VOLKSWAGEN

AKTIENGESELLSCHAFT

Half-Yearly Financial Report

JANUARY – JUNE 2018

Key Figures

VOLKSWAGEN GROUP

	Q2			H1		
	2018	2017[1]	%	2018	2017[1]	%
Volume Data[2] in thousands						
Deliveries to customers (units)	2,839	2,660	+6.7	5,519	5,155	+7.1
Vehicle sales (units)	2,807	2,660	+5.5	5,575	5,270	+5.8
Production (units)	3,059	2,696	+13.5	5,786	5,433	+6.5
Employees (on June 30, 2018/Dec. 31, 2017)				649.7	642.3	+1.2
Financial Data (IFRSs), € million						
Sales revenue	61,149	59,152	+3.4	119,377	115,349	+3.5
Operating result before special items	5,583	4,549	+22.7	9,794	8,916	+9.8
Operating return on sales before special items (%)	9.1	7.7		8.2	7.7	
Special items	–1,635	–	x	–1,635	–	x
Operating result	3,948	4,549	–13.2	8,160	8,916	–8.5
Operating return on sales (%)	6.5	7.7		6.8	7.7	
Earnings before tax	4,495	4,207	+6.8	8,972	8,799	+2.0
Return on sales before tax (%)	7.4	7.1		7.5	7.6	
Earnings after tax	3,313	3,101	+6.8	6,613	6,474	+2.1
Automotive Division[3]						
Total research and development costs	3,391	3,389	+0.0	6,747	6,759	–0.2
R&D ratio (%)	6.5	6.7		6.6	6.9	
Cash flows from operating activities	4,753	1,198	x	10,208	2,033	x
Cash flows from investing activities attributable to operating activities[4]	3,844	3,411	+12.7	6,862	6,829	+0.5
of which: capex	2,481	2,319	+7.0	4,398	4,159	+5.8
capex/sales revenue (%)	4.8	4.6		4.3	4.2	
Net cash flow	909	–2,213	x	3,346	–4,795	x
Net liquidity at June 30				26,298	23,745	+10.7

1 Adjusted
2 Volume data including the unconsolidated Chinese joint ventures. These companies are accounted for using the equity method. Prior-year deliveries updated to reflect subsequent statistical trends.
3 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
4 Excluding acquisition and disposal of equity investments: Q2 €3,702 (3,692) million, H1 €6,782 (6,853) million.

All figures shown in the Report are rounded, so minor discrepancies may arise from addition of these amounts. The figures from the previous fiscal year are shown in parentheses directly after the figures for the current reporting period.

Key Facts

- Deliveries to customers of the Volkswagen Group up on the previous year at 5.5 (5.2) million vehicles; growth particularly in Europe, South America and Asia-Pacific
- Group sales revenue of €119.4 billion exceeds prior-year figure by 3.5% due to volume-related factors; exchange rate effects negative as expected
- Operating profit before special items improved by €0.9 billion to €9.8 billion
- Operating profit at €8.2 (8.9) billion; negative special items in connection with the diesel issue (€–1.6 billion) had an adverse impact on the result
- Profit before tax increases by €0.2 billion to €9.0 billion
- Automotive Division's net cash flow at €3.3 (–4.8) billion higher than a year before; marked decrease in cash outflows attributable to the diesel issue; capex ratio stands at 4.3 (4.2)%
- Net liquidity in the Automotive Division of €26.3 billion; successful placement of hybrid notes strengthens the capital base
- Exciting products:
  - Volkswagen Passenger Cars continues its product initiative in China with the new-generation Lavida and the CC
  - Audi shows the new face of the Q family for the first time with the Q8; the Q5L debuts in China as the brand's first long-wheelbase SUV
  - ŠKODA presents the Kamiq city SUV in China
  - Bentley introduces the Bentayga with its powerful twin-turbo V8
  - Porsche's electric sports car Mission E to launch as the Taycan
  - Volkswagen Commercial Vehicles celebrates production of the 500,000th vehicle in the current T series
  - Scania and MAN showcase their flexible and economic vehicles for municipal use at IFAT

Key Events

MOTOR SHOWS AND EVENTS

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

Auto China 2018

Volkswagen is resolutely pursuing its product and technology initiative in its most important market. The latest generation of the Lavida, the market leader for compact saloons, celebrated its premiere at Auto China 2018 in Beijing. The model impresses with its clear design language and a much more spacious interior. The new Lavida is based on the Modular Transverse Toolkit (MQB) and draws on the MQB's strengths in terms of the efficient drivetrain, as well as modern infotainment and assistance systems. The new Volkswagen CC, the China-produced version of the Arteon, also debuted in Beijing. Already available in Europe, the model impresses with its expressive design and offers a surprising amount of space and comfort for its coupé-style elegant lines. With the new Touareg, Volkswagen also underscored its ambition in the important SUV segment, which now makes up 44% of the overall market in China. Alongside the new Touareg, Volkswagen is launching three further models on the market in 2018, including the extended-wheelbase Chinese version of the T-Roc. Volkswagen gave an outlook on the sustainable mobility of tomorrow and beyond in Beijing with its I.D. VIZZION concept vehicle, the future flagship of the fully electric I.D. family. The first models based on the Modular Electrification Toolkit will be launched in Europe and China in 2020.

The Audi brand introduced the Q5L for the first time in Beijing. The long version of the successful off-roader represents the brand's first extended-wheelbase SUV and is aimed specifically at customers in China, who can choose between five equipment lines and two power outputs for the 2.0 TFSI engine – 140 kW (190 PS) or 185 kW (252 PS). The quattro all-wheel drive and the seven-speed S tronic gearbox are included as standard.

The ŠKODA Kamiq also celebrated its motor show premiere at Auto China. After the Kodiaq and Karoq, the new SUV is the third member of the modern SUV family to enter the Chinese market, systematically continuing the family's powerful SUV design language. The vehicle combines compact dimensions with a very spacious interior that flows seamlessly on from the robust design. The raised infotainment display in the center of the dashboard makes it particularly easy and convenient for the driver to operate many of the vehicle functions. Thanks to an intelligent connectivity system newly developed by ŠKODA, the young, urban customers at whom the Kamiq is aimed can continue their digital lifestyle without interruption. Power comes from an entirely new 1.5 MPI engine generating 81 kW (110 PS).

The Bentley brand presented the Bentayga V8 for the first time at Auto China. The SUV combines luxury with strong practicality and sharp performance. Its centerpiece is the 4.0 V8 twin-turbo engine with 404 kW (550 PS) of power, accelerating the Bentayga from 0 to 100 km/h in 4.5 s. The exterior also underscores the model's sporty character for example with its twin-quad exhaust pipes and optional carbon-ceramic brakes.

Porsche used Beijing to celebrate the Asian premieres of the 911 GT3 RS and Mission E Cross Turismo. The former generates 383 kW (520 PS) from its 4 l engine and accelerates from 0 to 100 km/h in 3.2 s. The top speed is an impressive 312 km/h. The Mission E Cross Turismo is the concept version of an electric-powered crossover utility vehicle. It boasts an exciting design, striking off-road elements, and innovative display and control interfaces.

Wörthersee GTI Meet

Attention at the annual Wörthersee GTI Meet centered on the debut of the Golf GTI TCR concept. The race car-based study that is close to series production puts 213 kW (290 PS) to the wheels via a turbocharged engine and seven-gear dual-clutch transmission. It has a top speed of 264 km/h. Visually, the model stands out thanks in part to its 19-inch alloy wheels, a redesigned bumper, new side sill panels and a chunky diffuser with twin tailpipes. There were two further premieres on the program alongside the GTI TCR Concept. Trainees from Wolfsburg presented the GOLF GTI Next Level with a 302 kW (411 PS) 2.0 l petrol engine and seven-speed dual-clutch transmission. The unique vehicle is sprayed in the standard colors of White Silver Metallic and Deep Black Pearl Effect. Young professionals from Volkswagen in Saxony unveiled the Golf Estate TGI GMOTION with a 96 kW (131 PS) 1.5 TGI natural gas engine, seven-speed dual-clutch transmission and integrated all-wheel drive. The show car combines sportiness, elegance and sound cross-country performance, thus demonstrating that alternative drive systems are suitable for everyday use.

Vienna Motor Symposium

Volkswagen presented world premieres at the 39th Vienna Motor Symposium in the form of progressive hybrid, natural gas and diesel systems. One of the most important new drive systems is a 48-volt mild hybrid that Volkswagen will launch initially for the next Golf-generation, therefore making hybrid drives affordable for a large customer base. The system will help to significantly reduce fuel consumption and emissions and at the same time boost performance and comfort.

Another technical highlight in Vienna was the new 1.5 TGI evo CNG engine. The 96 kW (130 PS) direct-injection power plant equipped with a latest-generation variable turbocharger uses the Miller combustion cycle, in which an especially high compression ratio, combined with the high octane rating offered by natural gas fuel, considerably increases efficiency. For Volkswagen, this ultra-modern engine is an important component of the natural gas campaign. The great potential of diesel power was demonstrated by Volkswagen in Vienna with the 2.0 TDI engines in the EA288 evo series. Developed from scratch, these engines will be available in combination with hybrid systems for the first time. Partnered with a lithium-ion battery, the mild-hybrid system reduces consumption and increases comfort. The new TDI engines stand out thanks to very low emissions in all driving cycles. They meet the current and future emissions requirements used in WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) and RDE (Real Driving Emissions) testing, and power outputs range from 100 kW (136 PS) to 150 kW (204 PS).

World premiere of the Audi Q8

In June 2018, the Audi brand presented the new face of its Q family for the first time: the Audi Q8. This combines the elegance of a four-door luxury coupé with the practical versatility of a large SUV. Its expressive design is underlined by an imposing octagon-shaped, single-frame radiator grille, an elegant sloping roof line and up to 22-inch wheels. LED headlights illuminate the road ahead and come as standard, with the option of HD Matrix LED technology. Inside, all infotainment and comfort functions can be selected using the touch-response Multi Media Interface with two large displays, or by means of voice recognition. The assistance systems include the adaptive driving assistant, efficiency assistant, intersection assist, lane change assist, curb warning and surround view cameras. The remote garage parking assist will follow in early 2019. This drives the SUV in and out of a garage automatically while the driver monitors the maneuver. All-wheel steering and quattro drive ensure agile handling and excellent traction. All drivetrains available in the Q8 are especially efficient thanks to the new mild-hybrid technology. The 48-volt main electrical system combines a lithium-ion battery with a belt-driven starter generator.

Porsche's Mission E to launch as Taycan

As part of the celebrations for 70 years of Porsche sports cars, Porsche announced in June that it would launch the brand's first all-electric model on the market as the Taycan. Until now, the vehicle has been known as the Mission E concept car. The name translates as "lively young horse" and therefore reflects the centerpiece of Porsche's coat of arms. Porsche plans to invest more than €6 billion in e-mobility by 2022. This will include developing variants and derivatives of the Taycan, electrification and hybridization of the existing product range, expanding sites, and developing new technologies, charging infrastructure and smart mobility. The Taycan is intended to create around 1,200 new jobs at the Zuffenhausen location alone.

IFAT 2018

At IFAT 2018 in Munich, the world's leading trade fair for water, sewage, waste and raw materials management, the Scania and MAN brands presented practical solutions for businesses and local authorities. Scania is contributing to sustainable transport in cities and suburbs with the new L-series, numerous cab options in the P and G product lines, and the new 7-liter range of engines. It also offers a large selection of fuel-efficient Euro 6 engines that can run on diesel, biodiesel, bioethanol and also HVO (hydrotreated vegetable oils). MAN's TGE, TGL, TGM and TGS product lines offer an extensive range of commercial vehicles – from vans to four-axle chassis models. Combined with industry-specific bodies and equipment, this allows users to configure the most efficient vehicle for the task at hand.

AWARDS

In mid-April 2018, readers of the Auto Bild allrad all-wheel-drive motoring magazine chose several Volkswagen Group models as their all-wheel drive cars of the year. ŠKODA's Kodiaq impressed the jury in the overall rankings and import rankings in the all-terrain and SUV category for vehicles priced at up to €30,000. Besides that, the ŠKODA Superb was voted the winner in the import category for all-wheel-drive passenger cars priced at up to €40,000. The Audi A6 allroad quattro was the overall winner in the all-wheel-drive crossover category. With the Panamera and 911, Porsche was the overall winner in the category for all-wheel-drive cars priced at over €40,000 as well as in the all-wheel-drive sports cars, coupés and convertibles category. The Multivan from Volkswagen Commercial Vehicles was crowned overall winner in the all-wheel-drive vans and buses category. SEAT's Alhambra took the top spot in the same category for imported vehicles. In addition, the Lamborghini Urus received a special prize from the editors for the best design. Participants in the readers' choice awards held annually by Auto Bild allrad could choose from a total of 219 vehicle models in ten categories.

In April 2018, the editors of industry magazine Firmenauto and the vehicle inspection company Dekra awarded accolades to various Volkswagen Group models in their "Company Car of the Year 2018" awards. The Volkswagen Passenger Cars brand won in the categories for small, compact and mid-size cars with the Polo 1.0 TGI, Golf 1.4 TGI and Passat Estate GTE. ŠKODA's Octavia Estate 1.6 TDI and Kodiaq 2.0 TDI 4x4 impressed the jury in the compact and mid-size SUV categories for imported vehicles. SEAT triumphed in the imported-vehicle rankings for small cars and compact SUVs with its Ibiza 1.0 TGI and Ateca 1.6 TDI. The vote saw 250 fleet managers closely scrutinizing almost a hundred vehicles.

The magazines VerkehrsRundschau and Trucker also gave awards to the most environmentally friendly commercial vehicles in April 2018. The “Green Van of the Year” title went to the Crafter from Volkswagen Commercial Vehicles. In addition to fuel consumption and emissions, loading space and actual payload were also factored into the judging.

In early June 2018, the Volkswagen Group won several accolades in the “International Engine of the Year 2018” award organized by UKi Media & Events’ Automotive Magazines. The Volkswagen Passenger Cars brand was victorious in the sub-1-liter category with its 1.0 TSI engine. Audi’s 2.5 TFSI engine received the award in the 2 l to 2.5 l category. Porsche impressed the jury with its 2.0 l four-cylinder turbocharged engine and 3.0 l six-cylinder turbocharged engine in the 1.8 l to 2.0 l and 2.5 l to 3.0 l categories. The winners were chosen by an international jury of journalists.

In early June 2018, readers of specialist magazine OFF ROAD chose the Amarok from the Volkswagen Commercial Vehicles brand as the best pick-up of the year for the sixth time since 2011. This year, the choice included 196 models. The award began in 1982 and now features 13 categories.

In mid-June 2018, the Volkswagen Group and its brands received several accolades at the “AutomotiveINNOVATIONS Award 2018”. The Volkswagen Group was honored as the most innovative automotive group and the Volkswagen Passenger Cars brand recognized as the most innovative volume brand for the third time in a row. In addition, the core brand impressed the jury in the volume segment in the alternative drives, conventional drives, autonomous driving and safety categories. Audi’s A8 was judged the most innovative model. The premium brand also won in the autonomous driving and safety category. The awards are presented annually by the Center of Automotive Management, which is an independent scientific institute, in cooperation with the audit firm PricewaterhouseCoopers.

In June 2018, the readers’ prize for the best commercial vehicles awarded by the specialist magazines trans aktuell, FERNFAHRER and lastauto omnibus in the delivery vans, transporters up to 2.8 tonnes and pick-ups categories went for the fifth time in a row to the Caddy, Transporter and Amarok models from Volkswagen Commercial Vehicles.

In mid-April 2018, the ŠKODA and SEAT brands won a “Red Dot Award” in the product design category for their Karoq and Arona models. The international expert jury scores the numerous entries using criteria such as the level of innovation, formal quality, functionality and environmental compatibility.

In early May 2018, more than 13,000 readers of Auto Zeitung magazine cast their votes for the best new car designs in five vehicle categories to select the winners of the “Design Trophy 2018”. The Volkswagen Passenger Cars brand was honored for its Polo in the small cars/city cars category. Furthermore, the new Audi A7 Sportback prevailed in the saloons/estates/MPVs category.

In April 2018, the Volkswagen Passenger Cars brand received two awards from the Art Directors Club for Germany for its digital platform for customers, which is called “Volkswagen We”. One award was for the volkswagen-we.de website and one for its web services.

ANNIVERSARIES

In late May 2018, the Volkswagen Commercial Vehicles brand produced the 100,000th California campervan in Hanover – a California “Ocean” with 4MOTION all-wheel drive, 7-speed DSG and two-tone paintwork in Candy White and Starlight Blue Metallic. The campervan’s success story began 30 years ago and a total of 160,000 vehicles have been produced to date.

In early June 2018, staff at Volkswagen Commercial Vehicles in Hanover completed the 500,000th vehicle in the current Transporter series – a Multivan with two-tone paintwork in Candy White and Turmeric Yellow.

That same month, Volkswagen’s main plant in Wolfsburg manufactured the 45 millionth vehicle since the start of production in December 1945. The anniversary model was an e-Golf. The Wolfsburg plant’s most-produced model is the Golf, followed by the original Beetle, Polo and Tiguan.

PARTNERSHIPS

In mid-April 2018, Volkswagen Truck & Bus AG (formerly Volkswagen Truck & Bus GmbH) and Hino Motors Ltd. signed a framework agreement for a strategic partnership. Based on their common vision, the two companies will explore opportunities to cooperate in the fields of logistics and transport research on existing and new technologies and on procurement. In terms of technologies, potential cooperation will concentrate on conventional, hybrid and electric drivetrains, as well as on the fields of connectivity and autonomous driving. Volkswagen Truck & Bus and Hino Motors plan to use the strategic partnership to further expand their global presence and master the challenges posed by the industry. Hino is a leading commercial vehicle manufacturer with a strong presence on the domestic Japanese market and in Asia.

In June 2018, the Volkswagen Group and the Ford Motor Company signed a declaration of intent. The aim is to boost the two companies’ competitiveness and better respond to customers’ needs worldwide. Volkswagen and Ford are examining potential projects in a series of business areas, including the development of commercial vehicle models.

The Volkswagen Group also launched a new joint venture with QuantumScape in June 2018. The goal is to enable mass production of solid-state batteries and build a production facility by 2025. Volkswagen is also investing USD 100 million in QuantumScape, making it the largest automotive shareholder of the innovative company. Completion of this transaction remains subject to approval by the authorities.

DIESEL ISSUE

In June 2018, the public prosecutor in Braunschweig issued Volkswagen AG an administrative order in connection with the diesel issue. The administrative order is linked to negligent breaches of monitoring obligations on the part of Volkswagen AG employees in the Powertrain Development department and relates to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a fine of €1.0 billion in total, comprising of the maximum legal penalty of €5 million and the disgorgement of economic benefits in the amount of €995 million. Following thorough examination, the fine has been accepted and has been paid in full by Volkswagen. The administrative order is therefore legally binding. As a result of the administrative order, the ongoing misdemeanor proceeding against Volkswagen AG will be settled.

ANNUAL GENERAL MEETING

The 58th Annual General Meeting of Volkswagen AG was held in Berlin on May 3, 2018. With 93.18% of the voting capital present, the ordinary shareholders of Volkswagen AG agreed to the proposal of the Board of Management and Supervisory Board to pay a dividend of €3.90 per ordinary share and €3.96 per preferred share for fiscal year 2017. They also formally approved the actions of the members of the Board of Management and Supervisory Board. The meeting confirmed Ms. Marianne Heiß as a member of the Supervisory Board and once again elected Dr. Wolfgang Porsche to the Supervisory Board; both members were appointed for a full term of office. Furthermore, the ordinary shareholders of Volkswagen AG elected PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) as the auditors for the single-entity and consolidated financial statements for fiscal year 2018 and as the auditors to review the condensed consolidated financial statements and interim management report for the first six months of 2018, for the period up to September 30, 2018 and for the first quarter of fiscal year 2019.

CASH SETTLEMENT TO THE NONCONTROLLING INTEREST SHAREHOLDERS

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

MATTERS RELATING TO THE BOARD OF MANAGEMENT

In July 2018, the Supervisory Board of Volkswagen AG appointed Mr. Stefan Sommer as member of the Group Board of Management with responsibility for Procurement with effect from January 1, 2019 at the latest. He succeeds Mr. Francisco Javier Garcia Sanz, who left the Company in April 2018 of his own volition.

Due to his detention in connection with investigations by the public prosecutor's office into the diesel issue, in June 2018 Mr. Rupert Stadler requested that the Supervisory Boards of AUDI AG and Volkswagen AG release him on a temporary basis from his position as a governing body member in the Board of Management of AUDI AG and in the Board of Management of Volkswagen AG. Both boards complied with his request.

Volkswagen Shares

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

The DAX recorded a drop compared with the end of 2017. Uncertainty regarding the economic policy of the US government and the monetary policy of the US Federal Reserve as well as the European Central Bank, had a lasting negative impact on share listings. The promising economic performance of important industrialized nations and the formation of governments in EU countries had a positive impact.

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

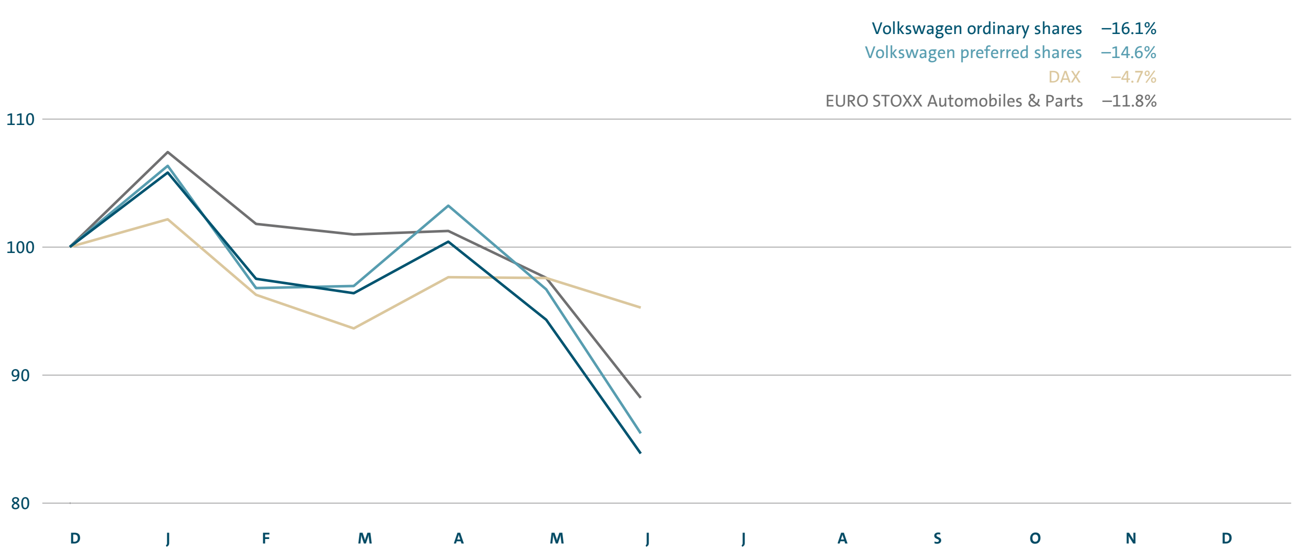
Information and explanations on earnings per share can be found in the notes to the interim consolidated financial statements. Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website at www.volkswagenag.com/ir.

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

		High	Low	Closing
Ordinary share	Price (€)	188.00	141.50	141.50
	Date	Jan. 22	June 29	June 29
Preferred share	Price (€)	188.50	142.22	142.22
	Date	Jan. 22	June 29	June 29
DAX	Price	13,560	11,787	12,306
	Date	Jan. 23	Mar. 26	June 29
ESTX Auto & Parts	Price	656	524	524
	Date	Jan. 22	June 29	June 29

PRICE DEVELOPMENT FROM DECEMBER 2017 TO JUNE 2018

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



Business Development

GENERAL ECONOMIC DEVELOPMENT

The global economy continued its solid growth in the first six months of 2018. The average expansion rate of gross domestic product (GDP) was up year-on-year in both the advanced and the emerging market economies. The majority of energy and commodity prices increased compared with the prior-year period amid a still comparatively low interest rate level. Growing upheaval in trade policy at international level led to substantially increased uncertainty.

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

With a favorable situation on the labor market, the growth trend in Germany continued in the period under review, though both business and consumer sentiment has deteriorated slightly over recent months.

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

Amid persistent structural deficits and political challenges, the growth rate of South Africa's GDP was steady in the first half of 2018 compared to the same period of the previous year.

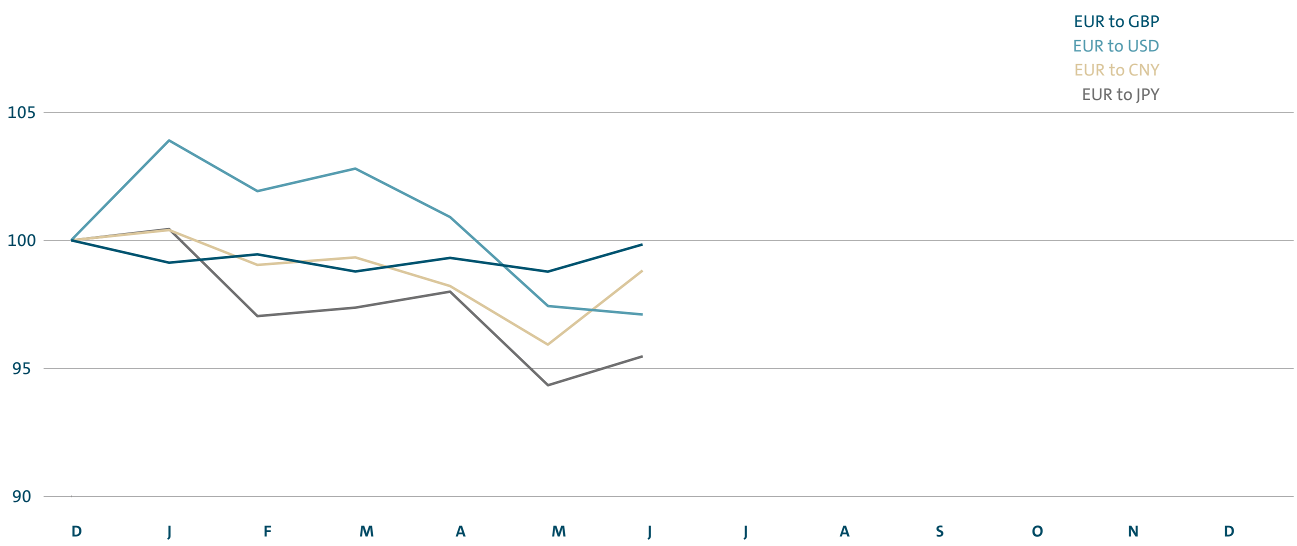
The pace of growth in the US economy increased again in the course of the reporting period, with considerable stimulus being provided by private domestic demand. Given the stable situation in the labor market and the expected inflation trend, the US Federal Reserve decided to gradually raise its key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

Brazil left behind the economic downswing and continued the economic growth seen in the preceding quarters; the situation in South America's largest economy nevertheless remained tense. Argentina's economic situation worsened considerably over the first half of the year amid persistently high inflation. Given the difficult situation, the government requested financial aid from the International Monetary Fund.

The high growth momentum in the Chinese economy remained virtually unchanged during the reporting period. India expanded strongly, outperforming most emerging markets. Japan registered weaker GDP growth than in the same period of the previous year.

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2017 TO JUNE 2018

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



TRENDS IN THE PASSENGER CAR MARKETS

Global demand for passenger cars increased in the period from January to June 2018 (+3.5%). It thus exceeded the comparable prior-year figure for the ninth year in a row. While demand in Western Europe and North America only saw a slight increase, the Asia-Pacific, South America, as well as Central and Eastern Europe regions enjoyed a marked growth in demand in some cases.

In Western Europe, demand for passenger cars in the reporting period was slightly up overall on the prior-year level due to the positive development in the second quarter. New vehicle registrations were mixed in the largest single markets. Attractive incentive programs in particular led to a double-digit growth rate in the Spanish market. In France, the increase in passenger car sales was underpinned by the positive macroeconomic environment. By contrast, new registrations in Italy declined slightly overall due to falling private demand. This was influenced, among other things, by the political uncertainty during the formation of a new government. In the UK, new registrations fell considerably short of the previous years' high levels. However, the negative effects of the change in vehicle tax as of April 1, 2017 were alleviated by a positive second quarter. The uncertain outcome of the Brexit negotiations between the EU and UK also continued to weigh on demand. The share of new registrations for diesel vehicles (passenger cars) in Western Europe slipped to 37.7 (46.0)% in the reporting period.

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

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

On the South African passenger car market, new registrations stagnated in the first six months of 2018 at the weak level seen in the prior-year period. The new political environment following the change of president had little positive impact.

In North America, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the first half of 2018 were slightly up on the prior-year level. In the USA, market growth was driven by the favorable labor market and the greater purchasing power of consumers. The shift in demand from traditional passenger cars to light commercial vehicles such as SUV and pickup models continued in the reporting period. The Canadian automotive market fell just short of the previous year's all-time high due to a slight decline in the second quarter. In Mexico, the number of vehicles sold was considerably lower than the record figure seen in the same period of the previous year.

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles in the first six months of 2018 witnessed a significant improvement on the previous year's low level. Brazil's recovery in the demand for automobiles, which had begun in 2017, maintained its rapid pace. However, the number of new vehicle registrations was still markedly lower than the record level achieved in 2013. Argentina recorded a considerable increase in demand for passenger cars and light commercial vehicles. However, the worsening macroeconomic situation in the second quarter curbed this growth.

The Asia-Pacific region recorded by far the highest absolute increase in demand once more in the first half of 2018. Once again, the growth driver was the Chinese passenger car market, the expansion of which was faster than average, despite the abolition of the tax break for vehicles with engine sizes of up to 1.6 l at the end of 2017 as well as the announcement of a general reduction of import duties from 25% to 15%. The sustained high demand for models from the SUV segment was primarily responsible for the positive impact on growth. Passenger car sales in India also reached a new record high. The strong growth was particularly due to the improved situation caused by the standardized goods and services tax introduced throughout the country on July 1, 2017, coupled with attractive price and financing options. In contrast, the Japanese passenger car market remained moderately down on the comparable prior-year volume. The decline was attributable, among other things, to the subsiding impact stemming from the introduction of new models.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

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

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

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

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was above the prior-year figure between January and June 2018.

Demand in Western Europe saw a slight increase over the 2017 level. New registrations in Germany, Western Europe's largest market, were slightly lower year-on-year in the first half of 2018. While demand in the United Kingdom saw a moderate decline, it rose significantly in Italy, Spain and France.

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

The volume of registrations in South America was sharply higher than in the first half of 2017. In Brazil, the region's largest market, demand for trucks grew very sharply compared with the low figure for the prior-year period as a consequence of the economic recovery. A considerable increase in registration volumes was also seen in Argentina.

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

TRENDS IN THE MARKETS FOR POWER ENGINEERING

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

In the first half of 2018, the marine market saw a continuation of the muted order activity and only improved slightly but still on low level compared with the prior-year period. In some cases, recovery was noticeable in the transport sector. Demand for cruise ships, passenger ferries, fishing vessels, dredgers and government vessels remained steady. In the offshore sector, the existing excess market capacity continued to curb investment in offshore oil production. On account of low market volumes, all market segments are continuing to experience considerable competitive pressure and a sharp drop in prices as a result.

The market for power generation showed a slight recovery compared with the same period of the previous year. Higher demand was registered in all areas of application and for gas in particular. This confirms the shift away from oil-fired power plants towards dual-fuel and gas-fired power plants. Demand for energy solutions remains high, with a strong trend towards greater flexibility and decentralized availability. The economies of key emerging markets recovered somewhat. However, continued strong pressure from competition and pricing is discernible in all projects, and this is having a negative impact on the earnings quality of orders. Furthermore, order placement was often delayed due to persistently difficult financing conditions for customers, particularly on larger projects.

In the first half of 2018, the market for turbomachinery saw a minor recovery from the low level seen in the previous year. Demand stemming from the raw materials, oil, gas and processing industry experienced increased volatility in some cases, which was due in particular to the political uncertainty in some sales markets. Power generation has been partially impacted by the existing excess capacity; however, signs point towards a slight recovery, especially in regions with a low level of electrification. Although pressure from competition and pricing was somewhat lower compared to the prior-year quarter, the overall level remains high due to low demand and market volatility.

The marine and power plant after-sales business for diesel engines performed positively overall and benefited from a continued increase in interest in long-term maintenance contracts. The after-sales market for turbomachinery came under pressure and declined slightly year-on-year.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

Higher vehicle sales, particularly in Western and Central Europe, gave a boost to the European market. Financing and leasing were the options preferred by customers, especially for purchases of new vehicles. After-sales products such as inspection contracts, maintenance and spare parts agreements and automotive-related insurance were also in high demand in the first six months of 2018.

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

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

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

The Brazilian market picked up pace and saw a continuation of the recovery in the demand for automobiles that began during 2017. However, the consumer credit business and sales of the country-specific financial services product Consorcio, a lottery-style savings plan, remained stable in the first half of 2018. The Argentinian market also built on the previous year's positive development. In addition to traditional financing and leasing products, a new form of financing established itself that is tied to the index of inflation.

Demand for automotive financial services across the Asia-Pacific region was mixed in the first half of 2018. In China, the proportion of loan-financed vehicle purchases rose compared with the prior-year period. Despite increasing restrictions on registrations in metropolitan areas, there is considerable potential to acquire new customers for automotive-related financial services, particularly in the interior of the country. The demand for automotive financial services rose in the Indian market, while it tapered off slightly in Japan.

The demand for financial services in the Commercial Vehicles Business Area also varied from region to region. The positive trend from 2017 continued in China, and particularly in Western Europe. The truck and bus business and the related financial services market have stabilized in Brazil.

VOLKSWAGEN GROUP DELIVERIES

The Volkswagen Group delivered 5,518,986 vehicles to customers worldwide in the period from January to June 2018. This was 7.1% or 363,537 units more than in the same period of the previous year. At the same time, in terms of deliveries, the Group recorded the best first six months of the year in its corporate history. The chart on page 12 shows the trend in deliveries worldwide by month compared with the previous year. Separate details of deliveries of passenger cars and commercial vehicles are provided in the following.

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

	2018	2017	%
Passenger Cars	5,148,052	4,809,167	+7.0
Commercial Vehicles	370,934	346,282	+7.1
Total	**5,518,986**	**5,155,449**	**+7.1**

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

PASSENGER CAR DELIVERIES WORLDWIDE

Global demand for passenger cars from the Volkswagen Group grew by 7.0% year-on-year in the first six months of 2018 to 5,148,052 vehicles. At 3.5%, growth in the passenger car market as a whole was somewhat slower. In the same period, the Volkswagen Passenger Cars brand (+6.3%) achieved its best ever delivery figures for the first six months of the year. Furthermore, the ŠKODA (+11.6%) and SEAT (+17.6%) brands in particular developed very encouragingly. Audi, Porsche, Lamborghini and Bugatti also increased their delivery volumes. In the regions of Western Europe, Central and Eastern Europe, North America, South America and Asia-Pacific, demand for passenger cars from the Volkswagen Group exceeded the corresponding prior-year figure by a considerable margin in some cases. We recorded the highest absolute increase in the Asia-Pacific region.

The table on the next page provides an overview of passenger car deliveries to customers by market in the reporting period. Sales trends in the individual markets are as follows.

Deliveries in Europe/Other markets

In Western Europe, in a slightly growing overall market, we delivered 1,784,271 Group models to customers from January to June 2018, an increase of 5.9% year-on-year – this in spite of the fact that customer confidence has not been fully restored following the diesel issue, and the public discussion on driving bans for diesel vehicles has generated uncertainty among customers. The Golf saloon, Audi Q2, Audi Q5 and Porsche 911 models saw encouraging growth. Furthermore, the new Polo, T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq and the SEAT Arona were very popular. The Volkswagen Group's share of the passenger car market in Western Europe rose to 22.4 (21.6)%.

In the German passenger car market, demand for vehicles from the Volkswagen Group recovered in the first six months of 2018, rising by 4.2% year-on-year. The market as a whole grew by 2.9% in the same period. The Golf, Passat Estate and Audi Q2 models, among others, recorded promising growth in demand. Moreover, the new T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq as well as the SEAT Arona were very popular with customers. Seven Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the up!, Polo, Golf, Tiguan, Touran, Passat and Porsche 911. In the first six months of 2018, the Golf was again the number one passenger car in Germany in terms of registrations.

In the still-growing passenger car markets in the Central and Eastern Europe region, we delivered 9.9% more vehicles to customers in the reporting period than a year before. In Russia and Poland, demand for Group models rose strongly in some cases, while our deliveries in the Czech Republic saw a moderate decline. The Polo, Tiguan, ŠKODA Rapid and ŠKODA Octavia models were particularly sought after. The new T-Roc, ŠKODA Karoq and SEAT Arona models were also very popular. The Volkswagen Group's market share in the Central and Eastern Europe region was 21.9 (22.9)%.

In South Africa, sales of Volkswagen Group vehicles were down 4.3% year-on-year in the first six months of 2018 in a stagnating overall market. The Polo remained the best-selling Group model in South Africa.

Deliveries in North America

From January to June 2018, demand for Volkswagen Group models in North America grew year-on-year by 1.2% amid a slightly growing overall market for passenger cars and light commercial vehicles. The Group achieved a market share of 4.5 (4.5)% in this region. The Tiguan Allspace replaced the Jetta as the most sought-after Group model in North America.

In the USA, the Volkswagen Group delivered 6.3% more vehicles to customers in the first six months of this year compared to the same period of the previous year. The market as a whole grew less strongly in this period. Furthermore, demand was highest for models in the SUV and pickup segments. The Group models recording the highest increases were the Audi Q3, Audi Q5, Porsche 911 and Porsche Panamera. In addition, the new Tiguan Allspace and Atlas SUVs from the Volkswagen Passenger Cars brand and the Audi A5 Sportback were particularly popular among customers.

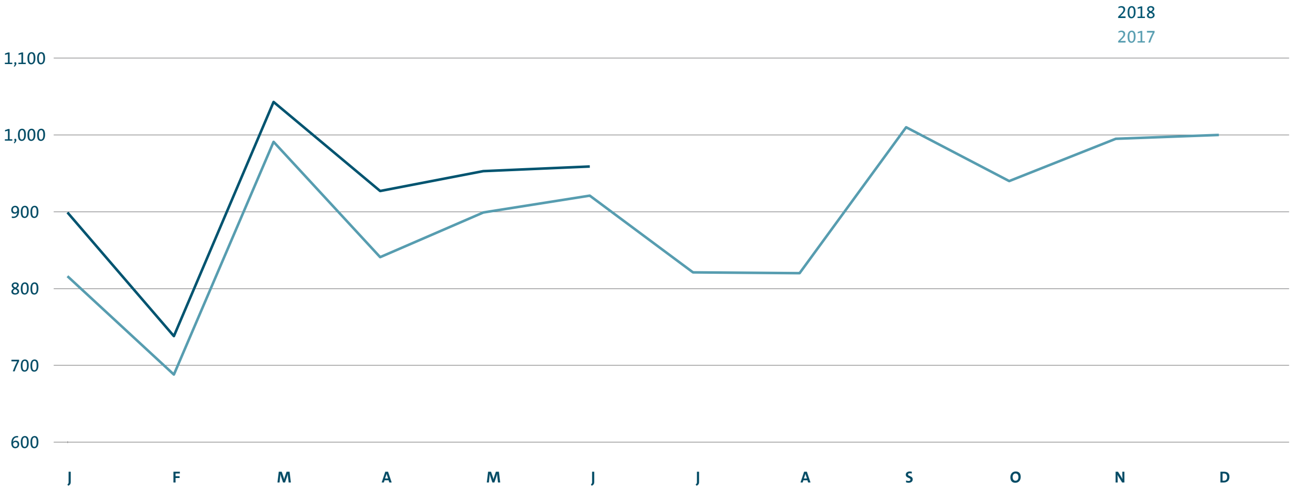
In the slightly weaker overall market in Canada, the number of Volkswagen Group vehicles delivered to customers in the reporting period was up on the corresponding figure for the previous year (+13.5%). The Golf saloon and Audi Q5 models as well as the new Tiguan Allspace and Atlas SUVs from the Volkswagen Passenger Cars brand witnessed especially strong demand.

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

	DELIVERIES (UNITS)		CHANGE
	2018	2017	(%)
Europe/Other markets	**2,310,275**	**2,176,194**	**+6.2**
Western Europe	**1,784,271**	**1,685,189**	**+5.9**
of which: Germany	624,096	598,984	+4.2
United Kingdom	287,983	276,752	+4.1
Spain	165,417	151,810	+9.0
Italy	161,260	143,169	+12.6
France	138,053	135,502	+1.9
Central and Eastern Europe	**364,304**	**331,580**	**+9.9**
of which: Russia	94,170	78,822	+19.5
Poland	78,837	74,137	+6.3
Czech Republic	74,028	76,946	–3.8
Other markets	**161,700**	**159,425**	**+1.4**
of which: Turkey	54,080	67,165	–19.5
South Africa	38,735	40,496	–4.3
North America	**459,781**	**454,457**	**+1.2**
of which: USA	311,892	293,432	+6.3
Mexico	90,442	110,423	–18.1
Canada	57,447	50,602	+13.5
South America	**235,930**	**213,374**	**+10.6**
of which: Brazil	150,995	126,656	+19.2
Argentina	59,743	63,874	–6.5
Asia-Pacific	**2,142,066**	**1,965,142**	**+9.0**
of which: China	1,989,578	1,821,082	+9.3
Japan	43,992	42,930	+2.5
India	30,831	35,567	–13.3
Worldwide	**5,148,052**	**4,809,167**	**+7.0**
Volkswagen Passenger Cars	3,118,696	2,935,132	+6.3
Audi	949,282	908,683	+4.5
ŠKODA	652,735	585,013	+11.6
SEAT	289,948	246,493	+17.6
Bentley	4,430	5,238	–15.4
Lamborghini	2,327	2,091	+11.3
Porsche	130,600	126,497	+3.2
Bugatti	34	20	+70.0

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

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



In a declining overall market in Mexico, we delivered considerably fewer vehicles to customers in the first six months of 2018 than in the prior-year period (–18.1%). Sales figures of the Polo, Saveiro and Tiguan Allspace models developed encouragingly.

Deliveries in South America

The upward trend in the South American markets for passenger cars and light commercial vehicles continued in the first half of 2018. The Volkswagen Group delivered 10.6% more vehicles to customers there in this period than in the prior year. The Group's share of the market in South America was 11.5 (11.6)%.

The Brazilian market also recovered further. The Volkswagen Group benefited from this development and recorded a substantial year-on-year increase of 19.2% in its sales to customers there during the reporting period. Demand for the Suran and Amarok models developed particularly encouragingly. The new Polo and Virtus models were also very popular, and the new Tiguan Allspace was successfully rolled out.

In Argentina, where the overall market continued to grow significantly, the number of deliveries to Volkswagen Group customers in the first six months of 2018 fell short of the prior-year figure (–6.5%). The Gol and Amarok recorded the highest demand among Group models. The new Polo, Virtus and Tiguan Allspace models were also well received by customers.

Deliveries in the Asia-Pacific region

In the Asia-Pacific region, the growth of the market as a whole continued in the first half of 2018. With a growth of 9.0%, the Volkswagen Group handed over substantially more vehicles to customers there than in the previous year. The Group's share of the market in this region increased to 12.0 (11.5)%.

In the passenger car market in China, which continued to grow at a faster than average rate, the number of Group models sold in the reporting period rose by 9.3% year-on-year. The Group models achieving the largest increases were the Bora, Sagitar, Lamando, Santana, Magotan, Audi A3, Audi A4, Audi Q3, Audi Q5, ŠKODA Rapid and Porsche Panamera. In addition, the new Lavida, Phideon and ŠKODA Octavia Combi models and the new Teramont, Tiguan Allspace and ŠKODA Kodiaq SUVs were very popular. The ŠKODA Karoq was successfully rolled out.

The Indian passenger car market recorded a sizeable increase in demand in the first six months of 2018. With a decline of 13.3%, the number of Group models delivered to customers fell short of the previous year's figure. The Polo was the Group's most in-demand model in India.

In Japan, the number of passenger cars delivered to Group customers between January and June 2018 was up 2.5% year-on-year, while demand in the market as a whole declined over the same period. The Golf and Audi Q2 models recorded promising increases in demand.

COMMERCIAL VEHICLE DELIVERIES

In the first six months of 2018, the Volkswagen Group delivered a total of 370,934 commercial vehicles to customers worldwide (+7.1%). Trucks accounted for 97,705 units (+11.6%) and buses for 11,251 units (+32.7%). Deliveries of light commercial vehicles increased by 4.7% year-on-year to 261,978 units.

In Western Europe, sales increased by 5.1% to a total of 231,678 units. Of this figure, 182,710 were light commercial vehicles, 46,258 were trucks and 2,710 were buses. The Caddy and the Transporter were the most sought-after Group models in the Western European markets.

We delivered 38,939 vehicles to customers in the markets of the Central and Eastern Europe region in the period from January to June 2018 (+13.0%); of this figure, 20,739 were light commercial vehicles, 17,253 were trucks and 947 were buses. The Caddy and the Transporter were the Group models experiencing the highest demand. In Russia, the region's largest market, sales climbed in the wake of economic recovery by 26.1% year-on-year to 8,748 units.

In the Other markets, deliveries of Volkswagen Group commercial vehicles amounted to a total of 28,708 units, an increase of 0.8% on the prior-year figure; of this total, 18,986 were light commercial vehicles, 7,426 were trucks and 2,296 were buses.

Sales in North America declined to 5,220 vehicles (–25.0%), almost all of which were delivered to customers in Mexico; of this total, 3,608 were light commercial vehicles, 463 were trucks and 1,149 were buses.

Deliveries in South America rose to a total of 45,015 vehicles (+28.7%); of this total, 22,627 were light commercial vehicles, 19,239 were trucks and 3,149 were buses. The Amarok was particularly popular. Following continued improvement in the economic climate in Brazil, we were able to increase our sales by 49.8%. Of the units delivered, 6,929 were light commercial vehicles, 14,394 were trucks and 2,072 were buses.

In the Asia-Pacific region, the Volkswagen Group sold 21,374 vehicles in the reporting period: 13,308 light commercial vehicles, 7,066 trucks and 1,000 buses. Overall, this was 1.8% more than in the prior-year period. The Transporter and the Amarok were the most popular Group models. In China, sales declined by 0.8% to 4,843 vehicles, of which 2,781 were light commercial vehicles, 1,858 were trucks and 204 were buses.

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

	DELIVERIES (UNITS)		CHANGE
	2018	2017	(%)
Europe/Other markets	**299,325**	**283,355**	**+5.6**
Western Europe	231,678	220,398	+5.1
Central and Eastern Europe	38,939	34,474	+13.0
Other markets	28,708	28,483	+0.8
North America	**5,220**	**6,957**	**–25.0**
South America	**45,015**	**34,976**	**+28.7**
of which: Brazil	23,395	15,616	+49.8
Asia-Pacific	**21,374**	**20,994**	**+1.8**
of which: China	4,843	4,882	–0.8
Worldwide	**370,934**	**346,282**	**+7.1**
Volkswagen Commercial Vehicles	258,800	249,951	+3.5
Scania	46,778	43,608	+7.3
MAN	65,356	52,723	+24.0

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

DELIVERIES IN THE POWER ENGINEERING SEGMENT

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

In the period from January to June 2018, sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated more than two-thirds of overall sales revenue.

GROUP FINANCIAL SERVICES

The Financial Services Division includes the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania, and Porsche Holding Salzburg.

The Financial Services Division's products and services remained very popular in the first half of 2018. At 3.9 (3.6) million, the number of new financing, leasing, service and insurance contracts signed worldwide exceeded the prior-year figure. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets amounted to 33.5 (33.5)% in the reporting period. On June 30, 2018, the total number of contracts was 19.3 million, up 4.8% compared with December 31, 2017.

In the Europe/Other markets region, the number of new contracts signed in the first six months of 2018 increased by 8.0% to 2.9 million. The total number of contracts rose to 14.0 million as of June 30, 2018, up 4.7% compared with the end of 2017; the Customer Financing/Leasing area accounted for 6.7 million contracts (+4.7%).

The number of contracts in North America amounted to 2.8 (2.7) million at the end of the reporting period, higher than the level seen on December 31, 2017. The Customer Financing/Leasing area recorded 1.8 (1.8) million contracts. The number of new contracts signed amounted to 451 thousand, an increase of 9.1% versus the prior-year period.

In South America, 105 (98) thousand new contracts were concluded between January and June of this year. At 489 thousand, the total number of contracts at the end of June was 9.0% lower than the 2017 year-end figure. The contracts mainly related to the Customer Financing/Leasing area.

The number of new contracts signed in the Asia-Pacific region was 413 thousand, exceeding the prior year by 14.6%. On June 30, 2018, the total number of contracts amounted to 2.0 million, up 10.7% compared with December 31, 2017. The Customer Financing/Leasing area accounted for 1.5 million contracts (+4.5%).

SALES TO THE DEALER ORGANIZATION

In the first six months of 2018, the Volkswagen Group's unit sales to the dealer organization (including the Chinese joint ventures) rose by 5.8% to 5,575,490 vehicles. This was due especially to higher demand in Europe, China and Brazil. Unit sales outside Germany increased by 6.1% in the reporting period, while in the German market they exceeded the prior-year figure by 3.5%. Vehicles sold in Germany as a proportion of overall unit sales fell to 12.5 (12.8)%.

PRODUCTION

Between January and June 2018, the Volkswagen Group's production increased by 6.5% year-on-year to a total of 5,785,559 vehicles. Production in Germany fell by 1.8% to 1,326,997 units. The proportion of production in Germany declined to 22.9 (24.9)%.

INVENTORIES

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

EMPLOYEES

The Volkswagen Group had 625,006 active employees on June 30, 2018. A further 8,716 employees were in the passive phase of their partial retirement. An additional 15,970 young people were in vocational traineeships. At the end of the first half of 2018, the Volkswagen Group had a total of 649,692 employees worldwide, up 1.2% on the number as of December 31, 2017. The main contributors to this were expansion due to the increase in volume, the recruitment of specialists inside and outside Germany and the expansion of the workforce at our new plants in China. There were 288,544 employees in Germany, up 0.4% on year-end 2017. The proportion of employees in Germany declined to 44.4 (44.8)%.

Results of Operations, Financial Position and Net Assets

APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

SPECIAL ITEMS

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

In the period from January to June 2018, negative special items in connection with the diesel issue affected the Passenger Cars Business Area’s operating profit in an amount of €–1.6 billion. They were mainly attributable to the administrative order that imposed a fine by the public prosecutor in Braunschweig in June (€1.0 billion), which settled the ongoing misdemeanor proceedings against Volkswagen AG, and to higher legal defense costs.

SETTLEMENT WITH TO NONCONTROLLING INTEREST SHAREHOLDERS OF MAN SE

In the award proceedings regarding the appropriateness of the cash settlement and the right to compensation for the noncontrolling interest shareholders of MAN SE, the Higher Regional Court in Munich made a final decision at the end of June 2018, ruling that the right to annual compensation claim per share should be increased. The cash settlement per share, increased in the first instance by the Regional Court in Munich I, was confirmed. The remeasurement of put options and compensation rights resulted in an expense of around €0.4 billion, which was recognized in the other financial result, and is reflected in the “Put options and compensation rights granted to noncontrolling interest shareholders” item.

RESULTS OF OPERATIONS OF THE GROUP

In the first half of 2018, the Volkswagen Group generated sales revenue of €119.4 billion. The 3.5% increase was primarily attributable to higher vehicle sales and the healthy business performance in the Financial Services Division; these factors were partially offset by negative exchange rate trends. The effects of applying the new International Financial Reporting Standards largely offset each other. The Volkswagen Group generated 79.8 (80.0)% of its sales revenue outside Germany.

At €24.8 billion, gross profit was up €1.1 billion year-on-year. The gross margin amounted to 20.8 (20.6)%.

The Volkswagen Group’s operating profit before special items improved by €0.9 billion in the first six months of 2018 to €9.8 billion, while the operating return on sales before special items increased to 8.2 (7.7)%. This was largely due to increases in volume, although fair value measurement gains and losses on certain derivatives, which have had to be reported here since the beginning of the year, and a lower capitalization ratio for development costs had a negative impact. Special items in connection with the diesel issue amounting to €–1.6 billion weighed on operating profit. As a result, the Volkswagen Group’s operating profit was down €0.8 billion on the previous year, at €8.2 billion. The operating return on sales declined to 6.8 (7.7)%.

The financial result increased by €0.9 billion to €0.8 billion. Lower expenses from the reporting date measurement of derivative financial instruments used to hedge financing transactions, positive foreign currency measurement effects and lower interest expenses had a positive impact, while the effect of the remeasurement of put options and compensation rights in connection with the control and profit and loss transfer agreement with MAN SE was negative. The share of the result of equity-accounted investments was on a level with the previous year, when the remeasurement of the interest in HERE following the acquisition of shares by additional investors had a positive impact. The share of the result of equity-accounted investments in the Chinese joint ventures was up on the previous year.

The Volkswagen Group's profit before taxes rose by 2.0% to €9.0 billion in the reporting period. Compared with the previous year, profit after tax increased by €0.1 billion to €6.6 billion.

Results of operations in the Automotive Division

In the period from January to June 2018, the Automotive Division's sales revenue amounted to €101.7 billion, up €3.3 billion on the previous year, particularly because of positive volume effects; this was partially offset by negative exchange rate effects. Sales revenue in both the Passenger Cars and Commercial Vehicles Business Areas as well as in the Power Engineering Business Area was higher than in the first half of 2017. As our Chinese joint ventures are accounted for using the equity method, the Group's business performance in the Chinese passenger car market is reflected in consolidated sales revenue primarily by deliveries of vehicles and vehicle parts.

Cost of sales rose, mainly for volume-related reasons and higher research and development costs recognized in profit or loss; product cost optimization had an offsetting effect. Expressed as a percentage of sales revenue, cost of sales was down slightly, however. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) declined to 6.6 (6.9)%.

Distribution expenses, as well as the ratio of these expenses to sales revenue, decreased year-on-year. This is attributable to reclassifications of expenses to sales revenue required as a result of the new IFRS 15, the sale of the PGA Group in June 2017 and positive exchange rate effects. Administrative expenses increased in the first half of 2018, but their ratio to sales revenue remained unchanged. The other operating result declined by €1.7 billion to €–1.9 billion, mainly as a result of special items recognized in connection with the diesel issue in the reporting period and the fair value measurement gains and losses on derivatives to which hedge accounting is not applied, which have been reported here since the beginning of the year.

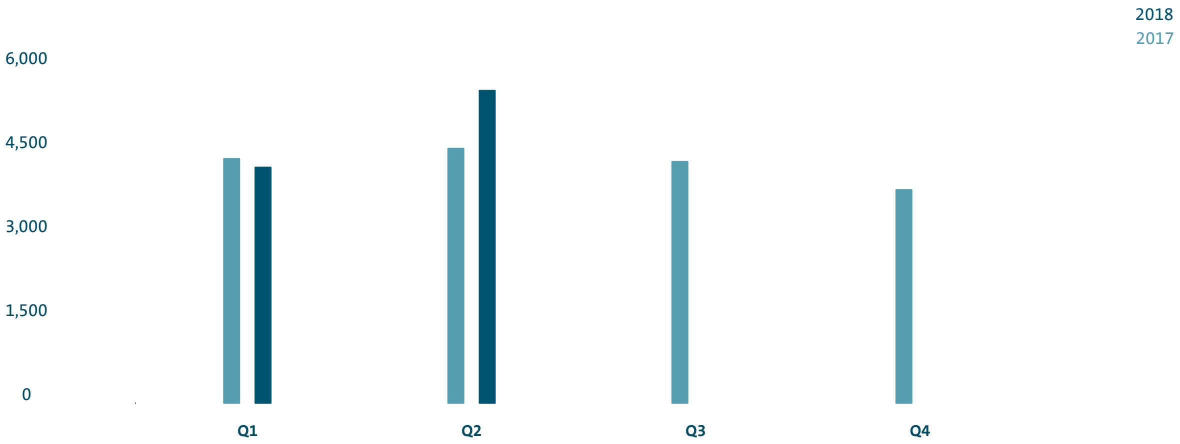
The operating result of the Automotive Division amounted to €6.9 billion in the first half of 2018, €0.8 billion less than in the previous year. The decline was mainly the result of special items recognized in connection with the diesel issue in the reporting period, higher research and development costs recognized in profit or loss (due primarily to a decline in capitalized upfront expenditure) and fair value measurement gains and losses on certain derivatives, which have been reported here since the beginning of the year. Higher vehicle sales had a positive impact. The operating return on sales amounted to 6.8 (7.8)%. Excluding the special items, the Automotive Division's operating profit rose to €8.5 (7.7) billion. The operating return on sales before special items increased to 8.4 (7.8)%. Our operating profit largely benefits from the business performance of our Chinese joint ventures only in the form of deliveries of vehicles and vehicle parts and of license income, as the joint ventures are accounted for using the equity method and therefore included in the financial result.

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

€ million	2018	2017
Passenger Cars		
Sales revenue[1]	81,766	79,557
Operating result	5,649	6,654
Operating return on sales (%)[1]	6.9	8.4
Commercial Vehicles		
Sales revenue	18,312	17,252
Operating result	1,275	1,043
Operating return on sales (%)	7.0	6.0
Power Engineering		
Sales revenue	1,637	1,579
Operating result	–58	–46
Operating return on sales (%)	–3.5	–2.9

1 Prior-year figures adjusted.

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



Results of operations in the Financial Services Division

In the first six months of 2018, the Financial Services Division's sales revenue stood at €17.7 billion; the 4.1% increase compared with the previous year was driven in particular by growth in the business volume.

Cost of sales rose slightly faster than sales revenue, increasing by €0.6 billion to €14.4 billion. Distribution expenses increased, while their ratio to sales revenue was virtually unchanged. Administrative expenses as well as their ratio to sales revenue increased considerably. The rise in expenses compared with the previous year was mainly attributable to higher volumes.

At €1.3 billion, the Financial Services Division's operating result was up 2.3% on the previous year. The operating return on sales stood at 7.3 (7.5)%.

FINANCIAL POSITION OF THE GROUP

The gross cash flow generated by the Volkswagen Group in the period from January to June 2018 amounted to €20.3 billion, a rise of €0.8 billion compared with the prior-year figure. At €–15.5 billion, the negative impact on the change in working capital was by €6.9 billion lower than a year before, especially because of significantly lower cash outflows attributable to the diesel issue. Consequently, cash flows from operating activities improved by €7.7 billion to €4.8 billion. Included in the special items recognized in the first half of 2018 is a cash outflow attributable to the payment of a fine following the misdemeanor proceedings.

At €7.2 (7.0) billion, investing activities attributable to operating activities were up on the prior-year figure.

Cash inflows from financing activities amounted to €6.4 (12.6) billion. Financing activities primarily include the dividend paid to the shareholders of Volkswagen AG, the issuance of hybrid notes, and the issuance and redemption of bonds and other financial liabilities.

On June 30, 2018, the Volkswagen Group's cash and cash equivalents reported in the cash flow statement amounted to €21.2 (21.9) billion.

At the end of June 2018, the Volkswagen Group's net liquidity stood at €–121.5 billion, compared with €–119.1 billion at the end of 2017.

Financial position of the Automotive Division

The Automotive Division's gross cash flow was €15.5 billion in the first half of 2018, an increase of €0.6 billion from the year before. Healthy earnings growth was set against new special items recognized in the reporting period, most of which led to cash outflows, and a year-on-year decline in dividends from the Chinese joint ventures. The €7.6 billion change in working capital to €–5.2 billion mainly reflects the significant decrease in cash outflows attributable to the diesel issue in the reporting period. Cash flows from operating activities consequently rose to €10.2 (2.0) billion.

At €6.9 (6.8) billion, the Automotive Division's investing activities attributable to operating activities were in line with the previous year. This figure includes investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex), which were up on the figure for the first half of 2017 and amounted to €4.4 (4.2) billion, while the capex ratio was virtually unchanged at 4.3 (4.2)%. We invested primarily in our production facilities and in models to be launched in 2018 and 2019, as well as in the ecological focus of the model range, drivetrain electrification and modular toolkits. Capitalized development costs decreased to €2.5 (2.9) billion. The "Acquisition and disposal of equity investments" item was

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

€ million	2018	2017
Passenger Cars		
Gross cash flow	13,169	12,866
Change in working capital	–4,125	–11,902
Cash flows from operating activities	9,044	964
Cash flows from investing activities attributable to operating activities	–5,955	–5,710
Net cash flow	3,090	–4,746
Commercial Vehicles		
Gross cash flow	2,125	1,871
Change in working capital	–860	–830
Cash flows from operating activities	1,266	1,041
Cash flows from investing activities attributable to operating activities	–848	–1,034
Net cash flow	418	6
Power Engineering		
Gross cash flow	163	107
Change in working capital	–265	–79
Cash flows from operating activities	–102	28
Cash flows from investing activities attributable to operating activities	–59	–84
Net cash flow	–161	–56

impacted mainly by the investment in the newly established joint venture with Anhui Jianghuai Automobile (JAC) and the offsetting sale of a part of the shares in There Holding. The prior-year figure had included the acquisition of the shares in Navistar and the disposal of part of the PGA Group.

The Automotive Division's net cash flow amounted to €3.3 billion in the reporting period, up €8.1 billion compared with the prior-year figure, mainly because of significantly lower cash outflows attributable to the diesel issue.

Financing activities resulted in a cash outflow of €–2.7 billion in the first six months of 2018, compared with a cash inflow of €6.9 billion in the prior-year period. The dividend paid to the shareholders of Volkswagen AG in May 2018 amounted to €2.0 billion, an increase of €1.0 billion compared with the previous year. The successful placement of dual-tranche hybrid notes with an aggregate principal amount of €2.75 billion via Volkswagen International Finance N.V. in June 2018 resulted in a cash inflow. The notes consist of a €1.25 billion note that carries a coupon of 3.375% and has a first call date after six years, and a €1.5 billion note that carries a coupon of 4.625% and has a first call date after ten years. Both tranches are perpetual and increase equity, net of transaction costs among other factors. €2.75 billion of the hybrid notes was classified as a capital contribution, which increased net liquidity. In addition, financing activities include the issuance and redemption of bonds and other financial liabilities.

At the end of June 2018, the Automotive Division's net liquidity of €26.3 billion was €3.9 billion higher than the amount reported as of the end of 2017.

Financial position of the Financial Services Division

In the period from January to June 2018, the Financial Services Division generated gross cash flow of €4.9 (4.6) billion. Due to the growth in business volume, funds tied up in working capital increased to €10.2 (9.6) billion compared with the first half of 2017. Cash flows from operating activities amounted to €–5.4 (–4.9) billion.

Investing activities attributable to operating activities rose to €0.3 (0.2) billion year-on-year.

The Financial Services Division's financing activities include primarily the issuance and redemption of bonds and other financial liabilities; the total cash inflow was €9.1 (5.7) billion.

The Financial Services Division's negative net liquidity, which is common in the industry, stood at €–147.8 billion on June 30, 2018; the figure as of December 31, 2017 was €–141.5 billion.

CONSOLIDATED BALANCE SHEET STRUCTURE

At the end of the first half of 2018, the Volkswagen Group had total assets of €441.1 billion, 4.5% more than the figure reported as of December 31, 2017. The Group's equity rose to €113.9 (109.1) billion. The equity ratio was unchanged, at 25.8 (25.8)%. The implementation of the new International Financial Reporting Standards led to adjustments to the opening balance sheet of the Volkswagen Group as of January 1, 2018. The amounts as of December 31, 2017 were unchanged, apart from movements within equity.

Automotive Division balance sheet structure

On June 30, 2018, property, plant and equipment reported by the Automotive Division was down, while its intangible assets were virtually unchanged from December 31, 2017. The share of equity-accounted investments mainly declined because of dividend payments resolved by the Chinese joint ventures. The healthy business performance of the Chinese joint ventures and the acquisition of the shares in the joint venture with JAC had an offsetting effect. The decrease in other receivables and financial assets was due, among other factors, to the negative impact from the measurement of derivatives. Overall, noncurrent assets were 1.9% lower than at the end of 2017.

Current assets rose by 13.7%; the inventories included in this figure increased, mainly for production-related reasons. Due to higher volumes, the trade receivables included in current other receivables and financial assets were up significantly. As of June 30, 2018, the Automotive Division reported cash and cash equivalents of €16.6 billion, up 20.3% on the figure as of December 31, 2017.

At the end of the first half of 2018, the Automotive Division's equity amounted to €86.3 billion, an increase of 4.7% compared with December 31, 2017. Healthy earnings growth and the hybrid notes issued in June 2018 had a positive impact. The dividend paid to the shareholders of Volkswagen AG, negative effects from the measurement of derivatives recognized outside profit or loss and from currency translation as well as the non-recurring impact of the first-time application of the new International Financial Reporting Standards reduced equity. The noncontrolling interests are mainly attributable to RENK AG and AUDI AG. As these were lower overall than the noncontrolling interests attributable to the Financial Services Division, the figure for the Automotive Division, where the deduction was recognized, was negative.

At €69.7 (69.8) billion, noncurrent liabilities were on a level with the end of the last fiscal year. The noncurrent financial liabilities included in this item decreased.

At the end of the first six months of 2018, current liabilities were 5.5% higher than at the end of 2017. Reclassifications from noncurrent to current liabilities due to shorter remaining maturities were among the factors that led to a change in current financial liabilities to €–3.2 (–0.5) billion. The figures for the Automotive Division also contain the elimination of intragroup transactions between the Automotive and Financial Services divisions. As the current financial liabilities for the primary Automotive Division were lower than the loans granted to the Financial Services Division, a negative amount was disclosed. Trade payables increased for volume-related reasons. Current other liabilities were up significantly compared with December 31, 2017. The item "Put options and compensation rights granted to noncontrolling interest shareholders" primarily comprises the liability for the obligation to acquire the shares held by the remaining free float shareholders of MAN; following the ruling in the award proceedings, this item was adjusted accordingly to €4.2 (3.8) billion.

On June 30, 2018, the Automotive Division's total assets of 229.5 billion were 3.8% higher than at the end of 2017.

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

€ million	Jun. 30, 2018	Dec. 31, 2017
Passenger Cars		
Noncurrent assets	108,288	111,277
Current assets	68,970	60,052
Total assets	**177,258**	**171,329**
Equity	71,270	66,449
Noncurrent liabilities	54,120	55,118
Current liabilities	51,869	49,762
Commercial Vehicles		
Noncurrent assets	27,505	27,005
Current assets	18,619	16,908
Total assets	**46,123**	**43,913**
Equity	12,097	12,194
Noncurrent liabilities	14,817	13,975
Current liabilities	19,209	17,744
Power Engineering		
Noncurrent assets	2,504	2,629
Current assets	3,575	3,250
Total assets	**6,079**	**5,879**
Equity	2,896	2,963
Noncurrent liabilities	721	711
Current liabilities	2,462	2,205

Financial Services Division balance sheet structure

At the end of June 2018, total assets in the Financial Services Division of €211.7 billion exceeded the figure as of December 31, 2017 by 5.3%.

In total, noncurrent assets increased by 4.4% compared with the end of 2017; the noncurrent receivables included in this item rose mainly due to the growth in business.

Current assets were up 6.5%. The revised classification of financial instruments required by IFRS 9 led to reclassifications, in particular of financial services receivables to trade receivables, which are included in the "Other receivables and financial assets" item. Cash and cash equivalents in the Financial Services Division amounted to €5.1 (4.6) billion at the balance sheet date. At the end of the first half of 2018, the Financial Services Division accounted for around 48.0 (47.6)% of the Volkswagen Group's assets.

At the end of June 2018, the Financial Services Division's equity stood at €27.6 billion, and was therefore in line with the level of December 31, 2017. The equity ratio was 13.0 (13.7)%.

Noncurrent liabilities were 3.8% higher, mainly because of a rise in noncurrent financial liabilities to refinance the business volume.

Current liabilities increased by 8.1% in total, with a significant rise in current financial liabilities, which are included in this item; trade payables were also higher than at the end of 2017.

At €31.2 (31.4) billion, deposits from direct banking business were on a level with the previous year's balance sheet date.

REPORT ON EXPECTED DEVELOPMENTS, RISKS AND OPPORTUNITIES

Special items resulting from the diesel issue had a negative impact on operating profit in the second quarter of 2018. Our forecast for operating profit before special items for the Group and the Passenger Cars Business Area remains unchanged. We have reduced the forecast for operating profit including special items. The return on investment (ROI) will consequently be slightly under the previous year's level. The Outlook for fiscal year 2018 can be found on page 24.

For certain T6 models (M1 class) with Euro 6 diesel engines registered as passenger cars, the inspection regarding the conformity of the current production of new vehicles with the approved type (conformity of production) identified that certain technical data could not be fully confirmed. To ensure this conformity of production for new vehicles, Volkswagen AG developed a software measure, which was approved by the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) at the end of February 2018 and was applied to the production of new vehicles as well as to (a total of approximately 30,000) new vehicles that had not been delivered by then. Volkswagen AG also conducted in-use tests to determine whether the around 200,000 T6 used vehicles already on the market are in conformity with 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. The results of these tests show that the technical data of the used T6 vehicles are conform.

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

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

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

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

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

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

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

On April 11, 2018, a Texas state court granted in part and denied in part a motion for summary judgment on the state environmental claims asserted against Volkswagen AG and certain affiliates by the Texas Attorney General. The Texas court denied Volkswagen's motion for reconsideration or interlocutory appeal.

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

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

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

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

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

On April 19, 2018, the federal multidistrict litigation court in California approved the stipulation of the parties postponing the hearing previously scheduled for May 11, 2018, regarding defendants' motion to dismiss plaintiffs' consolidated class action complaint alleging that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. The hearing was postponed again.

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

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

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

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

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

On May 22, 2018, plaintiffs filed a consolidated class action complaint on behalf of a putative class of Volkswagen salespersons who work at franchise dealerships. On

June 7, 2018, the court in the federal multidistrict litigation in California appointed the plaintiffs' counsel as the interim lead counsel for the putative class.

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

On June 1, 2018, a notice of amendment to the Third Partial Consent Decree entered into with the Department of Justice (DoJ) and EPA, which modified certain due dates related to annual reporting, was filed with the federal multidistrict litigation court in California.

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

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

In the course of the searches on June 11, 2018, it transpired that the public prosecutor's office of Munich II has extended the criminal investigation pending there. The underlying search warrant shows that the Chairman of the Board of Management of AUDI AG (at the same time a member of the Board of Management of Volkswagen AG) and a further active member of the AUDI AG Board of Management are now under investigation. The accusations include fraud in connection with the sale of diesel vehicles on the European market in the period after fall 2015. The Chairman of the Board of Management of AUDI AG was arrested on June 18, 2018 and has been in custody ever since. In this context, the public prosecutor's office of Munich II is currently investigating 20 individuals. AUDI AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor's accusations. The investigations are at an early stage. The Board of Management and Supervisory Board of AUDI AG are being regularly updated on the current state of affairs. If the findings do illustrate reproachable conduct or fault on behalf of the organization, then the Board of Management or Supervisory Board, respectively, will adopt the necessary measures.

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

On June 13, 2018, the public prosecutor in Braunschweig issued Volkswagen AG an administrative order in connection with the diesel issue. The administrative order is linked to negligent breaches of monitoring obligations on the part of Volkswagen AG employees in the Powertrain Development department and relates to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a fine of €1.0 billion in total, comprising of the maximum legal penalty of €5 million and the disgorgement of economic benefits in the amount of €995 million. Following thorough examination, the fine has been accepted, has been paid in full by Volkswagen and is therefore legally binding. As a result of the administrative order, the ongoing misdemeanor proceeding against Volkswagen AG will be settled. Further sanctioning or confiscation against Volkswagen AG and its Group companies is therefore not expected in Germany in connection with the particular matter covered by the administrative order concerning diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. As a result, Volkswagen expects that the conclusion of this proceeding will have a substantially positive impact on additional governmental proceedings conducted in Europe against Volkswagen AG and its Group companies. The misdemeanor proceedings in relation to the matter concerning AUDI AG being investigated by the public prosecutor's office in Munich are continuing. In line with IAS 37.92, no further disclosures have been made in order not to prejudice the proceeding and the interests of the Company.

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

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

On June 26, 2018, the Higher Regional Court in Munich made a final decision in the award proceedings on the appropriateness of the cash settlement and the right to compensation payable to the noncontrolling interest shareholders of MAN SE, ruling that the annual compensation claim per share has to be increased. The cash settlement in the amount of €90.29 per share, increased in the first instance by the Regional Court in Munich I, was confirmed. On July 30, 2018, as part of the amendment process, the Higher Regional Court in Munich established the annual compensation claim of €5.47 gross (less any corporate income tax and any solidarity surcharge according to the respective tax rate applicable to these taxes for the financial year in question). The decisions by the Higher Regional Court in Munich are final and to be published in the Federal Gazette. In accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act), the cash compensation of €90.29 per share may be accepted within two months after this date.

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

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

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

In Germany, around 17,300 product-related individual actions brought by customers in connection with the diesel issue are pending against Volkswagen AG and other Volkswagen Group companies.

Having served Volkswagen AG with an action asserting the rights assigned by approximately 2,000 customers in Switzerland, financialright GmbH has now brought a further such action on behalf of around 6,000 Slovenian customers. The total amount in dispute in these actions is approximately €50 million.

The private Spanish consumer protection organisation Organización de Consumidores y Usuarios (OCU) has filed a class action against Volkswagen Group España Distribución S.A. on May 9, 2018. OCU represents around 7,500 Spanish customers, claiming for damages in the amount of almost €23 million.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in fiscal year 2018 in the "Report on Expected Developments" and "Report on Risks and Opportunities" chapters – including the "Risks from the diesel issue" and "Litigation/Diesel issue" sections and the underlying description of the issues in the chapter entitled "Diesel Issue" – of the combined management report in the 2017 Annual Report or in publications released by the reporting date, as well as the continuing investigations and interviews in connection with the diesel issue and additional important legal cases.

Outlook

The Volkswagen Group's Board of Management expects the global economy to record slightly weaker growth in 2018. We believe risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will continue to be hurt by geopolitical tensions and conflicts. We therefore expect somewhat weaker momentum than in 2017 in both the advanced economies and the emerging markets. We expect the strongest rates of expansion in Asia's emerging economies.

We expect trends in the passenger car markets in the individual regions to be mixed in 2018. Overall, growth in global demand for new vehicles will probably be slower than in 2017. We anticipate that unit sales volumes in Western Europe will fall slightly short of those seen in the previous year. In the German passenger car market, we estimate that the market volume will be on a level with the previous year. Passenger car demand is expected to substantially exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect demand in the South American markets for passenger cars and light commercial vehicles to grow perceptibly as a whole compared with the previous year. The passenger car markets in the Asia-Pacific region look set to continue their growth trajectory in 2018, albeit at a weaker pace.

We expect trends in the markets for light commercial vehicles in the individual regions to be mixed again in 2018. Overall, we envisage a slight dip in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2018 are set to rise slightly above the prior-year level.

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

The Volkswagen Group is well prepared for the future challenges in the mobility business and the mixed developments in regional automotive markets. Our unique brand portfolio, our presence in all major world markets, our broad, selectively expanded product range and pioneering technologies and services place us in a good competitive position worldwide. In the course of transforming our core business, we will define the positioning of our Group brands more clearly and optimize the vehicle and drive portfolio with a view to the most attractive and fastest-growing market segments. In addition, we are working to make even more focused use of the advantages of our multibrand group by continuously developing new technologies and our toolkits.

We expect that deliveries to customers of the Volkswagen Group in 2018 will moderately exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and the diesel issue. In the EU, there is also a new, more time-consuming test procedure for determining pollutant and CO_2 emissions as well as fuel consumption in passenger cars and light commercial vehicles known as the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP).

We expect the sales revenues of the Volkswagen Group and its business areas to grow by as much as 5% year-on-year. In terms of the operating profit before special items for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2018. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 5.0–6.0%. In the Power Engineering Business Area, we expect a lower operating loss than in the previous year. For the Financial Services Division, we are forecasting an operating profit at the prior-year level.

After special items, we anticipate that the operating return on sales will fall moderately short of the expected range for both the Group and the Passenger Cars Business Area.

Brands and Business Fields

SALES REVENUE AND OPERATING PROFIT BY BRAND AND BUSINESS FIELD

In the first half of 2018, the Volkswagen Group generated sales revenue of €119.4 (115.3) billion. Operating profit before special items improved to €9.8 (8.9) billion. In the reporting period, special items totaling €–1.6 billion, which were exclusively attributable to the diesel issue, had to be accounted for.

The Volkswagen Passenger Cars brand sold 1,931 (1,812) thousand vehicles in the first six months of this year. The T-Roc, Tiguan and Atlas models were exceedingly popular. At €42.7 billion, sales revenue was up 7.7% year-on-year. Operating profit before special items rose to €2.1 (1.8) billion. Higher volumes and improved product costs had a positive effect. However, this was offset by higher distribution expenses resulting from, among other things, the scrapping premium, and upfront expenditures for new products, especially in connection with the implementation of the electric mobility campaign. The diesel issue gave rise to special items of €–1.6 billion.

Unit sales by the Audi brand increased to 812 (783) thousand vehicles worldwide in the period from January to June 2018. Our Chinese joint venture FAW-Volkswagen sold a further 293 (252) thousand Audi vehicles. Demand for the Q2, Q5, A4 and A5 models was particularly strong. Sales revenue rose to €31.2 (30.0) billion. Operating profit improved to €2.8 (2.7) billion due in particular to higher volumes, efficiency gains and forward-looking currency management. The financial key performance indicators for the Audi brand include the Lamborghini and Ducati brands. Ducati sold 33,834 (36,713) motorcycles in the reporting period.

The ŠKODA brand reported sales of 511 (501) thousand vehicles in the first half of 2018. Demand grew for the Karoq and Kodiaq models. At €9.2 billion, sales revenue was up 5.1% on the prior-year figure. Due to negative exchange rate effects and higher upfront expenditures for new products, operating profit declined by 4.5% to €821 million, while volume improvements and optimization of costs had a positive impact.

The SEAT brand sold 347 thousand vehicles in the reporting period, a year-on-year increase of 14.3%. This figure includes the Q3 manufactured for Audi. Demand was particularly strong for the new Arona and Ibiza models. Sales revenue increased by 14.5% to €5.8 billion. Operating profit improved by 62.7% to €212 million. Positive volume, price and mix effects considerably outweighed upfront expenditures for new products and exchange rate effects.

The Bentley brand sold 4,520 (4,907) vehicles in the first six months of this year. At €757 (867) million, sales revenue was lower than in the same period of 2017. The operating result stood at €–80 (13) million, impacted mainly by lower sales, delays in the start-up of the new Continental GT and exchange rate effects.

VOLKSWAGEN GROUP REPORTING STRUCTURE

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

Porsche Automotive sold 123 (124) thousand vehicles worldwide in the period from January to June 2018. The Panamera and 911 recorded encouraging growth rates. At €11.2 (10.8) billion, sales revenue was higher than in the prior-year period. The operating profit of Porsche Automotive increased by 0.4% to €2.1 billion, above all due to positive mix effects.

Volkswagen Commercial Vehicles sold 248 (244) thousand vehicles worldwide in the first half of 2018. Production of the Amarok in South America has been managed by the Volkswagen Passenger Cars brand since the beginning of the year. The Crafter saw a significant increase in demand. Sales revenue climbed by 6.7% to €6.3 billion. Operating profit rose by 26.7% to €567 million, due primarily to volume and mix effects, improved price positioning and material cost optimization.

The Scania brand lifted its unit sales in the first six months of 2018 to 47 (44) thousand vehicles. Sales revenue amounted to €6.5 (6.3) billion. At €684 (673) million, operating profit improved on the prior-year period. Cost increases were offset by higher volumes, a favorable exchange rate trend and an improved financial services business.

MAN Commercial Vehicles sold 65 thousand units in the reporting period, an increase of 24.0% on the previous year. Sales revenue rose to €5.8 (5.3) billion. Operating profit increased to €258 (193) billion due to volume-related factors.

MAN Power Engineering generated sales revenue of €1.6 (1.6) million in the period from January to June 2018. Operating profit amounted to €68 (73) million.

In the first half of 2018, the operating profit at Volkswagen Financial Services climbed by 5.7% to €1.2 billion, due in particular to business growth and improved margins.

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

	VEHICLE SALES		SALES REVENUE		OPERATING RESULT	
Thousand vehicles/€ million	2018	2017	2018	2017[2]	2018	2017
Volkswagen Passenger Cars	1,931	1,812	42,704	39,661	2,130	1,776
Audi	812	783	31,183	30,011	2,761	2,680
ŠKODA	511	501	9,161	8,720	821	860
SEAT	347	304	5,786	5,054	212	130
Bentley	5	5	757	867	–80	13
Porsche Automotive[3]	123	124	11,231	10,841	2,064	2,056
Volkswagen Commercial Vehicles	248	244	6,324	5,927	567	448
Scania[4]	47	44	6,515	6,307	684	673
MAN Commercial Vehicles	65	53	5,814	5,297	258	193
MAN Power Engineering	–	–	1,637	1,579	68	73
VW China[5]	1,999	1,870	–	–	–	–
Other[6]	–512	–469	–18,399	–14,915	–921	–1,152
Volkswagen Financial Services	–	–	16,664	15,999	1,231	1,165
Volkswagen Group before special items	**–**	**–**	**–**	**–**	**9,794**	**8,916**
Special items	–	–	–	–	–1,635	–
Volkswagen Group	**5,575**	**5,270**	**119,377**	**115,349**	**8,160**	**8,916**
Automotive Division[7]	5,575	5,270	101,715	98,388	6,866	7,651
of which: Passenger Cars Business Area	5,219	4,930	81,766	79,557	5,649	6,654
Commercial Vehicles Business Area	357	340	18,312	17,252	1,275	1,043
Power Engineering Business Area	–	–	1,637	1,579	–58	–46
Financial Services Division	–	–	17,662	16,961	1,294	1,265

1 All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.
2 Adjusted; see disclosures about the application of new International Financial Reporting Standards on page 15.
3 Porsche (Automotive and Financial Services): sales revenue €12,287 (11,778) million, operating profit €2,154 (2,131) million.
4 Including financial services.
5 The sales revenue and operating profits of the joint venture companies in China are not included in the figures for the Group. These Chinese companies are accounted for using the equity method and recorded a proportionate operating profit of €2,318 (2,135) million.
6 In operating profit, mainly intragroup items recognized in profit or loss, in particular from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocation for Scania, Porsche Holding Salzburg, MAN and Porsche.
7 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

UNIT SALES AND SALES REVENUE BY MARKET

In the Europe/Other markets region, the Volkswagen Group lifted its unit sales by 7.2% year-on-year in the first six months of 2018 to 2.6 million vehicles. Sales revenue climbed to €76.4 (73.8) billion due to volume-related factors, however, exchange rates had a negative impact.

The Volkswagen Group's unit sales in North America amounted to 433 thousand vehicles in the reporting period, a decrease of 9.3% compared with the previous year. Sales revenue decreased by 3.4% to €17.7 billion due to volume and exchange rate effects, changes in the mix had a positive impact.

In the South American markets we sold 293 (246) thousand vehicles in the period from January to June of this year. Developments in volumes and the mix increased sales revenue to €5.2 (4.9) billion. An unfavorable exchange rate trend had a negative effect.

In the first six months of 2018, the Volkswagen Group sold a total of 2.2 (2.1) million vehicles in the Asia-Pacific region (including the Chinese joint ventures). Sales revenue increased by 3.3% year-on-year to €19.0 billion. An improved components business of our consolidated companies made a positive contribution. This figure does not include the sales revenue of our equity-accounted Chinese joint ventures.

Since the new accounting standard IFRS 9 was applied on January 1, 2018, income and expenses realized from hedging transactions relating to sales revenue in foreign currency is allocated to sales revenue; in the period from January to June 2018, hedging transactions increased the sales revenue of the Volkswagen Group by €1.0 billion.

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

	VEHICLE SALES		SALES REVENUE	
Thousand vehicles/€ million	2018	2017	2018	2017[2]
Europe/Other markets	2,608	2,434	76,414	73,757
North America	433	478	17,730	18,346
South America	293	246	5,236	4,854
Asia-Pacific[3]	2,241	2,113	18,996	18,392
Hedges on sales revenue	–	–	1,000	–
Volkswagen Group[3]	**5,575**	**5,270**	**119,377**	**115,349**

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

VOLKSWAGEN FINANCIAL SERVICES

Volkswagen Financial Services supported the Volkswagen Group's unit sales in the first half of 2018 with its innovative products along the automotive value chain.

The industry magazine Firmenauto presented the "Company Car of the Year" awards for the twentieth time in 2018 in Europe's largest practical comparison, with around 250 fleet managers testing almost 100 vehicles in twelve categories. Volkswagen Financial Services built on its winning streak of years past and once again took the top spot in the "Leasing" category.

Volkswagen Financial Services is systematically implementing its digitalization strategy and strengthened its IT expertise with a majority interest taken by Volkswagen Financial Services AG in the Portuguese software company VTXRM. This company covers the entire spectrum of electronic contract processing for financial and leasing companies and is already in use at Volkswagen Financial Services in many countries.

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

In the second quarter of 2018, Volkswagen Financial Services securitized receivables with a volume of over AUD 750 million (around €470 million) and successfully placed them with investors. The auto ABS transaction Driver Australia five, which is exclusively secured by receivables from Volkswagen Financial Services Australia Pty Ltd., represents the highest-volume transaction that Volkswagen Financial Services has ever conducted in Australian dollars. Volkswagen Bank GmbH securitized receivables from Italian car loans for the first time. The auto ABS transaction Driver Italia one is exclusively secured by receivables from the Italian branch of Volkswagen Bank GmbH and has a volume of over €500 million.

In the second quarter of 2018, Volkswagen Financial Services AG placed three bonds with a total volume of €2.25 billion. Volkswagen Bank GmbH also placed three bonds with a total volume of €2 billion. The transactions generated tremendous interest among investors and were oversubscribed by a factor of more than two.

The number of new financing, leasing, service and insurance contracts signed in the first half of 2018 was up on the prior-year level at 3.5 (3.3) million. Based on unchanged credit eligibility criteria, the penetration rate, expressed as the ratio of leased or financed vehicles to relevant Group delivery volumes, amounted to 33.2 (33.1)%. As of June 30, 2018, the total number of contracts was 17.6 million, up 2.0% on the end of December 2017. The number of contracts in the Customer Financing/Leasing area rose by 3.5% compared with December 31, 2017 to 9.9 million. At 7.6 (7.6) million, the number of contracts in the Service/Insurance area was in line with the 2017 year-end level.

At the end of the reporting period, Volkswagen Bank managed around 1.5 (1.5) million deposit accounts.

On June 30, 2018, Volkswagen Financial Services had a total of 13,943 (13,766) employees.

Interim Consolidated Financial Statements (Condensed)

Income Statement for the Period January 1 to June 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2018	2017[3]	2018	2017[3]	2018	2017[3]
Sales revenue	**119,377**	**115,349**	**101,715**	**98,388**	**17,662**	**16,961**
Cost of sales	−94,549	−91,630	−80,182	−77,864	−14,367	−13,765
Gross result	**24,828**	**23,719**	**21,533**	**20,524**	**3,295**	**3,196**
Distribution expenses	−10,244	−10,277	−9,547	−9,603	−697	−675
Administrative expenses	−4,226	−3,996	−3,250	−3,139	−976	−857
Other operating income/expense	−2,198	−529	−1,870	−130	−328	−399
Operating result	**8,160**	**8,916**	**6,866**	**7,651**	**1,294**	**1,265**
Share of the result of equity-accounted investments	1,680	1,635	1,641	1,634	39	2
Net interest income and other financial result	−867	−1,753	−868	−1,756	0	3
Financial result	**813**	**−117**	**774**	**−122**	**39**	**5**
Earnings before tax	**8,972**	**8,799**	**7,640**	**7,529**	**1,333**	**1,270**
Income tax expense	−2,360	−2,325	−1,845	−1,960	−515	−364
Earnings after tax	**6,613**	**6,474**	**5,794**	**5,569**	**818**	**906**
of which attributable to						
Noncontrolling interests	5	5	−27	−16	32	21
Volkswagen AG hybrid capital investors	156	116	156	116	–	–
Volkswagen AG shareholders	6,452	6,354	5,665	5,469	786	885
Basic earnings per ordinary share (€)[2]	**12.85**	**12.65**				
Diluted earnings per ordinary share (€)[2]	**12.85**	**12.65**				
Basic earnings per preferred share (€)[2]	**12.91**	**12.71**				
Diluted earnings per preferred share (€)[2]	**12.91**	**12.71**				

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Explanatory information on earnings per share is presented in the "Earnings per share" section.
3 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

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

€ million	2018	2017[1]
Earnings after tax	**6,613**	**6,474**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–159	1,961
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	46	–577
Pension plan remeasurements recognized in other comprehensive income, net of tax	–113	1,384
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	32	48
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	1	1
Items that will not be reclassified to profit or loss	**–80**	**1,432**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–494	–1,305
Transferred to profit or loss	–	–1
Exchange differences on translating foreign operations, before tax	–494	–1,306
Deferred taxes relating to exchange differences on translating foreign operations	6	–10
Exchange differences on translating foreign operations, net of tax	–489	–1,316
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	–644	3,778
Transferred to profit or loss (OCI I)	–1,032	223
Cash flow hedges (OCI I), before tax	–1,675	4,002
Deferred taxes relating to cash flow hedges (OCI I)	472	–1,159
Cash flow hedges (OCI I), net of tax	–1,203	2,842
Fair value changes recognized in other comprehensive income (OCI II)	–582	171
Transferred to profit or loss (OCI II)	116	–
Cash flow hedges (OCI II), before tax	–466	171
Deferred taxes relating to cash flow hedges (OCI II)	138	–51
Cash flow hedges (OCI II), net of tax	–328	120
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	–2	–16
Transferred to profit or loss	1	1
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	–1	–15
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	0	5
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	–1	–9
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	94	–288
Items that may be reclassified to profit or loss	**–1,927**	**1,349**
Other comprehensive income, before tax	–2,670	4,574
Deferred taxes relating to other comprehensive income	662	–1,793
Other comprehensive income, net of tax	**–2,008**	**2,781**
Total comprehensive income	**4,605**	**9,256**
of which attributable to		
Noncontrolling interests	4	5
Volkswagen AG hybrid capital investors	156	116
Volkswagen AG shareholders	4,444	9,135

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

Income Statement for the Period April 1 to June 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2018	2017[3]	2018	2017[3]	2018	2017[3]
Sales revenue	**61,149**	**59,152**	**51,972**	**50,563**	**9,177**	**8,589**
Cost of sales	−47,891	−46,859	−40,399	−39,900	−7,493	−6,960
Gross result	**13,258**	**12,293**	**11,573**	**10,664**	**1,685**	**1,629**
Distribution expenses	−5,485	−4,964	−5,102	−4,626	−383	−338
Administrative expenses	−2,101	−2,020	−1,573	−1,602	−529	−418
Other operating income/expense	−1,723	−760	−1,604	−552	−119	−208
Operating result	**3,948**	**4,549**	**3,294**	**3,884**	**654**	**665**
Share of the result of equity-accounted investments	852	699	829	693	23	7
Net interest income and other financial result	−305	−1,041	−328	−1,049	22	8
Financial result	**547**	**−341**	**502**	**−356**	**45**	**15**
Earnings before tax	**4,495**	**4,207**	**3,796**	**3,528**	**699**	**680**
Income tax expense	−1,182	−1,106	−836	−870	−346	−236
Earnings after tax	**3,313**	**3,101**	**2,959**	**2,658**	**354**	**443**
of which attributable to						
Noncontrolling interests	3	2	−16	−7	19	9
Volkswagen AG hybrid capital investors	79	60	79	60	–	–
Volkswagen AG shareholders	3,230	3,038	2,896	2,604	334	434
Basic earnings per ordinary share (€)[2]	**6.44**	**6.06**				
Diluted earnings per ordinary share (€)[2]	**6.44**	**6.06**				
Basic earnings per preferred share (€)[2]	**6.44**	**6.06**				
Diluted earnings per preferred share (€)[2]	**6.44**	**6.06**				

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Explanatory information on earnings per share is presented in the “Earnings per share” section.
3 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

Statement of Comprehensive Income for the Period April 1 to June 30

€ million	2018	2017[1]
Earnings after tax	**3,313**	**3,101**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	685	1,300
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–209	–394
Pension plan remeasurements recognized in other comprehensive income, net of tax	477	906
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	53	–9
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	–11	2
Items that will not be reclassified to profit or loss	**518**	**899**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	102	–1,518
Transferred to profit or loss	–	–1
Exchange differences on translating foreign operations, before tax	102	–1,520
Deferred taxes relating to exchange differences on translating foreign operations	2	–1
Exchange differences on translating foreign operations, net of tax	103	–1,521
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	–1,449	3,797
Transferred to profit or loss (OCI I)	–435	–62
Cash flow hedges (OCI I), before tax	–1,884	3,735
Deferred taxes relating to cash flow hedges (OCI I)	545	–1,089
Cash flow hedges (OCI I), net of tax	–1,339	2,646
Fair value changes recognized in other comprehensive income (OCI II)	–446	130
Transferred to profit or loss (OCI II)	117	–
Cash flow hedges (OCI II), before tax	–329	130
Deferred taxes relating to cash flow hedges (OCI II)	97	–39
Cash flow hedges (OCI II), net of tax	–232	91
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	–22	–16
Transferred to profit or loss	0	1
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	–21	–15
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	5	5
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	–17	–9
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	94	–241
Items that may be reclassified to profit or loss	**–1,391**	**966**
Other comprehensive income, before tax	–1,312	3,383
Deferred taxes relating to other comprehensive income	440	–1,517
Other comprehensive income, net of tax	**–872**	**1,865**
Total comprehensive income	**2,440**	**4,967**
of which attributable to		
Noncontrolling interests	4	1
Volkswagen AG hybrid capital investors	79	60
Volkswagen AG shareholders	2,358	4,905

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

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

€ million	VOLKSWAGEN GROUP 2018	VOLKSWAGEN GROUP 2017	DIVISIONS AUTOMOTIVE[1] 2018	DIVISIONS AUTOMOTIVE[1] 2017	DIVISIONS FINANCIAL SERVICES 2018	DIVISIONS FINANCIAL SERVICES 2017
Assets						
Noncurrent assets	**264,844**	**262,081**	**138,296**	**140,912**	**126,548**	**121,169**
Intangible assets	63,593	63,419	63,393	63,211	200	208
Property, plant and equipment	54,510	55,243	51,646	52,503	2,864	2,739
Lease assets	41,523	39,254	4,854	3,140	36,669	36,114
Financial services receivables	76,319	73,249	9	−7	76,311	73,256
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	28,899	30,916	18,395	22,065	10,505	8,851
Current assets	**176,272**	**160,112**	**91,163**	**80,210**	**85,108**	**79,902**
Inventories	45,803	40,415	41,576	36,113	4,228	4,302
Financial services receivables	52,757	53,145	−546	−686	53,302	53,832
Other receivables and financial assets	39,381	32,040	19,852	17,354	19,529	14,686
Marketable securities	16,610	15,939	13,655	13,512	2,955	2,427
Cash, cash equivalents and time deposits	21,720	18,457	16,626	13,826	5,094	4,632
Held for Sale	–	115	–	90	–	24
Total assets	**441,116**	**422,193**	**229,460**	**221,121**	**211,656**	**201,071**
Equity and Liabilities						
Equity	**113,850**	**109,077**	**86,262**	**81,605**	**27,588**	**27,472**
Equity attributable to Volkswagen AG shareholders	99,849	97,761	72,887	70,857	26,962	26,904
Equity attributable to Volkswagen AG hybrid capital investors	13,770	11,088	13,770	11,088	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	113,619	108,849	86,657	81,945	26,962	26,904
Noncontrolling interests	231	229	−395	−339	627	568
Noncurrent liabilities	**155,692**	**152,726**	**69,658**	**69,805**	**86,034**	**82,921**
Financial liabilities	83,819	81,628	5,785	6,709	78,034	74,919
Provisions for pensions	33,047	32,730	32,493	32,189	554	540
Other liabilities	38,826	38,368	31,380	30,906	7,446	7,462
Current liabilities	**171,573**	**160,389**	**73,540**	**69,711**	**98,034**	**90,678**
Put options and compensation rights granted to noncontrolling interest shareholders	4,158	3,795	4,158	3,795	–	–
Financial liabilities	85,448	81,844	−3,180	−458	88,629	82,302
Trade payables	25,326	23,046	21,816	20,497	3,510	2,548
Other liabilities	56,642	51,705	50,747	45,877	5,895	5,828
Total equity and liabilities	**441,116**	**422,193**	**229,460**	**221,121**	**211,656**	**201,071**

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

Statement of Changes in Equity

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES Currency translation reserve
Unadjusted balance at Jan. 1, 2017	**1,283**	**14,551**	**70,446**	**−1,117**
Changes in accounting policy to reflect IFRS 9	–	–	57	–
Balance at Jan. 1, 2017	**1,283**	**14,551**	**70,503**	**−1,117**
Earnings after tax	–	–	6,354	–
Other comprehensive income, net of tax	–	–	1,383	−1,316
Total comprehensive income	**–**	**–**	**7,738**	**−1,316**
Offsetting of the result for investment hedging	–	–	–	–
Disposal of equity instruments	–	–	–	–
Capital increases[1]	–	–	–	–
Dividends payment	–	–	−1,015	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	−5	–
Balance at June 30, 2017	**1,283**	**14,551**	**77,221**	**−2,432**
Unadjusted balance at Jan. 1, 2018	**1,283**	**14,551**	**81,367**	**−3,223**
Changes in accounting policy to reflect IFRS 9 and 15	–	–	−282	–
Balance at Jan. 1, 2018	**1,283**	**14,551**	**81,085**	**−3,223**
Earnings after tax	–	–	6,452	–
Other comprehensive income, net of tax	–	–	−113	−489
Total comprehensive income	**–**	**–**	**6,339**	**−489**
Offsetting of the result for investment hedging	–	–	–	–
Disposal of equity instruments	–	–	–	–
Capital increases[2]	–	–	–	–
Dividends payment	–	–	−1,967	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	−1	–
Balance at June 30, 2018	**1,283**	**14,551**	**85,456**	**−3,712**

1 Volkswagen AG recorded an inflow of cash funds amounting to €3,500 million, less a discount of €4 million and transaction costs of €23 million, from the hybrid capital issued in June 2017. Additionally, there were noncash effects from the deferral of taxes amounting to €8 million. The hybrid capital is required to be classified as equity instruments granted.
2 Volkswagen AG recorded an inflow of cash funds amounting to €2,750 million, less transaction costs of €18 million, from the hybrid capital issued in June 2018. Additionally, there were noncash effects from the deferral of taxes amounting to €5 million. The hybrid capital is required to be classified as equity instruments granted.

HEDGING							
Cash flow hedges (OCI I)	Deferred costs of Hedging (OCI II)	Equity and debt instruments	Equity-accounted investments	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to Volkswagen AG shareholders and hybrid capital investors	Noncontrolling interests	Total equity
–457	**–**	**–2**	**417**	**7,567**	**92,689**	**221**	**92,910**
–	–57	–	–	–	–	–	–
–457	**–57**	**–2**	**417**	**7,567**	**92,689**	**221**	**92,910**
–	–	–	–	116	6,470	5	6,474
2,842	120	38	–287	–	2,781	0	2,781
2,842	**120**	**38**	**–287**	**116**	**9,251**	**5**	**9,256**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	3,481	3,481	–	3,481
–	–	–	–	–204	–1,219	–5	–1,224
–	–	–	–	–	–	–	–
–	–	–	–	51	46	2	48
2,385	**63**	**37**	**130**	**11,010**	**104,248**	**223**	**104,471**
3,525	**–**	**91**	**166**	**11,088**	**108,849**	**229**	**109,077**
56	63	–225	–	–	–388	1	–387
3,581	**63**	**–133**	**166**	**11,088**	**108,461**	**229**	**108,690**
–	–	–	–	156	6,608	5	6,613
–1,203	–328	31	94	–	–2,008	0	–2,008
–1,203	**–328**	**31**	**94**	**156**	**4,600**	**4**	**4,605**
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	2,737	2,737	–	2,737
–	–	–	–	–282	–2,249	–4	–2,253
–	–	–	–	–	–	–	–
–	–	–	–	70	70	2	71
2,378	**–265**	**–102**	**260**	**13,770**	**113,619**	**231**	**113,850**

Cash flow statement for the Period January 1 to June 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2018	2017[7]	2018	2017[7]	2018	2017[7]
Cash and cash equivalents at beginning of period	**18,038**	**18,833**	**13,428**	**14,125**	**4,609**	**4,709**
Earnings before tax	8,972	8,799	7,640	7,529	1,333	1,270
Income taxes paid	−1,459	−1,910	−1,682	−1,937	223	27
Depreciation and amortization expense[2]	10,745	10,790	7,388	7,069	3,357	3,721
Change in pension provisions	198	176	191	171	7	5
Share of the result of equity-accounted investments	1,479	1,893	1,519	1,888	−39	6
Other noncash income/expense and reclassifications[3]	387	−265	402	124	−15	−388
Gross cash flow	**20,323**	**19,484**	**15,457**	**14,844**	**4,865**	**4,640**
Change in working capital	**−15,487**	**−22,362**	**−5,250**	**−12,810**	**−10,237**	**−9,551**
Change in inventories	−5,502	−5,946	−5,663	−5,676	161	−270
Change in receivables	−7,811	−3,100	−4,541	−2,897	−3,270	−203
Change in liabilities	5,663	5,242	4,391	4,649	1,272	592
Change in other provisions	1,428	−8,277	1,390	−8,346	38	69
Change in lease assets (excluding depreciation)	−5,964	−5,657	−671	−488	−5,294	−5,169
Change in financial services receivables	−3,300	−4,623	−156	−53	−3,144	−4,570
Cash flows from operating activities	**4,836**	**−2,878**	**10,208**	**2,033**	**−5,372**	**−4,911**
Cash flows from investing activities attributable to operating activities	**−7,158**	**−7,040**	**−6,862**	**−6,829**	**−296**	**−211**
of which: Investments in intangible assets (excluding capitalized development costs), property, plant and equipment, and investment property	−4,610	−4,327	−4,398	−4,159	−212	−168
capitalized development costs	−2,490	−2,919	−2,490	−2,919	–	–
acquisition and disposal of equity investments	−196	−38	−80	24	−116	−62
Net cash flow[4]	***−2,322***	***−9,917***	***3,346***	***−4,795***	***−5,668***	***−5,122***
Change in investments in securities, loans and time deposits	−766	888	2,172	1,741	−2,939	−853
Cash flows from investing activities	**−7,924**	**−6,151**	**−4,690**	**−5,088**	**−3,235**	**−1,064**
Cash flows from financing activities	**6,352**	**12,576**	**−2,722**	**6,855**	**9,074**	**5,721**
of which: capital contributions/capital redemptions	2,732	3,473	2,708	2,470	24	1,002
Effect of exchange rate changes on cash and cash equivalents	−68	−507	−69	−447	1	−60
Change of loss allowance within cash and cash equivalents	0	–	0	–	0	–
Net change in cash and cash equivalents	**3,195**	**3,040**	**2,728**	**3,354**	**468**	**−313**
Cash and cash equivalents at June 30[5]	**21,233**	**21,874**	**16,156**	**17,478**	**5,077**	**4,395**
Securities, loans and time deposits	26,535	27,085	12,746	15,969	13,789	11,116
Gross liquidity	**47,768**	**48,959**	**28,902**	**33,448**	**18,866**	**15,511**
Total third-party borrowings	−169,267	−160,911	−2,604	−9,702	−166,663	−151,208
Net liquidity at June 30[6]	**−121,499**	**−111,952**	**26,298**	**23,745**	**−147,797**	**−135,697**
For information purposes: at Jan. 1	−119,143	−107,950	22,378	27,180	−141,522	−135,130

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Net of impairment reversals.
3 These relate mainly to the fair value measurement of financial instruments, the reclassification of gains/losses on disposal of noncurrent assets and equity investments to investing activities.
4 Net cash flow: cash flows from operating activities, net of cash flows from investing activities attributable to operating activities (investing activities excluding change in investments in securities, loans and time deposits).
5 Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.
6 The total of cash, cash equivalents, securities, loans to affiliates and joint ventures as well as time deposits net of third-party borrowings (noncurrent and current financial liabilities).
7 Prior-year figures adjusted (see disclosures on IFRS 9 and IFRS 15).

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

Notes to the Consolidated Financial Statements

Accounting in accordance with International Financial Reporting Standards (IFRSs)

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2017 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. These interim consolidated financial statements for the period ended June 30, 2018 were therefore also prepared in accordance with IAS 34 (Interim Financial Reporting) and are condensed in scope compared with the consolidated financial statements.

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

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

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

Accounting policies

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning on or after January 1, 2018.

IFRS 9 – FINANCIAL INSTRUMENTS

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

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

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

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

In addition, IFRS 9 has an impact on the entity’s reclassification practice. Depending on market trends, there is an expectation that operating profit or loss will be affected by hedging transactions to a greater extent. Due to the retrospective application of the guidance on designating options, the prior-year figures were adjusted. This resulted in an effect of €–120 million on earnings after tax in the first six months of fiscal year 2017.

This will also result in far more extensive disclosures in the notes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

In addition, from 2018 onward, the reversal of sales allowances is no longer presented under other operating income, but under sales revenue. As a result, an amount of €0.2 billion has been moved between other operating income and sales revenue.

To make the presentation more consistent and easier to compare, the way other income from the reversal of provisions and accrued liabilities is reported was also adjusted in this context; these items were allocated to those functional area in which they were originally recognized. Prior-year figures were adjusted accordingly, resulting in a €1.3 billion decline in other operating income. This had a corresponding positive effect on cost of sales (€1.0 billion) as well as distribution (€0.3 billion) and administrative expenses (€44 million).

In addition, it was established in connection with the introduction of IFRS 15 that certain sales programs in certain countries should be allocated to sales allowances rather than distribution expenses. The prior-period distribution expenses were therefore adjusted by €0.5 billion. There was a corresponding decrease in sales revenue.

OTHER ACCOUNTING POLICIES

A discount rate of 1.9% (December 31, 2017: 1.9%) was applied to German pension provisions in the accompanying interim consolidated financial statements.

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

In other respects, the same accounting policies and consolidation methods that were used for the 2017 consolidated financial statements are generally applied to the preparation of the interim consolidated financial statements and the measurement of the prior-year comparatives. A detailed description of the policies and methods applied is published in the "Accounting policies" section of the notes to the 2017 consolidated financial statements. In addition, details of the effects of new standards can be found in the "New and amended IFRSs not applied" section. The 2017 consolidated financial statements can also be accessed on the Internet at www.volkswagenag.com/ir.

Key events

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. This was followed by further reports on the scope of the diesel issue. Detailed information can be found in the "Key events" section of the 2017 consolidated financial statements.

In the second quarter of fiscal year 2018, additional expenses of €1.6 billion for legal risks had to be recognized in this connection. The main reasons for the expenses are the €1.0 billion penalty imposed by the Braunschweig public prosecutor in connection with the diesel issue as well as higher legal defense costs.

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

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

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

The decision means that the put options and compensation rights granted to the noncontrolling interest shareholders had to be revalued. This resulted in an expense of €0.4 billion, which was recognized in the other financial result.

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

Basis of consolidation

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

CONSOLIDATED SUBSIDIARIES

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

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

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

INVESTMENTS IN ASSOCIATES

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

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

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

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

Disclosures on the interim consolidated financial statements

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE H1 2017[1]

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	69,658	12,539	–	–	82,196	−9,872	72,325
Genuine parts	6,315	1,595	–	–	7,910	−49	7,861
Used vehicles and third-party products	7,142	925	–	–	8,067	−247	7,820
Engines, powertrains and parts deliveries	5,523	356	–	–	5,879	−583	5,297
Power Engineering	–	–	1,579	–	1,579	−1	1,578
Motorcycles	380	–	–	–	380	–	380
Leasing business	408	878	–	13,088	14,373	−2,131	12,242
Interest and similar income	122	2	–	3,541	3,664	−78	3,586
Hedges sales revenue	–	–	–	–	–	–	–
Other sales revenue	5,091	957	–	332	6,380	−2,120	4,260
	94,637	**17,252**	**1,579**	**16,961**	**130,430**	**−15,081**	**115,349**

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

STRUCTURE OF GROUP SALES REVENUE H1 2018

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	70,818	13,073	–	–	83,891	−9,037	74,854
Genuine parts	6,358	1,665	–	–	8,022	−51	7,971
Used vehicles and third-party products	5,604	963	–	–	6,566	−276	6,291
Engines, powertrains and parts deliveries	6,542	609	–	–	7,151	−903	6,247
Power Engineering	–	–	1,637	–	1,637	−1	1,636
Motorcycles	375	–	–	–	375	–	375
Leasing business	396	823	–	13,695	14,913	−2,148	12,765
Interest and similar income	120	3	–	3,564	3,687	−91	3,597
Hedges sales revenue	906	53	0	–	959	41	1,000
Other sales revenue	5,477	1,125	–	403	7,005	−2,365	4,640
	96,595	**18,312**	**1,637**	**17,662**	**134,207**	**−14,830**	**119,377**

Other sales revenue comprises revenue from workshop services and license revenue, among other things.

2. Cost of sales

Cost of sales includes interest expenses of €1,065 million (previous year: €985 million) attributable to the financial services business.

In addition to depreciation and amortization expenses, cost of sales also includes impairment losses on intangible assets, items of property, plant and equipment, and lease assets. The impairment losses identified on the basis of updated impairment tests amount to a total of €336 million (previous year: €405 million). The value in use is used as the basis for calculating impairment losses.

3. Research and development costs

€ million	H1 2018	H1 2017	%
Total research and development costs	6,747	6,759	−0.2
of which: capitalized development costs	2,490	2,919	−14.7
Capitalization ratio in %	36.9	43.2	
Amortization of capitalized development costs	1,845	1,705	8.2
Research and development costs recognized in profit or loss	**6,102**	**5,546**	**10.0**

4. Earnings per share

Basic earnings per share are calculated by dividing earnings attributable to Volkswagen AG shareholders by the weighted average number of ordinary and preferred shares outstanding during the reporting period.

Since the basic and diluted number of shares is identical, basic earnings per share also correspond to diluted earnings per share. In accordance with Article 27 of the Articles of Association of Volkswagen AG, preferred shares are entitled to a €0.06 higher dividend than ordinary shares.

		Q2 2018	Q2 2017[1]	H1 2018	H1 2017[1]
Weighted average number of shares outstanding					
Ordinary shares: basic	million	295.1	295.1	295.1	295.1
diluted	million	295.1	295.1	295.1	295.1
Preferred shares: basic	million	206.2	206.2	206.2	206.2
diluted	million	206.2	206.2	206.2	206.2
Earnings after tax	€ million	3,313	3,101	6,613	6,474
Noncontrolling interests	€ million	3	2	5	5
Earnings attributable to Volkswagen AG hybrid capital investors	€ million	79	60	156	116
Earnings attributable to Volkswagen AG shareholders	€ million	3,230	3,038	6,452	6,354
Earnings per share					
Ordinary shares: basic	€	6.44	6.06	12.85	12.65
diluted	€	6.44	6.06	12.85	12.65
Preferred shares: basic	€	6.44	6.06	12.91	12.71
diluted	€	6.44	6.06	12.91	12.71

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

5. Noncurrent assets

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

€ million	Carrying amount at Jan. 1, 2018	Additions/ Changes in consolidated Group	Disposals/ Other changes	Depreciation and amortization	Carrying amount at June 30, 2018
Intangible assets	63,419	2,707	333	2,200	63,593
Property, plant and equipment	55,243	4,529	494	4,769	54,510
Lease assets	39,218[1]	10,474	4,370	3,800	41,523

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

6. Inventories

€ million	June 30, 2018	Dec. 31, 2017
Raw materials, consumables and supplies	5,525	4,858
Work in progress	4,241	4,143
Finished goods and purchased merchandise	30,174	26,514
Current lease assets	5,722	4,774
Prepayments	152	127
Hedges on inventories	−12	–
	45,803	**40,415**

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

7. Current other receivables and financial assets

€ million	June 30, 2018	Dec. 31, 2017
Trade receivables	17,989	13,357
Miscellaneous other receivables and financial assets	21,392	18,683
	39,381	**32,040**

In the period January 1 to June 30, 2018, impairment losses and reversals of impairment losses on noncurrent and current financial assets reduced operating profit by €402 million (previous year: €355 million).

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

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

8. Equity

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

The subscribed capital is composed of 295,089,818 no-par value ordinary shares and 206,205,445 no-par-value preferred shares, and amounts to €1,283 million (December 2017: €1,283 million).

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

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

9. Noncurrent financial liabilities

€ million	June 30, 2018	Dec. 31, 2017
Bonds, commercial paper and notes	65,136	62,371
Liabilities to banks	14,948	15,357
Deposit business	1,281	2,114
Other financial liabilities	2,454	1,786
	83,819	**81,628**

10. Current financial liabilities

€ million	June 30, 2018	Dec. 31, 2017
Bonds, commercial paper and notes	40,979	36,652
Liabilities to banks	13,243	14,487
Deposit business	30,076	29,291
Other financial liabilities	1,151	1,414
	85,448	**81,844**

11. Fair value disclosures

The principles and techniques used for fair value measurement remained unchanged year-on-year. Detailed explanations of the measurement principles and techniques can be found in the "Accounting policies" section of the 2017 consolidated financial statements.

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

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

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

Uniform valuation techniques and inputs are used to measure fair value. The fair value of Level 2 and 3 financial instruments is measured in the individual divisions on the basis of Group-wide specifications. The fair value of put options and compensation rights granted to noncontrolling interest shareholders is calculated using a present value model based on the contractually agreed cash settlement, including cash compensation, as well as the minimum statutory interest rate and a risk-adjusted discount rate for a matching maturity.

Reconciliation of balance sheet items to classes of financial instruments

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

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

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

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

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2017

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

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

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT WITHIN SCOPE OF IFRS 7	BALANCE SHEET ITEM AT JUNE 30, 2018
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	6,930	6,930
Other equity investments	356	–	–	–	1,165	1,521
Financial services receivables	582	75,737	77,654	–	–	76,319
Other financial assets	420	4,027	4,039	2,121	–	6,569
Current assets						
Trade receivables	2	17,629	17,629	–	359	17,989
Financial services receivables	23	52,734	52,734	–	–	52,757
Other financial assets	1,102	11,007	11,007	1,857	17	13,984
Marketable securities	16,475	135	135	–	–	16,610
Cash, cash equivalents and time deposits	–	21,720	21,720	–	–	21,720
Noncurrent liabilities						
Noncurrent financial liabilities	–	83,819	84,310	–	–	83,819
Other noncurrent financial liabilities	754	1,928	1,931	378	–	3,060
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	4,158	4,158	–	–	4,158
Current financial liabilities	–	85,448	85,448	–	–	85,448
Trade payables	–	25,326	25,326	–	–	25,326
Other current financial liabilities	719	7,471	7,471	634	–	8,825

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

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE BY LEVEL

€ million	Dec. 31, 2017	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	243	103	–	140
Other financial assets	776	–	705	71
Current assets				
Other financial assets	936	–	933	3
Marketable securities	15,939	15,939	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	774	–	242	532
Current liabilities				
Other current financial liabilities	766	–	533	233

€ million	June 30, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	356	84	29	243
Financial services receivables	582	–	–	582
Other financial assets	420	–	366	55
Current assets				
Trade receivables	2	–	–	2
Financial services receivables	23	–	–	23
Other financial assets	1,102	–	1,101	2
Marketable securities	16,475	16,475	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	754	–	228	526
Current liabilities				
Other current financial liabilities	719	0	434	285

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

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

€ million	June 30, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	2,121	–	2,121	–
Current assets				
Other financial assets	1,857	–	1,857	–
Noncurrent liabilities				
Other noncurrent financial liabilities	378	–	378	–
Current liabilities				
Other current financial liabilities	634	–	634	–

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

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

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2017	**152**	**230**
Foreign exchange differences	−6	–
Total comprehensive income	14	97
recognized in profit or loss	19	97
recognized in other comprehensive income	−4	0
Additions (purchases)	82	–
Sales and settlements	−9	−38
Transfers into Level 2	−10	−2
Balance at June 30, 2017	**223**	**287**
Total gains or losses recognized in profit or loss	**19**	**−97**
Net other operating expense/income	–	–
of which attributable to assets/liabilities held at the reporting date	–	–
Financial result	19	−97
of which attributable to assets/liabilities held at the reporting date	1	−96

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2018	**823**[1]	**765**
Foreign exchange differences	−24	1
Total comprehensive income	62	88
recognized in profit or loss	−18	88
recognized in other comprehensive income	80	–
Additions (purchases)	163	6
Sales and settlements	−88	−49
Transfers into Level 2	−30	0
Balance at June 30, 2018	**907**	**811**
Total gains or losses recognized in profit or loss	**−18**	**−88**
Net other operating expense/income	−18	−88
of which attributable to assets/liabilities held at the reporting date	−21	−94
Financial result	0	0
of which attributable to assets/liabilities held at the reporting date	1	–

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

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

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

If commodity prices for commodity futures classified as Level 3 as of June 30, 2018 had been 10% higher (lower), earnings after tax would have been €11 million (previous year: €5 million) higher (lower). The equity is not affected.

The key risk variable for measuring options on equity instruments held by the Company is the relevant enterprise value. Sensitivity analyses are used to present the effect of changes in risk variables on earnings after tax.

If the assumed enterprise values at June 30, 2018 had been 10% higher, earnings after tax would have been €3 million (previous year: €1 million) higher. If the assumed enterprise values at June 30, 2018 had been 10% lower, earnings after tax would have been €3 million (previous year: €1 million) lower.

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

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

If the prices for the used cars covered by the residual value protection model had been 10% higher as of June 30, 2018, earnings after tax would have been €317 million (previous year: €263 million) higher. If the prices for the used cars covered by the residual value protection model had been 10% lower as of June 30, 2018, earnings after tax would have been €335 million (previous year: €263 million) lower.

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

12. Cash flow statement

The cash flow statement presents the cash inflows and outflows in the Volkswagen Group and in the Automotive and Financial Services divisions. Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.

€ million	June 30, 2018	June 30, 2017
Cash, cash equivalents and time deposits as reported in the balance sheet	21,720	22,288
Time deposits	−487	−414
Cash and cash equivalents as reported in the cash flow statement	**21,233**	**21,874**

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

€ million	H1 2018	H1 2017
Capital contributions	2,732	3,473
Dividends paid	−2,253	−1,224
Capital transactions with noncontrolling interest shareholders	–	–
Proceeds from issuance of bonds	13,840	16,030
Repayments of bonds	−7,087	−7,325
Changes in other financial liabilities	−866	1,633
Lease payments	−14	−11
	6,352	**12,576**

13. Segment reporting

Segments are identified on the basis of the Volkswagen Group's internal management and reporting. In line with the Group's multibrand strategy, each of its brands (operating segments) is managed by its own board of management. The Group targets and requirements laid down by the Board of Management of Volkswagen AG must be complied with. Segment reporting comprises four reportable segments: Passenger Cars, Commercial Vehicles, Power Engineering and Financial Services.

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

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

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

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

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

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

The reconciliation contains activities and other operations that by definition do not constitute segments. It also includes the unallocated Group financing activities. Consolidation adjustments between the segments are also contained in the reconciliation.

As a matter of principle, business relationships between the companies within the segments of the Volkswagen Group are transacted at arm's length prices.

REPORTING SEGMENTS H1 2017[1]

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	85,067	13,491	1,578	15,166	115,303	46	115,349
Intersegment sales revenue	9,570	3,761	1	1,795	15,127	−15,127	–
Total sales revenue	94,637	17,252	1,579	16,961	130,430	−15,081	115,349
Segment result (operating result)	8,232	1,043	−46	1,265	10,494	−1,578	8,916

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

REPORTING SEGMENTS H1 2018

€ million	Passenger Cars	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	87,057	14,562	1,636	16,008	119,263	114	119,377
Intersegment sales revenue	9,538	3,750	1	1,654	14,943	−14,943	–
Total sales revenue	96,595	18,312	1,637	17,662	134,207	−14,830	119,377
Segment result (operating result)	7,029	1,275	−58	1,294	9,539	−1,380	8,160

RECONCILIATION

€ million	H1 2018	H1 2017[1]
Segment result (operating result)	**9,539**	**10,494**
Unallocated activities	11	38
Group financing	−13	5
Consolidation	−1,378	−1,621
Operating result	**8,160**	**8,916**
Financial result	**813**	**−117**
Consolidated earnings before tax	**8,972**	**8,799**

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

14. Related party disclosures

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

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

	SUPPLIES AND SERVICES RENDERED		SUPPLIES AND SERVICES RECEIVED	
	H1		H1	
€ million	2018	2017	2018	2017
Porsche SE and its majority interests	2	5	0	0
Supervisory Board members	3	1	1	2
Unconsolidated subsidiaries	537	481	724	446
Joint ventures and their majority interests	7,516	6,898	356	499
Associates and their majority interests	96	101	334	345
State of Lower Saxony, its majority interests and joint ventures	6	5	2	3

	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
€ million	June 30, 2018	Dec. 31, 2017	June 30, 2018	Dec. 31, 2017
Porsche SE and its majority interests	8	13	114	0
Supervisory Board members	1	0	238	254
Unconsolidated subsidiaries	992	1,480	1,328	1,773
Joint ventures and their majority interests	11,590	9,889	2,484	2,168
Associates and their majority interests	123	76	543	572
State of Lower Saxony, its majority interests and joint ventures	2	2	0	1

The supplies and services received from joint ventures and associates that are presented in the above tables do not include resolved dividend distributions amounting to €3,236 million (previous year: €3,533 million).

Receivables from joint ventures are primarily attributable to loans granted in an amount of €6,708 million (previous year: €6,277 million) as well as trade receivables in an amount of €3,168 million (previous year: €3,354 million). Receivables from non-consolidated subsidiaries also result primarily from loans granted in an amount of €653 million (previous year: €1,038 million) as well as trade receivables in an amount of €172 million (previous year: €224 million).

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

The liabilities to Porsche SE consist mainly of term deposits.

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

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €202 million (previous year: €149 million).

Impairment losses of €59 million (previous year: €56 million) were recognized on the outstanding related party receivables. In the first six months of 2018, expenses of €17 million (previous year: €36 million) were incurred in this context.

In the first six months, the Volkswagen Group made capital contributions of €455 million (previous year: €203 million) at related parties.

15. Litigation

For certain T6 models (M1 class) with Euro 6 diesel engines registered as passenger cars, the inspection regarding the conformity of the current production of new vehicles with the approved type (conformity of production) identified that certain technical data could not be fully confirmed. To ensure this conformity of production for new vehicles, Volkswagen AG developed a software measure, which was approved by the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) at the end of February 2018 and was applied to the production of new vehicles as well as to (a total of approximately 30,000) new vehicles that had not been delivered by then. Volkswagen AG also conducted in-use tests to determine whether the around 200,000 T6 used vehicles already on the market are in conformity with 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. The results of these tests show that the technical data of the used T6 vehicles are conform.

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

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

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

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

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

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

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

On April 11, 2018, a Texas state court granted in part and denied in part a motion for summary judgment on the state environmental claims asserted against Volkswagen AG and certain affiliates by the Texas Attorney General. The Texas court denied Volkswagen’s motion for reconsideration or interlocutory appeal.

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

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

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

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

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

On April 19, 2018, the federal multidistrict litigation court in California approved the stipulation of the parties postponing the hearing previously scheduled for May 11, 2018, regarding defendants’ motion to dismiss plaintiffs’ consolidated class action complaint alleging that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. The hearing was postponed again.

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

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

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

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

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

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

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

On June 1, 2018, a notice of amendment to the Third Partial Consent Decree entered into with the Department of Justice (DoJ) and EPA, which modified certain due dates related to annual reporting, was filed with the federal multidistrict litigation court in California.

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

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

In the course of the searches on June 11, 2018, it transpired that the public prosecutor's office of Munich II has extended the criminal investigation pending there. The underlying search warrant shows that the Chairman of the Board of Management of AUDI AG (at the same time a member of the Board of Management of Volkswagen AG) and a further active member of the AUDI AG Board of Management are now under investigation. The accusations include fraud in connection with the sale of diesel vehicles on the European market in the period after fall 2015. The Chairman of the Board of Management of AUDI AG was arrested on June 18, 2018 and has been in custody ever since. In this context, the public prosecutor's office of Munich II is currently investigating 20 individuals. AUDI AG has appointed two renowned major law firms to clarify the matter underlying the public prosecutor's accusations. The investigations are at an early stage. The Board of Management and Supervisory Board of AUDI AG are being regularly updated on the current state of affairs. If the findings do illustrate reproachable conduct or fault on behalf of the organization, then the Board of Management or Supervisory Board, respectively, will adopt the necessary measures.

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

On June 13, 2018, the public prosecutor in Braunschweig issued Volkswagen AG an administrative order in connection with the diesel issue. The administrative order is linked to negligent breaches of monitoring obligations on the part of Volkswagen AG employees in the Powertrain Development department and relates to the period from mid-2007 to 2015 and a total of 10.7 million vehicles with diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. The administrative order imposes a fine of €1.0 billion in total, comprising of the maximum legal penalty of €5 million and the disgorgement of economic benefits in the amount of €995 million. Following thorough examination, the fine has been accepted, has been paid in full by Volkswagen and is therefore legally binding. As a result of the administrative order, the ongoing misdemeanor proceeding against Volkswagen AG will be settled. Further sanctioning or confiscation against Volkswagen AG and its Group companies is therefore not expected in Germany in connection with the particular matter covered by the administrative order concerning diesel engines of types EA 189 worldwide and EA 288 (Generation 3) in the USA and Canada. As a result, Volkswagen expects that the conclusion of this proceeding will have a substantially positive impact on additional governmental proceedings conducted in Europe against Volkswagen AG and its Group companies. The misdemeanor proceedings in relation to the matter concerning AUDI AG being investigated by the public prosecutor's office in Munich are continuing. In line with IAS 37.92, no further disclosures have been made in order not to prejudice the proceeding and the interests of the Company.

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

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

On June 26, 2018, the Higher Regional Court in Munich made a final decision in the award proceedings on the appropriateness of the cash settlement and the right to compensation payable to the noncontrolling interest shareholders of MAN SE, ruling that the annual compensation claim per share has to be increased. The cash settlement in the amount of €90.29 per share, increased in the first instance by the Regional Court in Munich I, was confirmed. On July 30, 2018, as part of the amendment process, the Higher Regional Court in Munich established the annual compensation claim of €5.47 gross (less any corporate income tax and any solidarity surcharge according to the respective tax rate applicable to these taxes for the financial year in question). The decisions by the Higher Regional Court in Munich are final and to be published in the Federal Gazette. In accordance with section 305 of the Aktiengesetz (AktG – German Stock Corporation Act), the cash compensation of €90.29 per share may be accepted within two months after this date.

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

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

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

In Germany, around 17,300 product-related individual actions brought by customers in connection with the diesel issue are pending against Volkswagen AG and other Volkswagen Group companies.

Having served Volkswagen AG with an action asserting the rights assigned by approximately 2,000 customers in Switzerland, financialright GmbH has now brought a further such action on behalf of around 6,000 Slovenian customers. The total amount in dispute in these actions is approximately €50 million.

The private Spanish consumer protection organisation Organización de Consumidores y Usuarios (OCU) has filed a class action against Volkswagen Group España Distribución S.A. on May 9, 2018. OCU represents around 7,500 Spanish customers, claiming for damages in the amount of almost €23 million.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in fiscal year 2018 in the "Report on Expected Developments" and "Report on Risks and Opportunities" chapters – including the "Risks from the diesel issue" and "Litigation/ Diesel issue" sections and the underlying description of the issues in the chapter entitled "Diesel Issue" – of the combined management report in the 2017 Annual Report or in publications released by the reporting date, as well as the continuing investigations and interviews in connection with the diesel issue and additional important legal cases.

16. Contingent liabilities

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

17. Other financial obligations

Other financial liabilities rose by €2.5 billion compared with the 2017 consolidated financial statements to reach €27.0 billion. The higher figure is mainly attributable to the increase in the purchase order commitment for intangible assets and property, plant and equipment in the amount of €2.1 billion.

German Corporate Governance Code

The current declarations in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on the German Corporate Governance Code by the Board of Management and Supervisory Board of Volkswagen AG, AUDI AG, MAN SE and RENK AG are permanently available on the Internet at www.volkswagenag.com/ir, www.audi.com/cgk-declaration, www.corporate.man.eu/en and www.renk.biz/corporated-governance.html respectively.

Significant events after the balance sheet date

In July 2018, Volkswagen AG called hybrid notes with an aggregate principal amount of €1.25 billion placed in 2013 via a subsidiary, Volkswagen International Finance N.V., Amsterdam, the Netherlands, (issuer). Repayment of the notes including all interest accrued and unpaid by then is scheduled for September 2018. The notes must be classified as debt instruments under IAS 32 now that they have been called, reducing the Volkswagen Group's equity and net liquidity correspondingly.

Responsibility Statement

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

Wolfsburg, August 1, 2018

Volkswagen Aktiengesellschaft

The Board of Management

Review Report

On completion of our review, we issued the following unqualified review report dated August 1, 2018. This report was originally prepared in German. In case of ambiguities the German version takes precedence:

To VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg

We have reviewed the condensed consolidated interim financial statements - comprising the condensed income statement and condensed statement of comprehensive income, condensed balance sheet, statement of changes in equity, condensed statement of cash flows and selected explanatory notes - and the interim group management report of VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, for the period from January 1 to June 30, 2018, which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

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

We draw attention to the updated information provided in section “Key events” of the notes to the condensed consolidated interim financial statements and in chapter “Report on Expected Developments, Risks and Opportunities” of the interim group management report with regard to the Diesel Issue, which in addition to the explanations of the recently known cases at two subsidiary companies regarding the suspicion of deceit and prohibited promotion respectively the suspicion of fraud in connection with the selling of Diesel cars on the European market after autumn 2015 essentially refer to the information provided and statements made in the 2017 consolidated financial statements and in the group management report as at December 31, 2017.

Based on the results of the various measures taken to investigate the issue presented so far, which underlie these condensed consolidated interim financial statements and interim group management report, there is still no evidence that members of the Company’s Board of Managing Directors were aware of the deliberate manipulation of engine management software before summer 2015. Nevertheless, should as a result of the ongoing investigation new knowledge be obtained showing that members of the Board of Managing Directors were informed earlier about the Diesel Issue, this could eventually have an impact on the condensed interim financial statements and interim group management report as well as on the annual and consolidated financial statements and on the group management report for the financial year 2017 and prior years.

The provisions for warranties and legal risks recorded so far are based on the presented state of knowledge including the explanations of the recently known cases at two subsidiary companies regarding the suspicion of deceit and prohibited promotion respectively the suspicion of fraud in connection with the selling of Diesel cars on the European market after autumn 2015. Due to the inevitable uncertainties associated with the current and expected litigation it cannot be excluded that a future assessment of the risks may be different.

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

Hanover, August 1, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Harald Kayser
Wirtschaftsprüfer

(German Public Auditor)

Frank Hübner
Wirtschaftsprüfer

(German Public Auditor)

Glossary

Selected terms at a glance

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

Driving Cycles
Levels of fuel consumption and exhaust gas emissions for vehicles registered in Europe were previously measured on a chassis dynamometer with the help of the “New European Driving Cycle (NEDC)”. Since fall 2017, the existing test procedure for emissions and fuel consumption used in the EU is being gradually replaced by the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP). This has been in place for new vehicle types since fall 2017 and will apply to all new vehicles from September 2018. The aim of this new test cycle is to state CO_2 emissions and fuel consumption in a more practice-oriented manner. A further important European regulation is the Real Driving Emissions (RDE) for passenger cars and light commercial vehicles, which also monitors emissions using portable emission measuring technology in real road traffic.

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

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

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

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

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

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

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

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

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

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

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FINANCIAL CALENDAR

October 30, 2018	
Interim Report January – September 2018	

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