

Other disclosures

33. Cash flow statement

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

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

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

Financing activities include outflows of funds from dividend payments and redemption of bonds, inflows from the capital increases and issuance of bonds, and changes in other financial liabilities. Please refer to the “Equity” section for information on the inflows from the issuance of hybrid capital in June 2017 in the amount of €3,473 million contained in the capital contributions.

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

In 2017, cash flows from operating activities include interest received amounting to €6,641 million (previous year: €6,364 million) and interest paid amounting to €2,332 million (previous year: €2,716 million). Cash flows from operating activities also include dividend payments received from joint ventures and associates of €3,653 million (previous year: €3,613 million).

Dividends amounting to €1,015 million (previous year: €68 million) were paid to Volkswagen AG shareholders.

€ million	Dec. 31, 2017	Dec. 31, 2016
Cash, cash equivalents and time deposits as reported in the balance sheet	18,457	19,265
Time deposits	–420	–431
Cash and cash equivalents as reported in the cash flow statement	18,038	18,833

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

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

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

34. Financial risk management and financial instruments

1. HEDGING GUIDELINES AND FINANCIAL RISK MANAGEMENT PRINCIPLES

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

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

For more information, please see the management report on page 187-188.

2. CREDIT AND DEFAULT RISK

The credit and default risk arising from financial assets involves the risk of default by counterparties, and therefore comprises at a maximum the amount of the claims under carrying amounts receivable from them and the irrevocable credit commitments. The maximum potential credit and default risk is reduced by collateral held and other credit enhancements in the amount of €78,934 million (previous year: €77,465 million). Collateral is held exclusively for financial assets in the “measured at amortized cost” category. It relates primarily to collateral for financial services receivables and trade receivables. Collateral comprises vehicles and assets transferred as security, as well as guarantees and real property liens. Cash collateral is also used in hedging transactions. The risk arising from nonderivative financial instruments is also accounted for by recognizing bad debt losses. Significant cash and capital investments, as well as derivatives, are only entered into with national and international banks. Risk is additionally limited by a limit system based primarily on the equity base of the counterparties concerned and on credit assessments by international rating agencies. Financial guarantees issued also give rise to credit and default risk. The maximum potential credit and default risk is calculated from the amount Volkswagen would have to pay if claims were to be asserted under the guarantees. The corresponding amounts are presented in the Liquidity risk section.

There were no material concentrations of risk at individual counterparties or counterparty groups in the past fiscal year due to the global allocation of the Group's business activities and the resulting diversification. There was a slight change in the concentration of credit and default risk exposures to the German public banking sector as a whole that has arisen from Group-wide cash and capital investments as well as derivatives: the portion attributable to this sector was 7.4% at the end of 2017 compared with 13.0% at the end of 2016. Any existing concentration of risk is assessed and monitored both at the level of individual counterparties or counterparty groups and with regard to the countries in which these are based, in each case using the share of all credit and default risk exposures accounted for by the risk exposure concerned.

For China, credit and default risk exposures accounted for 29.5% at the end of 2017, as against 27.9% at the end of 2016. There were no other concentrations of credit and default risk exposures in individual countries.

CREDIT AND DEFAULT RISK RELATING TO FINANCIAL ASSETS BY GROSS CARRYING AMOUNT

€ million	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2017	Neither past due nor impaired	Past due and not impaired	Impaired	Dec. 31, 2016
Measured at amortized cost								
Financial services receivables	124,044	2,888	2,900	129,832	115,747	3,001	3,003	121,751
Trade receivables	10,395	2,833	562	13,791	9,421	2,596	607	12,624
Other receivables	13,403	102	196	13,700	14,391	110	162	14,663
Measured at fair value	16,862	–	290	17,152	17,907	–	259	18,166
	164,704	5,822	3,948	174,475	157,466	5,706	4,031	167,203

There are no past due financial instruments measured at fair value in the Volkswagen Group. In fiscal year 2017, marketable securities measured at fair value with a cost of €86 million (previous year: €83 million) were individually impaired. In addition, portfolio-based impairment losses are recognized in respect of the financial services receivables presented above that are not past due and not individually impaired, as well as of the financial services receivables presented above that are past due and not individually impaired. The assets in the class used for hedging are neither past due nor impaired.

**CREDIT RATING OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS
THAT ARE NEITHER PAST DUE NOR IMPAIRED**

€ million	Risk class 1	Risk class 2	Dec. 31, 2017	Risk class 1	Risk class 2	Dec. 31, 2016
Measured at amortized cost						
Financial services receivables	104,143	19,901	124,044	99,153	16,595	115,747
Trade receivables	10,259	136	10,395	9,284	137	9,421
Other receivables	13,313	90	13,403	14,238	153	14,391
Measured at fair value	22,086	–	22,086	22,021	–	22,021
	149,802	20,127	169,928	144,694	16,885	161,580

The Volkswagen Group performs a credit assessment of borrowers in all loan and lease agreements, using scoring systems for the high-volume business and rating systems for corporate customers and receivables from dealer financing. Receivables rated as good are contained in risk class 1. Receivables from customers whose credit rating is not good but have not yet defaulted are contained in risk class 2. The financial assets measured at fair value include derivative financial instruments within hedge accounting in an amount of €5.2 billion (previous year: €4.1 billion); they are allocated to risk class 1.

**MATURITY ANALYSIS OF THE GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS
THAT ARE PAST DUE AND NOT IMPAIRED**

€ million	PAST DUE BY			GROSS CARRYING AMOUNT
	up to 30 days	30 to 90 days	more than 90 days	Dec. 31, 2016
Measured at amortized cost				
Financial services receivables	2,205	788	8	3,001
Trade receivables	1,080	720	795	2,596
Other receivables	49	36	24	110
Measured at fair value	–	–	–	–
	3,334	1,544	828	5,706

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

Collateral that was accepted for financial assets in the current fiscal year was recognized in the balance sheet in the amount of €109 million (previous year: €120 million). This mainly relates to vehicles.

3. LIQUIDITY RISK

The solvency and liquidity of the Volkswagen Group are ensured at all times by rolling liquidity planning, a liquidity reserve in the form of cash, confirmed credit lines and the issuance of securities on the international money and capital markets. The volume of confirmed bilateral and syndicated credit lines stood at €19.9 billion as of December 31 2017, of which €3.4 billion was drawn down.

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

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

MATURITY ANALYSIS OF UNDISCOUNTED CASH FLOWS FROM FINANCIAL INSTRUMENTS

€ million	REMAINING CONTRACTUAL MATURITIES			2017	REMAINING CONTRACTUAL MATURITIES			2016
	under one year	within one to five years	over five years		under one year	within one to five years	over five years	
Put options and compensation rights granted to noncontrolling interest shareholders	3,379	–	–	3,379	3,382	–	–	3,382
Financial liabilities	83,867	69,968	16,113	169,949	90,044	60,603	10,955	161,602
Trade payables	23,041	5	–	23,046	22,788	6	–	22,794
Other financial liabilities	7,360	1,557	86	9,003	6,009	1,789	83	7,880
Derivatives	72,635	47,414	332	120,381	77,294	59,007	119	136,420
	190,281	118,945	16,531	325,758	199,517	121,405	11,157	332,079

When calculating cash outflows related to put options and compensation rights, it was assumed that shares would be tendered at the earliest possible repayment date.

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

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

As of December 31, 2017, the maximum potential liability under financial guarantees amounted to €261 million (previous year: €173 million). Financial guarantees are assumed to be due immediately in all cases.

4. MARKET RISK

4.1 Hedging policy and financial derivatives

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

The following table shows the gains and losses on hedges:

€ million	2017	2016
Hedging instruments used in fair value hedges	307	670
Hedged items used in fair value hedges	-300	-739
Ineffective portion of cash flow hedges	-11	6

The ineffective portion of cash flow hedges represents the income and expenses from changes in the fair value of hedging instruments that exceed the changes in the fair value of the hedged items but that are documented to be within the permitted range of 80% to 125% overall when measuring effectiveness. Such income or expenses are recognized directly in the financial result.

During the fiscal year, €554 million increasing earnings (previous year: €1,222 million reducing earnings) was transferred from the cash flow hedge reserve to the other operating result, €11 million increasing earnings (previous year: €10 million reducing earnings), was transferred to the financial result, and €7 million (previous year: €90 million), both reducing earnings, was transferred to cost of sales and the financial result.

The Volkswagen Group uses two different methods to present market risk from nonderivative and derivative financial instruments in accordance with IFRS 7. For quantitative risk measurement, interest rate and foreign currency risk in the Volkswagen Financial Services subgroup are measured using a value-at-risk (VaR) model on the basis of a historical simulation, while market risk in the other Group companies is determined using a sensitivity analysis. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from nonderivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in calculating value at risk covers a period of 1,000 trading days. The sensitivity analysis calculates the effect on equity and profit or loss by modifying risk variables within the respective market risks.

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

4.2.1 Foreign currency risk

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

Hedging transactions entered into in 2017 as part of foreign currency risk management were amongst others in Argentine pesos, Australian dollars, Brazilian real, sterling, Chinese renminbi, Hong Kong dollars, Indian rupees, Japanese yen, Canadian dollars, Mexican pesos, Norwegian kroner, Polish zloty, Russian rubles, Swedish kronor, Swiss francs, Singapore dollars, South African rand, South Korean won, Taiwan dollars, Czech koruna, Hungarian forints and US dollars.

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

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

The following table shows the sensitivities of the main currencies in the portfolio as of December 31, 2017.

€ million	DEC. 31, 2017		DEC. 31, 2016	
	+10%	-10%	+10%	-10%
Exchange rate				
EUR/USD				
Hedging reserve	1,627	-1,303	1,929	-2,294
Profit/loss after tax	-365	193	-338	649
EUR/GBP				
Hedging reserve	1,126	-1,124	1,202	-1,189
Profit/loss after tax	-73	75	-58	51
EUR/CNY				
Hedging reserve	515	-491	665	-662
Profit/loss after tax	-58	62	6	25
EUR/JPY				
Hedging reserve	271	-244	318	-318
Profit/loss after tax	-40	20	-7	7
EUR/CHF				
Hedging reserve	246	-232	380	-375
Profit/loss after tax	16	-20	-9	2
EUR/AUD				
Hedging reserve	164	-164	178	-182
Profit/loss after tax	-36	37	-23	26
EUR/CAD				
Hedging reserve	121	-113	145	-154
Profit/loss after tax	-51	48	-54	63
EUR/SEK				
Hedging reserve	105	-100	91	-89
Profit/loss after tax	-22	18	-24	23
CZK/GBP				
Hedging reserve	91	-91	106	-106
Profit/loss after tax	0	0	0	0
EUR/CZK				
Hedging reserve	69	-69	31	-31
Profit/loss after tax	-20	20	-43	43
EUR/TWD				
Hedging reserve	72	-72	36	-36
Profit/loss after tax	-10	10	-10	10
GBP/USD				
Hedging reserve	63	-63	106	-106
Profit/loss after tax	-2	2	2	-2
EUR/KRW				
Hedging reserve	55	-59	77	-82
Profit/loss after tax	-3	6	-8	13
EUR/PLN				
Hedging reserve	-	-	-107	108
Profit/loss after tax	-60	60	-21	21
PLN/CZK				
Hedging reserve	58	-58	14	-14
Profit/loss after tax	0	0	0	0
BRL/USD				
Hedging reserve	-16	16	-20	20
Profit/loss after tax	41	-41	82	-82

4.2.2 Interest rate risk

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

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

If market interest rates had been 100 bps higher as of December 31, 2017, equity would have been €88 million (previous year: €60 million) lower. If market interest rates had been 100 bps lower as of December 31, 2017, equity would have been €24 million (previous year: €60 million) higher.

If market interest rates had been 100 bps higher as of December 31, 2017, earnings after tax would have been €76 million (previous year: €10 million) higher. If market interest rates had been 100 bps lower as of December 31, 2017, earnings after tax would have been €64 million (previous year: €24 million) lower.

4.2.3 Commodity price risk

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

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

Up to the end of 2016, hedge accounting in accordance with IAS 39 was applied in some cases to the hedging of commodity risk associated with aluminum and coal. Since the beginning of 2017, hedge accounting has not been applied to these hedging relationships.

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

If the commodity prices of the hedged nonferrous metals, coal and rubber had been 10% higher (lower) as of December 31, 2017, earnings after tax would have been €101 million (previous year: €82 million) higher (lower).

If the commodity prices of the hedges included in hedge accounting had been 10% higher (lower) as of December 31, 2016, equity would have been €48 million higher (lower). As of the end of 2017, hedge accounting was not applied to these hedging relationships.

4.2.4 Equity and bond price risk

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

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

If share prices had been 10% higher as of December 31, 2017, equity would have been €28 million (previous year: €4 million) higher. If share prices had been 10% lower as of December 31, 2017, equity would have been €108 million (previous year: €28 million) lower.

4.3 Market risk at Volkswagen Financial Services subgroup

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

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

As of December 31, 2017, the value at risk was €167 million (previous year: €95 million) for interest rate risk and €165 million (previous year: €199 million) for foreign currency risk.

The entire value at risk for interest rate and foreign currency risk at the Volkswagen Financial Services subgroup was €167 million (previous year: €197 million).

5. METHODS FOR MONITORING HEDGE EFFECTIVENESS

In the Volkswagen Group, hedge effectiveness is assessed prospectively using the critical terms match method and using statistical methods in the form of a regression analysis. Retrospective analysis of effectiveness uses effectiveness tests in the form of the dollar offset method or a regression analysis.

Under the dollar offset method, the changes in value of the hedged item expressed in monetary units are compared with the changes in value of the hedging instrument expressed in monetary units.

Where regression analysis is used, the change in value of the hedged item is presented as an independent variable, and that of the hedging instrument as a dependent variable. Hedge relationships are classified as effective if they have sufficient coefficients of determination and slope factors.

NOTIONAL AMOUNT OF DERIVATIVES

€ million	REMAINING TERM			TOTAL NOTIONAL AMOUNT	TOTAL NOTIONAL AMOUNT
	under one year	within one to five years	over five years	Dec. 31, 2017	Dec. 31, 2016
Notional amount of hedging instruments used in cash flow hedges:					
Interest rate swaps	3,490	8,999	38	12,527	17,054
Currency forwards	32,329	35,538	–	67,867	84,754
Currency options	8,128	11,435	–	19,563	26,081
Cross-currency swaps	–	–	–	–	2,295
Cross-currency interest rate swaps	387	165	–	551	1,951
Commodity future contracts	–	–	–	–	679
Notional amount of other derivatives:					
Interest rate swaps	20,483	48,067	20,125	88,675	84,612
Interest rate option contracts	–	–	–	–	–
Currency forwards	19,592	2,942	2	22,535	28,436
Other currency options	10	–	–	10	45
Cross-currency swaps	20,825	1,451	–	22,276	12,207
Cross-currency interest rate swaps	3,350	6,025	293	9,667	8,839
Commodity future contracts	798	477	–	1,275	1,235

Both derivatives closed with offsetting transactions and the offsetting transactions themselves are included in the respective notional amount. The offsetting transactions cancel out the effects of the original hedging transactions. If the offsetting transactions were not included, the respective notional amount would be significantly lower. In addition to the derivatives used for hedging foreign currency, interest rate and price risk, the Group held options and other derivatives on equity instruments at the reporting date with a notional amount of €29 million (previous year: €45 million) whose remaining maturity is under one year.

Existing cash flow hedges in the notional amount of €361 million (previous year: €811 million) were discontinued because of a reduction in the projections. €3 million (previous year: €5 million) was transferred from the cash flow hedge reserve to the financial result, reducing earnings. In addition, hedges were to be terminated due to internal risk regulations.

Items hedged under cash flow hedges are expected to be realized in accordance with the maturity buckets of the hedges reported in the table.

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

in %	EUR	CHF	CNY	CZK	GBP	JPY	KRW	SEK	USD
Interest rate for six months	–0.3214	–0.5535	4.9281	0.4824	0.5446	0.0281	1.7108	–0.3815	1.7499
Interest rate for one year	–0.2826	–0.4924	4.7799	0.4543	0.6229	0.0295	1.8385	–0.3298	1.9011
Interest rate for five years	0.3170	–0.1410	4.7400	1.6200	1.0325	0.1013	2.1275	0.4980	2.2400
Interest rate for ten years	0.8840	0.2690	4.6300	1.8450	1.2735	0.2613	2.2000	1.2000	2.3920

35. Capital management

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

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

Value contribution is defined as the difference between operating profit after tax and the opportunity cost of invested capital. The opportunity cost of capital is calculated by multiplying the market cost of capital by average invested capital. Invested capital is calculated by taking the operating assets reported in the balance sheet (property, plant and equipment, intangible assets, lease assets, inventories and receivables) and deducting non-interest-bearing liabilities (trade payables and payments on account received). Average invested capital is derived from the balance at the beginning and the end of the reporting period. Despite the charges relating to the special items recognized in the operating result, the Automotive Division disclosed a positive value contribution of €5,935 million in the reporting period which, due to the improvement in the operating result before special items and an only slight increase in the cost of capital, was significantly higher than the prior-year figure.

The return on investment (ROI) is defined as the return on invested capital for a particular period based on the operating result after tax. If the return on investment exceeds the market cost of capital, there is an increase in the value of the invested capital and a positive value contribution. In the Group, a minimum required rate of return on invested capital of 9% is defined, which applies to both the business units and the individual products and product lines. Our goal of generating a sustained return on investment of over 15% is anchored in Strategy 2025. The return on investment therefore serves as a consistent target in operational and strategic management and is used to measure target attainment for the Automotive Division, the individual business units, and projects and products. The return on investment achieved for the Automotive Division was 12.1%, which is above our minimum rate of return on invested capital of 9% and significantly exceeds the current cost of capital of 6.0%.

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

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

€ million	2017	2016
Automotive Division¹		
Operating result after tax	11,756	7,419
Invested capital (average)	97,021	91,020
Return on investment (RoI) in %	12.1	8.2
Cost of capital in %	6.0	6.2
Opportunity cost of invested capital	5,821	5,643
Value contribution²	5,935	1,775
Financial Services Division		
Earnings before tax	2,502	2,408
Average equity	25,626	22,342
Return on equity before tax in %	9.8	10.8
Equity ratio in %	13.7	12.5

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

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

36. Contingent liabilities

€ million	Dec. 31, 2017	Dec. 31, 2016
Liabilities under guarantees	423	419
Liabilities under warranty contracts	60	75
Assets pledged as security for third-party liabilities	21	20
Other contingent liabilities	7,909	6,305
	8,413	6,819

The trust assets and liabilities of the savings and trust entities belonging to the South American subsidiaries not included in the consolidated balance sheet amount to €768 million (previous year: €944 million).

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

The other contingent liabilities primarily comprise potential liabilities arising from matters relating to taxes and customs duties, as well as litigation and proceedings relating to suppliers, dealers, customers, employees and investors. The contingent liabilities recognized in connection with the diesel issue totaled €4.3 billion, of which €3.4 billion was attributable to investor lawsuits. Also included are certain elements of the class action lawsuits relating to the diesel issue as well as criminal proceedings/misdemeanor proceedings as far as these can be quantified. As some of these proceedings are still at a very early stage, the plaintiffs have in a number of cases so far not specified the basis of their claims and/or there is insufficient certainty about the number of plaintiffs or the amounts being claimed. These lawsuits meet the definition of a contingent liability but cannot, as a rule, be disclosed because it is impossible to measure the amount involved.

In addition, other contingent liabilities include an amount of €0.7 billion for potential liabilities from tax risks at MAN Latin America. In the tax proceedings involving MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities take a different position with regard to the tax effects of the acquisition structure for MAN Latin America chosen by MAN in 2009. It is not currently considered likely that a claim will be made against MAN Latin America in connection with these liabilities.

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

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

37. Litigation

In the course of their operating activities, Volkswagen AG and the companies in which it is directly or indirectly invested become involved in a great number of legal disputes and governmental proceedings in Germany and abroad. In particular, such legal disputes and other proceedings may occur in relation to suppliers, dealers, customers, employees, or investors. For the companies involved, these may result in payment or other obligations. Above all, in cases where US customers assert claims for vehicle defects individually or by way of a class action, highly cost-intensive measures may have to be taken and substantial compensation or punitive damages paid. Corresponding risks also result from US patent infringement proceedings.

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

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

Diesel issue

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0l diesel engines in the USA. It was alleged that Volkswagen had installed undisclosed engine management software installed in 2009 to 2015 model year 2.0l diesel engines to circumvent NO_x emissions testing regulations in the USA in order to comply with certification requirements. The California Air Resources Board (CARB), a unit of the US environmental authority of California, announced its own enforcement investigation into this matter.

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. The vast majority of these engines were type EA 189 Euro 5 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. CARB also issued a letter announcing its own enforcement investigation into this matter. AUDI AG has confirmed that at least three auxiliary emission control devices were inadequately disclosed in the course of the US approval documentation. Around 113 thousand vehicles from the 2009 to 2016 model years with certain six-cylinder diesel engines were affected in the USA and Canada, where regulations governing NO_x emissions limits for vehicles are stricter than those in other parts of the world.

Numerous court and governmental proceedings were subsequently initiated in the USA and the rest of the world. During the reporting period, we succeeded in ending most significant court and governmental proceedings in the USA by concluding settlement agreements. This includes, in particular, settlements with the US Department of Justice (DOJ). Outside the USA, we also reached agreements with regard to the implementation of the technical measures with numerous authorities.

The Supervisory Board of Volkswagen AG formed a special committee that coordinates the activities relating to the diesel issue for the Supervisory Board.

The global law firm Jones Day was instructed by Volkswagen AG to carry out an extensive investigation of the diesel issue in light of the DOJ's and the Braunschweig public prosecutor's criminal investigations as well as other investigations and proceedings which were expected. Jones Day was instructed by Volkswagen AG to present factual evidence to the DOJ.

To resolve US criminal law charges, Volkswagen AG and the DOJ entered into a Plea Agreement, which includes a Statement of Facts containing a summary of the factual allegations which the DOJ considered relevant to the settlement with Volkswagen AG. The Statement of Facts is based in part on Jones Day's factual findings as well as the evidence identified by the DOJ itself.

Jones Day has completed the work required to assist Volkswagen AG in assessing the criminal charges in the USA with respect to the diesel issue. However, work in respect of the legal proceedings which are still pending in the USA and the rest of the world is ongoing and will require considerable efforts and a considerable period of time. In connection with this work, Volkswagen AG is being advised by a number of external law firms.

Furthermore, in September 2015, Volkswagen AG filed a criminal complaint in Germany against unknown persons as did AUDI AG. Volkswagen AG and AUDI AG are cooperating with all responsible authorities in the scope of reviewing the incidents.

Potential consequences for Volkswagen's results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Coordination with the authorities on technical measures

Based on decisions dated October 15, 2015, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) ordered the Volkswagen Passenger Cars, Volkswagen Commercial Vehicles and SEAT brands to recall all the diesel vehicles that had been issued with vehicle type approval by the KBA from among the eleven million vehicles affected with type EA 189 engines. The recall concerns the member states of the European Union (EU28). On December 10, 2015 a similar decision was issued regarding Audi vehicles with the EA 189 engine. The timetable and action plan forming the basis for the recall order corresponded to the proposals presented in advance by Volkswagen. Depending on the technical complexity of the concerned remedial actions, this means that the Volkswagen Group has been recalling the affected vehicles, of which there are around 8.5 million in total in the EU28 countries, to the service workshops since January 2016. The remedial actions differ in scope depending on the engine variant. The technical measures cover software and in some cases hardware modifications, depending on the series and model year. The technical measures for all vehicles in the European Union have since been approved without exception. The KBA ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO₂ emissions figures, engine power, maximum torque and noise emissions. Once the modifications have been made, the vehicles will thus also continue to comply with the legal requirements and the emission standards applicable in each case. The technical measures for all affected vehicles with type EA 189 engines in the European Union were approved without exception, and implemented in most cases.

In some countries outside the EU – among others South Korea, Taiwan and Turkey – national type approval is based on prior recognition of the EC/ECE type approval; the technical measures must therefore be approved by the national authorities. With the exception of South Korea and Chile, we were able to conclude this approval process in all countries. There, the majority of approvals were likewise granted; in relation to the pending approvals, Volkswagen is in close contact with the authorities.

In addition, there is an intensive exchange of information with the authorities in the USA and Canada, where Volkswagen's proposed modifications in relation to the four-cylinder and the six-cylinder diesel engines also have to be approved. Due to NO_x limits that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge here to refit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

For many months, AUDI AG has been intensively checking all diesel concepts for possible discrepancies and retrofit potentials. A systematic review process for all engine and gear variants has been underway since 2016.

On June 14, 2017, based on a technical error in the parameterization of the transmission software for a limited number of specific Audi A7/A8 models that AUDI AG itself discovered and reported to the KBA, the KBA issued an order under which a correction proposed by AUDI AG will be submitted. The technical error lies in the fact that, in the cases concerned, by way of exception a specific function that is standard in all other vehicle concepts is not implemented in actual road use. In Europe, this affects around 24,800 units of certain Audi A7/A8 models. The KBA has not categorized this error as an unlawful defeat device.

On July 21, 2017, AUDI AG offered a software-based retrofit program for up to 850,000 vehicles with V6 and V8 TDI engines meeting the Euro 5 and Euro 6 emission standards in Europe and other markets except the USA and Canada. The measure will mainly serve to further improve the vehicles' emissions in real driving conditions in inner city areas beyond the legal requirements. This was done in close cooperation with the authorities, which were provided with detailed reports, especially the German Federal Ministry of Transport and the KBA. The retrofit package comprises voluntary measures and, to a small extent, measures directed by the authorities; these are measures taken within the scope of a recall, which were proposed by AUDI AG itself, reported to the KBA and taken up and ordered by the latter. The voluntary tests have already reached an advanced stage, but have not yet been completed. The measures adopted and mandated by the KBA involved the recall of different diesel vehicles with a V6 or V8 engine meeting the Euro 6 emission standard, for which the KBA categorized certain emission strategies as an unlawful defeat device. From July 2017 to January 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.

Currently, AUDI AG assumes that the total costs of the software-based retrofit program including the amount based on recalls will be manageable and has recognized corresponding balance-sheet risk provisions. Should additional measures become necessary as a result of the investigations by AUDI AG and the consultations with the KBA, AUDI AG will quickly implement these as part of the retrofit program in the interest of customers.

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

In addition to the described approval processes with the responsible registration authorities, in some countries criminal investigations/misdemeanor proceedings (for example, by the public prosecutor's office in Braunschweig and Munich, Germany) and/or administrative proceedings (for example, by the Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin – the German Federal Financial Supervisory Authority) have been opened. The public prosecutor's offices in Braunschweig and Munich are investigating the core issue of the criminal investigations. Whether this will result in fines for the Company, and if so what their amount might be, is currently subject to estimation risks. According to Volkswagen's estimates so far, the likelihood of a sanction in the majority of these proceedings is less than 50%. Contingent liabilities have therefore been disclosed in cases where they can be assessed and for which the likelihood of a sanction was deemed not lower than 10%.

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

In principle, it is possible that customers in the affected markets will file civil lawsuits against Volkswagen AG and other Volkswagen Group companies. In addition, it is possible that importers and dealers could assert claims against Volkswagen AG and other Volkswagen Group companies, e.g. through recourse claims. As well as individual lawsuits, class action lawsuits are possible in various jurisdictions (albeit not in Germany). Furthermore, in a number of markets it is possible that consumer and/or environmental organizations will apply for an injunction or assert claims for a declaratory judgment or for damages.

In the context of the diesel issue, various lawsuits are currently pending against Volkswagen AG and other Volkswagen Group companies at present.

There are pending class action proceedings and lawsuits brought by consumer and/or environmental associations against Volkswagen AG and other companies of the Volkswagen Group in various countries such as Argentina, Australia, Belgium, Brazil, China, the Czech Republic, Israel, Italy, Mexico, the Netherlands, Poland, Portugal, Switzerland, Taiwan and the United Kingdom. The class action proceedings are lawsuits aimed among other things at asserting damages or, as is the case in the Netherlands, at a declaratory judgment that customers are entitled to damages. With the exception of Brazil, where there has already been a non-binding judgment in the first instance, the amount of these damages cannot yet be quantified more precisely due to the early stage of the proceedings. Volkswagen does not estimate the litigants' prospect of success to be more than 50% in any of the class action proceedings.

In South Korea, various mass proceedings are pending (in some of these individual lawsuits several hundred litigants have been aggregated). These lawsuits have been filed to assert damages and to rescind the purchase contract including repayment of the purchase price. Due to special circumstances in the market and specific characteristics of the South Korean legal system, Volkswagen estimates the litigants' prospects of success in the South Korean mass proceedings mentioned above to be inherently higher than in other jurisdictions outside the USA and Canada. On May 12, 2017, one first-instance judgment was delivered in these proceedings in South Korea during the fiscal year, in which the court completely dismissed an action filed to assert criminal damages over pollution. The judgment has since become binding.

Contingent liabilities have been disclosed for pending class action and mass proceedings that can be assessed and for which the chance of success was deemed not implausible. Provisions were recognized to a small extent.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in numerous countries. In Germany, there are around 9,500 individual lawsuits. In Italy, Austria and Spain, lawsuits numbering in the low three-digit range and in France and Ireland individual lawsuits in the two-digit range are pending against Volkswagen AG and other companies of the Volkswagen Group, most of which are aimed at asserting damages or rescinding the purchase contract.

In addition, on November 29, 2017, Volkswagen AG was served with an action brought by financialright GmbH asserting the rights assigned to it by a total of approximately 15,000 customers in Germany. This action seeks the payment of around €350 million in return for restitution of the vehicles.

In Switzerland, a claim for damages was brought against Volkswagen AG in December 2017 from the assigned rights of some 6,000 customers; the stated amount in dispute is approximately 30 million Swiss francs.

According to Volkswagen's estimates so far, the litigants' prospect of success is below 50% in the vast majority of the individual lawsuits. Contingent liabilities have therefore been disclosed for those lawsuits that can be assessed and for which the chance of success was deemed not implausible.

It is too early to estimate how many customers will take advantage of the option to file lawsuits in the future, beyond the existing lawsuits, or what their prospects of success will be.

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

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

The vast majority of these investor lawsuits are currently pending at the District Court (Landgericht) in Braunschweig. On August 5, 2016, the District Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the District Court in Braunschweig be referred to the Higher Regional Court (Oberlandesgericht) in Braunschweig for a binding declaratory decision pursuant to the German Act on Model Case Proceedings in Disputes Regarding Capital Market Information (Kapitalanleger-Muster-verfahrensgesetz – KapMuG). In this proceeding, common questions of law and fact relevant to these actions shall be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig (model case proceedings). All lawsuits at the District Court in Braunschweig will be stayed pending up until resolution of the common issues, unless they can be dismissed for reasons independent of the common issues that are adjudicated in the model case proceedings. The resolution of the common questions of law and fact in the model case proceedings will be binding for all pending cases in the stayed lawsuits.

At the District Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtors. On December 6, 2017, the District Court in Stuttgart issued an order for reference to the Higher Regional Court in Stuttgart in relation to procedural issues, particularly for clarification of jurisdiction. On account of the diesel issue, model case proceedings against Porsche SE are also pending before the Higher Regional Court in Stuttgart.

Further investor lawsuits have been filed at various courts in Germany as well as in Austria and the Netherlands. In Austria, the Supreme Court ruled on July 7, 2017 that the investor lawsuits against Volkswagen AG do not fall within the jurisdiction of the Austrian courts. Consequently, all but one of the investor lawsuits that were formerly pending in Austria have been dismissed or withdrawn. The last pending lawsuit has been dismissed at first instance.

Worldwide (excluding USA and Canada), investor lawsuits, judicial applications for dunning procedures and conciliation proceedings, and claims under the KapMuG are currently pending against Volkswagen in connection with the diesel issue, with the claims totaling approximately €9 billion. Volkswagen remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

5. Proceedings in the USA/Canada

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

In addition, Volkswagen AG and other Volkswagen Group companies in the USA/Canada are facing litigation on a number of different fronts relating to the matters described in the EPA's "Notices of Violation".

A large number of putative class action lawsuits by customers and dealers have been filed in US federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

On January 4, 2016, the DOJ, Civil Division, on behalf of the EPA, initiated a civil complaint against Volkswagen AG, AUDI AG and certain other Volkswagen Group companies. The action sought statutory penalties under the US Clean Air Act, as well as certain injunctive relief, and was consolidated for pretrial coordination purposes in the California multidistrict litigation.

On January 12, 2016, CARB announced that it intended to seek civil fines for alleged violations of the California Health & Safety Code and various CARB regulations.

In June 2016, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates reached settlement agreements with the DOJ on behalf of the EPA, CARB and the California Attorney General, private plaintiffs represented by a Plaintiffs' Steering Committee (PSC) in the multidistrict litigation pending in California, and the U.S. Federal Trade Commission (FTC). These settlement agreements resolved certain civil claims made in relation to affected diesel vehicles with 2.0 l TDI engines from the Volkswagen Passenger Cars and Audi brands

in the USA. Volkswagen AG and certain affiliates also entered into a First Partial Consent Decree with the DOJ, EPA, CARB and the California Attorney General, which was lodged with the court on June 28, 2016. On October 18, 2016, a fairness hearing on whether final approval should be granted was held, and on October 25, 2016, the court granted final approval of the settlement agreements and the partial consent order. A number of class members have filed appeals to an US appellate court from the order approving the settlements.

The settlements include buyback or, for leased vehicles, early lease termination, or a free emissions modification of the vehicles, provided that the EPA and CARB approve the modification. Volkswagen will also make additional cash payments to affected current owners or lessees as well as certain former owners or lessees.

Volkswagen also agreed to support environmental programs. The company will pay USD 2.7 billion over three years into an environmental trust, managed by a trustee appointed by the court, to offset excess nitrogen oxide (NO_x) emissions. Volkswagen will also invest a total of USD 2.0 billion over ten years in zero emissions vehicle infrastructure as well as corresponding access and awareness initiatives.

Volkswagen AG and certain affiliates also entered into a separate Partial Consent Decree with CARB and the California Attorney General resolving certain claims under California unfair competition, false advertising, and consumer protection laws related to both the 2.0 l and 3.0 l TDI vehicles, which was lodged with the court on July 7, 2016. Under the terms of the agreement, Volkswagen agreed to pay California USD 86 million. The court entered judgment on the Partial Consent Decree on September 1, 2016 and the USD 86 million payment was made on September 28, 2016.

On December 20, 2016, Volkswagen entered into a Second Partial Consent Decree, subject to court approval, with the DOJ, EPA, CARB and the California Attorney General that resolved claims for injunctive relief under the Clean Air Act and California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this Consent Decree, Volkswagen agreed to implement a buyback and lease termination program for Generation 1 3.0 l TDI vehicles and a free emissions recall and modification program for Generation 2 3.0 l TDI vehicles, and to pay USD 225 million into the environmental mitigation trust that has been established pursuant to the First Partial Consent Decree. The Second Partial Consent Decree was lodged with the court on December 20, 2016 and approved on May 17, 2017.

In addition, on December 20, 2016, Volkswagen entered into an additional, concurrent California Second Partial Consent Decree, subject to court approval, with CARB and the California Attorney General that resolved claims for injunctive relief under California environmental, consumer protection and false advertising laws related to the 3.0 l TDI vehicles. Under the terms of this Consent Decree, Volkswagen agreed to provide additional injunctive relief to California, including the implementation of a "Green City" initiative and the introduction of three new Battery Electric Vehicle (BEV) models in California by 2020, as well as a USD 25 million payment to CARB to support the availability of BEVs in California.

On January 11, 2017, Volkswagen entered into a Third Partial Consent Decree with the DOJ and EPA that resolved claims for civil penalties and injunctive relief under the Clean Air Act related to the 2.0 l and 3.0 l TDI vehicles. Volkswagen agreed to pay USD 1.45 billion (plus any accrued interest) to resolve the civil penalty and injunctive relief claims under the Clean Air Act, as well as the customs claims of the US Customs and Border Protection. Under the Third Partial Consent Decree, the injunctive relief includes monitoring, auditing and compliance obligations. This Consent Decree, which was subject to public comment, was lodged with the court on January 11, 2017 and approved on April 13, 2017. Also on January 11, 2017, Volkswagen entered into a settlement agreement with the DOJ to resolve any claims under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and agreed to pay USD 50 million (plus any accrued interest), specifically denying any liability and expressly disputing any claims.

On July 21, 2017, the federal court in the multidistrict litigation in California approved the Third California Partial Consent Decree, in which Volkswagen AG and certain affiliates agreed with the California Attorney General and CARB to pay USD 153.8 million in civil penalties and cost reimbursements. These penalties covered California environmental penalties for both the 2.0 l and 3.0 l TDI vehicles. An agreement in principle had been reached on January 11, 2017.

The DOJ also opened a criminal investigation focusing on allegations that various federal law criminal offenses were committed. On January 11, 2017, Volkswagen AG agreed to plead guilty to three federal criminal felony counts, and to pay a USD 2.8 billion criminal penalty. Pursuant to the terms of this agreement, Volkswagen will be on probation for three years and will work with an independent monitor for three years. The independent monitor will assess and oversee the company's compliance with the terms of the resolution. This includes overseeing the implementation of measures to further strengthen compliance, reporting and monitoring systems, and an enhanced ethics program. Volkswagen will also continue to cooperate with the DOJ's ongoing investigation of individual employees or former employees who may be responsible for criminal violations.

Moreover, investigations by various US regulatory and government authorities are ongoing, including in areas relating to securities, financing and tax.

On January 31, 2017, Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates entered into a settlement agreement with private plaintiffs represented by the PSC in the multidistrict litigation pending in California, and a consent order with the FTC. These agreements resolved certain civil claims made in relation to affected diesel vehicles with 3.0 l TDI engines from the Volkswagen, Audi and Porsche brands in the USA. On February 14, 2017, the court preliminarily approved the settlement agreement with private plaintiffs. On May 11, 2017, the court held a fairness hearing on whether approval should be granted and on May 17, 2017, the court granted final approval of the settlement agreement and the partial stipulated consent order.

Under the settlements, consumers' options and compensation will depend on whether their vehicles are classified as Generation 1 or Generation 2. Generation 1 (model years 2009-2012) consumers will have the option of a buyback, early lease termination, trade-in, or a free emissions modification, provided that EPA and CARB approve the modification. Additionally, Generation 1 owners and lessees, as well as certain former owners and lessees, will be eligible to receive cash payments.

Generation 2 (model years 2013-2016) consumers will receive a free emissions-compliant repair to bring the vehicles into compliance with the emissions standards to which they were originally certified, as well as cash payments. Volkswagen has received approval from the EPA and CARB for emissions-compliant repairs within the time limits set out in the settlement agreement. Volkswagen will also make cash payments to certain former Generation 2 owners or lessees.

In September 2016, Volkswagen announced that it had finalized an agreement to resolve the claims of Volkswagen branded franchise dealers in the USA relating to TDI vehicles and other matters asserted concerning the value of the franchise. The settlement agreement includes a cash payment of up to USD 1,208 billion, and additional benefits to resolve alleged past, current, and future claims of losses in franchise value. On January 18, 2017, a fairness hearing on whether final approval should be granted was held, and on January 23, 2017, the court granted final approval of the settlement agreement.

Additionally, in the USA, some putative class actions, some individual customers' lawsuits and some state or municipal claims have been filed in state courts.

Volkswagen reached separate agreements with the attorneys general of 45 US states, the District of Columbia and Puerto Rico, to resolve their existing or potential consumer protection and unfair trade practices claims – in connection with both 2.0l TDI and 3.0l TDI vehicles in the USA – for a settlement amount of USD 622 million. Five states did not join these settlements and still have consumer claims outstanding: Arizona, New Mexico, Oklahoma, Vermont and West Virginia. Volkswagen has also reached separate agreements with the attorneys general of eleven US states (Connecticut, Delaware, Maine, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws for a settlement amount of 207 million. The attorneys general of ten other US states (Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, New Mexico, Ohio, Tennessee and Texas) and some municipalities have also filed suits in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, seeking civil penalties and injunctive relief for alleged violations of environmental laws. Illinois, Maryland, Minnesota, Missouri, Montana, New Hampshire, Ohio, Tennessee and Texas participated in the state settlements described above with respect to consumer protection and unfair trade practices claims, but those settlements did not include claims for environmental penalties. The environmental claims of two other states – Alabama and Wyoming – have been dismissed as preempted by federal law. Alabama has appealed this dismissal.

In addition to the lawsuits described above, for which provisions have been recognized, a putative class action has been filed on behalf of purchasers of Volkswagen AG American Depositary Receipts, alleging a drop in price purportedly resulting from the matters described in the EPA's "Notices of Violation". A putative class action has also been filed on behalf of purchasers of certain USD-denominated Volkswagen bonds, alleging that these bonds were trading at artificially inflated prices due to Volkswagen's alleged misstatements and that the value of these bonds declined after the EPA issued its "Notices of Violation".

These lawsuits have also been consolidated in the federal multidistrict litigation proceeding in the State of California described above. Volkswagen is of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized. In addition, contingent liabilities have not been disclosed as they currently cannot be measured.

In Canada, civil consumer claims and regulatory investigations have been initiated for vehicles with 2.0l and 3.0l TDI engines. On December 19, 2016, Volkswagen AG and other Canadian and US Volkswagen Group companies reached a class action settlement in Canada with consumers relating to 2.0l diesel vehicles. Also on December 19, 2016, Volkswagen Group Canada agreed with the Commissioner of Competition in Canada to a civil resolution regarding its regulatory inquiry into consumer protection issues as to those vehicles. On December 21, 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving 3.0l diesel vehicles. The court preliminarily approved the settlement agreement on January 12, 2018, and the notice and opt out period began on January 17, 2018. Final approval hearings are scheduled in Quebec and Ontario for April 3 and 5, 2018, respectively. On January 12, 2018, Volkswagen and the Canadian Commissioner of Competition reached a resolution related to civil consumer protection issues relating to 3.0l diesel vehicles. Also, criminal enforcement-related investigations by the federal environmental regulator and quasi-criminal enforcement-related investigations by a provincial environmental regulator are ongoing in Canada related to 2.0l and 3.0l diesel vehicles. On September 15, 2017, a provincial regulator in Canada, the Ontario Ministry of the Environment and Climate Change, charged Volkswagen AG under the province's environmental statute with one count alleging that it caused or permitted the operation of model year 2010–2014 Volkswagen and Audi brand 2.0l diesel vehicles that did not comply with prescribed emission standards. Following initial court appearances on November 15, 2017 and February 7, 2018, the matter was put over to April 4, 2018 pending ongoing evidence disclosure. No trial date has been set. Provisions have been recognized for possible obligations stemming from pending lawsuits in Canada.

Moreover, in Canada, two securities class actions by investors in Volkswagen AG American Depositary Receipts and shares are pending against Volkswagen AG in the Quebec and Ontario provincial courts. These actions allege misrepresentations and omissions in financial reporting issued from 2009–2015 stemming from the diesel issue. The proposed class periods are for residents in the provinces who purchased the relevant securities between March 12, 2009 and September 18, 2015, and held all or some of the acquired securities until after the alleged first corrective disclosures. Discovery has not begun. In both actions, motions for certification were filed. In the Quebec matter, the motion was heard on February 5 and 6, 2018 and the court's decision is on reserve. In the Ontario matter, the motion is scheduled for hearing on July 10 and 11, 2018.

In addition, putative class action and joinder lawsuits by customers, and a certified environmental class action on behalf of residents, remain pending in certain provincial courts in Canada.

An assessment of the underlying situation is not possible at this early stage of those proceedings.

6. Additional proceedings

With its ruling from November 8, 2017, the Higher Regional Court of Celle ordered, upon the request of three US funds, the appointment of a special auditor for Volkswagen AG. The special auditor should examine whether there was a breach of duties on behalf of the members of the Board of Management and Supervisory Board of Volkswagen AG in connection with the diesel issue starting from June 22, 2006 and if this resulted in damages for Volkswagen AG. The ruling from the Higher Regional Court of Celle is formally legally binding. However, Volkswagen AG lodged a constitutional complaint toward the German Federal Constitutional Court regarding the infringement of its constitutionally guaranteed rights. It is currently unclear when the Federal Constitutional Court will reach a decision on this matter.

In addition, the District Court of Hanover has filed a second motion for the appointment of a special auditor for Volkswagen AG, which is also aimed at the examination of transactions in connection with the diesel issue. This proceeding will be suspended until the ruling has been announced by the Federal Constitutional Court.

7. Risk assessment regarding the diesel issue

To protect against the currently known legal risks related to the diesel issue, provisions of approximately €2.0 billion exist as of December 31, 2017 on the basis of existing information and current assessments. Beyond this, appropriate provisions have been recognized for defense and legal advice expenses. Insofar as these can be adequately measured at this stage, total contingent liabilities in relation to the diesel issue to the aggregate amount of €4.3 billion (previous year: €3.2 billion), of which lawsuits filed by investors account for €3.4 billion (previous year: €3.1 billion), were disclosed in the notes. The provisions recognized for this matter and the contingent liabilities disclosed as well as the other latent legal risks are partially subject to substantial estimation risks given the complexity of the individual factors, the ongoing approval process with the authorities and the fact that the independent, comprehensive investigations have not yet been completed.

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

Additional important legal cases

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

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

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

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

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

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 (formerly Truck & Bus GmbH), a subsidiary of Volkswagen AG, in June 2013. 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. It is not uncommon for noncontrolling interest shareholders to institute such proceedings. In July 2015, the Munich Regional Court ruled in the first instance that the amount of the cash settlement payable to the noncontrolling interest shareholders of MAN should be increased from €80.89 to €90.29 per share; at the same time, the amount of the cash compensation was confirmed. The assessment of liability for put options and compensation rights granted to noncontrolling interest shareholders was adjusted in 2015. Both applicants and Volkswagen Truck & Bus GmbH have appealed to the Higher Regional Court in Munich. Volkswagen continues to maintain that the results of the valuation are correct. The appropriateness of the valuation was confirmed by the audit firms engaged by the parties and by the court-appointed auditor of the agreement.

Within the scope of the European Commission's ongoing antitrust investigations regarding German automakers, authorities examined documents in the offices of Volkswagen AG in Wolfsburg and AUDI AG in Ingolstadt as part of an announced review. The Volkswagen Group and the Group brands concerned have been cooperating fully and for a long time with the European Commission and have submitted a corresponding application. It is currently unclear whether the European Commission will instigate formal proceedings.

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

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

Additionally, fourteen putative class actions have been filed against Audi and certain affiliates alleging that defendants concealed the existence of “defeat devices” in Audi brand vehicles with automatic transmissions. All of these putative class actions have been transferred to the federal multidistrict litigation proceeding in the State of California, and plaintiffs filed a consolidated class action complaint on October 12, 2017, which Volkswagen AG and certain of its affiliates moved to dismiss on December 11, 2017. On January 16, 2018, plaintiffs filed an opposition to the motion to dismiss and the court has set a deadline of February 16, 2018 for defendants to file a reply. A hearing is scheduled for May 11, 2018. On December 22, 2017, a mass action on behalf of approximately 75 individual plaintiffs alleging similar claims was filed in a California state court, which was removed to the Northern District of California on January 25, 2018.

In Canada, two similar putative class actions, including a national class, have been filed in Ontario and Quebec provincial courts against AUDI AG, Volkswagen AG and US and Canadian affiliates regarding alleged CO₂ “defeat devices” in certain petrol Audi models with automatic transmissions. Both of the Canadian actions are in the pre-certification stage. Contingent liabilities have therefore been disclosed in cases where they can be assessed and for which the likelihood of a sanction was deemed not lower than 10%.

From July through November 2017, plaintiffs filed numerous complaints in various US jurisdictions on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen AG and other Group companies. These complaints assert claims under the US Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations Act, state unfair competition and consumer protection statutes, and common law unjust enrichment. The complaints allege that since the 1990s, defendants 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, the plaintiffs allege that the defendants agreed to limit the size of AdBlue tanks to ensure that US emissions regulators did not scrutinize the emissions control systems in defendants’ vehicles, and that such an agreement for Volkswagen was the impetus for the creation of the defeat device. On September 28, 2017, a hearing before the Judicial Panel on Multidistrict Litigation (JPML) was held, and on October 4, 2017 the JPML issued its decision consolidating and transferring these cases to Judge Breyer in the Northern District of California. On December 14, 2017, co-lead counsel were appointed representing the interests of a putative class of indirect purchasers and a putative class of direct purchasers, as well as Plaintiffs’ Steering Committee. On December 20, 2017, deadlines were set for the filing of initial and responsive pleadings and an initial case status conference scheduled for April 5, 2018, and co-lead counsel were directed to file consolidated class action complaints on behalf of the two putative classes by March 15, 2018. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

From July through October 2017, plaintiffs filed claims in Ontario, Quebec and British Columbia on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Canada Inc., Audi Canada Inc., and other Group companies. The claims assert causes of action under the Competition Act, common law, and Quebec’s civil law and contain similar allegations to the US complaints described in the paragraph above. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In the tax proceedings between MAN Latin America and the Brazilian tax authorities, the Brazilian tax authorities took a different view of the tax implications of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment was rendered in administrative court proceedings, which was negative for MAN Latin America. MAN Latin America will initiate proceedings against this judgment before the regular court in 2018. Due to the difference in the penalties plus interest which could potentially apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is laden with uncertainty. However, a positive outcome continues to be expected for MAN Latin America. Should the opposite occur, this could result in a risk of about €0.7 billion for the contested period from 2009 onwards, which has been stated within the section entitled “Contingent liabilities”.

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

38. Other financial obligations

€ million	PAYABLE	PAYABLE	PAYABLE	TOTAL
	2017	2018 – 2021	from 2022	Dec. 31, 2016
Purchase commitments in respect of				
property, plant and equipment	7,170	1,585	–	8,756
intangible assets	1,243	386	–	1,629
investment property	13	–	–	13
Obligations from				
loan commitments to unconsolidated subsidiaries	126	2	–	128
irrevocable credit and lease commitments to customers	4,551	0	44	4,595
long-term leasing and rental contracts	995	2,489	2,261	5,745
Miscellaneous other financial obligations	2,569	1,416	1,072	5,056

€ million	PAYABLE	PAYABLE	PAYABLE	TOTAL
	2018	2019 – 2022	from 2023	Dec. 31, 2017
Purchase commitments in respect of				
property, plant and equipment	7,347	1,394	–	8,740
intangible assets	946	479	–	1,425
investment property	41	–	–	41
Obligations from				
loan commitments to unconsolidated subsidiaries	186	21	–	207
irrevocable credit commitments to customers	3,436	201	59	3,695
long-term leasing and rental contracts	1,026	2,389	2,133	5,548
Miscellaneous other financial obligations	2,476	1,469	929	4,874

Other financial obligations from long-term leasing and rental contracts are partly offset by expected income from subleases of €1,467 million (previous year: €1,664 million).

To enhance comparability, irrevocable credit commitments to customers are reported without leasing commitments from fiscal year 2017 onward. As of December 31, 2016, the corresponding amount was €2.1 billion.

Other financial obligations include an amount of €1.3 billion for investments in zero emissions vehicle infrastructure to which the Volkswagen Group had committed itself in the settlement agreements in the USA in connection with the diesel issue and in corresponding access and awareness initiatives for these technologies.

39. Total audit fees of the Group auditor

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

€ million	2017	2016 ¹
Financial statement audit services	17	19
Other assurance services	2	4
Tax advisory services	1	0
Other services	13	4
	33	27

1 Some services, which were previously reported as other assurance services, are now classified as audit services. Prior-year figures have been adjusted accordingly.

The fee paid to the auditors in 2017 was mostly attributable to the audit of the consolidated financial statements of Volkswagen AG and of annual financial statements of German Group companies as well as to reviews of the interim consolidated financial statements of Volkswagen AG and of interim financial statements of German Group companies. The auditors provided assurance services and tax advice only to a small extent. Other services provided by the auditors in the reporting period focused on advice on how to implement new legal standards and on support for measures in connection with the diesel issue.

40. Total expense for the period

€ million	2017	2016
Cost of materials		
Cost of raw materials, consumables and supplies, purchased merchandise and services	151,449	140,307
Personnel expenses		
Wages and salaries	31,432	29,971
Social security, post-employment and other employee benefit costs	7,518	7,046
	38,950	37,017

41. Average number of employees during the year

	2017	2016
Performance-related wage-earners	253,469	236,204
Salaried staff	288,478	292,240
	541,947	528,444
of which in the passive phase of partial retirement	(7,156)	(5,915)
Vocational trainees	17,891	17,962
	559,838	546,406
Employees of Chinese joint ventures	74,558	72,940
	634,396	619,346

42. Events after the balance sheet date

There were no significant events after the end of fiscal year 2017.

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

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

PERFORMANCE SHARES

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

A total of 141,426 performance shares were allocated to the members of the Board of Management for 2017. The fair value of the obligation as of December 31, 2017 amounts to €43.8 million. The compensation cost of €43.8 million is recognized under personnel costs. If the members of the Board of Management had left the Company as of December 31, 2017, the obligation (intrinsic value) would have amounted to a total of €20.3 million.

PHANTOM SHARES

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance by means of phantom shares. The amount withheld led to the creation of 50,703 phantom preferred shares. The fair value of the obligation to the members of the Board of Management as of December 31, 2017 amounted to €7.0 million. The change in the fair value of €2.0 million was recognized under personnel costs. If all members of the Board of Management had left as of December 31, 2017, the obligation (intrinsic value) would have amounted to a total of €7.3 million.

For further details on performance shares and phantom shares, please refer to our disclosures in the remuneration report, which is part of the Group management report.

44. Related party disclosures in accordance with IAS 24

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

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

At 52.2%, Porsche SE held the majority of the voting rights in Volkswagen AG as of the reporting date. The creation of rights of appointment for the State of Lower Saxony was resolved at the Extraordinary General Meeting of Volkswagen AG on December 3, 2009. As a result, Porsche SE cannot appoint the majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of

Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore classified as a related party as defined by IAS 24.

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

- › Volkswagen AG continues to indemnify Porsche SE against certain financial guarantees issued by Porsche SE to creditors of the companies belonging to the Porsche Holding Stuttgart Group up to the amount of its share in the capital of Porsche Holding Stuttgart, which amounts to 100% since the contribution as of August 1, 2012. Porsche Holding Finance plc, Dublin, Ireland, was contributed to the Volkswagen Group in the course of the transfer of Porsche SE's holding company operating business. Until June 2017, the indemnification also included financial guarantees issued by Porsche SE to creditors of Porsche Holding Finance plc in relation to interest payments on, and the repayment of, bonds in the aggregate amount of €250 million. As part of the contribution of Porsche SE's holding company operating business to Volkswagen AG, Volkswagen AG undertook to assume standard market liability compensation effective August 1, 2012 for guarantees issued to external creditors, whereby it is indemnified internally.
- › Volkswagen AG continues to indemnify Porsche SE internally against claims by the Einlagensicherungsfonds (German deposit protection fund) after Porsche SE submitted an indemnification agreement required by the Bundesverband Deutscher Banken (Association of German Banks) to the Einlagensicherungsfonds in August 2009. Volkswagen AG has also undertaken to indemnify the Einlagensicherungsfonds against any losses caused by measures taken by the latter in favor of a bank in which Volkswagen AG holds a majority interest.
- › Under certain conditions, Porsche SE continues to indemnify Porsche Holding Stuttgart, Porsche AG and their legal predecessors against tax liabilities that exceed the obligations recognized in the financial statements of those companies relating to periods up to and including July 31, 2009. In return, Volkswagen AG has undertaken to pay to Porsche SE any tax benefits or tax refunds of Porsche Holding Stuttgart, Porsche AG and their legal predecessors and subsidiaries for tax assessment periods up to July 31, 2009. Based on the results of the external tax audit for the assessment periods 2006 to 2008 that has now been completed, a compensation obligation running into the low triple-digit millions of euros would arise for Volkswagen AG. New information emerging in the future from the external tax audit that commenced at the end of 2015 for the 2009 assessment period could result in an increase or decrease in the potential compensation obligation.

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

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

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

According to a notification dated January 2, 2018, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft Niedersachsen mbH, Hanover, held 20.00% of the voting rights of Volkswagen AG on December 31, 2017. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

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

RELATED PARTIES

€ million	SUPPLIES AND SERVICES RENDERED		SUPPLIES AND SERVICES RECEIVED	
	2017	2016	2017	2016
Porsche SE and its majority interests	7	12	1	2
Supervisory Board members	2	3	2	5
Board of Management members	0	0	0	0
Unconsolidated subsidiaries	1,039	890	1,300	973
Joint ventures and their majority interests	14,294	13,728	1,225	1,377
Associates and their majority interests	214	190	733	912
Pension plans	1	4	0	0
Other related parties	0	0	0	0
State of Lower Saxony, its majority interests and joint ventures	11	6	9	6

€ million	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Porsche SE and its majority interests	13	323	0	1
Supervisory Board members	0	0	254	297
Board of Management members	0	0	72	39
Unconsolidated subsidiaries	1,480	1,036	1,773	1,188
Joint ventures and their majority interests	9,889	8,808	2,168	1,784
Associates and their majority interests	76	53	572	495
Pension plans	1	1	–	8
Other related parties	–	–	63	64
State of Lower Saxony, its majority interests and joint ventures	2	2	1	1

The tables above do not contain the dividend payments of €3,653 million (previous year: €3,613 million) received from joint ventures and associates and dividends of €308 million (previous year: €17 million) paid to Porsche SE.

Receivables from joint ventures are primarily attributable to loans granted in an amount of €6,277 million (previous year: €5,769 million) as well as trade receivables in an amount of €3,354 million (previous year: €2,855 million). Receivables from non-consolidated subsidiaries also result mainly from loans granted in an amount of €1,038 million (previous year: €479 million) and from trade receivables in an amount of €224 million (previous year: €196 million).

Impairment losses of €56 million (previous year: €35 million) were recognized on the outstanding related party receivables. In fiscal year 2017, expenses of €36 million (previous year: €18 million) were incurred in this context.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €220 million (previous year: €112 million).

In the reporting period, the Volkswagen Group made capital contributions of €203 million (previous year: €391 million) to related parties.

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

The decrease in receivables from Porsche SE is attributable to a loan repayment.

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

Obligations to the Board of Management comprise outstanding balances for the annual bonus and the fair values of the performance shares and phantom shares in the amount of €67.0 million (previous year: €26.1 million) granted to Board of Management members.

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

€	2017	2016
Short-term benefits	33,967,996	45,456,678
Benefits based on performance shares and virtual shares	45,777,248	–670,296
Post-employment benefits	10,872,088	9,347,409
Termination benefits	6,940,142	–
	97,557,473	54,133,791

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

Overall, benefits based on phantom shares resulted in income in 2016, because the income from reversing the provision for performance-based Board of Management remuneration (€1.5 million) due to the waiver for fiscal year 2015 exceeded the cost attributable to the performance of the share price up to December 31, 2016 (€0.8 million). In fiscal year 2017, the share price performance led to the recognition of expenses of €2.0 million for the phantom shares.

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

The post-employment benefits relate to additions to pension provisions for current members of the Board of Management. The termination benefits relate to the severance payment made to Ms. Hohmann-Dennhardt in connection with her early departure from the Board of Management.

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

45. German Corporate Governance Code

On November 17, 2017, the Board of Management and Supervisory Board of Volkswagen AG issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) and made it permanently available to the shareholders of Volkswagen AG on the Company’s website at www.volkswagenag.com/ir.

On November 30, 2017, the Board of Management and Supervisory Board of AUDI AG likewise issued their declaration of conformity with the German Corporate Governance Code and made it permanently available to the shareholders at www.audi.com/cgk-declaration.

In December 2017, the Executive Board and Supervisory Board of MAN SE issued their declaration of conformity with the German Corporate Governance Code as required by section 161 of the AktG and made it permanently available to the shareholders at www.corporate.man.eu/en.

The Executive and Supervisory Boards of RENK AG issued a declaration of conformity on December 5, 2017 and made it permanently available to the shareholders at www.renk.biz/corporated-governance.html.

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

€	2017	2016
Board of Management remuneration		
Non-performance-related remuneration	14,337,116	18,093,835
Performance-related remuneration	15,844,041	21,453,778
Long-term incentive component	20,104,770	–
	50,285,927	39,547,612
Supervisory Board remuneration		
Non-performance-related remuneration	3,516,389	709,346
Performance-related remuneration	270,450	4,687,220
	3,786,839	5,396,565

NON-PERFORMANCE-RELATED REMUNERATION OF THE BOARD OF MANAGEMENT

The non-performance-related remuneration of the Board of Management comprises fixed remuneration and fringe benefits. In addition to the basic level of remuneration, the fixed remuneration also includes differing levels of remuneration for appointments assumed at Group companies. The prior-year figure also includes an amount of €6.3 million to compensate Ms. Hohmann-Dennhardt for lost entitlements resulting from the change in employer. The fringe benefits result from the grant of noncash benefits and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these noncash benefits were mainly borne by Volkswagen AG.

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

Performance-related remuneration includes the annual bonus with a one-year assessment period. The long-term incentive component contains the long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term. The performance shares granted to the incumbent members of the Board of Management under the new remuneration system in 2017 were recognized at their fair value of €20.1 million at the grant date; this amount represents remuneration under German GAAP.

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance by means of phantom shares. The resulting effects on remuneration were reported as appropriate in previous years.

In fiscal year 2017, expenses of €43.8 million were recognized for the performance shares and of €2.0 million for the phantom shares. If these expenses exceed the fair value of the performance shares at the grant date, they do not represent remuneration under German GAAP and are therefore not included in the tables above.

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

SUPERVISORY BOARD REMUNERATION

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

The remuneration disclosed for members of the Supervisory Board for 2016 shows the amounts determined on the basis of the old system of Supervisory Board remuneration. The members of the Supervisory Board declared to the Management Board that they would waive the portion of their remuneration for fiscal year 2016 that exceeds the amount that would have resulted for fiscal year 2016 from implementing the system of Supervisory Board remuneration resolved by the Annual General Meeting on May 10, 2017 with retroactive effect to January 1, 2017. The total amount waived for 2016 by all members of the Supervisory Board is €1.2 million. Mr. Pötsch additionally waived an amount of €0.1 million of his variable remuneration for fiscal year 2016 and waived his remuneration for fiscal year 2017 in full. The reason for this waiver is the agreement made in connection with Mr. Pötsch's transfer from the Management Board to the Supervisory Board as of October 8, 2015, which specified that the amount of Supervisory Board remuneration received up to December 31, 2017 would be deducted from the compensation payment to which he would have been entitled for the period from October 8, 2015 to December 31, 2017.

PENSION ENTITLEMENTS

On December 31, 2017, the pension provisions for members of the Board of Management in accordance with IFRSs amounted to €125.4 million (previous year: €113.5 million). Current pensions are index-linked in accordance with the index-linking of the highest collectively agreed salary insofar as the application of section 16 of the Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG – German Company Pension Act) does not lead to a larger increase.

Former members of the Board of Management and their surviving dependents received €19.9 million (previous year: €11.1 million). This includes the amounts promised to Ms. Hohmann-Dennhardt in connection with her departure from the Board of Management. Ms. Hohmann-Dennhardt received non-performance-related remuneration of €2.1 million and performance-related remuneration of €4.9 million for the period from February 1, 2017 to December 31, 2018.

Pension provisions in accordance with IFRSs for this group of individuals amounted to €269.0 million (previous year: €270.0 million).

The individual remuneration of the members of the Board of Management and the Supervisory Board is explained in the remuneration report in the management report on page 67. A comprehensive assessment of the individual bonus components and of the LTI in the form of the performance share plan can also be found there.

Responsibility Statement

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

Wolfsburg, February 23, 2018

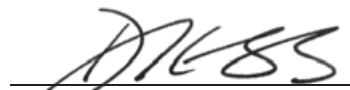
Volkswagen Aktiengesellschaft
The Board of Management



Matthias Müller



Karlheinz Blessing



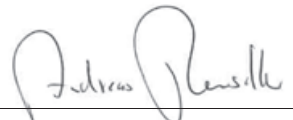
Herbert Diess



Francisco Javier García Sanz



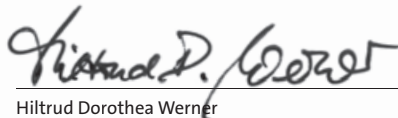
Jochem Heizmann



Andreas Renschler



Rupert Stadler



Hiltrud Dorothea Werner



Frank Witter

Independent Auditor's Report

On completion of our audit, we issued the following unqualified auditor's report dated February 23, 2018. This report was originally prepared in German. In case of ambiguities the German version takes precedence:

To VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg

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

AUDIT OPINIONS

We have audited the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, and its subsidiaries (the Group), which comprise the income statement and the statement of comprehensive income, the balance sheet, the statement of changes in equity and the cash flow statement for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of VOLKSWAGEN AKTIENGESELLSCHAFT, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

BASIS FOR THE AUDIT OPINIONS

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

EMPHASIS OF MATTER – DIESEL ISSUE

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

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

The provisions for warranties and legal risks recorded so far are based on the presented state of knowledge. Due to the inevitable uncertainties associated with the current and expected litigation it cannot be excluded that a future assessment of the risks may be different.

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

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

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

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

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

Hereinafter we present the key audit matters:

- ① Accounting treatment of risk provisions for the diesel issue

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

The Volkswagen Group recognizes the expenses directly related to the diesel issue in its operating income. The expenses incurred in fiscal year 2017 amount to EUR 3.2 billion and relate in their entirety to further additions to reserves for field activities and repurchases (EUR 2.2 billion) as well as legal risks (EUR 1.0 billion). In addition to provisions, contingent liabilities for legal risks in the amount of EUR 4.3 billion are reported as of December 31, 2017.

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

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

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

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

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

② Recoverability of goodwill and brand names

① The intangible assets reported in the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT include EUR 40.4 billion in goodwill and purchased brand names (intangible assets with indefinite useful lives). The Company allocates goodwill and brand names to the subgroups and brands, respectively, within the Volkswagen Group. As part of the regular impairment testing of goodwill and brand names, the Company compares the carrying amount of the subgroups and brands, respectively, against their respective recoverable amount. In general, the recoverable amount is calculated on the basis of the value in use. The value in use is calculated using discounted cash flow models on the basis of the Volkswagen Group's five year operating plan prepared by management and acknowledged by the Supervisory Board and extrapolated based on assumptions about long term growth rates. The discount rate used is the weighted average cost of

capital for the relevant reporting segment. The result of this measurement depends to a large extent on management's assessment with regard to the future cash inflows of the respective subgroups and brands, respectively, and on the discount rate used, and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the measurement models, this matter was of particular importance for our audit.

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

③ The Company's disclosures on goodwill and brand names are contained in section entitled "Intangible assets" in the notes to the consolidated financial statements.

③ Impairment of capitalized development costs

① In the consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT capitalized development costs amounting to EUR 21.0 billion are reported under the "Intangible assets" balance sheet item. In accordance with IAS 38, research costs are treated as expenses incurred, while development costs for future series products are capitalized provided that sale of these products is likely to bring an economic benefit. Until amortization begins, developments must be tested for impairment in accordance with IAS 36 at least once a year based on the cash-generating units to which they are allocated. To meet this requirement, over the period from capitalization until completion of development the Company assesses whether the costs incurred are covered by future cash flows. Once amortization begins, an assessment must be carried out at each reporting date as to whether there are indications of impairment. If this is the case, an impairment test must be performed and any impairment loss recognized. For impairment losses recognized in prior periods, an annual assessment must be carried out as to whether there are indications that the reason for the impairment has ceased to apply.

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

The impairment identified during the impairment testing was recognized under the "Cost of sales" line item in the income statement as impairment losses amounting to EUR 0.4 billion.

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

② As part of our audit we assessed whether, overall, the assumptions underlying the measurements particularly in the form of future cash inflows, and the discount rates used provide an appropriate basis by which to test the individual cash-generating units for impairment. We based our assessment, among other things, on a comparison with general and sector-specific market expectations as well as management's detailed explanations regarding key planning value drivers. We also evaluated that the costs for Group functions were properly included in the impairment tests of the respective cash-generating units. With the knowledge that even relatively small changes in the discount rate applied can in some cases have material effects on values, we also focused our testing on the parameters used to determine the discount rate applied, and evaluated the measurement model. We also assessed the consistency of the measurement model applied and evaluated the mathematical accuracy of the calculations. Furthermore, we performed our own additional sensitivity analysis for those cash-generating units with little headroom (present value exceeds carrying amount) in order to gauge the impairment risk and enable us to adapt our audit procedures accordingly. With respect to completed development projects, we inquired management about whether or not there were indications of impairment or that reasons for impairment had ceased to apply, and critically examined these assumptions based on our knowledge of the Group's legal and economic environment. In the case of impairment losses or a reversal of impairment losses, we assessed that these were properly assigned to the assets allocated to the cash-generating unit. In our view, the measurement inputs and assumptions used by management, and the measurement model, were properly derived for the purposes of conducting impairment tests.

③ Company's disclosures on capitalized development costs and the associated impairment testing are contained in sections entitled "Accounting policies" and "Intangible assets" in the notes to the consolidated financial statements.

④ Completeness and measurement of provisions for warranty obligations arising from sales

① In the consolidated financial statements of the Volkswagen Group EUR 27.9 billion in provisions for obligations arising from sales are reported under the "Other provisions" balance sheet item. These obligations primarily relate to warranty claims arising from the sale of vehicles, motorcycles, components and genuine parts. Warranty claims are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. An estimate is also made of the discount rate. In addition, assumptions must be made about the nature and extent of future warranty and ex gratia claims. These assumptions are based on qualified estimates.

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

② With the knowledge that estimated values result in an increased risk of accounting misstatements and that the measurement decisions made by management have a direct and significant effect on consolidated net profit/loss, we assessed the appropriateness of the carrying amounts, including by comparing these figures with historical data and using the measurement bases presented to us. Furthermore, we assessed that the interest rates with matching terms were properly derived from market data. We evaluated the entire calculations (including discounting) for the provisions using the applicable measurement inputs and assessed the planned timetable for utilizing the provisions.

In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by management were sufficiently documented and supported to justify the recognition and measurement of the provisions for warranty obligations arising from sales.

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

⑤ Financial instruments – hedge accounting

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

Derivatives are measured at fair value as of the balance sheet date. The positive fair values of all of the derivatives used for hedging purposes amount to EUR 6.9 billion as of the balance sheet date, while the negative fair values amount to EUR 2.2 billion. Insofar the financial instruments used by the Volkswagen Group are effective hedges of future cash flows in the context of hedging pursuant to the requirements of IAS 39, the effective portion of the changes in fair value is recognized in other comprehensive income over the duration of the hedging relationships until the maturity of the hedged cash flows (cash flows hedges). As of the balance sheet date, a cumulative EUR 3.5 billion under consideration of income taxes was recognized in equity as the effective portion of fair value changes. Insofar derivative financial instruments are used to hedge against changes in the carrying amount of balance sheet items pursuant to the requirements of IAS 39, changes in the fair value of both the hedged items and the hedging instruments are recognized on a net basis in the corresponding income statement item (fair value hedges).

From our point of view these matters were of particular importance for our audit due to the high complexity and number of transactions as well as the extensive accounting and disclosure requirements of IAS 39.

② As a part of our audit and with the support of our internal specialists from Corporate Treasury Solutions, among other things we assessed the contractual and financial parameters and evaluated the accounting treatment, including the effects on equity and profit or loss, of the various hedging relationships. Together with our specialists, we also evaluated the Company's internal control system with regard to derivative financial instruments, including the internal activities to monitor compliance with the hedging policy. In addition, for the purpose of auditing the fair value measurement of financial instruments, we also assessed the methods of calculation employed on the basis of market data. In addition to evaluating the internal control system, we obtained bank confirmations for the hedging instruments in order to assess completeness. With regard to the expected cash flows and the assessment of the effectiveness of hedges, we essentially conducted a retrospective assessment of past hedging levels. In doing so, we were able to satisfy ourselves that the estimates and assumptions made by management were substantiated and sufficiently documented.

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

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

We were elected as group auditor by the annual general meeting on May 10, 2017. We were engaged by the supervisory board on May 11, 2017. We have been the group auditor of the VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, without interruption since the financial year 1948/1949.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Hanover, February 23, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Norbert Winkeljohann
Wirtschaftsprüfer
(German Public Auditor)

Frank Hübner
Wirtschaftsprüfer
(German Public Auditor)

Five-Year Review

	2017	2016	2015	2014	2013
Volume Data (thousands)					
Vehicle sales (units)	10,777	10,391	10,010	10,217	9,728
Germany	1,264	1,257	1,279	1,247	1,187
Abroad	9,513	9,135	8,731	8,970	8,541
Production (units)	10,875	10,405	10,017	10,213	9,728
Germany	2,579	2,685	2,681	2,559	2,458
Abroad	8,296	7,720	7,336	7,653	7,270
Employees (yearly average)	642	619	604	583	563
Germany	287	280	276	265	255
Abroad	355	339	329	318	308
Financial Data (in € million)					
Income Statement					
Sales revenue	230,682	217,267	213,292	202,458	197,007
Cost of sales	188,140	176,270	179,382	165,934	161,407
Gross profit	42,542	40,997	33,911	36,524	35,600
Distribution expenses	22,710	22,700	23,515	20,292	19,655
Administrative expenses	8,254	7,336	7,197	6,841	6,888
Net other operating result	2,240	-3,858	-7,267	3,306	2,613
Operating result	13,818	7,103	-4,069	12,697	11,671
Financial result	94	189	2,767	2,097	757
Earnings before tax	13,913	7,292	-1,301	14,794	12,428
Income tax expense	2,275	1,912	59	3,726	3,283
Earnings after tax	11,638	5,379	-1,361	11,068	9,145
Cost of materials	151,449	140,307	143,700	132,514	127,089
Personnel expenses	38,950	37,017	36,268	33,834	31,747
Balance Sheet (at December 31)					
Noncurrent assets	262,081	254,010	236,548	220,106	202,141
Current assets	160,112	155,722	145,387	131,102	122,192
Total assets	422,193	409,732	381,935	351,209	324,333
Equity	109,077	92,910	88,270	90,189	90,037
of which: noncontrolling interests	229	221	210	198	2,304
Noncurrent liabilities	152,726	139,306	145,175	130,314	115,672
Current liabilities	160,389	177,515	148,489	130,706	118,625
Total equity and liabilities	422,193	409,732	381,935	351,209	324,333
Cash flows from operating activities	-1,185	9,430	13,679	10,784	12,595
Cash flows from investing activities attributable to operating activities	18,218	16,797	15,523	16,452	14,936
Cash flows from financing activities	17,625	9,712	9,068	4,645	8,973

Financial Key Performance Indicators

%	2017	2016	2015	2014	2013
Volkswagen Group					
Gross margin	18.4	18.9	15.9	18.0	18.1
Personnel expense ratio	16.9	17.0	17.0	16.7	16.1
Operating result as a percentage of sales revenue	6.0	3.3	-1.9	6.3	5.9
Return on sales before tax	6.0	3.4	-0.6	7.3	6.3
Return on sales after tax	5.0	2.5	-0.6	5.5	4.6
Equity ratio	25.8	22.7	23.1	25.7	27.8
Dynamic gearing ¹ (years)	0.0	0.1	0.1	0.1	0.1
Automotive Division²					
Change in unit sales year-on-year ³	+ 3.7	+ 3.8	-2.0	+ 5.0	+ 4.1
Change in sales revenue year-on-year	+ 5.9	+ 1.1	+ 3.6	+ 1.4	+ 1.3
Research and development costs as a percentage of sales revenue	6.7	7.3	7.4	7.4	6.7
Operating result as a percentage of sales revenue	5.7	2.5	-3.4	6.1	5.6
EBITDA (in € million) ⁴	26,094	18,999	7,212	23,100	20,594
Return on investment (ROI) ⁵	12.1	8.2	-0.2	14.9	14.5
Cash flows from operating activities as a percentage of sales revenue	5.9	10.9	12.9	12.2	11.8
Cash flows from investing activities attributable to operating activities as a percentage of sales revenue	9.0	8.6	8.1	8.7	9.3
Capex as a percentage of sales revenue	6.4	6.9	6.9	6.5	6.3
Net liquidity as a percentage of sales revenue	9.7	12.5	11.5	8.7	8.6
Ratio of noncurrent assets to total assets ⁶	23.7	23.4	23.1	22.3	21.3
Ratio of current assets to total assets ⁷	16.3	15.9	15.2	14.3	13.4
Inventory turnover ⁸	5.2	5.5	5.8	6.2	6.5
Equity ratio	36.9	31.4	32.6	36.9	39.8
Financial Services Division					
Increase in total assets	6.0	8.3	13.9	15.1	3.9
Return on equity before tax ⁹	9.8	10.8	12.2	12.5	14.3
Equity ratio	13.7	12.5	11.9	11.3	10.5

1 Ratio of cash flows from operating activities to current and noncurrent financial liabilities.

2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

3 Including the Chinese joint ventures. These companies are accounted for using the equity method.

4 Operating result plus net depreciation/amortization and impairment losses/reversals of impairment losses on property, plant and equipment, capitalized development costs, lease assets, goodwill and financial assets as reported in the cash flow statement.

5 For details, see Value-based management on page 127.

6 Ratio of property, plant and equipment to total assets.

7 Ratio of inventories to total assets at the balance sheet date.

8 Ratio of sales revenue to average monthly inventories.

9 Earnings before tax as a percentage of average equity.