€ million	2019	2018
Earnings after tax	**3,053**	**3,300**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–4,086	–845
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	1,200	255
Pension plan remeasurements recognized in other comprehensive income, net of tax	–2,886	–590
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	23	–21
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	12	12
Items that will not be reclassified to profit or loss	**–2,851**	**–599**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	860	–596
Transferred to profit or loss	–	–
Exchange differences on translating foreign operations, before tax	860	–596
Deferred taxes relating to exchange differences on translating foreign operations	12	4
Exchange differences on translating foreign operations, net of tax	872	–592
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	–1,820	806
Transferred to profit or loss (OCI I)	–209	–597
Cash flow hedges (OCI I), before tax	–2,029	209
Deferred taxes relating to cash flow hedges (OCI I)	593	–73
Cash flow hedges (OCI I), net of tax	–1,436	136
Fair value changes recognized in other comprehensive income (OCI II)	–518	–136
Transferred to profit or loss (OCI II)	235	–2
Cash flow hedges (OCI II), before tax	–283	–137
Deferred taxes relating to cash flow hedges (OCI II)	85	42
Cash flow hedges (OCI II), net of tax	–198	–96
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	24	20
Transferred to profit or loss	0	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	24	20
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	–7	–4
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	17	16
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	198	0
Items that may be reclassified to profit or loss	**–547**	**–537**
Other comprehensive income, before tax	–5,281	–1,358
Deferred taxes relating to other comprehensive income	1,883	223
Other comprehensive income, net of tax	**–3,398**	**–1,135**
Total comprehensive income	**–345**	**2,165**
of which attributable to		
Noncontrolling interests	6	1
Volkswagen AG hybrid capital investors	134	77
Volkswagen AG shareholders	–485	2,086

Balance Sheet as of March 31, 2019 and December 31, 2018

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Assets						
Noncurrent assets	**284,896**	**274,620**	**148,229**	**143,153**	**136,667**	**131,467**
Intangible assets	64,785	64,613	64,578	64,404	207	209
Property, plant and equipment	62,239	57,630	60,905	54,619	1,334	3,010
Lease assets	45,354	43,545	2,566	5,297	42,787	38,249
Financial services receivables	81,602	78,692	–224	9	81,826	78,684
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	30,917	30,140	20,404	18,824	10,513	11,315
Current assets	**186,326**	**183,536**	**96,203**	**91,371**	**90,123**	**92,165**
Inventories	49,477	45,745	45,054	41,302	4,423	4,443
Financial services receivables	56,250	54,216	–522	–510	56,772	54,726
Other receivables and financial assets	41,321	37,557	21,513	13,033	19,808	24,524
Marketable securities	17,022	17,080	13,377	13,376	3,646	3,703
Cash, cash equivalents and time deposits	22,256	28,938	16,781	24,169	5,474	4,769
Total assets	**471,222**	**458,156**	**244,432**	**234,524**	**226,790**	**223,632**
Equity and Liabilities						
Equity	**117,507**	**117,342**	**89,237**	**88,850**	**28,271**	**28,492**
Equity attributable to Volkswagen AG shareholders	104,493	104,522	76,839	76,624	27,654	27,898
Equity attributable to Volkswagen AG hybrid capital investors	12,525	12,596	12,525	12,596	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	117,019	117,117	89,364	89,219	27,654	27,898
Noncontrolling interests	489	225	–128	–369	616	594
Noncurrent liabilities	**186,229**	**172,846**	**88,038**	**77,692**	**98,191**	**95,154**
Financial liabilities	108,811	101,126	19,150	14,187	89,661	86,939
Provisions for pensions	37,145	33,097	36,497	32,535	647	563
Other liabilities	40,273	38,623	32,390	30,970	7,882	7,652
Current liabilities	**167,486**	**167,968**	**67,157**	**67,982**	**100,329**	**99,986**
Put options and compensation rights granted to noncontrolling interest shareholders	–	1,853	–	1,853	–	–
Financial liabilities	83,920	89,757	–6,895	–1,504	90,814	91,261
Trade payables	24,405	23,607	20,899	20,962	3,506	2,645
Other liabilities	59,162	52,750	53,153	46,671	6,009	6,079
Total equity and liabilities	**471,222**	**458,156**	**244,432**	**234,524**	**226,790**	**223,632**

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

Statement of Changes in Equity

€ million	Subscribed capital	Capital reserve	Retained earnings	OTHER RESERVES Currency translation reserve
Unadjusted balance at Jan. 1, 2018	**1,283**	**14,551**	**81,367**	**–3,223**
Changes in accounting policy to reflect IFRS 9 and 15	–	–	–282	–
Balance at Jan. 1, 2018	**1,283**	**14,551**	**81,085**	**–3,223**
Earnings after tax	–	–	3,221	–
Other comprehensive income, net of tax	–	–	–589	–592
Total comprehensive income	**–**	**–**	**2,632**	**–592**
Disposal of equity instruments	–	–	–	–
Capital increases/Capital decreases	–	–	–	–
Dividends payment	–	–	–	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	1	–
Balance at Mar. 31, 2018	**1,283**	**14,551**	**83,718**	**–3,815**
Balance at Jan. 1, 2019	**1,283**	**14,551**	**91,105**	**–3,576**
Earnings after tax	–	–	2,912	–
Other comprehensive income, net of tax	–	–	–2,885	872
Total comprehensive income	**–**	**–**	**27**	**872**
Disposal of equity instruments	–	–	–	–
Capital increases/Capital decreases	–	–	–	–
Dividends payment	–	–	–	–
Capital transactions involving a change in ownership interest[1]	–	–	401	29
Other changes	–	–	28	–
Balance at Mar. 31, 2019	**1,283**	**14,551**	**91,561**	**–2,675**

1 For the change in capital transactions involving a change in ownership interest see the section entitled “Key events”.

HEDGING							
Cash flow hedges (OCI I)	Deferred costs of hedging (OCI II)	Equity and debt instruments	Equity-accounted investments	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to Volkswagen AG shareholders and hybrid capital investors	Noncontrolling interests	Total equity
3,525	**–**	**91**	**166**	**11,088**	**108,849**	**229**	**109,077**
56	63	–225	–	–	–388	1	–387
3,581	**63**	**–133**	**166**	**11,088**	**108,461**	**229**	**108,690**
–	–	–	–	77	3,299	1	3,300
136	–96	–5	12	–	–1,135	0	–1,135
136	**–96**	**–5**	**12**	**77**	**2,164**	**1**	**2,165**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–204	–204	–	–204
–	–	–	–	–	–	–	–
–	–	–	–	51	52	0	52
3,717	**–33**	**–138**	**178**	**11,012**	**110,472**	**230**	**110,702**
1,790	**–629**	**–230**	**228**	**12,596**	**117,117**	**225**	**117,342**
–	–	–	–	134	3,046	7	3,053
–1,436	–198	40	210	–	–3,397	–1	–3,398
–1,436	**–198**	**40**	**210**	**134**	**–351**	**6**	**–345**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–204	–204	–	–204
0	0	0	–3	–	429	255	684
–	–	–	–	–	28	2	30
354	**–827**	**–190**	**435**	**12,525**	**117,019**	**489**	**117,507**

Cash flow statement for the Period January 1 to March 31

	Volkswagen Group		Divisions			
			Automotive[1]		Financial Services	
€ million	2019	2018	2019	2018	2019	2018
Cash and cash equivalents at beginning of period	**28,113**	**18,038**	**23,354**	**13,428**	**4,759**	**4,609**
Earnings before tax	4,071	4,477	3,336	3,844	735	633
Income taxes paid	–796	–743	–460	–455	–337	–288
Depreciation and amortization expense[2]	5,925	5,362	3,935	3,687	1,990	1,675
Change in pension provisions	–6	44	–10	41	4	3
Share of the result of equity-accounted investments	1,159	–828	1,168	–811	–9	–17
Other noncash income/expense and reclassifications[3]	66	271	140	231	–75	40
Gross cash flow	**10,418**	**8,584**	**8,110**	**6,537**	**2,308**	**2,047**
Change in working capital	**–7,569**	**–4,585**	**–2,745**	**–1,082**	**–4,824**	**–3,503**
Change in inventories	–3,301	–1,995	–3,349	–2,332	48	337
Change in receivables	–4,017	–5,676	–3,605	–2,814	–413	–2,862
Change in liabilities	4,123	4,897	2,994	3,666	1,129	1,232
Change in other provisions	1,463	959	1,476	917	–13	42
Change in lease assets (excluding depreciation)	–2,769	–2,950	–269	–317	–2,500	–2,633
Change in financial services receivables	–3,067	179	7	–201	–3,075	380
Cash flows from operating activities	**2,849**	**3,999**	**5,364**	**5,455**	**–2,515**	**–1,457**
Cash flows from investing activities attributable to operating activities	**–3,414**	**–3,157**	**–3,375**	**–3,018**	**–39**	**–139**
of which: Investments in intangible assets (excluding capitalized development costs), property, plant and equipment, and investment property	–2,059	–1,978	–2,008	–1,918	–51	–60
capitalized development costs	–1,147	–1,203	–1,147	–1,203	–	–
acquisition and disposal of equity investments	–276	–48	–274	62	–1	–110
Net cash flow[4]	***–565***	***841***	***1,990***	***2,437***	***–2,555***	***–1,596***
Change in investments in securities, loans and time deposits	–782	308	–5,308	1,920	4,526	–1,612
Cash flows from investing activities	**–4,196**	**–2,849**	**–8,682**	**–1,098**	**4,487**	**–1,751**
Cash flows from financing activities	**–7,399**	**2,401**	**–6,085**	**–3,058**	**–1,314**	**5,458**
of which: capital transactions with noncontrolling interests	–19	–	–19	–	–	–
capital contributions/capital redemptions	–	–	2	–24	–2	24
MAN noncontrolling interest shareholders: compensation payments and acquisition of shares tendered	–1,063	–	–1,063	–	–	–
Effect of exchange rate changes on cash and cash equivalents	372	–77	324	–61	48	–16
Change of loss allowance within cash & cash equivalents	1	0	1	0	0	0
Net change in cash and cash equivalents	**–8,373**	**3,473**	**–9,079**	**1,238**	**706**	**2,235**
Cash and cash equivalents at Mar. 31[5]	**19,740**	**21,511**	**14,275**	**14,666**	**5,465**	**6,844**
Securities, loans and time deposits	28,999	25,798	14,030	13,146	14,970	12,652
Gross liquidity	**48,739**	**47,309**	**28,305**	**27,812**	**20,435**	**19,496**
Total third-party borrowings	–192,793	–164,976	–12,314	–3,518	–180,479	–161,458
Net liquidity at Mar. 31[6]	**–144,054**	**–117,668**	**15,991**	**24,294**	**–160,044**	**–141,962**
For information purposes: at Jan. 1	–134,735	–119,143	19,368	22,378	–154,103	–141,522

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

Explanatory notes on the cash flow statement are presented in the section relating to the cash flow statement.

Notes to the Consolidated Financial Statements

Accounting in accordance with International Financial Reporting Standards (IFRSs)

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2018 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. These interim consolidated financial statements for the period ended March 31, 2019 were therefore also prepared in accordance with IAS 34 (Interim Financial Reporting) and are condensed in scope compared with the consolidated financial statements.

All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

In addition to the reportable segments, the Automotive and Financial Services divisions are presented in the condensed interim group financial report for explanatory purposes alongside the income statement, balance sheet and cash flow statement for the Volkswagen Group. This supplemental presentation is not required by IFRSs. Eliminations of intragroup transactions between the Automotive and Financial Services divisions are allocated to the Automotive Division.

The accompanying interim consolidated financial statements were reviewed by auditors in accordance with section 115 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act).

Accounting policies

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning on or after January 1, 2019.

IFRS 16 – LEASES

IFRS 16 amends the rules for lease accounting and replaces the previous IAS 17 standard and related interpretations.

The main objective of IFRS 16 is to recognize all leases. It establishes that lessees are no longer required to classify their leases as either finance leases or operating leases. In general, they will instead be required to recognize a right-of-use asset and a lease liability for the leases in the balance sheet. In the Volkswagen Group the lease liability is measured on the basis of the outstanding lease payments, discounted using the incremental borrowing rate, while the right-of-use asset is always measured at the amount of the lease liability plus any initial direct costs. During the lease term, the right-of-use asset must be depreciated and the lease liability adjusted using the effective interest method and taking the lease payments into account. IFRS 16 offers practical expedients for short-term and low-value leases; the Volkswagen Group makes use of this option and therefore does not recognize right-of-use assets or liabilities for these types of leases. In this respect, the lease payments will continue to be recognized in the income statement in the same way as before. At the initial application date, leases whose term ends before January 1, 2020 were reclassified as short-term leases, irrespective of the start date of the lease. In addition, existing leases were not assessed at the initial application date to determine whether or not they are leases under the criteria of IFRS 16. Instead, contracts classified as leases under IAS 17 or IFRIC 4 will continue to be accounted for as leases.

Lessor accounting essentially follows the previous guidance of IAS 17. Lessors will be required to 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.

The Volkswagen Group accounts for leases in accordance with IFRS 16, using the modified retrospective method, for the first time as of January 1, 2019. Prior-year periods have not been restated. According to this method, the lease liability to be recognized at the transition date is the present value of the outstanding lease payments, which is determined using the incremental borrowing rates as of January 1, 2019. The weighted average interest rate applied in the Volkswagen Group was 3.7%.

To simplify, the right-of-use assets are recognized in the amount of the corresponding lease liability, adjusted for any prepaid or accrued lease payments. Contracts not classified as leases under IAS 17 or IFRIC 4 will continue not to be accounted for as leases. Applying the permitted exemption, the right-of-use asset is adjusted for the amounts that were recognized in the balance sheet as provisions for onerous operating leases as of December 31, 2018. The right-of-use assets were not tested for impairment in this context at the initial application date. The right-of-use assets are recognized in the balance sheet under those items in which the assets underlying the lease would have been reported if they were owned by the Volkswagen Group. For this reason, the right-of-use assets are presented under noncurrent assets, mostly in property, plant and equipment, as of the balance sheet date.

The initial recognition of right-of-use assets and lease liabilities had the following effects as of January 1, 2019:

- Right-of-use assets of €5.5 billion were recognized in the opening balance sheet (including €5.4 billion under property, plant and equipment and €0.1 billion under investment property). Prepayments capitalized, accrued liabilities and provisions for onerous operating leases were offset with the right-of-use assets. The right-of-use assets recognized included an amount of €0.4 billion that had already been recognized under finance leases as of December 31, 2018. In connection with the initial application of IFRS 16 there was an adjustment to the classification of noncurrent assets, resulting in the reclassification of property, plant and equipment of €0.4 billion to lease assets and investment property.
- Lease liabilities are recognized in the opening balance in an amount of €5.6 billion; they are reported under noncurrent and current financial liabilities. The lease liabilities recognized included an amount of €0.4 billion that had already been recognized under finance leases as of December 31, 2018.
- Initial application did not have any effect on equity.

The difference between the expected payments for operating leases in an amount of €4.9 billion, discounted using the incremental borrowing rate as of December 31, 2018, and the lease liabilities in an amount of €5.6 billion recognized in the opening balance sheet is mainly the result of taking account of existing finance leases and a new estimate of expected lease payments, attributable to the capitalization of certain variable lease payments, for example. The lease terms taken into account when recognizing lease liabilities were also reassessed in accordance with the rules of IFRS 16. In this process, reasonably certain extension or termination options were taken into account in determining the lease payments to be capitalized. Moreover, the opening balance sheet does not include lease payments for low-value or short-term leases.

Unlike the previous procedure, under which all operating lease expenses were reported under operating profit, the only items allocated to operating profit in the Automotive Division under IFRS 16 are depreciation charges on right-of-use assets. Interest expense from adding interest on lease liabilities in the Automotive Division is reported in the financial result. This had a positive impact of €0.1 billion on the operating result in the first quarter of 2019.

The change in the way expenses from operating leases are presented in the statement of cash flows resulted in an improvement of €0.2 billion in cash flows from operating activities and net cash flow in the first quarter of 2019, of which €0.2 billion is attributable to to the automotive division. Cash flows from financing activities declined accordingly. The increase in financial liabilities attributable to the change in accounting rules had a negative impact of €5.4 billion on the Volkswagen Group's net liquidity as of March 31, 2019, of which €5.1 billion is attributable to the automotive division.

This standard also results in far more extensive disclosures in the notes.

OTHER ACCOUNTING POLICIES

A discount rate of 1.5 % (December 31, 2018: 2.0%) was applied to German pension provisions in the accompanying interim consolidated financial statements.

The income tax expense for the interim consolidated financial statements was calculated on the basis of the average annual tax rate that is expected for the entire fiscal year, in accordance with IAS 34 (Interim Financial Reporting).

In other respects, the same accounting policies and consolidation methods that were used for the 2018 consolidated financial statements are generally applied to the preparation of the interim consolidated financial statements and the measurement of the prior-year comparatives. A detailed description of the policies and methods applied is published in the "Accounting policies" section of the notes to the 2018 consolidated financial statements.

In addition, details of the effects of new standards can be found in the "New and amended IFRSs not applied" section. The 2018 consolidated financial statements can also be accessed on the Internet at www.volkswagenag.com/en/InvestorRelations.html.

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. This was followed by further
reports on the scope of the diesel issue. Detailed information can be found in the "Key events" section of the 2018 consolidated financial statements.

In the first quarter of fiscal year 2019, additional expenses of €1.0 billion had to be recognized for legal risks in this connection.

Moreover, the publications released by the reporting date, as well as the investigations and interviews in connection with the diesel issue, did not provide the Group Board of Management with any new reliable findings or judgments regarding the underlying facts and the assessment of the associated risks (e.g. investor lawsuits) and did not reveal any material effects on the quarterly financial statements in the reporting period.

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

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of January 1, 2019. Following the announcement of the termination of the control and profit and loss transfer agreement and the recording thereof in the commercial register, the noncontrolling shareholders of MAN SE had the right to tender their shares to Volkswagen, pursuant to the provisions of the control and profit and loss transfer agreement, within a two-month period. This resulted in cash outflows of €1.1 billion in the first quarter of this year for the acquisition of shares tendered and dividend distribution. There was a corresponding decline in the amount of "put options and compensation rights granted to noncontrolling interest shareholders" reported in the balance sheet. The put options granted to noncontrolling interest shareholders of MAN SE expired on March 4, 2019. The remaining liability of €0.7 billion was reclassified directly to equity; €0.3 billion of this amount is attributable to noncontrolling interests.

Basis of consolidation

In addition to Volkswagen AG, which is domiciled in Wolfsburg and entered in the commercial register at the Braunschweig Local Court under No. HRB 100484, 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.

Disclosures on the interim consolidated financial statements

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE Q1 2018[1]

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	35,364	3,570	–	–	38,934	–2,719	36,215
Genuine parts	3,149	837	–	–	3,985	–24	3,962
Used vehicles and third-party products	3,067	356	–	–	3,423	–117	3,306
Engines, powertrains and parts deliveries	2,974	152	–	–	3,126	–4	3,122
Power Engineering	–	–	766	–	766	–1	766
Motorcycles	150	–	–	–	150	–	150
Leasing business	178	391	–	6,517	7,087	–970	6,117
Interest and similar income	62	1	–	1,773	1,837	–42	1,795
Hedges sales revenue	585	9	–	–	594	–60	534
Other sales revenue	1,937	417	–	194	2,548	–286	2,262
	47,466	**5,734**	**766**	**8,485**	**62,451**	**–4,223**	**58,228**

1 Since January 1, 2019, sales revenue from the sale of light commercial vehicles of the Volkswagen Commercial Vehicles brand has not been reported in the Commercial Vehicles segment. The prior-year figures have been adjusted accordingly.

STRUCTURE OF GROUP SALES REVENUE Q1 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	36,275	4,057	–	–	40,332	–2,913	37,419
Genuine parts	3,292	873	–	–	4,164	–32	4,133
Used vehicles and third-party products	3,306	356	–	–	3,662	–117	3,545
Engines, powertrains and parts deliveries	2,481	155	–	–	2,635	–2	2,633
Power Engineering	–	–	891	–	891	–1	890
Motorcycles	158	–	–	–	158	–	158
Leasing business	219	421	–	7,069	7,709	–992	6,717
Interest and similar income	57	1	–	1,947	2,005	–56	1,949
Hedges sales revenue	165	–6	–	–	158	47	206
Other sales revenue	1,710	448	–	220	2,378	–14	2,364
	47,662	**6,305**	**891**	**9,236**	**64,093**	**–4,081**	**60,012**

Other sales revenue comprises revenue from workshop services and license revenue, among other things.

2. Cost of sales

Cost of sales includes interest expenses of €674 million (previous year: €518 million) attributable to the financial services business.

In addition to depreciation and amortization expenses, cost of sales also includes impairment losses on intangible assets, items of property, plant and equipment, and lease assets. The impairment losses identified on the basis of updated impairment tests amount to a total of €223 million (previous year: €164 million). The value in use is used as the basis for calculating impairment losses.

3. Research and development costs

€ million	Q1 2019	Q1 2018	%
Total research and development costs	3,483	3,356	3.8
of which: capitalized development costs	1,147	1,203	–4.7
Capitalization ratio in %	32.9	35.9	
Amortization of capitalized development costs	891	934	–4.6
Research and development costs recognized in profit or loss	**3,227**	**3,087**	**4.5**

4. 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. In accordance with Article 27 of the Articles of Association of Volkswagen AG, preferred shares are entitled to a €0.06 higher dividend than ordinary shares.

		Q1 2019	Q1 2018
Weighted average number of shares outstanding			
Ordinary shares: basic	million	295.1	295.1
diluted	million	295.1	295.1
Preferred shares: basic	million	206.2	206.2
diluted	million	206.2	206.2
Earnings after tax	€ million	3,053	3,300
Noncontrolling interests	€ million	7	1
Earnings attributable to Volkswagen AG hybrid capital investors	€ million	134	77
Earnings attributable to Volkswagen AG shareholders	€ million	2,912	3,221
Earnings per share			
Ordinary shares: basic	€	5.78	6.40
diluted	€	5.78	6.40
Preferred shares: basic	€	5.84	6.46
diluted	€	5.84	6.46

5. Noncurrent assets

CHANGES IN SELECTED NONCURRENT ASSETS BETWEEN JANUARY 1 AND MARCH 31, 2019

€ million	Carrying amount at Jan. 1, 2019[1]	Additions/ Changes in consolidated Group	Disposals/ Other changes	Depreciation and amortization	Carrying amount at Mar. 31, 2019
Intangible assets	64,613	1,228	–22	1,078	64,785
Property, plant and equipment	62,345	2,418	–246	2,770	62,239
Lease assets	43,922	5,486	2,011	2,044	45,354

1 Value in the opening balance adjusted (see disclosures on IFRS 16).

6. Inventories

€ million	Mar. 31, 2019	Dec. 31, 2018
Raw materials, consumables and supplies	6,139	5,543
Work in progress	4,521	4,382
Finished goods and purchased merchandise	32,867	30,553
Current lease assets	5,762	5,107
Prepayments	189	168
Hedges on inventories	–2	–8
	49,477	**45,745**

There was no requirement to recognize or reverse significant impairment losses on inventories in the reporting period.

7. Current other receivables and financial assets

€ million	Mar. 31, 2019	Dec. 31, 2018
Trade receivables	20,320	17,888
Miscellaneous other receivables and financial assets	21,001	19,669
	41,321	**37,557**

In the period January 1 to March 31, 2019, impairment losses and reversals of impairment losses on noncurrent and current financial assets reduced operating profit by €195 million (previous year: €148 million).

The trade receivables also include receivables from long-term construction contracts (contract assets).

8. Equity

The subscribed capital is composed of 295,089,818 no-par value ordinary shares and 206,205,445 no-par-value preferred shares, and amounts to €1,283 million (December 2018: €1,283 million).

The noncontrolling interests in equity are attributable primarily to shareholders of MAN SE, RENK AG and AUDI AG.

9. Noncurrent financial liabilities

€ million	Mar. 31, 2019	Dec. 31, 2018
Bonds, commercial paper and notes	84,131	81,391
Liabilities to banks	16,241	15,447
Deposit business	1,825	1,455
Lease liabilities	4,961	399
Other financial liabilities	1,653	2,433
	108,811	**101,126**

10. Current financial liabilities

€ million	Mar. 31, 2019	Dec. 31, 2018
Bonds, commercial paper and notes	37,112	41,513
Liabilities to banks	16,407	18,455
Deposit business	28,090	28,555
Lease liabilities	940	51
Other financial liabilities	1,371	1,183
	83,920	**89,757**

11. Fair value disclosures

Generally, the principles and techniques used for fair value measurement remained unchanged year-on-year. Detailed explanations of the measurement principles and techniques can be found in the "Accounting policies" section of the 2018 consolidated financial statements.

Fair value generally corresponds to the market or quoted market price. If no active market exists, 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.

Assets and liabilities measured at fair value through profit or loss consist of derivatives to which hedge accounting is not applied. They include primarily commodity futures, currency forwards relating to commodity futures as well as, in certain cases, interest rate swaps, currency swaps and cross-currency interest rate swaps. Moreover, other equity investments (shares representing an ownership interest of less than 20% as a rule) in partnerships (debt instruments), customer financing receivables whose returns contain more than just interest and principal repayments, and financial assets held in special funds controlled by the Volkswagen Group are measured at fair value through profit or loss. Derivative financial instruments within hedge accounting are likewise measured at fair value through profit or loss.

Financial assets measured at fair value through other comprehensive income include equity investments (shares representing an ownership interest of less than 20% as a rule) in corporations (equity instruments) and shares for which the Volkswagen Group normally exercises the option of fair value measurement through other comprehensive income, as well as securities (debt instruments) whose cash flows comprise solely payments of interest and principal and that are held under a business model aimed at both collecting contractual cash flows and selling financial assets. For instruments measured through other comprehensive income, changes in fair value are recognized directly in equity, taking deferred taxes into account. Impairment losses on securities (debt instruments) are recognized through profit or loss.

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.

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 the carrying amount 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.

The risk variables governing the fair value of the receivables are risk-adjusted interest rates.

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2018

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT ALLOCATED TO A MEASUREMENT CATEGORY	BALANCE SHEET ITEM AT DEC. 31, 2018
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,434	8,434
Other equity investments	134	–	–	–	1,340	1,474
Financial services receivables	286	46,905	47,789	–	31,501	78,692
Other financial assets	772	4,240	4,252	1,510	–	6,521
Current assets						
Trade receivables	–	17,537	17,537	–	352	17,888
Financial services receivables	22	36,529	36,529	–	17,665	54,216
Other financial assets	1,094	9,179	9,179	1,341	1	11,615
Marketable securities	16,940	140	140	–	–	17,080
Cash, cash equivalents and time deposits	–	28,938	28,938	–	–	28,938
Noncurrent liabilities						
Noncurrent financial liabilities	–	100,727	100,964	–	399	101,126
Other noncurrent financial liabilities	767	2,085	2,087	368	–	3,219
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	1,853	1,853	–	–	1,853
Current financial liabilities	–	89,707	89,707	–	51	89,757
Trade payables	–	23,607	23,607	–	–	23,607
Other current financial liabilities	718	8,010	8,010	721	–	9,449

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF MARCH 31, 2019

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT ALLOCATED TO A MEASUREMENT CATEGORY	BALANCE SHEET ITEM AT MAR. 31, 2019
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	7,677	7,677
Other equity investments	162	–	–	–	1,436	1,598
Financial services receivables	294	48,314	49,430	–	32,994	81,602
Other financial assets	786	3,617	3,639	1,076	–	5,478
Current assets						
Trade receivables	3	19,973	19,973	–	345	20,320
Financial services receivables	23	38,192	38,192	–	18,036	56,250
Other financial assets	1,176	10,643	10,643	826	2	12,647
Marketable securities	16,881	141	141	–	–	17,022
Cash, cash equivalents and time deposits	–	22,256	22,256	–	–	22,256
Noncurrent liabilities						
Noncurrent financial liabilities	–	103,850	104,587	–	4,961	108,811
Other noncurrent financial liabilities	791	2,187	2,189	953	–	3,931
Current liabilities						
Current financial liabilities	–	82,980	82,980	–	940	83,920
Trade payables	–	24,405	24,405	–	–	24,405
Other current financial liabilities	881	8,176	8,176	1,497	–	10,554

The following tables contain an overview of the financial assets and liabilities measured at fair value:

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE BY LEVEL

€ million	Dec. 31, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	134	56	25	53
Financial services receivables	286	–	–	286
Other financial assets	772	–	357	415
Current assets				
Financial services receivables	22	–	–	22
Other financial assets	1,094	–	880	214
Marketable securities	16,940	16,940	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	767	–	250	516
Current liabilities				
Other current financial liabilities	718	–	419	299

€ million	Mar. 31, 2019	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	162	73	0	89
Financial services receivables	294	–	–	294
Other financial assets	786	–	386	400
Current assets				
Trade receivables	3	–	–	3
Financial services receivables	23	–	–	23
Other financial assets	1,176	–	969	207
Marketable securities	16,881	16,881	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	791	–	305	486
Current liabilities				
Other current financial liabilities	881	–	577	304

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

€ million	Dec. 31, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	1,510	–	1,510	–
Current assets				
Other financial assets	1,341	–	1,341	–
Noncurrent liabilities				
Other noncurrent financial liabilities	368	–	368	0
Current liabilities				
Other current financial liabilities	721	–	721	–

€ million	Mar. 31, 2019	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	1,076	–	1,076	–
Current assets				
Other financial assets	826	–	826	–
Noncurrent liabilities				
Other noncurrent financial liabilities	953	–	953	–
Current liabilities				
Other current financial liabilities	1,497	–	1,497	–

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 market inputs using market-based valuation techniques. In particular, the inputs used include exchange rates, yield curves and commodity prices that are observable in the relevant markets and obtained through pricing services. Fair Values in Level 3 are calculated using valuation techniques that incorporate inputs that are not directly observable in active markets. In the Volkswagen Group, long-term commodity futures are allocated to Level 3 because the prices available on the market must be extrapolated for measurement purposes. This is done on the basis of observable inputs obtained for the different commodities through pricing services. Options on equity instruments, residual value protection models, customer financing receivables and receivables from vehicle financing programs are also reported in Level 3. Equity instruments are measured primarily using the relevant business plans and entity-specific discount rates. The significant inputs used to measure fair value for the residual value protection models include forecasts and estimates of used vehicle residual values for the appropriate models. The measurement of vehicle financing programs requires in particular the use of the corresponding vehicle price.

The table below provides a summary of changes in level 3 balance sheet items measured at fair value:

CHANGES IN BALANCE SHEET ITEMS MEASURED AT FAIR VALUE BASED ON LEVEL 3

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2018	**823**	**765**
Foreign exchange differences	–8	2
Total comprehensive income	–23	111
recognized in profit or loss	–23	111
recognized in other comprehensive income	–	–
Additions (purchases)	2	11
Sales and settlements	0	–22
Transfers into Level 2	–21	0
Balance at Mar. 31, 2018	**772**	**867**
Total gains or losses recognized in profit or loss	**–23**	**–111**
Other operating result	–16	–111
of which attributable to assets/liabilities held at the reporting date	–33	–122
Financial result	–8	0
of which attributable to assets/liabilities held at the reporting date	0	–

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2019	**990**	**816**
Foreign exchange differences	24	8
Total comprehensive income	44	2
recognized in profit or loss	36	2
recognized in other comprehensive income	8	–
Additions (purchases)	35	1
Sales and settlements	–69	–32
Transfers into Level 2	–5	–4
Balance at Mar. 31, 2019	**1,016**	**790**
Total gains or losses recognized in profit or loss	**36**	**–2**
Other operating result	40	–2
of which attributable to assets/liabilities held at the reporting date	42	5
Financial result	–4	0
of which attributable to assets/liabilities held at the reporting date	4	–

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 further 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 March 31, 2019, earnings after tax would have been €60 million (previous year: €39 million) higher (lower). The equity is not affected.

The key risk variable for measuring options on equity instruments held by the Company is the relevant enterprise value. Sensitivity analyses are used to present the effect of changes in risk variables on earnings after tax.

If the assumed enterprise values at March 31, 2019 had been 10% higher, earnings after tax would have been €2 million (previous year: €3 million) higher. If the assumed enterprise values at March 31, 2019 had been 10% lower, earnings after tax would have been €2 million (previous year: €3 million) lower.

Residual value risks result from hedging agreements with dealers under which earnings effects caused by market-related fluctuations in residual values that arise from 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 of the used cars covered by the residual value protection model had been 10% higher as of March 31, 2019, earnings after tax would have been €328 million (previous year: €325 million) higher. If the prices of the used cars covered by the residual value protection model had been 10% lower as of March 31, 2019, earnings after tax would have been €354 million (previous year: €339 million) lower.

If the risk-adjusted interest rates applied to receivables measured at fair value had been 100 basis points higher as of March 31, 2019, earnings after tax would have been €2 million lower. If the risk-adjusted interest rates as of March 31, 2019 had been 100 basis points lower, earnings after tax would have been €2 million higher.

If the corresponding vehicle price used in the vehicle financing programs had been 10% higher as of March 31, 2019, earnings after tax would have been €7 million higher. If the corresponding vehicle prices used in the vehicle financing programs had been 10% lower as of March 31, 2019, earnings after tax would have been €7 million lower.

If the result of operations of equity investments measured at fair value had been 10% better as of March 31, 2019, the equity would have been €3 million higher. If the result of operations had been 10% worse, the equity would have been €3 million lower.

12. Cash flow statement

The cash flow statement presents the cash inflows and outflows in the Volkswagen Group and in the Automotive and Financial Services divisions. Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.

€ million	Mar. 31, 2019	Mar. 31, 2018
Cash, cash equivalents and time deposits as reported in the balance sheet	22,256	21,950
Time deposits	–2,516	–439
Cash and cash equivalents as reported in the cash flow statement	**19,740**	**21,511**

Cash inflows and outflows from financing activities are presented in the following table:

	Q1	
€ million	2019	2018
Capital contributions/capital redemptions	–	–
Dividends paid	–204	–204
Capital transactions with noncontrolling interest shareholders	–19	–
Proceeds from issuance of bonds	6,808	4,665
Repayments of bonds	–6,405	–2,213
Changes in other financial liabilities	–7,381	159
Repayments of lease liabilities	–197	–6
	–7,399	**2,401**

13. 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 and Light Commercial Vehicles, Commercial Vehicles, Power Engineering and Financial Services. As a result of an internal management change as from January 1, 2019, light commercial vehicles of the Volkswagen Commercial Vehicles brand are no longer allocated to the Commercial Vehicles segment, but reported under the Passenger Cars and Light Commercial Vehicles segment. The prior-year figures have been adjusted accordingly.

The activities of the Passenger Cars and Light Commercial Vehicles segment cover the development of vehicles and engines, the production and sale of passenger cars and light commercial vehicles, and the corresponding genuine parts business. In the Passenger Cars and Light Commercial Vehicles reporting segment, the individual brands are being combined into a single reportable segment, in particular as a response to the high degree of technological and economic interlinking in the production network. 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 trucks and buses, the corresponding genuine parts business and related services. Just as in the case of the car brands, there is collaboration within the areas procurement, development and sale. The aim is to achieve further forms of interlinking.

The activities of the Power Engineering segment consist of the development and production of large-bore diesel engines, turbo compressors, industrial turbines and chemical reactor systems, as well as the production of gear units, propulsion components and testing systems.

The activities of the Financial Services segment comprise dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility services. In this segment, combinations occur especially while taking into account the comparability of the type of services as well as the regulatory situation.

Purchase price allocation for companies acquired is allocated directly to the corresponding segments.

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

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.

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 Q1 2018[1]

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	44,239	5,479	766	7,758	58,243	–15	58,228
Intersegment sales revenue	3,226	255	1	726	4,208	–4,208	–
Total sales revenue	47,466	5,734	766	8,485	62,451	–4,223	58,228
Segment result (operating result)	4,209	312	–42	639	5,119	–908	4,211

1 The prior-year figures have been adjusted to reflect a change in the allocation of Light Commercial Vehicles of the Volkswagen Commercial Vehicles brand.

REPORTING SEGMENTS Q1 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	44,546	6,047	890	8,447	59,930	83	60,012
Intersegment sales revenue	3,116	258	1	788	4,163	–4,163	–
Total sales revenue	47,662	6,305	891	9,236	64,093	–4,081	60,012
Segment result (operating result)	3,086	420	–56	701	4,151	–283	3,868

RECONCILIATION

€ million	Q1 2019	2018
Segment result (operating result)	**4,151**	**5,119**
Unallocated activities	–20	14
Group financing	–16	–7
Consolidation	–248	–914
Operating result	**3,868**	**4,211**
Financial result	**203**	**266**
Consolidated earnings before tax	**4,071**	**4,477**

14. Related party disclosures

At 53.1%, Porsche SE held the majority of the voting rights in Volkswagen AG as of March 31, 2019.

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.

	SUPPLIES AND SERVICES RENDERED Q1		SUPPLIES AND SERVICES RECEIVED Q1	
€ million	2019	2018	2019	2018
Porsche SE and its majority interests	0	0	1	0
Supervisory Board members	0	1	0	0
Unconsolidated subsidiaries	325	303	384	391
Joint ventures and their majority interests	3,505	3,959	122	117
Associates and their majority interests	38	33	147	131
State of Lower Saxony, its majority interests and joint ventures	1	1	1	1

	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
€ million	Mar. 31, 2019	Dec. 31, 2018	Mar. 31, 2019	Dec. 31, 2018
Porsche SE and its majority interests	4	4	0	1
Supervisory Board members	0	0	178	205
Unconsolidated subsidiaries	1,274	1,319	1,814	1,869
Joint ventures and their majority interests	13,370	11,989	2,477	2,671
Associates and their majority interests	118	112	441	487
State of Lower Saxony, its majority interests and joint ventures	1	1	0	2

The tables above do not contain the dividend payments of €572 million (previous year: €27 million) received from joint ventures and associates.

Receivables from joint ventures are primarily attributable to loans granted in an amount of €7,269 million (December 31, 2018: €7,606 million) as well as trade receivables in an amount of €4,389 million (December 31, 2018: €4,045 million). Receivables from non-consolidated subsidiaries also result from loans granted in an amount of €672 million (December 31, 2018: €741 million) as well as trade receivables in an amount of €241 million (December 31, 2018: €214 million).

Transactions with related parties are conducted on an arm's length basis. Some of these transactions also include reservation of title clauses.

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.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €245 million (December 31, 2018: €239 million).

Impairment losses of €53 million (previous year: €20 million) were recognized on the outstanding related party receivables. In the first quarter of 2019, expenses of €0 million (previous year: €3 million) were incurred in this context.

In the first three months, the Volkswagen Group made capital contributions of €115 million (previous year: €86 million) at related parties.

15. Litigation

Diesel issue

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

In Italy, the court decision dismissing the class action filed by the consumer association Codacons as inadmissible has become legally final.

In Germany more than 60,000 individual lawsuits are now pending against Volkswagen AG or other Group companies, with the plaintiffs suing for damages or rescission of the contract in most cases.

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

The Braunschweig Office of the Public Prosecutor has now issued indictments against, among other persons, a former chairman of the Board of Management of Volkswagen AG. Based on the information available at the present time, no change in the risk situation of the Volkswagen Group results from the indictment of the former chairman of the Board of Management.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)

Holding that the factual situation at issue is by and large already covered by the model case proceedings being heard by the Braunschweig Higher Regional Court and that these proceedings, being paramount in this regard, preclude further such actions, the Stuttgart Higher Regional Court in March 2019 refused to proceed with the capital investor model case that had been referred to it by the Stuttgart Regional Court. The pertinent rulings by the Stuttgart Higher Regional Court are not yet legally final.

4. Proceedings in the USA/Canada

With respect to the consumer protection claims asserted by the New Mexico Attorney General, in March 2019 a New Mexico state court denied Volkswagen's motion to dismiss those claims against Volkswagen AG and certain affiliates, and in April 2019 the court declined to grant Volkswagen permission to appeal that decision.

Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliated companies continue to litigate claims asserted by the attorneys general of certain U.S. states and municipalities based on alleged violations of local environmental laws. In March 2019, the Tennessee Court of Appeals dismissed the claims of the Attorney General of the State of Tennessee as preempted by federal law. The State of Tennessee may file an application for permission to appeal. Also in March 2019, the New Mexico Attorney General voluntarily dismissed its environmental claims, and the Alabama Attorney General declined to appeal the dismissal of its claims against Volkswagen AG by the Alabama Supreme Court.

In March 2019 the U.S. Securities and Exchange Commission filed a lawsuit against Volkswagen AG, Volkswagen Group of America Finance, LLC, VW Credit, Inc. and a former chairman of the Board of Management of Volkswagen AG, asserting claims under U.S. federal securities law and alleging misstatements and omissions in connection with the offer and sale of certain bonds and asset-backed securities.

Additional important legal cases

In April 2019 the European Commission issued a statement of objections to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG in connection with the Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity to comment. Volkswagen will examine the statement of objections. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of SCR systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. Volkswagen has not yet been given access to the investigation files. In the same matter, the Chinese Competition Authority also issued an information request to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG in March 2019.

In the proceedings against a number of captive automobile finance companies regarding potential competition law infringements, Volkswagen AG and Volkswagen Bank GmbH filed an appeal in March 2019 against the administrative fine order issued by the Italian Competition Authority.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in fiscal year 2019 in the "Report on Expected Developments" and "Report on Risks and Opportunities" chapters – including the "Risks from the diesel issue" and "Litigation/ Diesel issue" sections and the underlying description of the issues in the chapter entitled "Diesel Issue" – of the combined management report in the 2018 Annual Report. In particular, there continue to be no conclusive findings or assessments available to the Board of Management of Volkswagen AG regarding the described facts, that would suggest that a different assessment of the associated risks should have been made.

16. Contingent liabilities

Compared with the 2018 consolidated financial statements, contingent liabilities increased by €0.8 billion to €10.7 billion, mainly due to the recognition of additional tax positions.

17. Other financial obligations

Other financial liabilities declined by €4.3 billion compared with the 2018 consolidated financial statements to reach €22.3 billion. The decline is mainly due to the initial application of IFRS 16 (see disclosures on IFRS 16). Higher obligations from credit commitments and a rise in the purchase order commitments for intangible assets and property, plant and equipment had an offsetting effect.

German Corporate Governance Code

The current declarations in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on the German Corporate Governance Code by the Board of Management and Supervisory Board of Volkswagen AG, AUDI AG, MAN SE and RENK AG are permanently available on the Internet at www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html, www.audi.com/cgk-declaration, www.corporate.man.eu/en/investor-relations/corporate-governance/corporate-governance-at-man/Corporate-Governance-at-MAN.html and www.renk-ag.com/en/investor-relations/financial-reports/ respectively.

Significant events after the balance sheet date

There were no events with a significant effect on net assets, financial position and results of operations after the end of the first three months of 2019.

Wolfsburg, April 30, 2019

Volkswagen Aktiengesellschaft

The Board of Management

Review Report

On completion of our review, we issued the following unqualified review report dated May 2, 2019. This report was originally prepared in German. In case of ambiguities the German version takes precedence:

To VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg

We have reviewed the condensed consolidated interim financial statements – comprising the condensed income statement and condensed statement of comprehensive income, condensed balance sheet, statement of changes in equity, condensed statement of cash flows and selected explanatory notes – and the interim group management report of VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, for the period from January 1 to March 31, 2019, which are part of the quarterly financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

We draw attention to the updated information provided in section “Key events” of the notes to the condensed consolidated interim financial statements and in chapter “Report on Expected Developments, Risks and Opportunities” of the interim group management report with regard to the Diesel Issue, which in addition to the explanations of allegations made and claims filed essentially refer to the information provided and statements made in the 2018 consolidated financial statements and in the group management report as at December 31, 2018.

Based on the results of the various measures taken to investigate the issue presented so far, which underlie these condensed consolidated interim financial statements and interim 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 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 condensed interim financial statements and interim group management report as well as on the annual and consolidated financial statements and on the group management report for the financial year 2018 and prior years.

The provisions for warranties and legal risks recorded so far are based on the presented state of knowledge. Due to the inevitable uncertainties associated with the current and expected litigation it cannot be excluded that a future assessment of the risks may be different.

Our opinions on the condensed consolidated interim financial statements and on the interim group management report are not modified in respect of this matter.

Hanover, May 2, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Harald Kayser Wirtschaftsprüfer (German Public Auditor)	Frank Hübner Wirtschaftsprüfer (German Public Auditor)

Glossary

Selected terms at a glance

Capitalization ratio

The capitalization ratio is defined as the ratio of capitalized development costs to total research and development costs in the Automotive Division. It shows the proportion of primary research and development costs subject to capitalization.

Driving Cycles

Levels of fuel consumption and exhaust gas emissions for vehicles registered in Europe were previously measured on a chassis dynamometer with the help of the "New European Driving Cycle (NEDC)". Since fall 2017, the existing test procedure for emissions and fuel consumption used in the EU is being gradually replaced by the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP). This applies for new vehicle types and all new vehicles. The aim of this new test cycle is to state CO_2 emissions and fuel consumption in a more practice-oriented manner. A further important European regulation is the Real Driving Emissions (RDE) for passenger cars and light commercial vehicles, which also monitors emissions using portable emission measuring technology in real road traffic.

Equity ratio

The equity ratio measures the percentage of total assets attributable to shareholders' equity as of a reporting date. This ratio indicates the stability and financial strength of the company and shows the degree of financial independence.

Gross margin

Gross margin is the percentage of sales revenue attributable to gross profit in a period. Gross margin provides information on profitability net of cost of sales.

Hybrid notes

Hybrid notes issued by Volkswagen are classified in their entirety as equity. The issuer has call options at defined dates during their perpetual maturities. They pay a fixed coupon until the first possible call date, followed by a variable rate depending on their terms and conditions.

Net cash flow

Net cash flow in the Automotive Division represents the excess funds from operating activities available for dividend payments, for example. It is calculated as cash flows from operating activities less cash flows from investing activities attributable to operating activities.

Net liquidity

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

Operating result

Sales revenue, which does not include the figures for our equity-accounted Chinese joint ventures, reflects our market success in financial terms. Following adjustment for our use of resources, the operating result reflects the Company's actual business activity and documents the economic success of our core business.

Operating return on sales

The operating return on sales is the ratio of the operating result to sales revenue.

Ratio of capex to sales revenue

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

Research and development ratio

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

Return on sales before tax

The return on sales is the ratio of profit before tax to sales revenue in a period, expressed as a percentage. It shows the level of profit generated for each unit of sales revenue. The return on sales provides information on the profitability of all business activities before deducting income tax expense.

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FINANCIAL CALENDAR

May 14, 2019 Volkswagen AG Annual General Meeting
July 25, 2019 Half-Yearly Financial Report 2019
October 30, 2019 Interim Report January – September 2019

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www.volkswagenag.com/en/InvestorRelations.html

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