

Notes to the Consolidated Financial Statements

of the Volkswagen Group as of December 31, 2018

Basis of presentation

Volkswagen AG is domiciled in Wolfsburg, Germany, and entered in the commercial register at the Braunschweig Local Court under No. HRB100484. The fiscal year corresponds to the calendar year.

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2018 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. We have complied with all the IFRSs adopted by the EU and required to be applied.

The accounting policies applied in the previous year were retained, with the exception of the changes due to the new or amended standards.

In addition, we have complied with all the provisions of German commercial law that we are also required to apply, as well as with the German Corporate Governance Code. For information on notices and disclosures of changes regarding the ownership of voting rights in Volkswagen AG in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), please refer to the annual financial statements of Volkswagen AG.

The consolidated financial statements were prepared in euros. Unless otherwise stated, all amounts are given in millions of euros (€ million).

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

The income statement was prepared using the internationally accepted cost of sales method.

Preparation of the consolidated financial statements in accordance with the above-mentioned standards requires management to make estimates that affect the reported amounts of certain items in the consolidated balance sheet and in the consolidated income statement, as well as the related disclosure of contingent assets and liabilities. The consolidated financial statements present fairly the net assets, financial position and results of operations as well as the cash flows of the Volkswagen Group.

The Board of Management completed preparation of the consolidated financial statements on February 22, 2019. On that date, the period ended in which adjusting events after the reporting period are recognized.

Effects of new and amended IFRSs

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning in fiscal year 2018.

Amendments to IAS 40 (Investment Property) have been applicable since January 1, 2018; they clarify when a property is transferred to or from investment property and thus the scope of IAS 40.

In addition, amendments to IFRS 1 and IAS 28 are applicable, which the International Accounting Standards Board issued as part of the improvements to International Financial Reporting Standards (Annual Improvement Project 2016). In IFRS 1 (First-time Adoption of IFRSs), short-term exemptions for first-time adopters of the IFRSs have been deleted. In IAS 28 (Investments in Associates and Joint Ventures), guidance on investment entities has been clarified.

In addition, IFRS 2 (Share-based Payment) was amended. These amendments relate to the clarification of how transactions with share-based payment are classified and measured.

Moreover, amendments to IFRS 4 (Insurance Contracts) have come into effect, which reduce the impact of the different initial application dates of IFRS 9 and IFRS 17.

IFRIC 22 (Foreign Currency Transactions and Advance Consideration) also applies; this interpretation clarifies the exchange rates to be used in foreign currency transactions with advance consideration.

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

IFRS 9 – FINANCIAL INSTRUMENTS

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

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

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

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

Furthermore, IFRS 9 has an impact on the entity's reclassification practice. Depending on market trends, there is an expectation that operating profit or loss will be affected by hedging transactions to a greater extent. Due to the retrospective application of the guidance on designating options, the prior-year figures were adjusted. This resulted in an effect of €-0.2 billion on earnings after tax in fiscal year 2017.

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

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

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

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

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

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

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

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

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

€ million	MEASURED AT AMORTIZED COST IAS 39		TRANSFERS						MEASURED AT AMORTIZED COST IFRS 9	
	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	FROM MEASURED AT FAIR VALUE			TO MEASURED AT FAIR VALUE			Carrying amount Jan. 1, 2018	Fair value Jan. 1, 2018
			Fair value Dec. 31, 2017	Carrying amount adjust- ment Jan. 1, 2018	Provision for credit risks ad- justment Jan. 1, 2018	Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017		
Noncurrent assets										
Equity-accounted investments	-	-	-	-	-	-	-	-	-	-
Other equity investments	-	-	-	-	-	-	-	-	-	-
Financial services receivables	43,096	44,093	-	-	-	-	533	533	42,563	43,560
Other financial assets	4,364	4,391	-	-	-	-	-	-	4,364	4,391
Current assets										
Trade receivables	13,357	13,357	-	-	-	-	44	44	13,313	13,313
Financial services receivables	37,142	37,142	-	-	-	-	0	0	37,142	37,142
Other financial assets	9,153	9,153	-	-	-	-	5	5	9,148	9,148
Marketable securities	-	-	79	-	0	78	-	-	78	78
Cash, cash equivalents and time deposits	18,457	18,457	-	-	-	-	-	-	18,457	18,457
Noncurrent liabilities										
Noncurrent financial liabilities	81,200	82,108	-	-	-	-	-	-	81,200	82,108
Other noncurrent financial liabilities	1,630	1,633	-	-	-	-	-	-	1,630	1,633
Current liabilities										
Put options and compensation rights granted to noncontrolling interest shareholders	3,795	3,811	-	-	-	-	-	-	3,795	3,811
Current financial liabilities	81,793	81,793	-	-	-	-	-	-	81,793	81,793
Trade payables	23,046	23,046	-	-	-	-	-	-	23,046	23,046
Other current financial liabilities	7,358	7,358	-	-	-	-	-	-	7,358	7,358

The categories of financial instruments have been added as part of the implementation of IFRS 9 (see the section on “Accounting policies”). The principal movement in this context was the reclassification of lease receivables and liabilities in the “measured at amortized cost” category to “not allocated to any measurement category”. Prior-year values under financial services receivables and financial liabilities have been restated. The carrying amount of lease receivables was €49,166 million (previous year €46,156 million) and their fair value (fair value hierarchy level 3) was €49,791 million (previous year €46,959 million). The carrying amount of lease liabilities was €449 million (previous year €479 million) and their fair value (fair value hierarchy level 2) was €466 million (previous year €510 million).

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

€ million	From financial assets measured at fair value through other comprehensive income IAS 39	From financial assets measured at amortized cost IAS 39	No measurement category under IAS 39	Total
To financial assets measured at fair value through profit or loss IFRS 9				
Dec. 31, 2017	63	-	-	63
Adjustments	-63	-	-	-63
Jan. 1, 2018	-	-	-	-
To financial assets measured at fair value through other comprehensive income IFRS 9 (equity instruments)				
Dec. 31, 2017	333	-	-	333
Adjustments	-333	-	-	-333
Jan. 1, 2018	-	-	-	-
To financial assets measured at fair value through other comprehensive income IFRS 9 (debt instruments)				
Dec. 31, 2017	-	-	-	-
Adjustments	2	-	-	2
Jan. 1, 2018	2	-	-	2
To financial assets measured at amortized cost IFRS 9				
Dec. 31, 2017	-	3,046	-	3,046
Adjustments	-	318	-	318
Jan. 1, 2018	-	3,364	-	3,364
To lease receivables				
Dec. 31, 2017	-	-	982	982
Adjustments	-	-	238	238
Jan. 1, 2018	-	-	1,221	1,221
To assets IFRS 15				
Dec. 31, 2017	-	-	25	25
Adjustments	-	-	3	3
Jan. 1, 2018	-	-	29	29
To credit commitments				
Dec. 31, 2017	-	-	-	-
Adjustments	-	-	11	11
Jan. 1, 2018	-	-	11	11
To financial guarantees				
Dec. 31, 2017	-	-	-	-
Adjustments	-	-	5	5
Jan. 1, 2018	-	-	5	5
Total Jan. 1, 2018	2	3,364	1,266	4,631

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

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

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

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

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

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

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

In addition, from 2018 onward, the reversal of provisions for sales allowances is no longer presented under other operating income, but under sales revenue. As a result, an amount of €0.6 billion has been moved between other operating income and sales revenue.

To make the presentation more consistent and easier to compare, the way other income from the reversal of provisions and accrued liabilities is reported was also adjusted in this context; these items were allocated to those functional areas in which they were originally recognized. As a result, cost of sales declined in the reporting period because of income from the reversal of provisions and accrued liabilities of €2.5 billion (previous year: €2.1 billion). In addition, distribution expenses were down by €0.5 billion (previous year: €0.7 billion) and administrative expenses by €0.2 billion (previous year: €0.1 billion). There was a corresponding €3.3 billion (previous year: €3.0 billion) decrease in other operating income.

In addition, it was established in connection with the introduction of IFRS 15 that certain sales programs in certain countries should be allocated to sales allowances rather than distribution expenses. The prior-period distribution expenses were therefore adjusted by €1.1 billion. There was a corresponding decrease in sales revenue.

New and amended IFRSs not applied

In its 2018 consolidated financial statements, Volkswagen AG did not apply the following accounting pronouncements that have already been adopted by the IASB, but were not yet required to be applied for the fiscal year.

Standard/Interpretation	Published by the IASB	Application mandatory ¹	Adopted by the EU	Expected impact
IFRS 3 Business Combinations: Definition of a Business	Oct. 22, 2018	Jan. 1, 2020	No	No material impact
IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation	Oct. 12, 2017	Jan. 1, 2019	Yes	None
IFRS 10 and IAS 28 Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Sep. 11, 2014	deferred ²	–	None
IFRS 16 Leases	Jan. 13, 2016	Jan. 1, 2019	Yes	Described in detail below this table
IFRS 17 Insurance Contracts	May 18, 2017	Jan. 1, 2021	No	No material impact
IAS 1 and IAS 8 Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material	Oct. 31, 2018	Jan. 1, 2020	No	No material impact
IAS 19 Employee Benefits: Remeasurement on a Plan Amendment, Curtailment or Settlement	Feb. 7, 2018	Jan. 1, 2019	No	No material impact
IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures	Oct. 12, 2017	Jan. 1, 2019	Yes	None
IFRIC 23 Annual improvements to International Financial Reporting Standards 2017 ³ Uncertainty over Income Tax Treatments	Dec. 12, 2017 Jun. 7, 2017	Jan. 1, 2019	No Yes	No material impact

1 Effective date from Volkswagen AG's perspective.

2 The IASB decided on December 15, 2015 to defer the effective date indefinitely.

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

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. They will instead be required to recognize a right-of-use asset and a lease liability for all leases in the balance sheet. 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. Exceptions will be made for short-term leases and leases of low-value assets. For these cases, the Volkswagen Group will make use of the practical expedient provided for in IFRS 16, and opt not to recognize a right-of-use asset or a lease liability arising from such lease agreements; instead it will continue to recognize the lease payments as expenses in profit or loss.

Lessor accounting essentially follows the current guidance of IAS 17. In the future, lessors will continue to classify their leases as finance leases or operating leases on the basis of the risks and rewards incidental to ownership of the leased asset.

As of January 1, 2019, the Volkswagen Group will for the first time account for leases in accordance with IFRS 16, using the modified retrospective transition method. This requires the recognition of the lease liability at the present value of the remaining lease payments, discounted using an incremental borrowing rate at the transition date. 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. As a result of the first-time recognition of right-of-use assets and lease liabilities in almost the same amounts, current estimates indicate that the balance sheet total will increase by around 1%. The rise in financial liabilities will have a negative effect on the Volkswagen Group's net liquidity. No significant effect on equity is expected.

Unlike the previous procedure, under which all operating lease expenses were reported under operating profit, the only items allocated to operating profit under IFRS 16 are depreciation charges on right-of-use assets. Interest expense from adding interest on lease liabilities is reported in the financial result. Based on leases in place as of January 1, 2019, current estimates indicate that there will be an improvement in operating profit by an amount in the low three-digit million range.

The change in the way operating lease expenses are presented in the cash flow statement will result in a slight improvement in cash flows from operating activities and a corresponding reduction in cash flows from financing activities.

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

Key events

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0l diesel engines in the USA. In this context, Volkswagen AG announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On November 2, 2015, the EPA issued a "Notice of Violation" alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0l diesel engines.

In the months following publication of a study by the International Council on Clean Transportation in May 2014, Volkswagen AG's Powertrain Development department checked the test set-ups on which the study was based for plausibility, confirming the unusually high NO_x emissions from certain US vehicles with type EA 189 2.0l diesel engines. The California Air Resources Board (CARB) – a part of the environmental regulatory authority of California – was informed of this result, and, at the same time, an offer was made to recalibrate the engine control unit software of type EA 189 diesel engines in the USA as part of a service measure that was already planned in the USA. This measure was evaluated and adopted by the Ausschuss für Produktsicherheit (APS – Product Safety Committee), which initiates necessary and appropriate measures to ensure the safety and conformity of Volkswagen AG's products that are placed in the market. There are no findings that an unlawful "defeat device" under US law was disclosed to the APS as the cause of the discrepancies or to the persons

responsible for preparing the 2014 annual and consolidated financial statements. Instead, at the time the 2014 annual and consolidated financial statements were being prepared, the persons responsible for preparing the 2014 annual and consolidated financial statements remained under the impression that the issue could be solved with comparatively little effort as part of a service measure.

In the course of the summer of 2015, however, it became successively apparent to individual members of Volkswagen AG's Board of Management that the cause of the discrepancies in the USA was a modification of parts of the software of the engine control unit, which was later identified as an unlawful "defeat device" as defined by US law. This culminated in the disclosure of a "defeat device" to EPA and CARB on September 3, 2015. According to the assessment at that time of the responsible persons dealing with the matter, the scope of the costs expected by the Volkswagen Group (recall costs, retrofitting costs and financial penalties) was not fundamentally dissimilar to that of previous cases involving other vehicle manufacturers, and, therefore, appeared to be controllable overall with a view to the business activities of the Volkswagen Group. This assessment by the Volkswagen Group was based, among other things, on the advice of a law firm engaged in the USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. The publication of the "Notice of Violation" by the EPA on September 18, 2015, which, especially at that time, came unexpectedly to the Board of Management, then presented the situation in an entirely different light.

Additional special items in connection with the diesel issue amounting to €3.2 billion (previous year: €3.2 billion) were recognized in the reporting period. The main reasons for the expenses are the administrative fine orders totaling €1.8 billion imposed by the Braunschweig public prosecutor and the Munich II public prosecutor's office in connection with the diesel issue, as well as higher legal risks and legal defense costs and an increase in expenses for technical measures.

Apart from the above, there are no conclusive findings or assessments of facts available to the Board of Management of Volkswagen AG that would suggest that a different assessment of the associated risks (e.g. investor lawsuits) should have been made.

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

In the award proceedings regarding the appropriateness of the cash settlement and the right to compensation for the noncontrolling interest shareholders of MAN SE, the Higher Regional Court in Munich made a final decision at the end of June 2018, ruling that the right to annual compensation per share must be increased. The cash settlement per share, raised in a first instance ruling by the First Regional Court in Munich, was confirmed.

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of January 1, 2019.

Cash outflows for compensation payments and the acquisition of shares tendered amounted to €2.1 billion in the period to December 31, 2018. There was a corresponding decline in the amount of "put options and compensation rights granted to noncontrolling interest shareholders" reported in the balance sheet.

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

Basis of consolidation

In addition to Volkswagen AG, the consolidated financial statements comprise all significant German and non-German subsidiaries, including structured entities that are controlled directly or indirectly by Volkswagen AG. This is the case if Volkswagen AG obtains power over the potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the subsidiaries, and is able to influence those returns. In the case of the structured entities consolidated in the Volkswagen Group, Volkswagen is able to direct the material relevant activities remaining after the change in the structure even if it is not invested in the structured entity concerned and is thus able to influence the variable returns from its involvement. The structured entities are used primarily to enter into asset-backed securities transactions to refinance the financial services business and to invest surplus liquidity in special securities funds. Consolidation of subsidiaries begins at the first date on which control exists, and ends when such control no longer exists.

Subsidiaries whose business is dormant or insignificant, both individually and in the aggregate, for the fair presentation of the net assets, financial position and results of operations as well as the cash flows of the Volkswagen Group are not consolidated. They were carried in the consolidated financial statements at cost net of any impairment losses and reversals of impairment losses required to be recognized.

Significant companies where Volkswagen AG is able, directly or indirectly, to significantly influence financial and operating policy decisions (associates), or that are directly or indirectly jointly controlled (joint ventures), are accounted for using the equity method. Joint ventures also include companies in which the Volkswagen Group holds the majority of voting rights, but whose articles of association or partnership agreements stipulate that important decisions may only be resolved unanimously. Insignificant associates and joint ventures are carried at cost net of any impairment losses and reversals of impairment losses required to be recognized.

The composition of the Volkswagen Group is shown in the following table:

	2018	2017
Volkswagen AG and consolidated subsidiaries		
Germany	152	156
Abroad	712	717
Subsidiaries carried at cost		
Germany	70	69
Abroad	251	238
Associates, joint ventures and other equity investments ¹		
Germany	64	59
Abroad	79	71
	1,328	1,310

¹ The prior-year figures were adjusted to reflect the number of joint ventures.

The list of all shareholdings that forms part of the annual financial statements of Volkswagen AG can be downloaded from the electronic companies register at www.unternehmensregister.de and from www.volkswagenag.com/ir.

The following consolidated German subsidiaries with the legal form of a corporation or partnership meet the criteria set out in section 264(3) or section 264b of the Handelsgesetzbuch (HGB – German Commercial Code) due to their inclusion in the consolidated financial statements and have as far as possible exercised the option not to publish annual financial statements:

- > Audi Berlin GmbH, Berlin
- > Audi Frankfurt GmbH, Frankfurt am Main
- > Audi Hamburg GmbH, Hamburg
- > Audi Hannover GmbH, Hanover
- > Audi Leipzig GmbH, Leipzig
- > Audi Stuttgart GmbH, Stuttgart
- > Autostadt GmbH, Wolfsburg
- > Bugatti Engineering GmbH, Wolfsburg

- > Dr. Ing. h.c. F. Porsche AG, Stuttgart
- > GETAS Verwaltung GmbH & Co. Objekt Augsburg KG, Pullach i. Isartal
- > GETAS Verwaltung GmbH & Co. Objekt Heinrich-von-Buz-Straße KG, Pullach i. Isartal
- > HABAMO Verwaltung GmbH & Co. Objekt Sterkrade KG, Pullach i. Isartal
- > Haberl Beteiligungs-GmbH, Munich
- > Karosseriewerk Porsche GmbH & Co. KG, Stuttgart
- > MAHAG GmbH, Munich
- > MAN Energy Solutions SE, Augsburg
- > MOIA GmbH, Berlin
- > Porsche Consulting GmbH, Bietigheim-Bissingen
- > Porsche Deutschland GmbH, Bietigheim-Bissingen
- > Porsche Dienstleistungs GmbH, Stuttgart
- > Porsche Engineering Group GmbH, Weissach
- > Porsche Engineering Services GmbH, Bietigheim-Bissingen
- > Porsche Erste Beteiligungsgesellschaft mbH, Stuttgart
- > Porsche Financial Services GmbH & Co. KG, Bietigheim-Bissingen
- > Porsche Financial Services GmbH, Bietigheim-Bissingen
- > Porsche Holding Stuttgart GmbH, Stuttgart
- > Porsche Leipzig GmbH, Leipzig
- > Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg
- > Porsche Logistik GmbH, Stuttgart
- > Porsche Niederlassung Berlin GmbH, Berlin
- > Porsche Niederlassung Berlin-Potsdam GmbH, Kleinmachnow
- > Porsche Niederlassung Hamburg GmbH, Hamburg
- > Porsche Niederlassung Leipzig GmbH, Leipzig
- > Porsche Niederlassung Stuttgart GmbH, Stuttgart
- > Porsche Nordamerika Holding GmbH, Ludwigsburg
- > Porsche Siebte Vermögensverwaltung GmbH, Wolfsburg
- > Porsche Smart Mobility GmbH, Stuttgart
- > Porsche Zentrum Hoppegarten GmbH, Stuttgart
- > Raffay Versicherungsdienst GmbH, Hamburg
- > SEAT Deutschland Niederlassung GmbH, Frankfurt am Main
- > SKODA AUTO Deutschland GmbH, Weiterstadt
- > TRATON SE, Munich (previously TRATON AG, Munich)
- > TB Digital Services GmbH, Munich
- > VfL Wolfsburg-Fußball GmbH, Wolfsburg
- > VGRD GmbH, Wolfsburg
- > Volkswagen AirService GmbH, Braunschweig
- > Volkswagen Automobile Berlin GmbH, Berlin
- > Volkswagen Automobile Chemnitz GmbH, Chemnitz
- > Volkswagen Automobile Frankfurt GmbH, Frankfurt am Main
- > Volkswagen Automobile Hamburg GmbH, Hamburg
- > Volkswagen Automobile Hannover GmbH, Hanover
- > VOLKSWAGEN Automobile Leipzig GmbH, Leipzig
- > Volkswagen Automobile Region Hannover GmbH, Hanover
- > Volkswagen Automobile Rhein-Neckar GmbH, Mannheim
- > Volkswagen Automobile Stuttgart GmbH, Stuttgart
- > Volkswagen Beteiligungsverwaltung GmbH, Wolfsburg
- > Volkswagen Dritte Leasingobjekt GmbH, Braunschweig
- > Volkswagen Erste Leasingobjekt GmbH, Braunschweig
- > Volkswagen Fünfte Leasingobjekt GmbH, Braunschweig
- > Volkswagen Gebrauchtfahrzeughandels und Service GmbH, Langenhagen
- > Volkswagen Group IT Services GmbH, Wolfsburg
- > Volkswagen Group Real Estate GmbH & Co. KG, Wolfsburg

- > Volkswagen Group Services GmbH, Wolfsburg
- > Volkswagen Immobilien GmbH, Wolfsburg
- > Volkswagen Klassik GmbH, Wolfsburg
- > Volkswagen Konzernlogistik GmbH & Co. OHG, Wolfsburg
- > Volkswagen Original Teile Logistik GmbH & Co. KG, Baunatal
- > Volkswagen Osnabrück GmbH, Osnabrück
- > Volkswagen R GmbH, Wolfsburg
- > Volkswagen Sachsen GmbH, Zwickau
- > Volkswagen Sechste Leasingobjekt GmbH, Braunschweig
- > Volkswagen Siebte Leasingobjekt GmbH, Braunschweig
- > Volkswagen Vertriebsbetreuungsgesellschaft mbH, Chemnitz
- > Volkswagen Vierte Leasingobjekt GmbH, Braunschweig
- > Volkswagen Zubehör GmbH, Dreieich
- > Volkswagen Zweite Leasingobjekt GmbH, Braunschweig

CONSOLIDATED SUBSIDIARIES

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

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

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

The fiscal year's changes in the consolidated Group are shown in the following table:

Number	Germany	Abroad
Initially consolidated		
Subsidiaries previously carried at cost	4	26
Newly acquired subsidiaries	–	–
Newly formed subsidiaries	1	9
	5	35
Deconsolidated		
Mergers	3	18
Liquidations	6	8
Sales/other	–	14
	9	40

The initial consolidation or deconsolidation of these subsidiaries, either individually or collectively, did not have a significant effect on the presentation of the net assets, financial position and results of operations. The unconsolidated structured entities are immaterial from a Group perspective. In particular, they do not give rise to any significant risks to the Group.

INVESTMENTS IN ASSOCIATES

From a Group perspective, the associates Sinotruk (Hong Kong) Ltd., Hongkong, China (Sinotruk), Bertrandt AG, Ehningen (Bertrandt), There Holding B.V., Rijswijk, the Netherlands (There Holding), and Navistar International Corporation, Lisle, USA (Navistar), were material at the reporting date.

Sinotruk

Sinotruk is one of the largest truck manufacturers in the Chinese market. There is an agreement in place between Group companies and Sinotruk regarding a long-term strategic partnership, under which the Group participates in the local market. In addition to the partnership with Sinotruk in the volume segment, exports of MAN vehicles to China are also helping to expand access to the small, but fast-growing premium truck market. Sinotruk's principal place of business is in Hongkong, China.

As of December 31, 2018, the quoted market price of the shares in Sinotruk amounted to €908 million (previous year: €648 million).

Bertrandt

Bertrandt is an engineering partner to companies in the automotive and aviation industry. Its portfolio of services ranges from developing individual components through complex modules to end-to-end solutions. Bertrandt's principal place of business is in Ehningen.

As of December 31, 2018, the quoted market price of the shares in Bertrandt amounted to €201 million (previous year: €299 million).

There Holding

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

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

A capital reduction was carried out at There Holding B.V. in February 2018. The share attributable to the Volkswagen Group amounted to €96 million. In addition, in June 2018 and November 2018, There Holding B.V. implemented capital increases in which the Volkswagen Group participated. As a result, the shares accounted for using the equity method increased by €62 million and the participating interest was 29.6% as of December 31, 2018.

Navistar

Within the framework of a capital increase, TRATON SE, a wholly owned subsidiary of Volkswagen AG, acquired 16.6% of the shares in Navistar, paying USD 15.76 per share in 2017. The purchase price came to €0.3 billion. Due to Volkswagen's representation on the Board of Directors of Navistar and the agreed cooperation, the investment in Navistar is reported as an equity-accounted investment in the consolidated financial statements. As of December 31, 2018, an interest of 16.8% was held in Navistar, and the quoted market price of the shares in Navistar amounted to €377 million (previous year: €595 million).

SUMMARIZED FINANCIAL INFORMATION ON MATERIAL ASSOCIATES ON A 100 % BASIS

€ million	Sinotruk ¹	Bertrandt ²	There Holding	Navistar ³
2018				
Equity interest (%)	25	29	30	17
Noncurrent assets	2,239	586	1,763	1,846
Current assets	6,461	469	2	4,528
Noncurrent liabilities	54	306	–	6,478
Current liabilities	5,250	167	1	3,356
Net assets	3,395	583	1,764	–3,461
Sales revenue	8,047	1,020	–	8,625
Earnings after tax from continuing operations	558	25	–351	310
Earnings after tax from discontinued operations	–	–	–	–
Other comprehensive income	0	0	–7	245
Total comprehensive income	558	25	–358	555
Dividends received ⁴	50	7	–	–
2017				
Equity interest (%)	25	29	33	17
Noncurrent assets	2,086	600	1,906	1,648
Current assets	5,449	478	289	3,470
Noncurrent liabilities	55	338	–	5,893
Current liabilities	4,420	157	0	3,041
Net assets	3,060	583	2,195	–3,816
Sales revenue	5,961	992	71	5,507
Earnings after tax from continuing operations	260	21	–151	95
Earnings after tax from discontinued operations	–	–	513	1
Other comprehensive income	13	0	2	341
Total comprehensive income	272	21	364	437
Dividends received	6	7	–	–

1 Balance sheet amounts refer to the June 30 reporting date and income statement amounts refer to the period from July 1 to June 30.

2 Balance sheet amounts refer to the September 30 reporting date and income statement amounts refer to the period from October 1 to September 30.

3 Balance sheet amounts refer to the October 31, 2018 reporting date. The income statement amounts for fiscal year 2018 refer to the period from November 1, 2017 to October 31, 2018, while those for fiscal year 2017 refer to the period from March 1, 2017 to October 31, 2017.

4 Proportionate dividends are shown net of withholding tax.

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

€ million	Sinotruk	Bertrandt	There Holding	Navistar ¹
2018				
Net assets at January 1 ²	3,060	583	2,209	-3,816
Profit or loss	558	25	-351	310
Other comprehensive income	0	0	-7	245
Changes in reserves	-3	-	-87	13
Foreign exchange differences	13	-	-	-191
Dividends ³	-232	-25	-	-22
Net assets at December 31	3,395	583	1,764	-3,461
Proportionate equity	849	168	522	-582
Consolidation/Goodwill/Others	-402	163	-	1,012
Carrying amount of equity-accounted investments	447	331	522	430
2017				
Net assets at January 1	2,956	587	1,832	-4,270
Profit or loss	260	21	362	96
Other comprehensive income	13	0	2	341
Changes in reserves	1	-	-	11
Foreign exchange differences	-135	-	-	7
Dividends	-34	-25	-	-
Net assets at December 31	3,060	583	2,195	-3,816
Proportionate equity	765	168	646	-644
Consolidation/Goodwill/Others	-387	163	-	946
Carrying amount of equity-accounted investments	378	331	646	301

1 Reconciliation presented for Navistar in 2017 as of March 1, 2017, the date of the first time inclusion of Navistar.

2 Value in the opening balance of There Holding adjusted due to IFRS 15.

3 Dividends are shown before withholding tax.

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

€ million	2018	2017
Earnings after tax from continuing operations	-20	-29
Earnings after tax from discontinued operations	-	-
Other comprehensive income	1	0
Total comprehensive income	-20	-29
Carrying amount of equity-accounted investments	332	90

There were no unrecognized losses relating to investments in associates. Furthermore, there were also no contingent liabilities or financial guarantees relating to associates.

INTERESTS IN JOINT VENTURES

From a Group perspective, the joint ventures FAW-Volkswagen Automotive Company Ltd., Changchun, China, SAIC-Volkswagen Automotive Company Ltd., Shanghai, China, and SAIC-Volkswagen Sales Company Ltd., Shanghai, China, were material at the reporting date due to their size.

FAW-Volkswagen Automotive Company

FAW-Volkswagen Automotive Company develops, produces and sells passenger cars. There is an agreement in place between Group companies and the joint venture partner China FAW Corporation Limited regarding a long-term strategic partnership. The principal place of business is in Changchun, China.

SAIC-Volkswagen Automotive Company

SAIC-Volkswagen Automotive Company develops and produces passenger cars. There is an agreement in place between Group companies and the joint venture partner Shanghai Automotive Industry Corporation regarding a long-term strategic partnership. The principal place of business is in Shanghai, China.

SAIC-Volkswagen Sales Company

SAIC-Volkswagen Sales Company sells passenger cars for SAIC-Volkswagen Automotive Company. There is an agreement in place between Group companies and the joint venture partner Shanghai Automotive Industry Corporation regarding a long-term strategic partnership. The principal place of business is in Shanghai, China.

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

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company ¹	SAIC-Volkswagen Sales Company
2018			
Equity interest (%)	40	50	30
Noncurrent assets	10,651	8,580	671
Current assets	10,903	6,689	3,680
of which: cash, cash equivalents and time deposits	3,764	4,412	206
Noncurrent liabilities	1,260	1,205	110
of which: financial liabilities ²	–	–	–
Current liabilities	12,936	8,526	3,692
of which: financial liabilities ²	–	4	–
Net assets	7,358	5,538	549
Sales revenue	41,607	28,863	33,212
Depreciation and amortization	1,335	1,479	8
Interest income	123	64	5
Interest expenses	–	1	–
Earnings before tax from continuing operations	4,851	4,588	665
Income tax expense	1,186	1,040	167
Earnings after tax from continuing operations	3,665	3,548	498
Earnings after tax from discontinued operations	–	–	–
Other comprehensive income	47	1	–
Total comprehensive income	3,712	3,549	498
Dividends received ³	1,209	1,626	148
2017			
Equity interest (%)	40	50	30
Noncurrent assets	10,071	8,266	626
Current assets	13,018	9,304	4,383
of which: cash, cash equivalents and time deposits	7,385	6,198	214
Noncurrent liabilities	1,470	0	61
of which: financial liabilities	–	–	–
Current liabilities	14,768	12,157	4,402
of which: financial liabilities	–	6	–
Net assets	6,851	5,414	546
Sales revenue	40,828	28,767	33,398
Depreciation and amortization	1,212	1,279	6
Interest income	72	36	–
Interest expenses	–	35	–
Earnings before tax from continuing operations	4,907	4,555	669
Income tax expense	1,369	1,086	168
Earnings after tax from continuing operations	3,538	3,469	501
Earnings after tax from discontinued operations	–	10	–
Other comprehensive income	–49	–5	–
Total comprehensive income	3,489	3,473	501
Dividends received	1,502	1,702	137

1 SAIC-Volkswagen Sales Company sells passenger cars for SAIC-Volkswagen Automotive Company. Therefore, the sales revenue reported for SAIC-Volkswagen Automotive Company was mostly generated from its business with SAIC-Volkswagen Sales Company.

2 Excluding trade liabilities.

3 Proportionate dividends are shown net of withholding tax.

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

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company	SAIC-Volkswagen Sales Company
2018			
Net assets at January 1 ¹	6,851	5,405	546
Profit or loss	3,665	3,548	498
Other comprehensive income	47	1	–
Changes in share capital	–	–	–
Changes in reserves	–	–	–
Foreign exchange differences	68	–23	–1
Dividends ²	–3,273	–3,393	–494
Net assets at December 31	7,358	5,538	549
Proportionate equity	2,943	2,769	165
Consolidation/Goodwill/Others	–593	–851	–
Carrying amount of equity-accounted investments	2,350	1,918	165
2017			
Net assets at January 1	7,466	5,579	520
Profit or loss	3,538	3,479	501
Other comprehensive income	–49	–5	–
Changes in share capital	–	–	–
Changes in reserves	–	–	–
Foreign exchange differences	–350	–236	–18
Dividends	–3,755	–3,403	–458
Net assets at December 31	6,851	5,414	546
Proportionate equity	2,740	2,707	164
Consolidation/Goodwill/Others	–456	–576	–
Carrying amount of equity-accounted investments	2,284	2,131	164

1 Values in the opening balance adjusted due to IFRS 9.

2 Dividends are shown before withholding tax.

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

€ million	2018	2017
Earnings after tax from continuing operations	319	290
Earnings after tax from discontinued operations	–	10
Other comprehensive income	–2	0
Total comprehensive income	317	299
Carrying amount of equity-accounted investments	1,939	1,881

There were no unrecognized losses relating to interests in joint ventures. Contingent liabilities to joint ventures amounted to €183 million (previous year: €186 million) and financial guarantees to joint ventures amounted to €146 million (previous year: €82 million). Cash funds of €268 million (previous year: €260 million) are deposited as collateral for asset-backed securities transactions and are therefore not available to the Volkswagen Group.

IFRS 5 – NON-CURRENT ASSETS HELD FOR SALE

As of December 31, 2017, assets in a total amount of €115 million were classified as assets “held for sale” and reported in a separate line item of the balance sheet in accordance with IFRS 5. The assets “held for sale” were measured at the lower of carrying amount and fair value, less expected costs to sell. The assets were no longer depreciated or amortized. The amount reported was mainly attributable to the sale of property, plant and equipment (€24 million) and the sale of shares in There Holding B.V. (€86 million). The sales did not have any material impact on the Volkswagen Group’s results of operations or net liquidity.

Consolidation methods

The assets and liabilities of the German and foreign companies included in the consolidated financial statements are recognized in accordance with the uniform accounting policies used within the Volkswagen Group. In the case of companies accounted for using the equity method, the same accounting policies are applied to determine the proportionate equity, based on the most recent audited annual financial statements of each company.

In the case of subsidiaries consolidated for the first time, assets and liabilities are measured at their fair value at the date of acquisition. Their carrying amounts are adjusted in subsequent years. Goodwill arises when the purchase price of the investment exceeds the fair value of identifiable net assets. Goodwill is tested for impairment once a year to determine whether its carrying amount is recoverable. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss must be recognized. If this is not the case, there is no change in the carrying amount of goodwill compared with the previous year. If the purchase price of the investment is less than the identifiable net assets, the difference is recognized in the income statement in the year of acquisition. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries. Any difference that arises from the acquisition of additional shares of an already consolidated subsidiary is taken directly to equity. Unless otherwise stated, the proportionate equity directly attributable to noncontrolling interests is determined at the acquisition date as the share of the fair value of the assets (excluding goodwill) and liabilities attributable to them. Contingent consideration is measured at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration do not generally result in the adjustment of the acquisition-date measurement. Acquisition-related costs that are not equity transaction costs are not added to the purchase price, but instead recognized as expenses in the period in which they are incurred.

The consolidation process involves adjusting the items in the separate financial statements of the parent and its subsidiaries and presenting them as if they were those of a single economic entity. Intragroup assets, liabilities, equity, income, expenses and cash flows are eliminated in full. Intercompany profits or losses are eliminated in Group inventories and noncurrent assets. Deferred taxes are recognized for consolidation adjustments, and deferred tax assets and liabilities are offset where taxes are levied by the same tax authority and have the same maturity.

Currency translation

Transactions in foreign currencies are translated in the single-entity financial statements of Volkswagen AG and its consolidated subsidiaries at the rates prevailing at the transaction date. Foreign currency monetary items are recorded in the balance sheet using the middle rate at the closing date. Foreign exchange gains and losses are recognized in the income statement. This does not apply to foreign exchange differences from loans receivable that represent part of a net investment in a foreign operation. The financial statements of foreign companies are translated into euros using the functional currency concept, under which asset and liability items are translated at the closing rate. With the exception of income and expenses recognized directly in equity, equity is translated at historical rates. The resulting foreign exchange differences are recognized in other comprehensive income until disposal of the subsidiary concerned, and are presented as a separate item in equity.

Income statement items are translated into euros at weighted average rates.

The rates applied are presented in the following table:

	€1 =	BALANCE SHEET MIDDLE RATE ON DECEMBER 31		INCOME STATEMENT AVERAGE RATE	
		2018	2017	2018	2017
Argentina	ARS	43.15687	22.99203	32.89363	18.72636
Australia	AUD	1.62240	1.53285	1.58021	1.47300
Brazil	BRL	4.44485	3.97065	4.30729	3.60471
Canada	CAD	1.55930	1.50260	1.53032	1.46444
Czech Republic	CZK	25.72450	25.57900	25.64308	26.32920
India	INR	79.90650	76.56700	80.71466	73.50146
Japan	JPY	125.91000	134.87000	130.40158	126.66763
Mexico	MXN	22.52035	23.61420	22.71496	21.33175
People's Republic of China	CNY	7.87725	7.80085	7.80766	7.62688
Poland	PLN	4.29780	4.17490	4.26098	4.25727
Republic of Korea	KRW	1,276.90000	1,278.22000	1,299.41384	1,275.94974
Russia	RUB	79.83765	69.33520	74.08214	65.88875
South Africa	ZAR	16.46690	14.75715	15.62243	15.04543
Sweden	SEK	10.25070	9.83140	10.25830	9.63700
United Kingdom	GBP	0.89690	0.88730	0.88476	0.87626
USA	USD	1.14525	1.19875	1.18156	1.12933