VOLKSWAGEN

AKTIENGESELLSCHAFT

Interim Report

JANUARY – SEPTEMBER 2019

Key Figures

VOLKSWAGEN GROUP

	Q3			Q1–3		
	2019	2018	%	2019	2018	%
Volume Data[1] in thousands						
Deliveries to customers (units)	2,640	2,611	+1.1	8,005	8,131	−1.5
Vehicle sales (units)	2,645	2,548	+3.8	7,983	8,123	−1.7
Production (units)	2,553	2,393	+6.7	7,975	8,179	−2.5
Employees (on Sept. 30, 2019/Dec. 31, 2018)				671.8	664.5	+1.1
Financial Data (IFRSs), € million						
Sales revenue	61,420	55,200	+11.3	186,617	174,577	+6.9
Operating result before special items	4,816	3,511	+37.2	14,795	13,306	+11.2
Operating return on sales before special items (%)	7.8	6.4		7.9	7.6	
Special items	−275	−800	−65.6	−1,257	−2,435	−48.4
Operating result	4,541	2,711	+67.5	13,539	10,871	+24.5
Operating return on sales (%)	7.4	4.9		7.3	6.2	
Earnings before tax	5,080	3,546	+43.3	14,637	12,518	+16.9
Return on sales before tax (%)	8.3	6.4		7.8	7.2	
Earnings after tax	3,986	2,764	+44.2	11,154	9,376	+19.0
Automotive Division[2]						
Total research and development costs	3,665	3,104	+18.1	10,697	9,850	+8.6
R&D ratio (%)	7.2	6.6		6.8	6.6	
Cash flows from operating activities	7,398	4,723	+56.6	20,921	14,931	+40.1
Cash flows from investing activities attributable to operating activities[3]	4,354	4,580	−4.9	12,309	11,441	+7.6
of which: capex	2,985	3,455	−13.6	8,186	7,853	+4.2
capex/sales revenue (%)	5.9	7.4		5.2	5.3	
Net cash flow	3,044	144	x	8,612	3,490	x
Net liquidity at Sept. 30				19,787	24,794	−20.2

1 Volume data including the unconsolidated Chinese joint ventures. These companies are accounted for using the equity method. Prior-year deliveries updated to reflect subsequent statistical trends.
2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
3 Excluding acquisition and disposal of equity investments: Q3 €4,263 (4,448) million, Q1–3 €11,714 (11,230) million.

This version of the Interim Report is a translation of the German original. The German takes precedence. All figures shown in the Report are rounded, so minor discrepancies may arise from addition of these amounts. The figures from the previous fiscal year are shown in parentheses directly after the figures for the current reporting period.
Consumption and emissions figures as well as information about ranges were calculated based on the Worldwide Harmonized Light Vehicles Test Procedure, WLTP. In practice, the actual range may vary from that which was forecast in accordance with WLTP.

Key Facts

> Deliveries to Volkswagen Group customers at 8.0 (8.1) million vehicles; decline in Asia-Pacific in particular, higher demand mainly in Western Europe and South America; passenger car market share expands in declining overall market worldwide

> Group sales revenue increases by 6.9% to €186.6 billion

> Operating profit before special items climbs €1.5 billion to €14.8 billion; improvements especially in the mix and + €0.5 billion resulting from the fair value measurement on derivatives

> Operating profit of €13.5 billion exceeds prior-year figure by €2.7 billion; negative special items of €–1.3 (–2.4) billion relating to the diesel issue

> Profit before tax improves to €14.6 (12.5) billion

> Automotive Division's net cash flow of €8.6 billion up €5.1 billion on the low previous year's figure; capex ratio of 5.2 (5.3) %

> Net liquidity in the Automotive Division at €19.8 billion; negative effect of €5.3 billion on the disclosure of the net liquidity due to the application of the new IFRS 16

> Exciting products:

- Volkswagen Passenger Cars celebrates the world premieres of its new brand design and the ID.3, the first model based on the Modular Electric Drive Toolkit
- Audi debuts the RS 7 Sportback; the AI:TRAIL concept car shows the brand's vision of the future of electric off-road driving
- ŠKODA unveils the natural gas-powered models Scala G-Tec and Kamiq G-Tec
- SEAT presents the Mii electric; the CUPRA Tavascan concept vehicle is an impressive dynamic SUV coupé with an electric powertrain
- Porsche showcases the Taycan, its first all-electric sports car
- Lamborghini captivates with the hybrid super sports car Sián FKP 37
- Volkswagen Commercial Vehicles presents the extensively upgraded California 6.1

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 2019.

International Motor Show (IAA)

At the International Motor Show (IAA) in Frankfurt, the Volkswagen Passenger Cars brand unveiled its new brand design that is to create a new global brand experience on all channels. This centers on the new logo which, with its flat two-dimensional design and reduced to its essential elements, aims for high flexibility and is ideally suited to digital applications. With its new brand design, Volkswagen is presenting itself as more modern, more human and more authentic. It marks the start of a new era for Volkswagen, represented on the product side by the all-electric ID.3, which also celebrated its world premiere. As the first model in the ID. product line, this highly efficient zero-emissions car is based on the Modular Electric Drive Toolkit and is fully connected. The batteries of the ID.3 are integrated into the vehicle floor, improving the vehicle's center of gravity and vehicle dynamics. The long wheelbase and very short overhangs of the ID.3 create a particularly large interior, setting new standards in the compact class. In addition to the display in the cockpit, a newly developed, centrally positioned, ten-inch touchscreen provides drivers with all key information. At series production launch, the ID.3 will be equipped with a 150 kW (204 PS) electric motor and be available with three battery size options. The basic variant has a usable energy content of 45 kWh and provides a WLTP range of up to 330 km. The 58-kWh battery enables the ID.3 to achieve a WLTP range of up to 420 km. The third and largest battery has an output 77 kWh and a WLTP electric range of up to 550 km. Thanks to its fast charging capability, the ID.3 can charge sufficiently for a WLTP range of around 290 km within 30 minutes, using a charging output of 100 kW. In its second world premiere, the Volkswagen Passenger Cars brand presented the T-Roc Cabriolet in Frankfurt, which expands the range of the popular crossover model, adding yet more lifestyle to the SUV range. The vehicle offers just the right combination of striking design, the raised seating characteristic of an SUV, a high degree of flexibility and the unique driving experience of a convertible. Its standard fully automatic soft top opens in just nine seconds. It can open even while the car is in motion, at speeds of up to 30 km/h. In addition to retractable rollover protection, the T-Roc Cabriolet is designed with a reinforced windscreen frame and other structural modifications to ensure maximum occupant safety. With the optionally available next-generation Infotainment system, the T-Roc Cabriolet can, if desired, be permanently online as soon as the driver has registered in the Volkswagen system. Information on the vehicle and on online services is displayed on the infotainment system screen, which measures up to 8 inches. When this is used in combination with the additionally available 11.7-inch Active Info Display, a completely digital cockpit environment can be created.

The Audi brand also celebrated two world premieres at the IAA. The next generation of the RS 7 Sportback is a four-door, high-performance coupé in the shape of a grand tourer. The flat, broad front end, flared wheel housings, a side view with sharply defined lines and the rear end's sweeping spoiler lip and striking bumper give the vehicle an aesthetic yet innovative design. The 4.0 TFSI engine which delivers 441 kW (600 PS) of torque makes the Sportback sprint from 0 to 100 km/h in just 3.6 seconds. It reaches a top speed of 250 km/h, which can be increased to as high as 305 km/h with the dynamic package plus. Thanks to its mild hybrid system (MHEV) with a 48-volt main on-board electrical system, the engine combines maximum performance with high efficiency. Using a water-cooled belt alternator starter, the MHEV system can recover up to 12 kW of energy and feed it back into the lithium-ion battery. With its second world premiere, Audi introduced the AI:TRAIL. The fully electric off-roader is presented as a comprehensive concept for sustainable mobility off the beaten track as well as for automated driving. The glass surrounding the cabin extends all the way to ground level, providing optimal all-round visibility. The generous battery capacity ensures sufficient range even away from dense networks of charging stations. The AI:TRAIL is equipped with four electric motors, each of which propels one wheel directly. The maximum output is 320 kW (435 PS). Along with the Audi Aicon, the AI:ME and the AI:RACE, the Audi AI:TRAIL is the fourth entrant in the series of concept cars with electric drive systems; all four were on display in Frankfurt. Audi's presence at the motor show was rounded off by other innovations such as the enhanced A4 and Q7, the A1 citycarver, the Q3 Sportback and the Audi RS 6 Avant.

ŠKODA's stand exhibited the Superb iV and the Citigo^{e} iV, the Czech brand's first electric production models. The Superb iV is fitted with a plug-in hybrid drive in which an efficient petrol engine and an electric motor deliver a combined power output of 160 kW (218 PS). The WLTP range is up to 56 km with zero emissions; when combined with the petrol engine the car's CO_2 emissions are less than 35 g/km. With a fully charged battery and a full tank, the Superb iV can travel up to 930 km in the WLTP cycle without refueling. The Citigo^{e} iV is ŠKODA's first all-electric, zero-emissions vehicle and features an electric motor with a power output of 61 kW (83 PS). The vehicle has a practical WLTP range of up to

260 km. ŠKODA aims to expand its range of particularly environmentally conscious, efficient natural gas models before the end of the year with the Scala G-Tec and the Kamiq G-Tec; concepts of the models, which are close to series production, were on display at the IAA. The Scala Monte Carlo and Kamiq Monte Carlo are the new sporty lifestyle versions in the compact and city SUV segment. Both models pay homage to ŠKODA's rally history with sporty, eye-catching black elements and are fitted with more sophisticated equipment than the basic model. The Superb Scout, which is only available as an estate, combines robust body enhancements, an all-wheel drive and raised ground clearance with the elegance of a multifunctional lifestyle estate and all the advantages of the Superb family.

SEAT is focusing on electrification with new models and concept vehicles. The Spanish brand is heralding its electric era with the introduction of the Mii electric, its first all-electric production model. The Mii electric fuses dynamic performance, elegant design and the latest connectivity functions with everyday usability. The Mii's state-of-the-art electric motor provides a power output of 61 kW (83 PS). The car's 36.8 kWh lithium-ion battery pack provides up to 260 km of WLTP range. In fast-charging mode with direct current, the battery charges from flat to 80% full in about an hour. The Tarraco FR with its plug-in hybrid drive (PHEV) is the most powerful vehicle in the model series to date. Its state-of-the-art drivetrain consists of a 1.4 TSI petrol engine with an output of 110 kW (150 PS) combined with an 85 kW (115 PS) electric motor. The system's total output is 180 kW (245 PS), which allows the SEAT Tarraco FR PHEV to complete the 0-100 km/h sprint in just 7.4 seconds. Its maximum speed is 217 km/h. The body exudes confidence and dynamics thanks to wider wheel housings, a sporty rear spoiler, a front FR radiator grille and 19-inch alloy wheels. CUPRA showed its vision of an all-electric SUV coupé with the Tavascan. This concept vehicle combines state-of-the-art drive technology with the elegant, sporty and expressive design of a four-door crossover SUV. With a power output of 225 kW (306 PS), the Tavascan offers a dynamic driving experience with zero emissions. The 77 kWh battery pack provides a range of up to 450 km in the WLTP cycle.

The focus of Porsche's IAA appearance was the brand's first all-electric sports car: the Taycan. This marks the start of a new age for Porsche, which is consistently expanding its product range in the field of electric mobility. The four-door sports saloon impressively combines typical Porsche performance and connectivity with everyday usability. Moreover, highly advanced production methods are used to facilitate sustainability and digitalization. The first models in the new series, the Taycan Turbo S and Taycan Turbo, are at the cutting edge of Porsche E-Performance and are among the most powerful production models that the sports car manufacturer currently has in its product range. The Taycan's top version Turbo S can generate up to 560 kW (761 PS). It accelerates from zero to 100 km/h in just 2.8 seconds and has a WLTP range of up to 412 km. Other highlights were the all-wheel drive models 911 Carrera 4 Coupé and 911 Carrera 4 Cabriolet, three new hybrid models in the Cayenne series and the top model of the compact SUV series, the Macan Turbo.

Lamborghini captivated visitors to the motor show with the unveiling of its first hybrid super sports car. The Sián FKP 37 is the most powerful Lamborghini of all time and features new material and hybrid technologies including the world's first supercapacitor instead of a lithium-ion battery. With the lowest-ever weight of any V12-model and a power output of 602 kW (819 PS), the Sián FKP 37 reaches 100 km/h in under 2.8 seconds. Its top speed is over 350 km/h. Alongside the Sián FKP 37, the Urus and Huracán EVO were on display at the Lamborghini stand.

Caravan Salon

Volkswagen Commercial Vehicles celebrated the debut of the California 6.1 at the Caravan Salon 2019 in Düsseldorf. Like its predecessor, the extensively upgraded camper van will be available in three equipment versions: Beach, Coast and Ocean. Visually, the three models can be distinguished, for example, by their different revised front ends. The interior features new dash panels with optional all-digital instruments for the first time as well as a new camper control panel with a touchscreen in the overhead console. The kitchen and storage elements have been enhanced and the sleeping accommodation optimized. New features such as a crosswind assistant increase driving comfort. The new infotainment system with integrated online access provides optimum connectivity. The California 6.1 is powered by efficient TDI engines with an output of 81 kW (110 PS) to 146 kW (199 PS). In addition to the California 6.1, the Grand California and the Caddy Beach were exhibited in Düsseldorf.

AWARDS

Several Volkswagen Group models achieved the highest, five-star rating in the independent Euro NCAP crash test in the third quarter of 2019. ŠKODA's Scala and Kamiq both earned five stars. The A1 from Audi was also awarded the top rating. The overall safety rating is comprised of results from the four categories of Adult Occupant Protection, Child Occupant Protection, Vulnerable Road User Protection and Safety Assist.

At the beginning of July 2019, readers of OFF ROAD magazine voted the Amarok V6 from Volkswagen Commercial Vehicles as the best pick-up of the year in the all-terrain category. 2019 was the seventh time since 2011 that the Amarok has received the readers' choice award.

At the end of July 2019, ŠKODA secured first place in the Special Award – Smart Digital Application category of the prestigious "Automotive Lean Production Award" for its 'dProduction' project at its Kvasiny plant in the Czech

Republic. The project deals with the digitalization of manufacturing processes as part of the implementation of Industry 4.0 technologies. The industry magazine AUTOMOBIL PRODUKTION and the consultants Agamus Consult selected the winners of the "Automotive Lean Production Awards" from more than 1,200 applicants from 17 countries.

In August 2019, the Multivan from Volkswagen Commercial Vehicles achieved a one-two win in Auto Zeitung's first "Caravan Poll". The California secured first place in the panel van/camping bus category, while the Transporter ranked highest in the basic vehicles category. The magazine's editors had asked readers to choose the best motor homes in five categories.

In mid-September 2019, the Volkswagen Group received several awards in the "Automotive Brand Contest 2019" organized by the German Design Council. The Volkswagen Passenger Cars brand was recognised for the ID. ROOMZZ concept car, which was awarded the "Best of Best" grand prize in the Concepts category, while the ID. BUGGY concept car was crowned "Winner". The SEAT CUPRA Formentor concept car was also named ”Winner" in the same category. In addition, the Passat from Volkswagen Passenger Cars took home first place as the "Best of Best" in the Interior category, in which the T-Cross was crowned "Winner". Moreover, the T-Cross won the "Best of Best" award in the Exterior Volume Brand category, in which the Passat was named ”Winner". The renowned design prize is the only international design competition for the automotive industry; the jury is comprised of representatives from the worlds of media, design, brand communication and academia.

Also in mid-September 2019, several Volkswagen Group models topped the reader poll for the "BEST OF mobility 2019". Volkswagen Passenger Cars received an accolade in the Electric Cars Economy category for the ID.3, while Audi was recognised in the Electric Cars Executive category for the e-tron. Readers chose the ŠKODA VISION iV as the winner in the Concept Car category. The MAN Lion's City series won in the Public Transport category. The "BEST OF mobility" reader poll is organized by HUSS-VERLAG in collaboration with the international consultants Deloitte and the German Automotive Industry Association (VDA).

In late September 2019, the Volkswagen Group brands received several awards in the 'autonis – die beste Design Neuheit 2019' competition, where the winners are chosen by readers of trade magazine "auto motor and sport" in recognition of the best designs in new vehicles launched in 2019. Audi won over readers in the subcompact and premium categories with the A1 and A6 Avant, respectively. The Porsche 911 was named the winner in the sports cars category and the Macan in the large SUV class.

The Volkswagen Commercial Vehicles brand received the award in the vans category for the new Multivan. In 2019, readers could choose from a total of 100 new models in ten vehicle categories.

Also at the end of September 2019, the Volkswagen plant in Wolfsburg received the "Lean & Green Management Award 2019" in the Automotive OEM category for its efficient and sustainable production. More than 250 plants from over ten countries and 20 different industries participated in this competition.

ANNIVERSARIES

At the end of July 2019, the one-millionth Volkswagen Touareg rolled off the production line at the Volkswagen plant in Bratislava, Slovakia. To mark the occasion, Volkswagen produced a stylish special-edition Touareg known as the ONE Million that complements the flagship model series with exclusive extra equipment. The Touareg has been an integral part of the Volkswagen Passenger Cars model range since the end of 2002.

PARTNERSHIPS

In July 2019, Volkswagen announced the plan to invest with Ford in Argo AI, a company that works on the development of software platforms for autonomous driving. This alliance allows both car companies to integrate Argo AI's self-driving system into their own models independently of each other. The system is designed to make fully automated driving possible and to open up new possibilities, particularly for ride sharing and delivery services in urban areas by using fully automated vehicles. In addition, Ford intends to use the Modular Electric Drive Toolkit (MEB) developed by Volkswagen for a zero-emissions volume model, which is to be offered in Europe starting in 2023. With the partnership, both Volkswagen and Ford intend to be in a position to better tailor their products to meet the needs of customers worldwide, while improving their competitiveness, cost and capital efficiencies. The agreement of the Argo transaction is subject to the approval of various official authorities and additional requirements.

Also in July 2019, Volkswagen expanded its activities in the field of charging infrastructure and announced plans to cooperate closely with has·to·be GmbH, a leading provider of operating systems for electric mobility. The Group is to acquire a minority stake in the company via its subsidiary Volkswagen Group Charging GmbH and the associated brand Elli (Electric Life). Together, has·to·be and Volkswagen intend to forge ahead with the expansion of the pan-European charging network and participate in the growing market for charging solutions. Also some of the Group's own charging stations are already in operation using has·to·be software and are therefore part of a holistic, integrated charging ecosystem.

At the end of August 2019, Volkswagen acquired a minority stake in the technology company SeeReal Technologies. This participation will promote access for the Group to the pioneering field of augmented reality, and more specifically, of future three-dimensional holographic display technologies for cars. In contrast to head-up displays of the type already available on the market, information will be projected via augmented reality technology into the driver's field of vision, with direct links to the driver's environment.

Volkswagen Shares

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

The DAX recorded an increase compared with the end of 2018. The more expansionary monetary policy pursued by the US Federal Reserve and the European Central Bank had a positive effect. Uncertainty regarding the economic policy of the US government, the continuing Brexit negotiations between the United Kingdom and the European Union (EU) and the growth of the global economy had a negative impact on share prices.

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

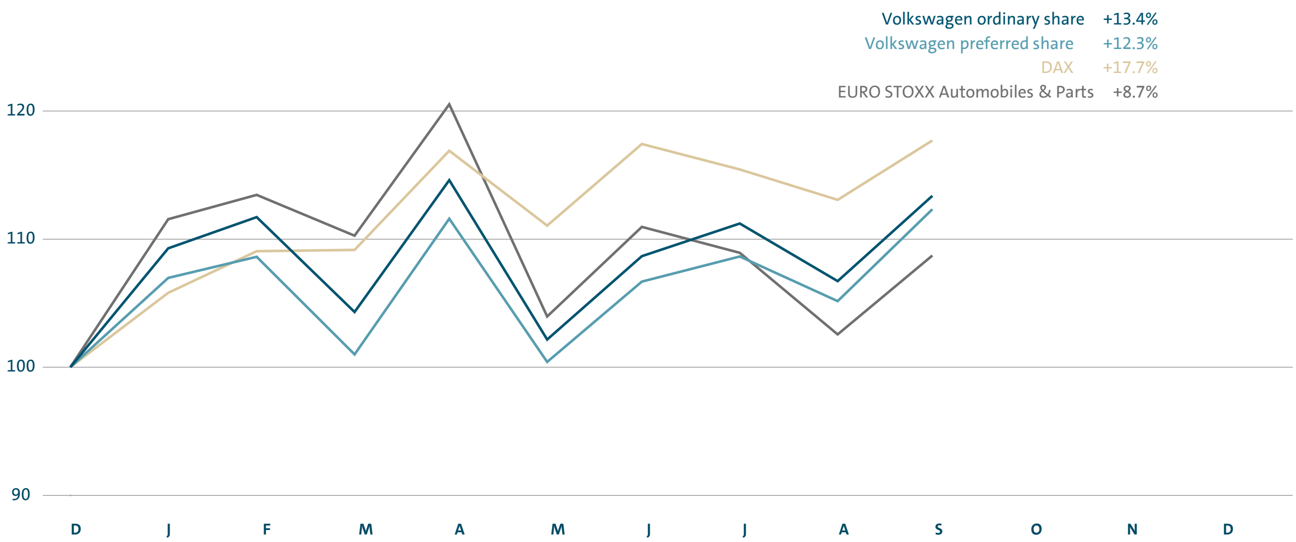
Information and explanations on earnings per share can be found in the notes to the interim consolidated financial statements. Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website at www.volkswagenag.com/en/InvestorRelations.html.

VOLKSWAGEN KEY SHARE FIGURES AND MARKET INDICES FROM JANUARY 1 TO SEPTEMBER 30, 2019

		High	Low	Closing
Ordinary share	Price (€)	166.60	135.60	157.70
	Date	Apr. 18	Jan. 3	Sept. 30
Preferred share	Price (€)	163.14	134.76	156.06
	Date	Apr. 18	Jan. 3	Sept. 30
DAX	Price	12,630	10,417	12,428
	Date	July 4	Jan. 3	Sept. 30
ESTX Auto & Parts	Price	527	412	459
	Date	Apr. 18	Jan. 3	Sept. 30

PRICE DEVELOPMENT FROM DECEMBER 2018 TO SEPTEMBER 2019

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



Business Development

GENERAL ECONOMIC DEVELOPMENT

The global economy maintained its robust growth in the first three quarters of 2019, but at a slowing pace. The average rate of expansion of gross domestic product (GDP) was down year-on-year in both the advanced and the emerging market economies. Prices for energy and other commodities decreased on average compared with the prior-year period amid interest rates that were still comparatively low, but had increased. The upheaval in trade policy and economic uncertainty resulted in a wane in the international trade of goods in the reporting period.

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

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

In the economies of Central Europe, growth rates remained relatively high in the first nine months of 2019, although they also slowed down in most cases. GDP growth in Eastern Europe declined. This was due in particular to the economic situation in Russia, the region's largest economy.

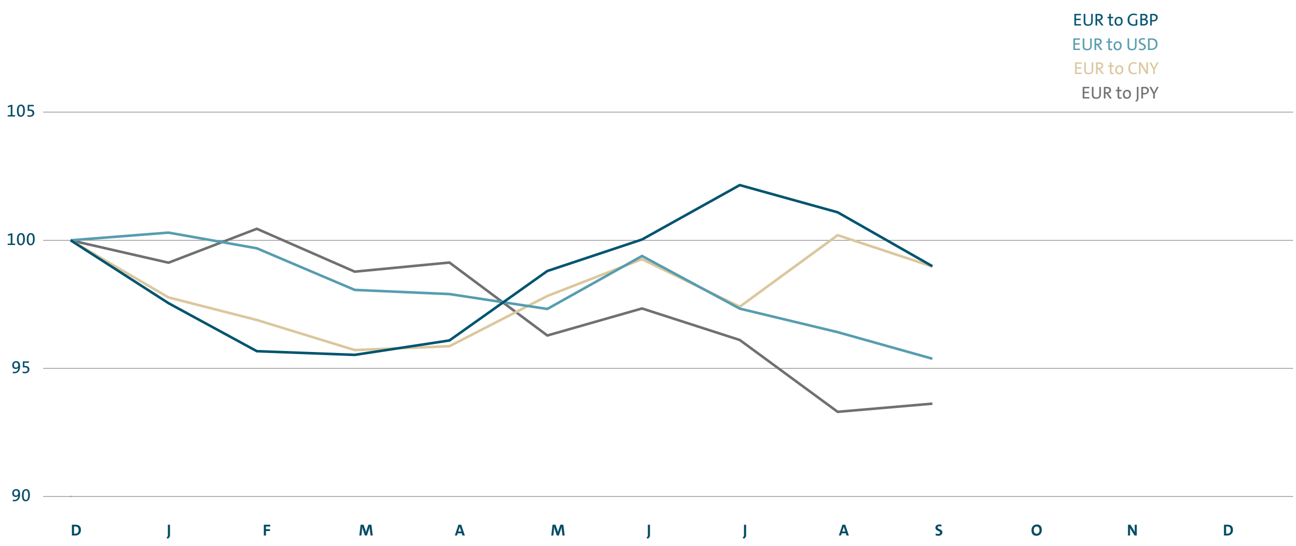
The weak economic phase that began in Turkey in 2018 continued in the reporting period. South Africa's GDP expanded at a slower pace than in the same period of the previous year due to persistent structural deficits and political challenges.

The solid growth of the US economy gradually weakened during the course of 2019. Considerable stimulus was provided by private domestic demand. Amid a strong labor market and relatively steady inflation, the US Federal Reserve lowered its key rate. Momentum decreased in Canada, and particularly in Mexico compared to the same period of 2018.

Between January and September 2019, economic growth in Brazil kept the same slow pace it had seen in preceding quarters, although the situation in South America's largest economy remained tense. The economic downturn in Argentina continued amid high inflation and sharp currency depreciation.

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2018 TO SEPTEMBER 2019

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



The Chinese economy maintained its growth trajectory in the reporting period with high, though weakening momentum. Government support provided in response to the trade policy dispute between China and the USA continued during 2019. India still recorded a relatively high pace of growth. Compared with the prior-year period, Japan registered GDP growth at approximately the same level.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

Between January and September 2019, global demand for passenger cars was weaker than in the prior-year period (–5.0%). While new registrations in the Central and Eastern Europe region slightly exceeded the prior-year figure, the overall markets in Western Europe, the Middle East, North America, South America and Asia-Pacific recorded dips.

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

In Western Europe, passenger car demand in the reporting period fell short of the prior-year level due to the WLTP, among other factors. New vehicle registrations declined by varying degrees in the largest single markets. Passenger car sales in France and Italy decreased slightly. In the United Kingdom, the passenger car market volume was also slightly down on the figure for the previous year. The uncertain outcome of the Brexit negotiations with the EU continued to weigh on demand there. The passenger car market in Spain contracted noticeably in the reporting period. The share of new registrations for diesel vehicles in the overall passenger car market in Western Europe slipped to 32.2 (36.9)% in the period from January to September 2019.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new light commercial vehicle registrations in Western Europe markedly exceeded the prior-year level.

In Germany, the number of passenger cars sold in the first nine months of 2019 was slightly up on the level seen in the prior-year period. In addition to the economic situation and the rise in commercial demand, sales incentives, particularly in the form of an environmental bonus, underpinned the positive trend.

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

In the Central and Eastern Europe region, demand for passenger cars in the reporting period increased slightly year-on-year. Developments in the individual markets of Central Europe were mixed. Following a solid start in spite of the value-added tax increase as of January 1, 2019, the Russian passenger car market weakened as the year went on and was noticeably below the prior-year figure at the end of the reporting period.

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

Demand in the Turkish passenger car market continued to decline dramatically year-on-year between January and September 2019 as a result of the deteriorating macroeconomic situation. In South Africa, the number of passenger cars sold was moderately lower than the weak level seen in the previous year.

In North America, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the reporting period were down slightly on the prior-year figure. The market volume in the USA also fell narrowly short of the high prior-year level. Although the trend in demand for light commercial vehicles such as SUV and pick-up models remained positive, the passenger car segment contracted. In the Canadian automotive market, the downward trend seen since the second quarter of 2018 continued throughout the reporting period. The number of vehicles sold in Mexico was perceptibly lower than the figure for the same period of the previous year.

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles decreased moderately on the whole in the first nine months of 2019. While in Brazil, the recovery in the demand for automobiles continued, providing for a high growth rate, while new registrations still fell markedly short of the record level achieved in the same period in 2012. In the Argentinian market, the deterioration in the macroeconomic situation continued to drag on demand for passenger cars and light commercial vehicles, with sales figures plummeting from January to September 2019.

The number of new passenger cars registered in the Asia-Pacific region in the reporting period was markedly lower than the prior-year level. This was mainly attributable to the trend in the Chinese passenger car market, where the volume of demand fell noticeably short of the previous year's level. The ongoing trade dispute between China and the USA continued to weigh on demand. In the Indian passenger car market, sales in the first nine months of 2019 fell markedly compared with a year earlier. The vehicle market in Japan was slightly above the prior-year level.

Demand for light commercial vehicles in the Asia-Pacific region declined moderately as against the previous year. Registration volumes in China, the region's dominant market and the largest market worldwide, fell perceptibly year-on-year. The number of new vehicle registrations in India saw a moderate decrease versus the prior year, while in Thailand the number was moderately higher.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

In the first three quarters of 2019, demand in Western Europe climbed noticeably compared with 2018. There was a significant increase in new registrations in Germany, Western Europe's largest market, in the first nine months of 2019 compared with the prior-year period. While demand in Italy declined moderately and fell slightly short of the prior-year level in Spain, it rose noticeably in France and had a strong upturn in the UK.

Registration volumes in the Central and Eastern Europe region were down slightly on the previous year between January and September 2019. Demand in Russia also decreased slightly.

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

Demand for buses in the markets that are relevant for the Volkswagen Group was significantly above the prior-year level in the period from January to September 2019. This was due in particular to a considerable rise in demand in Western Europe and substantial growth in Brazil.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

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

In the marine market, customers continued to be cautious in placing orders in the first nine months of 2019. Consequently, the overall market fell considerably short of the previous year's level. Particularly in merchant shipping, orders declined significantly due to increasing market uncertainty. Demand for cruise ships, passenger ferries and fishing vessels remained steady. In the offshore sector, the existing overcapacity continued to curb investment in offshore oil production. Plans for tighter emission standards resulted in a positive trend toward gas-powered or dual-fuel-engined ships. On account of the low market volume, all market segments are continuing to experience marked competitive pressure and low prices as a result.

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

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

The marine after-sales business for diesel engines performed positively and benefited from a continued increase in interest in long-term maintenance contracts and retrofitting solutions. The power plant after-sales business was negatively impacted by shifts in the energy mix and regulatory changes in key sales markets. The after-sales market for turbomachinery improved considerably. Furthermore, new sales opportunities appeared in the areas of digitalization and long-term service agreements.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

Overall, a small decrease in the demand for new vehicles was recorded in the European market from January to September 2019. As a consequence, the number of new lease and financing contracts signed also fell slightly. Sales of used vehicles in Europe rose somewhat, while a minor decrease was recorded in lease and financing contracts for used vehicles. There was an increased demand for after-sales products such as inspection contracts, maintenance and spare parts agreements in the first nine months of 2019. The number of automotive-related insurances grew modestly.

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

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

In the markets of the USA and Mexico, the popularity for automotive financial services remained at a high level in the period from January to September 2019.

In Brazil, the consumer credit business and sales of the country-specific financial services product Consorcio, a lottery-style savings plan, were in line with the restrained positive trend seen in 2018. Nearly half of the new vehicle sales were covered by financial services products in the reporting period. In the Argentinian market, the sharp rise in interest rates resulting from the most recent economic crisis posed a challenge for sales of financing and leasing products.

Demand for automotive financial services across the Asia-Pacific region was mixed in the first nine months of 2019. In China, the proportion of loan-financed vehicle purchases stagnated compared with the prior-year period and new contract growth slowed on account of the decline in passenger car sales. Besides the market in the interior of the country and the market for used vehicles, the relaxation of existing restrictions on registrations in metropolitan areas offers great potential in terms of acquiring new customers for automotive-related financial services. The demand for financial services products rose in India and in Japan.

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

VOLKSWAGEN GROUP DELIVERIES

The Volkswagen Group delivered 8,005,166 vehicles to customers worldwide from January to September 2019. This was 1.5% lower or 125,426 fewer units than in the same period of the previous year. While sales figures for the Commercial Vehicles Business Area exceeded the previous year's level, there was a slight decline in the number of models delivered to customers from the Passenger Cars Business Area. The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted. The chart on page 11 shows the trend in deliveries worldwide by month compared with the previous year. In the following, we report separately on deliveries in the Passenger Cars Business Area and Commercial Vehicles Business Area.

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

	2019	2018	%
Passenger Cars	7,826,075	7,964,264	−1.7
Commercial Vehicles	179,091	166,328	+7.7
Total	**8,005,166**	**8,130,592**	**−1.5**

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

GLOBAL DELIVERIES BY THE PASSENGER CARS BUSINESS AREA

Global demand for the Volkswagen Group's passenger cars and light commercial vehicles fell year-on-year by 1.7% to 7,826,075 units during the reporting period amid continuously challenging market conditions. This was due in particular to declines in overall markets – especially in the Asia-Pacific and Middle East regions. In addition, deliveries in July and August were down on the comparison figures, especially as a result of customers bringing forward purchases in the previous year in connection with the changeover to the WLTP. By contrast, the WLTP had a positive impact on the relevant markets in September. Other contributory causes were the limited availability of petrol engines and model changes. As a result, the Volkswagen Passenger Cars, Audi, ŠKODA and Volkswagen Commercial Vehicles brands fell short of their high prior-year levels. Performance was particularly encouraging at the SEAT brand (+9.4%) – which recorded the best nine-month result in its corporate history – and at Lamborghini (+83.4%). Porsche, Bentley and Bugatti also increased their deliveries year-on-year. In Western Europe, South America and Africa, we registered a higher demand than in the prior-year period, while our deliveries in the Central and Eastern Europe, Middle East, North America and Asia-Pacific regions declined. Our passenger car market share expanded in a declining overall market worldwide to 12.7 (12.2)%.

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

Deliveries in Europe/Other markets

In Western Europe, the Volkswagen Group delivered 2,765,282 vehicles to customers in the first nine months of this year. This was 0.8% more than in the same period in 2018. As expected, purchases brought forward in the previous year in connection with the changeover to the WLTP resulted in falling deliveries, particularly in July and August. In September, by contrast, the WLTP effect was positive. Overall, negative effects arising from customer uncertainty due to the public debate on driving bans for diesel vehicles and restricted capacity for petrol engines were compensated for. Encouraging increases in deliveries were recorded by the T-Roc from Volkswagen Passenger Cars, the Karoq and Kodiaq from ŠKODA, the Arona and Ateca from the SEAT brand, the Porsche Macan and the Crafter from Volkswagen Commercial Vehicles. Additionaly, the Touareg from Volkswagen Passenger Cars and Audi's A1 Sportback, Q3, A6 and Q8, which were new or successor models introduced to the market over the course of the previous year, were very popular with customers. The T-Cross and Passat from the Volkswagen Passenger Cars brand, the ŠKODA Scala, the e-tron (the Audi brand's first all-electric production model), the ŠKODA Kamiq, the SEAT Tarraco and the Porsche Cayenne Coupé were successfully launched on the market as new or successor models. The Volkswagen Group's share of the passenger car market in Western Europe rose to 22.6 (22.0)%.

In Germany, demand for vehicles from the Volkswagen Group from January to September 2019 surpassed the previous year's figure (+2.3%), which had been bolstered by pull-forward effects relating to the shift to the WLTP and the environmental bonus. The most popular Group models included the T-Roc and Tiguan from Volkswagen Passenger Cars, the Audi A3 Sportback, the Karoq, Octavia and Superb from the ŠKODA brand, the Arona and Ateca from the SEAT brand and the Porsche Macan. The Touareg from Volkswagen Passenger Cars, the Audi Q3, A6 Avant and Q8 as well as the ŠKODA Fabia, all of which had been introduced as new or successor models in the previous year, were also in high demand from customers. Eight Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the Polo, Golf, T-Roc, Tiguan, Touran, Audi A6, Porsche 911 and Multivan/Transporter. After the first nine months of 2019, the Golf was still the most popular passenger car in Germany in terms of registrations.

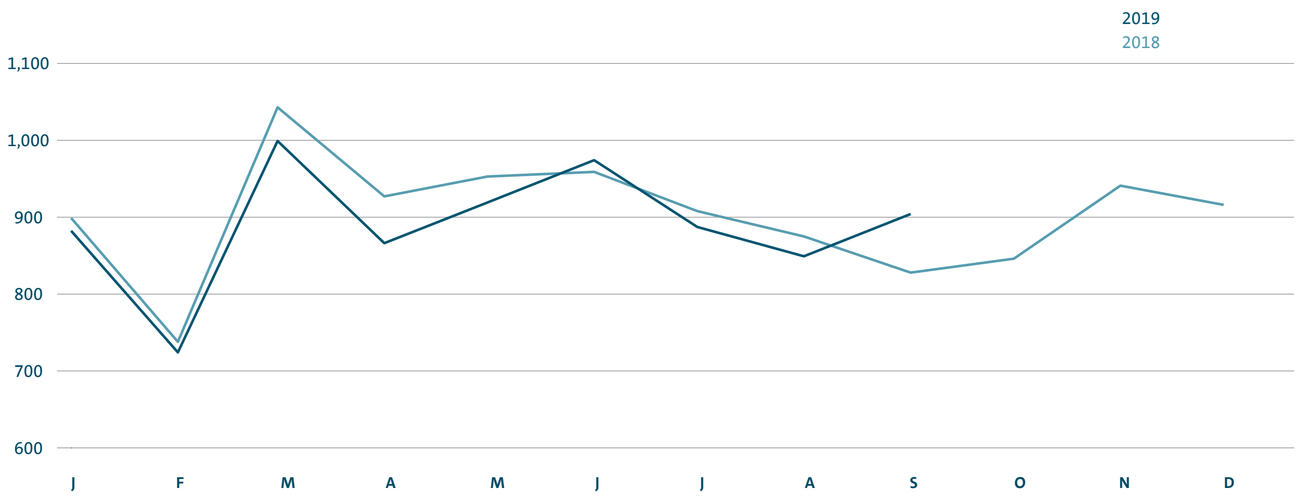
In the Central and Eastern Europe region, the number of vehicles delivered to customers in the reporting period was close to the previous year's level (−0.3%). There was a rise in deliveries in Russia and Poland, while they declined in the Czech Republic. Demand developed encouragingly for the T-Roc, Tiguan and Touareg models from the Volkswagen Passenger Cars brand, for ŠKODA's Rapid/Scala, Karoq and

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

	DELIVERIES (UNITS)		CHANGE
	2019	2018	(%)
Europe/Other markets	**3,563,301**	**3,567,330**	**−0.1**
Western Europe	**2,765,282**	**2,743,360**	**+0.8**
of which: Germany	1,004,791	982,226	+2.3
United Kingdom	427,687	434,858	−1.6
Italy	235,430	220,288	+6.9
Spain	234,713	246,294	−4.7
France	221,909	210,269	+5.5
Central and Eastern Europe	**564,091**	**565,608**	**−0.3**
of which: Russia	158,992	152,739	+4.1
Poland	122,433	121,409	+0.8
Czech Republic	101,712	108,980	−6.7
Other markets	**233,928**	**258,362**	**−9.5**
of which: South Africa	65,961	66,789	−1.2
Turkey	46,466	83,582	−44.4
North America	**700,564**	**710,860**	**−1.4**
of which: USA	485,023	478,583	+1.3
Mexico	131,088	142,071	−7.7
Canada	84,453	90,206	−6.4
South America	**403,579**	**401,598**	**+0.5**
of which: Brazil	302,886	257,471	+17.6
Argentina	57,454	98,745	−41.8
Asia-Pacific	**3,158,631**	**3,284,476**	**−3.8**
of which: China	2,951,842	3,036,502	−2.8
Japan	60,556	65,009	−6.8
India	36,636	45,500	−19.5
Worldwide	**7,826,075**	**7,964,264**	**−1.7**
Volkswagen Passenger Cars	4,514,552	4,622,842	−2.3
Audi	1,357,102	1,407,672	−3.6
ŠKODA	913,723	939,064	−2.7
SEAT	454,797	415,575	+9.4
Bentley	7,155	7,107	+0.7
Lamborghini	6,517	3,554	+83.4
Porsche	202,318	196,562	+2.9
Bugatti	62	52	+19.2
Volkswagen Commercial Vehicles	369,849	371,836	−0.5

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

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



Kodiaq models, and for the SEAT Arona and Ateca. The Volkswagen Group's share of the passenger car market in the Central and Eastern Europe region amounted to 20.2 (20.7)%.

In Turkey, the number of Volkswagen Group vehicles delivered to customers from January to September of this year virtually halved compared to the same period in the prior year and was accompanied by the market's decline. In the moderately declining South African market, the number of Group models sold fell by 1.2%. The Polo from Volkswagen Passenger Cars continued to be the most frequently sold Group model there.

Deliveries in North America

In a declining market for passenger cars and light commercial vehicles in North America, demand for Volkswagen Group models fell by 1.4% year-on-year in the reporting period. The Group's share of the market in this region amounted to 4.6 (4.6)%. The Tiguan Allspace and Jetta from the Volkswagen Passenger Cars brand were the most in-demand Group models in North America.

In a weaker US market, the Volkswagen Group delivered 1.3% more vehicles to customers from January to September 2019 than in the prior-year period. The biggest increases of all Group models were recorded by the Jetta, Tiguan Allspace and Atlas from the Volkswagen Passenger Cars brand, the Audi A6 and Porsche Cayenne. The Audi e-tron and the new Porsche Macan were successfully launched on the market.

In Canada, the number of deliveries to Volkswagen Group customers fell by 6.4% year-on-year. The market as a whole also declined during this period. The Tiguan Allspace and Jetta models from Volkswagen Passenger Cars were particularly popular.

In a declining overall market in Mexico, we delivered 7.7% fewer vehicles to customers in the first three quarters of this year than in the prior-year period. The Group models with the highest level of demand were the Vento, Jetta and Tiguan Allspace from the Volkswagen Passenger Cars brand.

Deliveries in South America

In the overall declining South American passenger car and light commercial vehicles markets, the number of Group models delivered to customers rose by 0.5% year-on-year in the first nine months of 2019. The highest demand from among all Group models was for the Gol and the Polo from the Volkswagen Passenger Cars brand. The T-Cross from Volkswagen Passenger Cars and the new Porsche Macan were successfully introduced to the market. The Group's share of the market in South America increased to 12.6 (11.8)%.

The Volkswagen Group was able to benefit from the continuing recovery of the Brazilian market and achieved a 17.6% year-on-year increase in sales to customers in the reporting period. This was primarily due to the market launch of the new T-Cross from the Volkswagen Passenger Cars brand, as well as the success of the Virtus, Jetta and Tiguan Allspace from Volkswagen Passenger Cars, which had been introduced to the market as new or successor models in the previous year. Demand for the Fox, Polo and Gol models from Volkswagen Passenger Cars as well as for the Amarok from Volkswagen Commercial Vehicles, was also very encouraging.

In Argentina, the number of vehicles delivered to Volkswagen Group customers fell short of the prior-year figure in the first nine months amid a dramatic contraction in the overall market. The Gol and Polo from Volkswagen Passenger Cars and the Amarok from Volkswagen Commercial Vehicles saw the highest demand from among all Group models. The T-Cross, newly introduced by the Volkswagen Passenger Cars brand, was also well received by customers.

Deliveries in the Asia-Pacific region

From January to September 2019, the Volkswagen Group recorded a decline in demand in the Asia-Pacific region amid market conditions that continued to be difficult, delivering 3.8% fewer vehicles to customers than a year earlier. The Group's share of the passenger car market in this region rose to 12.6 (12.3)%.

In China, the Volkswagen Group delivered 2.8% fewer vehicles to customers in the reporting period than in the previous year. The T-Roc, Tayron, Tharu, Bora, Passat and Lavida models from Volkswagen Passenger Cars, the Audi Q2L and Q5L, the ŠKODA Karoq and Kamiq, as well as the Porsche Macan and Cayenne, all of which had been introduced as new or successor models over the course of the previous year, were in especially high demand. The T-Cross, Polo, Sagitar and Teramont X models from the Volkswagen Passenger Cars brand, the Audi Q3 and Audi A6L and the ŠKODA Superb saloon were successfully launched on the market as new or successor models during the reporting period.

On the Indian passenger car market, the Volkswagen Group saw 19.5% less demand in the first nine months of this year than in the prior-year period. From among the Group's models, the Polo from Volkswagen Passenger Cars was the most popular there.

In Japan, we handed 6.8% fewer vehicles over to customers than in the same period of the previous year. The Tiguan from the Volkswagen Passenger Cars brand, the Audi Q5 and the Porsche 911 all recorded encouraging growth in demand.

COMMERCIAL VEHICLE DELIVERIES

In the first nine months of 2019, the Volkswagen Group delivered a total of 179,091 commercial vehicles to customers worldwide (+7.7%). Trucks accounted for 153,205 units (+5.6%) and buses for 15,775 units (–3.8%). Deliveries of light commercial vehicles by the MAN brand amounted to 10,111 (4,867) units.

In Western Europe, sales increased by 17.2% compared with the corresponding prior-year period to a total of 88,614 units, of which 75,533 were trucks and 4,267 were buses. Here, the MAN brand delivered 8,814 light commercial vehicles.

In the period from January to September 2019, deliveries in the markets of the Central and Eastern Europe region fell by 3.0% to 27,011 vehicles; of this figure, 24,985 were trucks and 1,006 were buses; light commercial vehicles from the MAN brand amounted to 1,020 units. In Russia, the region's largest market, sales declined year-on-year by 29.9% to 5,850 units.

In the Other markets, particularly in Turkey, deliveries of Volkswagen Group commercial vehicles decreased by 34.0% year-on-year to a total of 8,924 units; of this figure 7,283 were trucks and 1,374 were buses. Here, the MAN brand delivered 267 light commercial vehicles.

Sales in North America declined in the first three quarters of 2019 to 2,303 vehicles (–5.4%), which were handed over almost exclusively to customers in Mexico; this included 1,078 trucks and 1,225 buses.

Deliveries in South America rose to a total of 43,421 vehicles (+24.7%); of which 36,818 were trucks and 6,603 were buses. Following continued improvement in the economic climate in Brazil, we were able to increase our sales here by 40.9%. Of the units delivered, 33,275 were trucks and 4,920 were buses.

In the Asia-Pacific region, the Volkswagen Group sold 8,818 vehicles to customers in the reporting period; among these 7,508 were trucks and 1,300 were buses. Overall, this was 27.1% less than in the previous year. In China, sales decreased by 2.6% to 3,228 vehicles, of which 3,025 were trucks and 199 were buses.

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

	DELIVERIES (UNITS)		CHANGE
	2019	2018	(%)
Europe/Other markets	**124,549**	**116,977**	**+6.5**
Western Europe	88,614	75,625	+17.2
Central and Eastern Europe	27,011	27,833	−3.0
Other markets	8,924	13,519	−34.0
North America	**2,303**	**2,435**	**−5.4**
South America	**43,421**	**34,815**	**+24.7**
of which: Brazil	38,195	27,114	+40.9
Asia-Pacific	**8,818**	**12,101**	**−27.1**
of which: China	3,228	3,315	−2.6
Worldwide	**179,091**	**166,328**	**+7.7**
Scania	74,720	68,639	+8.9
MAN	104,371	97,689	+6.8

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

DELIVERIES IN THE POWER ENGINEERING SEGMENT

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

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

VOLKSWAGEN 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. As of January 1, 2019, contracts concluded by our international joint ventures are also included; the comparison figures have been adjusted accordingly.

The Financial Services Division's products and services were very popular in the period from January to September 2019. The number of new financing, leasing, service and insurance contracts was 6.9 (6.6) million worldwide. The ratio of leased and financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets amounted to 34.9 (34.5) % in the reporting period. As of September 30, 2019, the total number of contracts was 23.5 million, up 6.3 % from December 31, 2018.

In the Europe/Other markets region, the number of new contracts signed in the first three quarters of 2019 increased by 6.2 % to 5.2 million. At 17.5 million, the total number of contracts at the end of September 2019 exceeded the figure at year-end 2018 by 7.8 %. The Customer Financing/Leasing area accounted for 7.7 million of these contracts (+5.6 %).

The number of new contracts signed in North America in the first nine months of 2019 fell by 7.6 % year-on-year to 716 thousand. At 3.1 (3.0) million, the number of contracts as of September 30, 2019 was about the level seen at year-end 2018. The Customer Financing/Leasing area recorded 1.9 (1.9) million contracts.

The initial consolidation of Porsche Volkswagen Servicios Financieros Chile S.p.A. led to a considerable boost in the number of contracts in South America. A total of 266 (215) thousand new contracts were concluded in the reporting period. At 665 (589) thousand, the total number of contracts at the end of September 2019 exceeded the figure on December 31, 2018. The contracts mainly related to the Customer Financing/Leasing area.

In the Asia-Pacific region, 695 thousand new contracts were signed in the period from January to September 2019; this was 3.0 % less than a year earlier. At the end of the reporting period, the total number of contracts amounted to 2.3 million, an increase of 2.3 % compared with year-end 2018. The Customer Financing/Leasing area accounted for 1.7 million contracts (+1.0 %).

SALES TO THE DEALER ORGANIZATION

In the first nine months of 2019, the Volkswagen Group's unit sales to the dealer organization (including the Chinese joint ventures) fell by 1.7% in comparison with the prior-year period to 7,983,304 vehicles. This was due to lower demand, especially in China, Turkey and Argentina. Unit sales outside Germany declined by 3.0% compared to the period from January to September 2018. In Germany, unit sales rose by 8.1% year-on-year. Vehicles sold in Germany as a proportion of overall sales increased to 12.7 (11.6) %.

PRODUCTION

Between January and September 2019, the Volkswagen Group's production decreased by 2.5% year-on-year to a total of 7,974,795 vehicles. Production in Germany fell by 6.6% to 1,600,658 units. The proportion of production in Germany declined to 20.1 (21.0) %.

INVENTORIES

Global inventories at Group companies and in the dealer organization were lower on September 30, 2019 than at year-end 2018 but exceeded the corresponding prior-year figure.

EMPLOYEES

The Volkswagen Group had 642,418 active employees on September 30, 2019. A further 9,679 employees were in the passive phase of their partial retirement. In addition, there were 19,674 young people in vocational traineeships. At the end of the third quarter of 2019, the Volkswagen Group's total headcount had increased by 1.1 % on year-end 2018 to a total of 671,771 employees worldwide. The number of employees in Germany rose by 1.5 % compared with December 31, 2018 to 297,120. Among other things, this was due to recent recruitments in the areas of electric mobility, digitalization and new mobility offerings.

Results of Operations, Financial Position and Net Assets

APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

The prior-year figures have not been adjusted.

NEW REPORTING STRUCTURE

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

SPECIAL ITEMS

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

From January to September 2019, negative special items in connection with the diesel issue affected the Passenger Cars Business Area's operating profit in an amount of €–1.3 (–2.4) billion. These items are attributable to additional expenses for legal risks, in particular for the administrative fine order of €0.5 billion issued by the Stuttgart Public Prosecutor, which ended the ongoing regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG and for higher legal defense costs.

COMPENSATION PAID TO THE NONCONTROLLING INTEREST SHAREHOLDERS OF MAN SE

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

IPO OF TRATON SE

Since June 28, 2019, shares of TRATON SE have been traded on the regulated market of the Frankfurt Stock Exchange and the NASDAQ Stockholm Exchange. The offer price was set at €27.00 per share. This led to an increase of €1.4 billion in the Volkswagen Group's equity, of which €1.2 billion is reported as noncontrolling interests. The cash inflow occurred at the beginning of the third quarter of 2019.

RESULTS OF OPERATIONS OF THE GROUP

The Volkswagen Group recorded sales revenue of €186.6 billion in the first nine months of 2019. The 6.9% rise was due to mix and price improvements, higher vehicle sales when the Chinese joint ventures are excluded, and the healthy business performance in the Financial Services Division; these factors were set against a negative exchange rate trend. The Volkswagen Group generated 80.4 (81.0)% of its sales revenue abroad. At €36.4 (35.0) billion, gross profit was higher than in the previous year. The gross margin stood at 19.5 (20.1)%.

The Volkswagen Group's operating profit before special items rose by €1.5 billion to €14.8 billion in the period from January to September 2019. The operating return on sales before special items amounted to 7.9 (7.6)%. The main factors with a positive impact were improvements in the mix, in price positioning and in product costs, and effects of the fair value measurement of certain derivatives, while a rise in fixed costs had an offsetting effect. Special items of €–1.3 (–2.4) billion resulting from the diesel issue weighed on operating profit to a considerably lesser extent than in the prior-year period. As a result, the Volkswagen Group's operating profit of €13.5 billion was €2.7 billion higher than a year earlier. The operating return on sales increased to 7.3 (6.2)%.

The financial result stood at €1.1 billion, a decline of €0.5 billion compared with the previous year. The interest expenses included in this item were up markedly, driven by the rise in the refinancing volume, the interest expense on provisions, and the application of the new IFRS 16. The result of equity-accounted investments was up on the previous year.

The Volkswagen Group's profit before taxes rose by €2.1 billion to €14.6 billion in the reporting period. Profit after tax increased year-on-year to €11.2 (9.4) billion.

Results of operations in the Automotive Division

In the period from January to September 2019, the Automotive Division generated sales revenue of €157.0 billion, which exceeded the previous year's figure by 5.8% due particularly to improvements in the mix and in price positioning, as well as higher sales volumes when the Chinese joint ventures are excluded; exchange rates had an offsetting effect. Sales revenue in the Passenger Cars, Commercial Vehicles and Power Engineering Business Areas exceeded the respective prior-year figures, in some cases considerably. As our Chinese joint ventures are accounted for using the equity method, the Group's business performance in the Chinese passenger car market is reflected in consolidated sales revenue primarily by deliveries of vehicles and vehicle parts.

Cost of sales rose, driven primarily by higher depreciation and amortization charges due to the large volume of capital expenditure as well as higher research and development costs recognized in profit or loss; their ratio to sales revenue also increased compared with the previous year. At 6.8 (6.6)%, total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) in the period from January to September 2019 was slightly up on the prior-year period.

Distribution expenses in the reporting period were on a level with the previous year, while their ratio to sales revenue declined. There was a rise in administrative expenses in the first three quarters of 2019 and the ratio of these to sales revenue also increased slightly. The other operating result amounted to €–0.3 (–2.5) billion. A year-on-year decline in special items related to the diesel issue to €–1.3 (–2.4) billion, as well as effects arising from the fair value measurement of derivatives to which hedge accounting is not applied and exchange rate effects had a positive impact.

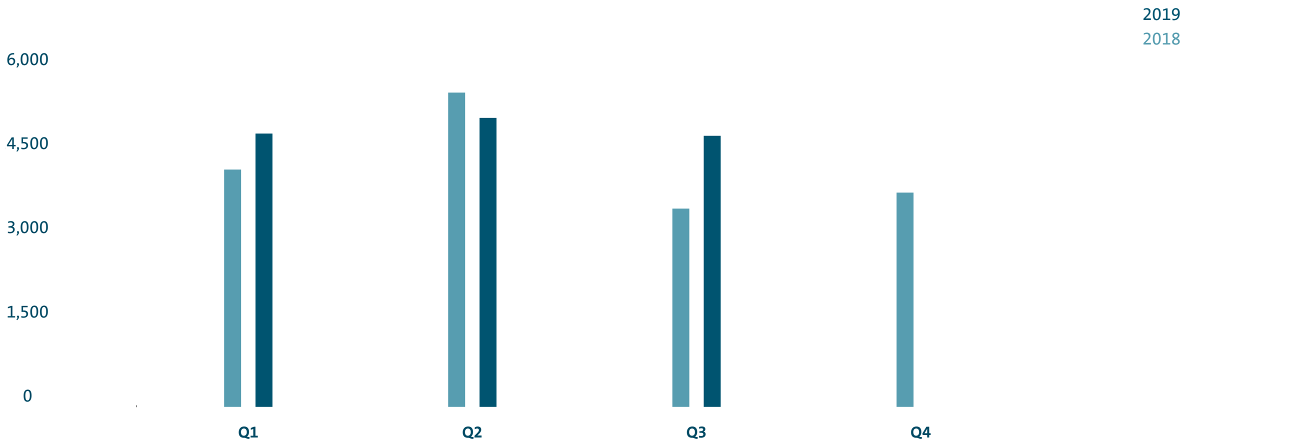
At €11.3 billion the Automotive Division's operating profit in the first nine months of 2019 was up €2.5 billion compared with the previous year. Improvements, especially in the mix, and the positive impact of price positioning, product costs, the measurement of certain derivatives and a decline in negative special items more than offset higher depreciation and amortization charges and a rise in research and development costs. The operating return on sales increased to 7.2 (6.0)%. The Automotive Division's operating profit before special items grew by €1.3 billion to €12.6 billion. The operating return on sales before special items amounted to 8.0 (7.6)%.

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

€ million	2019	2018
Passenger Cars[1]		
Sales revenue	134,666	128,218
Operating result	10,103	8,021
Operating return on sales (%)	7.5	6.3
Commercial Vehicles[1]		
Sales revenue	19,491	17,717
Operating result	1,307	857
Operating return on sales (%)	6.7	4.8
Power Engineering		
Sales revenue	2,873	2,489
Operating result	−98	−46
Operating return on sales (%)	−3.4	−1.9

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

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



In essence, our operating profit benefits from the business performance of our Chinese joint ventures only through deliveries of vehicles and vehicle parts and through license revenue, as the profit recorded by the joint venture companies is accounted for in the financial result using the equity method.

Results of operations in the Financial Services Division

In the period from January to September 2019, sales revenue in the Financial Services Division amounted to €29.6 billion; the year-on-year rise of 13.1 % was mainly attributable to the higher business volume.

Cost of sales rose slightly faster than sales revenue, increasing by €3.0 billion to €24.3 billion. Distribution expenses went up due to volume effects, while their ratio to sales revenue remained largely unchanged. Both administrative expenses and their ratio to sales revenue were lower than the year before.

The operating profit of the Financial Services Division totaled €2.2 billion, up 9.2% on the prior-year figure. The operating return on sales was 7.5 (7.8) %.

FINANCIAL POSITION OF THE GROUP

In the first nine months of 2019, the Volkswagen Group's gross cash flow was €29.9 billion, €2.5 billion more than the prior-year figure. The change in working capital amounted to €–17.1 (–18.3) billion. Included in the special items recognized in the first three quarters of 2019 is a cash outflow related to the payment of an administrative fine following the regulatory offense proceedings. Cash flows from operating activities were up by €3.6 billion to €12.8 billion.

Investing activities attributable to operating activities increased to €12.5 (11.8) billion.

Financing activities accounted for total cash inflows of €0.7 (11.3) billion in the reporting period. Financing activities primarily include the dividend paid to the shareholders of Volkswagen AG, the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement, the cash inflow resulting from the IPO of TRATON, and the issuance and redemption of bonds and other financial liabilities. Following the application of the new IFRS 16, payments for the principal portion of the lease liability have to be recognized under financing activities since January 1, 2019.

On September 30, 2019, the Volkswagen Group's cash and cash equivalents reported in the cash flow statement amounted to €30.4 (24.8) billion.

At the end of September 2019, the Volkswagen Group's net liquidity stood at €–144.7 billion, compared with €–134.7 billion at the end of 2018.

Financial position of the Automotive Division

In the period from January to September 2019, the Automotive Division recorded a gross cash flow of €22.3 (20.1) billion. The increase mainly resulted from higher profits and positive effects from the application of the new IFRS 16. The dividend of the Chinese joint venture FAW-Volkswagen, which has not yet been resolved in the reporting period, had a negative influence compared with the previous year. The change in working capital amounted to €–1.4 (–5.2) billion. A smaller increase in inventories had a positive year-on-year effect, while the impact of dividend receivables, which are only due in the fourth quarter of 2019, was negative. The cash outflows attributable to the diesel issue were markedly lower than in the prior-year period. Cash flows from operating activities were up by €6.0 billion to €20.9 billion.

The Automotive Division's investing activities attributable to operating activities increased by €0.9 billion to €12.3 billion in the period from January to September 2019. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) rose by €0.3 billion

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

€ million	2019	2018
Passenger Cars[1]		
Gross cash flow	19,566	17,842
Change in working capital	292	−3,277
Cash flows from operating activities	19,858	14,565
Cash flows from investing activities attributable to operating activities	−13,303	−10,567
Net cash flow	6,555	3,997
Commercial Vehicles[1]		
Gross cash flow	2,577	2,015
Change in working capital	−1,440	−1,626
Cash flows from operating activities	1,137	390
Cash flows from investing activities attributable to operating activities	1,186	−777
Net cash flow	2,323	−387
Power Engineering		
Gross cash flow	179	247
Change in working capital	−254	−270
Cash flows from operating activities	−75	−23
Cash flows from investing activities attributable to operating activities	−191	−97
Net cash flow	−266	−120

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

to €8.2 billion. The capex ratio was 5.2 (5.3)%. Capex was invested primarily in our production facilities and in models to be launched in 2019 and 2020, as well as in the ecological focus of our model range, the electrification and digitalization of our products and in our modular toolkits. Additions to capitalized development costs climbed by €0.2 billion to €3.7 billion in the first nine months of 2019. Strategic investments in a number of companies led to a €0.4 billion increase in the “Acquisition and disposal of equity investments” item to €0.6 billion.

Compared with the low prior-year figure, the Automotive Division’s net cash flow improved by €5.1 billion to €8.6 billion.

In the first nine months of 2019, financing activities accounted for total cash outflows of €–7.0 (–2.5) billion. The dividend paid to the shareholders of Volkswagen AG in May 2019 amounted to €2.4 billion, a rise of €0.5 billion compared with the previous year. The “Capital transactions with non-controlling interests” item includes the cash inflow of €1.4 billion resulting from the IPO of TRATON. Financing activities also include the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement with MAN SE and the issuance and redemption of bonds and other financial liabilities. Since January 1, 2019, repayments of the principal portion of the lease liability have also been reported in this item, as required following the application of the new IFRS 16.

As a result of the recognition of lease liabilities as financial liabilities required under IFRS 16, third-party borrowings in the Automotive Division were €5.3 billion higher at the end of September 2019 than at the end of the previous fiscal year. Despite this non-cash effect, the Automotive Division’s net liquidity of €19.8 billion on September 30, 2019 was slightly up on the €19.4 billion recorded at the end of 2018.

Financial position of the Financial Services Division

In the period from January to September 2019, the Financial Services Division generated gross cash flow of €7.6 (7.3) billion. The change in working capital of €–15.7 (–13.2) billion was a result of an increase in funds tied up in working capital, mainly driven by the growth in business volume. Consequently, cash flows from operating activities amounted to €–8.2 (–5.8) billion.

Compared with the prior-year period, investing activities attributable to operating activities decreased by €0.2 billion to €0.2 billion.

The Financial Services Division’s financing activities relate primarily to the issuance and redemption of bonds and other financial liabilities; the total cash inflow was €7.7 (13.8) billion in the period from January to September 2019.

At the end of September 2019, the Financial Services Division’s negative net liquidity, which is common in the industry, stood at €–164.5 billion; the figure on December 31, 2018 was €–154.1 billion.

CONSOLIDATED BALANCE SHEET STRUCTURE

On September 30, 2019 the Volkswagen Group had total assets of €489.7 billion, 6.9% more than at the end of 2018; the rise was mainly attributable to the growth of the Financial Services Division, the application of the new IFRS 16 and exchange rate effects. The Group’s equity amounted to €119.6 billion, a rise of €2.2 billion compared with December, 31, 2018. The equity ratio was 24.4 (25.6)%.

Automotive Division balance sheet structure

At the end of September 2019, the Automotive Division’s intangible assets were almost on a level with the figure at the 2018 balance sheet date. The new IFRS 16 resulted in a marked rise in property, plant and equipment. At the end of the first nine months of 2019, equity-accounted investments were up on the amount recognized at the end of 2018: the business results of the Chinese joint ventures for the period from January to September 2019 were set against the dividend resolved by SAIC VOLKSWAGEN. Noncurrent assets grew by a total of 6.1% compared with the end of 2018.

Current assets rose by 10.5 %; the inventories included in this figure increased by a similar proportion. Current other receivables and financial assets climbed compared to the 2018 year-end figure primarily attributable to higher trade receivables and the remaining portion of the dividend receivable from SAIC VOLKSWAGEN. The Automotive Division reported a €1.9 billion decrease in cash and cash equivalents to €22.3 billion.

At the end of the first three quarters of 2019, the Automotive Division's equity of €89.3 billion exceeded the figure as of December 31, 2018 by €0.4 billion. Healthy earnings growth had a positive effect. As a result of the termination of the control and profit and loss transfer agreement as of January 1, 2019, the amount of €0.7 billion remaining from the put options and compensation rights in MAN SE granted to noncontrolling interest shareholders was reclassified directly to equity; €0.3 billion of this amount led to an increase in noncontrolling interests in equity. The issuance of TRATON SE shares led to a further rise of €1.2 billion. The noncontrolling interests are now primarily held by the noncontrolling interest shareholders of TRATON, Renk and Audi. Higher actuarial losses from the measurement of pension provisions, the dividend paid to the shareholders of Volkswagen AG and negative effects from the measurement of derivatives recognized directly in equity had a decreasing effect on the Automotive Division's equity.

At €95.9 billion, noncurrent liabilities were 23.5 % higher in total than on December 31, 2018. The noncurrent financial liabilities included in this item increased significantly, mainly as a result of the application of the new IFRS 16. The rise in pension provisions was primarily due to the actuarial remeasurement following a change in the discount rate. Driven by effects arising from the measurement of derivatives, noncurrent other liabilities were higher than at the end of 2018.

At the end of the third quarter of 2019, current liabilities were in line with the previous year. As a result of the extraordinary termination of the control and profit and loss transfer agreement with MAN SE, the "put options and compensation rights granted to noncontrolling interest shareholders" account was settled: the tendered MAN shares were acquired, the cash compensation was paid and the remaining amount was reclassified directly to equity. Current financial liabilities amounted to €–5.6 (–1.5) billion. The figures for the Automotive Division also contain the elimination of intragroup transactions between the Automotive and Financial Services divisions. As the current financial liabilities for the primary Automotive Division were lower than the loans granted to the Financial Services Division in both periods, a negative amount was disclosed in each case. Trade payables increased in the reporting period. Current other liabilities were higher than at the end of 2018, primarily due to cyclical effects in the buyback business and a negative impact arising from the measurement of derivatives.

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

€ million	Sept. 30, 2019	Dec. 31, 2018
Passenger Cars[1]		
Noncurrent assets	125,004	116,537
Current assets	83,091	70,408
Total assets	**208,094**	**186,945**
Equity	72,766	72,110
Noncurrent liabilities	83,775	66,406
Current liabilities	51,553	48,429
Commercial Vehicles[1]		
Noncurrent assets	24,349	24,117
Current assets	13,982	17,366
Total assets	**38,331**	**41,483**
Equity	13,676	13,788
Noncurrent liabilities	11,213	10,532
Current liabilities	13,442	17,162
Power Engineering		
Noncurrent assets	2,604	2,499
Current assets	3,892	3,597
Total assets	**6,496**	**6,097**
Equity	2,818	2,953
Noncurrent liabilities	945	754
Current liabilities	2,733	2,391

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

The Automotive Division had total assets of €252.9 billion at the end of September 2019, 7.8% more than at the end of 2018.

Financial Services Division balance sheet structure

At the end of September 2019, the Financial Services Division's total assets stood at €236.8 billion, exceeding the figure as of December 31, 2018 by 5.9%.

In total, noncurrent assets were 7.9 % higher than at the end of 2018. The property, plant and equipment included in this item decreased. Investment property and lease assets increased because of business growth and as a result of the application of the new IFRS 16, while other receivables and financial assets declined by a corresponding amount. Noncurrent financial services receivables rose, driven by higher volumes.

Overall, current assets were 3.0 % higher than at the end of 2018. Current other receivables and financial assets were much lower, while current financial services receivables increased. Cash and cash equivalents in the Financial Services Division amounted to €8.7 billion on the balance sheet date, €3.9 billion higher than at the end of 2018.

On September 30, 2019, the Financial Services Division accounted for around 48.4 (48.8) % of the Volkswagen Group's assets.

At the end of September 2019, the Financial Services Division's equity increased by 6.3% to €30.3 billion due to earnings-related factors. The equity ratio amounted to 12.8 (12.7) %.

Noncurrent liabilities were up 13.8 %, mainly because of a rise in noncurrent financial liabilities to refinance the business volume.

Current liabilities were 1.7 % lower than at the end of 2018, driven mainly by a decline in financial liabilities.

Deposits from the direct banking business totaled €32.8 (29.9) billion, thus exceeding the figure recorded as of December 31, 2018.

REPORT ON EXPECTED DEVELOPMENTS, RISKS AND OPPORTUNITIES

Due to weaker demand for passenger cars worldwide, we have adjusted the expected deliveries to customers.

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. For the Power Engineering Business Area, we anticipate a distinctly higher operating loss due to expenses.

The Outlook for fiscal year 2019 can be found on page 22.

Diesel issue

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

In Australia Volkswagen AG reached agreements in principle in September 2019 that would terminate the litigation with the Australian class action plaintiffs and with the Australian Competition and Consumer Commission (ACCC). The court must still approve both settlements. Depending on the number of claims filed under the class action settlement, Volkswagen AG anticipates payment of an amount of up to AUD 127.1 million plus litigation costs to settle the class action lawsuits.

In a pending class action lawsuit in Brazil involving some 17 thousand vehicles, an appeals court rendered a judgment in May 2019 that only partially upheld the lower court's decision. The judgment initially reduced the damage liability of Volkswagen do Brasil significantly to €35 million plus interest. This amount can increase as a result of the adjudicated inflation rate and the assertion of individual claims alleging declines in the value of affected Amarok vehicles. The judgment remains non-final.

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

In Germany more than 60,000 individual lawsuits of automobile purchasers have been filed against Volkswagen AG or other Group companies, with the plaintiffs suing for damages or rescission of the contract in most cases.

Oral argument before the Braunschweig Higher Regional Court began on September 30, 2019 in the consumer action for model declaratory judgment filed by the Verbraucherzentrale Bundesverband e.V. (German Federation of Consumer Organizations).

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

In April 2019, the Braunschweig Office of the Public Prosecutor issued indictments, including one against a former chairman of the Board of Management of Volkswagen AG, charging, among other things, fraud relating to Type EA 189 engines in connection with the diesel issue.

In September 2019, the Braunschweig Office of the Public Prosecutor furthermore indicted the current and a former chairman of the Board of Management of Volkswagen AG as well as a former member of its Board of Management (currently chairman of the Supervisory Board) on charges of market manipulation in connection with the diesel issue. The Public Prosecutor's Office also requested that the court name Volkswagen AG as a collateral participant in the proceedings.

In July 2019, the Munich II Office of the Public Prosecutor issued indictments, including one against the former chairman of the Board of Management of AUDI AG, charging, among other things, fraud relating to 3.0 TDI engines in connection with the diesel issue.

Based on the information available at the present time, no change in the risk situation of the Volkswagen Group results from these indictments.

The administrative fine order issued on May 7, 2019 by the Stuttgart Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against Dr. Ing. h.c. F. Porsche AG in connection with the diesel issue. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit "Prüffeld Entwicklung Gesamtfahrzeug/Qualität" (Overall Vehicle Development/Quality - Testing Facility). The administrative order imposes a total fine of €535 million, consisting of a penalty payment of €4 million and the forfeiture of economic benefits in the amount of €531 million. After thorough examination, Dr. Ing. h.c. F. Porsche AG has accepted the fine and paid it in full, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG. Further sanctions against or forfeitures by Dr. Ing. h.c. F. Porsche AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

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

Holding that the factual situation at issue is by and large already covered by the model case proceedings being heard by the Braunschweig Higher Regional Court and that these proceedings, being paramount in this regard, preclude further such actions, the Stuttgart Higher Regional Court in March 2019 refused to proceed with the capital investor model cases that had been referred to it by the Stuttgart Regional Court. The plaintiff side has appealed one of these decisions to the Federal Court of Justice.

4. Proceedings in the USA/Canada
Volkswagen AG and certain affiliates have reached a settlement in principle of the consumer protection claims asserted by the Attorney General of the US state of New Mexico. New Mexico was the last remaining state asserting consumer protection claims.

Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliated companies continue to litigate claims asserted by the attorneys general of certain US states and municipalities based on alleged violations of local environmental laws. In March 2019, the Tennessee Court of Appeals dismissed the claims of the Attorney General of the State of Tennessee as preempted by federal law. The Tennessee Attorney General declined to pursue further appeal so the decision of the Tennessee Court of Appeals is final. Also in March 2019, the New Mexico Attorney General voluntarily dismissed its environmental claims, and the Alabama Attorney General declined to appeal the dismissal of its claims against Volkswagen AG by the Alabama Supreme Court.

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

5. Additional proceedings
In June 2019, the Hanover Regional Court rejected the motion by three US funds to replace the special auditor; the opposing side has appealed this ruling.

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

In the proceedings against a number of captive automobile finance companies regarding potential competition law infringements, Volkswagen AG and Volkswagen Bank GmbH filed an appeal in March 2019 against the administrative fine order issued by the Italian Competition Authority. In the same context, an antitrust class action lawsuit has furthermore been filed by customers in Italy against Volkswagen Bank GmbH, among others.

In June 2019, the US District Court for the Northern District of California dismissed two putative class action complaints brought by purchasers of German luxury vehicles alleging that, since the 1990s, several automobile manufacturers, including Volkswagen AG and other Group companies conspired to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support the alleged anticompetitive agreements. Plaintiffs filed amended complaints which Volkswagen moved to dismiss.

Volkswagen has been responding to information requests from the US Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) related to automatic transmissions in certain vehicles with gasoline engines. In August 2019, Volkswagen agreed with the EPA to forfeit approximately 220,000 Greenhouse Gas Emission Credits in response to the EPA's inquiry. Also in August 2019, Volkswagen and the Plaintiffs' Steering Committee announced the settlement of civil claims relating to approximately 98,000 Volkswagen, Audi, Porsche and Bentley vehicles. Volkswagen's testing of these vehicles in connection with the information requests resulted in a 1 mile per gallon change, when rounded according to EPA rules, in the fuel economy disclosed on the "Monroney label" required by US regulations. In October 2019, the Court granted preliminary approval of the settlement.

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

Outlook

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

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

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

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group, new registrations in 2019 will slightly exceed the prior-year level whereas they will be moderately higher in the relevant markets for buses.

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

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

We expect that deliveries to customers of the Volkswagen Group in 2019 will be in line with the previous year amid continued challenging market conditions.

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

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

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

Brands and Business Fields

SALES REVENUE AND OPERATING PROFIT BY BRAND AND BUSINESS FIELD

In the period from January to September 2019, the Volkswagen Group's sales revenue rose to €186.6 (174.6) billion. Operating profit before special items increased to €14.8 (13.3) billion. The diesel issue gave rise to special items of €–1.3 (–2.4) billion in the first three quarters of 2019.

The Volkswagen Passenger Cars brand's unit sales amounted to 2.8 (2.8) million vehicles in the first nine months of this year. Higher demand was recorded in particular for the T-Roc, Tiguan, Touareg and Atlas models. The new T-Cross was well received by the market. Sales revenue increased by 4.7% year-on-year to €65.4 billion. Operating profit before special items rose to €3.2 (2.3) billion. Improvements particularly in the mix and price positioning compensated for lower sales of the models from Volkswagen Passenger Cars and negative exchange rate effects. The diesel issue gave rise to special items of €–0.7 billion in the reporting period.

As of 2019, the multibrand sales companies are separated from the Audi brand and reported in the Others category to increase overall transparency and comparability. The Audi brand sold 900 (1,107) thousand vehicles worldwide between January and September 2019. The Chinese joint venture FAW-Volkswagen sold a further 430 (455) thousand Audi vehicles. Demand was particularly strong for the Q2 and Q3 models, and the new Q8 was also popular. The Audi e-tron, the all-electric, mass-produced SUV, will be gradually introduced in the market. Sales revenue decreased to €41.3 (44.3) billion, due to the reallocation of the companies. Negative effects resulting from WLTP-related lower volume, model launches and phase-outs, higher upfront expenditure for new products and technologies as well as personnel cost increases reduced operating profit to €3.2 (3.7) billion. Improvements in the mix and product costs had a positive impact. The financial key performance indicators for the Audi brand include the Lamborghini and Ducati brands. Ducati sold 42,506 (43,435) motorcycles in the first three quarters of 2019.

The ŠKODA brand lifted its unit sales to 805 thousand vehicles in the reporting period, 15.3% more than a year before. Demand was particularly strong for the Karoq and Kodiaq models. At €14.8 billion, sales revenue was up 17.6% on the prior-year period. The gain in unit sales and sales revenue was due particularly to the initial consolidation following the assumption of regional responsibility for India. At €1.2 billion, operating profit was €92 million higher than in the previous year. Volume increases, mix optimizations and pricing measures more than compensated for negative effects resulting from cost increases, exchange rates and higher upfront expenditure for new products.

The SEAT brand sold 517 thousand vehicles in the first nine months of 2019, an increase of 11.8% on the previous year. This figure includes the A1 manufactured for Audi. Demand for the A-SUV models Arona and Ateca grew considerably. At €8.8 billion, sales revenue exceeded the good prior-year period's figure by 14.0%. Operating profit increased by 4.2% to €248 million due to volume and mix effects. Meanwhile, cost increases had a negative impact.

The Bentley brand lifted its unit sales in the reporting period to 7,224 (6,654) vehicles, mainly as the result of the availability of the new Continental GT and GTC models. Sales revenue climbed to €1.3 (1.1) billion. Operating profit increased to €65 (–137) million driven by volumes, as well as by cost savings in connection with the ongoing efficiency program together with mix effects and exchange rate trends.

VOLKSWAGEN GROUP REPORTING STRUCTURE

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

Porsche Automotive sold 205 thousand vehicles worldwide in the period from January to September 2019, 7.7% more than a year before. Sales revenue amounted to €18.7 (17.5) billion. At €3.2 (3.2) billion, operating profit before special items was in line with the previous year. Mix and volume improvements compensated for negative exchange rate effects and cost increases. The diesel issue gave rise to special items of €–0.5 billion in the reporting period.

Global sales at Volkswagen Commercial Vehicles amounted to 344 (337) thousand vehicles in the first nine months of 2019. Increases were recorded particularly for the Crafter. At €8.8 billion, sales revenue was 2.1% higher than in the prior-year period. Increased fixed and development costs for new products reduced operating profit by 20.9% to €497 million. Higher volumes and lower product costs had a positive effect.

As of January 1, 2019, Scania's financial services business is reported in the Other category. Scania Vehicles and Services increased its unit sales during the reporting period to 76 (69) thousand vehicles. Sales revenue rose to €10.4 (9.3) billion. The operating profit of Scania Vehicles and Services improved to €1.2 (0.9) billion. In addition to higher vehicles sales and a stronger genuine parts and service business, improvements in the mix as well as exchange rate effects had a positive impact on profit. With the successful launch of Scania's new generation of trucks in Latin America and Asia, parallel production of the old and new series was brought to an end.

MAN Commercial Vehicles sold 104 thousand units in the first three quarters of this year, exceeding the prior-year figure by 6.8%. Sales revenue amounted to €9.2 (8.6) billion. Operating profit was up on the prior-year period at €297 (222) million, which was negatively impacted by expenses incurred in connection with the restructuring of activities in India. A difficult market environment for used vehicles as well as higher product and fixed costs were offset by positive volume effects from the vehicle and parts business as well as improved margins.

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

	VEHICLE SALES		SALES REVENUE		OPERATING RESULT	
Thousand vehicles/€ million	2019	2018	2019	2018	2019	2018
Volkswagen Passenger Cars	2,754	2,753	65,447	62,508	3,152	2,330
Audi[1]	900	1,107	41,332	44,257	3,239	3,671
ŠKODA[1]	805	698	14,811	12,598	1,175	1,083
SEAT	517	462	8,828	7,744	248	237
Bentley	7	7	1,306	1,092	65	−137
Porsche Automotive[2]	205	190	18,666	17,507	3,200	3,197
Volkswagen Commercial Vehicles	344	337	8,756	8,572	497	628
Scania Vehicles and Services[3]	76	69	10,427	9,337	1,209	888
MAN Commercial Vehicles	104	98	9,175	8,599	297	222
Power Engineering	–	–	2,873	2,489	91	142
VW China[4]	2,815	3,021	–	–	–	–
Other[5]	−543	−619	−22,949	−24,762	−411	−872
Volkswagen Financial Services	–	–	27,946	24,635	2,035	1,915
Volkswagen Group before special items	**–**	**–**	**–**	**–**	**14,795**	**13,306**
Special items	–	–	–	–	−1,257	−2,435
Volkswagen Group	**7,983**	**8,123**	**186,617**	**174,577**	**13,539**	**10,871**
Automotive Division[6]	7,983	8,123	157,031	148,424	11,313	8,832
of which: Passenger Cars Business Area[7]	7,803	7,956	134,666	128,218	10,103	8,021
Commercial Vehicles Business Area[7]	180	167	19,491	17,717	1,307	857
Power Engineering Business Area	–	–	2,873	2,489	−98	−46
Financial Services Division	–	–	29,587	26,153	2,226	2,039

1 2019 in line with the reallocation of companies; the prior-year figures have not been adjusted.
2 Porsche (including Financial Services): sales revenue €20,490 (19,117) million, operating profit before special items €3,346 (3,329) million.
3 Scania (including Financial Services): sales revenue €10,762 (9,634) million, operating profit €1,314 (991) million.
4 The sales revenues 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 €3,187 (3,330) million.
5 In operating profit, mainly intragroup items recognized in profit or loss, in particular from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocation, as well as companies not allocated to the brands.
6 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
7 The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

Power Engineering generated sales revenue of €2.9 (2.5) billion in the reporting period. At €91 (142) million, the operating result declined due to expenses and mix effects.

As of January 1, 2019, the figures for Volkswagen Financial Services also include contracts concluded by the international joint ventures. The prior-year figures have been adjusted accordingly. In the first three quarters of 2019, 6.3 (6.1) million new financing, leasing, service and insurance contracts were signed. The penetration rate, expressed as the ratio of leased or financed vehicles to relevant Group delivery volumes, amounted to 34.5 (34.2)%, whereby the credit eligibility criteria were unchanged. The total number of contracts amounted to 21.2 million at the end of the reporting period, 4.6% more than at the end of 2018. The number of contracts in the customer financing/leasing area rose by 3.7% to 11.1 million, while it increased to 10.1 (9.6) million in the service/insurance area. At the end of the reporting period, Volkswagen Bank managed around 1.5 (1.5) million deposit accounts. The operating profit improved by 6.2% to €2.0 billion in the first nine months of 2019, driven by growth in business and exchange rate effects.

UNIT SALES AND SALES REVENUE BY MARKET

The Volkswagen Group sold 3.6 million vehicles in the Europe/Other markets region between January and September of this year, an increase of 1.6% compared with the prior-year period. Sales revenue increased to €113.9 (106.7) billion due to volume and mix effects.

At 737 thousand vehicles, the Volkswagen Group's unit sales in the North American markets were up by 7.4% in the reporting period. Sales revenue rose by 20.0% to €32.9 billion, primarily due to the increase in volumes as well as positive exchange rate effects.

In South America, we sold 445 (445) thousand vehicles in the first three quarters of this year. Despite unfavorable exchange rate trends, sales revenue improved to €8.4 (7.8) billion due to mix effects.

In the Asia-Pacific region, sales by the Volkswagen Group – including the Chinese joint ventures – fell to a total of 3.2 (3.4) million vehicles in the period from January to September 2019. At €31.3 (31.4) billion, sales revenue was nearly at the prior-year level thanks to the improved mix and positive exchange rate effects. This figure does not include the sales revenue of our Chinese joint ventures, as these are accounted for using the equity method.

In the first nine months of 2019, hedging transactions relating to sales revenue in foreign currency increased the Volkswagen Group's sales revenue by €0.1 (1.4) billion.

KEY FIGURES BY MARKET FROM JANUARY 1 TO SEPTEMBER 30

	VEHICLE SALES		SALES REVENUE	
Thousand vehicles/€ million	2019	2018	2019	2018
Europe/Other markets	3,630	3,572	113,926	106,689
North America	737	686	32,878	27,394
South America	445	445	8,433	7,769
Asia-Pacific[1]	3,171	3,420	31,310	31,370
Hedges on sales revenue	–	–	71	1,354
Volkswagen Group[1]	**7,983**	**8,123**	**186,617**	**174,577**

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

Interim Consolidated Financial Statements (Condensed)

Income Statement for the Period January 1 to September 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Sales revenue	**186,617**	**174,577**	**157,031**	**148,424**	**29,587**	**26,153**
Cost of sales	−150,237	−139,533	−125,981	−118,293	−24,255	−21,240
Gross result	**36,381**	**35,043**	**31,050**	**30,131**	**5,331**	**4,912**
Distribution expenses	−15,093	−15,068	−13,924	−14,005	−1,169	−1,063
Administrative expenses	−6,836	−6,234	−5,469	−4,827	−1,367	−1,407
Other operating income/expense	−913	−2,871	−343	−2,468	−570	−403
Operating result	**13,539**	**10,871**	**11,313**	**8,832**	**2,226**	**2,039**
Share of the result of equity-accounted investments	2,595	2,448	2,543	2,393	52	55
Interest result and other financial result	−1,497	−800	−1,478	−799	−18	−1
Financial result	**1,099**	**1,647**	**1,065**	**1,594**	**34**	**54**
Earnings before tax	**14,637**	**12,518**	**12,378**	**10,426**	**2,259**	**2,092**
Income tax expense	−3,484	−3,142	−2,954	−2,442	−530	−700
Earnings after tax	**11,154**	**9,376**	**9,424**	**7,984**	**1,730**	**1,392**
of which attributable to						
Noncontrolling interests	85	10	33	−33	52	43
Volkswagen AG hybrid capital investors	404	248	404	248	–	–
Volkswagen AG shareholders	10,664	9,118	8,986	7,769	1,678	1,350
Basic earnings per ordinary share (€)[2]	**21.25**	**18.17**				
Diluted earnings per ordinary share (€)[2]	**21.25**	**18.17**				
Basic earnings per preferred share (€)[2]	**21.31**	**18.23**				
Diluted earnings per preferred share (€)[2]	**21.31**	**18.23**				

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

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

€ million	2019	2018
Earnings after tax	**11,154**	**9,376**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	−9,798	−270
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	2,890	77
Pension plan remeasurements recognized in other comprehensive income, net of tax	−6,908	−193
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	−22	31
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	14	3
Items that will not be reclassified to profit or loss	**−6,915**	**−159**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	421	−796
Transferred to profit or loss	–	1
Exchange differences on translating foreign operations, before tax	421	−796
Deferred taxes relating to exchange differences on translating foreign operations	11	6
Exchange differences on translating foreign operations, net of tax	432	−789
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	−1,592	−363
Transferred to profit or loss (OCI I)	−664	−1,491
Cash flow hedges (OCI I), before tax	−2,256	−1,854
Deferred taxes relating to cash flow hedges (OCI I)	651	524
Cash flow hedges (OCI I), net of tax	−1,605	−1,331
Fair value changes recognized in other comprehensive income (OCI II)	−1,183	−939
Transferred to profit or loss (OCI II)	759	225
Cash flow hedges (OCI II), before tax	−424	−714
Deferred taxes relating to cash flow hedges (OCI II)	126	212
Cash flow hedges (OCI II), net of tax	−298	−502
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	69	−18
Transferred to profit or loss	0	1
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	69	−17
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	−21	5
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	48	−12
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	111	25
Items that may be reclassified to profit or loss	**−1,312**	**−2,609**
Other comprehensive income, before tax	−11,883	−3,592
Deferred taxes relating to other comprehensive income	3,656	824
Other comprehensive income, net of tax	**−8,227**	**−2,768**
Total comprehensive income	**2,927**	**6,608**
of which attributable to		
Noncontrolling interests	62	10
Volkswagen AG hybrid capital investors	404	248
Volkswagen AG shareholders	2,460	6,350

Income Statement for the Period July 1 to September 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Sales revenue	**61,420**	**55,200**	**50,905**	**46,709**	**10,515**	**8,491**
Cost of sales	−49,782	−44,984	−41,098	−38,111	−8,685	−6,873
Gross result	**11,638**	**10,215**	**9,807**	**8,598**	**1,830**	**1,617**
Distribution expenses	−5,096	−4,824	−4,701	−4,458	−395	−366
Administrative expenses	−2,313	−2,008	−1,870	−1,577	−443	−431
Other operating income/expense	313	−673	489	−597	−176	−76
Operating result	**4,541**	**2,711**	**3,724**	**1,966**	**817**	**745**
Share of the result of equity-accounted investments	996	767	974	752	23	16
Interest result and other financial result	−458	67	−418	69	−40	−1
Financial result	**539**	**835**	**556**	**820**	**−17**	**14**
Earnings before tax	**5,080**	**3,546**	**4,280**	**2,787**	**800**	**759**
Income tax expense	−1,094	−782	−960	−597	−134	−185
Earnings after tax	**3,986**	**2,764**	**3,320**	**2,190**	**666**	**574**
of which attributable to						
Noncontrolling interests	61	5	40	−5	21	11
Volkswagen AG hybrid capital investors	136	91	136	91	–	–
Volkswagen AG shareholders	3,789	2,667	3,144	2,103	645	563
Basic earnings per ordinary share (€)[2]	**7.56**	**5.32**				
Diluted earnings per ordinary share (€)[2]	**7.56**	**5.32**				
Basic earnings per preferred share (€)[2]	**7.56**	**5.32**				
Diluted earnings per preferred share (€)[2]	**7.56**	**5.32**				

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

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

€ million	2019	2018
Earnings after tax	**3,986**	**2,764**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	−3,304	−111
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	977	31
Pension plan remeasurements recognized in other comprehensive income, net of tax	−2,327	−80
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	−38	−1
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	−4	3
Items that will not be reclassified to profit or loss	**−2,370**	**−78**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	314	−302
Transferred to profit or loss	–	1
Exchange differences on translating foreign operations, before tax	314	−301
Deferred taxes relating to exchange differences on translating foreign operations	−1	1
Exchange differences on translating foreign operations, net of tax	313	−300
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	−1,335	281
Transferred to profit or loss (OCI I)	−144	−459
Cash flow hedges (OCI I), before tax	−1,479	−179
Deferred taxes relating to cash flow hedges (OCI I)	421	51
Cash flow hedges (OCI I), net of tax	−1,059	−127
Fair value changes recognized in other comprehensive income (OCI II)	−293	−358
Transferred to profit or loss (OCI II)	263	110
Cash flow hedges (OCI II), before tax	−31	−248
Deferred taxes relating to cash flow hedges (OCI II)	10	74
Cash flow hedges (OCI II), net of tax	−21	−174
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	17	−16
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	17	−16
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	−11
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	53	−69
Items that may be reclassified to profit or loss	**−701**	**−682**
Other comprehensive income, before tax	−4,473	−922
Deferred taxes relating to other comprehensive income	1,402	162
Other comprehensive income, net of tax	**−3,071**	**−760**
Total comprehensive income	**915**	**2,003**
of which attributable to		
Noncontrolling interests	43	6
Volkswagen AG hybrid capital investors	136	91
Volkswagen AG shareholders	736	1,906

Balance Sheet as of September 30, 2019 and December 31, 2018

€ million	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
	2019	2018	2019	2018	2019	2018
Assets						
Noncurrent assets	**293,833**	**274,620**	**151,956**	**143,153**	**141,877**	**131,467**
Intangible assets	65,138	64,613	64,941	64,404	197	209
Property, plant and equipment	63,250	57,630	62,108	54,619	1,141	3,010
Lease assets	47,800	43,545	1,959	5,297	45,841	38,249
Financial services receivables	83,948	78,692	−216	9	84,163	78,684
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	33,697	30,140	23,163	18,824	10,534	11,315
Current assets	**195,882**	**183,536**	**100,965**	**91,371**	**94,917**	**92,165**
Inventories	49,851	45,745	45,311	41,302	4,540	4,443
Financial services receivables	57,386	54,216	−523	−510	57,909	54,726
Other receivables and financial assets	40,561	37,557	20,428	13,033	20,133	24,524
Marketable securities	17,123	17,080	13,475	13,376	3,648	3,703
Cash, cash equivalents and time deposits	30,960	28,938	22,274	24,169	8,686	4,769
Total assets	**489,715**	**458,156**	**252,922**	**234,524**	**236,793**	**223,632**
Equity and Liabilities						
Equity	**119,554**	**117,342**	**89,260**	**88,850**	**30,295**	**28,492**
Equity attributable to Volkswagen AG shareholders	105,186	104,522	75,550	76,624	29,636	27,898
Equity attributable to Volkswagen AG hybrid capital investors	12,568	12,596	12,568	12,596	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	117,754	117,117	88,118	89,219	29,636	27,898
Noncontrolling interests	1,801	225	1,142	−369	659	594
Noncurrent liabilities	**204,184**	**172,846**	**95,933**	**77,692**	**108,251**	**95,154**
Financial liabilities	119,107	101,126	19,847	14,187	99,260	86,939
Provisions for pensions	43,151	33,097	42,374	32,535	777	563
Other liabilities	41,926	38,623	33,712	30,970	8,214	7,652
Current liabilities	**165,976**	**167,968**	**67,729**	**67,982**	**98,247**	**99,986**
Put options and compensation rights granted to noncontrolling interest shareholders	–	1,853	–	1,853	–	–
Financial liabilities	83,408	89,757	−5,600	−1,504	89,008	91,261
Trade payables	24,892	23,607	21,607	20,962	3,285	2,645
Other liabilities	57,676	52,750	51,722	46,671	5,955	6,079
Total equity and liabilities	**489,715**	**458,156**	**252,922**	**234,524**	**236,793**	**223,632**

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

Statement of Changes in Equity

€ million	Subscribed capital	Capital reserve	Retained earnings	OTHER RESERVES Currency translation reserve
Unadjusted balance at Jan. 1, 2018	**1,283**	**14,551**	**81,367**	**−3,223**
Changes in accounting policy to reflect IFRS 9 and 15	–	–	−282	–
Balance at Jan. 1, 2018	**1,283**	**14,551**	**81,085**	**−3,223**
Earnings after tax	–	–	9,118	–
Other comprehensive income, net of tax	–	–	−193	−790
Total comprehensive income	**–**	**–**	**8,925**	**−790**
Disposal of equity instruments	–	–	–	–
Capital increases/Capital decreases[1]	–	–	–	–
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**
Balance at Jan. 1, 2019	**1,283**	**14,551**	**91,105**	**−3,576**
Earnings after tax	–	–	10,664	–
Other comprehensive income, net of tax	–	–	−6,892	441
Total comprehensive income	**–**	**–**	**3,772**	**441**
Disposal of equity instruments	–	–	−4	–
Capital increases/Capital decreases	–	–	–	–
Dividends payment	–	–	−2,419	–
Capital transactions involving a change in ownership interest[2]	–	–	390	173
Other changes	–	–	68	–
Balance at Sept. 30, 2019	**1,283**	**14,551**	**92,911**	**−2,962**

1 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.

2 For the change in capital transactions involving a change in ownership interest see the section entitled "Key events".

HEDGING							
Cash flow hedges (OCI I)	Deferred costs of hedging (OCI II)	Equity and debt instruments	Equity-accounted investments	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to Volkswagen AG shareholders and hybrid capital investors	Noncontrolling interests	Total equity
3,525	**–**	**91**	**166**	**11,088**	**108,849**	**229**	**109,077**
56	63	−225	–	–	−388	1	−387
3,581	**63**	**−133**	**166**	**11,088**	**108,461**	**229**	**108,690**
–	–	–	–	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**
1,790	**−629**	**−230**	**228**	**12,596**	**117,117**	**225**	**117,342**
–	–	–	–	404	11,068	85	11,154
−1,604	−299	27	123	–	−8,204	−23	−8,227
−1,604	**−299**	**27**	**123**	**404**	**2,864**	**62**	**2,927**
–	–	4	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	−432	−2,850	−8	−2,858
1	0	−1	−10	–	553	1,519	2,071
–	–	–	2	–	70	3	72
187	**−928**	**−199**	**343**	**12,568**	**117,754**	**1,801**	**119,554**

Cash flow statement for the Period January 1 to September 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Cash and cash equivalents at beginning of period	**28,113**	**18,038**	**23,354**	**13,428**	**4,759**	**4,609**
Earnings before tax	14,637	12,518	12,378	10,426	2,259	2,092
Income taxes paid	−2,112	−2,905	−1,561	−3,028	−551	124
Depreciation and amortization expense[2]	18,297	16,359	12,016	11,231	6,281	5,128
Change in pension provisions	280	287	265	277	15	10
Share of the result of equity-accounted investments	−249	920	−197	974	−52	−55
Other noncash income/expense and reclassifications[3]	−955	260	−577	224	−377	36
Gross cash flow	**29,898**	**27,439**	**22,323**	**20,104**	**7,575**	**7,335**
Change in working capital	**−17,139**	**−18,329**	**−1,402**	**−5,173**	**−15,737**	**−13,156**
Change in inventories	−3,725	−5,387	−3,699	−5,539	−27	152
Change in receivables	−2,495	−5,219	−2,602	−1,806	108	−3,413
Change in liabilities	5,729	5,145	4,925	4,410	805	735
Change in other provisions	−11	−1,089	51	−1,185	−62	96
Change in lease assets (excluding depreciation)	−9,552	−8,802	−80	−834	−9,472	−7,968
Change in financial services receivables	−7,086	−2,977	4	−218	−7,089	−2,759
Cash flows from operating activities	**12,759**	**9,110**	**20,921**	**14,931**	**−8,162**	**−5,821**
Cash flows from investing activities attributable to operating activities	**−12,532**	**−11,839**	**−12,309**	**−11,441**	**−223**	**−398**
of which: Investments in intangible assets (excluding capitalized development costs), property, plant and equipment, and investment property	−8,344	−8,151	−8,186	−7,853	−158	−298
capitalized development costs	−3,667	−3,505	−3,667	−3,505	–	–
acquisition and disposal of equity investments	−677	−377	−595	−211	−82	−166
Net cash flow[4]	***227***	***−2,728***	***8,612***	***3,490***	***−8,385***	***−6,218***
Change in investments in securities, loans and time deposits	1,007	−1,534	−3,510	1,926	4,516	−3,460
Cash flows from investing activities	**−11,525**	**−13,373**	**−15,818**	**−9,515**	**4,293**	**−3,858**
Cash flows from financing activities	**748**	**11,316**	**−6,985**	**−2,530**	**7,733**	**13,845**
of which: capital transactions with noncontrolling interests	1,368	−28	1,368	−28	–	–
capital contributions/capital redemptions	–	1,491	−981	1,467	981	24
MAN noncontrolling interest shareholders: compensation payments and acquisition of shares tendered	−1,109	−34	−1,109	−34	–	–
Effect of exchange rate changes on cash and cash equivalents	302	−260	244	−265	59	4
Change of loss allowance within cash and cash equivalents	0	0	0	0	0	0
Net change in cash and cash equivalents	**2,284**	**6,792**	**−1,638**	**2,621**	**3,923**	**4,172**
Cash and cash equivalents at Sept. 30[5]	**30,397**	**24,830**	**21,715**	**16,049**	**8,682**	**8,781**
Securities, loans and time deposits	27,375	27,284	12,319	12,934	15,056	14,350
Gross liquidity	**57,772**	**52,114**	**34,034**	**28,983**	**23,738**	**23,131**
Total third-party borrowings	−202,515	−175,569	−14,247	−4,189	−188,268	−171,380
Net liquidity at Sept. 30[6]	**−144,743**	**−123,455**	**19,787**	**24,794**	**−164,530**	**−148,249**
For information purposes: at Jan. 1	−134,735	−119,143	19,368	22,378	−154,103	−141,522

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

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

Notes to the Consolidated Financial Statements

Accounting in accordance with International Financial Reporting Standards (IFRSs)

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2018 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. These interim consolidated financial statements for the period ended September 30, 2019 were therefore also prepared in accordance with IAS 34 (Interim Financial Reporting) and are condensed in scope compared with the consolidated financial statements.

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

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

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

Accounting policies

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

IFRS 16 – LEASES

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

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

Lessor accounting essentially follows the previous guidance of IAS 17. Lessors will be required to continue to classify their leases as finance leases or operating leases on the basis of the risks and rewards incidental to ownership of the leased asset.

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

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

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

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

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

Unlike the previous procedure, under which all operating lease expenses were reported under operating profit, the only items allocated to operating profit in the Automotive Division under IFRS 16 are depreciation charges on right-of-use assets. Interest expense from adding interest on lease liabilities in the Automotive Division is reported in the financial result. This had a positive impact of €0.2 billion on the operating result in the first nine months of fiscal year 2019.

The change in the way expenses from operating leases are presented in the statement of cash flows resulted in an improvement of €0.6 billion in cash flows from operating activities and net cash flow in the first nine months of fiscal year 2019, nearly all of which is attributable to the Automotive Division. Cash flows from financing activities declined accordingly. The increase in financial liabilities attributable to the change in accounting rules had a negative impact of €5.7 billion on the Volkswagen Group's net liquidity as of September 30, 2019, of which €5.3 billion is attributable to the Automotive Division.

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

OTHER ACCOUNTING POLICIES

A discount rate of 0.8% (December 31, 2018: 2.0%) was applied to German pension provisions in the accompanying interim consolidated financial statements.

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

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

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

Key events

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_X) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. This was followed by further reports on the scope of the diesel issue. Detailed information can be found in the "Key events" section of the 2018 consolidated financial statements.

In the first nine months of fiscal year 2019, additional expenses of €1.3 billion had to be recognized for legal risks in this connection. In particular, these resulted from the administrative fine order of €0.5 billion issued in May 2019 by the Stuttgart Office of the Public Prosecutor, which ended the ongoing misdemeanor proceedings against Dr. Ing. h.c. F. Porsche AG, and from higher legal defense costs.

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

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

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

Since June 28, 2019, 51 million shares of TRATON SE have been traded on the regulated markets of the Frankfurt Stock Exchange and of the Nasdaq Stockholm. The offer price was set at €27.00 per share. This led to an increase of €1.4 billion in the Volkswagen Group's equity, of which €1.2 billion is reported as noncontrolling interests.

Basis of consolidation

In addition to Volkswagen AG, which is domiciled in Wolfsburg and entered in the commercial register at the Braunschweig Local Court under No. HRB 100484, the consolidated financial statements comprise all significant German and non-German subsidiaries, including structured entities, that are controlled directly or indirectly by Volkswagen AG. This is the case if Volkswagen AG obtains power over the potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed or has rights to, positive or negative variable returns from its involvement with the subsidiaries, and is able to influence those returns.

Disclosures on the interim consolidated financial statements

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE: Q1 – Q3 2018[1]

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	105,332	11,277	–	–	116,609	−8,671	107,938
Genuine parts	9,513	2,474	–	–	11,987	−73	11,914
Used vehicles and third-party products	8,694	1,023	–	–	9,718	−439	9,279
Engines, powertrains and parts deliveries	8,876	462	–	–	9,338	−9	9,329
Power Engineering	–	–	2,489	–	2,489	−1	2,487
Motorcycles	483	–	–	–	483	–	483
Leasing business	680	1,214	–	20,152	22,046	−3,139	18,907
Interest and similar income	176	4	–	5,382	5,563	−130	5,433
Hedges sales revenue	1,275	10	0	–	1,285	69	1,354
Other sales revenue	6,413	1,253	–	619	8,285	−834	7,452
	141,443	**17,717**	**2,489**	**26,153**	**187,802**	**−13,225**	**174,577**

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

STRUCTURE OF GROUP SALES REVENUE: Q1 – Q3 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	114,380	12,786	–	–	127,167	−10,532	116,634
Genuine parts	9,930	2,586	–	–	12,516	−88	12,428
Used vehicles and third-party products	9,511	1,043	–	–	10,554	−394	10,160
Engines, powertrains and parts deliveries	8,261	465	–	–	8,727	−15	8,712
Power Engineering	–	–	2,873	–	2,873	−2	2,871
Motorcycles	482	–	–	–	482	0	482
Leasing business	756	1,285	0	22,703	24,745	−3,202	21,543
Interest and similar income	170	4	–	5,980	6,154	−150	6,004
Hedges sales revenue	−4	−13	–	–	−16	87	71
Other sales revenue	5,659	1,333	–	904	7,896	−184	7,712
	149,146	**19,491**	**2,873**	**29,587**	**201,098**	**−14,480**	**186,617**

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 €2,032 million (previous year: €1,643 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 €858 million (previous year: €566 million). The value in use is used as the basis for calculating impairment losses.

3. Research and development costs

€ million	Q1– 3 2019	Q1– 3 2018	%
Total research and development costs	10,697	9,850	8.6
of which: capitalized development costs	3,667	3,505	4.6
Capitalization ratio in %	34.3	35.6	
Amortization of capitalized development costs	2,807	2,812	–0.2
Research and development costs recognized in profit or loss	**9,837**	**9,157**	**7.4**

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 are 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 2019	Q3 2018	Q1– 3 2019	Q1– 3 2018
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	3,986	2,764	11,154	9,376
Noncontrolling interests	€ million	61	5	85	10
Earnings attributable to Volkswagen AG hybrid capital investors	€ million	136	91	404	248
Earnings attributable to Volkswagen AG shareholders	€ million	3,789	2,667	10,664	9,118
Earnings per share					
Ordinary shares: basic	€	7.56	5.32	21.25	18.17
diluted	€	7.56	5.32	21.25	18.17
Preferred shares: basic	€	7.56	5.32	21.31	18.23
diluted	€	7.56	5.32	21.31	18.23

5. Noncurrent assets

CHANGES IN SELECTED NONCURRENT ASSETS BETWEEN JANUARY 1 AND SEPTEMBER 30, 2019

€ million	Carrying amount at Jan. 1, 2019[1]	Additions/ Changes in consolidated Group	Disposals/ Other changes	Depreciation and amortization	Carrying amount at Sept. 30, 2019
Intangible assets	64,613	4,015	146	3,343	65,138
Property, plant and equipment	62,345	9,211	−325	8,632	63,250
Lease assets	43,922	17,964	7,742	6,344	47,800

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

6. Inventories

€ million	Sept. 30, 2019	Dec. 31, 2018
Raw materials, consumables and supplies	6,469	5,543
Work in progress	5,455	4,382
Finished goods and purchased merchandise	31,542	30,553
Current lease assets	6,199	5,107
Prepayments	198	168
Hedges on inventories	−13	−8
	49,851	**45,745**

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

7. Current other receivables and financial assets

€ million	Sept. 30, 2019	Dec. 31, 2018
Trade receivables	18,352	17,888
Miscellaneous other receivables and financial assets	22,209	19,669
	40,561	**37,557**

In the period January 1 to September 30, 2019, impairment losses and reversals of impairment losses on noncurrent and current financial assets reduced operating profit by €592 million (previous year: €456 million).

8. Equity

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

Volkswagen AG distributed a dividend of €2,419 million in the reporting period (previous year: €1,967 million). €1,416 million (previous year: €1,151 million) of this amount was attributable to ordinary shares and €1,002 million (previous year: €817 million) to preferred shares.

The noncontrolling interests in equity are attributable primarily to the subgroups of TRATON SE, MAN SE, SCANIA AB, RENK AG and AUDI AG.

9. Noncurrent financial liabilities

€ million	Sept. 30, 2019	Dec. 31, 2018
Bonds, commercial paper and notes	94,571	81,391
Liabilities to banks	15,421	15,447
Deposit business	2,400	1,455
Lease liabilities	5,084	399
Other financial liabilities	1,630	2,433
	119,107	**101,126**

10. Current financial liabilities

€ million	Sept. 30, 2019	Dec. 31, 2018
Bonds, commercial paper and notes	33,480	41,513
Liabilities to banks	16,886	18,455
Deposit business	30,502	28,555
Lease liabilities	966	51
Other financial liabilities	1,573	1,183
	83,408	**89,757**

11. Fair value disclosures

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

Fair value generally corresponds to the market or quoted market price. If no active market exists, fair value is determined using valuation techniques, such as by discounting the future cash flows at the market interest rate, or by using recognized option pricing models.

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

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

Uniform valuation techniques and inputs are used to measure fair value. The fair value of Level 2 and 3 financial instruments is measured in the individual divisions on the basis of Group-wide specifications.

Reconciliation of balance sheet items to classes of financial instruments

The following table shows the reconciliation of the balance sheet items to the relevant classes of financial instruments, broken down by the carrying amount and fair value of the financial instruments.

The fair value of financial instruments measured at amortized cost, such as receivables and liabilities, is calculated by discounting the carrying amount using a market rate of interest for a similar risk and matching maturity. For reasons of materiality, the fair value of current balance sheet items is generally deemed to be their carrying amount.

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

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

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

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF SEPTEMBER 30, 2019

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT ALLOCATED TO A MEASUREMENT CATEGORY	BALANCE SHEET ITEM AT SEPT. 30, 2019
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	9,060	9,060
Other equity investments	125	–	–	–	1,696	1,821
Financial services receivables	285	50,192	51,818	–	33,471	83,948
Other financial assets	1,371	2,973	3,018	1,225	–	5,570
Current assets						
Trade receivables	0	18,351	18,351	–	–	18,352
Financial services receivables	22	38,774	38,774	–	18,590	57,386
Other financial assets	1,487	10,618	10,618	881	–	12,985
Marketable securities	17,006	118	118	–	–	17,123
Cash, cash equivalents and time deposits	–	30,960	30,960	–	–	30,960
Noncurrent liabilities						
Noncurrent financial liabilities	–	114,022	116,822	–	5,084	119,107
Other noncurrent financial liabilities	1,100	2,425	2,432	1,187	–	4,712
Current liabilities						
Current financial liabilities	–	82,442	82,442	–	966	83,408
Trade payables	–	24,892	24,892	–	–	24,892
Other current financial liabilities	923	8,505	8,505	1,232	–	10,660

The carrying amount of lease receivables was €52,061 million (previous year: €49,166 million) and their fair value was €53,242 million (previous year: €49,791 million).

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

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE BY LEVEL

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

€ million	Sept. 30, 2019	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	125	41	0	84
Financial services receivables	285	–	–	285
Other financial assets	1,371	–	747	625
Current assets				
Trade receivables	0	–	–	0
Financial services receivables	22	–	–	22
Other financial assets	1,487	–	1,281	206
Marketable securities	17,006	17,006	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	1,100	–	605	495
Current liabilities				
Other current financial liabilities	923	–	647	276

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

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

€ million	Sept. 30, 2019	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	1,225	–	1,225	–
Current assets				
Other financial assets	881	–	881	–
Noncurrent liabilities				
Other noncurrent financial liabilities	1,187	–	1,187	–
Current liabilities				
Other current financial liabilities	1,232	–	1,232	–

The allocation of fair values to the three levels in the fair value hierarchy is based on the availability of observable market prices. Level 1 is used to report the fair value of financial instruments for which a price is directly available in an active market. Examples include marketable securities and other equity investments measured at fair value. Fair values in Level 2, for example of derivatives, are measured on the basis of market inputs using market-based valuation techniques. In particular, the inputs used include exchange rates, yield curves and commodity prices that are observable in the relevant markets and obtained through pricing services. Fair Values in Level 3 are calculated using valuation techniques that incorporate inputs that are not directly observable in active markets. In the Volkswagen Group, long-term commodity futures are allocated to Level 3 because the prices available on the market must be extrapolated for measurement purposes. This is done on the basis of observable inputs obtained for the different commodities through pricing services. Options on equity instruments, residual value protection models, customer financing receivables and receivables from vehicle financing programs are also reported in Level 3. Equity instruments are measured primarily using the relevant business plans and entity-specific discount rates. The significant inputs used to measure fair value for the residual value protection models include forecasts and estimates of used vehicle residual values for the appropriate models. The measurement of vehicle financing programs requires in particular the use of the corresponding vehicle price.

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

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

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2018	**823**	**765**
Foreign exchange differences	−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	–

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2019	**990**	**816**
Foreign exchange differences	33	2
Total comprehensive income	355	185
recognized in profit or loss	348	185
recognized in other comprehensive income	8	–
Additions (purchases)	15	–
Sales and settlements	−142	−194
Transfers into Level 2	−28	−37
Balance at Sept. 30, 2019	**1,223**	**771**
Total gains or losses recognized in profit or loss	**348**	**−185**
Net other operating expense/income	354	−181
of which attributable to assets/liabilities held at the reporting date	321	−141
Financial result	−7	−3
of which attributable to assets/liabilities held at the reporting date	−4	–

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. The transfers out of Level 3 into Level 2 comprise commodity futures for which observable quoted prices are now available for measurement purposes due to the decline in their remaining maturities; consequently, no further extrapolation is required. There were no transfers between other levels of the fair value hierarchy.

Commodity prices are the key risk variable for the fair value of commodity futures. Sensitivity analyses are used to present the effect of changes in commodity prices on earnings after tax and equity.

If commodity prices for commodity futures classified as Level 3 had been 10% higher (lower) as of September 30, 2019, earnings after tax would have been €170 million (previous year: €31 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, 2019 had been 10% higher, earnings after tax would have been €2 million (previous year: €3 million) higher. If the assumed enterprise values at September 30, 2019 had been 10% lower, earnings after tax would have been €2 million (previous year: €3 million) lower.

Residual value risks result from hedging agreements with dealers under which earnings effects caused by market-related fluctuations in residual values that arise from buy-back obligations under leases are borne in part by the Volkswagen Group.

The key risk variable influencing the fair value of the options relating to residual value risks is used car prices. Sensitivity analyses are used to quantify the effects of changes in used car prices on earnings after tax.

If the prices of the used cars covered by the residual value protection model had been 10% higher as of September 30, 2019, earnings after tax would have been €320 million (previous year: €327 million) higher. If the prices of the used cars covered by the residual value protection model had been 10% lower as of September 30, 2019, earnings after tax would have been €332 million (previous year: €358 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, 2019, earnings after tax would have been €3 million (previous year: €7 million) lower. If the risk-adjusted interest rates as of September 30, 2019 had been 100 basis points lower, earnings after tax would have been €3 million (previous year: €7 million) higher.

If the corresponding vehicle price used in the vehicle financing programs had been 10% higher as of September 30, 2019, earnings after tax would have been €5 million (previous year: €18 million) higher. If the corresponding vehicle prices used in the vehicle financing programs had been 10% lower as of September 30, 2019, earnings after tax would have been €5 million (previous year: €18 million) lower.

If the result of operations of equity investments measured at fair value had been 10% better as of September 30, 2019, the equity would have been €8 million higher. If the result of operations had been 10% worse, the equity would have been €8 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, 2019	Sept. 30, 2018
Cash, cash equivalents and time deposits as reported in the balance sheet	30,960	25,175
Time deposits	−563	−345
Cash and cash equivalents as reported in the cash flow statement	**30,397**	**24,830**

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

	Q1– 3	
€ million	2019	2018
Capital contributions	–	1,491
Dividends paid	−2,858	−2,334
Capital transactions with noncontrolling interest shareholders	1,368	−28
Proceeds from issuance of bonds	20,457	22,603
Repayments of bonds	−15,673	−11,701
Changes in other financial liabilities	−1,901	1,301
Repayments of lease liabilities	−645	−18
	748	**11,316**

13. Segment reporting

Segments are identified on the basis of the Volkswagen Group's internal management and reporting. In line with the Group's multibrand strategy, each of its brands (operating segments) is managed by its own board of management. The Group targets and requirements laid down by the Board of Management of Volkswagen AG must be complied with. Segment reporting comprises four reportable segments: Passenger Cars and Light Commercial Vehicles, Commercial Vehicles, Power Engineering and Financial Services. As a result of an internal management change as from January 1, 2019, light commercial vehicles of the Volkswagen Commercial Vehicles brand are no longer allocated to the Commercial Vehicles segment, but reported under the Passenger Cars and Light Commercial Vehicles segment. The prior-year figures have been adjusted accordingly.

The activities of the Passenger Cars and Light Commercial Vehicles segment cover the development of vehicles and engines, the production and sale of passenger cars and light commercial vehicles, and the corresponding genuine parts business. In the Passenger Cars and Light Commercial Vehicles reporting segment, the individual brands are being combined into a single reportable segment, in particular as a response to the high degree of technological and economic interlinking in the production network. Furthermore, there is collaboration within key areas such as procurement, research and development or treasury.

The Commercial Vehicles segment primarily comprises the development, production and sale of trucks and buses, the corresponding genuine parts business and related services. Just as in the case of the car brands, there is collaboration within the areas procurement, development and sales. 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 2018[1]

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	131,143	17,014	2,487	23,776	174,420	157	174,577
Intersegment sales revenue	10,301	703	1	2,377	13,382	−13,382	–
Total sales revenue	141,443	17,717	2,489	26,153	187,802	−13,225	174,577
Segment result (operating result)	10,172	857	−46	2,039	13,022	−2,151	10,871

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

REPORTING SEGMENTS: Q1 – Q3 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	137,945	18,703	2,871	26,930	186,448	169	186,617
Intersegment sales revenue	11,202	788	2	2,657	14,649	−14,649	–
Total sales revenue	149,146	19,491	2,873	29,587	201,098	−14,480	186,617
Segment result (operating result)	12,201	1,307	−98	2,226	15,637	−2,098	13,539

RECONCILIATION

€ million	Q1– 3 2019	Q1– 3 2018
Segment result (operating result)	**15,637**	**13,022**
Unallocated activities	−47	−1
Group financing	−32	−9
Consolidation	−2,019	−2,141
Operating result	**13,539**	**10,871**
Financial result	**1,099**	**1,647**
Consolidated earnings before tax	**14,637**	**12,518**

14. Related party disclosures

Porsche SE holds the majority of the voting rights in Volkswagen AG.

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. This means that, even though it holds the majority of voting rights of Volkswagen AG, 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 is therefore classified as a related party as defined by IAS 24.

	SUPPLIES AND SERVICES RENDERED Q1– 3		SUPPLIES AND SERVICES RECEIVED Q1– 3	
€ million	2019	2018	2019	2018
Porsche SE and its majority interests	2	3	1	2
Supervisory Board members	3	4	1	2
Unconsolidated subsidiaries	1,043	801	1,182	1,103
Joint ventures and their majority interests	11,520	12,040	459	626
Associates and their majority interests	129	140	764	492
State of Lower Saxony, its majority interests and joint ventures	8	8	3	5

	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
€ million	Sept. 30, 2019	Dec. 31, 2018	Sept. 30, 2019	Dec. 31, 2018
Porsche SE and its majority interests	4	4	0	1
Supervisory Board members	1	0	176	205
Unconsolidated subsidiaries	1,426	1,319	1,269	1,869
Joint ventures and their majority interests	12,130	11,989	2,751	2,671
Associates and their majority interests	160	112	1,119	487
State of Lower Saxony, its majority interests and joint ventures	2	1	0	2

The tables above do not contain the dividend payments of €1,201 million (previous year: €3,066 million) received from joint ventures and associates.

Receivables from joint ventures are primarily attributable to loans granted in an amount of €7,303 million (December 31, 2018: €7,606 million) as well as trade receivables in an amount of €3,602 million (December 31, 2018: €4,045 million). Receivables from non-consolidated subsidiaries also result from loans granted in an amount of €900 million (December 31, 2018: €741 million) as well as trade receivables in an amount of €205 million (December 31, 2018: €214 million).

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

Obligations to members of the Supervisory Board relate primarily to interest-bearing bank balances of Supervisory Board members that were invested at standard market terms and conditions at Volkswagen Group companies.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €324 million (December 31, 2018: €239 million).

Impairment losses of €53 million (previous year: €74 million) were recognized on the outstanding related party receivables. This incurred expenses of €15 million (previous year: €19 million) in the first three quarters of 2019.

In the first nine months, the Volkswagen Group made capital contributions of €214 million (previous year: €520 million) at related parties.

15. Litigation

Diesel issue

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

In Australia Volkswagen AG reached agreements in principle in September 2019 that would terminate the litigation with the Australian class action plaintiffs and with the Australian Competition and Consumer Commission (ACCC). The court must still approve both settlements. Depending on the number of claims filed under the class action settlement, Volkswagen AG anticipates payment of an amount of up to AUD 127.1 million plus litigation costs to settle the class action lawsuits.

In a pending class action lawsuit in Brazil involving some 17 thousand vehicles, an appeals court rendered a judgment in May 2019 that only partially upheld the lower court's decision. The judgment initially reduced the damage liability of Volkswagen do Brasil significantly to €35 million plus interest. This amount can increase as a result of the adjudicated inflation rate and the assertion of individual claims alleging declines in the value of affected Amarok vehicles. The judgment remains non-final.

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

In Germany more than 60,000 individual lawsuits of automobile purchasers have been filed against Volkswagen AG or other Group companies, with the plaintiffs suing for damages or rescission of the contract in most cases.

Oral argument before the Braunschweig Higher Regional Court began on September 30, 2019 in the consumer action for model declaratory judgment filed by the Verbraucherzentrale Bundesverband e.V. (German Federation of Consumer Organizations).

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

In April 2019, the Braunschweig Office of the Public Prosecutor issued indictments, including one against a former chairman of the Board of Management of Volkswagen AG, charging, among other things, fraud relating to Type EA 189 engines in connection with the diesel issue.

In September 2019, the Braunschweig Office of the Public Prosecutor furthermore indicted the current and a former chairman of the Board of Management of Volkswagen AG as well as a former member of its Board of Management (currently chairman of the Supervisory Board) on charges of market manipulation in connection with the diesel issue. The Public Prosecutor's Office also requested that the court name Volkswagen AG as a collateral participant in the proceedings.

In July 2019, the Munich II Office of the Public Prosecutor issued indictments, including one against the former chairman of the Board of Management of AUDI AG, charging, among other things, fraud relating to 3.0 TDI engines in connection with the diesel issue.

Based on the information available at the present time, no change in the risk situation of the Volkswagen Group results from these indictments.

The administrative fine order issued on May 7, 2019 by the Stuttgart Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against Dr. Ing. h.c. F. Porsche AG in connection with the diesel issue. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit “Prüffeld Entwicklung Gesamtfahrzeug/Qualität” (Overall Vehicle Development/Quality - Testing Facility). The administrative order imposes a total fine of €535 million, consisting of a penalty payment of €4 million and the forfeiture of economic benefits in the amount of €531 million. After thorough examination, Dr. Ing. h.c. F. Porsche AG has accepted the fine and paid it in full, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG. Further sanctions against or forfeitures by Dr. Ing. h.c. F. Porsche AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)
Holding that the factual situation at issue is by and large already covered by the model case proceedings being heard by the Braunschweig Higher Regional Court and that these proceedings, being paramount in this regard, preclude further such actions, the Stuttgart Higher Regional Court in March 2019 refused to proceed with the capital investor model cases that had been referred to it by the Stuttgart Regional Court. The plaintiff side has appealed one of these decisions to the Federal Court of Justice.

4. Proceedings in the USA/Canada
Volkswagen AG and certain affiliates have reached a settlement in principle of the consumer protection claims asserted by the Attorney General of the US state of New Mexico. New Mexico was the last remaining state asserting consumer protection claims. Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliated companies continue to litigate claims asserted by the attorneys general of certain US states and municipalities based on alleged violations of local environmental laws. In March 2019, the Tennessee Court of Appeals dismissed the claims of the Attorney General of the State of Tennessee as preempted by federal law. The Tennessee Attorney General declined to pursue further appeal so the decision of the Tennessee Court of Appeals is final. Also in March 2019, the New Mexico Attorney General voluntarily dismissed its environmental claims, and the Alabama Attorney General declined to appeal the dismissal of its claims against Volkswagen AG by the Alabama Supreme Court.

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

5. Additional proceedings
In June 2019, the Hanover Regional Court rejected the motion by three US funds to replace the special auditor; the opposing side has appealed this ruling.

Additional important legal cases

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

In the proceedings against a number of captive automobile finance companies regarding potential competition law infringements, Volkswagen AG and Volkswagen Bank GmbH filed an appeal in March 2019 against the administrative fine order issued by the Italian Competition Authority. In the same context, an antitrust class action lawsuit has furthermore been filed by customers in Italy against Volkswagen Bank GmbH, among others.

In June 2019, the US District Court for the Northern District of California dismissed two putative class action complaints brought by purchasers of German luxury vehicles alleging that, since the 1990s, several automobile manufacturers, including Volkswagen AG and other Group companies conspired to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support the alleged anticompetitive agreements. Plaintiffs filed amended complaints, which Volkswagen moved to dismiss.

Volkswagen has been responding to information requests from the US Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) related to automatic transmissions in certain vehicles with gasoline engines. In August 2019, Volkswagen agreed with the EPA to forfeit approximately 220,000 Greenhouse Gas Emission Credits in response to the EPA's inquiry. Also in August 2019, Volkswagen and the Plaintiffs' Steering Committee announced the settlement of civil claims relating to approximately 98,000 Volkswagen, Audi, Porsche and Bentley vehicles. Volkswagen's testing of these vehicles in connection with the information requests resulted in a 1 mile per gallon change, when rounded according to EPA rules, in the fuel economy disclosed on the "Monroney label" required by US regulations. In October 2019, the Court granted preliminary approval of the settlement.

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

16. Contingent liabilities

Compared with the 2018 consolidated financial statements, contingent liabilities increased by €0.6 billion to €10.4 billion, mainly due to the recognition of additional tax positions.

17. Other financial obligations

Other financial liabilities declined by €4.8 billion compared with the 2018 consolidated financial statements to reach €21.8 billion. The decline is mainly due to the initial application of IFRS 16 (see disclosures on IFRS 16). Higher obligations from capital expenditure commitments to investees and a rise in the purchase order commitments for intangible assets and property, plant and equipment had an offsetting effect.

Significant events after the balance sheet date

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

Wolfsburg, October 30, 2019

Volkswagen Aktiengesellschaft

The Board of Management

Review Report

On completion of our review, we issued the following unqualified review report dated October 30, 2019. This report was originally prepared in German. In case of ambiguities the German version takes precedence:

To VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg

We have reviewed the condensed consolidated interim financial statements - comprising the condensed income statement and condensed statement of comprehensive income, condensed balance sheet, statement of changes in equity, condensed statement of cash flows and selected explanatory notes - and the interim group management report of VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, for the period from January 1 to September 30, 2019, which are part of the quarterly financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

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

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

Based on the results of the various measures taken to investigate the issue presented so far, which underlie these condensed consolidated interim financial statements and interim group management report, there is still no evidence that members of the Company’s Board of Management were aware of the deliberate manipulation of engine management software before summer 2015. Nevertheless, should as a result of the ongoing investigation new knowledge be obtained showing that members of the Board of Management were informed earlier about the Diesel Issue, this could eventually have an impact on the condensed interim financial statements and interim group management report as well as on the annual and consolidated financial statements and on the group management report for the financial year 2018 and prior years.

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

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

Hanover, October 30, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

Glossary

Selected terms at a glance

Capitalization ratio

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

Driving Cycles

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

Equity ratio

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

Gross margin

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

Hybrid notes

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

Net cash flow

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

Net liquidity

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

Operating result

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

Operating return on sales

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

Ratio of capex to sales revenue

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

Research and development ratio

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

Return on sales before tax

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

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FINANCIAL CALENDAR

March 17, 2020	Volkswagen AG Annual Media Conference and Investor Conference
April 29, 2020	Interim Report January – March 2020
May 7, 2020	Volkswagen AG Annual General Meeting
July 30, 2020	Half-Yearly Financial Report 2020
October 29, 2020	Interim Report January – September 2020

This Interim Report is also available on the Internet, in German and English, at:
www.volkswagenag.com/en/InvestorRelations.html

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