



# 4

# Consolidated Financial Statements



## CONSOLIDATED FINANCIAL STATEMENTS

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# Income Statement

of the Volkswagen Group for the period January 1 to December 31, 2018

€ million	Note	2018	2017 <sup>1</sup>
<b>Sales revenue</b>	<b>1</b>	<b>235,849</b>	<b>229,550</b>
Cost of sales	2	-189,500	-186,001
<b>Gross result</b>		<b>46,350</b>	<b>43,549</b>
Distribution expenses	3	-20,510	-20,859
Administrative expenses	4	-8,819	-8,126
Other operating income	5	11,631	11,514
Other operating expenses	6	-14,731	-12,259
<b>Operating result</b>		<b>13,920</b>	<b>13,818</b>
Share of the result of equity-accounted investments	7	3,369	3,482
Interest income	8	967	951
Interest expenses	8	-1,547	-2,317
Other financial result	9	-1,066	-2,262
<b>Financial result</b>		<b>1,723</b>	<b>-146</b>
<b>Earnings before tax</b>		<b>15,643</b>	<b>13,673</b>
Income tax income/expense	10	-3,489	-2,210
Current		-3,533	-3,205
Deferred		43	995
<b>Earnings after tax</b>		<b>12,153</b>	<b>11,463</b>
of which attributable to			
Noncontrolling interests		17	10
Volkswagen AG hybrid capital investors		309	274
Volkswagen AG shareholders		11,827	11,179
<b>Basic earnings per ordinary share in €</b>	<b>11</b>	<b>23.57</b>	<b>22.28</b>
<b>Diluted earnings per ordinary share in €</b>	<b>11</b>	<b>23.57</b>	<b>22.28</b>
<b>Basic earnings per preferred share in €</b>	<b>11</b>	<b>23.63</b>	<b>22.34</b>
<b>Diluted earnings per preferred share in €</b>	<b>11</b>	<b>23.63</b>	<b>22.34</b>

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

# Statement of Comprehensive Income

Changes in comprehensive income for the period January 1 to December 31, 2017<sup>1</sup>

€ million	Total	Equity attributable to Volkswagen AG shareholders	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to noncontrolling interests
<b>Earnings after tax</b>	<b>11,463</b>	<b>11,179</b>	<b>274</b>	<b>10</b>
Pension plan remeasurements recognized in other comprehensive income				
Pension plan remeasurements recognized in other comprehensive income, before tax	785	784	–	1
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–198	–198	–	0
Pension plan remeasurements recognized in other comprehensive income, net of tax	588	586	–	1
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	106	106	–	–
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	96	96	–	–
<b>Items that will not be reclassified to profit or loss</b>	<b>789</b>	<b>788</b>	<b>–</b>	<b>1</b>
Exchange differences on translating foreign operations				
Gains/losses on currency translation recognized in other comprehensive income	–2,095	–2,094	–	–1
Transferred to profit or loss	–4	–4	–	–
Exchange differences on translating foreign operations, before tax	–2,099	–2,098	–	–1
Deferred taxes relating to exchange differences on translating foreign operations	–8	–8	–	–
Exchange differences on translating foreign operations, net of tax	–2,107	–2,106	–	–1
Hedging				
Fair value changes recognized in other comprehensive income (OCI I)	6,216	6,216	–	0
Transferred to profit or loss (OCI I)	–558	–558	–	0
Cash flow hedges (OCI I), before tax	5,659	5,658	–	0
Deferred taxes relating to cash flow hedges (OCI I)	–1,621	–1,621	–	0
Cash flow hedges (OCI I), net of tax	4,038	4,038	–	0
Fair value changes recognized in other comprehensive income (OCI II)	171	171	–	–
Transferred to profit or loss (OCI II)	–	–	–	–
Cash flow hedges (OCI II), before tax	171	171	–	–
Deferred taxes relating to cash flow hedges (OCI II)	–51	–51	–	–
Cash flow hedges (OCI II), net of tax	120	120	–	–
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	–19	–19	–	–
Transferred to profit or loss	–1	–1	–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	–20	–20	–	–
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	7	7	–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	–13	–13	–	–
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–346	–346	–	–
<b>Items that may be reclassified to profit or loss</b>	<b>1,691</b>	<b>1,691</b>	<b>–</b>	<b>–1</b>
Other comprehensive income, before tax	4,351	4,350	–	1
Deferred taxes relating to other comprehensive income	–1,871	–1,871	–	0
<b>Other comprehensive income, net of tax</b>	<b>2,480</b>	<b>2,479</b>	<b>–</b>	<b>1</b>
<b>Total comprehensive income</b>	<b>13,943</b>	<b>13,658</b>	<b>274</b>	<b>11</b>

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

## Changes in comprehensive income for the period January 1 to December 31, 2018

€ million	Total	Equity attributable to Volkswagen AG shareholders	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to noncontrolling interests
<b>Earnings after tax</b>	<b>12,153</b>	<b>11,827</b>	<b>309</b>	<b>17</b>
Pension plan remeasurements recognized in other comprehensive income				
Pension plan remeasurements recognized in other comprehensive income, before tax	144	145	–	–1
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–88	–88	–	0
Pension plan remeasurements recognized in other comprehensive income, net of tax	56	57	–	–1
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	19	19	–	–
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	34	34	–	–
<b>Items that will not be reclassified to profit or loss</b>	<b>110</b>	<b>110</b>	<b>–</b>	<b>–1</b>
Exchange differences on translating foreign operations				
Gains/losses on currency translation recognized in other comprehensive income	–406	–406	–	1
Transferred to profit or loss	61	61	–	0
Exchange differences on translating foreign operations, before tax	–345	–345	–	1
Deferred taxes relating to exchange differences on translating foreign operations	–8	–8	–	–
Exchange differences on translating foreign operations, net of tax	–353	–353	–	1
Hedging				
Fair value changes recognized in other comprehensive income (OCI I)	–568	–568	–	0
Transferred to profit or loss (OCI I)	–1,939	–1,939	–	0
Cash flow hedges (OCI I), before tax	–2,506	–2,506	–	0
Deferred taxes relating to cash flow hedges (OCI I)	715	715	–	0
Cash flow hedges (OCI I), net of tax	–1,792	–1,792	–	0
Fair value changes recognized in other comprehensive income (OCI II)	–1,360	–1,360	–	–
Transferred to profit or loss (OCI II)	377	377	–	–
Cash flow hedges (OCI II), before tax	–983	–983	–	–
Deferred taxes relating to cash flow hedges (OCI II)	291	291	–	–
Cash flow hedges (OCI II), net of tax	–692	–692	–	–
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	–5	–5	–	–
Transferred to profit or loss	1	1	–	–
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	–4	–4	–	–
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	1	1	–	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	–3	–3	–	0
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	28	28	–	–
<b>Items that may be reclassified to profit or loss</b>	<b>–2,811</b>	<b>–2,812</b>	<b>–</b>	<b>0</b>
Other comprehensive income, before tax	–3,612	–3,612	–	0
Deferred taxes relating to other comprehensive income	911	911	–	0
<b>Other comprehensive income, net of tax</b>	<b>–2,701</b>	<b>–2,701</b>	<b>–</b>	<b>0</b>
<b>Total comprehensive income</b>	<b>9,452</b>	<b>9,126</b>	<b>309</b>	<b>17</b>

# Balance Sheet

of the Volkswagen Group as of December 31, 2018

€ million	Note	Dec. 31, 2018	Dec. 31, 2017
<b>Assets</b>			
<b>Noncurrent assets</b>			
Intangible assets	12	64,613	63,419
Property, plant and equipment	13	57,630	55,243
Lease assets	14	43,545	39,254
Investment property	14	496	468
Equity-accounted investments	15	8,434	8,205
Other equity investments	15	1,474	1,318
Financial services receivables	16	78,692	73,249
Other financial assets	17	6,521	8,455
Other receivables	18	2,608	2,252
Tax receivables	19	476	407
Deferred tax assets	19	10,131	9,810
		<b>274,620</b>	<b>262,081</b>
<b>Current assets</b>			
Inventories	20	45,745	40,415
Trade receivables	21	17,888	13,357
Financial services receivables	16	54,216	53,145
Other financial assets	17	11,586	11,998
Other receivables	18	6,203	5,346
Tax receivables	19	1,879	1,339
Marketable securities	22	17,080	15,939
Cash, cash equivalents and time deposits	23	28,938	18,457
Assets held for sale		–	115
		<b>183,536</b>	<b>160,112</b>
<b>Total assets</b>		<b>458,156</b>	<b>422,193</b>

€ million	Note	Dec. 31, 2018	Dec. 31, 2017
<b>Equity and Liabilities</b>			
<b>Equity</b>	<b>24</b>		
Subscribed capital		1,283	1,283
Capital reserve		14,551	14,551
Retained earnings <sup>1</sup>		91,105	81,248
Other reserves <sup>1</sup>		-2,417	678
Equity attributable to Volkswagen AG hybrid capital investors		12,596	11,088
Equity attributable to Volkswagen AG shareholders and hybrid capital investors		117,117	108,849
Noncontrolling interests		225	229
		<b>117,342</b>	<b>109,077</b>
<b>Noncurrent liabilities</b>			
Financial liabilities	25	101,126	81,628
Other financial liabilities	26	3,219	2,665
Other liabilities	27	6,448	6,199
Deferred tax liabilities	28	5,030	5,636
Provisions for pensions	29	33,097	32,730
Provisions for taxes	28	3,047	3,030
Other provisions	30	20,879	20,839
		<b>172,846</b>	<b>152,726</b>
<b>Current liabilities</b>			
Put options and compensation rights granted to noncontrolling interest shareholders	31	1,853	3,795
Financial liabilities	25	89,757	81,844
Trade payables	32	23,607	23,046
Tax payables	28	456	430
Other financial liabilities	26	9,416	8,570
Other liabilities	27	17,593	15,961
Provisions for taxes	28	1,412	1,397
Other provisions	30	23,874	25,347
		<b>167,968</b>	<b>160,389</b>
<b>Total equity and liabilities</b>		<b>458,156</b>	<b>422,193</b>

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

# Statement of Changes in Equity

of the Volkswagen Group for the period January 1 to December 31, 2018

€ million	OTHER RESERVES			
	Subscribed capital	Capital reserve	Retained earnings	Currency translation reserve
<b>Unadjusted balance at Jan. 1, 2017</b>	<b>1,283</b>	<b>14,551</b>	<b>70,446</b>	<b>-1,117</b>
Changes in accounting policy to reflect IFRS 9	–	–	57	–
<b>Balance at Jan. 1, 2017</b>	<b>1,283</b>	<b>14,551</b>	<b>70,503</b>	<b>-1,117</b>
Earnings after tax	–	–	11,179	–
Other comprehensive income, net of tax	–	–	586	-2,106
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>11,765</b>	<b>-2,106</b>
Disposal of equity instruments	–	–	–	–
Capital increases <sup>1</sup>	–	–	–	–
Dividends payment	–	–	-1,015	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	-4	–
<b>Balance at Dec. 31, 2017</b>	<b>1,283</b>	<b>14,551</b>	<b>81,248</b>	<b>-3,223</b>
<b>Unadjusted balance at Jan. 1, 2018</b>	<b>1,283</b>	<b>14,551</b>	<b>81,367</b>	<b>-3,223</b>
Changes in accounting policy to reflect IFRS 9 and 15	–	–	-282	–
<b>Balance at Jan. 1, 2018</b>	<b>1,283</b>	<b>14,551</b>	<b>81,085</b>	<b>-3,223</b>
Earnings after tax	–	–	11,827	–
Other comprehensive income, net of tax	–	–	57	-353
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>11,884</b>	<b>-353</b>
Disposal of equity instruments	–	–	113	–
Capital increases/Capital decreases <sup>2</sup>	–	–	–	–
Dividends payment	–	–	-1,967	–
Capital transactions involving a change in ownership interest	–	–	-10	–
Other changes	–	–	0	–
<b>Balance at Dec. 31, 2018</b>	<b>1,283</b>	<b>14,551</b>	<b>91,105</b>	<b>-3,576</b>

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

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

Explanatory notes on equity are presented in the note relating to equity.

HEDGING								
Cash flow hedges (OCI I)	Deferred costs of hedging (OCI II)	Equity and debt instruments	Equity- accounted investments	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to Volkswagen AG shareholders and hybrid capital investors	Noncontrolling interests	Total equity	
-457	-	-2	417	7,567	92,689	221	92,910	
-	-57	-	-	-	-	-	-	
-457	-57	-2	417	7,567	92,689	221	92,910	
-	-	-	-	274	11,453	10	11,463	
4,038	120	93	-251	-	2,479	1	2,480	
4,038	120	93	-251	274	13,932	11	13,943	
-	-	-	-	-	-	-	-	
-	-	-	-	3,481	3,481	-	3,481	
-	-	-	-	-311	-1,326	-5	-1,332	
-	-	-	-	-	-	-	-	
-	-	-	-	78	73	1	75	
3,581	63	91	166	11,088	108,849	229	109,077	
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	
-	-	-	-	309	12,136	17	12,153	
-1,791	-692	16	62	-	-2,701	0	-2,701	
-1,791	-692	16	62	309	9,435	17	9,452	
-	-	-113	-	-	-	-	-	
-	-	-	-	1,501	1,501	-	1,501	
-	-	-	-	-403	-2,370	-4	-2,375	
-	-	-	-	-	-10	-18	-28	
-	-	-	-	101	101	2	102	
1,790	-629	-230	228	12,596	117,117	225	117,342	

# Cash flow statement

of the Volkswagen Group for the period January 1 to December 31, 2018

€ million	2018	2017 <sup>1</sup>
<b>Cash and cash equivalents at beginning of period</b>	<b>18,038</b>	<b>18,833</b>
Earnings before tax	15,643	13,673
Income taxes paid	-3,804	-3,664
Depreciation and amortization of, and impairment losses on, intangible assets, property, plant and equipment, and investment property <sup>2</sup>	11,034	10,562
Amortization of and impairment losses on capitalized development costs <sup>2</sup>	3,668	3,734
Impairment losses on equity investments <sup>2</sup>	170	136
Depreciation of and impairment losses on lease assets <sup>2</sup>	7,689	7,734
Gain/loss on disposal of noncurrent assets and equity investments	98	-25
Share of the result of equity-accounted investments	244	274
Other noncash expense/income	347	-240
Change in inventories	-5,372	-4,198
Change in receivables (excluding financial services)	-6,400	-1,660
Change in liabilities (excluding financial liabilities)	3,645	5,302
Change in provisions	-762	-9,443
Change in lease assets	-11,647	-11,478
Change in financial services receivables	-7,282	-11,891
<b>Cash flows from operating activities</b>	<b>7,272</b>	<b>-1,185</b>
Investments in intangible assets (excluding development costs), property, plant and equipment, and investment property	-13,729	-13,052
Additions to capitalized development costs	-5,234	-5,260
Acquisition of subsidiaries	-470	-277
Acquisition of other equity investments	-420	-561
Disposal of subsidiaries	-26	496
Disposal of other equity investments	210	24
Proceeds from disposal of intangible assets, property, plant and equipment, and investment property	282	411
Change in investments in securities	-1,378	1,376
Change in loans and time deposits	-826	335
<b>Cash flows from investing activities</b>	<b>-21,590</b>	<b>-16,508</b>
Capital contributions/capital redemptions	1,491	3,473
Dividends paid	-2,375	-1,332
Capital transactions with noncontrolling interest shareholders	-28	-
Proceeds from issuance of bonds	35,308	30,279
Repayments of bonds	-15,290	-17,877
Changes in other financial liabilities	5,488	3,109
Lease payments	-29	-28
<b>Cash flows from financing activities</b>	<b>24,566</b>	<b>17,625</b>
Effect of exchange rate changes on cash and cash equivalents	-173	-727
<b>Net change in cash and cash equivalents</b>	<b>10,075</b>	<b>-796</b>
<b>Cash and cash equivalents at end of period</b>	<b>28,113</b>	<b>18,038</b>
Cash and cash equivalents at end of period	28,113	18,038
Securities, loans and time deposits	28,036	26,291
<b>Gross liquidity</b>	<b>56,148</b>	<b>44,329</b>
Total third-party borrowings	-190,883	-163,472
<b>Net liquidity</b>	<b>-134,735</b>	<b>-119,143</b>

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

2 Net of impairment reversals.

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

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

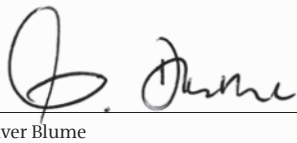
Wolfsburg, February 22, 2019

Volkswagen Aktiengesellschaft  
The Board of Management



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Herbert Diers



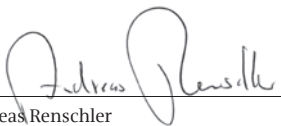
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Oliver Blume



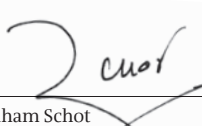
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Gunnar Kilian



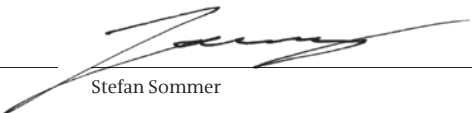
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Andreas Renschler



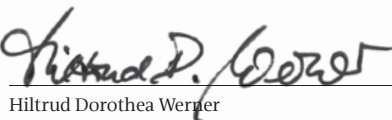
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Abraham Schot



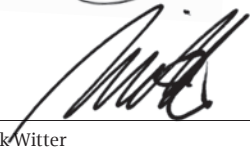
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Stefan Sommer



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Hiltrud Dorothea Wengler



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Frank Witter

# Independent Auditor's Report

On completion of our audit, we issued an unqualified auditor's report dated February 22, 2019 in German language. The following text is a translation of this auditor's report. The German text is authoritative:

To VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

## AUDIT OPINIONS

We have audited the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2018, and the income statement and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of VOLKSWAGEN AKTIENGESELLSCHAFT, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- › the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and
- › the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

## BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

**EMPHASIS OF MATTER – DIESEL ISSUE**

We draw attention to the information provided and statements made in section “Key Events“ of the notes to the consolidated financial statements and in section “Diesel Issue“ of the group management report with regard to the diesel issue including information about the allegations made and claims filed, the underlying causes, the non-involvement of members of the board of management as well as the impact on these financial statements.

Based on the results of the various measures taken to investigate the issue presented so far, which underlie the consolidated financial statements and the 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 solid 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 consolidated financial statements and on the group management report for 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 consolidated financial statements and on the group management report are not modified in respect of this matter.

**KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

- ① Accounting treatment of risk provisions for the diesel issue
- ② Recoverability of goodwill and brand names
- ③ Recoverability of capitalized development costs
- ④ Completeness and measurement of provisions for warranty obligations arising from sales
- ⑤ Financial instruments – hedge accounting

Our presentation of these key audit matters has been structured in each case as follows:

- ① Matter and issue
- ② Audit approach and findings
- ③ Reference to further information

Hereinafter we present the key audit matters:

- ① Accounting treatment of risk provisions for the diesel issue
- ① Companies of the Volkswagen Group are involved in investigations by government authorities in numerous countries (in particular in Europe, the United States and Canada) with respect to irregularities in the exhaust gas emissions from diesel engines in certain vehicles of the Volkswagen Group. Different measures are being implemented in various countries for affected vehicles. These include hardware and/or software solutions, vehicle repurchases or the early termination of leases and, in some cases, cash payments to vehicle owners. Furthermore, payments are being made as a result of criminal proceedings and civil law settlements with various parties. In addition, there are civil lawsuits pending from customers, dealers and holders of securities. Further direct and indirect effects concern in particular impairment of assets and customer-specific sales programs.

The Volkswagen Group recognizes the expenses directly related to the diesel issue in its operating income. The special items expensed in financial year 2018 amount to €3.2 billion and relate to fines paid (€1.8 billion) and to further additions to reserves for legal risks and legal defense cost as well as technical measures. In addition to provisions, contingent liabilities for legal risks in the amount of €5.4 billion are reported as of December 31, 2018.

The reported provisions and contingent liabilities are exposed to considerable estimation risk due to the wide-ranging investigations and proceedings that are ongoing, the complexity of the various negotiations and pending approval procedures by authorities, and developments in market conditions. This matter was of particular significance for our audit due to the material amounts of the provisions as well as the scope of assumptions and discretion on the part of the executive directors.

- ② In order to audit the recognition and measurement of provisions for field activities and vehicle repurchases arising as a result of the diesel issue, we critically examined the processes put in place by the companies of the Volkswagen Group to make substantive preparations to address the diesel issue, and assessed the progress made in implementing the technical solutions developed to remedy it. We compared this knowledge with the technical and legal substantiations of independent experts, as presented to us. We used in particular an IT data analysis solution to examine the quantity structure underlying the field activities and repurchases. We assessed the inputs used to measure the repair solutions and the repurchases. We used this as a basis to evaluate the calculation of the provisions.

In order to audit the recognition and measurement of the provisions for legal risks and the disclosure of contingent liabilities for legal risks resulting from the diesel issue, we assessed both the available official documents as well as in particular the work delivered and opinions prepared by experts commissioned by the Volkswagen Group. As part of a targeted selection of key procedures and supplemented by additional samples, we inspected the correspondence relating to the litigation and, in talks with officials from the affected companies and the lawyers involved, and including our own legal experts, we discussed the assessments made.

Taking into consideration the information provided and statements made in the section entitled "Key events" in the notes to the consolidated financial statements and in the section entitled "Diesel Issue" in the group management report with regard to the diesel issue including information about the underlying causes, the non-involvement of members of the board of management as well as the impact on these financial statements, we believe that, overall, the assumptions and inputs underlying the calculation of the risk provisions for the diesel issue are appropriate to properly recognize and measure the provisions.

- ③ The Company's disclosures on the diesel issue are contained in the sections entitled "Key events" and "Litigation" in the notes to the consolidated financial statements, and in the sections entitled "Diesel Issue" and "Report on Risks and Opportunities", sub-sections "Risks from the Diesel Issue" and "Litigation" in the group management report.

② Recoverability of goodwill and brand names

- ① The intangible assets reported in the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT include €23.3 billion in goodwill and €16.9 billion purchased brand names (intangible assets with indefinite useful lives). The Company allocates goodwill and brand names to the subgroups and brands, respectively, within the Volkswagen Group. As part of the regular impairment testing of goodwill and brand names, the Company compares the carrying amount of the subgroups and brands, respectively, against their respective recoverable amount. In general, the recoverable amount is calculated on the basis of the value in use. The value in use is calculated using discounted cash flow models on the basis of the Volkswagen Group's five-year operating plan prepared by the executive directors and acknowledged by the Supervisory Board and extrapolated based on assumptions about long-term growth rates. The discount rate used is the weighted average cost of capital for the relevant reporting segment. The result of this measurement depends to a large extent on the executive directors' assessment with regard to the future cash inflows of the respective subgroups and brands, respectively, and on the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the measurement models, this matter was of particular importance for our audit.

- ② As part of our audit, we assessed, among other things, the method used to perform impairment tests and the calculation of the weighted cost of capital. We evaluated the appropriateness of the future cash inflows used in the measurement, including by comparing this data with the five-year operating plan prepared by the executive directors and acknowledged by the Supervisory Board, and through reconciliation with general and sector-specific market expectations. We also evaluated that the costs for Group functions not recognized in a segment were properly included in the impairment test for the respective subgroup and brand, respectively. With the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amounts calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, due to the materiality of the goodwill and brand names, we also performed our own sensitivity analyses for the subgroups and brands, respectively, (comparison of carrying amounts and recoverable amounts) and determined that the respective goodwill and brand names were sufficiently covered by the discounted future cash flows. Overall, we consider the measurement inputs and assumptions used by the executive directors to be in line with our expectations and to lie also within a range that we consider reasonable.
- ③ The Company's disclosures on goodwill and brand names are contained in section entitled "Intangible assets" in the notes to the consolidated financial statements.

③ Recoverability of capitalized development costs

- ① In the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT capitalized development costs amounting to €22.4 billion are reported under the "Intangible assets" balance sheet item. In accordance with IAS 38, research costs are treated as expenses incurred, while development costs for future series products are capitalized provided that sale of these products is likely to bring an economic benefit. Until amortization begins, developments must be tested for impairment in accordance with IAS 36 at least once a year based on the cash-generating units to which they are allocated. To meet this requirement, over the period from capitalization until completion of development the Company assesses whether the costs incurred are covered by future cash flows. Once amortization begins, an assessment must be carried out at each reporting date as to whether there are indications of impairment. If this is the case, an impairment test must be performed and any impairment loss recognized. For impairment losses recognized in prior periods, an annual assessment must be carried out as to whether there are indications that the reason for the impairment has ceased to apply.

The Volkswagen Group generally applies the present value of the future cash flows (value in use) from the relevant cash-generating units to test these intangible assets for impairment. The value in use is determined using the discounted cash flow method based on the Group's five-year financial planning prepared by the executive directors. The discount rate used is the weighted average cost of capital (WACC). The weighted average cost of capital applied in the Volkswagen Group includes the weighted average cost of equity and debt before taxes.

The impairment identified during the impairment testing was recognized under the "Cost of sales" line item in the income statement as impairment losses amounting to €0.04 billion.

The result of this measurement depends to a large extent on the executive directors' assessment of future cash inflows and the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

- ② As part of our audit we assessed whether, overall, the assumptions underlying the measurements particularly in the form of future cash inflows, and the discount rates used provide an appropriate basis by which to test the individual cash-generating units for impairment. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as the executive directors' detailed explanations regarding key planning value drivers. We also evaluated that the costs for Group functions were properly included in the impairment tests of the respective cash-generating units. With the knowledge that even relatively small changes in the discount rate applied can in some cases have material effects on values, we also focused our testing on the parameters used to determine the discount rate applied, and evaluated the measurement model. We also assessed the consistency of the measurement model applied and evaluated the mathematical accuracy of the calculations. Furthermore, we performed our own additional sensitivity analysis for those cash-generating units with little headroom (present value exceeds carrying amount) in order to gauge the impairment risk and enable us to adapt our audit procedures accordingly. With respect to completed development projects, we inquired the executive directors about whether or not there were indications of impairment or that reasons for impairment had ceased to apply, and critically examined these assumptions based on our knowledge of the Group's legal and economic environment. In the case of impairment losses or a reversal of impairment losses, we assessed that these were properly assigned to the assets allocated to the cash-generating unit. In our view, the measurement inputs and assumptions used by the executive directors, and the measurement model, were properly derived for the purposes of conducting impairment tests.
- ③ Company's disclosures on capitalized development costs and the associated impairment testing are contained in sections entitled "Accounting policies" and "Intangible assets" in the notes to the consolidated financial statements.
- ④ **Completeness and measurement of provisions for warranty obligations arising from sales**
- ① In the consolidated financial statements of the Volkswagen Group €27.0 billion in provisions for obligations arising from sales are reported under the "Other provisions" balance sheet item. These obligations primarily relate to warranty claims arising from the sale of vehicles, motorcycles, components and genuine parts. Warranty claims are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. An estimate is also made of the discount rate. In addition, assumptions must be made about the nature and extent of future warranty and ex gratia claims. These assumptions are based on qualified estimates.

From our point of view, this matter was of particular significance for our audit because the recognition and measurement of this material item is to a large extent based on estimates and assumptions made by the Company's executive directors.

- ② With the knowledge that estimated values result in an increased risk of accounting misstatements and that the measurement decisions made by the executive directors have a direct and significant effect on consolidated net profit/loss, we assessed the appropriateness of the carrying amounts, including by comparing these figures with historical data and using the measurement bases presented to us. Furthermore, we assessed that the interest rates with matching terms were properly derived from market data. We evaluated the entire calculations (including discounting) for the provisions using the applicable measurement inputs and assessed the planned timetable for utilizing the provisions. In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by the executive directors were sufficiently documented and supported to justify the recognition and measurement of the provisions for warranty obligations arising from sales.

③ The Company's disclosures on other provisions are contained in sections entitled "Accounting policies" and "Noncurrent and current other provisions" in the notes to the consolidated financial statements.

⑤ Financial instruments – hedge accounting

① The companies of the Volkswagen Group use a variety of derivative financial instruments to hedge in particular against currency and interest rate risks arising from their ordinary business activities. The executive directors' hedging policy is documented in corresponding internal guidelines and serves as the basis for these transactions. Currency risk arises primarily from sales and procurement transactions and financing denominated in foreign currencies. The means of limiting this risk include entering into currency forwards, currency options and cross-currency interest rate swaps. The companies enter into interest rate hedges for the purpose of achieving an economically sensible ratio of variable to fixed interest rate exposures. Interest rate risk is minimized by entering into interest rate swaps and cross-currency interest rate swaps.

Derivatives are measured at fair value as of the balance sheet date. The positive fair values of all of the derivatives used for hedging purposes amount to €4.0 billion as of the balance sheet date, while the negative fair values amount to €2.6 billion. Insofar the financial instruments used by the Volkswagen Group are effective hedges of future cash flows in the context of hedging pursuant to the requirements of IFRS 9 (cash flow hedges), the effective portion of the changes in fair value is recognized in other comprehensive income over the duration of the hedging relationships until the maturity of the hedged cash flows. Changes in the value of derivative financial instruments caused by changes in the spot price are shown under the cash flow hedge reserve, as usual. Changes in the value of hedging instruments caused by changes in forward rates, and in the case of options caused by changes in fair value respectively, and changes in the value of the so called cross-currency basis spread are shown under the line item "cost of hedging reserve", which was newly introduced under IFRS 9. As of the balance sheet date, a cumulative amount of €1.2 billion was recognized in equity (cash flow hedge reserve of €1.8 billion and in the cost of hedging reserve €-0.6 billion) net of deferred taxes as the effective portion of fair value changes. Insofar derivative financial instruments are used to hedge against changes in the carrying amount of balance sheet items pursuant to the requirements of IFRS 9, changes in the fair value of both the hedged items and the hedging instruments are recognized on a net basis in the corresponding income statement items (fair value hedges).

At the time of transitioning from hedge accounting under IAS 39 to IFRS 9 at the beginning of the financial year, Volkswagen exercised as far as possible the option of implementing the transition prospectively, without restating prior-period figures. For currency options, the transition was carried out retrospectively with restating prior-period figures, as required by the standard. Changes in the fair value of currency options recognized in the income statement in the prior period were reclassified retrospectively to the cost of hedging reserve.

From our point of view these matters were of particular significance for our audit due to the high complexity and number of transactions as well as the extensive accounting and disclosure requirements of IFRS 9 and IFRS 7.

② As part of our audit, we assessed, with the assistance of our internal specialists, the changes to processes and systems in connection with the introduction of IFRS 9, among other things. A particular focus was placed on assessing how the effects from transition and the changes to prior-period figures in relation to the introduction of IFRS 9 were determined. Both the treasury management system and the corresponding adjustments in the consolidation system were subject to separate examinations. In addition, we assessed the contractual and financial parameters and evaluated the accounting treatment, including the effects on equity and profit or loss, of the various hedging relationships. Together with our specialists, we also evaluated the Company's internal control system with regard to derivative financial instruments, including the internal activities to monitor compliance with the hedging policy. In addition, for the purpose of auditing the fair value measurement of financial instruments, we also assessed the methods of calculation employed on the basis of market data. In addition to evaluating the internal control system, we obtained bank confirmations for the hedging instruments in order to assess completeness. With regard to the expected cash flows and the assessment of the effectiveness of hedges, we essentially conducted a ret-

respective assessment of past hedging levels. In doing so, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors were substantiated and sufficiently documented.

- ③ The Company's disclosures on hedge accounting are contained in sections entitled "Accounting policies", "Noncurrent and current other financial assets", "Noncurrent and current other financial liabilities", "Additional balance sheet disclosures in accordance with IFRS 7 (Financial Instruments)" in the notes to the consolidated financial statements.

#### OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate Governance Report" of the group management report the corporate
- governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report, – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

#### Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

**OTHER LEGAL AND REGULATORY REQUIREMENTS****Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor by the annual general meeting on May 3, 2018. We were engaged by the supervisory board on May 4, 2018. We have been the group auditor of the VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, without interruption since the financial year 1948/1949.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

**GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT**

The German Public Auditor responsible for the engagement is Frank Hübner.

Hanover, February 22, 2019

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

Harald Kayser  
Wirtschaftsprüfer  
(German Public Auditor)

Frank Hübner  
Wirtschaftsprüfer  
(German Public Auditor)