

# Notes to the Consolidated Financial Statements

of the Volkswagen Group as of December 31, 2017

## Basis of presentation

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

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2017 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. We have complied with all the IFRSs adopted by the EU and required to be applied.

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

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

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

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

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

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

The Board of Management completed preparation of the consolidated financial statements on February 23, 2018. On that date, the period ended in which adjusting events after the reporting period are recognized.

## Effects of new and amended IFRSs

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning in fiscal year 2017.

From January 1, 2017, IAS 7 (Statement of Cash Flows) requires entities to make additional disclosures on changes arising from cash flows and noncash changes in financial liabilities arising from financing activities as reported in the statement of cash flows.

Since January 1, 2017, the amendments to IAS 12 (Income Taxes) have clarified the recognition of deferred tax assets for unrealized losses in the case of assets carried at fair value.

The IASB amended IFRS 12 (Disclosures of Interests in Other Entities) as part of its 2016 annual improvements project, with effect from January 1, 2017. This clarifies that, as a matter of principle, disclosures in accordance with IFRS 12 must also be made for the entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities even if these are classified as held for sale, held for distribution to owners or as discontinued operations.

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

## New and amended IFRSs not applied

In its 2017 consolidated financial statements, Volkswagen AG did not apply the following accounting pronouncements that have already been adopted by the IASB, but were not yet required to be applied for the fiscal year.

Standard/Interpretation	Published by the IASB	Application mandatory <sup>1</sup>	Adopted by the EU	Expected impact	
IFRS 2	Classification and Measurement of Share-based Payment Transactions	June 20, 2016	January 1, 2018	No	None
IFRS 4	Insurance Contracts: Application of IFRS 9 for Insurers	September 12, 2016	January 1, 2018	Yes	None
IFRS 9	Financial Instruments	July 24, 2014	January 1, 2018	Yes	Detailed descriptions after the tabular overview
IFRS 9	Prepayment Features with Negative Compensation	October 12, 2017	January 1, 2019	No	None
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sales or Contributions of Assets between an Investor and its Associate/Joint Venture	September 11, 2014	Deferred <sup>2</sup>	–	None
IFRS 15	Revenue from Contracts with Customers	May 28, 2014	January 1, 2018 <sup>3</sup>	Yes	Detailed descriptions after the tabular overview
IFRS 15	Clarifications to IFRS 15 – Revenue from Contracts with Customers	April 12, 2016	January 1, 2018	Yes	Additional transitional expedients, otherwise no material impact
IFRS 16	Leases	January 13, 2016	January 1, 2019	Yes	Detailed descriptions after the tabular overview
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2021	No	No material impact
IAS 28	Investments in Associates: Long-term Interests in Associates and Joint Ventures	October 12, 2017	January 1, 2019	No	None
IAS 40	Transfers of Investment Property	December 8, 2016	January 1, 2018	No	No material impact
	Annual Improvements to International Financial Reporting Standards 2016 <sup>4</sup>	December 8, 2016	January 1, 2018 <sup>5</sup>	Yes	No material impact
	Annual Improvements to International Financial Reporting Standards 2017 <sup>6</sup>	December 12, 2017	January 1, 2019	No	No material impact
IFRIC 22	Foreign Currency Transactions and Advance Consideration	December 8, 2016	January 1, 2018	No	Translation of advance payments denominated in foreign currency into the functional currency at the spot rate on the day of payment
IFRIC 23	Uncertainty over Income Tax Treatments	June 7, 2017	January 1, 2019	No	No material impact

1 Effective date from Volkswagen AG's perspective.

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

3 Deferred until January 1, 2018 (IASB decision of September 11, 2015).

4 Minor amendments to a number of IFRSs (IFRS 1 and IAS 28).

5 This relates to the effective date of the amendments to IFRS 1 and IAS 28.

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

### 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 change in method for classifying and measuring financial assets is expected to have a transition effect of €0.3 billion. The effect, net of deferred taxes, of the first-time application increases the retained earnings directly in equity. 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 will switch from an incurred credit loss model to an expected credit loss model. The change in measurement method will lead to a €0.3 billion to €0.5 billion increase in the loss allowance on initial application. These amounts, net of deferred taxes, reduce the retained earnings directly in equity. 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.

IFRS 9 will have a particularly significant 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 option transactions, a transition effect of €0.1 billion is expected. The effect, net of deferred taxes, of the first-time application increases the retained earnings directly in equity. Since the new guidance for hedging with currency forwards will be applied prospectively, these hedges will not result in any initial application effect.

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

### IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 specifies new accounting rules for revenue recognition. In the MAN subgroup, sales revenue is expected to be recognized at a later point in time than under the current accounting treatment for certain types of contract. 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 will additionally inflate the balance sheet by an amount in the three-digit million range.

In addition, from next year onward, the Volkswagen Group will no longer present the reversal of sales allowances under other operating income, but under sales revenue.

The Volkswagen Group will apply the modified retrospective transition method. This is not expected to result in material transition effects for the Volkswagen Group, because the existing approach used by the Volkswagen Group is already largely in line with the new guidance.

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

### IFRS 16 – LEASES

IFRS 16 changes the accounting treatment for leases. The main objective of IFRS 16 is to recognize all leases. It establishes that lessees are no longer required to classify their leases as either finance leases or operating leases. In the future, they will instead be required to recognize a right-of-use asset and a lease liability for all leases in the statement of financial position. Exceptions will only be made for short-term leases and leases of low-value assets. During the lease term, the right-of-use asset must be depreciated and the lease liability adjusted using an effective interest method and taking the lease payments into account. The new lessee accounting model will therefore tend to increase noncurrent assets and noncurrent liabilities. In the income statement this change is expected to improve the operating result and reduce the financial result. Lessor accounting essentially follows the current guidance of IAS 17. In the future, lessors will continue to classify their leases as finance leases or operating leases on the basis of the risks and rewards incidental to ownership of the leased asset.

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

### Key events

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NO<sub>x</sub>) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. In this context, Volkswagen AG announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On November 2, 2015, the EPA issued a “Notice of Violation” alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines.

In the months after the International Council on Clean Transportation (ICCT) study was published in May 2014, the test set-ups on which the ICCT study was based were repeated in-house at Volkswagen AG and confirmed the unusually high NO<sub>x</sub> emissions from certain type EA 189 2.0 l diesel engines in the USA. The California Air Resources Board (CARB) – a part of the environmental authority of California – was informed of this result, and, at the same time, an offer was made to recalibrate the type EA 189 diesel engines in the USA as part of a service measure that was already planned in the USA. This measure was evaluated and adopted by the Ausschuss für Produktsicherheit (APS – Product Safety Committee), which initiates necessary and appropriate measures to ensure the safety and conformity of Volkswagen AG’s products that are placed in the market. There are no findings that an unlawful “defeat device” under US law was disclosed to the APS as the cause of the discrepancies or to the persons responsible for preparing the 2014 annual and consolidated financial statements. Instead, at the time the 2014 annual and consolidated financial statements were being prepared, the persons responsible for preparing the 2014 annual and consolidated financial statements remained under the impression that the issue could be solved with comparatively little effort as part of a service measure.

In the course of the summer of 2015, however, it became successively apparent to individual members of Volkswagen AG’s Board of Management that the cause of the discrepancies in the USA was a modification of parts of the software of the engine control unit, which was later identified as an unlawful “defeat device” as defined by US law. This culminated in the disclosure of a “defeat device” to EPA and CARB on September 3, 2015. According to the assessment at that time of the responsible persons dealing with the matter, the scope of the costs expected by the Volkswagen Group (recall costs, retrofitting costs and financial penalties) was not fundamentally dissimilar to that of previous cases involving other vehicle manufacturers, and, therefore, appeared to be controllable overall with a view to the business activities of the Volkswagen Group.

This assessment by the Volkswagen Group was based, among other things, on the advice of a law firm engaged in the USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. The publication of the “Notice of Violation” by the EPA on September 18, 2015, which, especially at that time came unexpectedly to the Board of Management, then presented the situation in an entirely different light.

Extensive inquiries were also conducted at AUDI AG in relation to the potential use of unlawful “defeat devices” under US law in type V6 3.0 l diesel engines. The investigation conducted by Jones Day for Volkswagen AG also comprehensively covered this issue.

The AUDI AG Board of Management members in office back at the relevant time have stated that they had no knowledge of the use of unlawful “defeat device” software under US law in V6 3.0 l TDI engines until they were informed by the EPA in November 2015.

Within the Volkswagen Group, Volkswagen AG has development responsibility for the four-cylinder diesel engines such as the type EA 189, and AUDI AG has development responsibility for the six-cylinder diesel engines such as the type V6 3.0 l diesel engines.

Nothing from the publications made up to the time this report was prepared or from the ongoing investigations and interviews on the diesel issue has presented the Volkswagen AG Board of Management with any conclusive findings or assessments of fact that would result in a different assessment of the associated risks (e.g. investor lawsuits).

Additional expenses of €3.2 billion were recognized in fiscal year 2017. This is due to an increase of €2.2 billion in expenses for warranties and of €1.0 billion in expenses for legal risks. The main reason for this rise in provisions is that the buyback/retrofit programs for 2.0 l TDI vehicles in North America, which have to be implemented under the settlement deal, are more complex. Continuous monitoring of the program has shown that the scheme is more comprehensive and technically more challenging than expected; this also entails an extension to the program period.

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

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

## Basis of consolidation

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

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

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

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

	2017	2016
Volkswagen AG and consolidated subsidiaries		
Germany	156	149
Abroad	717	919
Subsidiaries carried at cost		
Germany	69	74
Abroad	238	251
Associates, joint ventures and other equity investments		
Germany	61	47
Abroad	88	70
	<b>1,329</b>	<b>1,510</b>

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

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

- > Audi Berlin GmbH, Berlin
- > Audi Frankfurt GmbH, Frankfurt am Main
- > Audi Hamburg GmbH, Hamburg
- > Audi Hannover GmbH, Hanover
- > Audi Leipzig GmbH, Leipzig
- > Audi Stuttgart GmbH, Stuttgart
- > Autostadt GmbH, Wolfsburg
- > Bugatti Engineering GmbH, Wolfsburg
- > Dr. Ing. h.c. F. Porsche AG, Stuttgart
- > Haberl Beteiligungs-GmbH, Munich
- > Karosseriewerk Porsche GmbH & Co. KG, Stuttgart
- > MAHAG GmbH, Munich
- > MOIA GmbH, Berlin
- > Porsche Connect GmbH, Stuttgart
- > Porsche Consulting GmbH, Bietigheim-Bissingen
- > Porsche Deutschland GmbH, Bietigheim-Bissingen
- > Porsche Dienstleistungs GmbH, Stuttgart
- > Porsche Engineering Group GmbH, Weissach
- > Porsche Engineering Services GmbH, Bietigheim-Bissingen
- > Porsche Erste Beteiligungsgesellschaft mbH, Stuttgart
- > Porsche Financial Services GmbH & Co. KG, Bietigheim-Bissingen
- > Porsche Financial Services GmbH, Bietigheim-Bissingen
- > Porsche Holding Stuttgart GmbH, Stuttgart
- > Porsche Leipzig GmbH, Leipzig
- > Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg
- > Porsche Logistik GmbH, Stuttgart
- > Porsche Niederlassung Berlin GmbH, Berlin
- > Porsche Niederlassung Berlin-Potsdam GmbH, Kleinmachnow
- > Porsche Niederlassung Hamburg GmbH, Hamburg

- > Porsche Niederlassung Leipzig GmbH, Leipzig
- > Porsche Niederlassung Stuttgart GmbH, Stuttgart
- > Porsche Nordamerika Holding GmbH, Ludwigsburg
- > Porsche Siebte Vermögensverwaltung GmbH, Wolfsburg
- > Porsche Zentrum Hoppegarten GmbH, Stuttgart
- > Raffay Versicherungsdienst GmbH, Hamburg
- > SKODA AUTO Deutschland GmbH, Weiterstadt
- > VfL Wolfsburg-Fußball GmbH, Wolfsburg
- > VGRD GmbH, Wolfsburg
- > Volkswagen AirService GmbH, Braunschweig
- > Volkswagen Automobile Berlin GmbH, Berlin
- > Volkswagen Automobile Chemnitz GmbH, Chemnitz
- > Volkswagen Automobile Frankfurt GmbH, Frankfurt am Main
- > Volkswagen Automobile Hamburg GmbH, Hamburg
- > Volkswagen Automobile Hannover GmbH, Hannover
- > VOLKSWAGEN Automobile Leipzig GmbH, Leipzig
- > Volkswagen Automobile Region Hannover GmbH, Hannover
- > Volkswagen Automobile Rhein-Neckar GmbH, Mannheim
- > Volkswagen Automobile Stuttgart GmbH, Stuttgart
- > Volkswagen Beteiligungsverwaltung GmbH, Wolfsburg
- > Volkswagen Dritte Leasingobjekt GmbH, Braunschweig
- > Volkswagen Erste Leasingobjekt GmbH, Braunschweig
- > Volkswagen Fünfte Leasingobjekt GmbH, Braunschweig
- > Volkswagen Gebrauchtfahrzeughandels und Service GmbH, Langenhagen
- > Volkswagen Group IT Services GmbH, Wolfsburg
- > Volkswagen Group Real Estate GmbH & Co. KG, Wolfsburg
- > Volkswagen Group Services GmbH, Wolfsburg
- > Volkswagen Immobilien GmbH, Wolfsburg
- > Volkswagen Konzernlogistik GmbH & Co. OHG, Wolfsburg
- > Volkswagen Original Teile Logistik GmbH & Co. KG, Baunatal
- > Volkswagen Osnabrück GmbH, Osnabrück
- > Volkswagen R GmbH, Wolfsburg
- > Volkswagen Sachsen GmbH, Zwickau
- > Volkswagen Sechste Leasingobjekt GmbH, Braunschweig
- > Volkswagen Siebte Leasingobjekt GmbH, Braunschweig
- > Volkswagen Truck & Bus GmbH, Braunschweig
- > Volkswagen Vertriebsbetreuungsgesellschaft mbH, Chemnitz
- > Volkswagen Vierte Leasingobjekt GmbH, Braunschweig
- > Volkswagen Zubehör GmbH, Dreieich
- > Volkswagen Zweite Leasingobjekt GmbH, Braunschweig

**CONSOLIDATED SUBSIDIARIES**

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

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

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

The other changes in the consolidated Group are shown in the following table:

Number	Germany	Abroad
<b>Initially consolidated</b>		
Subsidiaries previously carried at cost	10	10
Newly acquired subsidiaries	1	1
Newly formed subsidiaries	1	15
	<b>12</b>	<b>26</b>
<b>Deconsolidated</b>		
Mergers	1	6
Liquidations	4	11
Sales/other	0	211
	<b>5</b>	<b>228</b>

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

**INVESTMENTS IN ASSOCIATES**

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

**Sinotruk**

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

As of December 31, 2017, the quoted market price of the shares in Sinotruk amounted to €648 million (previous year: €466 million).

### Bertrandt

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

As of December 31, 2017, the quoted market price of the shares in Bertrandt amounted to €299 million (previous year: €284 million).

### There Holding

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

Moreover, in December 2016, an agreement for the sale of 10% of the shares in HERE International B.V. was signed with a consortium consisting of NavInfo Co. Ltd., Beijing, China, Tencent Holdings Ltd., Shenzhen, China, and GIC Private Ltd., Singapore, Singapore. The completion of the transaction with the consortium was dependent on the approval of the relevant authorities. In the third quarter of 2017, a decision was taken not to pursue the transaction any further, because it could no longer be envisaged during the official review process that the necessary approvals would be obtained.

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. are acquiring an interest of 5.9% each in There Holding B.V. Audi, BMW and Daimler are selling their shareholdings in the same amount. The transactions are expected to be completed in the first quarter of 2018, subject to approvals by the authorities. The share attributable to Volkswagen is reported under assets held for sale. The transactions are not expected to have a material effect on the financial position and results of operations.

### Navistar

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 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. The interest held in Navistar was increased to 16.9% by the balance sheet date.

As of December 31, 2017, the quoted market price of the shares in Navistar amounted to €595 million.

## SUMMARIZED FINANCIAL INFORMATION ON MATERIAL ASSOCIATES ON A 100% BASIS:

€ million	Sinotruk <sup>1</sup>	Bertrandt <sup>2</sup>	There Holding	Navistar <sup>3</sup>
<b>2017</b>				
Equity interest (%)	25	29	33	17
Noncurrent assets	2,086	600	1,906	1,648
Current assets	5,449	478	289	3,470
Noncurrent liabilities	55	338	–	5,893
Current liabilities	4,420	157	0	3,041
Net assets	3,060	583	2,195	–3,816
Sales revenue	5,961	992	71	5,507
Earnings after tax from continuing operations	260	21	–151	95
Earnings after tax from discontinued operations	–	–	513	1
Other comprehensive income	13	0	2	341
Total comprehensive income	272	21	364	437
Dividends received	6	7	–	–
<b>2016</b>				
Equity interest (%)	25	29	33	
Noncurrent assets	2,075	603	2,802	
Current assets	4,034	492	592	
Noncurrent liabilities	123	340	1,044	
Current liabilities	3,029	168	518	
Net assets	2,956	587	1,832	
Sales revenue	4,116	992	1,240	
Earnings after tax from continuing operations	46	28	–167	
Earnings after tax from discontinued operations	–	–	–	
Other comprehensive income	11	–1	–4	
Total comprehensive income	57	27	–171	
Dividends received	2	7	–	

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

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

3 Due to the first-time inclusion of Navistar and the fact that it has a different fiscal year, the income statement disclosures for the current fiscal year relate to the period from March 1, 2017 to October 31, 2017. Balance sheet disclosures relate to the balance sheet date as of October 31.

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

€ million	Sinotruk	Bertrandt	There Holding	Navistar <sup>1</sup>
<b>2017</b>				
Net assets at January 1	2,956	587	1,832	-4,270
Profit or loss	260	21	362	96
Other comprehensive income	13	0	2	341
Changes in reserves	1	-	-	11
Foreign exchange differences	-135	-	-	7
Dividends	-34	-25	-	-
Net assets at December 31	3,060	583	2,195	-3,816
Proportionate equity	765	168	646	-644
Consolidation/Goodwill/Others	-387	163	-	946
Carrying amount of equity-accounted investments	378	331	646	301
<b>2016</b>				
Net assets at January 1	3,083	585	2,003	-
Profit or loss	46	28	-167	-
Other comprehensive income	11	-1	-4	-
Changes in reserves	30	-	-	-
Foreign exchange differences	-198	-	-	-
Dividends	-17	-25	-	-
Net assets at December 31	2,956	587	1,832	-
Proportionate equity	739	170	611	-
Consolidation/Goodwill/Others	-411	163	-	-
Carrying amount of equity-accounted investments	328	333	611	-

1 Due to the first-time inclusion of Navistar, the reconciliation of the net carrying amount relates to the period from March 1, 2017 to December 31, 2017.

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

€ million	2017	2016
Earnings after tax from continuing operations	-29	2
Earnings after tax from discontinued operations	-	-
Other comprehensive income	0	-1
Total comprehensive income	-29	0
Carrying amount of equity-accounted investments	90	277

Unrecognized losses relating to investments in associates totaled €- million (previous year: €5 million). There were no contingent liabilities or financial guarantees relating to associates.

#### INTERESTS IN JOINT VENTURES

From a Group perspective, the joint ventures FAW-Volkswagen Automotive Company Ltd., Changchun, China, SAIC-Volkswagen Automotive Company Ltd., Shanghai, China, SAIC-Volkswagen Sales Company Ltd., Shanghai, China (SAIC-Volkswagen Sales Company), and Global Mobility Holding B.V., Amsterdam, the Netherlands (Global Mobility Holding), were material at the reporting date or the prior-year reporting date due to their size.

##### FAW-Volkswagen Automotive Company

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

##### SAIC-Volkswagen Automotive Company

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

##### SAIC-Volkswagen Sales Company

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

##### Global Mobility Holding

Through its 50% interest in the joint venture Global Mobility Holding B.V., Amsterdam, the Netherlands (GMH), the Volkswagen Group held a 50% indirect stake in the joint venture's subsidiary, LeasePlan Corporation N.V., Amsterdam, the Netherlands (LeasePlan). GMH's business activity consisted of holding the interest in LeasePlan. LeasePlan is a Dutch financial services group whose core business is leasing and fleet management.

On July 23, 2015, GMH sold its 100% interest in LeasePlan to a consortium of international investors. The final approvals for the sale of LeasePlan to the consortium of investors were issued by the competent authorities in January 2016. Legal transfer of the LeasePlan shares was completed on March 21, 2016.

The total value of the transaction was approximately €3.7 billion plus interest in the amount of €31.5 million. In 2016, this had a positive effect of €2.2 billion on investing activities attributable to operating activities and net liquidity and, taking into account the disposal of equity-accounted investment in GMH, resulted in an income amount of €0.2 billion for the Volkswagen Group, which is reported in the financial result. On completion of the transaction, the existing credit line of €1.3 billion provided by the Volkswagen Group was canceled.

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

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company <sup>1</sup>	Global Mobility Holding <sup>2</sup>	SAIC-Volkswagen Sales Company
<b>2017</b>				
Equity interest (%)	40	50		30
Noncurrent assets	10,071	8,266		626
Current assets	13,018	9,304		4,383
of which: cash, cash equivalents and time deposits	7,385	6,198		214
Noncurrent liabilities	1,470	0		61
of which: financial liabilities	–	–		–
Current liabilities	14,768	12,157		4,402
of which: financial liabilities	–	6		–
Net assets	6,851	5,414		546
Sales revenue	40,828	28,767		33,398
Depreciation and amortization	1,212	1,279		6
Interest income	72	36		–
Interest expenses	–	35		–
Earnings before tax from continuing operations	4,907	4,555		669
Income tax expense	1,369	1,086		168
Earnings after tax from continuing operations	3,538	3,469		501
Earnings after tax from discontinued operations	–	10		–
Other comprehensive income	–49	–5		–
Total comprehensive income	3,489	3,473		501
Dividends received	1,502	1,702		137
<b>2016</b>				
Equity interest (%)	40	50		30
Noncurrent assets	9,341	7,254		517
Current assets	12,962	8,521		3,739
of which: cash, cash equivalents and time deposits	7,073	5,265		212
Noncurrent liabilities	1,774	1,437		22
of which: financial liabilities	–	–		–
Current liabilities	13,063	8,759		3,713
of which: financial liabilities	1	0		–
Net assets	7,466	5,579		520
Sales revenue	40,875	26,064	1,879	30,707
Depreciation and amortization	1,120	1,091	12	4
Interest income	82	40	168	–
Interest expenses	–	4	70	–
Earnings before tax from continuing operations	5,546	4,589	142	614
Income tax expense	1,576	1,127	38	154
Earnings after tax from continuing operations	3,970	3,462	105	460
Earnings after tax from discontinued operations	–	–	–	–
Other comprehensive income	37	21	–20	–
Total comprehensive income	4,007	3,483	85	460
Dividends received	1,634	1,661	–	127

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

2 GMH transferred the LeasePlan shares to third parties on March 21, 2016 (see further disclosures in this section).

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

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company	Global Mobility Holding	SAIC-Volkswagen Sales Company
<b>2017</b>				
Net assets at January 1	7,466	5,579		520
Profit or loss	3,538	3,479		501
Other comprehensive income	-49	-5		-
Changes in share capital	-	-		-
Changes in reserves	-	-		-
Foreign exchange differences	-350	-236		-18
Dividends	-3,755	-3,403		-458
Net assets at December 31	6,851	5,414		546
Proportionate equity	2,740	2,707		164
Consolidation/Goodwill/Others	-456	-576		-
Carrying amount of equity-accounted investments	2,284	2,131		164
<b>2016</b>				
Net assets at January 1	7,825	5,618	3,927	506
Profit or loss	3,970	3,462	105	460
Other comprehensive income	37	21	-20	-
Changes in share capital	-	-	-	-
Changes in reserves	-	-	-	-
Foreign exchange differences	-281	-200	-20	-21
Dividends	-4,085	-3,321	-	-425
Net assets at December 31	7,466	5,579	3,991 <sup>1</sup>	520
Proportionate equity	2,987	2,790	1,996	156
Consolidation/Goodwill/Others	-339	-415	-1,996	-
Carrying amount of equity-accounted investments	2,647	2,375	-	156

1 As of March 21, 2016.

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

€ million	2017	2016
Earnings after tax from continuing operations	290	304
Earnings after tax from discontinued operations	10	-
Other comprehensive income	0	3
Total comprehensive income	299	307
Carrying amount of equity-accounted investments	1,881	1,890

There were no unrecognized losses relating to interests in joint ventures. Contingent liabilities to joint ventures amounted to €186 million (previous year: €183 million) and financial guarantees to joint ventures amounted to €82 million (previous year: €- million). Cash funds of €260 million (previous year: €173 million) are deposited as collateral for asset-backed securities transactions and are therefore not available to the Volkswagen Group.

#### IFRS 5 – NON-CURRENT ASSETS HELD FOR SALE

As of December 31, 2017, assets in a total amount of €115 million were classified as assets “held for sale” and reported in a separate line item of the balance sheet in accordance with IFRS 5. The assets “held for sale” were measured at the lower of carrying amount and fair value, less expected costs to sell. These assets are no longer depreciated. The amount reported is mainly attributable to the planned sale of property, plant and equipment (€24 million) and the planned sale of shares in There Holding B.V. (€86 million). The sales will not have any material impact on the Volkswagen Group’s results of operations or net liquidity. The sales are expected to be completed in the first half of fiscal year 2018.

### Consolidation methods

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

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

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

## Currency translation

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

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

The rates applied are presented in the following table:

	€1 =	BALANCE SHEET MIDDLE RATE ON DECEMBER 31		INCOME STATEMENT AVERAGE RATE	
		2017	2016	2017	2016
Argentina	ARS	22.99203	16.80096	18.72636	16.33207
Australia	AUD	1.53285	1.46150	1.47300	1.48880
Brazil	BRL	3.97065	3.43720	3.60471	3.86217
Canada	CAD	1.50260	1.42280	1.46444	1.46659
Czech Republic	CZK	25.57900	27.02400	26.32920	27.03433
India	INR	76.56700	71.65500	73.50146	74.37058
Japan	JPY	134.87000	123.50000	126.66763	120.31663
Mexico	MXN	23.61420	21.84800	21.33175	20.66535
People's Republic of China	CNY	7.80085	7.33320	7.62688	7.35067
Poland	PLN	4.17490	4.41530	4.25727	4.36416
Republic of Korea	KRW	1,278.22000	1,269.11000	1,275.94974	1,284.79543
Russia	RUB	69.33520	64.67550	65.88875	74.23443
South Africa	ZAR	14.75715	14.48480	15.04543	16.28336
Sweden	SEK	9.83140	9.56720	9.63700	9.46712
United Kingdom	GBP	0.88730	0.85850	0.87626	0.81897
USA	USD	1.19875	1.05600	1.12933	1.10675