

Other disclosures

33. Cash flow statement

Cash flows are presented in the cash flow statement classified into cash flows from operating activities, investing activities and financing activities, irrespective of the balance sheet classification.

Cash flows from operating activities are derived indirectly from earnings before tax. Earnings before tax are adjusted to eliminate noncash expenditures (mainly depreciation, amortization and impairment losses) and income. Other noncash income and expense results mainly from measurement effects in connection with financial instruments and to fair value changes relating to hedging transactions (see section entitled "Other financial result"). This results in cash flows from operating activities after accounting for changes in working capital, which also include changes in lease assets and in financial services receivables.

Investing activities include additions to property, plant and equipment and equity investments, additions to capitalized development costs and investments in securities, loans and time deposits.

Financing activities include outflows of funds from dividend payments and redemption of bonds, inflows from the capital increases and issuance of bonds, and changes in other financial liabilities. Please refer to the "Equity" section for information on the in-/outflows from the issuance/repayment of hybrid capital contained in the capital contributions.

The changes in balance sheet items that are presented in the cash flow statement cannot be derived directly from the balance sheet, as the effects of currency translation and changes in the consolidated Group are non-cash transactions and are therefore eliminated.

In 2018, cash flows from operating activities include interest received amounting to €7,047 million (previous year: €6,641 million) and interest paid amounting to €1,857 million (previous year: €2,332 million). Cash flows from operating activities also include dividend payments received from joint ventures and associates of €3,493 million (previous year: €3,653 million).

Dividends amounting to €1,967 million (previous year: €1,015 million) were paid to Volkswagen AG shareholders.

€ million	Dec. 31, 2018	Dec. 31, 2017
Cash, cash equivalents and time deposits as reported in the balance sheet	28,938	18,457
Time deposits	-825	-420
Cash and cash equivalents as reported in the cash flow statement	28,113	18,038

Time deposits are not classified as cash equivalents. Time deposits have a contractual maturity of more than three months. The maximum default risk corresponds to its carrying amount.

The following table shows the classification of changes in financial liabilities into cash and non-cash transactions:

€ million	Jan. 1, 2017	NON-CASH CHANGES				Dec. 31, 2017
		Cash-effective changes	Foreign exchange differences	Changes in consolidated group	Changes in fair values	
Bonds	52,022	12,402	-1,018	-	-289	63,118
Other total third-party borrowings	102,259	3,501	-5,273	-370	-240	99,875
Finance lease liabilities	539	-28	-25	-16	9	479
Total third-party borrowings	154,819	15,875	-6,316	-386	-520	163,472
Put options and compensation rights granted to noncontrolling interest shareholders	3,849	-118	-	-	64	3,795
Other financial assets and liabilities	87	-274	17	-	10	-160
Financial assets and liabilities in financing activities	158,755	15,483	-6,299	-386	-446	167,107

€ million	Jan. 1, 2018	NON-CASH CHANGES				Dec. 31, 2018
		Cash-effective changes	Foreign exchange differences	Changes in consolidated group	Changes in fair values	
Bonds	63,118	20,018	-193	-	-1,395	81,549
Other total third-party borrowings	99,875	7,740	-414	11	1,674	108,886
Finance lease liabilities	479	-29	-1	-	0	449
Total third-party borrowings	163,472	27,730	-607	11	279	190,883
Put options and compensation rights granted to noncontrolling interest shareholders	3,795	-2,132	-	-	190	1,853
Other financial assets and liabilities	-160	-121	27	-	72	-182
Financial assets and liabilities in financing activities	167,107	25,477	-581	11	541	192,555

34. Financial risk management and financial instruments

1. HEDGING GUIDELINES AND FINANCIAL RISK MANAGEMENT PRINCIPLES

The principles and responsibilities for managing and controlling the risks that could arise from financial instruments are defined by the Board of Management and monitored by the Supervisory Board. General rules apply to the Group-wide risk policy; these are oriented on the statutory requirements and the “Minimum Requirements for Risk Management by Credit Institutions”.

Group Treasury is responsible for operational risk management and control of risks from financial instruments. The main functions of the MAN and PHS subgroups are included in Group Treasury’s operational risk management and control for risks relating to financial instruments, while the Scania subgroup is only included to a limited extent. Subgroups have their own risk management structures. The Risk Management Group Executive Committee is regularly informed about current financial risks. In addition, the Group Board of Management and the Supervisory Board are regularly updated on the current risk situation.

For more information, please see the management report on page 185-186.

2. CREDIT AND DEFAULT RISK

The credit and default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the amount of the claims under carrying amounts receivable from them and the irrevocable credit commitments. The maximum potential credit and default risk is reduced by collateral held and other credit enhancements. Collateral is held predominantly for financial assets in the “at amortized cost” category. It relates primarily to collateral for financial services receivables and trade receivables. Collateral comprises vehicles and assets transferred as security, as well as guarantees and real property liens. Cash collateral is also used in hedging transactions.

For level 3 and 4 financial assets with objective indications of impairment as of the reporting date, the collateral provided led to a reduction in risk by €1.3 billion. Collateral of €15 million has been accepted for assets measured at fair value through profit or loss.

Significant cash and capital investments, as well as derivatives, are only entered into with national and international banks. Risk is additionally limited by a limit system based primarily on the equity base of the counterparties concerned and on credit assessments by international rating agencies. Financial guarantees issued also give rise to credit and default risk. The maximum potential credit and default risk is calculated from the amount Volkswagen would have to pay if claims were to be asserted under the guarantees. The corresponding amounts are presented in the Liquidity risk section.

There were no material concentrations of risk at individual counterparties or counterparty groups in the past fiscal year due to the global allocation of the Group’s business activities and the resulting diversification. There was a slight change in the concentration of credit and default risk exposures to the German public banking sector as a whole that has arisen from Group-wide cash and capital investments as well as derivatives: the portion attributable to this sector was 9.7% at the end of 2018 compared with 7.4% at the end of 2017. Any existing concentration of risk is assessed and monitored both at the level of individual counterparties or counterparty groups and with regard to the countries in which these are based, in each case using the share of all credit and default risk exposures accounted for by the risk exposure concerned.

For China, credit and default risk exposures accounted for 25.4% at the end of 2018, as against 29.5% at the end of 2017. There were no other concentrations of credit and default risk exposures in individual countries.

**CHANGES IN CREDIT RISK LOSS ALLOWANCES ON FINANCIAL ASSETS
FROM JANUARY 1 TO DECEMBER 31, 2017**

€ million	Specific valuation allowances	Portfolio-based valuation allowances	2017
Balance at Jan. 1, 2017	2,092	2,175	4,268
Exchange rate and other changes	-87	-46	-132
Changes in consolidated Group	-18	0	-18
Additions	853	525	1,378
Utilization	427	-	427
Reversals	339	676	1,014
Reclassification	20	-20	-
Balance at Dec. 31, 2017	2,094	1,959	4,054

LOSS ALLOWANCE

The Volkswagen Group consistently uses the expected credit loss model of IFRS 9 for all financial assets and other risk exposures.

Regarding this, IFRS 9 differentiates between the general approach and the simplified approach. The expected credit loss model under IFRS 9 takes in both loss allowances for financial assets for which there are no objective indications of impairment and loss allowances for financial assets that are already impaired. For the calculation of impairment losses, IFRS 9 distinguishes between the general approach and the simplified approach.

Under the general approach, financial assets are allocated to one of three stages, plus an additional stage for financial assets that are already impaired when acquired (stage 4). Stage 1 comprises financial assets that are recognized for the first time or for which the probability of default has not increased significantly. The expected credit losses for the next twelve months are calculated at this stage. Stage 2 comprises financial assets with a significantly increased probability of default, while financial assets with objective indications of default are allocated to stage 3. The lifetime expected credit losses are calculated at these stages. Stage 4 financial assets, which are already impaired when acquired, are subsequently measured by recognizing a loss allowance on the basis of the accumulated lifetime expected losses. Financial assets classified as impaired on acquisition remain in this category until they are derecognized.

The Volkswagen Group applies the simplified approach to trade receivables and contract assets with a significant financing component in accordance with IFRS 15. The same applies to receivables under operating or finance leases accounted for under IAS 17. Under the simplified approach, the expected losses are consistently determined for the entire life of the asset.

The tables below show the reconciliation of the loss allowance for various financial assets and financial guarantees and credit commitments:

**CHANGES IN LOSS ALLOWANCE FOR FINANCIAL ASSETS MEASURED AT AMORTIZED COST
FROM JANUARY 1 TO DECEMBER 31, 2018**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount at Jan. 1, 2018	800	802	1,002	622	138	3,364
Foreign exchange differences	-2	-7	-35	-15	-4	-63
Changes in consolidated group	4	6	15	8	0	33
Newly extended/purchased financial assets (additions)	253	-	-	176	30	459
Other changes within a stage	-69	132	195	1	16	275
Transfers to						
Stage 1	22	-67	-13	-	-	-58
Stage 2	-102	275	-39	-	-	134
Stage 3	-33	-51	445	-	-	361
Financial instruments derecognized during the period (disposals)	-120	-148	-226	-127	-33	-653
Utilization	-	-	-459	-34	-1	-493
Changes to models or risk parameters	-1	4	10	3	-2	13
Carrying amount at Dec. 31, 2018	750	946	896	634	146	3,372

**CHANGES IN LOSS ALLOWANCE FOR FINANCIAL GUARANTEES AND CREDIT COMMITMENTS
FROM JANUARY 1 TO DECEMBER 31, 2018**

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Carrying amount at Jan. 1, 2018	11	4	1	0	16
Foreign exchange differences	0	0	0	-	0
Changes in consolidated group	-	-	-	-	-
Newly extended/purchased financial assets (additions)	11	-	-	1	12
Other changes within a stage	0	0	0	0	0
Transfers to					
Stage 1	0	0	0	-	0
Stage 2	-1	0	0	-	0
Stage 3	0	0	1	-	1
Financial instruments derecognized during the period (disposals)	-4	-4	0	-1	-9
Utilization	-	-	0	-	0
Changes to models or risk parameters	0	0	0	0	0
Carrying amount at Dec. 31, 2018	18	1	1	0	19

**CHANGES IN LOSS ALLOWANCE FOR LEASE RECEIVABLES
FROM JANUARY 1 TO DECEMBER 31, 2018**

€ million	Simplified approach
Carrying amount at Jan. 1, 2018	1,250
Foreign exchange differences	-6
Changes in consolidated group	-
Newly extended/purchased financial assets (additions)	450
Other changes	0
Financial instruments derecognized during the period (disposals)	-465
Utilization	-54
Changes to models or risk parameters	18
Carrying amount at Dec. 31, 2018	1,193

The loss allowance on “assets measured at fair value” amounted to €2 million in January 2018 (Stage 1) and did not change in the course of the fiscal year.

The amount contractually outstanding for financial assets that have been derecognized in the current year and are still subject to enforcement proceedings is €293 million.

MODIFICATIONS

There were contract modifications to financial assets in the reporting period that did not lead to the derecognition of the asset. They were primarily attributable to credit ratings and relate to financial assets for which loss allowances were measured in the amount of the lifetime credit losses. For trade and lease receivables, the treatment is simplified by considering the credit rating-based modifications where the receivables are more than 30 days past due. Before the modification, amortized cost amounted to €147 million. In the reporting period, contract modifications resulted in net income/net expenses of €2 million.

As of the reporting date, the gross carrying amounts of financial assets that have been modified since initial recognition and were simultaneously reclassified from stage 2 or 3 to stage 1 in the reporting period amounted to €19 million. As a result, the measurement of the loss allowance for these financial assets was changed from lifetime expected credit losses to 12-month expected credit losses.

MAXIMUM CREDIT RISK

The table below shows the maximum credit risk to which the Volkswagen Group was exposed as of the reporting date, broken down by class to which the impairment model is applied:

**MAXIMUM CREDIT RISK BY CLASS
AS OF DECEMBER 31, 2018**

€ million	Dec. 31, 2018
Financial instruments measured at fair value	3,542
Financial instruments measured at amortized cost	143,466
Financial guarantees and credit commitments	4,640
not within the scope of IFRS 7	49,518
Total	201,166

RATING CATEGORIES

The Volkswagen Group performs a credit assessment of borrowers in all loan and lease agreements, using scoring systems for the high-volume business and rating systems for corporate customers and receivables from dealer financing. Receivables rated as good are contained in risk class 1. Receivables from customers whose credit rating is not good but have not yet defaulted are contained in risk class 2. Risk class 3 comprises all defaulted receivables.

The table below presents the gross carrying amounts of financial assets by rating category as of December 31, 2018:

**GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS BY RATING CATEGORY
AS OF DECEMBER 31, 2018**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Credit risk rating grade 1 (receivables with no credit risk – standard loans)	116,912	8,007	–	58,537	93
Credit risk rating grade 2 (receivables with credit risk – intensified loan management)	2,243	4,787	–	5,687	37
Credit risk rating grade 3 (cancelled receivables – non-performing loans)	–	–	1,719	1,017	467
Total	119,155	12,794	1,719	65,241	597

Furthermore, the default risk exposure for financial guarantees and credit commitments is presented below:

**DEFAULT RISK FOR FINANCIAL GUARANTEES AND CREDIT COMMITMENTS
AS OF DECEMBER 31, 2018**

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Credit risk rating grade 1 (receivables with no credit risk – standard loans)	4,243	304	–	1
Credit risk rating grade 2 (receivables with credit risk – intensified loan management)	76	15	–	0
Credit risk rating grade 3 (cancelled receivables – non-performing loans)	–	–	17	4
Total	4,318	319	17	5

In addition, the credit and default risk relating to financial assets, the credit rating of financial assets that are neither past due nor impaired, and the maturities of financial assets that are past due and not impaired are presented for the previous year in the table below:

**CREDIT AND DEFAULT RISK RELATING TO FINANCIAL ASSETS BY GROSS CARRYING AMOUNT
AS OF DECEMBER 31, 2017**

€ million	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2017
Measured at amortized cost				
Financial services receivables	124,044	2,888	2,900	129,832
Trade receivables	10,395	2,833	562	13,791
Other receivables	13,403	102	196	13,700
Measured at fair value	16,862	–	290	17,152
	164,704	5,822	3,948	174,475

**CREDIT RATING OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS
THAT ARE NEITHER PAST DUE NOR IMPAIRED AS OF DECEMBER 31, 2017**

€ million	Risk class 1	Risk class 2	Dec. 31, 2017
Measured at amortized cost			
Financial services receivables	104,143	19,901	124,044
Trade receivables	10,259	136	10,395
Other receivables	13,313	90	13,403
Measured at fair value	22,086	–	22,086
	149,802	20,127	169,928

**MATURITY ANALYSIS OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS
THAT ARE PAST DUE AND NOT IMPAIRED AS OF DECEMBER 31, 2017**

€ million	PAST DUE BY			GROSS CARRYING AMOUNT
	up to 30 days	within 30 to 90 days	more than 90 days	Dec. 31, 2017
Measured at amortized cost				
Financial services receivables	2,148	728	12	2,888
Trade receivables	1,164	689	980	2,833
Other receivables	43	21	37	102
Measured at fair value	–	–	–	–
	3,355	1,438	1,029	5,822

Collateral that was accepted for financial assets in the current fiscal year was recognized in the balance sheet in the amount of €134 million (previous year: €109 million). This mainly relates to vehicles.

3. LIQUIDITY RISK

The solvency and liquidity of the Volkswagen Group are ensured at all times by rolling liquidity planning, a liquidity reserve in the form of cash, confirmed credit lines and the issuance of securities on the international money and capital markets. The volume of confirmed bilateral and syndicated credit lines stood at €16.8 billion as of December 31, 2018 (previous year: €19.9 billion), of which €3.4 billion (previous year: €3.4 billion) was drawn down.

Local cash funds in certain countries (e.g. China, Brazil, Argentina, South Africa and India) are only available to the Group for cross-border transactions subject to exchange controls. There are no significant restrictions over and above these.

The following overview shows the contractual undiscounted cash flows from financial instruments:

MATURITY ANALYSIS OF UNDISCOUNTED CASH FLOWS FROM FINANCIAL INSTRUMENTS

€ million	REMAINING CONTRACTUAL MATURITIES			2018	REMAINING CONTRACTUAL MATURITIES			2017
	up to one year	within one to five years	more than five years		up to one year	within one to five years	more than five years	
Put options and compensation rights granted to noncontrolling interest shareholders	1,853	–	–	1,853	3,379	–	–	3,379
Financial liabilities	91,891	84,965	23,380	200,235	83,867	69,968	16,113	169,949
Trade payables	23,607	0	–	23,607	23,041	5	–	23,046
Other financial liabilities	8,010	1,916	154	10,080	7,360	1,557	86	9,003
Derivatives	63,059	42,984	3,036	109,078	72,635	47,414	332	120,381
	188,419	129,865	26,570	344,854	190,281	118,945	16,531	325,758

When calculating cash outflows related to put options and compensation rights, it was assumed that shares would be tendered at the earliest possible date. The cash outflows on other financial liabilities include outflows on liabilities for tax allocations amounting to €33 million.

Derivatives comprise both cash flows from derivative financial instruments with negative fair values and cash flows from derivatives with positive fair values for which gross settlement has been agreed. Derivatives entered into through offsetting transactions are also accounted for as cash outflows. The cash outflows from derivatives for which gross settlement has been agreed are matched in part by cash inflows. These cash inflows are not reported in the maturity analysis. If these cash inflows were also recognized, the cash outflows presented would be substantially lower. This applies in particular also if hedges have been closed with offsetting transactions.

The cash outflows from irrevocable credit commitments are presented in section entitled "Other financial obligations", classified by contractual maturities.

As of December 31, 2018, the maximum potential liability under financial guarantees amounted to €315 million (previous year: €261 million). Financial guarantees are assumed to be due immediately in all cases.

4. MARKET RISK**4.1 Hedging policy and financial derivatives**

During the course of its general business activities, the Volkswagen Group is exposed to foreign currency, interest rate, commodity price, equity price and fund price risk. Corporate policy is to limit or eliminate such risk by means of hedging. Generally, all necessary hedging transactions with the exception of the Scania, MAN and Porsche Holding GmbH (Salzburg) subgroups are executed or coordinated centrally by Group Treasury.

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES

Fair value hedges involve hedging against the risk of changes in the carrying amount of balance sheet items. As of the reporting date, both hedging instruments and hedged items are measured at fair value in relation to the hedged risk, and the resulting changes in value are recognized on a net basis in the corresponding income statement item. In the previous year, income from fair value hedges amounted to €7 million.

The following table shows the gains and losses from (fair value) hedges by risk type during the fiscal year:

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES IN 2018

€ million	Hedge ineffectiveness in hedging relationships
Hedging interest rate risk	
Other financial result	–
Other operating result	34
Hedging currency risk	
Other financial result	–
Other operating result	–30
Combined interest rate and currency risk hedging	
Other financial result	0
Other operating result	5

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES

Cash flow hedges are used to hedge against risks of fluctuations in future cash flows. These cash flows may arise from a recognized asset or liability, or from a highly probable forecast transaction. The following table shows the gains and losses from cash flow hedges by risk type:

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES IN 2018

€ million	2018
Hedging interest rate risk	
Gains or losses from changes in fair value of hedging instruments within hedge accounting	
Recognized in equity	-38
Recognized in profit or loss	0
Reclassification from the cash flow hedge reserve to profit or loss	
Due to early discontinuation of the hedging relationships	-
Due to realization of the hedged item	2
Hedging currency risk	
Gains or losses from changes in fair value of hedging instruments within hedge accounting	
Recognized in equity	-1,367
Recognized in profit or loss	-7
Reclassification from the cash flow hedge reserve to profit or loss	
Due to early discontinuation of the hedging relationships	-1
Due to realization of the hedged item	-1,074
Combined interest rate and currency risk hedging	
Gains or losses from changes in fair value of hedging instruments within hedge accounting	
Recognized in equity	8
Recognized in profit or loss	0
Reclassification from the cash flow hedge reserve to profit or loss	
Due to early discontinuation of the hedging relationships	-
Due to realization of the hedged item	-8
Hedging commodity price risk	
Gains or losses from changes in fair value of hedging instruments within hedge accounting	
Recognized in equity	-5
Recognized in profit or loss	-
Reclassification from the cash flow hedge reserve to profit or loss	
Due to early discontinuation of the hedging relationships	-
Due to realization of the hedged item	1

The table presents effects taken to equity, reduced by deferred taxes.

The gain or loss from changes in the fair value of hedging instruments used in hedge accounting corresponds to the basis for determining hedge ineffectiveness. The ineffective portion of a cash flow hedge is the income or expense resulting from changes in the fair value of the hedging instrument that exceed the changes in the fair value of the hedged item. This hedge ineffectiveness is attributable to parameter differences between the hedging instrument and the hedged item. Such income and expenses are recognized in other operating income/expenses or in the financial result. In fiscal year 2017, ineffectiveness amounting to €-11 million was recognized in the income statement. The Volkswagen Group uses two different methods to present market risk from nonderivative and derivative financial instruments in accordance with IFRS 7. For quantitative risk measurement, interest rate and foreign currency risk in the Volkswagen Financial Services subgroup are measured using a value-at-risk (VaR) model on the basis of a historical simulation, while market risk in the other Group companies is determined using a sensitivity analysis. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from nonderivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in calculating value at risk covers a period of 1,000 trading days. The sensitivity analysis calculates the effect on equity and profit or loss by modifying risk variables within the respective market risks.

DISCLOSURES ON HEDGING INSTRUMENTS IN HEDGE ACCOUNTING

The Volkswagen Group regularly enters into hedging instruments to hedge against changes in the carrying amount of balance sheet items. The summary below shows the notional amounts, fair values and base variables for determining the ineffectiveness of hedging instruments entered into to hedge against the risk of changes in carrying amounts in fair value hedges:

DISCLOSURES ON HEDGING TRANSACTIONS IN FAIR VALUE HEDGES IN 2018

€ million	Notional amount	Other assets	Other liabilities	Fair value changes to determine hedge ineffectiveness
Hedging interest rate risk				
Interest rate swaps and interest rate options contracts	48,609	467	61	309
Hedging currency risk				
Currency forwards, currency options, cross-currency swaps	6,811	222	75	95
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	901	58	0	108

In addition, hedging instruments are entered into to hedge against the risk of fluctuations in future cash flows. The table below shows the notional amounts, fair values and base variables for determining the ineffectiveness of hedging instruments designated as cash flow value hedges.

DISCLOSURES ON HEDGING TRANSACTIONS IN CASH FLOW HEDGES IN 2018

€ million	Notional amount	Other assets	Other liabilities	Fair value changes to determine hedge ineffectiveness
Hedging interest rate risk				
Interest rate swaps	12,477	39	15	17
Hedging currency risk				
Currency forwards and cross-currency swaps	66,505	1,834	836	2,794
Currency options	17,956	187	91	69
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,424	44	11	35

The change in the fair value to determine ineffectiveness corresponds to the change in fair value of the designated component.

DISCLOSURES ON HEDGED ITEMS IN HEDGE ACCOUNTING

In addition to disclosures on hedging instruments, disclosures are also required on the hedged items, broken down by risk category and type of designation for hedge accounting. Below follows a list of hedged items designated in fair value hedges, separately from those designated in cash flow hedges:

DISCLOSURES ON HEDGED ITEMS IN FAIR VALUE HEDGES IN 2018

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments (current period/ fiscal year)	Cumulative hedge adjustments from discontinued hedging relationships
Hedging interest rate risk				
Financial services receivables	19,311	-10	20	-
Other financial assets	-	17	17	-
Financial liabilities	31,670	220	127	-
Other financial liabilities	-	-	-	-
Hedging currency risk				
Trade receivables	-	-	-	-
Financial services receivables	-	-	-	3
Other financial assets	640	28	77	-
Financial liabilities	26	36	38	-
Other financial liabilities	-	-	-	-
Trade payables	-	-	-	-
Other provisions	-	-	-	-
Combined interest rate and currency risk hedging				
Financial services receivables	-	4	4	-
Other financial assets	714	-32	-4	-
Financial liabilities	166	1	1	-
Other financial liabilities	-	-	-	-

DISCLOSURES ON HEDGED ITEMS IN CASH FLOW HEDGES IN 2018

€ million	Changes in fair value to determine hedge ineffectiveness	RESERVE FOR	
		Active cash flow hedges	Discontinued cash flow hedges
Hedging interest rate risk			
Designated components	26	19	0
Non-designated components	–	–	–
Deferred taxes	–	–1	0
Total hedging interest rate risk	26	19	0
Hedging currency risk			
Designated components	2,526	2,524	0
Non-designated components	–	–885	–9
Deferred taxes	–	–478	1
Total hedging currency risk	2,526	1,162	–8
Combined interest rate and currency risk hedging			
Designated components	27	2	–26
Non-designated components	–	–	–
Deferred taxes	–	0	8
Total hedging combined interest rate and currency risk	27	1	–18
Hedging commodity price risk			
Designated components	–	–	7
Non-designated components	–	–	–
Deferred taxes	–	–	–2
Total hedging commodity price risk	–	–	5

CHANGES IN THE RESERVE

When accounting for cash flow hedges, the designated effective portions of a hedging relationship are recognized in OCI I. Any changes in excess of the fair value of the designated component are recognized as ineffectiveness through profit or loss.

The table below shows a reconciliation to the reserve:

CHANGES IN THE RESERVE FOR CASH FLOW HEDGES (OCI I)
FROM JANUARY 1 TO DECEMBER 31, 2018

€ million	Interest rate risk	Currency risk	Interest rate/ currency risk	Commodity price risk	Total
Balance at Jan. 1, 2018	55	3,533	–16	9	3,581
Gains or losses from effective hedging relationships	–38	–414	8	–5	–450
Reclassifications due to changes in whether the hedged item is expected to occur	–	–1	–	–	–1
Reclassifications due to realization of the hedged item	2	–1,335	–8	1	–1,341
Balance at Dec. 31, 2018	19	1,783	–17	5	1,790

If expectations about the occurrence of the hedged item change, the arrangement is reclassified by terminating the hedging relationship prematurely. Changed expectations are primarily caused by a change in projections for hedging sales revenue.

Changes in the fair values of non-designated components of a derivative are likewise always recognized immediately through profit or loss. An exception from this principle is any change in the fair value attributable to non-designated time values of options, to the extent that they relate to the hedged item. Moreover, the Volkswagen Group initially recognizes in equity (hedging costs) changes in the fair values of non-designated forward components in currency forwards and currency hedges attributed to cash flow hedges. This means that the Volkswagen Group recognizes changes in the fair value of the non-designated component or parts thereof immediately through profit or loss only if there is ineffectiveness.

The tables below show a summary of changes in the reserve for hedging costs resulting from the non-designated portions of options and currency hedges:

**CHANGES IN THE RESERVE FOR HEDGING COSTS – NON-DESIGNATED TIME VALUES OF OPTIONS
FROM JANUARY 1 TO DECEMBER 31, 2018**

€ million	Currency risk
Balance at Jan. 1, 2018	63
Gains and losses from non-designated time value of options	
Hedged item is recognized at a point in time	–86
Reclassification due to realization of the hedged item	
Hedged item is recognized at a point in time	23
Balance at Dec. 31, 2018	–1

**CHANGES IN THE RESERVE FOR HEDGING COSTS – NON-DESIGNATED FORWARD COMPONENT AND CROSS CURRENCY
BASIS SPREAD (CCBS) FROM JANUARY 1 TO DECEMBER 31, 2018**

€ million	Currency risk
Balance at Jan. 1, 2018	–
Gains and losses from non-designated forward elements and CCBS	
Hedged item is recognized at a point in time	–866
Reclassification due to realization of the hedged item	
Hedged item is recognized at a point in time	238
Reclassification due to changes in whether the hedged item is expected to occur	
Hedged item is recognized at a point in time	0
Balance at Dec. 31, 2018	–628

4.2 Market risk in the Volkswagen Group (excluding Volkswagen Financial Services subgroup)

4.2.1 Foreign currency risk

Foreign currency risk in the Volkswagen Group (excluding Volkswagen Financial Services subgroup) is attributable to investments, financing measures and operating activities. Currency forwards, currency options, currency swaps and cross-currency interest rate swaps are used to limit foreign currency risk. These transactions relate to the exchange rate hedging of all material payments covering general business activities that are not made in the functional currency of the respective Group companies. The principle of matching currencies applies to the Group's financing activities.

Hedging transactions entered into in 2018 as part of foreign currency risk management were amongst others in Argentine pesos, Australian dollars, Brazilian real, sterling, Chinese renminbi, Hong Kong dollars, Indian rupees, Japanese yen, Canadian dollars, Mexican pesos, Norwegian kroner, Polish zloty, Russian rubles, Swedish kronor, Swiss francs, Singapore dollars, South African rand, South Korean won, Taiwan dollars, Czech koruna, Hungarian forints and US dollars.

All nonfunctional currencies in which the Volkswagen Group enters into financial instruments are included as relevant risk variables in the sensitivity analysis in accordance with IFRS 7.

If the functional currencies concerned had appreciated or depreciated by 10% against the other currencies, the exchange rates shown below would have resulted in the following effects on the hedging reserve in equity and on earnings after tax. It is not appropriate to add together the individual figures, since the results of the various functional currencies concerned are based on different scenarios.

The following table shows the sensitivities of the main currencies in the portfolio as of December 31, 2018:

€ million	DEC. 31, 2018		DEC. 31, 2017	
	+10%	-10%	+10%	-10%
Exchange rate				
EUR/USD				
Hedging reserve	1,329	-1,272	1,627	-1,303
Earnings after tax	-449	449	-365	193
EUR/GBP				
Hedging reserve	960	-959	1,126	-1,124
Earnings after tax	-205	205	-73	75
EUR/CNY				
Hedging reserve	729	-725	515	-491
Earnings after tax	-159	159	-58	62
EUR/CHF				
Hedging reserve	312	-298	246	-232
Earnings after tax	12	-12	16	-20
EUR/JPY				
Hedging reserve	287	-285	271	-244
Earnings after tax	-18	18	-40	20
EUR/CAD				
Hedging reserve	117	-113	121	-113
Earnings after tax	-30	30	-51	48
CZK/GBP				
Hedging reserve	135	-135	91	-91
Earnings after tax	-1	1	0	0
EUR/AUD				
Hedging reserve	97	-97	164	-164
Earnings after tax	-32	32	-36	37
EUR/SEK				
Hedging reserve	94	-92	105	-100
Earnings after tax	-35	35	-22	18
EUR/PLN				
Hedging reserve	-54	54	0	0
Earnings after tax	-52	52	-60	60
EUR/CZK				
Hedging reserve	65	-65	69	-69
Earnings after tax	-38	38	-20	20
EUR/TWD				
Hedging reserve	77	-77	72	-72
Earnings after tax	-6	6	-10	10
EUR/BRL				
Hedging reserve	8	-8	6	-6
Earnings after tax	-65	65	-20	20
EUR/HUF				
Hedging reserve	0	0	0	0
Earnings after tax	-63	63	-54	54
GBP/USD				
Hedging reserve	61	-61	63	-63
Earnings after tax	1	-1	-2	2

4.2.2 Interest rate risk

Interest rate risk in the Volkswagen Group (excluding Volkswagen Financial Services subgroup) results from changes in market interest rates, primarily for medium- and long-term variable interest receivables and liabilities. Interest rate swaps and cross-currency interest rate swaps are sometimes entered into to hedge against this risk primarily under fair value or cash flow hedges, and depending on market conditions. Intragroup financing arrangements are mainly structured to match the maturities of their refinancing. Departures from the Group standard are subject to centrally defined limits and monitored on an ongoing basis.

Interest rate risk within the meaning of IFRS 7 is calculated for these companies using sensitivity analyses. The effects of the risk-variable market rates of interest on the financial result and on equity are presented, net of tax.

If market interest rates had been 100 bps higher as of December 31, 2018, equity would have been €131 million (previous year: €88 million) lower. If market interest rates had been 100 bps lower as of December 31, 2018, equity would have been €66 million (previous year: €24 million) higher.

If market interest rates had been 100 bps higher as of December 31, 2018, earnings after tax would have been €24 million higher (previous year: €76 million lower). If market interest rates had been 100 bps lower as of December 31, 2018, earnings after tax would have been €26 million lower (previous year: €64 million higher).

4.2.3 Commodity price risk

Commodity price risk in the Volkswagen Group (excluding Volkswagen Financial Services subgroup) primarily results from price fluctuations and the availability of ferrous and non-ferrous metals, precious metals, commodities required in connection with the Group's digitalization and electrification strategy, as well as of coal, CO₂ certificates and rubber.

Commodity price risk is limited by entering into forward transactions and swaps.

Commodity price risk within the meaning of IFRS 7 is presented using sensitivity analyses. These show the effect on earnings after tax of changes in the risk variable commodity prices.

If the commodity prices of the hedged nonferrous metals, coal and rubber had been 10% higher (lower) as of December 31, 2018, earnings after tax would have been €197 million (previous year: €101 million) higher (lower).

4.2.4 Equity and bond price risk

The special funds launched using surplus liquidity and the equity interests measured at fair value are subject in particular to equity price and bond price risk, which can arise from fluctuations in quoted market prices, stock exchange indices and market rates of interest. The changes in bond prices resulting from variations in the market rates of interest are quantified in sections 4.2.1 and 4.2.2, as are the measurement of foreign currency and other interest rate risks arising from the special funds and the equity interests measured at fair value. As a rule, risks arising from the special funds are countered by ensuring a broad diversification of products, issuers and regional markets when investing funds, as stipulated by the Investment Guidelines of the Group. In addition, we hedge exchange rates when market conditions are appropriate.

As part of the presentation of market risk, IFRS 7 requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Potential risk variables here are in particular quoted market prices or indices, as well as interest rate changes as bond price parameters.

If share prices had been 10% higher as of December 31, 2018, earnings after tax would have been €16 million higher and equity would have been €4 million (previous year: €28 million effect on equity) higher. If share prices had been 10% lower as of December 31, 2018, earnings after tax would have been €25 million lower and the equity €4 million (previous year: €108 million effect on equity) lower.

4.3 Market risk at Volkswagen Financial Services subgroup

Exchange rate risk in the Volkswagen Financial Services subgroup is mainly attributable to assets that are not denominated in the functional currency and from refinancing within operating activities. Interest rate risk relates to refinancing without matching maturities and the varying interest rate elasticity of individual asset and liability items. The risks are limited by the use of currency and interest rate hedges.

Microhedges and portfolio hedges are used for interest rate hedging. Fixed-rate assets and liabilities included in the hedging strategy are recognized at fair value, as opposed to their original subsequent measurement at amortized cost. The resulting effects in the income statement are offset by the corresponding gains and losses on the interest rate hedging instruments (swaps). Currency hedges (currency forwards and cross-currency interest rate swaps) are used to mitigate foreign currency risk. All cash flows in foreign currency are hedged.

As of December 31, 2018, the value at risk was €122 million (previous year: €167 million) for interest rate risk and €187 million (previous year: €165 million) for foreign currency risk.

The entire value at risk for interest rate and foreign currency risk at the Volkswagen Financial Services subgroup was €214 million (previous year: €167 million).

5. METHODS FOR MONITORING HEDGE EFFECTIVENESS

Since the implementation of IFRS 9, the Volkswagen Group determines hedge effectiveness mainly on a prospective basis using the critical terms match method. Retrospective analysis of effectiveness uses effectiveness tests in the form of the dollar offset method. Under the dollar offset method, the changes in value of the hedged item expressed in monetary units are compared with the changes in value of the hedging instrument expressed in monetary units.

To this end, the accumulated changes in the fair value of the designated spot component of the hedging instrument and hedged item are compared. If the critical terms do not match, the same procedure is applied to the non-designated component.

NOTIONAL AMOUNT OF DERIVATIVES

The summary below presents the remaining maturities profile of the notional amounts of the hedging instruments, which are accounted for under the Volkswagen Group's hedge accounting rules, and of derivatives to which hedge accounting is not applied:

NOTIONAL AMOUNT OF DERIVATIVES IN 2017

€ million	REMAINING TERM			TOTAL NOTIONAL AMOUNT
	up to one year	within one to five years	more than five years	Dec. 31, 2017
Notional amount of hedging instruments used in cash flow hedges				
Interest rate swaps	3,490	8,999	38	12,527
Currency forwards	32,329	35,538	–	67,867
Currency options	8,128	11,435	–	19,563
Currency swaps	–	–	–	–
Cross-currency interest rate swaps	387	165	–	551
Commodity futures contracts	–	–	–	–
Notional amount of other derivatives				
Interest rate swaps	20,483	48,067	20,125	88,675
Interest rate option contracts	–	–	–	–
Currency forwards	19,592	2,942	2	22,535
Other currency options	10	–	–	10
Currency swaps	20,825	1,451	–	22,276
Cross-currency interest rate swaps	3,350	6,025	293	9,667
Commodity futures contracts	798	477	–	1,275

NOTIONAL AMOUNT OF DERIVATIVES IN 2018

€ million	REMAINING TERM			TOTAL NOTIONAL AMOUNT
	up to one year	within one to five years	more than five years	Dec. 31, 2018
Notional amount of hedging instruments within hedge accounting				
Hedging interest rate risk				
Interest rate swap	11,136	43,360	6,590	61,086
Hedging currency risk				
Currency forwards/Cross-currency swaps				
Currency forwards/Cross-currency swaps in CNY	6,857	2,555	–	9,412
Currency forwards/Cross-currency swaps in GBP	11,524	6,746	–	18,270
Currency forwards/Cross-currency swaps in USD	7,451	11,412	–	18,863
Currency forwards/Cross-currency swaps in other currencies	16,905	9,866	–	26,770
Currency options				
Currency options in USD	5,903	3,781	–	9,683
Currency options in CNY	2,539	1,523	–	4,062
Currency options in other currencies	1,295	2,915	–	4,210
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,090	1,235	–	2,325
Notional amount of other derivatives				
Hedging Interest rate risk				
Interest rate swap	20,303	26,293	19,762	66,358
Hedging Currency risk				
Currency forwards/Cross-currency swaps				
Currency forwards/Cross-currency swaps in USD	8,626	3,777	1	12,403
Currency forwards/Cross-currency swaps in other currencies	15,732	1,804	0	17,537
Currency options				
Currency options	215	–	–	215
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	5,930	5,594	926	12,450
Hedging Commodity price risk				
Forward commodity contracts aluminum	923	1,208	–	2,131
Forward commodity contracts copper	241	445	–	686
Forward commodity contracts other	131	304	–	436

Both derivatives closed with offsetting transactions and the offsetting transactions themselves are included in the respective notional amount. The offsetting transactions cancel out the effects of the original hedging transactions. If the offsetting transactions were not included, the respective notional amount would be significantly lower. In addition to the derivatives used for hedging foreign currency, interest rate and price risk, the Group held options and other derivatives on equity instruments at the reporting date with a notional amount of €3,762 million (previous year: €29 million) whose remaining maturity is under one year, as well as credit default swaps in connection with fund investments with a notional amount of €21 billion.

Existing cash flow hedges in the notional amount of €53 million (previous year: €361 million) were discontinued because of a reduction in the projections. €3 million was transferred from the cash flow hedge reserve to the financial result in the previous year, reducing earnings. In addition, hedges were to be terminated due to internal risk regulations.

Items hedged under cash flow hedges are expected to be realized in accordance with the maturity buckets of the hedges reported in the table. For cash flow hedges, the Volkswagen Group achieved an average hedging interest rate of 1.65% for hedging interest rate risk. In addition, currency risk was hedged at the following hedging exchange rates for the major currency pairs: EUR/USD at 1.19; EUR/GBP at 0.86; EUR/CNY at 8.20.

The fair values of the derivatives are estimated using market data at the balance sheet date as well as by appropriate valuation techniques. The following term structures were used for the calculation:

in %	EUR	AUD	CHF	CNY	GBP	JPY	PLN	SEK	USD
Interest rate for six months	-0.3061	1.9938	-0.5510	3.2700	0.9170	0.0868	1.7892	-0.1043	2.7736
Interest rate for one year	-0.2631	1.9515	-0.5517	3.2174	0.9836	0.0087	1.7754	-0.0659	2.7653
Interest rate for five years	0.1970	2.2188	-0.1390	3.6600	1.3050	0.0238	2.1250	0.5080	2.5942
Interest rate for ten years	0.8150	2.5563	0.2950	4.1500	1.4365	0.1763	2.4810	1.1280	2.7330

35. Capital management

The Group's capital management ensures that its goals and strategies can be achieved in the interests of shareholders, employees and other stakeholders. In particular, management focuses on generating the minimum return on invested assets in the Automotive Division that is required by the capital markets, and on increasing the return on equity in the Financial Services Division. In the process, it aims overall to achieve the highest possible growth in the value of the Group and its divisions for the benefit of all the Company's stakeholder groups.

In order to maximize the use of resources in the Automotive Division and to measure the success of this, we have for a number of years been using a value-based management system, with value contribution as an absolute performance measure and return on investment (ROI) as a relative indicator.

Value contribution is defined as the difference between operating profit after tax and the opportunity cost of invested capital. The opportunity cost of capital is calculated by multiplying the market cost of capital by average invested capital. Invested capital is calculated by taking the operating assets reported in the balance sheet (property, plant and equipment, intangible assets, lease assets, inventories and receivables) and deducting non-interest-bearing liabilities (trade payables and payments on account received). Average invested capital is derived from the balance sheet at the beginning and the end of the reporting period. Despite the charges relating to the special items recognized in the operating result, the Automotive Division disclosed a positive value contribution of €4,964 million in the reporting period which, due to the improvement in the operating result before special items and an only slight increase in the cost of capital, was significantly higher than the prior-year figure.

The return on investment is defined as the return on invested capital for a particular period based on the operating result after tax. If the return on investment exceeds the market cost of capital, there is an increase in the value of the invested capital and a positive value contribution. In the Group, a minimum required rate of return on invested capital of 9% is defined, which applies to both the business units and the individual products and product lines. Our goal of generating a sustained return on investment of over 15% is anchored in Strategy 2025. The return on investment therefore serves as a consistent target in operational and strategic management and is used to measure target attainment for the Automotive Division, the individual business units, and projects and products. The return on investment achieved for the Automotive Division was 11.0%,

which is above our minimum rate of return on invested capital of 9% and significantly exceeds the current cost of capital of 6.2%.

Due to the specific features of the Financial Services Division, its management focuses on return on equity, a special target linked to invested capital. This measure is calculated as the ratio of earnings before tax to average equity. Average equity is calculated from the balance at the beginning and the end of the reporting period. In addition, the goals of the Financial Services Division are to meet the banking supervisory authorities' regulatory capital requirements, to procure equity for the growth planned in the coming fiscal years and to support its external rating by ensuring capital adequacy. To ensure compliance with prudential requirements at all times, a planning procedure integrated into internal reporting has been put in place at the Volkswagen Bank, allowing the required equity to be continuously determined on the basis of actual and expected business performance. In the reporting period, this again ensured that regulatory minimum capital requirements were always met both at Group level and at the level of subordinate companies' individual, specific capital requirements.

The return on investment and value contribution in the Automotive Division as well as the return on equity and the equity ratio in the Financial Services Division are shown in the following table:

€ million	2018	2017
Automotive Division¹		
Operating result after tax	11,438	11,756
Invested capital (average)	104,424	97,021
Return on investment (ROI) in %	11.0	12.1
Cost of capital in %	6.2	6.0
Opportunity cost of invested capital	6,474	5,821
Value contribution²	4,964	5,935
Financial Services Division		
Earnings before tax	2,782	2,502
Average equity	27,982	25,626
Return on equity before tax in %	9.9	9.8
Equity ratio in %	12.7	13.7

1 Including proportionate inclusion of the Chinese joint ventures and allocation of consolidation adjustments between the Automotive and Financial Services Divisions; excluding effects on earnings and assets from purchase price allocation.

2 The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.

36. Contingent liabilities

€ million	Dec. 31, 2018	Dec. 31, 2017
Liabilities under guarantees	511	423
Liabilities under warranty contracts	138	60
Assets pledged as security for third-party liabilities	18	21
Other contingent liabilities	8,607	7,909
	9,274	8,413

The trust assets and liabilities of the savings and trust entities belonging to the South American subsidiaries not included in the consolidated balance sheet amount to €558 million (previous year: €768 million).

In the case of liabilities from guarantees, the Group is required to make specific payments if the debtors fail to meet their obligations.

The other contingent liabilities primarily comprise potential liabilities arising from matters relating to taxes and customs duties, as well as litigation and proceedings relating to suppliers, dealers, customers, employees and investors. The contingent liabilities recognized in connection with the diesel issue totaled €5.4 billion (previous year: €4.3 billion), of which €3.4 billion (previous year: €3.4 billion) was attributable to investor lawsuits. Also included are certain elements of the class action lawsuits and proceedings/misdemeanor proceedings relating to the diesel issue as far as these can be quantified. As some of these proceedings are still at a very early stage, the plaintiffs have in a number of cases so far not specified the basis of their claims and/or there is insufficient certainty about the number of plaintiffs or the amounts being claimed. These lawsuits meet the definition of a contingent liability but cannot, as a rule, be disclosed because it is impossible to measure the amount involved. The administrative fine proceedings in accordance with section 30, 130 of the Gesetz über Ordnungswidrigkeiten (OWiG – Act on Regulatory Offenses) instituted against Porsche AG on January 21, 2019 are likewise at a very early stage. In the absence of measurable data, no contingent liability has therefore been recognized for these proceedings.

In addition, other contingent liabilities include an amount of €0.7 billion for potential liabilities resulting from the risk of tax proceedings instituted by the Brazilian tax authorities against MAN Latin America.

On May 5, 2016, the U.S. National Highway Traffic Safety Administration (NHTSA) announced, jointly with the Takata company, a further extension of the recall for various models from different manufacturers containing certain airbags produced by the Takata company. Recalls were also ordered by the local authorities in individual countries. The recalls also included models manufactured by the Volkswagen Group. Appropriate provisions have been recognized. Currently, the possibility of further extensions to the recalls that could also affect Volkswagen Group models cannot be ruled out. It is not possible at the moment to provide further disclosures in accordance with IAS 37.86 in relation to this matter because the technical investigations and consultations with the authorities are still being carried out.

As permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Company, we have not made any further disclosures about estimates in connection with the financial effects of, and disclosures about, uncertainty regarding the timing or amount of contingent liabilities in connection with the diesel issue and investigations by the European Commission. Further information can be found under the section entitled "Litigation".

37. Litigation

In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested are involved in a great number of legal disputes and governmental proceedings in Germany and abroad. Such legal disputes and other proceedings occur in relation to employees, dealers, investors, customers, or suppliers, among others, or in relation to relevant public authorities. For the companies involved, these may result in payment or other obligations. In particular, substantial compensatory or punitive damages may have to be paid and cost-intensive measures may have to be implemented. In this context, specific quantification of the objectively likely consequences is often possible only to a very limited extent, if at all.

Risks may also emerge in connection with the adherence to regulatory requirements. This particularly applies in the case of regulatory vagueness that may be interpreted differently by Volkswagen and the authorities responsible for the respective regulations. In addition, legal risks can arise from the criminal activities of individual persons, which even the best compliance management system can never completely prevent.

Where transparent and economically viable, adequate insurance coverage was taken out for these risks. For the identifiable and measurable risks, provisions considered appropriate based on existing information were recognized and information about contingent liabilities disclosed. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of loss or damage not covered by the insured amounts and provisions cannot be ruled out. This applies particularly to legal risk assessment regarding the diesel issue.

Diesel issue

In the USA Volkswagen AG and certain affiliates reached settlement agreements (including various consent decrees) with the US Department of Justice (DOJ), the US Environmental Protection Agency (EPA), the State of California, the California Air Resources Board (CARB), the California Attorney General, the US Federal Trade Commission, and private plaintiffs represented by a Plaintiffs' Steering Committee in a multi-district litigation in California. These settlement agreements resolved certain civil claims made in relation to affected diesel vehicles in the United States of America.

Volkswagen AG also entered into agreements to resolve US federal criminal liability and certain civil penalties and claims relating to the diesel issue. As part of its plea agreement, Volkswagen AG agreed to plead guilty to three felony counts under US law – including conspiracy to commit fraud, obstruction of justice and using false statements to import cars into the United States of America – and has been sentenced to three years' probation.

A description of the diesel issue can be found starting on page 92. In connection with the diesel issue, potential consequences for Volkswagen's results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Coordination with the authorities on technical measures worldwide

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines.

Within its area of responsibility, the German Federal Motor Transport Authority (Kraftfahrt-Bundesamt or KBA) ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO₂ emission figures, engine power, maximum torque, and noise emissions.

AUDI AG has worked intensively for many months to check all relevant diesel concepts for possible discrepancies and retrofit potentials. The measures proposed by AUDI AG have been adopted and mandated in various recall notices issued by the KBA for vehicle models with V6 and V8 TDI engines.

Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. The measures submitted by AUDI AG are being examined by the KBA and can only be made available to customers after corresponding approval by the KBA.

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

In the USA, in fiscal year 2018, the EPA and CARB issued the outstanding official approvals needed for the technical solutions for the affected vehicles with 2.0 l TDI and with V6 3.0 l TDI engines. In the case of 2.0 l Generation 2 diesel vehicles with manual transmissions, Volkswagen Group of America, Inc. elected to withdraw the approved emissions modification proposal, whereby owners were given the option of a buyback and lessees were given the option of early lease termination.

On October 31, 2018, after discussions with DOJ, EPA, and CARB, the parties agreed to modify the First and Second Partial Consent Decrees to clarify that Volkswagen may repair certain technical issues with approved emissions modifications through an "AEM Correction" (Approved Emissions Modifications).

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

Criminal investigations, regulatory offense proceedings, and/or administrative proceedings (in Germany for example by the Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin – Federal Financial Supervisory Authority) have been opened in some countries. The public prosecutor's offices in Braunschweig and Munich are investigating the core issues of the criminal investigations.

The Braunschweig Office of the Public Prosecutor is investigating approximately 40 (current and former) employees and a former member of the Board of Management for possible fraud, among other things. The investigations are ongoing. The defendants and Volkswagen AG were permitted to inspect the investigation files.

The regulatory offense proceeding that was opened against Volkswagen AG in this connection in April 2016 has been terminated by the administrative fine order issued against Volkswagen AG by the Braunschweig Office of the Public Prosecutor on June 13, 2018. The administrative fine order is based on a negligent breach in the Powertrain Development department of the obligation to supervise, relating to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a total fine of €1.0 billion, consisting of a penalty payment of €5 million and the forfeiture of economic benefits in the amount of €995 million. After thorough examination, the fine has been accepted and paid in full by Volkswagen AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Volkswagen AG. Further sanctions against or forfeitures by Volkswagen AG and its Group companies are therefore not expected in Germany in connection with the unitary factual situation covered by the administrative order concerning diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. As a result, Volkswagen expects that the conclusion of this proceeding will have a substantially positive impact on other governmental proceedings being conducted in Europe against Volkswagen AG and its Group companies.

The Braunschweig Office of the Public Prosecutor is conducting another proceeding against three (current or former) members of the Board of Management for alleged market manipulation with respect to capital market disclosure obligations in connection with the diesel issue. In this context, the Office of the Public Prosecutor has been conducting a regulatory offense proceeding against Volkswagen AG under § 30 OWiG (German Regulatory Offenses Act) since July 30, 2018. Volkswagen AG has since been permitted to inspect the public prosecutor's investigation files several times. The investigations are ongoing.

The Munich II Office of the Public Prosecutor is conducting investigations against 24 persons, including the former Chairman of the Board of Management of AUDI AG (who is also a former member of the Board of Management of Volkswagen AG) and another active member of the Board of Management of AUDI AG. The investigations are ongoing. AUDI AG has appointed two renowned major law firms to clarify the matters underlying the public prosecutor's accusations. The Board of Management and Supervisory Board of AUDI AG are being regularly updated on the current state of affairs.

The administrative fine order issued on October 16, 2018 by the Munich II Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against AUDI AG in this connection. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit "Emissions Service/Engine Type Approval". The administrative order imposes a total fine of €800 million, consisting of a penalty payment of €5 million and the forfeiture of economic benefits in the amount of €795 million. After thorough examination, the fine has been accepted and paid in full by AUDI AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against AUDI AG. Further sanctions against or forfeitures by AUDI AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

The Stuttgart Office of the Public Prosecutor has commenced a criminal investigation relating to the diesel issue against one board member, one employee, and one former employee of Dr. Ing. h.c. F. Porsche AG on suspicion of fraud and illegal advertising as well as an analogous regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG under § 30 OWiG. Dr. Ing. h.c. F. Porsche AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor's accusations. The Board of Management and Supervisory Board of Dr. Ing. h.c. F. Porsche AG are being regularly updated on the current state of affairs.

On July 6, 2018, the Federal Constitutional Court rendered its decision on the constitutional complaints filed in connection with the search of the premises of the law firm Jones Day, holding that the lower court ruling affirming the provisional seizure of client engagement documents and data of Volkswagen AG did not violate constitutional law. The companies of the Volkswagen Group will continue to cooperate with the German government authorities with due regard for the ruling of the German Federal Constitutional Court.

Whether the criminal and administrative proceedings will ultimately result in fines for the Company, and if so in what amount, is currently subject to estimation risks. According to Volkswagen's estimates so far, the likelihood that a sanction will be imposed is 50 % or less in the majority of these proceedings. Contingent liabilities have therefore been disclosed where the amount of such liabilities could be measured and the likelihood of a sanction being imposed was assessed at not lower than 10 %. Provisions were recognized to a small extent.

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

In principle, it is possible that customers in the affected markets will file civil lawsuits or that importers and dealers will assert recourse claims against Volkswagen AG and other Volkswagen Group companies. Besides individual lawsuits, various forms of collective actions (i.e. assertion of individual claims by plaintiffs acting jointly or as representatives of a class) are available in various jurisdictions. Furthermore, in a number of markets it is possible for consumer and/or environmental organizations to bring suit to enforce alleged rights to injunctive relief, declaratory judgment, or damages.

Customer class action lawsuits and actions brought by consumer and/or environmental associations are pending against Volkswagen AG and other companies of the Volkswagen Group in various countries including Argentina, Austria, Australia, Belgium, Brazil, Chile, China, the Czech Republic, Germany, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, Spain, South Africa, South Korea, Switzerland, Taiwan, and the United Kingdom. Alleged rights to damages and other relief are asserted in these actions.

The actions pending in the aforementioned countries include in particular the following:

Various class action lawsuits with opt-out mechanism, one individual lawsuit, and two civil suits by the Australian Competition and Consumer Commission are currently pending in Australia against Volkswagen AG and other Group companies, including the Australian subsidiaries. These proceedings have been joined with each other. Given the opt-out rule, the class actions have the potential to automatically cover all vehicles with type EA 189 engines unless the right to opt out is actively exercised. In all, approximately 100 thousand vehicles in the Australian market with type EA 189 engines are affected. An initial court hearing lasting several weeks was held in March 2018 on technical questions; further issues are to be argued in September 2019.

In Belgium, the Belgian consumer organization Test Aankoop VZW has filed a class action to which an opt-out mechanism has been held to apply. The class action pertains to vehicles purchased by consumers on the Belgian market after September 1, 2014. The asserted claims are based on purported violations of unfair competition and consumer protection law as well as on alleged breach of contract. An initial hearing for oral argument has yet to take place in this matter. The court has extended the statutorily mandated negotiation phase until July 8, 2019.

In Brazil two class actions are pending. One of them pertains to approximately 17 thousand vehicles. In this proceeding, a judgment, which is not yet final, has been rendered holding Volkswagen do Brasil liable in an amount of €0.3 billion plus interest. The judgment has been appealed. In the second class action alleged compensation claims are made based on purported breaches of environmental regulations.

In Germany, the Verbraucherzentrale Bundesverband e. V. (Federation of Consumer Organizations) filed an action on November 1, 2018 with the Braunschweig Higher Regional Court for model declaratory judgment against Volkswagen AG. The complaint is seeking a ruling that certain preconditions for potential consumer claims against Volkswagen AG are met; however, no specific payment obligations would result from any determinations the court may make. Individual claims then would have to be enforced afterwards in subsequent separate proceedings.

In addition, various actions have been brought against companies of the Volkswagen Group in several German Regional Courts (Landgericht) by financialright GmbH, which is asserting rights assigned to it by a total of approximately 46 thousand customers in Germany, Slovenia, and Switzerland.

In England and Wales, suits filed in court by various law firms have been joined in a single collective action (group litigation). Roughly 117 thousand claimants joined the group litigation prior to expiration of the opt-in deadline on December 19, 2018; around 40 thousand additional plaintiffs not currently covered by the group litigation could still be added. Because of the opt-in mechanism, not all vehicles with type EA 189 engines are automatically covered by the group litigation; potential claimants must instead take action in order to join. A judicial case management conference is scheduled for March 2019. No oral argument on the substantive merits of the claims has as yet taken place.

In Italy, two class action lawsuits have been filed with the Venice Regional Court by two consumer associations (Altroconsumo and Codacons) acting on behalf of Italian customers. Damage claims based on alleged breach of contract as well as claims based on purported violations of Italian consumer protection law are being asserted in these proceedings. In the Codacons proceeding, the court dismissed the class action as inadmissible on December 18, 2018. In the Altroconsumo proceeding, the deadline for the filing of claims has passed and those filed are currently being tabulated by an appointed expert.

In the Netherlands, Stichting Volkswagen Car Claim has brought an opt-in class action seeking declaratory rulings. Any individual claims would then have to be reduced to judgment afterwards in a separate proceeding.

Several lawsuits filed by the Austrian consumer protection organization (VKI Verein für Konsumentenschutz) and by the Cobin Claims platform are pending in Austria. In these actions, damage claims assigned for collection to VKI or to the Cobin Claims platform are being asserted on behalf of roughly 10 thousand customers.

A Portuguese consumer organization has filed a class action with opt-out mechanism in Portugal. There are approximately 126 thousand affected vehicles in the Portuguese market. The complaint seeks vehicle return and alleges damages as well.

Volkswagen estimates the likelihood that the plaintiffs will prevail to be 50 % or less for the majority of the customer class actions and the complaints filed by consumer and/or environmental organizations. Contingent liabilities are disclosed for these proceedings where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not implausible. Since most of these proceedings are still in an early stage, it is in many cases not yet possible to quantify the realistic risk exposure. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in various countries, most of which are seeking damages or rescission of the purchase contract. In Germany, there are around 46 thousand such individual lawsuits. A total of approximately one thousand additional individual lawsuits are pending in other countries. According to Volkswagen's estimates, the likelihood that the plaintiffs will prevail is 50 % or less in the vast majority of the individual lawsuits. Contingent liabilities are disclosed for these actions where the amount of such liabilities can be mea-

sured and the chance that the plaintiff will prevail was assessed as not implausible. In addition, provisions were recognized to the extent necessary based on the current assessment.

At this time it cannot be estimated how many customers will choose to file lawsuits in the future in addition to those already pending given the action for model declaratory judgment in Germany, among other things, and what their prospect of success will be.

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

Investors from Germany and abroad have filed claims for damages against Volkswagen AG – in some cases along with Porsche Automobil Holding SE (Porsche SE) as joint and several debtors – based on purported losses due to alleged misconduct in capital market communications in connection with the diesel issue.

The vast majority of these investor lawsuits are currently pending at the Regional Court in Braunschweig. On August 5, 2016, the Regional Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the Regional Court in Braunschweig be referred to the Higher Regional Court (Oberlandesgericht) in Braunschweig for binding declaratory rulings pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (Kapitalanleger-Musterverfahrensgesetz – KapMuG). In this proceeding, common questions of law and fact relevant to these actions are to be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig (model case proceedings). All lawsuits at the Regional Court in Braunschweig will be stayed pending resolution of the common issues, unless the cases can be dismissed for reasons independent of the common issues that are to be adjudicated in the model case proceedings. The resolution in the model case proceedings of the common questions of law and fact will be binding for all pending cases that have been stayed in the described manner. In the model case action, hearing for oral argument before the Braunschweig Higher Regional Court began on September 10, 2018 and was continued in subsequent sessions. Tracking the objects of declaratory judgment, the Court gave indications as to its preliminary assessment. Oral argument is to continue in 2019.

At the Regional Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtor. On December 6, 2017, the Regional Court in Stuttgart issued an order for reference to the Higher Regional Court in Stuttgart in relation to procedural issues, particularly for clarification of jurisdiction. An action for model declaratory judgment concerning the diesel issue is also pending against Porsche SE before the Stuttgart Higher Regional Court; as the case currently stands, Volkswagen AG is model case defendant in this action as well.

Further investor lawsuits have been filed at various courts in Germany and the Netherlands. In Austria, the first-instance dismissal of the last investor complaint pending in connection with the diesel issue became binding in the reporting period.

Worldwide (excluding USA and Canada), investor lawsuits, judicial applications for dunning procedures and conciliation proceedings, and claims under the KapMuG are currently pending against Volkswagen AG in connection with the diesel issue, with the claims totaling roughly €9.6 billion. Volkswagen AG remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

5. Proceedings in the USA/Canada

Following the publication of the EPA's "Notices of Violation," Volkswagen AG and other Volkswagen Group companies have been the subject of intense scrutiny, ongoing investigations (civil and criminal), and civil litigation. Volkswagen AG and other Volkswagen Group companies have received subpoenas and inquiries from state attorneys general and other governmental authorities.

Volkswagen AG and other Volkswagen Group companies are facing litigation in the USA/Canada on a number of different fronts relating to the matters described in the EPA's "Notices of Violation". In that respect, investigations by various US and Canadian regulatory and government authorities are ongoing, particularly in areas relating to securities, financing and tax. Additionally, in the USA and Canada, certain putative class actions by customers, investors, salespersons and dealers; individual customers' lawsuits and claims by state, provincial or municipal authorities have been filed in various courts, including state and provincial courts. A large number of these putative class action lawsuits have been filed in US federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

In the USA, Volkswagen has reached separate agreements with the attorneys general of 49 states, the District of Columbia and Puerto Rico to resolve their existing or potential consumer protection and unfair trade practices claims in connection with both 2.0 l TDI and 3.0 l TDI vehicles in the USA. New Mexico still has consumer protection claims outstanding. Volkswagen has also reached separate agreements with the attorneys general of thirteen US states (California, Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws. The attorneys general of eight other US states (Alabama, Illinois, Montana, New Hampshire, New Mexico, Ohio, Tennessee, and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, alleging violations of environmental laws. The environmental claims of eight states – Alabama, Illinois, Missouri, Minnesota, Ohio, Tennessee, Texas, and Wyoming – as well as Hillsborough County (Florida), Salt Lake County (Utah), and two Texas counties, have been dismissed in full or in part by trial or appellate courts as preempted by federal law. Alabama, Illinois, Ohio, Tennessee, Hillsborough County, and Salt Lake County have appealed or may still appeal the dismissal of their claims.

The U.S. Securities and Exchange Commission (the “SEC”) has requested information from Volkswagen regarding potential violations of securities laws in connection with issuances of bonds and asset-backed securities, as a result of nondisclosure of certain Volkswagen diesel vehicles’ noncompliance with US emission standards. The SEC informed Volkswagen that it had issued a formal order of investigation in January 2017; this investigation is ongoing. The SEC Staff subsequently informed Volkswagen that the SEC might bring an enforcement action against Volkswagen arising out of this investigation.

On August 28, 2018, Volkswagen AG and a putative class of purchasers of Volkswagen AG American Depositary Receipts agreed to settle the class’ claims alleging a drop in price purportedly resulting from the matters described in the EPA’s “Notices of Violation” in exchange for a cash payment of USD 48 million. The proposed settlement was granted preliminary approval by the court in November 2018.

On December 21, 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving 3.0 l diesel vehicles that was approved by the courts in Ontario and Quebec in April 2018. Also in Canada, a criminal enforcement-related investigation related to 2.0 l and 3.0 l diesel vehicles by the federal environmental regulator is ongoing, and a quasi-criminal enforcement-related offense has been charged by the Ontario provincial environmental regulator related to 2.0 l diesel vehicles. Additionally, in Quebec, a certified environmental class action on behalf of residents is pending. This environmental class action was authorized on the sole issue of whether punitive damages could be recovered. Volkswagen is seeking leave to appeal this authorization ruling. Class action and joinder lawsuits have also been filed in Canada, including alleged consumer protection and securities claims asserting damages among other things.

To the extent a matter is not separately described above, an assessment is not yet possible at the current stage of the proceedings or has, in accordance with IAS 37.92, not been presented so as not to compromise the results of the proceedings and the interests of the Company.

6. Additional proceedings

With its ruling of November 8, 2017, the Higher Regional Court of Celle ordered, upon the request of three US funds, the appointment of a special auditor for Volkswagen AG. The special auditor is to examine whether there was a breach of duties on the part of the members of the Board of Management and Supervisory Board of Volkswagen AG in connection with the diesel issue on or after June 22, 2006 and, if so, whether this resulted in damages for Volkswagen AG. The ruling by the Higher Regional Court of Celle is formally unappealable. However, Volkswagen AG has filed a constitutional complaint with the German Federal Constitutional Court alleging infringement of its constitutionally guaranteed rights. It is currently unclear when the German Federal Constitutional Court will reach a decision on this matter. Following the formally unappealable ruling from the Higher Regional Court of Celle, the special auditor appointed by the court indicated that he was not available to conduct the special audit on grounds of age. The US funds then applied to the Regional Court of Hanover to appoint another special auditor. Volkswagen AG is of the opinion that replacing the court-appointed special auditor in this manner is impermissible and has requested that the application for the appointment of a new special auditor be denied. A decision by the Regional Court of Hanover is expected in the course of 2019.

In addition, a second motion seeking appointment of a special auditor for Volkswagen AG to examine matters relating to the diesel issue has been filed with the Regional Court of Hanover. This proceeding has been suspended until the German Federal Constitutional Court renders its decision in the first special auditor litigation.

7. Risk assessment regarding the diesel issue

An amount of around €2.4 billion has been included in the provisions for litigation and legal risks as of December 31, 2018 to protect against the currently known legal risks related to the diesel issue based on existing information and current assessments. Insofar as these can be adequately measured at this stage, contingent liabilities relating to the diesel issue were disclosed in the notes in an aggregate amount of €5.4 billion (previous year: €4.3 billion), whereby approximately €3.4 billion (previous year: €3.4 billion) of this amount results from lawsuits filed by investors in Germany. The provisions recognized and the contingent liabilities disclosed as well as the other latent legal risks in the context of diesel issue are in part subject to substantial estimation risks given that the fact finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further considerable financial charges.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to the diesel issue. This is so as to not compromise the results of the proceedings or the interests of the Company.

Additional important legal cases

In 2011, ARFB Anlegerschutz UG (haftungsbeschränkt) brought an action against Volkswagen AG and Porsche SE for claims for damages for allegedly violating disclosure requirements under capital market law in connection with the acquisition of ordinary shares in Volkswagen AG by Porsche SE in 2008. The damages currently being sought based on allegedly assigned rights amounted to approximately €2.26 billion plus interest. In April 2016, the Regional Court in Hanover had formulated numerous objects of declaratory judgment that the cartel senate of the Higher Regional Court in Celle will decide on in model case proceedings under the KapMuG. In the first hearing on October 12, 2017, the Court already indicated that it currently does not see claims against Volkswagen AG as justified, both for want of sufficiently specific pleadings and for reasons of law. Volkswagen AG sees the statements of the court's senate as confirmation that the claims made against the Company have absolutely no basis.

At the time in question (2010/2011), other investors had also asserted claims – including claims against Volkswagen AG – arising out of the same circumstances in an approximate total amount of €4.6 billion and initiated conciliation proceedings. Volkswagen AG always refused to participate in these conciliation proceedings; since then, these claims have not been pursued further.

In June 2013, the Annual General Meeting of MAN SE approved the conclusion of a control and profit and loss transfer agreement between MAN SE and TRATON SE (at that time Truck & Bus GmbH), a subsidiary of Volkswagen AG. In July 2013, an award proceeding was instituted to review the appropriateness of the cash settlement set out in the agreement in accordance with § 305 of the Aktiengesetz (AktG – German Stock Corporation Act) and the cash compensation in accordance with § 304 of the AktG. By ruling of June 26, 2018 (supplemented and amended by the rulings of July 30, 2018 and December 17, 2018), the Munich Higher Regional Court rendered a final decision increasing the annual compensation claim under § 304 AktG to €5.47 gross per share (less any corporate income tax and any solidarity surcharge at the respective tax rate applicable to these taxes for the financial year in question). The cash settlement in the amount of €90.29 per share, increased in the first instance by the Munich I Regional Court, was affirmed. The decisions by the Munich Higher Regional Court are final and were published in the German Federal Gazette on August 6, 2018 and January 10, 2019.

In Brazil, the Brazilian tax authorities commenced tax proceedings against MAN Latin America; at issue in these proceedings are the tax consequences of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment that was negative for MAN Latin America was rendered in administrative court proceedings. MAN Latin America initiated proceedings against this judgment before the regular court in 2018. Due to the difference in the penalties plus interest which could potentially apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is laden with uncertainty. However, a positive outcome continues to be expected for MAN Latin America. Should the opposite occur, this could result in a risk of about €0.7 billion for the contested period from 2009 onwards, which has been stated within the contingent liabilities in the notes.

In 2011, the European Commission conducted searches at European truck manufacturers on suspicion of an unlawful exchange of information during the period 1997–2011 and issued a statement of objections to MAN, Scania and the other truck manufacturers concerned in November 2014. With its settlement decision in July 2016, the European Commission fined five European truck manufacturers. MAN's fine was waived in full as the company had informed the European Commission about the irregularities as a key witness.

In September 2017, the European Commission fined Scania €0.88 billion. Scania has appealed to the European Court of Justice in Luxembourg and will use all means at its disposal to defend itself. Scania had already recognized a provision of €0.4 billion in 2016.

Furthermore, antitrust lawsuits for damages from customers were received. As is the case in any antitrust proceedings, this may result in further lawsuits for damages. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

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

In addition, the Italian Competition Authority initiated proceedings to investigate potential competition law infringements (alleged exchange of competitively sensitive information) by a number of captive automotive finance companies, including Volkswagen Bank GmbH. The proceedings were later extended to the relevant parent companies, including Volkswagen AG. In October 2018, Volkswagen Bank GmbH and Volkswagen AG received a statement of objections summarizing the findings by the authority and describing the alleged infringement. Volkswagen AG and Volkswagen Bank GmbH transmitted their respective replies to the Italian Competition Authority in November 2018. In January 2019, the Italian Competition Authority imposed a fine of €163 million against Volkswagen AG and Volkswagen Bank GmbH. Provisions were recognized by Volkswagen Bank GmbH. Volkswagen AG and Volkswagen Bank GmbH intend to appeal this decision. Lawsuits seeking damages are possible in this proceeding as well.

In 2017, plaintiffs filed numerous complaints in various US jurisdictions on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen AG and other Group companies, that are now pending in two consolidated class actions in the multidistrict litigation in the State of California. The complaints allege that since the 1990s, defendants engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. Plaintiffs in Canada filed claims with similar allegations on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Canada Inc., Audi Canada Inc., and other Group companies. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In addition, a few national and international authorities have initiated antitrust investigations. Volkswagen is cooperating closely with the responsible authorities in these investigations. An assessment of the underlying situation is not possible at this early stage.

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

Since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles with gasoline engines.

Additionally, putative class actions filed against Audi AG and certain affiliates have been transferred to the federal multidistrict litigation proceeding in the State of California and consolidated. The lawsuits allege that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. Other actions alleging similar claims are also pending in the Northern District of California and two provincial courts in Canada.

In the summer of 2017, plaintiffs filed a complaint, on behalf of a putative class of purchasers of Volkswagen AG's American Depositary Receipts, against Volkswagen AG and against three former and one current member of Volkswagen AG's Board of Management, in the US District Court for the Eastern District of New York. On July 13, 2018, plaintiffs filed an amended complaint, which defendants moved to dismiss. Plaintiffs assert securities claims alleging that defendants made material misstatements and omissions concerning Volkswagen AG's compliance measures, in particular those relating to competition and antitrust law as well as allegations in an antitrust litigation against Volkswagen AG in the Northern District of California. Defendants believe that the alleged claims are without merit.

Provisions were recognized by Volkswagen Bank GmbH and Volkswagen Leasing GmbH for possible claims in connection with financial services provided to consumers.

In addition, various proceedings are pending worldwide, particularly in the USA, in which customers are asserting purported claims either individually or in class actions. These claims are as a rule based on alleged vehicle defects, including defects alleged in vehicle parts supplied to the Volkswagen Group (for instance, in the Takata case).

Risks may also result from patent infringement actions, particularly in Germany and the USA. These actions seeking injunctive relief and damages pertain among other things to patents for semiconductor technology used in vehicles.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to additional important legal cases. This is so as to not compromise the results of the proceedings or the interests of the Company.

38. Other financial obligations

€ million	PAYABLE	PAYABLE	PAYABLE	TOTAL
	2018	2019 – 2022	from 2023	Dec. 31, 2017
Purchase commitments in respect of				
property, plant and equipment	7,347	1,394	–	8,740
intangible assets	946	479	–	1,425
investment property	41	–	–	41
Obligations from				
loan commitments to unconsolidated subsidiaries	186	21	–	207
irrevocable credit commitments to customers ¹	2,655	0	44	2,699
long-term leasing and rental contracts	1,026	2,389	2,133	5,548
Miscellaneous other financial obligations	2,476	1,469	929	4,874

1 Prior-year figures adjusted.

€ million	PAYABLE	PAYABLE	PAYABLE	TOTAL
	2019	2020 – 2023	from 2024	Dec. 31, 2018
Purchase commitments in respect of				
property, plant and equipment	8,362	1,621	0	9,983
intangible assets	1,022	85	–	1,107
investment property	39	–	–	39
Obligations from				
loan commitments to unconsolidated subsidiaries	326	–	–	326
irrevocable credit commitments to customers	3,010	70	5	3,085
long-term leasing and rental contracts	1,190	2,847	2,334	6,372
Miscellaneous other financial obligations	2,971	1,762	966	5,699

As part of the implementation of IFRS 9, obligations under irrevocable credit commitments to customers were analyzed. This led to an adjustment of the data applied. The prior-year figures were adjusted in the amount of €–997 million.

Other financial obligations from long-term leasing and rental contracts are partly offset by expected income from subleases of €1,535 million (previous year: €1,467 million).

Other financial obligations include an amount of €1.3 billion for investments to which the Group has committed itself, in the infrastructure for zero-emission vehicles and in initiatives to promote access to and awareness of these technologies. These commitments were made as part of the settlement agreements in the USA in connection with the diesel issue.

39. Total audit fees of the Group auditor

Under the provisions of the Handelsgesetzbuch (HGB – German Commercial Code), Volkswagen AG is obliged to disclose the total audit fee of the Group auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.

€ million	2018	2017
Financial statement audit services	20	17
Other assurance services	6	2
Tax advisory services	1	1
Other services	26	13
	52	33

The financial statement audit services were attributable to the audit of the consolidated financial statements of Volkswagen AG and of annual financial statements of German Group companies as well as to reviews of the interim consolidated financial statements of Volkswagen AG and of interim financial statements of German Group companies. The auditors provided assurance services and tax advice only to a small extent. Other services provided by the auditors in the reporting period focused on advice on how to implement new legal standards and on support for measures in connection with the diesel issue.

40. Personnel expenses

€ million	2018	2017
Wages and salaries	33,368	31,432
Social security, post-employment and other employee benefit costs	7,791	7,518
	41,158	38,950

41. Average number of employees during the year

	2018	2017
Performance-related wage-earners	256,684	253,469
Salaried staff	302,554	288,478
	559,238	541,947
of which in the passive phase of partial retirement	(8,791)	(7,156)
Vocational trainees	17,905	17,891
	577,143	559,838
Employees of Chinese joint ventures	78,579	74,558
	655,722	634,396

42. Events after the balance sheet date

There were no events with a significant effect on net assets, financial position and results of operations after the end of fiscal year 2018.

43. Remuneration based on performance shares and phantom shares (share-based payment)

At the beginning of 2017, the Supervisory Board of Volkswagen AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2017. The remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of a performance-related annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (share-based payment). In addition, a bonus was converted into phantom preferred shares (phantom shares) in 2016.

The group of beneficiaries of the performance share plan was expanded at the end of 2018 by including members of top management. At the beginning of 2019, they will be granted performance shares for the first time for the 2019-2021 performance period. The way the performance shares allocated to them work is essentially the same as the performance shares allocated to members of the Board of Management.

PERFORMANCE SHARES

Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted, on the basis of the initial reference price of Volkswagen's preferred shares, into performance shares of Volkswagen AG, which are allocated to the respective beneficiary as a pure calculation position. After the end of the three-year term of the performance share plan, a cash settlement shall take place. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the three-year period plus a dividend equivalent for the relevant term. The payment amount under the performance share plan is limited to 200% of the target amount. If 100% of the targets agreed in each case are achieved, the target amount is €1.8 million for each member of the Board of Management and €3.8 million for the Chairman of the Board of Management. A total of 276,382 performance shares were allocated to the members of the Board of Management.

The total target amounts of the members of the top management tier for the 2019-2021 performance period came to €95.2 million on aggregate.

The fair value of the obligation arising from the performance shares amounted to €48.4 million as of December 31, 2018 (previous year: €43.8 million). The compensation cost of €18.2 million (previous year: €43.8 million) was recognized under personnel costs. If the beneficiaries of the performance share plan had left the Company as of December 31, 2018, the obligation (intrinsic value) would have amounted to a total of €33.7 million (previous year: €20.3 million).

PHANTOM SHARES

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance by means of phantom shares. The amount withheld led to the creation of 50,703 phantom preferred shares. The fair value of the obligation to current and former members of the Board of Management amounted to €5.0 million as of December 31, 2018 (previous year: €7.0 million). In 2018, Mr. Stadler received a cash payment of the value of 8,633 shares in an amount of €1.0 million as part of the termination of his contract of service. The decrease in the fair value of all phantom shares by €1.0 million (previous year: increase in fair value by €2.0 million) was recognized as income (previous year: expense). If the other members of the Board of Management had also left the Company as of December 31, 2018, the obligation (intrinsic value) would have amounted to a total of €5.3 million (previous year: €7.3 million). For further details on performance shares and phantom shares, please refer to our disclosures in the remuneration report, which is part of the Group management report.

44. Related party disclosures in accordance with IAS 24

Related parties as defined by IAS 24 are natural persons and entities that Volkswagen AG has the ability to control or on which it can exercise significant influence, or natural persons and entities that have the ability to control or exercise significant influence on Volkswagen AG, or that are influenced by another related party of Volkswagen AG.

All transactions with related parties are conducted on an arm's length basis.

At 52.2%, Porsche SE held the majority of the voting rights in Volkswagen AG as of the reporting date. The creation of rights of appointment for the State of Lower Saxony was resolved at the Extraordinary General Meeting of Volkswagen AG on December 3, 2009. As a result, Porsche SE cannot appoint the majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore classified as a related party as defined by IAS 24.

The contribution of Porsche SE's holding company operating business to Volkswagen AG on August 1, 2012 has the following effects on the agreements between Porsche SE, Volkswagen AG and companies of the Porsche Holding Stuttgart Group that existed prior to the contribution and were entered into on the basis of the Comprehensive Agreement and its related implementation agreements:

- › As part of the contribution of Porsche SE's holding company operating business to Volkswagen AG, Volkswagen AG undertook to assume standard market liability compensation effective August 1, 2012 for guarantees issued to external creditors, whereby it is indemnified internally.
- › Volkswagen AG continues to indemnify Porsche SE internally against claims by the Einlagensicherungsfonds (German deposit protection fund) after Porsche SE submitted an indemnification agreement required by the Bundesverband Deutscher Banken (Association of German Banks) to the Einlagensicherungsfonds in August 2009. Volkswagen AG has also undertaken to indemnify the Einlagensicherungsfonds against any losses caused by measures taken by the latter in favor of a bank in which Volkswagen AG holds a majority interest.
- › Under certain conditions, Porsche SE continues to indemnify Porsche Holding Stuttgart, Porsche AG and their legal predecessors against tax disadvantages that exceed the obligations recognized in the financial statements of those companies relating to periods up to and including July 31, 2009. In return, Volkswagen AG has undertaken to reimburse Porsche SE for any tax advantages of Porsche Holding Stuttgart, Porsche AG and their legal predecessors and subsidiaries relating to tax assessment periods up to July 31, 2009. Based on the results of the external tax audit for the assessment periods 2006 to 2008, which has now been completed, and based on information for the 2009 assessment period available at the date of preparing these consolidated financial

statements, a compensation obligation in the low triple-digit million euro range would arise for Volkswagen AG. New information emerging in the future from the external tax audit that commenced at the end of 2015 for the 2009 assessment period could result in an increase or decrease in the potential compensation obligation.

Under the terms of the Comprehensive Agreement, Porsche SE and Volkswagen AG had granted each other put and call options with regard to the remaining 50.1% interest in Porsche Holding Stuttgart held by Porsche SE until the contribution of its holding company operating business to Volkswagen AG. Both Volkswagen AG (if it had exercised its call option) and Porsche SE (if it had exercised its put option) had undertaken to bear the tax burden resulting from the exercise of the options and any subsequent activities in relation to the equity investment in Porsche Holding Stuttgart (e.g. from recapture taxation on the spin-off in 2007 and/or 2009). If tax benefits had accrued to Volkswagen AG, Porsche Holding Stuttgart, Porsche AG, or their respective subsidiaries as a result of recapture taxation on the spin-off in 2007 and/or 2009, the purchase price to be paid by Volkswagen AG for the transfer of the outstanding 50.1% equity investment in Porsche Holding Stuttgart if the put option had been exercised by Porsche SE would have been increased by the present value of the tax benefit. This arrangement was taken over under the terms of the contribution agreement to the effect that Porsche SE has a claim against Volkswagen AG for payment in the amount of the present value of the realizable tax benefits from any recapture taxation of the spin-off in 2007 as a result of the contribution. It was also agreed under the terms of the contribution that Porsche SE will indemnify Volkswagen AG, Porsche Holding Stuttgart and their subsidiaries against taxes if measures taken by or not taken by Porsche SE result in recapture taxation for 2012 at these companies in the course of or following implementation of the contribution. In this case, too, Porsche SE is entitled to assert a claim for payment against Volkswagen AG in the amount of the present value of the realizable tax benefits that arise at the level of Volkswagen AG or one of its subsidiaries as a result of such a transaction.

Further agreements were entered into and declarations were issued in connection with the contribution of Porsche SE's holding company operating business to Volkswagen AG, in particular:

- › Porsche SE indemnifies its contributed subsidiaries, Porsche Holding Stuttgart, Porsche AG and their subsidiaries against certain liabilities to Porsche SE that relate to the period up to and including December 31, 2011 and that exceed the obligations recognized in the financial statements of those companies for that period.
- › Porsche SE indemnifies Porsche Holding Stuttgart and Porsche AG against obligations arising from certain legal disputes; this includes the costs of an appropriate legal defense.
- › Moreover, Porsche SE indemnifies Volkswagen AG, Porsche Holding Stuttgart, Porsche AG and their subsidiaries against half of the taxes (other than taxes on income) arising at those companies in conjunction with the contribution that would not have been incurred in the event of the exercise of the call option on the shares of Porsche Holding Stuttgart that continued to be held by Porsche SE until the contribution. Volkswagen AG therefore indemnifies Porsche SE against half of such taxes that it incurs. In addition, Porsche Holding Stuttgart is indemnified against half of the land transfer tax and other costs triggered by the merger.
- › Additionally, Porsche SE and Porsche AG agreed to allocate any subsequent VAT receivables or liabilities from transactions in the period up to December 31, 2009 to the company entitled to the receivable or incurring the liability.
- › A range of information, conduct and cooperation obligations were agreed by Porsche SE and the Volkswagen Group.

According to a notification dated January 8, 2019, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft Niedersachsen mbH, Hanover, held 20.00% of the voting rights of Volkswagen AG on December 31, 2018. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

The following tables present the amounts of supplies and services transacted, as well as outstanding receivables and liabilities, between consolidated companies of the Volkswagen Group and related parties:

RELATED PARTIES

€ million	SUPPLIES AND SERVICES RENDERED		SUPPLIES AND SERVICES RECEIVED	
	2018	2017	2018	2017
	Porsche SE and its majority interests	3	7	3
Supervisory Board members	4	2	2	2
Board of Management members	0	0	0	0
Unconsolidated subsidiaries	1,137	1,039	1,649	1,300
Joint ventures and their majority interests	16,724	14,294	491	1,225
Associates and their majority interests	194	214	1,267	733
Pension plans	1	1	2	0
Other related parties	0	0	1	0
State of Lower Saxony, its majority interests and joint ventures	10	11	8	9

€ million	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
	Porsche SE and its majority interests	4	13	1
Supervisory Board members	0	0	205	254
Board of Management members	0	0	78	72
Unconsolidated subsidiaries	1,319	1,480	1,869	1,773
Joint ventures and their majority interests	11,989	9,889	2,671	2,168
Associates and their majority interests	112	76	487	572
Pension plans	1	1	–	–
Other related parties	–	–	100	63
State of Lower Saxony, its majority interests and joint ventures	1	2	2	1

The tables above do not contain the dividend payments of €3,493 million (previous year: €3,653 million) received from joint ventures and associates and dividends of €601 million (previous year: €308 million) paid to Porsche SE.

Receivables from joint ventures are primarily attributable to loans granted in an amount of €7,606 million (previous year: €6,277 million) as well as trade receivables in an amount of €4,045 million (previous year: €3,354 million). Receivables from non-consolidated subsidiaries also result primarily from loans granted in an amount of €741 million (previous year: €1,038 million) as well as trade receivables in an amount of €214 million (previous year: €224 million).

Impairment losses of €56 million (previous year: €56 million) were recognized on the outstanding related party receivables. In fiscal year 2018, expenses of €29 million (previous year: €36 million) were incurred in this context.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €239 million (previous year: €220 million).

In the reporting period, the Volkswagen Group made capital contributions of €298 million (previous year: €203 million) to related parties.

The changes in supplies and services rendered to joint ventures and their majority interests are primarily attributable to deliveries to the Chinese joint ventures.

As in the previous year, obligations to members of the Supervisory Board relate primarily to interest-bearing bank balances of Supervisory Board members that were invested at standard market terms and conditions at Volkswagen Group companies.

Obligations to the Board of Management comprise outstanding balances for the annual bonus and the fair values of the performance shares and phantom shares in the amount of €64.8 million (previous year: €67.0 million) granted to Board of Management members.

In addition to the amounts shown above, the following expenses were recognized for the members of the Board of Management and Supervisory Board of the Volkswagen Group in the course of their activities as members of these bodies:

€	2018	2017
Short-term benefits	32,417,428	33,967,996
Benefits based on performance shares and phantom shares	10,022,492	45,777,248
Post-employment benefits	10,519,369	10,872,088
Termination benefits	12,994,964	6,940,142
	65,954,253	97,557,473

Benefits paid on the basis of performance shares include the cost of €10.6 million (previous year: €43.8 million) attributable to the performance shares granted to Board of Management members under the remuneration system applicable as from 2017. Pursuant to the guidance of IFRS 2, this requires inclusion of not only the performance share plan for 2017 and 2018, but also of a pro-rated amount for future share plans to be granted during the current employment contract.

In fiscal year 2018, the share price performance led to the recognition of income of €0.6 million (previous year: expense of €2.0 million) for the phantom shares.

The employee representatives and the representative of the senior executives on the Supervisory Board are also entitled to a regular salary as set out in their employment contracts. For members of German works councils, this is based on the provisions of the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act). Investigations by the authorities are currently under way to determine whether the remuneration of some works council members can be justified. As a precaution, components of the remuneration of some works council members has been retained in this context until the matter is clarified. Volkswagen AG currently assumes that the proceedings will be completed in fiscal year 2019.

The post-employment benefits relate to additions to pension provisions for current members of the Board of Management. The termination benefits relate to the severance payment made to Mr. Garcia Sanz and Mr. Stadler in connection with their early departure from the Board of Management. The payment of a potential severance payment to Mr. Stadler depends on the development and outcome of the criminal proceedings.

Disclosures on the pension provisions for members of the Board of Management and more detailed explanations of the remuneration of the Board of Management and the Supervisory Board can be found in the section entitled “Remuneration of the Board of Management and the Supervisory Board” and in the remuneration report, which is part of the management report.

45. German Corporate Governance Code

On November 16, 2018, the Board of Management and Supervisory Board of Volkswagen AG issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) and made it permanently available to the shareholders of Volkswagen AG on the Company's website at www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html.

On November 29, 2018, the Board of Management and Supervisory Board of AUDI AG likewise issued their declaration of conformity with the German Corporate Governance Code and made it permanently available to the shareholders at www.audi.com/cgk-declaration.

In December 2018, the Executive Board and Supervisory Board of MAN SE issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the AktG and made it permanently available to the shareholders at www.corporate.man.eu/en/investor-relations/corporate-governance/corporate-governance-at-man/Corporate-Governance-at-MAN.html.

The Executive and Supervisory Boards of RENK AG issued a declaration of conformity in December, 2018 and made it permanently available to the shareholders at www.renk-ag.com/en/investor-relations/financial-reports.

46. Remuneration of the Board of Management and the Supervisory Board

€	2018	2017
Board of Management remuneration		
Non-performance-related remuneration	13,051,264	14,337,116
Performance-related remuneration	14,827,178	15,844,041
Long-term incentive component	22,457,869	20,104,770
	50,336,310	50,285,927
Supervisory Board remuneration		
Non-performance-related remuneration	4,004,372	3,516,389
Performance-related remuneration	534,614	270,450
	4,538,986	3,786,839

NON-PERFORMANCE-RELATED REMUNERATION OF THE BOARD OF MANAGEMENT

The non-performance-related remuneration of the Board of Management comprises fixed remuneration and fringe benefits. Since 2018, appointments assumed at Group companies have not been remunerated separately; instead they are deemed to be included in the remuneration. The fringe benefits relate to noncash benefits granted and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these noncash benefits were mainly borne by Volkswagen AG.

PERFORMANCE-RELATED REMUNERATION AND LONG-TERM INCENTIVE COMPONENT OF THE BOARD OF MANAGEMENT

Performance-related remuneration includes the annual bonus with a one-year assessment period. The long-term incentive component contains the long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term. The performance shares granted to the incumbent members of the Board of Management under the remuneration system in 2018 (134,956 performance shares) had a fair value of €22.5 million (previous year: €20.1 million) at the grant date; this amount represents remuneration under German GAAP.

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future

share price performance by means of phantom shares. The resulting effects on remuneration were reported as appropriate in previous years.

In fiscal year 2018, expenses totaling €10.6 million (previous year: €43.8 million) were recognized for the performance shares, while income for the phantom shares totaled €0.6 million (previous year: expense of €2.0 million). They do not represent remuneration under German GAAP and are therefore not included in the tables above.

As in the previous year, no interest-free advances were paid to members of the Board of Management.

SUPERVISORY BOARD REMUNERATION

As a result of its regular review of the Supervisory Board remuneration, the Supervisory Board proposed a reorganization of the system of Supervisory Board remuneration to the 2017 Annual General Meeting, which was approved on May 10, 2017 with 99.98 % of the votes cast. The remuneration of the members of the Supervisory Board of Volkswagen AG then no longer contains any performance-related remuneration components but consists entirely of non-performance-related remuneration components. Remuneration for supervisory board work at subsidiaries continues to comprise a mix of non-performance-related and performance-related components.

PENSION ENTITLEMENTS

On December 31, 2018, the pension provisions for members of the Board of Management amounted to €55.8 million (previous year: €125.4 million). Current pensions are index-linked in accordance with the index-linking of the highest collectively agreed salary insofar as the application of section 16 of the Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG – German Company Pension Act) does not lead to a higher increase.

In connection with their departure from the Board of Management Mr. Blessing, Mr. Garcia Sanz, Mr. Müller and Mr. Stadler were promised the following amounts:

For Mr. Blessing

- a non-performance-related component of €3.8 million,
- a performance-related component of €4.2 million and
- a long-term incentive component of €3.9 million were recognized.

For Mr. Garcia Sanz

- a non-performance-related component of €1.6 million,
- a performance-related component of €1.8 million and
- a long-term incentive component of €1.6 million were recognized.

For Mr. Müller

- a non-performance-related component of €4.0 million,
- a performance-related component of €6.6 million and
- a long-term incentive component of €7.2 million were recognized.

For Mr. Stadler

- a non-performance-related component of €3.2 million,
- a performance-related component of €1.9 million and
- a long-term incentive component of €1.8 million were recognized.

The payment of the amounts mentioned above for Mr. Stadler is linked to the development and outcome of the criminal proceedings. For the amounts promised, in general, Volkswagen AG and AUDI AG are jointly and severally liable.

For former members of the Board of Management and their surviving dependents €44.0 million (previous year: €19.9 million) were granted. Pension provisions in accordance with IFRSs for this group of individuals amounted to €324.0 million (previous year: €269.0 million).

The individual remuneration of the members of the Board of Management and the Supervisory Board is explained in the remuneration report in the management report on page 68. A comprehensive assessment of the individual remuneration components, including the LTI, in the form of the performance share plan can also be found there.