VOLKSWAGEN

AKTIENGESELLSCHAFT

Interim Report

JANUARY – SEPTEMBER 2018

Key Figures

VOLKSWAGEN GROUP

	Q3			Q1–3		
	2018	2017[1]	%	**2018**	2017[1]	%
Volume Data[2] in thousands						
Deliveries to customers (units)	2,611	2,651	–1.5	8,130	7,806	+4.2
Vehicle sales (units)	2,548	2,642	–3.6	8,123	7,913	+2.7
Production (units)	2,393	2,606	–8.2	8,179	8,039	+1.7
Employees (on Sept. 30, 2018/Dec. 31, 2017)				660.6	642.3	+2.9
Financial Data (IFRSs), € million						
Sales revenue	55,200	54,716	+0.9	174,577	170,065	+2.7
Operating result before special items	3,511	4,315	–18.6	13,306	13,231	+0.6
Operating return on sales before special items (%)	6.4	7.9		7.6	7.8	
Special items	–800	–2,595	–69.2	–2,435	–2,595	–6.2
Operating result	2,711	1,720	+57.6	10,871	10,636	+2.2
Operating return on sales (%)	4.9	3.1		6.2	6.3	
Earnings before tax	3,546	1,491	x	12,518	10,290	+21.7
Return on sales before tax (%)	6.4	2.7		7.2	6.1	
Earnings after tax	2,764	1,069	x	9,376	7,543	+24.3
Automotive Division[3]						
Total research and development costs	3,104	3,084	+0.6	9,850	9,844	+0.1
R&D ratio (%)	6.6	6.7		6.6	6.8	
Cash flows from operating activities	4,723	6,007	–21.4	14,931	8,040	+85.7
Cash flows from investing activities attributable to operating activities[4]	4,580	4,159	+10.1	11,441	10,988	+4.1
of which: capex	3,455	2,930	+17.9	7,853	7,089	+10.8
capex/sales revenue (%)	7.4	6.3		5.3	4.9	
Net cash flow	144	1,848	–92.2	3,490	–2,948	x
Net liquidity at Sept. 30				24,794	25,443	–2.6

1 Adjusted
2 Volume data including the unconsolidated Chinese joint ventures. These companies are accounted for using the equity method. Prior-year deliveries updated to reflect subsequent statistical trends.
3 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
4 Excluding acquisition and disposal of equity investments: Q3 €4,448 (4,148) million, Q1–3 €11,230 (11,001) million.

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 customers of the Volkswagen Group 4.2% higher year-on-year at 8.1 million vehicles despite challenges arising from the WLTP test procedure; growth primarily in Europe, South America and Asia-Pacific
- Group sales revenue up by €4.5 billion to €174.6 billion due to volume-related factors; exchange rate effects negative, as expected
- At €13.3 (13.2) billion, operating profit before special items remains at the previous year's level
- Operating profit climbs by €0.2 billion to €10.9 billion; negative special items in connection with the diesel issue of €–2.4 (–2.6) billion
- Profit before tax increases by €2.2 billion to €12.5 billion
- Automotive Division's net cash flow up by €6.4 billion to €3.5 billion with much lower cash outflows attributable to the diesel issue; capex ratio of 5.3 (4.9)%
- Net liquidity in the Automotive Division at €24.8 billion
- Exciting products:
  - Volkswagen Passenger Cars provides initial glimpses of the modular electric drive toolkit, the technological basis of the ID. family
  - Audi celebrates the world premiere of the e-tron, the brand's first all-electric model for series production
  - ŠKODA produces its millionth SUV at the Kvasiny plant
  - SEAT continues its SUV initiative with the Tarraco
  - Porsche unveils the new Macan
  - Volkswagen Commercial Vehicles impresses at the IAA Commercial Vehicles in Hanover with numerous examples of electric mobility in this field
  - Scania and MAN showcase pioneering solutions for the next generation of transport

Key Events

MOTOR SHOWS AND EVENTS

The Volkswagen Group brands presented impressive new products at numerous motor shows and events in the third quarter of 2018.

World Premiere of Volkswagen's Modular Electric Drive Toolkit

In September 2018, Volkswagen unveiled the chassis for its new ID. family of electric models and gave media representatives from all around the world an insight into its platform strategy for electrical vehicles. The Modular Electric Drive Toolkit (MEB) – on which the ID. chassis is based – is intended to translate electric mobility into mass mobility at affordable prices. At the Gläserne Manufaktur in Dresden, participants also learned further details about the high-voltage battery at the heart of the MEB. The all-electric ID. family will be manufactured in Zwickau from late 2019, based on the MEB. By the end of 2022, the Volkswagen Group will start production of 27 MEB vehicles worldwide belonging to five Group brands. These will range from compact small cars to SUVs and the lifestyle version of the VW campervan. Approximately ten million Group vehicles based on the MEB are planned in the first phase. Volkswagen is also taking the initiative in terms of charging infrastructure, with the design prototype of the "Volks-Wallbox" on show in Dresden for the first time. The device is designed to enable simple and convenient home charging for the ID. family.

Audi Launches Electrification Offensive

The Audi brand started its electrification offensive in September 2018 with the world premiere of the e-tron. The SUV is the first all-electric production model from the brand with the four rings. Two powerful electric motors drive the e-tron environmentally friendly and virtually silent. The electric all-wheel drive system, a new generation of the quattro drive, provides outstanding traction and dynamics. A key factor in the vehicle's sporty character and excellent lateral dynamics is the low and central positioning of the vehicle's battery system, which also has a range suitable for long distances. Extensive recuperation functions and the electrohydraulic integrated braking control system in combination with sophisticated aerodynamics help to increase efficiency. The optional virtual wing mirrors are a highlight of the vehicle. These not only reduce wind resistance but also take in-car digitalization to a new level. By 2025, Audi plans to offer 12 automobiles with an all-electric drive – from the compact to the premium segment – in the most important markets around the world.

World Premiere of the new Porsche Macan

Porsche unveiled its new Macan in Shanghai in July 2018. The compact SUV has been a great success since its launch in 2014 and has now been extensively enhanced in terms of its design, comfort, connectivity and driving dynamics, allowing the Macan to remain the sporty flagship in its segment. Styled with the Porsche design DNA, the new Macan comes with a three-dimensional LED tail light strip. In the future, LED technology will also feature in the headlights as standard. The most striking innovations inside the vehicle are the 10.9-inch touchscreen for the new Porsche Communication Management (PCM), the redesigned and repositioned air vents and the GT sports steering wheel as seen in the 911. The PCM enables access to new digital functions, such as intelligent voice control and the online navigation provided as standard. The vehicle's range of comfort equipment has been expanded to include a Traffic Jam Assist system, a heated windshield and an ionizer to improve interior air quality.

World Premiere of the SEAT Tarraco

SEAT celebrated the debut of the new Tarraco in September 2018. The Spanish brand's flagship is based on the MQB and complements SEAT's model range. It is the largest member of SEAT's SUV family, which also includes the Arona and Ateca. The Tarraco mixes state-of-the-art technology, dynamic, agile handling, and limitless practicality and functionality with elegant, progressive design. Its prominent grill and sharp LED headlights showcase the design language of future SEAT models. The interior offers plenty of space with up to seven seats. The new Tarraco boasts a series of driver assistance systems that make driving safer and more comfortable even in demanding conditions. Lane Assist and Front Assist with City Emergency Braking System are fitted as standard. Other systems such as Blind Spot Monitor, Traffic Jam Assist, Light Assist and Emergency Assist are available as options. The state-of-the-art engines are equipped with direct injection, a turbocharger and start-stop technology.

IAA Commercial Vehicles in Hanover

At the IAA Commercial Vehicles in Hanover, Volkswagen Commercial Vehicles presented a wealth of new solutions for sustainable transport of people and goods in urban areas. The ABT e-Caddy and ABT e-Transporter all-electric conversions, which have been jointly developed with strategic partner ABT, were exhibited for the first time. They are designed for urban traffic and will close the gap in the brand's electric model range. With a top speed of 120 km/h, the ABT e-Caddy can cover approximately 200 km on a single battery charge. Due to launch in the middle of next year, it will have a load volume of 4.2 m^3, making it one of the most spacious electric vehicles in its class. With the ABT e-Transporter, Volkswagen Commercial Vehicles is electrifying its versatile bestseller. Depending on the configuration of its scalable battery system, the zero-emission van can cover up to 400 km on electric power alone.

Volkswagen Commercial Vehicles also presented another world premiere: the ID. BUZZ CARGO concept car. All-electric, connected and automated for the urban traffic of tomorrow, the vehicle offers a host of design solutions and maximum comfort for the driver. Service technicians or maintenance engineers, for example, can use an interior electric shelving system that connects to their order management and ordering system. Following the e-Crafter, launched on the market in September as the brand's first large zero-emission van to mark the start of the e-mobility offensive, Volkswagen Commercial Vehicles showcased another electric model from the Crafter range in Hanover: the Crafter HyMotion concept. The Crafter HyMotion is an electric-powered van that runs on energy supplied by a fuel cell. Its tanks have a modular design and enable a range of 350 to 500 km.

The commercial vehicle brands MAN and Scania sent an impressive message about the partnership within the TRATON GROUP at the kick-off of the IAA Commercial Vehicles by driving a platoon of vehicles built by both brands onto the exhibition center in Hanover. Platooning is a possible form of automated driving in which vehicles are connected digitally and drive in a convoy, each vehicle closely following the one in front. This reduces fuel consumption and CO_2 emissions as well as considerably improving safety.

MAN used the IAA Commercial Vehicles to provide straightforward answers to complex questions about e-mobility and digitalization. Alongside the all-electric MAN eTGM distribution truck, the long-established Munich-based company also showed off the MAN eTGE, a battery electric version of the new MAN van. This makes MAN one of the first manufacturers to present all-electric solutions for the full range of city logistics applications between 3 and 26 tonnes. The vehicles are emissions-free and therefore contribute to improving the urban air quality. They are also quiet, enabling increased use at night, for example in supplying businesses. MAN is taking another step forward with the MAN CitE concept, an electric truck full of creative solutions for urban delivery traffic. An unusually low entry and extra wide doorways, an ergonomically optimized cab, large side windows and a 360-degree camera system mean drivers can work safely and comfortably day in, day out. The CitE has a range of up to 100 km – more than enough for deliveries in cities. From its bus range, MAN presented the production-bound prototype the MAN Lion's City E. This electric bus is powered by a motor positioned centrally on the axle, thus creating space for an optimized seating area at the rear with four additional seats. The batteries are crash-safe and located on the roof to save space. They enable a range of up to 270 km and can be charged in just three hours. MAN also presented new tailor-made solutions from MAN DigitalServices in Hanover.

All the vehicles presented by Scania at the IAA Commercial Vehicles had alternative drives. They included a new-generation hybrid truck for urban delivery traffic. This is powered by the Scania DC09, an inline five-cylinder engine that can run on HVO (hydrotreated vegetable oil) or diesel, working in parallel with a 130 kW (177 PS) electric motor. The new Scania Zone service helps to ensure all local emissions rules and speed limits are adhered to when the vehicle is in the relevant geographical area. Scania also celebrated the world premiere of its first alternative-fuel coach in Hanover. Powered by liquefied natural gas (LNG), the Scania Interlink MD has a range of up to 1,000 km and offers a modern, future-proof alternative given the high availability of LNG. Visitors to the trade fair could also view the electric city bus Citywide and find out about the many services offered by Scania.

The South American brand Volkswagen Caminhões e Ônibus exhibited the e-Delivery in Hanover which features a new drivetrain and battery pack. The electric truck has a power output of 260 kW (353 PS) and a range of more than 200 km. The e-Flex Volksbus was also on show at the trade fair stand. The model is based on a flexible architecture that can accommodate all types of e-mobility: from hybrid drive to plug-in hybrid and all-electric traction.

AWARDS

In early July 2018, the Volkswagen Passenger Cars brand won the "Plus X Award" as the Most Innovative Brand Of The Year for the third time in a row. Volkswagen impressed the independent, international jury – comprised this year of experts from 26 industries – with a superbly positioned product portfolio addressing many different customer needs. In addition, Volkswagen Passenger Cars was awarded the title "Best Automotive Brand 2018" in the automotive manufacturer category. The Plus X Award is one of the world's biggest innovation prizes for technology, sport and lifestyle.

In July 2018, the international market research institute J.D. Power crowned the Audi Q5 as the winner in the compact SUV vehicle category based on a long-term satisfaction study. Approximately 15,000 people who had been driving their vehicle for around two years were asked in an online interview about their experiences in terms of its quality and reliability, appeal and running costs.

Also in July 2018, Volkswagen's main plant in Wolfsburg won the "Automotive Lean Production Award", which is presented annually by the industry magazine Automobil Produktion and consulting company Agamus Consult. The expert jury noted that the main plant in Wolfsburg is on course toward greater productivity and efficiency. Lean solutions were evaluated in more than 50 working areas in the plant's press, body and paint shops and in assembly and logistics, including in the context of Industry 4.0.

MAN Truck & Bus received the accolade "Fleet Truck of the Year 2018" for its TGX at the British "Motor Transport Awards" in July 2018. High efficiency, low operating costs and driver comfort won over the jury. The "Motor Transport Awards" have been regarded as the benchmark of excellence among British fleet operators for the last 32 years.

The Volkswagen Passenger Cars brand's Touareg achieved the best rating of five stars for the Euro NCAP's crash test in September 2018. Furthermore, the Audi A6 impressed the crash test experts, who gave the model a five-star rating as well. The overall safety rating is comprised of results from the four categories – Adult Occupant Protection, Child Occupant Protection, Pedestrian Protection and Safety Assist. Euro NCAP has been setting strict standards for the safety level of automobiles in Europe for 20 years.

In September 2018, MAN Truck & Bus also won the first "Truck Innovation Award" for 2019, which was awarded by the International Truck of the Year (IToY) jury for the company's aFAS (automatic driverless safety vehicle on highways). The vehicle is an automated safety truck, developed for the purpose of securing mobile roadwork sites on highways.

In the poll of readers of the car magazine auto motor und sport, the Volkswagen Passenger Cars and Audi brands won the "Car Connectivity Award" in six categories in September 2018. Over 10,500 participants voted online on connectivity technologies and vehicles in eleven categories. The Volkswagen Passenger Cars brand's We-Park app proved convincing in the value-for-money stars category. Audi was voted into the top spot in the connected cars category with its A8 model. The Bang & Olufsen Advanced Sound System in the Audi A7 Sportback was chosen as the best sound system, and the Audi MMI Navigation plus as the best navigation system. Audi also took first place in the categories for comfort- and safety-related assistance systems.

In the Autonis competition, also organized by auto motor und sport in September 2018, approximately 12,000 participants voted for their favorite designs online. The magazine's readers were impressed by the up! GTI from Volkswagen Passenger Cars , which won in the minicar category. Porsche was honored as the winner of the sports cars category for its 911 GT3. Audi won the interior design brand 2018 category.

The German Design Council awarded the Volkswagen Group with several accolades in September 2018 as part of its Automotive Brand Contest. The Volkswagen Passenger Cars brand was bestowed the highest honor, with the T-Roc being named "Best of Best" in the exterior volume brand category. The Touareg was selected as "Best of Best" in the interior category. In addition, the ID. VIZZION was awarded a prize in the concepts category. The SEAT brand's CUPRA eRacer, the world's first all-electric touring car, was the winner in the same category. The Continental GT from Bentley was awarded the title "Best of Best" in the exterior premium brand and interior categories. The renowned design prize is the only international design competition for automotive brands and is among the most important industry events. The independent expert jury is comprised of representatives from the worlds of media, design, communication and academia.

ANNIVERSARIES

In August 2018, the millionth SUV rolled off the production line at the ŠKODA plant in Kvasiny, Czech Republic. The anniversary model was a Karoq in Emerald Green Metallic.

Also in August 2018, the Volkswagen Passenger Cars brand's Mexican plant in Puebla celebrated completion of the 12 millionth vehicle since production started in 1967 – a Tiguan in Habanero Orange. Puebla is Volkswagen Passenger Cars' second largest plant outside Europe.

PARTNERSHIPS

In early July 2018, Volkswagen Group China and SEAT signed a memorandum of understanding with Anhui Jianghuai Automobile Group Corp. Ltd. (JAC). Together, the three parties want to create a new research and development center focusing on electric vehicles and technologies for connectivity and autonomous driving, and to establish their own powerful platform on the market for battery-powered vehicles.

In July 2018, Volkswagen Group China signed memorandums of understanding with long-standing joint venture partner FAW Group, and China Intelligent and Connected Vehicles (Beijing) Research Institute Co. Ltd. on electric mobility, connectivity, mobility services and autonomous driving. The aim is to work with the Chinese partners to systematically drive forward the large-scale electric campain in China and the use of new technologies.

TRATON AG and Hino Motors intensified their strategic partnership in September 2018, the goal of which is to establish a joint venture for procurement purposes and the pooling of their strengths in the field of electromobility. Hino has operated in the field of electrified vehicles for more than 25 years and has one of the world's largest hybrid commercial vehicle fleets.

September 2018 also marked the announcement of the further expansion of the long-term partnership between TRATON AG and the Chinese-based CNHTC Group (Sinotruk). The goal is to establish a new joint venture for the purpose of developing a heavy truck from MAN for China. Moreover, the cooperation is intended to be evaluated and intensified in the areas of technology and procurement.

In late September 2018, Volkswagen agreed a strategic partnership with Microsoft to jointly develop the Volkswagen Automotive Cloud. The partnership will lay the foundation for combining the global cloud expertise of Microsoft with the experience of Volkswagen as an automaker with a global market presence. With this move, Volkswagen is taking a decisive step in its transformation into a mobility provider with a fully connected vehicle fleet and the digital ecosystem "Volkswagen We". By establishing the Volkswagen Automotive Cloud, the Company wants to extend digital services to include its entire fleet in the future. Long term, the solutions developed are also to be rolled out to other Group brands in all regions of the world.

NEW PRODUCTION SITES IN CHINA

As part of its localization strategy for China, the Volkswagen Group opened three new FAW-Volkswagen vehicle plants in China by the end of August 2018 in Qingdao, Foshan and Tianjin, as well as the Volkswagen FAW Platform Tianjin Branch component plant. At the Tianjin plant, 300,000 SUV models shall roll off the assembly line each year, forming the basis for Volkswagen Group China's SUV campaign. Vehicle and component plants have been combined at a single location in Tianjin in order to take advantage of further synergy effects with the existing transmission plant and improve the efficiency of production. The opening of the second vehicle-manufacturing plant in Foshan with a total capacity of 600,000 vehicles a year plays a seminal role in the Volkswagen Group's "Roadmap E" electrification strategy. The production of vehicles on the Modular Electric Drive Toolkit (MEB) and the MEB battery systems shall commence there by 2020. In Qingdao, too, electric vehicles will be built alongside models with combustion engines in future. In addition, the production of battery systems for the MQB platform will take place there. All four new factories considerably improve Volkswagen Group China's flexibility to respond more quickly to customer needs.

EXTRAORDINARY NOTICE OF TERMINATION OF THE CONTROL AND PROFIT AND LOSS TRANSFER AGREEMENT WITH MAN SE

On August 22, 2018, TRATON AG (formerly Volkswagen Truck & Bus AG), a wholly owned subsidiary of Volkswagen AG, terminated the control and profit and loss transfer agreement with MAN SE by extraordinary notice with effect from January 1, 2019.

As part of the award proceedings conducted by the Higher Regional Court in Munich regarding the appropriateness of the cash settlement and the right to compensation for the noncontrolling interest shareholders of MAN SE, the final decision to raise the cash settlement amount set out in the contract to €90.29 per share and the annual compensation to €5.47 gross per share had already been made. This results in a significant increase of the annual compensation to be paid to noncontrolling interest stakeholders of MAN SE. In the opinion of the Board of Management at TRATON AG, this is no longer proportionate to the profit transfer of MAN SE and other benefits stipulated in the control and profit and loss transfer agreement, therefore TRATON AG has exercised its right to extraordinary termination in accordance with Section 304(4) of the German Stock Corporation Act.

Following the announcement of the termination of the control and profit and loss transfer agreement and the recording thereof in the commercial register in the beginning of 2019, the noncontrolling shareholders of MAN SE will, pursuant to provisions of the BGAV, gain the right to tender their shares to TRATON AG at a cash compensation price amounting to €90.29 during and in the two months following.

DIESEL ISSUE

In October 2018, the Munich II public prosecutor's office issued AUDI AG an administrative order in connection with deviations from regulatory specifications for certain V6/V8 diesel engines and diesel cars manufactured or sold by AUDI AG. The administrative order imposes a fine of €800 million in total, comprising of the maximum legal penalty of €5 million for negligent breaches of monitoring obligations in the organizational unit "Emissions Service/Engine Authorization" and a disgorgement of economic benefits in the amount of €795 million. Following thorough examination, the fine has been accepted, has been paid in full by AUDI AG and is therefore legally binding. As a result of the administrative order, the ongoing misdemeanor proceeding against AUDI AG will be settled.

MATTERS RELATING TO THE BOARD OF MANAGEMENT

Effective September 1, 2018, Mr. Stefan Sommer became the member of the Group Board of Management responsible for Components and Procurement. Mr. Sommer succeeds Mr. Francisco Javier Garcia Sanz, who left the Company in April 2018 of his own volition.

With effect from October 2, 2018, Mr. Rupert Stadler left the Board of Management of Volkswagen AG and the Board of Management of AUDI AG. On the same day, the Supervisory Boards of both companies approved a corresponding agreement for the termination of his posts as well as his employment contracts.

Volkswagen Shares

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

The DAX was down on the end of 2017. Uncertainty regarding the economic policy of the US government, the monetary policy of both the US Federal Reserve and the European Central Bank, and economic risks from some countries had a lasting negative impact on share listings. The promising economic performance of important industrialized nations and the formation of governments in EU countries had a positive impact.

In the first nine months of 2018, Volkswagen AG's preferred and ordinary shares followed the falling market trend amid high volatility. Strong liquidity and the enhancement of the management structure at the Volkswagen Group provided a positive impetus. Share listings were negatively impacted, especially by uncertainty about the future regulatory framework for diesel and electric vehicles, the diesel issue, the US tariff policy and the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure), the test procedure for determining pollutant and CO_2 emissions and fuel consumption in passenger cars and light commercial vehicles.

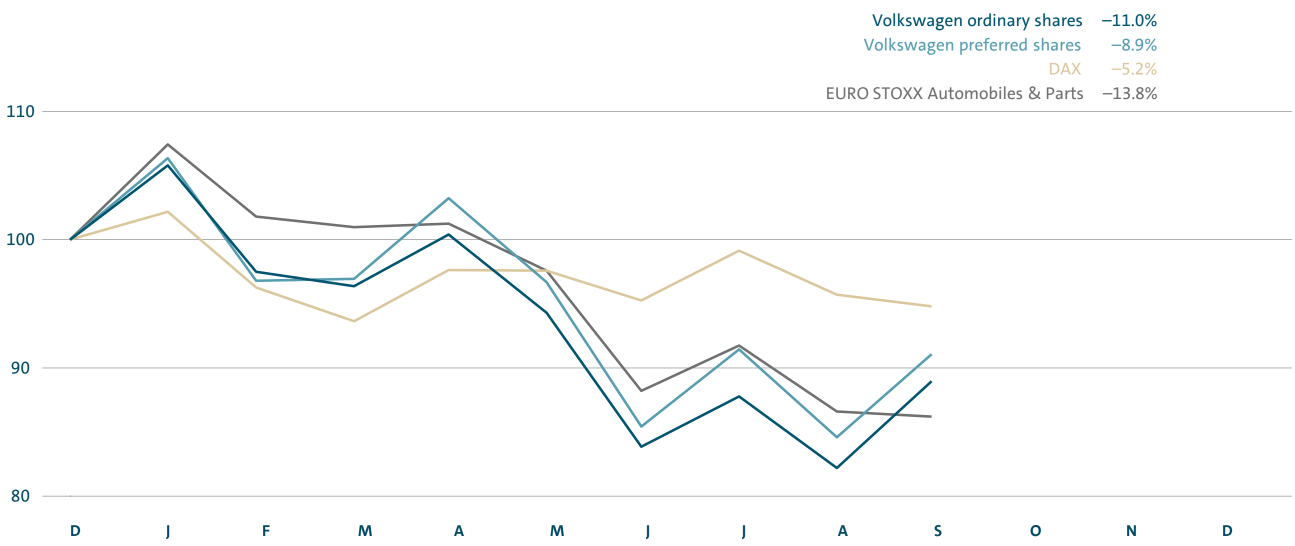
Information and explanations on earnings per share can be found in the notes to the interim consolidated financial statements. Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website at www.volkswagenag.com/ir.

VOLKSWAGEN KEY SHARE FIGURES AND MARKET INDICES FROM JANUARY 1 TO SEPTEMBER 30, 2018

		High	Low	Closing
Ordinary share	Price (€)	188.00	133.70	150.10
	Date	Jan. 22	Sept. 5	Sept. 28
Preferred share	Price (€)	188.50	136.08	151.60
	Date	Jan. 22	Sept. 7	Sept. 28
DAX	Price	13,560	11,787	12,247
	Date	Jan. 23	Mar. 26	Sept. 28
ESTX Auto & Parts	Price	656	495	512
	Date	Jan. 22	Sept. 11	Sept. 28

PRICE DEVELOPMENT FROM DECEMBER 2017 TO SEPTEMBER 2018

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



Business Development

GENERAL ECONOMIC DEVELOPMENT

The global economy continued its robust growth in the first nine months of 2018, though the rate of growth tapered off during this period. While the average expansion rate of gross domestic product (GDP) was up slightly year-on-year in the advanced economies, it remained steady in the emerging markets. The majority of energy and commodity prices increased compared with the prior-year period amid a still comparatively low interest rate level. Growing upheaval in trade policy at international level led to substantially increased uncertainty.

As a whole, the economies of Western Europe recorded solid growth from January to September 2018, albeit with a decline in momentum. This trend was seen in the majority of both the Northern and Southern European countries.

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

In the economies of Central Europe, growth rates remained relatively high in the first three quarters of 2018. In Eastern Europe, the higher energy price level compared to the prior-year period boosted economic growth. Russia's economy slowly continued its economic recovery.

Turkey saw a major economic downturn after the first half of the year. Amid persistent structural deficits and political challenges, the growth rate of South Africa's GDP decreased in the first nine months of 2018 compared with the same period of the previous year.

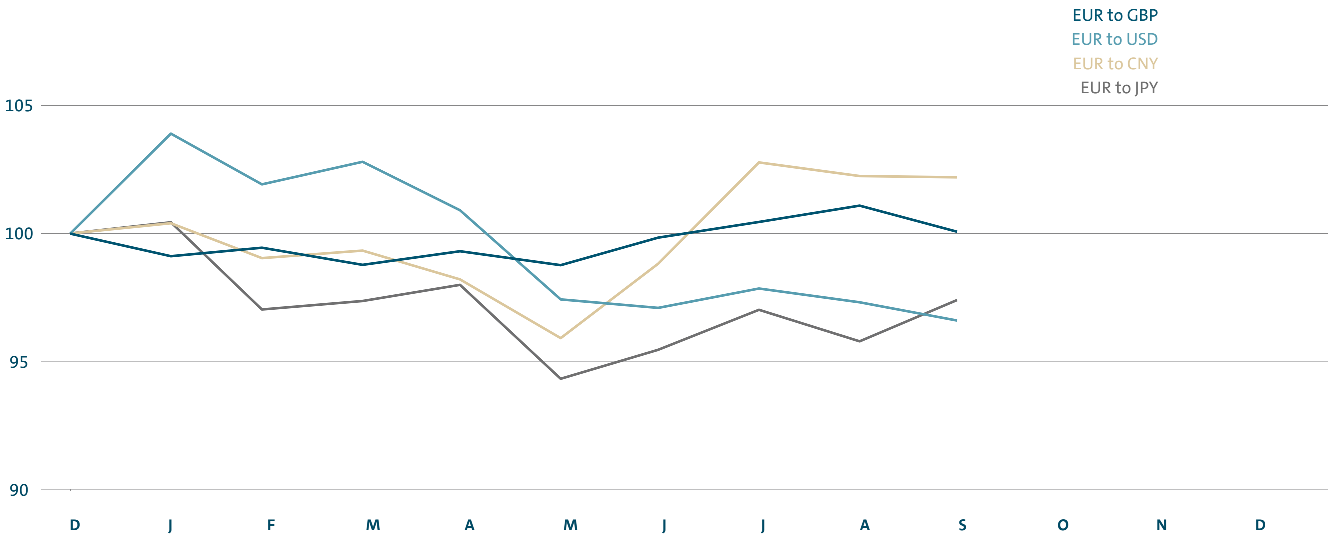
The pace of growth in the US economy continued to increase in the reporting period, with considerable stimulus being provided by private domestic demand. Given the stable situation in the labor market and the expected inflation trend, the US Federal Reserve gradually raised its key interest rate. Momentum decreased in both Canada and Mexico compared to the corresponding prior-year period.

Brazil left the economic downswing behind and continued the slight economic growth seen in the preceding quarters; the situation in South America's largest economy nevertheless remained tense. The deterioration in Argentina's economic situation became pronounced in the first nine months of 2018 amid persistently high inflation. Given the difficult situation, the government requested financial aid from the International Monetary Fund.

The high growth momentum in the Chinese economy remained virtually unchanged during the reporting period. In the context of the trade disputes with the United States, the Chinese government reacted by stepping up state support

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2017 TO SEPTEMBER 2018

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



measures. Strong economic expansion in India set this country apart from the majority of emerging markets, though the growth dynamic decreased on a high level as the year went on. Japan registered weaker GDP growth than in the same period of the previous year.

TRENDS IN THE PASSENGER CAR MARKETS

Global demand for passenger cars increased in the period from January to September 2018 (+1.2%). It thus exceeded the comparable prior-year figure for the ninth year in a row. While demand in Western Europe and Asia-Pacific rose only slightly, the Central and Eastern Europe regions and South America recorded higher increases. By contrast, sales in North America were down slightly on the prior-year figure.

In Western Europe, demand for passenger cars in the reporting period was slightly up on the prior-year level due to the positive development in the second quarter. The change-over to the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) as of September 1, 2018 led to pull-forward effects in the months of July and August and to significant declines in September. On the whole, growth slowed down year-on-year. New vehicle registrations were mixed in the largest single markets. Attractive incentive programs in particular led to a double-digit growth rate in the Spanish market. In France, the increase in passenger car sales was underpinned by the positive macroeconomic environment. By contrast, new registrations in Italy declined slightly overall due to falling private demand. This was influenced, among other things, by the political uncertainty during the formation of a new government. In the UK, new registrations fell considerably short of the previous years' high levels. The uncertain outcome of the Brexit negotiations between the EU and the UK weighed on demand. The share of new registrations for diesel vehicles (passenger cars) in Western Europe slipped to 36.8 (45.3)% in the period from January to September 2018.

In Germany, the number of new passenger car registrations in the first nine months of 2018 exceeded the previous year's figure. This was the second best figure since 1999. In addition to the continuing positive economic situation, sales incentives from dealers, particularly in the form of an environmental bonus, underpinned the very high level of sales. This positive performance was driven exclusively by the large increase in private registrations.

In the Central and Eastern Europe region, demand for passenger cars in the reporting period showed another significant year-on-year rise compared with the first three quarters of 2017. The EU markets in Central Europe recorded positive rates of change. The number of new passenger car registrations also rose further in Eastern Europe. This was due in particular to the strong rise in the Russian market – bolstered by government programs to promote sales.

The Turkish passenger car market recorded a substantial drop in demand, due in particular to the deteriorating macroeconomic situation. In the South African passenger car market, new registrations in the first nine months of 2018 were almost in line with the weak level seen in the previous year. The changed political environment following the new presidency had hardly any positive impact on domestic sales.

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 situation in the USA, which remained stable at a high level, was driven by the favorable labor market and the greater purchasing power of consumers. The shift in demand from traditional passenger cars to light commercial vehicles such as SUV and pickup models continued in the reporting period. The Canadian automotive market fell just short of the previous year's all-time high due to the decline in sales since the second quarter. In Mexico, the number of vehicles sold was considerably lower than the high figure seen in the comparable prior-year period.

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles in the first nine months of 2018 witnessed a significant improvement on the previous year's low level. Brazil's recovery in the demand for automobiles, which had begun over the course of 2017, maintained its rapid pace. However, the number of new vehicle registrations was still markedly lower than the record level achieved in 2012. In Argentina, the deterioration in the macroeconomic situation also had a negative impact on demand for passenger cars and light commercial vehicles from June 2018 onwards. Overall, this led to a slight decrease in new vehicle registrations year-on-year.

The number of new passenger cars registered in the Asia-Pacific region increased further in the reporting period. However, the volume of demand in the Chinese passenger car market from January to September 2018 was only slightly higher than in the prior-year period. The trade dispute between China and the United States dampened business and consumer confidence, among other things, and brought about a significant market decline in the third quarter. Passenger car sales in India reached a new record high in the reporting period. The strong growth, particularly in the first half of the year, was especially due to relief provided by the uniform goods and services tax introduced throughout the country on July 1, 2017, coupled with attractive price and financing options. In contrast, the Japanese passenger car market remained slightly down on the comparable prior-year volume. One reason for this decline was the subsiding impact stemming from the introduction of new models.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Global demand for light commercial vehicles was down slightly on the previous year in the period from January to September 2018.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new registrations in Western Europe were slightly higher than the prior-year level. Demand in Germany was also up year-on-year in the reporting period.

Registration volumes of light commercial vehicles in Central and Eastern Europe recorded a noticeable increase compared with the previous year. Registrations in Russia between January and September 2018 were likewise perceptibly higher than in the previous year.

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

In the Asia-Pacific region, demand for light commercial vehicles declined slightly compared with the previous year. Registration volumes in China, the region's dominant market and the largest market worldwide, fell significantly year-on-year. In part, the number of new vehicle registrations in India, Thailand and Indonesia saw a strong increase versus the previous year.

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 above the prior-year figure between January and September 2018.

Demand in Western Europe saw a slight increase over the 2017 level. New registrations in Germany, Western Europe's largest market, were also slightly up on the prior-year figure in the first nine months of 2018. While demand in the United Kingdom saw a moderate decline, it rose in Italy, France and Spain – in some cases considerably.

In the Central and Eastern Europe region, the positive economic performance led to much higher registration volumes compared with the previous year. Demand in Russia also recorded a significant increase on the back of the continued recovery of the economy and demand for replacement vehicles.

There was a strong increase in the volume of registrations in South America compared to the first nine months of 2017. In Brazil, the region's largest market, demand for trucks grew very sharply compared with the low figure for the prior-year period as a consequence of the economic recovery. In contrast, a noticeable decrease in registration volumes was seen in Argentina.

Demand for buses in the markets that are relevant for the Volkswagen Group was above the prior-year level in the period from January to September 2018. The markets in Brazil as well as in Central and Eastern Europe contributed in particular to this growth. Demand in Western Europe was up slightly on the prior-year level.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

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

In the first nine months of 2018, the marine market saw a continuation of the muted order activity and thus remained flat on the previous year. In the transport sector a recovery was noticeable in terms of containers and LNG carriers, though demand for bulk carriers and tankers decreased. Demand for cruise ships, passenger ferries, fishing vessels, dredgers and government vessels remained steady. In the offshore sector, the existing excess market capacity continued to curb investment in offshore oil production. On account of low market volumes, all market segments are continuing to experience significant competitive pressure and a sharp drop in prices as a result.

The market for power generation showed a slight recovery compared with the same period the previous year. Higher demand was registered in all areas of application and for gas in particular. This confirms the shift away from oil-fired power plants towards dual-fuel and gas-fired power plants. Demand for energy solutions remains high, with a strong trend towards greater flexibility and decentralized availability. The economies of key emerging markets recovered somewhat. However, continued strong pressure from competition and pricing is discernible in all projects, and this is 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.

From January to September 2018, the market for turbomachinery improved somewhat year-on-year. Demand stemming from the raw materials, oil, gas and processing industry increased slightly but was volatile owing to political uncertainty. Power generation has been partially impacted by the existing excess capacity; however, signs point towards a slight recovery, especially in regions with a low level of electrification. Although pressure from competition and pricing was somewhat lower compared to the prior-year quarter, the overall level remained high due to low demand and market volatility.

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were in high demand in the first nine months of 2018, which was primarily due to the positive development of the overall market for passenger cars and the persistently low key interest rates in the main currency areas.

Higher vehicle sales gave a boost to the European market. Nearly all countries experienced higher contract growth in financing and leasing. The used-vehicle market expanded, particularly in Western and Central Europe. After-sales products such as inspection contracts, maintenance and spare parts agreements and, in particular, automotive-related insurance were also in high demand in the first nine months of 2018.

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.

Demand for financing and insurance products in South Africa was steady.

In the US and Mexican markets, automotive financial services remained very popular in the period from January to September 2018.

In the Brazilian market, the recovery in demand for automobiles that began in 2017 continued to pick up the pace. The consumer credit business and sales of the country-specific financial services product Consorcio, a lottery-style savings plan, grew in the reporting period. The most recent economic crisis in Argentina put an end to the latest upward trend. The sharp rise in interest rates poses a challenge for the sales of financing and leasing products.

Demand for automotive financial services across the Asia-Pacific region was mixed in the first nine months of 2018. In China, the proportion of loan-financed vehicle purchases rose compared with the prior-year period. Despite increasing restrictions on registrations in metropolitan areas, there is considerable potential to acquire new customers for automotive-related financial services, particularly in the interior of the country. Demand for automotive financial services rose in the Indian market. In contrast, demand 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 2017 continued in China, and particularly in Western Europe. The truck and bus business and the related financial services market have stabilized in Brazil.

VOLKSWAGEN GROUP DELIVERIES

In the period from January to September 2018, the Volkswagen Group delivered 8,130,250 vehicles to customers worldwide. This was 4.2% or 323,964 units more than in the same period of the previous year. At the same time, the Group thus achieved a new record for the first nine months of a year. The chart on page 12 shows the trend in deliveries worldwide by month compared with the previous year. Separate details of deliveries of passenger cars and commercial vehicles are provided in the following.

VOLKSWAGEN GROUP DELIVERIES FROM JANUARY 1 TO SEPTEMBER 30[1]

	2018	2017	%
Passenger Cars	7,592,480	7,294,101	+4.1
Commercial Vehicles	537,770	512,185	+5.0
Total	**8,130,250**	**7,806,286**	**+4.2**

1 Prior-year deliveries have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

PASSENGER CAR DELIVERIES WORLDWIDE

Global demand for passenger cars from the Volkswagen Group in the reporting period was up 4.1% year-on-year to 7,592,480 vehicles amid slight growth in the market as a whole. In the third quarter of 2018, high growth rates in the months of July and August nearly compensated for the expected declines resulting from the changeover to the WLTP in September. The ŠKODA (+7.8%) and SEAT (+17.1%) brands in particular developed very encouragingly. Volkswagen Passenger Cars, Audi, Porsche, Lamborghini and Bugatti also increased their delivery volumes. In the regions of Western Europe, Central and Eastern Europe, South America and Asia-Pacific, demand for passenger cars from the Volkswagen Group was significantly higher in some cases than the corresponding prior-year figure. The number of vehicles sold in North America was approximately on level with the previous year. We recorded the highest absolute increase in the Asia-Pacific region.

The table on the next page provides an overview of passenger car 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, in a slightly growing overall market, the Volkswagen Group delivered 2,489,744 vehicles to customers between January and September of this year, an increase of 3.0% over the same period of the previous year. Negative impacts arising from the fact that customer confidence has not been fully restored following the diesel issue as well as from the uncertainty among customers generated by the public discussion on driving bans for diesel vehicles and, above all, the expected decreases resulting from the changeover to the WLTP in September were more than compensated for. The Audi Q5, ŠKODA Kodiaq, Porsche 911 and Porsche Cayenne models saw encouraging growth. Furthermore, the new Polo, T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq and the SEAT Arona were very popular. The Touareg from Volkswagen Passenger Cars, the Audi A6, the Audi Q8 and the ŠKODA Fabia were successfully launched in the market. The Volkswagen Group's share of the passenger car market in Western Europe rose to 22.2 (21.8)%.

In Germany, demand for Volkswagen Group vehicles in the reporting period increased by 3.4% compared with the previous year. The market as a whole grew by 2.4% in the same period. The most popular Group models included the Passat Variant, Tiguan and Audi A4 Avant. The new Polo, T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq as well as the SEAT Arona were also in high demand. Seven Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the up!, Polo, Golf, Tiguan, Touran, Passat und Porsche 911. In the first nine months of 2018, the Golf was again the most popular passenger car in Germany in terms of registrations.

In the still significantly growing passenger car markets in the Central and Eastern Europe region, we delivered 9.2% more vehicles to customers in the first three quarters of this year than a year before. Whereas in Russia and Poland demand for Group models rose strongly in some cases, the number of deliveries in the Czech Republic saw a decline. The Polo and the Tiguan as well as the ŠKODA Fabia, Rapid and Octavia were the models most in demand. The new T-Roc, ŠKODA Karoq and SEAT Arona models were also very popular. The Volkswagen Group's market share in the Central and Eastern Europe region was 21.2 (22.3)%.

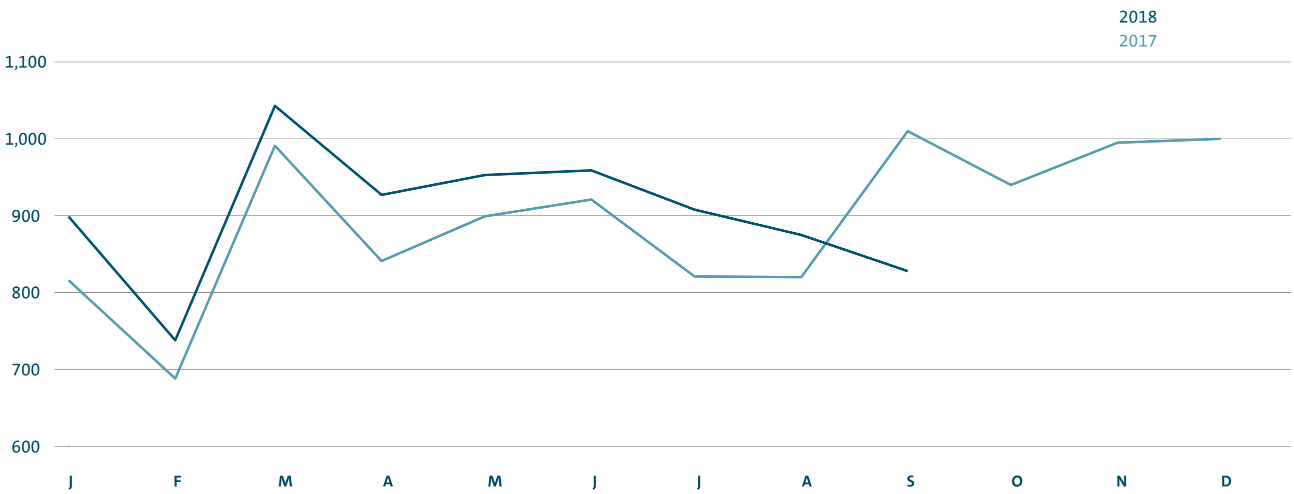
In a substantially weaker passenger cars market in Turkey, we delivered 31.5% fewer vehicles to customers. In South Africa, sales of Volkswagen Group vehicles were steady in the reporting period, while the market as whole was nearly at the same level year-on-year. The Polo remained the best-selling Group model in South Africa.

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET FROM JANUARY 1 TO SEPTEMBER 30[1]

	DELIVERIES (UNITS)		CHANGE
	2018	2017	(%)
Europe/Other markets	**3,255,454**	**3,148,381**	**+3.4**
Western Europe	**2,489,744**	**2,416,361**	**+3.0**
of which: Germany	887,112	857,912	+3.4
United Kingdom	398,633	422,143	−5.6
Spain	232,740	207,797	+12.0
Italy	211,039	197,704	+6.7
France	195,899	189,326	+3.5
Central and Eastern Europe	**535,086**	**489,907**	**+9.2**
of which: Russia	147,364	122,771	+20.0
Poland	113,577	105,296	+7.9
Czech Republic	103,783	109,509	−5.2
Other markets	**230,624**	**242,113**	**−4.7**
of which: Turkey	70,918	103,533	−31.5
South Africa	61,177	61,351	−0.3
North America	**705,392**	**708,785**	**−0.5**
of which: USA	478,583	457,035	+4.7
Mexico	136,603	164,581	−17.0
Canada	90,206	87,169	+3.5
South America	**367,023**	**334,021**	**+9.9**
of which: Brazil	244,683	199,826	+22.4
Argentina	82,919	99,353	−16.5
Asia-Pacific	**3,264,611**	**3,102,914**	**+5.2**
of which: China	3,032,298	2,887,111	+5.0
Japan	65,009	63,516	+2.4
India	45,500	54,231	−16.1
Worldwide	**7,592,480**	**7,294,101**	**+4.1**
Volkswagen Passenger Cars	4,622,846	4,490,902	+2.9
Audi	1,407,718	1,380,463	+2.0
ŠKODA	939,064	871,082	+7.8
SEAT	415,577	354,894	+17.1
Bentley	7,107	7,890	−9.9
Lamborghini	3,554	2,930	+21.3
Porsche	196,562	185,898	+5.7
Bugatti	52	42	+23.8

1 Prior-year deliveries have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



Deliveries in North America

Demand for Volkswagen Group models in North America between January and September 2018 was 0.5% lower than the prior-year figure in a slightly weaker overall passenger car and light commercial vehicle market. The Group achieved a market share of 4.6 (4.6)% in this region. The Jetta was successfully rolled out. Alongside this, the Tiguan Allspace was the most sought-after Group model in North America.

In the first three quarters of this year, the Volkswagen Group delivered 4.7% more vehicles to customers in the US market than in the prior-year period. The market as a whole remained stable during this period. Demand remained higher for models in the SUV and pickup segments than for conventional passenger cars. The Group models achieving the largest increases were the Audi Q5 and Porsche Macan. In addition, the new Tiguan Allspace and Atlas SUVs from the Volkswagen Passenger Cars brand and the Audi A5 Sportback were particularly popular among customers.

In Canada, the number of Volkswagen Group vehicles handed over to customers in the reporting period increased by 3.5% compared with the previous year. At the same time, the market as a whole declined slightly. The Golf saloon and Audi Q5 models as well as the new Tiguan Allspace and Atlas SUVs from the Volkswagen Passenger Cars brand witnessed especially strong demand.

In a markedly declining overall market in Mexico, we delivered fewer vehicles to customers between January and September 2018 than in the prior-year period (–17.0%). The Vento, Jetta and Tiguan Allspace recorded the highest demand.

Deliveries in South America

The upward trend in the South American markets for passenger cars and light commercial vehicles continued in the first nine months of 2018. The Volkswagen Group delivered 9.9% more vehicles to customers there in this period than in the prior year. The Jetta and Touareg were successfully launched in the market. The Group's share of the market in South America was 11.8 (11.6)%.

The Volkswagen Group benefited from the sustained recovery in the Brazilian market and recorded an increase of 22.4% in its sales to customers there during the reporting period. This was mainly due to the market success of the new Polo, Virtus and Tiguan Allspace models. But the demand for the Suran and Amarok models also developed very encouragingly.

In Argentina, where growth in the market as a whole was somewhat weaker overall, the number of deliveries to Volkswagen Group customers in the first three quarters of 2018 was lower than the prior-year figure (–16.5%). The Gol and Amarok recorded the highest demand among Group models. The new Polo, Virtus and Tiguan Allspace models were also well received by customers.

Deliveries in the Asia-Pacific region

In the Asia-Pacific region, the overall market grew slightly in the reporting period. With an increase of 5.2%, the Volkswagen Group handed over more vehicles to customers there than in the previous year. The Group's share of the market in this region increased to 12.3 (11.8)%.

In China, the number of Group models sold from January to September 2018 was up 5.0% on the prior-year figure. The passenger car market as a whole grew only slightly in the same period. The Group models that experienced the largest growth in absolute terms were the Sagitar, Santana, Magotan, Audi A4 and Porsche Panamera. In addition, the new Bora, Lavida, Lamando, Phideon and ŠKODA Octavia Combi models as well as the new Teramont, Tiguan Allspace, Audi Q5, ŠKODA Karoq and ŠKODA Kodiaq SUVs were very popular. The new T-Roc, Gran Lavida, Touareg and the new ŠKODA Kamiq were successfully rolled out.

The Indian passenger car market recorded a noticeable increase in demand in the first nine months of 2018. With a decline of 16.1%, the number of Group models delivered to customers fell short of the previous year's figure. The Polo was the Group's most in-demand model in India.

In Japan, we handed over 2.4% more passenger cars to customers in the reporting period than in the previous year, while demand in the market as a whole narrowed slightly. The Golf and Audi Q2 models recorded promising increases in demand.

COMMERCIAL VEHICLE DELIVERIES

In the first nine months of 2018, the Volkswagen Group delivered a total of 537,770 commercial vehicles to customers worldwide (+5.0%). Trucks accounted for 145,068 units (+11.6%) and buses for 16,393 units (+22.1%). Deliveries of light commercial vehicles increased by 2.0% year-on-year to 376,309 units.

In Western Europe, sales increased by 3.7% to a total of 328,874 units. Of this figure, 257,684 were light commercial vehicles, 67,324 were trucks and 3,866 were buses. The Transporter and Caddy were the most sought-after Group models in the Western European markets.

We delivered 58,360 vehicles to customers in the markets of the Central and Eastern Europe region in the period from January to September 2018 (+11.1%); of this figure, 30,956 were light commercial vehicles, 26,283 were trucks and 1,121 were buses. The Transporter and the Caddy were the Group models experiencing the highest demand. In Russia, the region's largest market, sales climbed in the wake of economic recovery by 15.8% year-on-year to 13,718 units.

In the Other markets, particularly in Turkey, deliveries of Volkswagen Group commercial vehicles amounted to a total of 41,228 units, a decrease of 8.6% on the prior-year figure; of this total, 27,712 were light commercial vehicles, 10,540 were trucks and 2,976 were buses.

Sales in North America declined to 7,903 vehicles (–20.6%), almost all of which were delivered to customers in Mexico; of this total, 5,468 were light commercial vehicles, 762 were trucks and 1,673 were buses.

Deliveries in South America rose to a total of 69,432 vehicles (+24.6%); of this total, 34,617 were light commercial vehicles, 29,625 were trucks and 5,190 were buses. The Amarok was particularly popular. Following continued improvement in the economic climate in Brazil, we were able to increase our sales there by 56.1%. Of the units delivered, 12,786 were light commercial vehicles, 23,407 were trucks and 3,707 were buses.

In the Asia-Pacific region, the Volkswagen Group sold 31,973 vehicles to customers in the reporting period; 19,872 light commercial vehicles, 10,534 trucks and 1,567 buses. This was 0.3% more than in the previous year. The Transporter and the Amarok were the most popular Group models. In China, sales declined by 5.2% to 7,519 vehicles, of which 4,204 were light commercial vehicles, 3,013 were trucks and 302 were buses.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET FROM JANUARY 1 TO SEPTEMBER 30[1]

	DELIVERIES (UNITS)		CHANGE
	2018	2017	(%)
Europe/Other markets	**428,462**	**414,623**	**+3.3**
Western Europe	328,874	316,997	+3.7
Central and Eastern Europe	58,360	52,538	+11.1
Other markets	41,228	45,088	–8.6
North America	**7,903**	**9,948**	**–20.6**
South America	**69,432**	**55,725**	**+24.6**
of which: Brazil	39,900	25,565	+56.1
Asia-Pacific	**31,973**	**31,889**	**+0.3**
of which: China	7,519	7,929	–5.2
Worldwide	**537,770**	**512,185**	**+5.0**
Volkswagen Commercial Vehicles	371,442	367,884	+1.0
Scania	68,639	63,959	+7.3
MAN	97,689	80,342	+21.6

1 Prior-year deliveries have been updated to reflect subsequent statistical trends.

DELIVERIES IN THE POWER ENGINEERING SEGMENT

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

In the period from January to September 2018, 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.

The Financial Services Division's products and services remained very popular in the period from January to September 2018. The number of new financing, leasing, service and insurance contracts signed worldwide exceeded the prior-year figure at 5.8 (5.4) million. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets amounted to 34.0 (33.8)% in the reporting period. On September 30, 2018, the total number of contracts was 19.4 million, up 5.5% compared with December 31, 2017.

In the Europe/Other markets region, the number of new contracts signed in the first nine months of 2018 increased by 6.3% to 4.3 million. At 14.1 million as of September 30, 2018, the total number of contracts rose by 5.2% compared with the end of 2017; the Customer Financing/Leasing area accounted for 6.7 million contracts (+5.3%).

The number of contracts in North America amounted to 2.8 (2.7) million at the end of the reporting period, up on the December 31, 2017 level. The Customer Financing/Leasing area recorded 1.8 (1.8) million contracts. The number of new contracts signed amounted to 694 thousand, an increase of 7.2% versus the prior-year period.

In South America, 169 (148) thousand new contracts were concluded in the period from January to September of this year. At 487 thousand, the total number of contracts at the end of September was 9.4% lower than on December 31, 2017. The contracts mainly related to the Customer Financing/Leasing area.

The number of new contracts signed in the Asia-Pacific region rose by 8.2% to 631 thousand versus the previous year. On September 30, 2018, the total number of contracts amounted to 2.0 million, up 12.4% compared with year-end 2017. The Customer Financing/Leasing area accounted for 1.6 million contracts (+6.1%).

SALES TO THE DEALER ORGANIZATION

In the first nine months of 2018, the Volkswagen Group's unit sales to the dealer organization (including the Chinese joint ventures) rose by 2.7% to 8,123,044 vehicles. This was due especially to higher demand in Central and Eastern Europe, China and Brazil. Unit sales outside Germany increased by 3.3% in the reporting period. In the German market, they fell 2.3% short of the prior-year figure, due to the changeover to the WLTP test procedure which took place in the third quarter. Vehicles sold in Germany as a proportion of overall sales declined to 11.6 (12.2)%.

PRODUCTION

Between January and September 2018, the Volkswagen Group's production increased by 1.7% year-on-year to a total of 8,178,747 vehicles. Production in Germany amounted to 1,714,429 units; the 12.6% decline was mainly WLTP-related. The proportion of vehicles produced in Germany declined to 21.0 (24.4)%.

INVENTORIES

Global inventories at Group companies and in the dealer organization were higher on September 30, 2018 than at year-end 2017 but below the corresponding prior-year figure.

EMPLOYEES

The Volkswagen Group had 632,312 active employees on September 30, 2018. A further 8,959 employees were in the passive phase of their partial retirement. An additional 19,356 young people were in vocational traineeships. At the end of the first nine months of 2018, the Volkswagen Group had a total of 660,627 employees worldwide, up 2.9% on the number as of December 31, 2017. The main contributors to this were expansion due to the increase in volume, the recruitment of specialists inside and outside Germany and the expansion of the workforce at our new plants in China. There were 292,585 employees in Germany, up 1.8% on year-end 2017. However, the proportion of employees in Germany declined to 44.3 (44.8)%.

Results of Operations, Financial Position and Net Assets

APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

SPECIAL ITEMS

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

In the reporting period, negative special items in connection with the diesel issue affected the Passenger Cars Business Area’s operating profit in an amount of €–2.4 (–2.6) billion. These were mainly attributable to the fines resulting from the final administrative orders issued by the Braunschweig public prosecutor’s office (€1.0 billion) and the Munich II public prosecutor’s office (€0.8 billion), and to higher legal defense costs.

COMPENSATION PAID TO THE NONCONTROLLING INTEREST SHAREHOLDERS OF MAN SE

In the award proceedings regarding the appropriateness of the cash settlement and the right to compensation for the noncontrolling interest shareholders of MAN SE, the Higher Regional Court in Munich made a final decision at the end of June 2018, ruling that the right to annual compensation per share has to be increased. The cash settlement per share, raised in a first instance ruling by the First Regional Court in Munich, was confirmed. The remeasurement of the put options and compensation rights required as a result led to an expense of €0.4 billion in the other financial result in the period from January to June 2018.

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of January 1, 2019. The resulting adjustment to the calculation led to income of €0.4 billion in the other financial result. In addition, there were cash outflows of €0.3 billion in the third quarter of 2018 for compensation payments and the acquisition of shares tendered.

The “Put options and compensation rights granted to noncontrolling interest shareholders” item reported in the balance sheet was reduced accordingly.

RESULTS OF OPERATIONS OF THE GROUP

Between January and September 2018, the Volkswagen Group generated sales revenue of €174.6 billion, thus exceeding the prior-year figure by 2.7%. Positive effects were mainly attributable to improvements in the volume and mix and to the healthy business performance in the Financial Services Division; they were partially offset by negative exchange rate factors. The effects of applying the new International Financial Reporting Standards resulted in an overall increase in sales revenue. The proportion of sales revenue generated abroad amounted to 81.0 (80,2)%.

Gross profit was €35.0 billion, €2.4 billion up on the previous year’s figure. The gross margin amounted to 20.1 (19.2)%. Adjusted for the special items recognized here in the previous year, gross profit was up €0.3 billion on the previous year. In the prior-year period, the gross margin before special items had amounted to 20.4%.

At €13.3 (13.2) billion, the Volkswagen Group’s operating profit before special items was on a level with the previous year in the first three quarters of 2018. The operating return on sales before special items declined slightly to 7.6 (7.8)%.

Positive factors included primarily volume improvements, although fair value measurement gains and losses on certain derivatives, which have had to be reported here since the beginning of the year, and a lower capitalization ratio for development costs had a negative impact. Special items in connection with the diesel issue weighed on operating profit, reducing this item by €–2.4 (–2.6) billion. The Volkswagen Group's operating profit was €10.9 billion, up by €0.2 billion compared with the previous year. The operating return on sales amounted to 6.2 (6.3)%.

The financial result stood at €1.6 billion, an increase of €2.0 billion compared with the previous year. Lower expenses from the reporting date measurement of derivative financial instruments used to hedge financing transactions, lower interest expenses and positive foreign currency measurement effects had a positive impact. The total effect of the remeasurement of put options and compensation rights in connection with the control and profit and loss transfer agreement with MAN SE was negative. The share of profits of equity-accounted investments increased, amid a year-on-year rise in the profits generated by the Chinese joint ventures. In the prior-year period, the remeasurement of the interest in HERE following the acquisition of shares by additional investors had had a positive impact.

The Volkswagen Group's profit before taxes improved by €2.2 billion to €12.5 billion compared with the previous year. Profit after tax was up by €1.8 billion to €9.4 billion.

Results of operations in the Automotive Division

The Automotive Division's sales revenue in the first three quarters of 2018 amounted to €148.4 billion, €2.5% more than in the previous year. The increase, which was mainly attributable to improvements in volumes and in the mix, was partially offset by negative exchange rate effects. The third quarter of 2018 was negatively impacted by the changeover to the WLTP test procedure. Sales revenue in the Passenger Cars, Commercial Vehicles and Power Engineering Business Areas exceeded the respective prior-year figures. As our Chinese joint ventures are accounted for using the equity method, the Group's performance in the Chinese passenger car market is mainly reflected in consolidated sales revenue only through deliveries of vehicles and vehicle parts.

The cost of sales rose, mainly for volume-related reasons and due to higher research and development costs recognized in profit or loss. Adjusted for the special items recognized here in the previous year, their ratio to sales revenue was up slightly. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) amounted to 6.6 (6.8)% in the reporting period.

Distribution expenses and their ratio to sales revenue both decreased slightly year-on-year in the first nine months. This is attributable to reclassifications of expenses to sales revenue required as a result of the new IFRS 15, the sale of the PGA Group in June 2017 and exchange rate effects. Administrative expenses were up, but their ratio to sales revenue remained unchanged. The net other operating result decreased by €2.2 billion to €–2.5 billion, weighed down mainly by higher special items recognized in this item in connection with the diesel issue, the fair value measurement gains and losses on derivatives to which hedge accounting is not applied, which have been reported here since the beginning of the year, as well as the negative exchange rate trends.

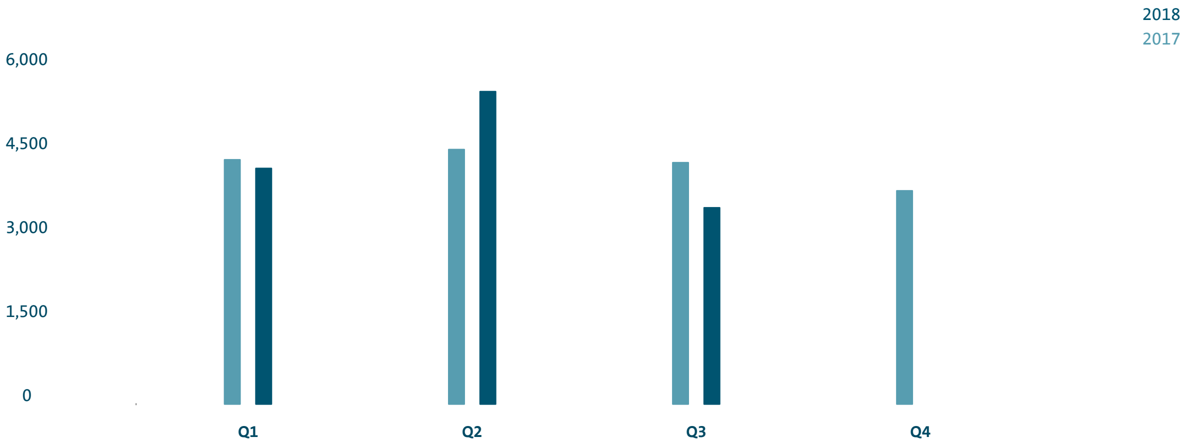
The operating profit of the Automotive Division was at the prior-year level, at €8.8 (8.7) billion, in the first three quarters of 2018. The higher volume was primarily set against special items recognized in the reporting period in connection with the diesel issue, higher research and development costs recognized in profit or loss (mainly due to lower capitalized upfront expenditure) and fair value measurement gains and losses on certain derivatives, which have been reported here since the beginning of the year. The operating return on sales stood at 6.0 (6.0)%. Excluding special items, the Automotive Division's operating profit was on a level with the previous year at €11.3 (11.3) billion. The operating return on sales before special items decreased to 7.6 (7.8)%. Since the profit recorded by joint ventures is accounted for in the financial result using the equity method, the business growth of our Chinese joint ventures is primarily reflected in the operating profit only through deliveries of vehicles and vehicle parts, and through license income.

RESULTS OF OPERATIONS IN THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS FROM JANUARY 1 TO SEPTEMBER 30

€ million	2018	2017
Passenger Cars		
Sales revenue[1]	119,646	116,642
Operating result	7,393	7,308
Operating return on sales (%)[1]	6.2	6.3
Commercial Vehicles		
Sales revenue	26,289	25,757
Operating result	1,486	1,484
Operating return on sales (%)	5.7	5.8
Power Engineering		
Sales revenue	2,489	2,355
Operating result	–46	–75
Operating return on sales (%)	–1.9	–3.2

1 Prior-year figures adjusted.

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



Results of operations in the Financial Services Division

In the first nine months, the Financial Services Division recorded sales revenue of €26.2 billion; the year-on-year increase of 3.3% was primarily attributable to a rise in business volumes.

Cost of sales expanded proportionately by €0.7 billion to €21.2 billion. Distribution expenses were slightly higher, while their ratio to sales revenue was unchanged. There was a significant rise in both administrative expenses and their ratio to sales revenue. The growth in volumes and higher IT costs were the main factors in the increase in expenses compared with the previous year.

The Financial Services Division generated an operating profit of €2.0 billion in the reporting period, up 6.2% year-on-year. The operating return on sales amounted to 7.8 (7.6)%.

FINANCIAL POSITION OF THE GROUP

At €27.4 billion, the Volkswagen Group's gross cash flow in the period from January to September 2018 was up €2.5 billion on the previous year. The €6.3 billion change in working capital to €–18.3 (–24.6) billion mainly reflects the significant decrease in cash outflows attributable to the diesel issue in the reporting period. Cash flows from operating activities consequently rose to €9.1 (0.3) billion. Of the special items recognized in connection with the diesel issue in the first nine months of 2018, the fine resulting from the misdemeanor proceeding initiated by the public prosecutor in Braunschweig has already led to a cash outflow.

The Volkswagen Group's investing activities attributable to operating activities stood at €11.8 billion, €0.5 billion more than in the previous year.

Cash inflows from financing activities amounted to €11.3 (11.9) billion. Financing activities primarily include the dividend paid to the shareholders of Volkswagen AG, the issuance of hybrid notes in June, the repayment of the hybrid notes were terminated in the third quarter 2018 and the issuance and redemption of bonds and other financial liabilities.

At the end of the third quarter of 2018, the Volkswagen Group's cash and cash equivalents reported in the cash flow statement amounted to €24.8 (21.0) billion.

On September 30, 2018, the Group's net liquidity was €–123.5 billion, compared with €–119.1 billion at the end of 2017.

Financial position of the Automotive Division

In the first three quarters of 2018, the Automotive Division generated a gross cash flow of €20.1 billion, exceeding the prior-year figure by €2.0 billion. Healthy earnings growth was set against special items recognized in the reporting period, many of which have already led to cash outflows, and a year-on-year decline in dividends from the Chinese joint ventures. At €–5.2 billion, the negative impact on the change in working capital was €4.9 billion lower than a year before, due especially to significantly lower cash outflows attributable to the diesel issue. Consequently, cash flows from operating activities improved by €6.9 billion to €14.9 billion.

Investing activities attributable to operating activities in the Automotive Division increased by €0.5 billion to €11.4 billion in the period from January to September 2018. This figure includes investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex), which

FINANCIAL POSITION OF THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS FROM JANUARY 1 TO SEPTEMBER 30

€ million	2018	2017
Passenger Cars		
Gross cash flow	17,000	15,120
Change in working capital	–3,216	–8,682
Cash flows from operating activities	13,783	6,438
Cash flows from investing activities attributable to operating activities	–9,909	–9,404
Net cash flow	3,874	–2,966
Commercial Vehicles		
Gross cash flow	2,858	2,819
Change in working capital	–1,686	–1,209
Cash flows from operating activities	1,171	1,610
Cash flows from investing activities attributable to operating activities	–1,435	–1,466
Net cash flow	–264	143
Power Engineering		
Gross cash flow	247	163
Change in working capital	–270	–171
Cash flows from operating activities	–23	–7
Cash flows from investing activities attributable to operating activities	–97	–118
Net cash flow	–120	–125

were up on the figure for the first nine months of 2017 and amounted to €7.9 (7.1) billion. The capex ratio rose to 5.3 (4.9)%. We invested primarily in our production facilities and in models to be launched in 2018 and 2019, as well as in the ecological focus of the model range, drivetrain electrification and modular toolkits.

Capitalized development costs decreased by €0.7 billion to €3.5 billion. Within the "Acquisition and disposal of equity investments" item, the sale of a part of the shares in There Holding was offset mainly by the investment in the newly established joint venture with Anhui Jianghuai Automobile (JAC) and the acquisition of additional shares in Quantum Scape. The prior-year figure had included the acquisition of the shares in Navistar and the disposal of part of the PGA Group.

The Automotive Division's net cash flow of €3.5 billion was €6.4 billion up on the prior-year period, mainly due to much lower cash outflows attributable to the diesel issue.

Financing activities resulted in a cash outflow of €–2.5 billion in the period from January to September 2018, compared with a cash inflow of €3.3 billion in the previous year. The dividend paid to the shareholders of Volkswagen AG in May 2018 amounted to €2.0 billion, an increase of €1.0 billion compared with the previous year. The successful placement of dual-tranche hybrid notes with an aggregate principal amount of €2.75 billion via Volkswagen International Finance N.V. in June 2018 resulted in a cash inflow. The notes consist of a €1.25 billion note that carries a coupon of 3.375% and has a first call date after six years, and a €1.5 billion note that carries a coupon of 4.625% and has a first call date after ten years. Both tranches are perpetual and, net of transaction costs and other factors, increase equity. €2.75 billion of the hybrid notes was classified as a capital contribution, which increased net liquidity. The repayment of the hybrid notes that were terminated in the third quarter 2018 caused a cash outflow of €1.25 billion. Financing activities also include the issuance and redemption of bonds and other financial liabilities, as well as the MAN shares tendered up to September 30, 2018 as a result of the award proceedings, and shares in AUDI AG acquired in the reporting period.

At the end of September 2018, the Automotive Division's net liquidity stood at €24.8 billion, compared with €22.4 billion on December 31, 2017.

Financial position of the Financial Services Division

Between January and September 2018, the Financial Services Division's gross cash flow was €7.3 billion, €0.5 billion higher than a year earlier. Funds tied up in working capital decreased by €1.4 billion to €13.2 billion. As a result, cash flows from operating activities improved by €1.9 billion to €–5.8 billion.

At €0.4 (0.3) billion, investing activities attributable to operating activities exceeded the previous year's level.

The Financial Services Division's financing activities resulted in cash inflows of €13.8 (8.7) billion in the first nine months of 2018. This figure primarily includes the issuance and redemption of bonds and other financial liabilities.

On September 30, 2018, the Financial Services Division's negative net liquidity, which is common in the industry, amounted to €–148.2 billion, compared with €–141.5 billion on December 31, 2017.

CONSOLIDATED BALANCE SHEET STRUCTURE

At the end of the third quarter of 2018, the Volkswagen Group's total assets had increased by 5.1% compared with the end of 2017, to €443.9 billion.

At €114.9 (109.1) billion, the Group's equity exceeded the figure as of December 31, 2017 by 5.0%. The equity ratio was unchanged at 25.8 (25.8)%. The implementation of the new International Financial Reporting Standards led to adjustments to the opening balance sheet of the Volkswagen Group as of January 1, 2018. The amounts as of December 31, 2017 were unchanged, apart from movements within equity.

Automotive Division balance sheet structure

On September 30, 2018, the Automotive Division's property, plant and equipment and intangible assets matched the level as of the end of 2017. Equity-accounted investments declined. The positive business results of the Chinese joint ventures and the acquisition of the shares in the joint venture with JAC were set against the dividend distributions resolved by the Chinese joint ventures. The decrease in other receivables and financial assets was due, among other factors, to the negative impact of the measurement of derivatives. Overall, noncurrent assets were 0.9% lower than at the end of 2017.

Current assets rose by 9.7%; the inventories included in this figure increased, mainly for production-related reasons and because of the changeover to the WLTP test procedure. The Automotive Division reported cash and cash equivalents of €16.4 (13.8) billion as of the reporting date.

On September 30, 2018, the Automotive Division's equity of €86.4 billion was €4.8 billion higher than the amount reported as of the end of 2017. Healthy earnings growth and the hybrid notes issued in June 2018 had a positive effect. The dividend paid to the shareholders of Volkswagen AG, the repayment of the hybrid notes that were terminated in the third quarter of 2018, negative effects from the measurement of derivatives recognized outside profit or loss and from currency translation as well as the non-recurring impact of the first-time application of the new International Financial Reporting Standards reduced equity. The noncontrolling interests are mainly attributable to RENK AG and AUDI AG. As these were lower overall than the noncontrolling interests attributable to the Financial Services Division, the figure for the Automotive Division, where the deduction was recognized, was negative.

Noncurrent liabilities amounted to €68.8 (69.8) billion, slightly down on the level as of December 31, 2017. The noncurrent financial liabilities included in this item decreased.

Current liabilities were 3.9% higher in total at the end of the first nine months of 2018. Reclassifications from noncurrent to current liabilities due to shorter remaining maturities were among the factors that led to a decrease in current financial liabilities to €–1.1 (–0.5) 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, a negative amount was disclosed. Current other liabilities were up significantly compared with the end of 2017, due in part to the fine imposed by way of an administrative order by the Munich II public prosecutor's office . The "Put options and compensation rights granted to noncontrolling interest shareholders" item primarily comprises the liability for the obligation to acquire the shares held by the remaining free-float shareholders of MAN; following the ruling in the award proceedings, the extraordinary notice of termination of the control and profit and loss transfer agreement as well as the cash outflows for compensation payments and the acqui-sition of shares tendered, this item was adjusted accordingly to €3.5 (3.8) billion.

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

€ million	Sept. 30, 2018	Dec. 31, 2017
Passenger Cars		
Noncurrent assets	109,763	111,277
Current assets	65,824	60,052
Total assets	**175,587**	**171,329**
Equity	70,300	66,449
Noncurrent liabilities	53,306	55,118
Current liabilities	51,981	49,762
Commercial Vehicles		
Noncurrent assets	27,440	27,005
Current assets	18,578	16,908
Total assets	**46,018**	**43,913**
Equity	13,171	12,194
Noncurrent liabilities	14,772	13,975
Current liabilities	18,076	17,744
Power Engineering		
Noncurrent assets	2,446	2,629
Current assets	3,550	3,250
Total assets	**5,996**	**5,879**
Equity	2,906	2,963
Noncurrent liabilities	715	711
Current liabilities	2,375	2,205

As of September 30, 2018, the Automotive Division's total assets amounted to €227.6 billion, 2.9% higher than at the end of 2017.

Financial Services Division balance sheet structure

The Financial Services Division had total assets of €216.3 billion on September 30, 2018, up 7.6% on the end of 2017.

Compared with December 30, 2017, noncurrent assets increased by a total of 7.0%; the noncurrent receivables and lease assets included in this item rose mainly due to the growth in business.

There was an 8.4% rise in current assets. The revised classification of financial instruments required by IFRS 9 led to reclassifications, in particular of financial services receivables to trade receivables, which are included in the "Other receivables and financial assets" item. As of the balance sheet date, cash and cash equivalents in the Financial Services Division were up €4.2 billion to €8.8 billion. At the end of the reporting period, the Financial Services Division accounted for approximately 48.7 (47.6)% of the Volkswagen Group's assets.

As of September 30, 2018, equity in the Financial Services Division increased by €0.7 billion to €28.1 billion compared with December 31, 2017. The equity ratio was 13.0 (13.7)%.

Noncurrent liabilities rose by 12.0%, mainly because of higher noncurrent financial liabilities to refinance the business volume.

Driven mainly by a rise in current financial liabilities, current liabilities were up by a total of 5.1%.

At €30.8 (31.4) billion, deposits from the direct banking business were lower at the end of September 2018 than they had been a year earlier.

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.

We expect net liquidity to fall moderately short of the previous year's level, due to higher cash outflows attributable to the diesel issue and the acquisition of MAN shares tendered.

The return on investment (ROI) will be slightly under the previous year's level. The Outlook for fiscal year 2018 can be found on page 25.

For certain T6 models (M1 class) with Euro 6 diesel engines registered as passenger cars, the inspection regarding the conformity of the current production of new vehicles with the approved type (conformity of production) identified that certain technical data could not be fully confirmed. To ensure this conformity of production for new vehicles, Volkswagen AG developed a software measure, which was approved by the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) at the end of February 2018 and was applied to the production of new vehicles as well as to (a total of approximately 30,000) new vehicles that had not been delivered by then. Volkswagen AG also conducted in-use tests to determine whether the around 200,000 T6 used vehicles already on the market conform to the technical data. The tests carried out on the proposal of Volkswagen AG were taking place in close collaboration with the KBA, which included this process in a decision dated March 1, 2018. Following further tests in August 2018, at the proposal of Volkswagen AG and in accordance with this decision, there is also a software measure for used T6 vehicles to ensure conformity with the approved vehicle type.

On March 2, 2018, the federal multidistrict litigation court in California dismissed in its entirety the first amended class action complaint alleging that these bonds were trading at artificially inflated prices and that the value of these bonds declined after the U.S. Environmental Protection Agency (EPA) issued its "Notices of Violation," but granted leave to file a further amended complaint. On April 2, 2018, plaintiffs filed a second amended class action complaint which Volkswagen has moved to dismiss. On September 7, 2018, the court denied Volkswagen's motion to dismiss, so the case will proceed.

The U.S. Securities and Exchange Commission (the "SEC") has requested information from Volkswagen AG regarding potential violations of securities laws in connection with issuances of bonds sponsored by Volkswagen AG, as a result of nondisclosure of certain Volkswagen diesel vehicles' noncompliance with US emission standards.

On March 5, 2018, a Tennessee state court granted in part and denied in part a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Tennessee Attorney General. Volkswagen and Tennessee have both appealed the decision.

On March 12, 2018, a Minnesota state court granted in part and denied in part a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Minnesota Attorney General. Volkswagen has appealed the decision.

On March 15, 2018, co-lead counsel for plaintiffs with regard to the German Automotive Manufacturers Antitrust Litigation filed consolidated amended class action complaints against Volkswagen AG and certain affiliates as well as other manufacturers in the Northern District of California on behalf of putative classes of indirect and direct purchasers. The consolidated amended complaints claim that since the 1990s, defendants had engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles by agreeing to share commercially sensitive information and to reach unlawful agreements regarding technology, costs, and suppliers. Moreover, plaintiffs claim that defendants had agreed to limit the size of AdBlue tanks to ensure that U.S. emissions regulators did not scrutinize the emissions control systems in defendants' vehicles, and that such agreement for Volkswagen was the impetus for the creation of the defeat device. The complaints further claim that defendants had coordinated to fix the price of steel used in their automobiles by agreeing with German steel manufacturers to apply a two component pricing formula to steel purchases and worked closely together to generate scientific studies aimed at promoting diesel vehicles. On May 17, 2018, all defendants filed a joint motion to dismiss the two consolidated class action complaints. On May 24, 2018, Volkswagen defendants also filed an individual motion to dismiss on grounds specific to them. The motions have been fully briefed, and a hearing is currently scheduled for February 12, 2019.

On March 22, 2018, Volkswagen AG, certain affiliates and the Arizona Attorney General notified an Arizona state court that they have reached a settlement of Arizona's consumer protection claims and unfair trade practices claims. On May 24, 2018, the Arizona state court granted a stipulation of dismissal with prejudice of the Arizona action.

In South Korea, approval for the last vehicle clusters with engine type EA 189 was given on March 28, 2018.

The Ministry of Environment in South Korea qualified certain emissions strategies in the engine control software of various diesel vehicles with a V6 or V8 engine meeting the Euro 6 emission standard as an unlawful defeat device and ordered a recall on April 4, 2018; the same applied to the Dynamic Shift Program (DSP) in the transmission control of a number of Audi models.

On April 11, 2018, a Texas state court granted in part and denied in part a motion for summary judgment on the state environmental claims asserted against Volkswagen AG and certain affiliates by the Texas Attorney General. The Texas court denied Volkswagen's motion for reconsideration or interlocutory appeal. On August 1, 2018, Volkswagen asked a Texas appellate court to reverse the trial court's decision through an alternate procedure.

On April 16, 2018, the federal multidistrict litigation court in California dismissed with prejudice state and local environmental claims asserted against certain Volkswagen AG affiliates by the Environmental Protection Commission of Hillsborough County, Florida and Salt Lake County, Utah, on the basis of the same federal preemption issue that is currently being litigated in the Tennessee, Minnesota, and Texas cases referenced above, as well as in several other state courts. The counties have appealed that decision.

The public prosecutor's office of Stuttgart has opened a criminal investigation. The office confirmed that it is investigating, among others, the former Chairman of the Board of Management of Volkswagen AG in his capacity as member of the management board of Porsche SE, regarding his possible involvement in potential market manipulation in connection with this same issue.

Moreover, the Stuttgart public prosecutor's office has commenced a criminal investigation into the diesel issue against one board member, one employee and one former employee of Dr. Ing. h.c. F. Porsche AG on suspicion of fraud and illegal advertising. Dr. Ing. h.c. F. Porsche AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor's accusations. The investigations are at an early stage. The Board of Management and Supervisory Board of Dr. Ing. h.c. F. Porsche AG are being regularly updated on the current state of affairs. If the findings do illustrate reproachable conduct or fault on behalf of the organization, then the Board of Management or Supervisory Board, respectively, will adopt the necessary measures.

On April 18, 2018, the EPA and California Air Resources Board (CARB) approved the second phase of the emissions modification for affected 2.0 l TDI vehicles with Generation 3 engines.

Thereby the approval process for the technical measures for the relevant vehicles with engine type EA 189 has now been completed in all countries with the exception of Chile.

On April 19, 2018, the federal multidistrict litigation court in California approved the stipulation of the parties postponing the hearing previously scheduled for May 11, 2018, regarding defendants' motion to dismiss plaintiffs' consolidated class action complaint alleging that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. The parties have stipulated to further postpone the hearing on the motion, and no hearing is scheduled.

On April 25, 2018, Volkswagen AG, certain affiliates and the Maryland Department of the Environment announced an agreement to resolve the State of Maryland's environmental and remaining consumer claims for restitution or injunctive relief. The Maryland settlement includes a Consent Decree, which the Maryland state court approved on May 3, 2018.

On April 19 and 25, 2018, respectively, Ontario and Quebec courts granted approval of a consumer settlement entered into by Volkswagen AG and other Volkswagen Group companies involving 3.0 l TDI vehicles.

On May 1, 2018, Volkswagen AG, certain affiliates, and the West Virginia Attorney General announced an agreement to resolve the State of West Virginia's consumer claims. The West Virginia settlement includes a consent decree, which the West Virginia state court approved on May 1, 2018.

On August 29, 2017, plaintiffs filed a complaint, on behalf of a putative class of purchasers of Volkswagen AG's American Depositary Receipts, against Volkswagen AG, and against three former and one current member of Volkswagen AG's Board of Management in the U.S. District Court for the Eastern District of New York. Plaintiffs assert claims under the U.S. Securities Exchange Act of 1934 alleging that defendants made material misstatements and omissions concerning Volkswagen AG's compliance measures, in particular those relating to competition and antitrust law as well as allegations in an antitrust litigation against Volkswagen AG in the Northern District of California. On July 13, 2018, plaintiffs filed an amended complaint; a motion to dismiss this complaint has been filed.

On May 18, 2018, the EPA and CARB approved an emissions modification for Generation 1.1 vehicles with type V6 3.0 l TDI engines. On July 13, 2018, the EPA and CARB approved an emissions modification for Generation 1.2 vehicles with type V6 3.0 l TDI engines.

On May 22, 2018, plaintiffs filed a consolidated class action complaint on behalf of a putative class of Volkswagen salespersons who work at franchise dealerships. On June 7, 2018, the court in the federal multidistrict litigation in California appointed the plaintiffs' counsel as the interim lead counsel for the putative class.

On May 28, 2018, a class action filed in Quebec provincial court was authorized to proceed as to claims relating to Volkswagen AG's shares and American Depositary Receipts.

On June 1, 2018, a notice of amendment to the Third Partial Consent Decree entered into with the Department of Justice (DOJ) and EPA, which modified certain due dates related to annual reporting, was filed with the federal multidistrict litigation court in California. Concerning the due dates related to the annual reporting set forth in the Third California Partial Consent Decree such a notice of amendment was also filed on August 30, 2018 with the same court.

On June 5, 2018, an Illinois state court granted a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Illinois Attorney General. Illinois has appealed that decision.

On June 6, 2018, Volkswagen AG, certain affiliates, and the Oklahoma Attorney General announced an agreement to resolve the State of Oklahoma's consumer claims. The Oklahoma settlement includes a consent decree, which the Oklahoma state court approved on June 6, 2018.

In the course of the searches on June 11, 2018, it transpired that the Munich II public prosecutor's office has extended the criminal investigation pending there. The underlying search warrant shows that the former Chairman of the Board of Management of AUDI AG (at the same time a former member of the Board of Management of Volkswagen AG) and a further active member of the AUDI AG Board of Management are now also under investigation. The accusations include fraud in connection with the sale of diesel vehicles on the European market in the period after fall 2015. The former Chairman of the Board of Management of AUDI AG was arrested on June 18, 2018 and has been in custody ever since. In connection with the diesel issue, the Munich II public prosecutor's office is currently investigating 23 individuals. AUDI AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor's accusations. The Board of Management and Supervisory Board of AUDI AG are being regularly updated on the current state of affairs. If the findings do illustrate reproachable conduct or fault on behalf of the organization, then the Board of Management or Supervisory Board, respectively, will adopt the necessary measures.

On June 13, 2018, Volkswagen AG, certain affiliates, and the Vermont Attorney General announced an agreement to resolve the State of Vermont's consumer claims. On July 16, 2018, a joint stipulation of dismissal was filed with the Vermont court.

On June 13, 2018, the public prosecutor in Braunschweig issued Volkswagen AG an administrative order in connection with the diesel issue. The administrative order is linked to negligent breaches of monitoring obligations on the part of Volkswagen AG employees in the Powertrain Development department and relates to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a fine of €1.0 billion in total, comprising of the maximum legal penalty of €5 million and the disgorgement of economic benefits in the amount of €995 million. Following thorough examination, the fine has been accepted, has been paid in full by Volkswagen AG and is therefore legally binding. As a result of the administrative order, the misdemeanor proceeding against Volkswagen AG has been concluded. Further sanctioning or confiscation against Volkswagen AG and its Group companies is therefore not expected in Germany in connection with the particular matter covered by the administrative order concerning diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. As a result, Volkswagen expects that the conclusion of this proceeding will have a substantially positive impact on additional governmental proceedings conducted in Europe against Volkswagen AG and its Group companies.

On July 11, 2018, the public prosecutor's office in Braunschweig granted the defense counsel for the defendants and the defense counsel for Volkswagen AG access to the investigation files for what is referred to as the NO_x proceeding being conducted against Volkswagen AG employees. In addition, the files pertaining to the concluded misdemeanor proceeding of the public prosecutor's office in Braunschweig were examined on September 3, 2018. This represents a further step for Volkswagen AG in its efforts to address the diesel issue.

In October 2018, the Munich II public prosecutor's office issued AUDI AG an administrative order in connection with deviations from regulatory specifications for certain V6/V8 diesel engines and diesel cars manufactured or sold by AUDI AG. The administrative order imposes a fine of €800 million in total, comprising of the maximum legal penalty of €5 million for a negligent breach of monitoring obligations in the organizational unit "Emissions Service/Engine Authorization" and a disgorgement of economic benefits in the amount of €795 million. Following thorough examination, AUDI AG has accepted the fine and waived the right to appeal, thus the administrative order is legally binding. The fine has been paid in full in the meantime and shall therefore be regarded as enforced. As a result of the administrative order, the misdemeanor proceeding against AUDI AG has been concluded.

On June 25, 2018, a Pennsylvania state court approved a consent judgment that implemented an earlier settlement agreement resolving the state environmental claims asserted against Volkswagen AG and certain affiliates by the State of Pennsylvania and nine other states that have opted out of federal emissions standards.

On June 26, 2018, a Missouri state court granted a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Missouri Attorney General. Missouri has declined to appeal that decision.

On July 6, 2018, the Federal Constitutional Court ruled on the constitutional complaints in connection with the search at the law firm Jones Day and ascertained that the confirmation of the provisional seizure of client engagement documents and data of Volkswagen AG had not violated constitutional law. The companies of the Volkswagen Group will continue to cooperate with the government authorities with due regard for the ruling of the Federal Constitutional Court.

In Austria, the first-instance dismissal of the last investor complaint pending in connection with the diesel issue became binding in the reporting period.

On July 30, 2018, the public prosecutor's office in Braunschweig opened an administrative proceeding against Volkswagen AG pursuant to section 30 of the Gesetz über Ordnungswidrigkeiten (OWiG – Act on Regulatory Offences) in connection with the criminal investigation of individuals for alleged market manipulation. On August 24, 2018, the public prosecutor's office in Braunschweig granted the defense counsel for the defendants and the defense counsel for Volkswagen AG access to the investigation for these proceedings.

On August 15, 2018, an Ontario provincial court dismissed a proposed securities class action by investors in Volkswagen AG American Depositary Receipts and shares among others on the basis that the court lacked jurisdiction over the action. An appeal from this ruling was noticed on September 14, 2018.

In the USA, on August 28, 2018, Volkswagen AG and a putative class of purchasers of Volkswagen AG American Depositary Receipts agreed to settle the class' claims alleging a drop in price purportedly resulting from the matters described in the EPA's "Notices of Violation" in exchange for a cash payment of USD 48 million. The proposed settlement is subject to approval by the court.

On September 17, 2018, Volkswagen AG, AUDI AG and certain affiliates sought leave to appeal to the Supreme Court of Canada regarding a Quebec provincial court's January 24, 2018 ruling authorizing an environmental class action on the sole issue of whether punitive damages could be recoverable.

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. From July 2017 to September 2018, the measures proposed by AUDI AG were adopted and mandated in various decisions by the KBA on vehicle models with V6 and V8 TDI engines. The investigations initiated in May 2018 on the current vehicle concepts of the Generation 2 evo and Generation 3 engine generations have been completed. The key findings were presented to the KBA.

Having served Volkswagen AG with an action asserting the rights assigned by approximately 2,000 customers in Switzerland, financialright GmbH has brought a further such action on behalf of around 6,000 Slovenian customers.

The private Spanish consumer protection organization Organización de Consumidores y Usuarios (OCU) has filed a class action against Volkswagen Group España Distribución S.A. on May 9, 2018. OCU represents around 7,500 Spanish customers.

Volkswagen AG has been served with 14 actions brought by the Austrian consumer protection organization (VKI) asserting claims for damage compensation for approximately 8,400 customers, which have been assigned to VKI for collection. Furthermore, Volkswagen AG has been served with six actions brought by the platform "Cobin Claims" asserting claims for damage compensation for approximately 80 customers, which have assigned their claims to Cobin Claims for collection.

On September 12, 2018, a class action by customers was brought in Johannesburg against Volkswagen of South Africa Ltd. as well as various dealerships.

In Poland, on September 17, 2018 further class actions by customers were filed against Volkswagen AG and other Volkswagen Group companies.

In Germany, around 25,500 product-related individual actions brought by customers in connection with the diesel issue are pending against Volkswagen AG and other Volkswagen Group companies.

As part of the cartel investigations in the automotive industry already known to the public, the European Commission took the procedural step of initiating formal proceedings against affected undertakings on September 18, 2018. The investigations have been ongoing for some time. As the European Commission's press statement indicates, the European Commission is now restricting the scope of the investigation to the subject of emissions. The formal initiation of proceedings is standard and is a purely procedural step in the process, which was fully expected by Volkswagen. The Volkswagen Group and the relevant Group brands have been fully cooperating with the European Commission and will continue to cooperate with the Commission.

In addition, the Italian Competition Authority initiated proceedings to investigate potential competition law infringements (alleged exchange of competitively sensitive information) by a number of captive automotive finance companies, including Volkswagen Bank GmbH. The proceedings were later extended to the relevant parent companies, including Volkswagen AG. In October 2018, Volkswagen Bank GmbH and Volkswagen AG have received a statement of objections summarizing the findings by the authority and describing the alleged infringement. At this stage it is too early to determine the risk exposure for Volkswagen Group.

On June 26, 2018, the Higher Regional Court in Munich made a final decision in the award proceedings on the appropriateness of the cash settlement and the right to compensation payable to the noncontrolling interest shareholders of MAN SE, ruling that the annual compensation claim has to be increased to €5.47 gross (less any corporate income tax and any solidarity surcharge according to the respective tax rate applicable to these taxes for the financial year in question) per share. The cash settlement in the amount of €90.29 per share, increased in the first instance by the First Regional Court in Munich, was confirmed. The decisions by the Higher Regional Court in Munich are final and were published in the Federal Gazette on August 6, 2018. In accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act), it was possible to accept the cash compensation of €90.29 per share within two months after this date. Further applications have been made to the Higher Regional Court in Munich by noncontrolling interest shareholders of MAN to have also the guaranteed dividend paid in 2013 increased to €5.47 gross. The decision of the Higher Regional Court in Munich regarding these applications which were made after the end of the court proceedings remains to be seen.

In the tax proceedings between MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment was rendered in administrative court proceedings, which was negative for MAN Latin America. MAN Latin America has initiated proceedings against this judgment before the regular court in 2018. Due to the difference in the penalties plus interest which could potentially apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is laden with uncertainty. However, a positive outcome continues to be expected for MAN Latin America. Should the opposite occur, this could result in a risk of about €0.6 billion for the contested period from 2009 onwards, which has been stated within the contingent liabilities in the notes.

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 2018 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 2017 Annual Report or in publications released by the reporting date, as well as the continuing investigations and interviews in connection with the diesel issue and additional important legal cases.

Outlook

The Volkswagen Group's Board of Management expects the global economy to record slightly weaker growth in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect 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 2018. Overall, global demand for new vehicles will probably remain at the 2017 level. We anticipate that unit sales volumes in Western Europe will be somewhat above those seen in the previous year. In the German passenger car market, we estimate that the market volume will be on a level with the previous year. Passenger car demand is expected to substantially 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 demand in the South American markets for passenger cars and light commercial vehicles to grow moderately as a whole compared with the previous year. The passenger car markets in the Asia-Pacific region will likely be slightly lower in 2018.

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we envisage 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 2018 are set to rise slightly above the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2018.

The Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed developments in regional automotive markets. Our unique brand portfolio, our presence in all major world markets, our broad, selectively expanded product range and pioneering technologies and services place us in a good competitive position worldwide. In the course of transforming our core business, we will define the positioning of our Group brands more clearly and optimize the vehicle and drive portfolio with a view to 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 2018 will moderately 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 the diesel issue. In the EU, there is also a new, more time-consuming test procedure for determining pollutant and CO_2 emissions as well as fuel consumption in passenger cars and light commercial vehicles known as the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP).

We expect the sales revenues of the Volkswagen Group and its 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% for 2018. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 5.0–6.0%. In the Power Engineering Business Area, we expect a loss of around the previous year's level. For the Financial Services Division, we are forecasting an operating profit at the prior-year level.

After special items, we anticipate that the operating return on sales will fall moderately short 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 period from January to September 2018, the Volkswagen Group generated sales revenue of €174.6 (170.1) billion. At €13.3 (13.2) billion, operating profit before special items was on a level with the previous year. The diesel issue gave rise to special items of €–2.4 (–2.6) billion in the reporting period.

The Volkswagen Passenger Cars brand sold 2.8 (2.6) million vehicles in the first three quarters of this year. The Polo, T-Roc, Tiguan, Virtus and Atlas models were particularly popular. Sales revenue increased by 7.3% to €62.5 billion. Operating profit before special items amounted to €2.3 (2.5) billion. Higher vehicle sales and improved product costs had a positive effect. Higher distribution expenses resulting from factors such as the environmental bonus, exchange rate effects and upfront expenditures for new products, especially in connection with the implementation of the electric mobility campaign, weighed on the operating profit. In addition, the WLTP test procedure presented challenges. The diesel issue resulted in special items of €–1.6 (–2.6) billion.

The Audi brand recorded unit sales of 1.1 (1.1) million vehicles worldwide in the first nine months of 2018. The Chinese joint venture FAW-Volkswagen sold a further 455 (412) thousand Audi vehicles. The Q2, Q5, Q8, A4 and A5 models were extremely popular. Sales revenue rose to €44.3 (44.0) billion. Operating profit before special items increased to €3.7 (3.9) billion. Improvements in the mix and positive exchange rate effects were unable to compensate for lower vehicle sales and higher sales costs, both of which also reflect the impact of the WLTP. The diesel issue led to special items of €–0.8 billion. The financial key performance indicators for the Audi brand include the Lamborghini and Ducati brands. Ducati sold 43,435 (46,774) motorcycles in the reporting period.

The ŠKODA brand sold 698 (700) thousand vehicles in the period from January to September of this year. Demand for the Karoq and Kodiaq models was particularly high. Sales revenue increased by 2.1% year-on-year to €12.6 billion. Operating profit declined by 10.2% to €1.1 billion, due in particular to negative exchange rate and mix effects, in addition to higher upfront expenditures for new products. In contrast, cost optimization and improved price positioning had a positive effect.

At 462 thousand vehicles, unit sales by the SEAT brand in the reporting period were up 5.9% compared with the previous year. This figure includes the Q3 manufactured for Audi. There was greater demand for the Arona. Sales revenue increased by 6.7% year-on-year to €7.7 billion. Operating profit climbed 54.4% to €237 million, with the effects of upfront expenditures for new products and exchange rates being more than compensated for by volume and mix improvements.

The Bentley brand sold 6,654 (7,498) vehicles in the first three quarters of this year. Sales revenue slipped to €1.1 (1.3) billion. The operating result stood at €–137 (31) million, above all exchange rate effects and delays in the start-up of the new Continental GT had a negative impact.

VOLKSWAGEN GROUP REPORTING STRUCTURE

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

Porsche Automotive sold 190 (180) thousand vehicles worldwide in the period from January to September 2018. The Panamera and the 911 saw a significant increase in demand. Sales revenue rose to €17.5 (15.7) billion. The operating profit of Porsche Automobile improved by 10.6% to €3.2 billion, due in particular to higher volumes and positive mix effects.

Global sales at Volkswagen Commercial Vehicles amounted to 337 (371) thousand vehicles in the reporting period. Production of the Amarok in South America has been managed by the Volkswagen Passenger Cars brand since the beginning of the year. Sales of the Crafter showed an encouraging growth rate. Sales revenue amounted to €8.6 billion, a decrease of 3.9% compared with the previous year. Despite positive mix effects and material cost optimization, an unfavorable exchange rate trend and challenges presented by the WLTP above all led to a 10.0% fall in operating profit to €628 million.

The Scania brand lifted its unit sales in the first three quarters of 2018 to 69 (65) thousand vehicles. Sales revenue amounted to €9.6 (9.3) billion. Scania generated an operating profit of €991 (947) million, particularly on the back of higher volumes, a favorable exchange rate trend and an improved financial services business. Cost increases had a negative effect.

MAN Commercial Vehicles sold 98 thousand units from January to September 2018, an increase of 21.6% on the previous year. Sales revenue improved to €8.6 (8.0) billion. Operating profit declined to €222 (269) million as higher volumes were unable to compensate for the expenses incurred in connection with the restructuring of activities in India.

MAN Power Engineering recorded sales revenue of €2.5 (2.4) billion in the reporting period. Operating profit amounted to €142 (107) million.

In the first nine months of 2018, the operating profit at Volkswagen Financial Services climbed by 8.6% to €1.9 billion. Business growth in particular had a positive effect.

KEY FIGURES BY BRAND AND BUSINESS FIELD FROM JANUARY 1 TO SEPTEMBER 30[1]

	VEHICLE SALES		SALES REVENUE		OPERATING RESULT	
Thousand vehicles/€ million	**2018**	2017	**2018**	2017[2]	**2018**	2017
Volkswagen Passenger Cars	2,753	2,632	62,508	58,278	2,330	2,504
Audi	1,107	1,147	44,257	44,028	3,671	3,941
ŠKODA	698	700	12,598	12,338	1,083	1,206
SEAT	462	436	7,744	7,255	237	154
Bentley	7	7	1,092	1,321	–137	31
Porsche Automotive[3]	190	180	17,507	15,703	3,197	2,890
Volkswagen Commercial Vehicles	337	371	8,572	8,919	628	698
Scania[4]	69	65	9,634	9,304	991	947
MAN Commercial Vehicles	98	80	8,599	7,970	222	269
MAN Power Engineering	–	–	2,489	2,355	142	107
VW China[5]	3,021	2,917	–	–	–	–
Other[6]	–619	–623	–25,059	–21,272	–974	–1,277
Volkswagen Financial Services	–	–	24,635	23,864	1,915	1,763
Volkswagen Group before special items	**–**	**–**	**–**	**–**	**13,306**	**13,231**
Special items	–	–	–	–	–2,435	–2,595
Volkswagen Group	**8,123**	**7,913**	**174,577**	**170,065**	**10,871**	**10,636**
Automotive Division[7]	8,123	7,913	148,424	144,754	8,832	8,717
of which: Passenger Cars Business Area	7,625	7,400	119,646	116,642	7,393	7,308
Commercial Vehicles Business Area	498	513	26,289	25,757	1,486	1,484
Power Engineering Business Area	–	–	2,489	2,355	–46	–75
Financial Services Division	–	–	26,153	25,311	2,039	1,919

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 Adjusted; see disclosures about the application of new International Financial Reporting Standards on page 15.
3 Porsche (Automotive and Financial Services): sales revenue €19,117 (17,120) million, operating profit €3,329 (3,006) million.
4 Including financial services.
5 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 €3,330 (3,305) million.
6 In operating profit, mainly intragroup items are recognized in profit or loss, in particular arising from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocation for Scania, Porsche Holding Salzburg, MAN and Porsche.
7 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

UNIT SALES AND SALES REVENUE BY MARKET

In the first three quarters of 2018, the Volkswagen Group lifted its unit sales in the Europe/Other markets region by 1.4% year-on-year to 3.6 million vehicles. Sales revenue amounted to €106.7 (107.3) billion. Negative exchange rate effects were offset by volume improvements. The third quarter of 2018 was negatively impacted by the changeover to the WLTP test procedure.

In North America, the Volkswagen Group sold 686 thousand vehicles in the reporting period, a decrease of 4.4% compared with the previous year. In addition to the decline in volumes, exchange rate effects reduced sales revenue by 1.1% to €27.4 billion. Changes in the mix had a positive impact.

In the South American markets we sold 445 (384) thousand vehicles in the period from January to September of this year. Volume and mix improvements increased sales revenue to €7.8 (7.4) billion, while the exchange rate trend had a negative effect.

In the reporting period, the Volkswagen Group sold a total of 3.4 (3.3) million vehicles in the Asia-Pacific region (including the Chinese joint ventures). Sales revenue rose by 13.3% year-on-year to €31.4 billion, due to an improvement in the components business of our consolidated companies. This figure does not include the sales revenue of our equity-accounted Chinese joint ventures.

Since the new accounting standard IFRS 9 was applied on January 1, 2018, income and expenses realized from hedging transactions relating to sales revenue in foreign currency has been allocated to sales revenue; in the period from January to September 2018, hedging transactions increased the sales revenue of the Volkswagen Group by €1.4 billion.

KEY FIGURES BY MARKET FROM JANUARY 1 TO SEPTEMBER 30[1]

	VEHICLE SALES		SALES REVENUE	
Thousand vehicles/€ million	2018	2017	2018	2017[2]
Europe/Other markets	3,572	3,522	106,689	107,269
North America	686	718	27,394	27,695
South America	445	384	7,769	7,405
Asia-Pacific[3]	3,420	3,288	31,370	27,696
Hedges on sales revenue	–	–	1,354	–
Volkswagen Group[3]	**8,123**	**7,913**	**174,577**	**170,065**

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 Adjusted; see disclosures about the application of new International Financial Reporting Standards on page 15.
3 The sales revenue of the joint venture companies in China is not included in the figures for the Group and the Asia-Pacific market.

VOLKSWAGEN FINANCIAL SERVICES

In the period from January to September 2018, Volkswagen Financial Services supported the Volkswagen Group's unit sales with its innovative products along the automotive value chain.

Volkswagen Financial Services continued to pursue its international growth in September 2018 and extended the portfolio of services to include Volkswagen Group of America Fleet Services: Through the collaboration between Volkswagen Credit, Inc. and the US-based company Merchants, full-service leasing is now available to fleet customers in the US market. In addition, solutions are provided in the areas of sourcing, financing, customer service and remarketing.

Also in September, Volkswagen Financial Services secured Daimler Financial Services as a partner and investor for its used-car platform heycar. Daimler's entry took place through a capital increase. On completion of the transaction, Daimler will hold a 20% stake in Mobility Trader Holding GmbH, which operates the heycar platform in the German market through a subsidiary. The transaction is subject to approval by the relevant antitrust authorities.

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

Volkswagen Leasing GmbH achieved the highest-volume transaction that Volkswagen Financial Services has conducted so far this year with three bonds totaling €2.5 billion. The shortest bond has a term of two-and-a-half years and a volume of €1 billion. A further bond with a term of four-and-a-half years has a volume of €750 million. The bond with the longest term of seven years also has a volume of €750 million. Volkswagen Financial Services N.V. placed a bond with a volume of GBP 500 million (approximately €556 million). This has a term of slightly over three years. In addition, OOO Volkswagen Bank RUS placed a RUB 5 billion bond (equivalent to around €70 million) on the Russian capital market. This bond has a term of three years.

Volkswagen Bank GmbH successfully placed a further ABS transaction "Driver 15", comprising securitized financing contracts with a volume of more than €750 million. Furthermore, Volkswagen Financial Services Australia Pty Limited issued a bond worth AUD 350 million, around €224 million.

The number of new financing, leasing, service and insurance contracts signed in the reporting period was above the previous year's level at 5.2 (5.0) 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 33.7 (33.5)%. On September 30, 2018, the total number of contracts was 17.6 million, up 2.4% compared with December 31, 2017. The number of contracts in the Customer Financing/Leasing area rose by 4.4% compared with year-end 2017 to 10.0 million. At 7.6 (7.6) million, the number of contracts in the Service/Insurance area was in line with the 2017 year-end level.

At the end of the third quarter of 2018, Volkswagen Bank managed around 1.5 (1.5) million deposit accounts.

On September 30, 2018, Volkswagen Financial Services had a total of 14,015 (13,955) employees.

Interim Consolidated Financial Statements (Condensed)

Income Statement for the Period January 1 to September 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2018	2017[3]	2018	2017[3]	2018	2017[3]
Sales revenue	**174,577**	**170,065**	**148,424**	**144,754**	**26,153**	**25,311**
Cost of sales	–139,533	–137,425	–118,293	–116,856	–21,240	–20,570
Gross result	**35,043**	**32,640**	**30,131**	**27,899**	**4,912**	**4,741**
Distribution expenses	–15,068	–15,193	–14,005	–14,165	–1,063	–1,028
Administrative expenses	–6,234	–5,974	–4,827	–4,730	–1,407	–1,244
Other operating income/expense	–2,871	–836	–2,468	–286	–403	–550
Operating result	**10,871**	**10,636**	**8,832**	**8,717**	**2,039**	**1,919**
Share of the result of equity-accounted investments	2,448	2,378	2,393	2,382	55	–4
Interest result and other financial result	–800	–2,725	–799	–2,723	–1	–1
Financial result	**1,647**	**–347**	**1,594**	**–341**	**54**	**–6**
Earnings before tax	**12,518**	**10,290**	**10,426**	**8,376**	**2,092**	**1,913**
Income tax expense	–3,142	–2,746	–2,442	–2,150	–700	–596
Earnings after tax	**9,376**	**7,543**	**7,984**	**6,227**	**1,392**	**1,317**
of which attributable to						
Noncontrolling interests	10	5	–33	–24	43	29
Volkswagen AG hybrid capital investors	248	195	248	195	–	–
Volkswagen AG shareholders	9,118	7,344	7,769	6,056	1,350	1,288
Basic earnings per ordinary share (€)[2]	**18.17**	**14.63**				
Diluted earnings per ordinary share (€)[2]	**18.17**	**14.63**				
Basic earnings per preferred share (€)[2]	**18.23**	**14.69**				
Diluted earnings per preferred share (€)[2]	**18.23**	**14.69**				

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.
3 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

Statement of Comprehensive Income for the Period January 1 to September 30

€ million	2018	2017[1]
Earnings after tax	**9,376**	**7,543**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–270	1,940
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	77	–560
Pension plan remeasurements recognized in other comprehensive income, net of tax	–193	1,380
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	31	140
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	3	19
Items that will not be reclassified to profit or loss	**–159**	**1,539**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–796	–1,951
Transferred to profit or loss	1	–1
Exchange differences on translating foreign operations, before tax	–796	–1,952
Deferred taxes relating to exchange differences on translating foreign operations	6	–11
Exchange differences on translating foreign operations, net of tax	–789	–1,962
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	–363	5,498
Transferred to profit or loss (OCI I)	–1,491	–246
Cash flow hedges (OCI I), before tax	–1,854	5,252
Deferred taxes relating to cash flow hedges (OCI I)	524	–1,532
Cash flow hedges (OCI I), net of tax	–1,331	3,720
Fair value changes recognized in other comprehensive income (OCI II)	–939	273
Transferred to profit or loss (OCI II)	225	–
Cash flow hedges (OCI II), before tax	–714	273
Deferred taxes relating to cash flow hedges (OCI II)	212	–82
Cash flow hedges (OCI II), net of tax	–502	191
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	–18	–16
Transferred to profit or loss	1	2
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	–17	–15
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	5	5
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	–12	–10
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	25	–330
Items that may be reclassified to profit or loss	**–2,609**	**1,609**
Other comprehensive income, before tax	–3,592	5,326
Deferred taxes relating to other comprehensive income	824	–2,178
Other comprehensive income, net of tax	**–2,768**	**3,148**
Total comprehensive income	**6,608**	**10,692**
of which attributable to		
Noncontrolling interests	10	5
Volkswagen AG hybrid capital investors	248	195
Volkswagen AG shareholders	6,350	10,492

1 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

Income Statement for the Period July 1 to September 30

€ million	VOLKSWAGEN GROUP 2018	VOLKSWAGEN GROUP 2017[3]	AUTOMOTIVE[1] 2018	AUTOMOTIVE[1] 2017[3]	FINANCIAL SERVICES 2018	FINANCIAL SERVICES 2017[3]
Sales revenue	**55,200**	**54,716**	**46,709**	**46,366**	**8,491**	**8,350**
Cost of sales	–44,984	–45,796	–38,111	–38,991	–6,873	–6,804
Gross result	**10,215**	**8,920**	**8,598**	**7,375**	**1,617**	**1,545**
Distribution expenses	–4,824	–4,916	–4,458	–4,562	–366	–354
Administrative expenses	–2,008	–1,978	–1,577	–1,591	–431	–387
Other operating income/expense	–673	–307	–597	–156	–76	–151
Operating result	**2,711**	**1,720**	**1,966**	**1,066**	**745**	**654**
Share of the result of equity-accounted investments	767	742	752	749	16	–6
Interest result and other financial result	67	–972	69	–967	–1	–5
Financial result	**835**	**–230**	**820**	**–219**	**14**	**–11**
Earnings before tax	**3,546**	**1,491**	**2,787**	**847**	**759**	**643**
Income tax expense	–782	–422	–597	–189	–185	–232
Earnings after tax	**2,764**	**1,069**	**2,190**	**658**	**574**	**411**
of which attributable to						
Noncontrolling interests	5	0	–5	–8	11	8
Volkswagen AG hybrid capital investors	91	79	91	79	–	–
Volkswagen AG shareholders	2,667	990	2,103	587	563	403
Basic earnings per ordinary share (€)[2]	**5.32**	**1.97**				
Diluted earnings per ordinary share (€)[2]	**5.32**	**1.97**				
Basic earnings per preferred share (€)[2]	**5.32**	**1.97**				
Diluted earnings per preferred share (€)[2]	**5.32**	**1.97**				

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.
3 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

Statement of Comprehensive Income for the Period July 1 to September 30

€ million	2018	2017[1]
Earnings after tax	**2,764**	**1,069**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–111	–21
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	31	18
Pension plan remeasurements recognized in other comprehensive income, net of tax	–80	–4
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	–1	92
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	3	18
Items that will not be reclassified to profit or loss	**–78**	**106**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–302	–646
Transferred to profit or loss	1	0
Exchange differences on translating foreign operations, before tax	–301	–646
Deferred taxes relating to exchange differences on translating foreign operations	1	0
Exchange differences on translating foreign operations, net of tax	–300	–646
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	281	1,719
Transferred to profit or loss (OCI I)	–459	–469
Cash flow hedges (OCI I), before tax	–179	1,250
Deferred taxes relating to cash flow hedges (OCI I)	51	–372
Cash flow hedges (OCI I), net of tax	–127	878
Fair value changes recognized in other comprehensive income (OCI II)	–358	101
Transferred to profit or loss (OCI II)	110	–
Cash flow hedges (OCI II), before tax	–248	101
Deferred taxes relating to cash flow hedges (OCI II)	74	–30
Cash flow hedges (OCI II), net of tax	–174	71
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	–16	–1
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	–16	0
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	5	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	–11	0
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–69	–42
Items that may be reclassified to profit or loss	**–682**	**261**
Other comprehensive income, before tax	–922	752
Deferred taxes relating to other comprehensive income	162	–385
Other comprehensive income, net of tax	**–760**	**367**
Total comprehensive income	**2,003**	**1,436**
of which attributable to		
Noncontrolling interests	6	0
Volkswagen AG hybrid capital investors	91	79
Volkswagen AG shareholders	1,906	1,357

1 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

Balance Sheet as of September 30, 2018 and December 31, 2017

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2018	2017	2018	2017	2018	2017
Assets						
Noncurrent assets	**269,254**	**262,081**	**139,649**	**140,912**	**129,605**	**121,169**
Intangible assets	63,601	63,419	63,398	63,211	203	208
Property, plant and equipment	55,364	55,243	52,476	52,503	2,888	2,739
Lease assets	42,590	39,254	4,795	3,140	37,795	36,114
Financial services receivables	77,685	73,249	9	–7	77,676	73,256
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	30,014	30,916	18,971	22,065	11,043	8,851
Current assets	**174,603**	**160,112**	**87,952**	**80,210**	**86,651**	**79,902**
Inventories	45,558	40,415	41,304	36,113	4,254	4,302
Financial services receivables	50,806	53,145	–483	–686	51,290	53,832
Other receivables and financial assets	36,324	32,040	17,127	17,354	19,196	14,686
Marketable securities	16,741	15,939	13,621	13,512	3,120	2,427
Cash, cash equivalents and time deposits	25,175	18,457	16,384	13,826	8,791	4,632
Held for Sale	–	115	–	90	–	24
Total assets	**443,857**	**422,193**	**227,602**	**221,121**	**216,256**	**201,071**
Equity and Liabilities						
Equity	**114,522**	**109,077**	**86,377**	**81,605**	**28,145**	**27,472**
Equity attributable to Volkswagen AG shareholders	101,738	97,761	74,233	70,857	27,505	26,904
Equity attributable to Volkswagen AG hybrid capital investors	12,565	11,088	12,565	11,088	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	114,303	108,849	86,798	81,945	27,505	26,904
Noncontrolling interests	219	229	–421	–339	640	568
Noncurrent liabilities	**161,639**	**152,726**	**68,793**	**69,805**	**92,847**	**82,921**
Financial liabilities	89,749	81,628	5,274	6,709	84,475	74,919
Provisions for pensions	33,249	32,730	32,689	32,189	561	540
Other liabilities	38,641	38,368	30,830	30,906	7,811	7,462
Current liabilities	**167,696**	**160,389**	**72,432**	**69,711**	**95,264**	**90,678**
Put options and compensation rights granted to noncontrolling interest shareholders	3,456	3,795	3,456	3,795	–	–
Financial liabilities	85,820	81,844	–1,085	–458	86,905	82,302
Trade payables	23,464	23,046	20,717	20,497	2,747	2,548
Other liabilities	54,955	51,705	49,344	45,877	5,611	5,828
Total equity and liabilities	**443,857**	**422,193**	**227,602**	**221,121**	**216,256**	**201,071**

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 reserves	Retained earnings	OTHER RESERVES Currency translation reserve
Unadjusted balance at Jan. 1, 2017	**1,283**	**14,551**	**70,446**	**–1,117**
Changes in accounting policy to reflect IFRS 9	–	–	57	–
Balance at Jan. 1, 2017	**1,283**	**14,551**	**70,503**	**–1,117**
Earnings after tax	–	–	7,344	–
Other comprehensive income, net of tax	–	–	1,380	–1,961
Total comprehensive income	**–**	**–**	**8,724**	**–1,961**
Offsetting of the result for investment hedging	–	–	–	–
Disposal of equity instruments	–	–	–	–
Capital increases[1]	–	–	–	–
Dividends payment	–	–	–1,015	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	–2	–
Balance at Sept. 30, 2017	**1,283**	**14,551**	**78,209**	**–3,078**
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	–	–	9,118	–
Other comprehensive income, net of tax	–	–	–193	–790
Total comprehensive income	**–**	**–**	**8,925**	**–790**
Offsetting of the result for investment hedging	–	–	–	–
Disposal of equity instruments	–	–	–	–
Capital increases/Capital decreases[2]	–	–	–	–
Dividends payment	–	–	–1,967	–
Capital transactions involving a change in ownership interest	–	–	–10	–
Other changes	–	–	–7	–
Balance at Sept. 30, 2018	**1,283**	**14,551**	**88,026**	**–4,013**

1 Volkswagen AG recorded an inflow of cash funds amounting to €3,500 million, less a discount of €4 million and transaction costs of €23 million, from the hybrid capital issued in June 2017. Additionally, there were noncash effects from the deferral of taxes amounting to €8 million. The hybrid capital is required to be classified as equity instruments granted.

2 Volkswagen AG recorded an inflow of cash funds amounting to €2,750 million, less transaction costs of €19 million, from the hybrid capital issued in June 2018. Additionally, there were noncash effects from the deferral of taxes amounting to €6 million. The hybrid capital is required to be classified as equity instruments granted. The calling of the first tranche of the hybrid capital issued in September 2013 resulted in an outflow of cash funds of €1,250 million in September 2018. In addition, effects of €14 million had to be included in this figure.

HEDGING							
Cash flow hedges (OCI I)	Deferred costs of hedging (OCI II)	Equity and debt instruments	Equity accounted investments	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to Volkswagen AG shareholders and hybrid capital investors	Noncontrolling interests	**Total equity**
–457	**–**	**–2**	**417**	**7,567**	**92,689**	**221**	**92,910**
–	–57	–	–	–	–	–	–
–457	**–57**	**–2**	**417**	**7,567**	**92,689**	**221**	**92,910**
–	–	–	–	195	7,539	5	7,543
3,720	191	130	–311	–	3,148	0	3,148
3,720	**191**	**130**	**–311**	**195**	**10,687**	**5**	**10,692**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	3,481	3,481	–	3,481
–	–	–	–	–291	–1,306	–5	–1,311
–	–	–	–	–	–	–	–
–	–	–	0	73	71	2	73
3,263	**134**	**129**	**106**	**11,024**	**105,621**	**224**	**105,845**
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**
–	–	–	–	248	9,366	10	9,376
–1,331	–502	19	28	–	–2,768	0	–2,768
–1,331	**–502**	**19**	**28**	**248**	**6,598**	**10**	**6,608**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	1,501	1,501	–	1,501
–	–	–	–	–362	–2,329	–4	–2,334
–	–	–	–	–	–10	–18	–28
–	–	–	–	91	83	2	85
2,250	**–439**	**–114**	**194**	**12,565**	**114,303**	**219**	**114,522**

Cash flow statement for the Period January 1 to September 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2018	2017[7]	2018	2017[7]	2018	2017[7]
Cash and cash equivalents at beginning of period	**18,038**	**18,833**	**13,428**	**14,125**	**4,609**	**4,709**
Earnings before tax	12,518	10,290	10,426	8,376	2,092	1,913
Income taxes paid	–2,905	–2,701	–3,028	–2,545	124	–156
Depreciation and amortization expense[2]	16,359	16,182	11,231	10,774	5,128	5,408
Change in pension provisions	287	278	277	271	10	7
Share of the result of equity-accounted investments	920	1,157	974	1,145	–55	12
Other noncash income/expense and reclassifications[3]	260	–257	224	80	36	–337
Gross cash flow	**27,439**	**24,949**	**20,104**	**18,102**	**7,335**	**6,847**
Change in working capital	**–18,329**	**–24,602**	**–5,173**	**–10,062**	**–13,156**	**–14,541**
Change in inventories	–5,387	–6,246	–5,539	–6,093	152	–153
Change in receivables	–5,219	–2,119	–1,806	–1,586	–3,413	–533
Change in liabilities	5,145	6,630	4,410	5,673	735	957
Change in other provisions	–1,089	–7,223	–1,185	–7,318	96	95
Change in lease assets (excluding depreciation)	–8,802	–8,488	–834	–676	–7,968	–7,812
Change in financial services receivables	–2,977	–7,157	–218	–61	–2,759	–7,095
Cash flows from operating activities	**9,110**	**346**	**14,931**	**8,040**	**–5,821**	**–7,694**
Cash flows from investing activities attributable to operating activities	**–11,839**	**–11,315**	**–11,441**	**–10,988**	**–398**	**–328**
of which: Investments in intangible assets (excluding capitalized development costs), property, plant and equipment, and investment property	–8,151	–7,300	–7,853	–7,089	–298	–211
capitalized development costs	–3,505	–4,210	–3,505	–4,210	–	–
acquisition and disposal of equity investments	–377	–116	–211	13	–166	–129
Net cash flow[4]	***–2,728***	***–10,969***	***3,490***	***–2,948***	***–6,218***	***–8,022***
Change in investments in securities, loans and time deposits	–1,534	1,872	1,926	1,414	–3,460	458
Cash flows from investing activities	**–13,373**	**–9,443**	**–9,515**	**–9,574**	**–3,858**	**131**
Cash flows from financing activities	**11,316**	**11,927**	**–2,530**	**3,250**	**13,845**	**8,677**
of which: capital contributions/capital redemptions	1,491	3,473	1,467	2,536	24	937
Effect of exchange rate changes on cash and cash equivalents	–260	–675	–265	–596	4	–79
Change of loss allowance within cash & cash equivalents	0	–	0	–	0	–
Net change in cash and cash equivalents	**6,792**	**2,155**	**2,621**	**1,120**	**4,172**	**1,035**
Cash and cash equivalents at Sept. 30[5]	**24,830**	**20,989**	**16,049**	**15,245**	**8,781**	**5,743**
Securities, loans and time deposits	27,284	26,267	12,934	16,261	14,350	10,006
Gross liquidity	**52,114**	**47,255**	**28,983**	**31,506**	**23,131**	**15,749**
Total third-party borrowings	–175,569	–158,960	–4,189	–6,063	–171,380	–152,897
Net liquidity at Sept 30[6]	**–123,455**	**–111,705**	**24,794**	**25,443**	**–148,249**	**–137,148**
For information purposes: at Jan. 1	–119,143	–107,950	22,378	27,180	–141,522	–135,130

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, 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).
7 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

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

Notes to the Interim 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 2017 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. These interim consolidated financial statements for the period ended September 30, 2018 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 Monday, January 1, 2018.

IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9 changes the accounting requirements for classifying and measuring financial assets, for impairment of financial assets, and for hedge accounting.

Financial assets are classified and measured on the basis of the entity's business model and the characteristics of the financial asset's cash flows. A financial asset is initially measured either "at amortized cost", "at fair value through other comprehensive income", or "at fair value through profit or loss". The classification and measurement of financial liabilities under IFRS 9 are largely unchanged compared with the accounting requirements of IAS 39.

The basis for measuring impairment losses and recognizing loss allowances switched from an incurred credit loss model to an expected credit loss model. The change in measurement method leads to an increase in the loss allowance. The increase in the loss allowance results firstly from the requirement to recognize a loss allowance even for financial assets not classified as non-performing and whose credit risk has not increased significantly since initial recognition. Secondly, the increase results from the requirement to recognize loss allowances on the basis of the entire expected remaining life of the contractual asset for financial assets for which there has been a significant increase in credit risk since initial recognition.

In the case of hedge accounting, IFRS 9 contains both extended designation options and the need to implement more complex recognition and measurement methods. In addition, IFRS 9 also eliminates the quantitative limits for effectiveness testing.

In addition, IFRS 9 has an impact on the entity's reclassification practice. Depending on market trends, there is an expectation that operating profit or loss will be affected by hedging transactions to a greater extent. Due to the retrospective application of the guidance on designating options, the prior-year figures were adjusted. This resulted in an effect of €–191 million on earnings after tax in the first nine months of fiscal year 2017.

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

The tables below show the main effects of the new accounting rules under IFRS 9 on the classification and measurement of financial assets, the impairment of financial assets and hedge accounting.

For the class of derivatives in hedge accounting, IFRS 9 did not result in any reclassifications from or to other classes.

ADJUSTMENTS TO BALANCE SHEET AMOUNTS AS OF JANUARY 1, 2018 AS A RESULT OF IFRS 9

€ million	DEC. 31, 2017 Before adjustments	Adjustments	JAN. 1, 2018 After adjustments
Assets			
Noncurrent assets			
Financial services receivables	73,249	–173	73,076
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	30,916	52	30,967
Current assets			
Financial services receivables	53,145	–122	53,023
Other receivables and financial assets	32,040	–206	31,834
Marketable securities	15,939	2	15,941
Cash, cash equivalents and time deposits	18,457	–2	18,456
Equity and liabilities			
Equity			
Total Equity	109,077	–391	108,687
Noncurrent liabilities			
Other liabilities	38,368	–67	38,302
Current liabilities			
Other liabilities	51,705	7	51,712

In addition to the changes described above, the new rules on the recognition of loss allowances had an impact on the measurement of lease assets. This resulted in an adjustment of €43 million (of which €35 million recognized in lease assets and €7 million in inventories). This transition effect, net of deferred taxes, was recognized directly in equity.

RECONCILIATION OF THE CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

		TRANSFERS		
	MEASURED AT FAIR VALUE IAS 39	FROM MEASURED AT AMORTIZED COST	TO MEASURED AT AMORTIZED COST	MEASURED AT FAIR VALUE IFRS 9
€ million	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount Jan. 1, 2018
Noncurrent assets				
Equity-accounted investments	–	–	–	–
Other equity investments	243	–	–	243
Financial services receivables	–	533	–	533
Other financial assets	776	–	–	776
Current assets				
Trade receivables	–	44	–	44
Financial services receivables	–	0	–	0
Other financial assets	936	5	–	941
Marketable securities	15,939	–	79	15,861
Cash, cash equivalents and time deposits	–	–	–	–
Noncurrent liabilities				
Noncurrent financial liabilities	–	–	–	–
Other noncurrent financial liabilities	774	–	–	774
Current liabilities				
Put options and compensation rights granted to noncontrolling interest shareholders	–	–	–	–
Current financial liabilities	–	–	–	–
Trade payables	–	–	–	–
Other current financial liabilities	766	–	–	766

RECONCILIATION OF THE CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

			TRANSFERS							
	MEASURED AT AMORTIZED COST IAS 39		FROM MEASURED AT FAIR VALUE				TO MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST IFRS 9	
€ million	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount adjust-ment Jan. 1, 2018	Provision for credit risks ad-justment Jan. 1, 2018	Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	**Carrying amount Jan. 1, 2018**	**Fair value Jan. 1, 2018**
Noncurrent assets										
Equity-accounted investments	–	–	–	–	–	–	–	–	–	–
Other equity investments	–	–	–	–	–	–	–	–	–	–
Financial services receivables	73,249	75,049	–	–	–	–	533	533	72,716	74,516
Other financial assets	4,364	4,391	–	–	–	–	–	–	4,364	4,391
Current assets										
Trade receivables	13,357	13,357	–	–	–	–	44	44	13,313	13,313
Financial services receivables	53,145	53,145	–	–	–	–	0	0	53,145	53,145
Other financial assets	9,153	9,153	–	–	–	–	5	5	9,148	9,148
Marketable securities	–	–	79	–	0	78	–	–	78	78
Cash, cash equivalents and time deposits	18,457	18,457	–	–	–	–	–	–	18,457	18,457
Noncurrent liabilities										
Noncurrent financial liabilities	81,628	82,567	–	–	–	–	–	–	81,628	82,567
Other noncurrent financial liabilities	1,630	1,633	–	–	–	–	–	–	1,630	1,633
Current liabilities										
Put options and compensation rights granted to noncontrolling interest shareholders	3,795	3,811	–	–	–	–	–	–	3,795	3,811
Current financial liabilities	81,844	81,844	–	–	–	–	–	–	81,844	81,844
Trade payables	23,046	23,046	–	–	–	–	–	–	23,046	23,046
Other current financial liabilities	7,358	7,358	–	–	–	–	–	–	7,358	7,358

RECONCILIATION OF THE PROVISION FOR CREDIT RISKS IN RESPECT OF FINANCIAL ASSETS FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

€ million	From financial assets measured at fair value through other comprehensive income IAS 39	From financial assets measured at amortized cost IAS 39	No measurement category under IAS 39	Total
To financial assets measured at fair value through profit or loss IFRS 9				
Dec. 31, 2017	63	–	–	63
Adjustments	–63	–	–	–63
Jan. 1, 2018	–	–	–	–
To financial assets measured at fair value through other comprehensive income IFRS 9 (equity instruments)				
Dec. 31, 2017	396	–	–	396
Adjustments	2	–	–	2
Jan. 1, 2018	397	–	–	397
To financial assets measured at fair value through other comprehensive income IFRS 9 (debt instruments)				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	–	–
Jan. 1, 2018	–	–	–	–
To financial assets measured at amortized cost IFRS 9				
Dec. 31, 2017	–	3,046	–	3,046
Adjustments	–	318	–	318
Jan. 1, 2018	–	3,364	–	3,364
To lease receivables				
Dec. 31, 2017	–	–	982	982
Adjustments	–	–	238	238
Jan. 1, 2018	–	–	1,221	1,221
To assets IFRS 15				
Dec. 31, 2017	–	–	25	25
Adjustments	–	–	3	3
Jan. 1, 2018	–	–	29	29
To credit commitments				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	11	11
Jan. 1, 2018	–	–	11	11
To financial guarantees				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	5	5
Jan. 1, 2018	–	–	5	5
Total Jan. 1, 2018	**397**	**3,364**	**1,266**	**5,027**

RECONCILIATION OF THE CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS FROM IAS 39 TO IFRS 9

€ million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifications	Adjustments IFRS 9	Carrying amount IFRS 9 Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at fair value through profit or loss IAS 39	**1,712**				
Additions					
Available for sale financial assets IAS 39		13,124	–230	12,894	230
Financial assets measured at amortized cost IAS 39		580	–9	571	9
Deductions					
Financial assets measured at amortized cost IFRS 9		–	–	–	–
Financial assets measured at fair value through other comprehensive income IFRS 9		–	–	–	–
Financial assets measured at fair value through profit or loss IFRS 9				**15,177**	

RECONCILIATION OF THE CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FROM IAS 39 TO IFRS 9

€ million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifications	Adjustments IFRS 9	Carrying amount IFRS 9 Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Available for sale financial assets IAS 39	**16,182**				
Additions					
Financial assets measured at amortized cost IAS 39		5	–	5	–
Deductions					
Financial assets measured at amortized cost IFRS 9		79	–	79	–
Financial assets measured at fair value through profit or loss IFRS 9		13,124	–	13,124	–
Financial assets measured at fair value through other comprehensive income IFRS 9				**2,984**	

RECONCILIATION OF THE CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST FROM IAS 39 TO IFRS 9

€ million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifications	Adjustments IFRS 9	Carrying amount IFRS 9 Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at amortized cost IAS 39	**125,550**				
Additions					
Available for sale financial assets IAS 39		79	0	78	0
Deductions					
Financial assets measured at fair value through other comprehensive income IFRS 9		5	–	5	–
Financial assets measured at fair value through profit or loss IFRS 9		580	–	580	–
Financial assets measured at amortized cost IFRS 9				**125,044**	

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 specifies new accounting rules for revenue recognition. The Volkswagen Group applies the modified retrospective transition method. This did not result in material transition effects for the Volkswagen Group as of January 1, 2018, because the existing approach used by the Volkswagen Group is already largely in line with the new guidance.

In the MAN subgroup, sales revenue for certain types of contract will be recognized at a later point in time than under the previous accounting treatment. Other provisions and other liabilities will be adjusted accordingly. The recognition of prepayments due but not yet transferred by the customer in the form of cash increased total assets by €0.2 billion in the balance sheet as at January 1, 2018 compared with the previous year.

Starting in fiscal year 2018, certain items previously recognized in distribution expenses (in particular financing cost subsidies granted to third parties) are allocated to sales allowances.

In addition, from 2018 onward, the reversal of provisions for sales allowances is no longer presented under other operating income, but under sales revenue. As a result, an amount of €0.7 billion has been moved between other operating income and sales revenue.

To make the presentation more consistent and easier to compare, the way other income from the reversal of provisions and accrued liabilities is reported was also adjusted in this context; these items were allocated to those functional areas in which they were originally recognized. Prior-year figures were adjusted accordingly, resulting in a €1.9 billion decline in other operating income. This had a corresponding positive effect on cost of sales (€1.5 billion) as well as distribution (€0.4 billion) and administrative expenses (€67 million).

In addition, it was established in connection with the introduction of IFRS 15 that certain sales programs in certain countries should be allocated to sales allowances rather than distribution expenses. The prior-period distribution expenses were therefore adjusted by €0.8 billion. There was a corresponding decrease in sales revenue.

OTHER ACCOUNTING POLICIES

A discount rate of 1.9% (December 31, 2017: 1.9%) 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 2017 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 2017 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 2017 consolidated financial statements can also be accessed on the Internet at www.volkswagenag.com/ir.

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 2017 consolidated financial statements.

Additional special items amounting to €2.4 billion had to be recognized in this context in the first three quarters of fiscal year 2018. The main reasons for the expenses are the €1.8 billion penalties imposed by the Braunschweig public prosecutor and the Munich II public prosecutor's office in connection with the diesel issue as well as higher legal defense costs.

Apart from the above, there were no factors with any material effect on the interim consolidated financial statements in the reporting period, including the publications released up to the reporting date or the continuing investigations and interviews in connection with the diesel issue and other significant litigation.

The Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and Volkswagen Truck & Bus GmbH, a subsidiary of Volkswagen AG, in June 2013. The agreement sets out that the noncontrolling interest shareholders of MAN SE are entitled to either a cash settlement in accordance with section 305 of the AktG or cash compensation in accordance with section 304 of the AktG for each full fiscal year. In July 2013, award proceedings were instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with section 304 of the AktG.

On June 26, 2018, the Higher Regional Court in Munich made a final decision in the award proceedings on the appropriateness of the cash settlement and the right to compensation payable to the noncontrolling interest shareholders of MAN SE, ruling that the annual compensation claim per share has to be increased. The cash settlement in the amount of €90.29 per share, increased in the first instance by the Regional Court in Munich I, was confirmed. On July 30, 2018, as part of the amendment process, the Higher Regional Court in Munich established the annual compensation claim of €5.47 gross (less any corporate income tax and any solidarity surcharge according to the respective tax rate applicable to these taxes for the financial year in question).

The decision means that the put options and compensation rights granted to the noncontrolling interest shareholders had to be revalued. This resulted in an expense of €0.4 billion in the other financial result in the period from January to June 2018. In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of January 1, 2019. The resulting adjustment to the calculation led to income of €0.4 billion in the other financial result. In addition, there was a cash outflow of €0.3 billion in the third quarter of 2018 for compensation payments and the acquisition of shares tendered. There was a corresponding decline in the amount of "put options and compensation rights granted to noncontrolling interest shareholders" reported in the balance sheet.

A total of 17.8 million shares were tendered to the Volkswagen Group after the reporting date. A right to compensation amounting to €1.6 billion is attributable to these shares; this will be paid in the fourth quarter of 2018. Following the share tendering process, the Volkswagen Group holds 86.9% of the shares in MAN SE.

Further information can be found in the "Litigation" section.

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.

CONSOLIDATED SUBSIDIARIES

The disposal of part of PGA Group SAS, Paris, France, by POFIN Financial Services Verwaltungs GmbH, Freilassing, to the Emil Frey Group was implemented on June 1, 2017. The sale is in connection with the strategic development of Porsche Holding Salzburg's dealer network and the corresponding focus on dealerships exclusively selling Volkswagen Group brand vehicles.

The transaction encompassed dealerships in Poland, the Netherlands, Belgium and in some cases also in France. In the previous year, this had a positive effect of €0.8 billion on net liquidity and, taking into account the disposal of the assets and liabilities, resulted in an insignificant income amount for the Volkswagen Group, which was reported in other operating income.

Overall, the transaction led to the disposal of assets in the amount of €2.5 billion and liabilities in the amount of €2.1 billion. The assets mainly consisted of noncurrent leased assets (€0.6 billion) and inventories (€1.0 billion). The liabilities principally comprised noncurrent and current other liabilities (€0.9 billion) and trade payables (€0.7 billion).

INVESTMENTS IN ASSOCIATES

In 2015, the Audi Subgroup, the BMW Group and Daimler AG established There Holding B.V., Rijswijk, the Netherlands, each with an interest of 33.3%. In December 2016, There Holding B.V. signed an agreement with Intel Holdings B.V., Schiphol-Rijk, the Netherlands, for the sale of 15% of the shares in HERE International B.V., Rijswijk, the Netherlands. The transaction with Intel Holdings B.V. was completed on January 31, 2017. This resulted in a loss of control within the meaning of IFRS 10 at the There Holding B.V. level. The deconsolidation gave rise to a proportionate effect on earnings for the Volkswagen Group of €183 million, which was shown in the result of equity-accounted investments in the previous year. Since a significant influence continues to exist, HERE International B.V. is included in the financial statement of There Holding B.V. as an associated company using the equity method. There was no change in the Volkswagen Group's participating interest in There Holding B.V. as a result of this sale. A capital reduction was carried out at There Holding B.V. in February 2018. The share attributable to the Volkswagen Group amounted to €96 million.

In December 2017, agreements for the sale of shares in There Holding B.V. were signed with Robert Bosch Investment Nederland B.V., Boxtel, the Netherlands and Continental Automotive Holding Netherlands B.V., Maastricht, the Netherlands. In this process, Robert Bosch Investment Nederland B.V. and Continental Automotive Holding Netherlands B.V. acquired an interest of 5.9% each in There Holding B.V. The transactions were completed on February 28, 2018. The Audi Subgroup, the BMW Group and Daimler AG sold the equivalent number of shares. As a result, the Volkswagen Group's ownership interest declined to 29.4%. There was no material effect on financial position or financial performance.

In June 2018, There Holding B.V. implemented a capital increase in which the Volkswagen Group participated. The shares accounted for using the equity method increased by €31 million and participating interest is now approximately 29.5%.

At the beginning of September 2016, Volkswagen Truck & Bus GmbH, a wholly owned subsidiary of Volkswagen AG, and the US-based commercial vehicle manufacturer Navistar International Corporation, Lisle, USA (Navistar), announced that they had signed an agreement to forge a wide-ranging alliance. The cooperation primarily involves working together on technical components and in procurement. The transaction closed on February 28, 2017. Within the framework of a capital increase, Volkswagen Truck & Bus acquired 16.6% of the shares in Navistar, paying USD 15.76 per share. The purchase price came to €0.3 billion. Due to Volkswagen's representation on the Board of Directors of Navistar and the agreed cooperation, the investment in Navistar is reported as an equity-accounted investment in the consolidated financial statements.

Disclosures on the interim consolidated financial statements

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE: Q1 – Q3 2017[1]

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	102,552	18,670	–	–	121,222	–14,694	106,528
Genuine parts	9,432	2,387	–	–	11,820	–80	11,739
Used vehicles and third-party products	9,622	1,349	–	–	10,971	–341	10,629
Engines, powertrains and parts deliveries	8,430	521	–	–	8,951	–874	8,077
Power Engineering	–	–	2,355	–	2,355	–2	2,353
Motorcycles	483	–	–	–	483	–	483
Leasing business	600	1,366	–	19,540	21,505	–3,065	18,440
Interest and similar income	181	3	–	5,261	5,445	–114	5,331
Hedges sales revenue	–	–	–	–	–	–	–
Other sales revenue	7,690	1,462	–	509	9,662	–3,177	6,485
	138,989	**25,757**	**2,355**	**25,311**	**192,412**	**–22,347**	**170,065**

1 Prior-year figures adjusted (see disclosures on IFRS 15).

STRUCTURE OF GROUP SALES REVENUE: Q1 – Q3 2018

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	101,756	18,506	–	–	120,262	–12,324	107,938
Genuine parts	9,513	2,478	–	–	11,991	–77	11,914
Used vehicles and third-party products	8,369	1,384	–	–	9,753	–474	9,279
Engines, powertrains and parts deliveries	9,754	886	–	–	10,640	–1,311	9,329
Power Engineering	–	–	2,489	–	2,489	–1	2,487
Motorcycles	483	–	–	–	483	–	483
Leasing business	633	1,261	–	20,152	22,046	–3,139	18,907
Interest and similar income	176	4	–	5,382	5,563	–130	5,433
Hedges sales revenue	1,212	73	0	–	1,285	69	1,354
Other sales revenue	8,625	1,696	–	619	10,940	–3,488	7,452
	140,521	**26,289**	**2,489**	**26,153**	**195,452**	**–20,875**	**174,577**

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 €1,643 million (previous year: €1,469 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 €566 million (previous year: €730 million). The value in use is used as the basis for calculating impairment losses.

3. Research and development costs

€ million	Q1–3 2018	Q1–3 2017	%
Total research and development costs	9,850	9,844	0.1
of which: capitalized development costs	3,505	4,210	–16.7
Capitalization ratio in %	35.6	42.8	
Amortization of capitalized development costs	2,812	2,602	8.0
Research and development costs recognized in profit or loss	**9,157**	**8,236**	**11.2**

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.

		Q3 2018	Q3 2017[1]	Q1–3 2018	Q1–3 2017[1]
Weighted average number of shares outstanding					
Ordinary shares: basic	million	295.1	295.1	295.1	295.1
diluted	million	295.1	295.1	295.1	295.1
Preferred shares: basic	million	206.2	206.2	206.2	206.2
diluted	million	206.2	206.2	206.2	206.2
Earnings after tax	€ million	2,764	1,069	9,376	7,543
Noncontrolling interests	€ million	5	0	10	5
Earnings attributable to Volkswagen AG hybrid capital investors	€ million	91	79	248	195
Earnings attributable to Volkswagen AG shareholders	€ million	2,667	990	9,118	7,344
Earnings per share					
Ordinary shares: basic	€	5.32	1.97	18.17	14.63
diluted	€	5.32	1.97	18.17	14.63
Preferred shares: basic	€	5.32	1.97	18.23	14.69
diluted	€	5.32	1.97	18.23	14.69

1 Prior-year figures adjusted (see disclosures on IFRS 9).

5. Noncurrent assets

CHANGES IN SELECTED NONCURRENT ASSETS BETWEEN JANUARY 1 AND SEPTEMBER 30, 2018

€ million	Carrying amount at Jan. 1, 2018	Additions/ Changes in consolidated Group	Disposals/ Other changes	Depreciation and amortization	Carrying amount at Sept. 30, 2018
Intangible assets	63,419	3,854	314	3,358	63,601
Property, plant and equipment	55,243	7,932	545	7,267	55,364
Lease assets	39,218[1]	15,879	6,703	5,804	42,590

1 Value in the opening balance adjusted (see disclosures on IFRS 9).

6. Inventories

€ million	Sept. 30, 2018	Dec. 31, 2017
Raw materials, consumables and supplies	5,747	4,858
Work in progress	5,666	4,143
Finished goods and purchased merchandise	28,416	26,514
Current lease assets	5,575	4,774
Prepayments	166	127
Hedges on inventories	–11	–
	45,558	**40,415**

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	Sept. 30, 2018	Dec. 31, 2017
Trade receivables	16,702	13,357
Miscellaneous other receivables and financial assets	19,622	18,683
	36,324	**32,040**

In the period January 1 to September 30, 2018, impairment losses and reversals of impairment losses on noncurrent and current financial assets reduced operating profit by €456 million (previous year: €513 million).

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

In connection with the revised classification of financial instruments required by IFRS 9, receivables from dealer financing of €2.9 billion were reclassified to trade receivables as of January 1, 2018.

8. Equity

In June 2018, Volkswagen AG placed unsecured subordinated hybrid notes with an aggregate principal amount of €2.8 billion via a subsidiary, Volkswagen International Finance N.V., Amsterdam, the Netherlands (issuer). The perpetual hybrid notes were issued in two tranches and can be called by the issuer. The first call date for the first tranche (€1.3 billion and a coupon of 3.375%) is after six years, and the first call date for the second tranche (€1.5 billion and a coupon of 4.625%) is after ten years. Under IAS 32, the hybrid notes must be classified in their entirety as equity. The capital raised was reduced by transaction costs and recognized in equity, net of deferred taxes. The interest payments payable to the noteholders will be recognized directly in equity, net of income taxes.

In July 2018, Volkswagen AG called the first tranche of hybrid notes with an aggregate principal amount of €1.3 billion placed in 2013 via a subsidiary, Volkswagen International Finance N.V., Amsterdam, the Netherlands, (issuer). In addition, effects of €14 million had to be included in this figure. Once they were called, the notes had to be classified as debt instruments under IAS 32, reducing the Volkswagen Group's equity and net liquidity correspondingly. The repayment of the hybrid notes that were terminated in September caused a cash outflow of €1.3 billion.

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 2017: €1,283 million).

Volkswagen AG distributed a dividend of €1,967 million in the reporting period (previous year: €1,015 million). €1,151 million (previous year: €590 million) of this amount was attributable to ordinary shares and €817 million (previous year: €425 million) to preferred shares.

The noncontrolling interests are largely attributable to shareholders of RENK AG and AUDI AG.

9. Noncurrent financial liabilities

€ million	Sept. 30, 2018	Dec. 31, 2017
Bonds, commercial paper and notes	70,590	62,371
Liabilities to banks	15,196	15,357
Deposit business	1,532	2,114
Other financial liabilities	2,431	1,786
	89,749	**81,628**

10. Current financial liabilities

€ million	Sept. 30, 2018	Dec. 31, 2017
Bonds, commercial paper and notes	39,477	36,652
Liabilities to banks	15,804	14,487
Deposit business	29,403	29,291
Other financial liabilities	1,136	1,414
	85,820	**81,844**

11. Fair value disclosures

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 2017 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. The fair value of put options and compensation rights granted to noncontrolling interest shareholders is calculated using a present value model based on the contractually agreed cash settlement, including cash compensation, as well as the minimum statutory interest rate and a risk-adjusted discount rate for a matching maturity.

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.

As a result of the initial application of IFRS 9 and IFRS 15, the carrying amounts of contract assets and receivables from insurance policies are allocated to the "not within the scope of IFRS 7" category, starting in fiscal year 2018.

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, 2017

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT WITHIN SCOPE OF IFRS 7	BALANCE SHEET ITEM AT DEC. 31, 2017
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,205	8,205
Other equity investments	243	–	–	–	1,075	1,318
Financial services receivables	–	73,249	75,049	–	–	73,249
Other financial assets	776	4,364	4,391	3,315	–	8,455
Current assets						
Trade receivables	–	13,357	13,357	–	–	13,357
Financial services receivables	–	53,145	53,145	–	–	53,145
Other financial assets	936	9,153	9,153	1,909	–	11,998
Marketable securities	15,939	–	–	–	–	15,939
Cash, cash equivalents and time deposits	–	18,457	18,457	–	–	18,457
Assets held for Sale	–	–	–	–	90	90
Noncurrent liabilities						
Noncurrent financial liabilities	–	81,628	82,567	–	–	81,628
Other noncurrent financial liabilities	774	1,630	1,633	261	–	2,665
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	3,795	3,811	–	–	3,795
Current financial liabilities	–	81,844	81,844	–	–	81,844
Trade payables	–	23,046	23,046	–	–	23,046
Other current financial liabilities	766	7,358	7,358	446	–	8,570

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF SEPTEMBER 30, 2018

	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT WITHIN SCOPE OF IFRS 7	BALANCE SHEET ITEM AT SEPT. 30, 2018
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	7,664	7,664
Other equity investments	171	–	–	–	1,256	1,427
Financial services receivables	278	77,408	79,347	–	–	77,685
Other financial assets	966	4,187	4,185	1,887	–	7,040
Current assets						
Trade receivables	1	16,395	16,395	–	306	16,702
Financial services receivables	22	50,784	50,784	–	–	50,806
Other financial assets	1,243	9,367	9,367	1,484	13	12,107
Marketable securities	16,638	103	103	–	–	16,741
Cash, cash equivalents and time deposits	–	25,175	25,175	–	–	25,175
Noncurrent liabilities						
Noncurrent financial liabilities	–	89,749	90,039	–	–	89,749
Other noncurrent financial liabilities	693	1,954	1,955	235	–	2,882
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	3,456	3,456	–	–	3,456
Current financial liabilities	–	85,820	85,820	–	–	85,820
Trade payables	–	23,464	23,464	–	–	23,464
Other current financial liabilities	734	7,364	7,364	587	–	8,686

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, 2017	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	243	103	–	140
Other financial assets	776	–	705	71
Current assets				
Other financial assets	936	–	933	3
Marketable securities	15,939	15,939	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	774	–	242	532
Current liabilities				
Other current financial liabilities	766	–	533	233

€ million	Sept. 30, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	171	85	29	56
Financial services receivables	278	–	–	278
Other financial assets	966	–	636	330
Current assets				
Trade receivables	1	–	–	1
Financial services receivables	22	–	–	22
Other financial assets	1,243	–	1,023	219
Marketable securities	16,638	16,638	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	693	–	190	504
Current liabilities				
Other current financial liabilities	734	–	461	273

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

€ million	Dec. 31, 2017	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	3,315	–	3,315	–
Current assets				
Other financial assets	1,909	–	1,909	–
Noncurrent liabilities				
Other noncurrent financial liabilities	261	–	261	–
Current liabilities				
Other current financial liabilities	446	–	445	0

€ million	Sept. 30, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	1,887	–	1,887	–
Current assets				
Other financial assets	1,484	–	1,484	–
Noncurrent liabilities				
Other noncurrent financial liabilities	235	–	235	–
Current liabilities				
Other current financial liabilities	587	–	587	–

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.

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

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2017	**152**	**230**
Foreign exchange differences	–8	–
Total comprehensive income	46	275
recognized in profit or loss	50	275
recognized in other comprehensive income	–4	0
Additions (purchases)	83	–
Sales and settlements	–10	–67
Transfers into Level 2	–20	–2
Balance at Sept. 30, 2017	**243**	**437**
Total gains or losses recognized in profit or loss	**50**	**–275**
Net other operating expense/income	–	–
of which attributable to assets/liabilities held at the reporting date	–	–
Financial result	50	–275
of which attributable to assets/liabilities held at the reporting date	23	–274

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2018	**823**[1]	**765**
Foreign exchange differences	–26	0
Changes in consolidated Group	–181	–
Total comprehensive income	95	126
recognized in profit or loss	23	126
recognized in other comprehensive income	72	–
Additions (purchases)	313	7
Sales and settlements	–88	–123
Transfers into Level 2	–29	1
Balance at Sept. 30, 2018	**906**	**777**
Total gains or losses recognized in profit or loss	**23**	**–126**
Net other operating expense/income	20	–126
of which attributable to assets/liabilities held at the reporting date	19	–134
Financial result	3	–
of which attributable to assets/liabilities held at the reporting date	0	–

1 Value in the opening balance adjusted (see disclosures on IFRS 9).

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. The transfers out of Level 3 into Level 2 comprise commodity futures for which observable quoted prices are now available for measurement purposes due to the decline in their remaining maturities; consequently, no 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 as of September 30, 2018 had been 10% higher (lower), earnings after tax would have been €31 million (previous year: €12 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 September 30, 2018 had been 10% higher, earnings after tax would have been €3 million (previous year: €2 million) higher. If the assumed enterprise values at September 30, 2018 had been 10% lower, earnings after tax would have been €3 million (previous year: €2 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 September 30, 2018, earnings after tax would have been €327 million (previous year: €259 million) higher. If the prices of the used cars covered by the residual value protection model had been 10% lower as of September 30, 2018, earnings after tax would have been €358 million (previous year: €259 million) lower.

If the risk-adjusted interest rates applied to receivables measured at fair value had been 100 basis points higher as of September 30, 2018, earnings after tax would have been €7 million lower. If the risk-adjusted interest rates as of September 30, 2018 had been 100 basis points lower, earnings after tax would have been €7 million higher.

If the corresponding vehicle price used in the vehicle financing programs had been 10% higher as of September 30, 2018, earnings after tax would have been €18 million higher. If the corresponding vehicle prices used in the vehicle financing programs had been 10% lower as of September 30, 2018, earnings after tax would have been €18 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	Sept. 30, 2018	Sept. 30, 2017
Cash, cash equivalents and time deposits as reported in the balance sheet	25,175	21,395
Time deposits	–345	–406
Cash and cash equivalents as reported in the cash flow statement	**24,830**	**20,989**

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

€ million	Q1–3 2018	Q1–3 2017
Capital contributions/capital redemptions	1,491	3,473
Dividends paid	–2,334	–1,311
Capital transactions with noncontrolling interest shareholders	–28	–
Proceeds from issuance of bonds	22,603	21,195
Repayments of bonds	–11,701	–11,349
Changes in other financial liabilities	1,301	–65
Lease payments	–18	–16
	11,316	**11,927**

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, Commercial Vehicles, Power Engineering and Financial Services.

The activities of the Passenger Cars segment cover the development of vehicles and engines, the production and sale of passenger cars, and the corresponding genuine parts business. Given the high degree of technological and economic interlinking in the production network of the individual brands, the Passenger Cars reporting segment combines the Volkswagen Group's individual car brands to a single reportable segment. Furthermore, there is collaboration within key areas such as procurement, research and development or treasury.

The Commercial Vehicles segment primarily comprises the development, production and sale of light commercial vehicles, trucks and buses, the corresponding genuine parts business and related services. Just as in the case of the car brands, there is collaboration within the areas procurement, development and sale. The aim is to achieve further forms of interlinking.

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

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

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

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

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 – Q3 2017[1]

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	124,789	20,096	2,353	22,766	170,005	60	170,065
Intersegment sales revenue	14,200	5,661	2	2,545	22,407	–22,407	–
Total sales revenue	138,989	25,757	2,355	25,311	192,412	–22,347	170,065
Segment result (operating result)	9,562	1,484	–75	1,919	12,890	–2,254	10,636

1 Prior-year figures adjusted (see disclosures on IFRS 15).

REPORTING SEGMENTS: Q1 – Q3 2018

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	127,051	21,106	2,487	23,776	174,420	157	174,577
Intersegment sales revenue	13,471	5,183	1	2,377	21,032	–21,032	–
Total sales revenue	140,521	26,289	2,489	26,153	195,452	–20,875	174,577
Segment result (operating result)	9,544	1,486	–46	2,039	13,022	–2,151	10,871

RECONCILIATION

	Q1–3	
€ million	2018	2017[1]
Segment result (operating result)	**13,022**	**12,890**
Unallocated activities	–1	36
Group financing	–9	9
Consolidation	–2,141	–2,298
Operating result	**10,871**	**10,636**
Financial result	**1,647**	**–347**
Consolidated earnings before tax	**12,518**	**10,290**

1 Prior-year figures adjusted (see disclosures on IFRS 9).

14. Related party disclosures

At 52.2%, Porsche SE held the majority of the voting rights in Volkswagen AG as of September 30, 2018.

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.

€ million	Supplies and services rendered Q1–3		Supplies and services received Q1–3	
	2018	2017	2018	2017
Porsche SE and its majority interests	3	6	2	0
Supervisory Board members	4	2	2	1
Unconsolidated subsidiaries	801	628	1,103	751
Joint ventures and their majority interests	12,040	10,437	626	789
Associates and their majority interests	140	156	492	456
State of Lower Saxony, its majority interests and joint ventures	8	10	5	4

€ million	Receivables from		Liabilities (including obligations) to	
	Sept. 30, 2018	Dec. 31, 2017	Sept. 30, 2018	Dec. 31, 2017
Porsche SE and its majority interests	8	13	106	0
Supervisory Board members	0	0	235	254
Unconsolidated subsidiaries	1,212	1,480	1,332	1,773
Joint ventures and their majority interests	11,466	9,889	2,843	2,168
Associates and their majority interests	77	76	495	572
State of Lower Saxony, its majority interests and joint ventures	3	2	1	1

The supplies and services received from joint ventures and associates that are presented in the above tables do not include resolved dividend distributions amounting to €3,394 million (previous year: €3,539 million).

Receivables from joint ventures are primarily attributable to loans granted in an amount of €7,164 million (previous year: €6,277 million) as well as trade receivables in an amount of €3,860 million (previous year: €3,354 million). Receivables from non-consolidated subsidiaries also result primarily from loans granted in an amount of €794 million (previous year: €1,038 million) as well as trade receivables in an amount of €192 million (previous year: €224 million).

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

The liabilities to Porsche SE consist mainly of term deposits.

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 €226 million (previous year: €220 million).

Impairment losses of €74 million (previous year: €56 million) were recognized on the outstanding related party receivables. This incurred expenses of €19 million (previous year: €2 million) in the first three quarters of 2018.

In the first nine months, the Volkswagen Group made capital contributions of €520 million (previous year: €136 million) at related parties.

15. Litigation

For certain T6 models (M1 class) with Euro 6 diesel engines registered as passenger cars, the inspection regarding the conformity of the current production of new vehicles with the approved type (conformity of production) identified that certain technical data could not be fully confirmed. To ensure this conformity of production for new vehicles, Volkswagen AG developed a software measure, which was approved by the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) at the end of February 2018 and was applied to the production of new vehicles as well as to (a total of approximately 30,000) new vehicles that had not been delivered by then. Volkswagen AG also conducted in-use tests to determine whether the around 200,000 T6 used vehicles already on the market conform to the technical data. The tests carried out on the proposal of Volkswagen AG were taking place in close collaboration with the KBA, which included this process in a decision dated March 1, 2018. Following further tests in August 2018, at the proposal of Volkswagen AG and in accordance with this decision, there is also a software measure for used T6 vehicles to ensure conformity with the approved vehicle type.

On March 2, 2018, the federal multidistrict litigation court in California dismissed in its entirety the first amended class action complaint alleging that these bonds were trading at artificially inflated prices and that the value of these bonds declined after the U.S. Environmental Protection Agency (EPA) issued its “Notices of Violation,” but granted leave to file a further amended complaint. On April 2, 2018, plaintiffs filed a second amended class action complaint which Volkswagen has moved to dismiss. On September 7, 2018, the court denied Volkswagen’s motion to dismiss, so the case will proceed.

The U.S. Securities and Exchange Commission (the “SEC”) has requested information from Volkswagen AG regarding potential violations of securities laws in connection with issuances of bonds sponsored by Volkswagen AG, as a result of nondisclosure of certain Volkswagen diesel vehicles' noncompliance with US emission standards.

On March 5, 2018, a Tennessee state court granted in part and denied in part a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Tennessee Attorney General. Volkswagen and Tennessee have both appealed the decision.

On March 12, 2018, a Minnesota state court granted in part and denied in part a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Minnesota Attorney General. Volkswagen has appealed the decision.

On March 15, 2018, co-lead counsel for plaintiffs with regard to the German Automotive Manufacturers Antitrust Litigation filed consolidated amended class action complaints against Volkswagen AG and certain affiliates as well as other manufacturers in the Northern District of California on behalf of putative classes of indirect and direct purchasers. The consolidated amended complaints claim that since the 1990s, defendants had engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles by agreeing to share commercially sensitive information and to reach unlawful agreements regarding technology, costs, and suppliers. Moreover, plaintiffs claim that defendants had agreed to limit the size of AdBlue tanks to ensure that U.S. emissions regulators did not scrutinize the emissions control systems in defendants’ vehicles, and that such agreement for Volkswagen was the impetus for the creation of the defeat device. The complaints further claim that defendants had coordinated to fix the price of steel used in their automobiles by agreeing with German steel manufacturers to apply a two component pricing formula to steel purchases and worked closely together to generate scientific studies aimed at promoting diesel vehicles. On May 17, 2018, all defendants filed a joint motion to dismiss the two consolidated class action complaints. On May 24, 2018, Volkswagen defendants also filed an individual motion to dismiss on grounds specific to them. The motions have been fully briefed, and a hearing is currently scheduled for February 12, 2019.

On March 22, 2018, Volkswagen AG, certain affiliates and the Arizona Attorney General notified an Arizona state court that they have reached a settlement of Arizona’s consumer protection claims and unfair trade practices claims. On May 24, 2018, the Arizona state court granted a stipulation of dismissal with prejudice of the Arizona action.

In South Korea, approval for the last vehicle clusters with engine type EA 189 was given on March 28, 2018.

The Ministry of Environment in South Korea qualified certain emissions strategies in the engine control software of various diesel vehicles with a V6 or V8 engine meeting the Euro 6 emission standard as an unlawful defeat device and ordered a recall on April 4, 2018; the same applied to the Dynamic Shift Program (DSP) in the transmission control of a number of Audi models.

On April 11, 2018, a Texas state court granted in part and denied in part a motion for summary judgment on the state environmental claims asserted against Volkswagen AG and certain affiliates by the Texas Attorney General. The Texas court denied Volkswagen's motion for reconsideration or interlocutory appeal. On August 1, 2018, Volkswagen asked a Texas appellate court to reverse the trial court's decision through an alternate procedure.

On April 16, 2018, the federal multidistrict litigation court in California dismissed with prejudice state and local environmental claims asserted against certain Volkswagen AG affiliates by the Environmental Protection Commission of Hillsborough County, Florida and Salt Lake County, Utah, on the basis of the same federal preemption issue that is currently being litigated in the Tennessee, Minnesota, and Texas cases referenced above, as well as in several other state courts. The counties have appealed that decision.

The public prosecutor's office of Stuttgart has opened a criminal investigation. The office confirmed that it is investigating, among others, the former Chairman of the Board of Management of Volkswagen AG in his capacity as member of the management board of Porsche SE, regarding his possible involvement in potential market manipulation in connection with this same issue.

Moreover, the Stuttgart public prosecutor's office has commenced a criminal investigation into the diesel issue against one board member, one employee and one former employee of Dr. Ing. h.c. F. Porsche AG on suspicion of fraud and illegal advertising. Dr. Ing. h.c. F. Porsche AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor's accusations. The investigations are at an early stage. The Board of Management and Supervisory Board of Dr. Ing. h.c. F. Porsche AG are being regularly updated on the current state of affairs. If the findings do illustrate reproachable conduct or fault on behalf of the organization, then the Board of Management or Supervisory Board, respectively, will adopt the necessary measures.

On April 18, 2018, the EPA and California Air Resources Board (CARB) approved the second phase of the emissions modification for affected 2.0 l TDI vehicles with Generation 3 engines.

Thereby the approval process for the technical measures for the relevant vehicles with engine type EA 189 has now been completed in all countries with the exception of Chile.

On April 19, 2018, the federal multidistrict litigation court in California approved the stipulation of the parties postponing the hearing previously scheduled for May 11, 2018, regarding defendants' motion to dismiss plaintiffs' consolidated class action complaint alleging that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. The parties have stipulated to further postpone the hearing on the motion, and no hearing is scheduled.

On April 25, 2018, Volkswagen AG, certain affiliates and the Maryland Department of the Environment announced an agreement to resolve the State of Maryland's environmental and remaining consumer claims for restitution or injunctive relief. The Maryland settlement includes a Consent Decree, which the Maryland state court approved on May 3, 2018.

On April 19 and 25, 2018, respectively, Ontario and Quebec courts granted approval of a consumer settlement entered into by Volkswagen AG and other Volkswagen Group companies involving 3.0 l TDI vehicles.

On May 1, 2018, Volkswagen AG, certain affiliates, and the West Virginia Attorney General announced an agreement to resolve the State of West Virginia's consumer claims. The West Virginia settlement includes a consent decree, which the West Virginia state court approved on May 1, 2018.

On August 29, 2017, plaintiffs filed a complaint, on behalf of a putative class of purchasers of Volkswagen AG's American Depositary Receipts, against Volkswagen AG, and against three former and one current member of Volkswagen AG's Board of Management in the U.S. District Court for the Eastern District of New York. Plaintiffs assert claims under the U.S. Securities Exchange Act of 1934 alleging that defendants made material misstatements and omissions concerning Volkswagen AG's compliance measures, in particular those relating to competition and antitrust law as well as allegations in an antitrust litigation against Volkswagen AG in the Northern District of California. On July 13, 2018, plaintiffs filed an amended complaint; a motion to dismiss this complaint has been filed.

On May 18, 2018, the EPA and CARB approved an emissions modification for Generation 1.1 vehicles with type V6 3.0 l TDI engines. On July 13, 2018, the EPA and CARB approved an emissions modification for Generation 1.2 vehicles with type V6 3.0 l TDI engines.

On May 22, 2018, plaintiffs filed a consolidated class action complaint on behalf of a putative class of Volkswagen salespersons who work at franchise dealerships. On June 7, 2018, the court in the federal multidistrict litigation in California appointed the plaintiffs' counsel as the interim lead counsel for the putative class.

On May 28, 2018, a class action filed in Quebec provincial court was authorized to proceed as to claims relating to Volkswagen AG's shares and American Depositary Receipts.

On June 1, 2018, a notice of amendment to the Third Partial Consent Decree entered into with the Department of Justice (DOJ) and EPA, which modified certain due dates related to annual reporting, was filed with the federal multidistrict litigation court in California. Concerning the due dates related to the annual reporting set forth in the Third California Partial Consent Decree such a notice of amendment was also filed on August 30, 2018 with the same court.

On June 5, 2018, an Illinois state court granted a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Illinois Attorney General. Illinois has appealed that decision.

On June 6, 2018, Volkswagen AG, certain affiliates, and the Oklahoma Attorney General announced an agreement to resolve the State of Oklahoma's consumer claims. The Oklahoma settlement includes a consent decree, which the Oklahoma state court approved on June 6, 2018.

In the course of the searches on June 11, 2018, it transpired that the Munich II public prosecutor's office has extended the criminal investigation pending there. The underlying search warrant shows that the former Chairman of the Board of Management of AUDI AG (at the same time a former member of the Board of Management of Volkswagen AG) and a further active member of the AUDI AG Board of Management are now also under investigation. The accusations include fraud in connection with the sale of diesel vehicles on the European market in the period after fall 2015. The former Chairman of the Board of Management of AUDI AG was arrested on June 18, 2018 and has been in custody ever since. In connection with the diesel issue, the Munich II public prosecutor's office is currently investigating 23 individuals. AUDI AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor's accusations. The Board of Management and Supervisory Board of AUDI AG are being regularly updated on the current state of affairs. If the findings do illustrate reproachable conduct or fault on behalf of the organization, then the Board of Management or Supervisory Board, respectively, will adopt the necessary measures.

On June 13, 2018, Volkswagen AG, certain affiliates, and the Vermont Attorney General announced an agreement to resolve the State of Vermont's consumer claims. On July 16, 2018, a joint stipulation of dismissal was filed with the Vermont court.

On June 13, 2018, the public prosecutor in Braunschweig issued Volkswagen AG an administrative order in connection with the diesel issue. The administrative order is linked to negligent breaches of monitoring obligations on the part of Volkswagen AG employees in the Powertrain Development department and relates to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a fine of €1.0 billion in total, comprising of the maximum legal penalty of €5 million and the disgorgement of economic benefits in the amount of €995 million. Following thorough examination, the fine has been accepted, has been paid in full by Volkswagen AG and is therefore legally binding. As a result of the administrative order, the misdemeanor proceeding against Volkswagen AG has been concluded. Further sanctioning or confiscation against Volkswagen AG and its Group companies is therefore not expected in Germany in connection with the particular matter covered by the administrative order concerning diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. As a result, Volkswagen expects that the conclusion of this proceeding will have a substantially positive impact on additional governmental proceedings conducted in Europe against Volkswagen AG and its Group companies.

On July 11, 2018, the public prosecutor's office in Braunschweig granted the defense counsel for the defendants and the defense counsel for Volkswagen AG access to the investigation files for what is referred to as the NO_x proceeding being conducted against Volkswagen AG employees. In addition, the files pertaining to the concluded misdemeanor proceeding of the public prosecutor's office in Braunschweig were examined on September 3, 2018. This represents a further step for Volkswagen AG in its efforts to address the diesel issue.

In October 2018, the Munich II public prosecutor's office issued AUDI AG an administrative order in connection with deviations from regulatory specifications for certain V6/V8 diesel engines and diesel cars manufactured or sold by AUDI AG. The administrative order imposes a fine of €800 million in total, comprising of the maximum legal penalty of €5 million for a negligent breach of monitoring obligations in the organizational unit "Emissions Service/Engine Authorization" and a disgorgement of economic benefits in the amount of €795 million. Following thorough examination, AUDI AG has accepted the fine and waived the right to appeal, thus the administrative order is legally binding. The fine has been paid in full in the meantime and shall therefore be regarded as enforced. As a result of the administrative order, the misdemeanor proceeding against AUDI AG has been concluded.

On June 25, 2018, a Pennsylvania state court approved a consent judgment that implemented an earlier settlement agreement resolving the state environmental claims asserted against Volkswagen AG and certain affiliates by the State of Pennsylvania and nine other states that have opted out of federal emissions standards.

On June 26, 2018, a Missouri state court granted a motion to dismiss the state environmental claims asserted against Volkswagen AG and certain affiliates by the Missouri Attorney General. Missouri has declined to appeal that decision.

On July 6, 2018, the Federal Constitutional Court ruled on the constitutional complaints in connection with the search at the law firm Jones Day and ascertained that the confirmation of the provisional seizure of client engagement documents and data of Volkswagen AG had not violated constitutional law. The companies of the Volkswagen Group will continue to cooperate with the government authorities with due regard for the ruling of the Federal Constitutional Court.

In Austria, the first-instance dismissal of the last investor complaint pending in connection with the diesel issue became binding in the reporting period.

On July 30, 2018, the public prosecutor's office in Braunschweig opened an administrative proceeding against Volkswagen AG pursuant to section 30 of the Gesetz über Ordnungswidrigkeiten (OWiG – Act on Regulatory Offences) in connection with the criminal investigation of individuals for alleged market manipulation. On August 24, 2018, the public prosecutor's office in Braunschweig granted the defense counsel for the defendants and the defense counsel for Volkswagen AG access to the investigation for these proceedings.

On August 15, 2018, an Ontario provincial court dismissed a proposed securities class action by investors in Volkswagen AG American Depositary Receipts and shares among others on the basis that the court lacked jurisdiction over the action. An appeal from this ruling was noticed on September 14, 2018.

In the USA, on August 28, 2018, Volkswagen AG and a putative class of purchasers of Volkswagen AG American Depositary Receipts agreed to settle the class' claims alleging a drop in price purportedly resulting from the matters described in the EPA's "Notices of Violation" in exchange for a cash payment of USD 48 million. The proposed settlement is subject to approval by the court.

On September 17, 2018, Volkswagen AG, AUDI AG and certain affiliates sought leave to appeal to the Supreme Court of Canada regarding a Quebec provincial court's January 24, 2018 ruling authorizing an environmental class action on the sole issue of whether punitive damages could be recoverable.

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. From July 2017 to September 2018, the measures proposed by AUDI AG were adopted and mandated in various decisions by the KBA on vehicle models with V6 and V8 TDI engines. The investigations initiated in May 2018 on the current vehicle concepts of the Generation 2 evo and Generation 3 engine generations have been completed. The key findings were presented to the KBA.

Having served Volkswagen AG with an action asserting the rights assigned by approximately 2,000 customers in Switzerland, financialright GmbH has brought a further such action on behalf of around 6,000 Slovenian customers.

The private Spanish consumer protection organization Organización de Consumidores y Usuarios (OCU) has filed a class action against Volkswagen Group España Distribución S.A. on May 9, 2018. OCU represents around 7,500 Spanish customers.

Volkswagen AG has been served with 14 actions brought by the Austrian consumer protection organization (VKI) asserting claims for damage compensation for approximately 8,400 customers, which have been assigned to VKI for collection. Furthermore, Volkswagen AG has been served with six actions brought by the platform “Cobin Claims” asserting claims for damage compensation for approximately 80 customers, which have assigned their claims to Cobin Claims for collection.

On September 12, 2018, a class action by customers was brought in Johannesburg against Volkswagen of South Africa Ltd. as well as various dealerships.

In Poland, on September 17, 2018 further class actions by customers were filed against Volkswagen AG and other Volkswagen Group companies.

In Germany, around 25,500 product-related individual actions brought by customers in connection with the diesel issue are pending against Volkswagen AG and other Volkswagen Group companies.

As part of the cartel investigations in the automotive industry already known to the public, the European Commission took the procedural step of initiating formal proceedings against affected undertakings on September 18, 2018. The investigations have been ongoing for some time. As the European Commission’s press statement indicates, the European Commission is now restricting the scope of the investigation to the subject of emissions. The formal initiation of proceedings is standard and is a purely procedural step in the process, which was fully expected by Volkswagen. The Volkswagen Group and the relevant Group brands have been fully cooperating with the European Commission and will continue to cooperate with the Commission.

In addition, the Italian Competition Authority initiated proceedings to investigate potential competition law infringements (alleged exchange of competitively sensitive information) by a number of captive automotive finance companies, including Volkswagen Bank GmbH. The proceedings were later extended to the relevant parent companies, including Volkswagen AG. In October 2018, Volkswagen Bank GmbH and Volkswagen AG have received a statement of objections summarizing the findings by the authority and describing the alleged infringement. At this stage it is too early to determine the risk exposure for Volkswagen Group.

On June 26, 2018, the Higher Regional Court in Munich made a final decision in the award proceedings on the appropriateness of the cash settlement and the right to compensation payable to the noncontrolling interest shareholders of MAN SE, ruling that the annual compensation claim has to be increased to €5.47 gross (less any corporate income tax and any solidarity surcharge according to the respective tax rate applicable to these taxes for the financial year in question) per share. The cash settlement in the amount of €90.29 per share, increased in the first instance by the First Regional Court in Munich, was confirmed. The decisions by the Higher Regional Court in Munich are final and were published in the Federal Gazette on August 6, 2018. In accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act), it was possible to accept the cash compensation of €90.29 per share within two months after this date. Further applications have been made to the Higher Regional Court in Munich by noncontrolling interest shareholders of MAN to have also the guaranteed dividend paid in 2013 increased to €5.47 gross. The decision of the Higher Regional Court in Munich regarding these applications which were made after the end of the court proceedings remains to be seen.

In the tax proceedings between MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment was rendered in administrative court proceedings, which was negative for MAN Latin America. MAN Latin America has initiated proceedings against this judgment before the regular court in 2018. Due to the difference in the penalties plus interest which could potentially apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is laden with uncertainty. However, a positive outcome continues to be expected for MAN Latin America. Should the opposite occur, this could result in a risk of about €0.6 billion for the contested period from 2009 onwards, which has been stated within the contingent liabilities in the notes.

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 2018 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 2017 Annual Report or in publications released by the reporting date, as well as the continuing investigations and interviews in connection with the diesel issue and additional important legal cases.

16. Contingent liabilities

As of September 30, 2018, there were no material changes to the contingent liabilities compared with the disclosures in the 2017 annual report.

17. Other financial obligations

Other financial liabilities rose by €3.2 billion compared with the 2017 consolidated financial statements to reach €27.7 billion. The higher figure is mainly attributable to the increase in the purchase order commitment for intangible assets and property, plant and equipment in the amount of €3.5 billion.

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/ir, www.audi.com/cgk-declaration, www.corporate.man.eu/en and www.renk-ag.com/en/investor-relations/financial-reports respectively.

Significant events after the balance sheet date

For information on the award proceedings in the Higher Regional Court in Munich on the appropriateness of the cash settlement and the right to compensation payable to the noncontrolling interest shareholders of MAN SE and on the extraordinary notice of termination of the control and profit and loss transfer agreement with MAN SE given in August 2018, please refer to the section on key events. A total of 17.8 million MAN SE shares were tendered to the Volkswagen Group after the reporting date. A right to compensation amounting to €1.6 billion is attributable to these shares; this will be paid in the fourth quarter.

Wolfsburg, October 30, 2018

Volkswagen Aktiengesellschaft

The Board of Management

Review Report

On completion of our review, we issued the following unqualified review report dated October 30, 2018. 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 September 30, 2018, 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 raised against the company and its subsidiaries essentially refer to the information provided and statements made in the 2017 consolidated financial statements and in the group management report as at December 31, 2017.

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 2017 and prior years.

The provisions for warranties and legal risks recorded so far are based on the presented state of knowledge including the explanations of allegations made and claims raised against the company and its subsidiaries. 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, October 30, 2018

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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 has been in place for new vehicle types since fall 2017 and will apply to all new vehicles from September 2018. The aim of this new test cycle is to state CO_2 emissions and fuel consumption in a more practice-oriented manner. A further important European regulation is the Real Driving Emissions (RDE) for passenger cars and light commercial vehicles, which also monitors emissions using portable emission measuring technology in real road traffic.

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

March 12, 2019 Volkswagen AG Annual Media Conference and Investor Conference
May 2, 2019 Interim Report January – March 2019
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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