VOLKSWAGEN

AKTIENGESELLSCHAFT

Half-Yearly Financial Report

JANUARY – JUNE 2019

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Key Figures

VOLKSWAGEN GROUP

	Q2			H1		
	2019	2018	%	2019	2018	%
Volume Data[1] in thousands						
Deliveries to customers (units)	2,760	2,840	–2.8	5,365	5,519	–2.8
Vehicle sales (units)	2,756	2,807	–1.8	5,339	5,575	–4.2
Production (units)	2,767	3,059	–9.5	5,422	5,786	–6.3
Employees (on June 30, 2019/Dec. 31, 2018)				662.8	664.5	–0.3
Financial Data (IFRSs), € million						
Sales revenue	65,185	61,149	+6.6	125,197	119,377	+4.9
Operating result before special items	5,130	5,583	–8.1	9,979	9,794	+1.9
Operating return on sales before special items (%)	7.9	9.1		8.0	8.2	
Special items	–	–1,635	–100.0	–981	–1,635	–40.0
Operating result	5,130	3,948	+29.9	8,997	8,160	+10.3
Operating return on sales (%)	7.9	6.5		7.2	6.8	
Earnings before tax	5,486	4,495	+22.1	9,557	8,972	+6.5
Return on sales before tax (%)	8.4	7.4		7.6	7.5	
Earnings after tax	4,115	3,313	+24.2	7,168	6,613	+8.4
Automotive Division[2]						
Total research and development costs	3,550	3,391	+4.7	7,033	6,747	+4.2
R&D ratio (%)	6.4	6.5		6.6	6.6	
Cash flows from operating activities	8,158	4,753	+71.7	13,523	10,208	+32.5
Cash flows from investing activities attributable to operating activities[3]	4,580	3,844	+19.2	7,955	6,862	+15.9
of which: capex	3,194	2,481	+28.7	5,202	4,398	+18.3
capex/sales revenue (%)	5.8	4.8		4.9	4.3	
Net cash flow	3,578	909	x	5,568	3,346	+66.4
Net liquidity at June 30				15,905	26,298	–39.5

1 Volume data including the unconsolidated Chinese joint ventures. These companies are accounted for using the equity method. Prior-year deliveries updated to reflect subsequent statistical trends.
2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
3 Excluding acquisition and disposal of equity investments: Q2 €4,350 (3,702) million, H1 €7,451 (6,782) million.

This version of the Interim Report is a translation of the German original. The German takes precedence. All figures shown in the Report are rounded, so minor discrepancies may arise from addition of these amounts. The figures from the previous fiscal year are shown in parentheses directly after the figures for the current reporting period.

Key Facts

- Deliveries to Volkswagen Group customers at 5.4 (5.5) million vehicles; decline in Asia-Pacific in particular; growth in South America; passenger car market share expanded in declining overall market worldwide
- Group sales revenue rose by 4.9% to €125.2 billion
- At €10.0 billion, operating profit before special items exceeds the prior-year figure by €0.2 billion; improvements in the mix and in price positioning
- Operating profit improves to €9.0 (8.2) billion; negative special items of €–1.0 (–1.6) billion relating to the diesel issue
- Profit before tax increased to €9.6 (9.0) billion
- Automotive Division's net cash flow up by €2.2 billion to €5.6 billion; capex ratio of 4.9 (4.3)%
- Net liquidity in the Automotive Division of €15.9 billion; negative effect of €5.1 billion on the net liquidity reported due to the application of the new IFRS 16
- Exciting products:
  - Volkswagen Passenger Cars extends its range of SUVs in China with the T-Cross and Teramont X; the ID. ROOMZZ concept car complements the ID. Family with a large SUV featuring up to seven seats
  - Audi presents the electric-powered Q2L e-tron as well as the AI:ME concept car for the first time
  - ŠKODA celebrates the world premiere of its electric-powered Citigo^{e} iV and Superb iV models
  - Bentley debuts the new generation of the Flying Spur
  - Porsche expands the Cayenne model range by adding the sporty Cayenne Coupé
  - Volkswagen Commercial Vehicles showcases the Transporter 6.1, its technically redesigned best seller
  - Scania and MAN present efficient solutions for the construction industry

Key Events

MOTOR SHOWS AND EVENTS

The Volkswagen Group brands presented impressive new products at numerous motor shows and events in the second quarter of 2019.

Auto Shanghai 2019

At the Auto Shanghai 2019, the Volkswagen Passenger Cars brand celebrated the world premiere of its ID. ROOMZZ concept car. The multivariable all-electric SUV of the five-meter class, which offers up to seven seats, is tailored to both family and business requirements. It's bodywork design follows the clean, homogeneous lines of the rest of the ID. family. Two electric motors with a system output of 225 kW (306 PS) continuously drive both axles and accelerate the vehicle to 100 km/h in 6.6 seconds. The ID. ROOMZZ combines future IQ.DRIVE systems from Volkswagen such as Travel Assist and Adaptive Cruise Control (ACC), which allows it to glide fully automatically on request (level 4 according to the Verband der Automobilindustrie, VDA – German Automotive Industry Association) through traffic in ID. Pilot mode. The production version will be initially launched on the Chinese market in 2021. Three further Volkswagen models debuted in Shanghai. The Teramont X is a stylish five-seater coupé version. The SUV Coupé Concept combines avant-garde design, sporty proportions and outstanding performance. The SMV Concept show car provides an outlook on a large multi-functional SUV with a length of over 5.10 m. Volkswagen Passenger Cars rounded off its presence at the motor show with the lifestyle-oriented T-Cross.

The Audi brand celebrated two world premieres in Shanghai. The Q2L e-tron compact SUV has a longer body than the basic version. The electric motor has an output of 100 kW (140 PS) and the battery allows for a range of up to 265 km in accordance with the local homologation process. The visionary AI:ME concept car reveals the Audi designers' and developers' ideas for an electric-powered compact car of the future. The electric motor on the rear axle delivers an output of 125 kW (170 PS). The AI:ME has a spacious and futuristic interior with a broad range of features for communication, entertainment and relaxation, because it is also designed for fully automated driving (VDA level 4).

ŠKODA showcased its VISION iV. concept car with visual and technological adaptations that had been made specifically for the Chinese market. It provides a detailed outlook on the brand's first production model based on the Modular Electric Toolkit (MEB). The vehicle stands out with an athletic, aerodynamic body and a generous interior space that is typical of the brand. The 150 kW (204 PS) electric motor at the rear can deliver a top speed of 160 km/h. The vehicle offers a range of up to 500 km. ŠKODA also unveiled its innovative electric two-wheel KLEMENT concept vehicle for sustainable urban micromobility.

In Shanghai, Porsche presented its new model from the Cayenne series, the Cayenne Coupé. It includes all the technical highlights of the third Cayenne generation, but is more progressive, more athletic and more inspiring thanks to its custom design elements with a roof line that falls away more dramatically to the rear. The extensive standard equipment includes a 2.16 m^2 panoramic glass roof, speed-sensitive Power Steering Plus, 20-inch alloy wheels, Park Assist, Porsche Active Suspension Management (PASM) and the Sport Chrono Package. A choice of two high-powered engines are available as of market launch: a six-cylinder turbocharged engine with an output of 250 kW (340 PS) and a V8 engine with twin turbocharging and 404 kW (550 PS) in the Cayenne Turbo Coupé.

The Bentley brand's stand displayed the Mulsanne W.O. Edition by Mulliner, of which only a small number were produced to mark the brand's centenary, as well as the innovative Bentayga Hybrid and the new generations of the popular Continental GT and Continental GTC models.

World premieres of ŠKODA's Citigo^e iV and Superb iV models

The ŠKODA brand entered the era of electric mobility in May 2019, celebrating the world premieres of its first electric vehicles. For the future, ŠKODA is combining the establishment of its electric product family and an integrated networked ecosystem for mobility solutions under the iV sub-brand. The Superb iV is ŠKODA's first model to be fitted with a plug-in hybrid drive. A powerful TSI engine that delivers 115 kW (156 PS) and an electric motor with an output of 85 kW (115 PS) deliver a combined power output of 160 kW (218 PS) for particularly sustainable mobility without compromising performance. The battery allows for an all-electric range up to 55 km in the WLTP cycle; a range of up to 850 km can be achieved when combined with the petrol engine. The ŠKODA Citigo^e iV is the Czech brand manufacturer's first all-electric vehicle. The city speedster is powered by a 61 kW (83 PS) electric motor and the battery allows for a range of up to 265 km in the WLTP cycle.

Wörthersee GTI Meet

Volkswagen celebrated a double premiere at the annual Wörthersee GTI Meet. A group of apprentices from the Wolfsburg site presented the 279 kW (380 PS) Golf GTI Aurora. The show car in the colors Nardo Gray and Deep Black Pearl Effect, as well as the one-off accent color Mint Green has additional displays in the center console providing the driver with engine and vehicle data, which are particularly useful on racetracks. For the first time, it features a holographic module as the technology highlight which controls the 3,500 watt high-end sound system via a hologram that is intuitive to use. Apprentices from Volkswagen Saxony unveiled the Golf Estate R FighteR at Wörthersee. The show car with an all-wheel drive powered by a 295 kW (400 PS) TSI engine stands out in particular due to its fenders, which are 3 cm wider. The unique vehicle sports a glossy finish in Crystal Silver and Nardo Gray, complimented by the Misano Red and Piano Black design colors. With its rooftop light system, strobe lights in the radiator grille and a 360° camera installed on the roof, the FighteR can be used as a safety car at racing events. In addition, recent sporty production models could be seen at the GTI Meet, such as the Golf GTI TCR and the T-Roc R. Volkswagen also brought electric mobility to Wörthersee with its electric racing car, the ID.R.

Vienna Motor Symposium

At the 40th Vienna Motor Symposium, Volkswagen showcased possibilities for efficient connected mobility. Volkswagen is entering the next phase of the hybridization of its drives with the new 48-volt mild hybrid drive (mHEV) combined with a 1.5 l TSI evo petrol engine. The conventional 12-volt vehicle electrical system is complemented with a 48-volt system, which will increase the opportunities for recuperation, among other things. Depending on driving style, it can save around 0.4 liters of fuel every 100 kilometers and cut carbon emissions in the process. In Vienna, Volkswagen also provided the first-ever in-depth insight into its MEB, which will serve as the basis for the next generation of electric vehicles. It also forms the basis of the newly developed electronic architecture along with the vw.OS operating system, which can be used to establish new mobility services and driver assist systems, setting the scene for automated driving. In addition, Volkswagen presented current driver assist systems showing the potential as well as the technical and legal challenges in the jump to levels 3 and 4 for automated driving.

bauma 2019

At bauma 2019 in Munich, the world's leading trade fair for construction vehicles, building equipment and mining machines, the Scania brand presented its robust efficient vehicles as well as further innovations. The new Scania XT heavy tipper trucks impress with long operating times and robustness, plus high productivity and flexibility. Thanks to the modular system, an XT truck can be equally suitable for waste collection or operating as a flatbed with a crane. In addition, Scania unveiled its improved DC09 and DC13 engine series, which allow for fuel savings of up to 2%. At bauma, Scania Engines presented networked engines for equipment, vehicles and vessels that enable permanent fleet monitoring and optimized uptime. This new service is based on the vast knowledge Scania has gained from having 350,000 connected buses and trucks.

MAN presented its optimized Euro 6 engine family in Munich. From 2019, the new D15 engine will replace the tried-and-tested D20 engine (Euro 6 version) in the TGS and TGX product lines. The inline six-cylinder engine boasts more power, lower weight and higher fuel efficiency with a smaller capacity. The MAN TGE was represented at the bauma for the first time. Available in many different variants as a panel van, a windowed combi van, a crew cab with platform body or a chassis cab with platform body, the MAN TGE can be used for a diverse range of applications in the fields of construction, agriculture and landscaping. MAN rounded off its trade fair appearance by presenting different driver assist systems, including the ACC cruise control system expanded with Stop & Go Function, the ComfortSteering active steering system with Lane Return Assist and the video turning system (for the right side of the vehicle where visibility is limited) that assists with turning or maneuvering.

At bauma, Volkswagen Commercial Vehicles presented the Transporter 6.1, its bestselling van with a comprehensively revamped design. Thanks to a switch from hydraulic to electro-mechanical power steering, the Transporter now has an extended spectrum of driver assist systems, which significantly increase safety and comfort. The new assist systems include technologies such as Lane Assist, Park Assist and Trailer Assist. In addition, the vehicle has been tailored to the requirements of the digital world; now available as an option is the third generation of the Modular Infotainment Toolkit, which enables the use of new applications and online services with an integrated SIM card.

New Bentley Flying Spur unveiled

The Bentley brand presented the new generation of the Flying Spur in June 2019. The only thing the luxurious four-door grand tourer has in common with its predecessor is its name; the vehicle has been redeveloped from the ground up and combines more than ever the maneuverability of a sports saloon with the finesse of a modern luxury vehicle. The Flying Spur sets new standards in innovation, connectivity, comfort and driving pleasure. Powered by an optimized twin-turbocharged W12 TSI engine, the vehicle has an output of 467 kW (635 PS) that allows it to accelerate from rest to a speed of 100 km/h in 3.8 seconds. Its maximum speed is 333 km/h. The Flying Spur is the first Bentley model to come with electronic all-wheel steering, which combined with the active all-wheel drive and the Bentley Dynamic Ride system provides for an agile handling and driving experience. The interior, which is tailored to the driver's requirements, combines the advantages of ultra-modern technology – an HD digital instrument panel display, a powerful audio system and touchscreen monitors for rear-seat passengers – with contemporary British craftsmanship.

AWARDS

In early April 2019, the US magazine Automotive News honored Audi with the "PACE award" in the category Innovation Partnership for its central driver assistance controller (zFAS). The zFAS manages a large number of driver assistance systems in one central, highly integrated domain architecture. The magazine confers awards for technical innovations in the auto industry.

In April 2019, readers of the Auto Bild Allrad magazine chose multiple Volkswagen Group models as the all-wheel drive cars of 2019. In the all-terrain and SUV category for vehicles priced under €35,000, the Audi Q2 was selected as the overall winner and the ŠKODA Kodiaq as the winning import vehicle. The Audi Q5 was named the overall winner in the all-terrain and SUV category for vehicles priced between €35,000 and €50,000. In the all-wheel-drive crossover category, the Audi A6 allroad quattro was voted the overall winner and the ŠKODA Octavia Scout the winning import vehicle. The Audi e-tron was the overall winner in the all-wheel-drive hybrid and electric car category. The ŠKODA Superb was voted the winning import vehicle in the all-wheel-drive category for passenger cars priced under €40,000. The Porsche Panamera was selected the overall winner in the all-wheel-drive category for passenger cars priced over €40,000; the Porsche 911 was also named the overall winner in the all-wheel-drive sports cars, coupés and convertibles category. The Multivan from Volkswagen Commercial Vehicles was crowned overall winner in the all-wheel-drive vans and buses category; here, the SEAT Alhambra was voted the winner in the import category. In the readers' choice, the editors of Auto Bild Allrad allowed readers to choose their favorites from a total of 219 models from 43 brands in ten categories.

In a survey conducted by the Berlin-based consulting institute Trendence, AUDI AG was named the most attractive employer among engineering scientists, taking first place with 15.8% of the vote. Between September 2018 and February 2019, the institute surveyed over 43,500 academics at around 300 German universities about their employer of choice.

At the beginning of May 2019, Audi was selected the best manufacturer of connected cars in the "Networks, Services & Manufacturers of the Year 2019" readers' poll conducted by the German journal connect. The brand with the four rings came out on top against 18 competitors. More than 83,000 connect readers and online users took part in the poll.

At the end of May 2019, Porsche in Leipzig received the "Platinum" award from the Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB – German Sustainable Building Council). DGNB certified the plant – which boasts a size of around 427 hectares and is currently undergoing expansion to meet the future challenges of electric mobility – as a particularly sustainable industrial site. The facility was assessed on the basis of 167 criteria in 28 categories.

Also at the end of May 2019, the 2.0 TFSI engine from Audi won the International Engine of the Year award in the 150–250 PS category. Porsche's 2.5 l turbocharged engine won a prize in the 250–350 PS category. An international panel of experts comprising 70 engine journalists voted the engines winners in their class.

In early June 2019, AUTO BILD conferred the "Wertmeister 2019" award to the Volkswagen Group in multiple categories. The award is based on the residual value of the vehicle after four years as a percentage of the price for a new car. The Volkswagen Passenger Cars brand won with the up! 1.0 TSI in the subcompact category. Audi was the winner in the categories for electric vehicles, small cars, premium and small SUVs with its e-tron 55 quattro, A1 40 TFSI Sportback S tronic, A6 Avant 35 TDI S tronic and Q2 40 TFSI quattro models. Porsche was honored as the winner in the luxury and sports cars categories for its Panamera 4 and 911 Carrera S PDK models. This year, AUTO BILD and ratings company Schwacke awarded the "Wertmeister" title for the 16th time, selecting winners in 13 vehicle categories.

ANNIVERSARIES

At the beginning of April 2019, the Passat broke the 30-million-model mark for production in the Volkswagen plant in Emden. This was a new record for the bestselling Passat in its segment: no other mid-range Group model and no other business vehicle has been sold worldwide more often than the Passat. The anniversary model is a Passat GTE Estate with a plug-in hybrid drive and a Pyrite Silver Metallic finish.

In mid-April 2019, the millionth Sharan rolled off the assembly line at Volkswagen Autoeuropa in Palmela, Portugal, since production started there 24 years ago. In addition to the Sharan, Volkswagen Autoeuropa currently also produces the sister model the SEAT Alhambra and the compact Volkswagen T-Roc.

The 22 millionth ŠKODA vehicle was also produced in mid-April 2019. The anniversary model, a ŠKODA Kodiaq GT in Velvet Red, rolled off the production line at the SAIC VOLKSWAGEN joint venture plant in Changsha.

Volkswagen's plant facility in Pune, India, manufactured the one-millionth car at the end of April 2019, a Volkswagen Ameo. Production at the Indian facility started in March 2009.

The eight millionth Polo rolled off the assembly line at the Volkswagen plant in Navarra, Spain, at the end of April 2019. The anniversary vehicle in Energetic Orange Metallic is equipped with a 1.6 l TDI engine delivering 70 kW (95 PS). Volkswagen Navarra has been producing the Volkswagen Polo since 1984.

PARTNERSHIPS

At the beginning of April 2019, the Volkswagen Group and Ganfeng Lithium Co., Ltd. based in Jiangxi (China) signed a memorandum of understanding on the long-term supply of lithium for battery cells. Under the agreement, Ganfeng will supply lithium to the Volkswagen Group and its suppliers for the next ten years. In this regard, we are already today pursuing the goal of securing a significant share of our growing lithium requirements for batteries. Ganfeng Lithium Co., Ltd. was founded in 2000 and is the world's leading producers of lithium and metals products.

In mid-April 2019, the Volkswagen Group joined an industry initiative for responsible purchasing of strategic minerals. Blockchain technology is designed to help improve efficiency, sustainability and transparency in global and complex supply chains. The cooperation will give the Volkswagen Group better insight into the source of cobalt, for example, which is used in lithium-ion batteries that power electric vehicles. The path of other minerals used in vehicle production can also be tracked in this way. The blockchain network already includes participants from all key stages of the supply chain, from the mine to end users. Further participants to date include the Ford Motor Company, Huayou Cobalt, IBM, LG Chem and the RCS Global Group.

In mid-June 2019, Volkswagen announced that it wants to invest approximately €900 million in joint battery activities with Northvolt AB. Part of the sum is intended for a planned joint venture with the Swedish battery cell producer; a further share will go directly to Northvolt AB. In return, Volkswagen will receive about 20% of the shares in Northvolt AB and will have one seat on the Supervisory Board. A joint venture of equal partners is supposed to be formed in the course of this year with the aim of building a 16-GWh battery cell factory in Europe. The plan is to establish the factory at the Group's site in Salzgitter starting in 2020 at the earliest, if all preconditions are fulfilled. Battery cell production for Volkswagen is then planned to commence around the turn of the year 2023/2024.

Also in mid-June 2019, the Volkswagen Group moved into a new climate-neutral data center in Rjukan, Norway. The facility was set up in just six months in collaboration with the Norwegian partner Green Mountain. The data center will be powered entirely by hydro-power in future, thus saving more than 5,800 tons of CO_2 per year compared to a conventionally operated data center. The maximum output of 2,750 kilowatts will be used by the Volkswagen Passenger Cars and Audi brands for high-performance servers, which are used for computer-intensive vehicle development projects. These include the simulation of crash tests and virtual wind tunnel tests. The Volkswagen Group focuses on economic and ecological factors in the development of computing capacity. Thus, Volkswagen already operates a climate-neutral data center in Iceland.

At the end of June 2019, Volkswagen concluded a strategic partnership with the Lidl and Kaufland supermarket chains. The food retailers will install a total of 140 public charging stations for their customers' electric vehicles at 70 branches in Berlin. Volkswagen is to receive the exclusive right to use the new infrastructure for charging its WeShare fleet overnight outside opening hours, which will make the capacity utilization of the charging stations more efficient. The additional charging points will boost the public charging infrastructure in the German capital by almost 20%.

IPO OF TRATON SE

Since June 28, 2019, shares of TRATON SE have been traded on the regulated market of the Frankfurt Stock Exchange and the NASDAQ Stockholm Exchange. These bearer shares without nominal value were taken from Volkswagen AG's existing shares and placed with investors. The IPO is intended to lay the foundation for both companies to create even more added value for their stakeholders in the future. Volkswagen will remain an involved majority shareholder.

DIESEL ISSUE

The administrative fine order issued on May 7, 2019 by the Stuttgart Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against Dr. Ing. h.c. F. Porsche AG in connection with the diesel issue. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit "Prüffeld Entwicklung Gesamtfahrzeug/Qualität" (Overall Vehicle Development/Quality - Testing Facility). The administrative order imposes a total fine of €535 million, consisting of a penalty payment of €4 million and the forfeiture of economic benefits in the amount of €531 million. After thorough examination, Dr. Ing. h.c. F. Porsche AG has accepted the fine and paid it in full, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG.

ANNUAL GENERAL MEETING

The 59th Annual General Meeting of Volkswagen AG was held in Berlin on May 14, 2019. With 94.45% of the voting capital present, the ordinary shareholders of Volkswagen AG agreed to the proposal of the Board of Management and Supervisory Board to pay a dividend of €4.80 (previous year: €3.90) per ordinary share and €4.86 (previous year: €3.96) per preferred share for fiscal year 2018. The ordinary shareholders postponed the formal approval of the actions of Rupert Stadler for fiscal year 2018 due to the ongoing investigations into the diesel issue. The actions of all other members of the Board of Management and the Supervisory Board were formally approved for fiscal year 2018. The terms of office of Dr. Hessa Sultan Al-Jaber, Dr. Hans Michel Piëch and Dr. Ferdinand Oliver Porsche on the Supervisory Board of Volkswagen AG duly ended at the close of the Annual General Meeting. The Annual General Meeting elected all three as members of the Supervisory Board for a full term of office as shareholder representatives. In addition, the ordinary shareholders approved the creation of authorized capital as well as the corresponding amendment of the Articles of Association. The ordinary shareholders also elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) as the auditor for the single-entity and consolidated financial statements for fiscal year 2019 and as the auditor to review the condensed consolidated financial statements and interim management report for the first six months of 2019, for the period up to September 30, 2019 and for the first quarter of fiscal year 2020.

SUPERVISORY BOARD MATTERS

Effective May 31, 2019, Ms. Birgit Dietze stepped down as a member of the Supervisory Board of Volkswagen AG. At the request of the Chairman of the Supervisory Board and in accordance with section 104 AktG, the Braunschweig Registry Court appointed Ms. Conny Schönhardt, Union Secretary to the board of IG Metall, to succeed her as a member of the Volkswagen AG Supervisory Board, effective June 21, 2019.

VOLKSWAGEN PRESENTS ENHANCED TOGETHER 2025+ STRATEGY

In June 2019, the Volkswagen Group announced the enhancement of its successful future program, TOGETHER – Strategy 2025. With the revised strategy TOGETHER 2025+, the Group intends to step up the speed of the transformation, further sharpen the focus and drive the implementation of the strategic objectives even more systematically. To this end, the strategic vision was also revised. With “Shaping mobility – for generations to come” we aim to shape the future of mobility in a more active and sustainable manner, while safeguarding it for the long term. Building on the strategic target dimensions of the tried-and-tested strategy rhombus, TOGETHER 2025+ comprises five modules as central work packages, which integrates many of the ongoing Group initiatives from the original TOGETHER strategy. These modules are Best Governance, Best Performance, Best Brand Equity, Software-Enabled Car Company and Excellent Leadership.

The Best Governance module has the goal of forming a focused, lean Group structure that manages its brands, leverages important synergies and accelerates decision-making processes; this also includes intensive discussions with our stakeholders. The aim of Best Performance is to achieve a sustainable increase in our enterprise value by increasing efficiency, productivity and profitability. In the Best Brand Equity module, the focus is on sharpening the brand portfolio; this will enable us to substantially increase the value of the Group brands by 2025. In the Software-Enabled Car Company module, we are working to make software one of the core competencies of the Volkswagen Group. To this end, we are pooling our existing strengths, strengthening our workforce and establishing a separate organizational unit. Excellent Leadership will accelerate the transformation to open, partnership-based, value-based leadership.

We are taking on the challenges of today and tomorrow with these five modules from TOGETHER 2025+. With electric drives, digital connectivity and autonomous driving, we underline our promise that we want to make the automobile clean, quiet, intelligent and safe. In addition, we are committed to the Paris Agreement and are the first company in our industry to commit ourselves to the zero emissions target by 2050 at the latest. In this way, the car can continue to be a cornerstone of eco-friendly, contemporary, individual and affordable mobility in the future.

Volkswagen Shares

In the period from January to June 2019, prices on the international equity markets rose overall amid volatile trading.

The DAX recorded an increase compared with the end of 2018. The hopes of a more expansionary US monetary policy had a positive effect, as did corporate data that in some cases exceeded expectations. Uncertainty regarding the economic policy of the US government, the continuing Brexit negotiations between the United Kingdom and the European Union (EU) and the growth of the global economy had a negative impact on share prices.

The prices of Volkswagen AG's preferred and ordinary shares exceeded the 2018 year-end level in the first six months of 2019. Healthy business figures were the main drivers of the uptrend. Share listings were negatively impacted in particular by uncertainty regarding the future regulatory framework for diesel and electric vehicles, the US tariff policy, the slowdown of the Chinese market and the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure), which is a test procedure for determining pollutant and CO_2 emissions and fuel consumption for passenger cars and light commercial vehicles.

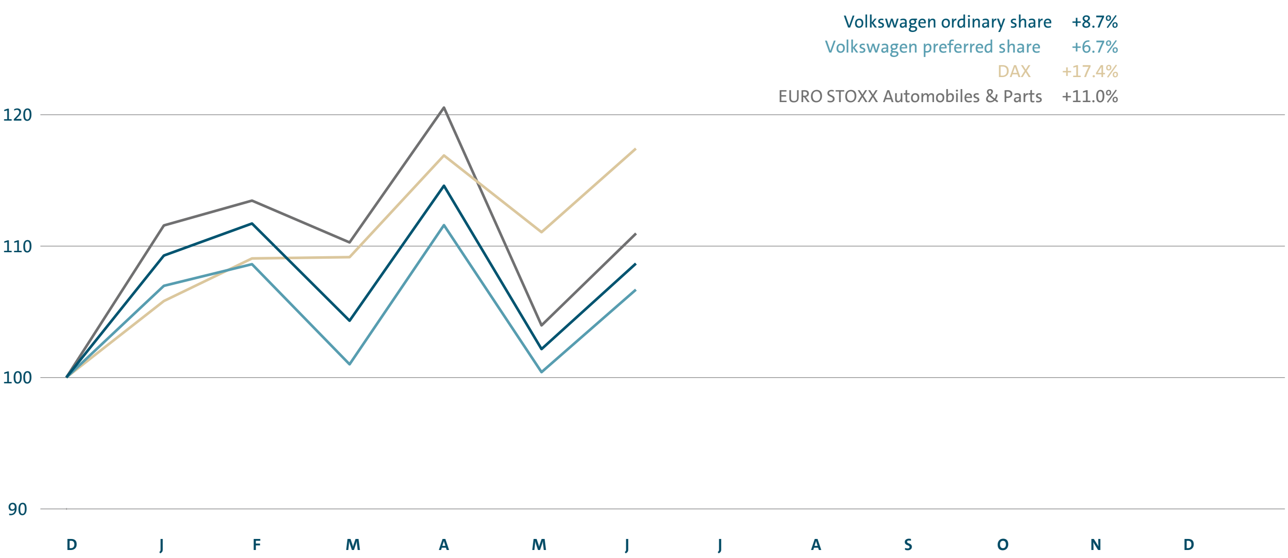
Information and explanations on earnings per share can be found in the notes to the interim consolidated financial statements. Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website at ww.volkswagenag.com/en/InvestorRelations.html.

VOLKSWAGEN KEY SHARE FIGURES AND MARKET INDICES FROM JANUARY 1 TO JUNE 30, 2019

		High	Low	Closing
Ordinary share	Price (€)	166.60	135.60	151.15
	Date	Apr. 18	Jan. 3	Jun. 28
Preferred share	Price (€)	163.14	134.76	148.22
	Date	Apr. 18	Jan. 3	Jun. 28
DAX	Price	12,413	10,417	12,399
	Date	May 3	Jan. 3	Jun. 28
ESTX Auto & Parts	Price	527	412	469
	Date	Apr. 18	Jan. 3	Jun. 28

PRICE DEVELOPMENT FROM DECEMBER 2018 TO JUNE 2019

Index based on month-end prices: December 31, 2018 = 100



Business Development

GENERAL ECONOMIC DEVELOPMENT

The global economy continued its robust growth in the first six months of 2019 albeit at a slower pace. The average expansion rate of gross domestic product (GDP) in this period was down year-on-year in both the advanced and the emerging market economies. Prices for energy and other commodities decreased on average compared with the prior-year period amid a still comparatively low – albeit slightly higher – interest rate level. In connection with the upheaval in trade policy and economic uncertainty, international trade of goods waned in the first half of 2019.

As a whole, the economies of Western Europe recorded slight growth from January to June 2019, with a decline in momentum. This trend was recorded in nearly all countries in Northern and Southern Europe. The unknown outcome of the Brexit negotiations between the United Kingdom and the EU remained the primary source of uncertainty.

Amid a strong labor market, the growth trend in Germany continued at a markedly weaker pace in the period under review, with both business and consumer sentiment deteriorating further.

In the economies of Central Europe, growth rates remained relatively high in the first two quarters of 2019, while also declining in most cases. GDP growth in Eastern Europe declined. This was due in particular to the economic situation in Russia, as the region's largest economy.

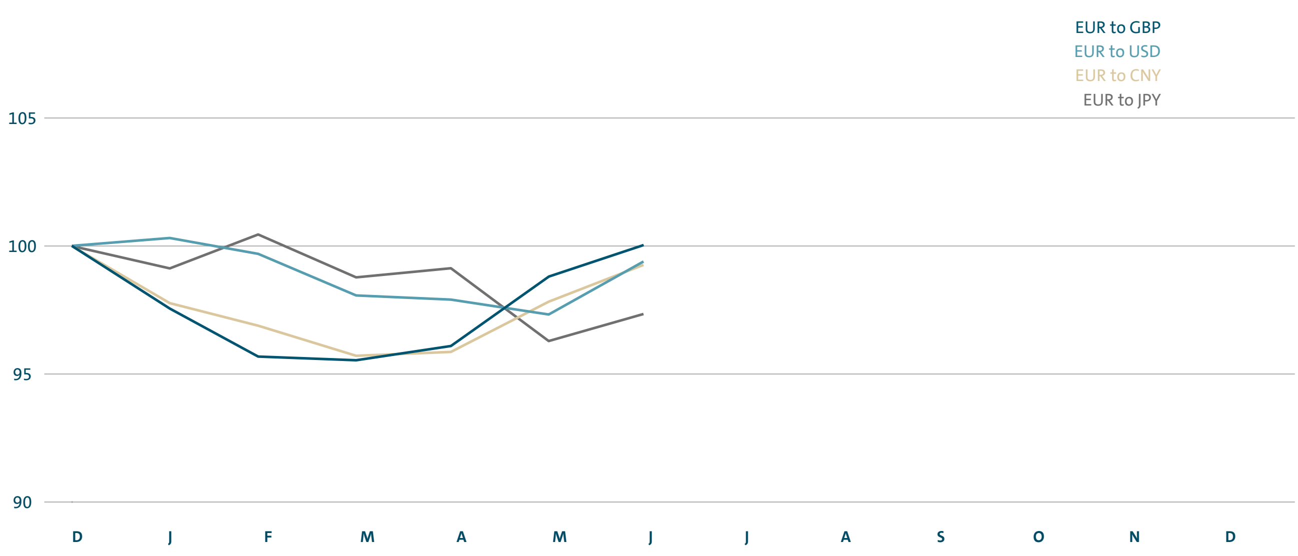
The economic downturn that began in Turkey in 2018 continued in the reporting period. Amid persistent structural deficits and political challenges, the growth rate of South Africa's GDP was lower than in the same period of the previous year.

The robust growth of the US economy continued in the first half of the year, with considerable stimulus being provided by private domestic demand. The US Federal Reserve kept its key rate constant based on the stable situation in the labor market and declining inflation. Momentum decreased in both Canada and Mexico compared to the same period of 2018.

Between January and June 2019, Brazil continued the slight economic growth it had seen in preceding quarters, though the situation in South America's largest economy remained tense. Argentina's economic situation deteriorated markedly amid persistently high inflation.

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2018 TO JUNE 2019

Index based on month-end prices: as of December 31, 2018 = 100



With high momentum, the Chinese economy continued its growth trajetory in the reporting period. Government support provided in response to the trade policy dispute between China and the US continued in the first half of 2019. India continued to record a high pace of growth. Japan registered weaker GDP growth than in the same period of the previous year.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In the first half of 2019, global demand for passenger cars was weaker than in the prior-year period (–5.0%). While new registrations in the Central and Eastern Europe region narrowly exceeded the prior-year figure, the overall markets in Western Europe, Middle East, North America, South America and Asia-Pacific recorded dips.

Global demand for light commercial vehicles between January and June 2019 was up slightly on the previous year.

In Western Europe, passenger car demand in the reporting period fell short of the prior-year level due to the WLTP, among other factors. New vehicle registrations declined by varying degrees in the largest single markets. Passenger car sales in France fell slightly. In the United Kingdom, the passenger car market volume was moderately down on the prior-year figure. There, the uncertain outcome of the Brexit negotiations with the EU continued to weigh on demand. The passenger car markets in Italy and Spain also contracted in the reporting period. The share of new registrations for diesel vehicles in the overall passenger car market in Western Europe slipped to 33.3 (38.0)% in the period from January to June 2019.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new light commercial vehicle registrations in Western Europe were moderately higher than the prior-year level.

In Germany, the number of passenger cars sold in the first six months of 2019 was on the high level seen in the prior-year period. In addition to the economic situation, sales incentives from dealers, particularly in the form of an environmental bonus, underpinned the stable trend.

Demand for light commercial vehicles in Germany in the reporting period was considerably higher than in the same period in 2018.

In the Central and Eastern Europe region, demand for passenger cars in the reporting period was just higher than in the previous year. Developments in the individual markets of Central Europe were mixed. Following a solid start in spite of the value-added tax increase as of January 1, 2019, the Russian passenger car market continued to weaken and was slightly below the prior-year figure at the end of the first half of 2019.

Registration volumes of light commercial vehicles in Central and Eastern Europe were on a level with the previous year, while the number of vehicles sold in Russia between January and June 2019 was much lower than in the prior-year period.

Demand in the Turkish passenger car market fell dramatically from January to June 2019 compared to the first half of 2018 as a result of the deteriorating macroeconomic situation. In South Africa, the number of passenger cars sold remained moderately lower than the weak level seen in the previous year.

In North America, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the reporting period were down slightly on the prior-year figure. The market volume in the USA also remained slightly below the high prior-year level. The decline affected the passenger car segment in particular, while the trend in demand for light commercial vehicles such as SUV and pick-up models remained positive. In the Canadian automotive market, the downward trend seen since the second quarter of 2018 continued throughout the reporting period. The number of vehicles sold in Mexico was also perceptibly lower than the figure for the same period of the previous year.

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles decreased distinctly on the whole in the first six months of 2019. While in Brazil, the recovery in the demand for automobiles continued at a high growth rate, though new registrations still fell markedly short of the record level achieved in the first half of 2013. In the Argentinian market, the deterioration in the macroeconomic situation also had a negative impact on demand for passenger cars and light commercial vehicles, with sales figures plummeting from January to June 2019.

The number of new passenger cars registered in the Asia-Pacific region in the reporting period was markedly lower than the prior-year level. This is mainly attributable to the trend in the Chinese passenger car market, where the volume of demand fell noticeably short of the previous year's level and exhibited negative growth rates until May 2019. The ongoing trade dispute between China and the USA continued to weigh on demand. In addition to the value-added tax cut in April, pull-forward effects resulting from a new emission standard introduced in China starting in early July 2019, led to a minor recovery in demand at the end of the reporting period. In the Indian passenger car market, sales in the first half of 2019 fell significantly compared with a year earlier. The vehicle market was on a level with the previous year in Japan.

Demand for light commercial vehicles in the Asia-Pacific region was up slightly on the previous year. Registration volumes in China, the region's dominant market and the largest market worldwide, also increased slightly year-on-year. The number of new vehicle registrations in India also saw a small increase versus the previous year, while noticeable growth was recorded in Thailand.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was significantly higher between January and June 2019 than in the prior-year period.

In the first half of the year, demand in Western Europe climbed sharply compared with 2018. There was a sizeable increase in new registrations in Germany, Western Europe's largest market, in the first six months of 2019 compared with the prior-year period. While demand in Italy remained at the previous year's level, it rose in Spain, in France and in the United Kingdom.

The first half of 2019 saw a slight year-on-year recovery in registration volumes in the Central and Eastern Europe region. Demand in Russia decreased moderately.

There was a marked overall increase in the volume of registrations in South America compared to the first six months of 2018. In Brazil, the region's largest market, demand for trucks rose very sharply as a consequence of the economic recovery compared with the low figure for the prior-year period. By contrast, a dramatic decline in registration volumes was seen in Argentina.

In the period from January to June 2019, demand for buses in the markets that are relevant for the Volkswagen Group was significantly higher than the prior-year level. The markets in Brazil and France contributed in particular to this growth.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

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

In the marine market, customers continued to be cautious in placing orders in the first half of 2019, consequently the market remained at the previous year's level overall. In merchant shipping, orders of LNG carriers remained more or less stable, while demand for bulk carriers, container ships and oil tankers dropped to a lower level. Demand for cruise ships, passenger ferries and fishing vessels remained steady. In the offshore sector, the existing overcapacity continued to curb investment in offshore oil production. Plans for tighter emission standards resulted in a positive trend toward gas-powered or dual-fuel-engined ships. On account of the low market volume, all market segments are continuing to experience marked competitive pressure and low prices as a result.

The market for power generation deteriorated somewhat in the first half of 2019 compared with the same period of the previous year. A decreasing volume of demand was registered in all areas of application. The trend away from oil-fired power plants toward dual-fuel and gas-fired power plants remained unchanged. Demand for energy solutions continued to remain high, with a strong trend towards greater flexibility and decentralized availability. Continued strong pressure from competition and pricing was discernible in all projects, having a negative impact on the earnings quality of orders. Furthermore, order placement was often delayed due to persistently difficult financing conditions for customers, particularly on larger projects.

The market for turbomachinery improved slightly compared with the previous year. Particularly the key sales markets for turbo compressors in the raw materials, oil, gas and processing industries experienced an upturn in demand. By contrast, the steam and gas turbine business remained difficult due to existing overcapacity in power generation. There was a minor let-up in the existing pressure from competition and pricing compared to the prior year.

The marine after-sales business for diesel engines performed positively and benefited from a continued increase in interest in long-term maintenance contracts and retrofitting solutions. The power plant after-sales business was negatively impacted by shifts in the energy mix and regulatory changes in key sales markets. The after-sales market for turbomachinery saw a slow recovery. There were also new sales opportunities here in digitalization and long-term service agreements.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services was buoyant in the first half of 2019 due, among other things, to the persistently low key interest rates in the main currency areas.

Overall, a small decrease in the demand for new vehicles was recorded in the European market from January to June 2019. As a consequence, the number of new lease and financing contracts signed also fell slightly. Sales of used vehicles in Europe rose somewhat, while a minor decrease was recorded in lease and financing contracts for used vehicles. After-sales products such as inspection contracts, maintenance and spare parts agreements were in high demand in the first six months of 2019 and there was a slight increase in the number of automotive-related insurances.

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

In South Africa, demand for financing and insurance products fell slightly.

In the markets of the USA and Mexico, automotive financial services remained very popular in the period from January to June 2019.

In Brazil, the consumer credit business and sales of the country-specific financial services product Consorcio, a lottery-style savings plan, continued the restrained positive trend seen in 2018. In the first half of 2019, more than half of the new vehicle sales were covered by financial services products. In the Argentinian market, the sharp rise in interest rates resulting from the most recent economic crisis posed a challenge for sales of financing and leasing products.

Demand for automotive financial services across the Asia-Pacific region was mixed in the first six months of 2019. In China, the proportion of loan-financed vehicle purchases stagnated compared with the prior-year period and new contract growth slowed sharply on account of the decline in passenger car sales. The relaxation of existing restrictions on registrations in metropolitan areas, in addition to the situation in the interior of the country and for the used vehicles market, offers great potential in terms of acquiring new customers for automotive-related financial services. The demand for financial services products rose in India and in Japan.

The demand for financial services in the Commercial Vehicles Business Area also varied from region to region. In China, the positive trend from 2018 continued into the first half of 2019, albeit at a slower pace. In Brazil, the truck and bus business and the related financial services market recorded strong growth.

VOLKSWAGEN GROUP DELIVERIES

The Volkswagen Group delivered 5,365,347 vehicles to customers worldwide in the first half of 2019. This was 2.8% or 154,085 fewer vehicles than in the prior-year period. While sales figures for the Commercial Vehicles Business Area significantly exceeded the previous year's level, there was a decline in the number of models delivered to customers from the Passenger Cars Business Area. The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted accordingly. The chart on page 13 shows the trend in deliveries worldwide by month compared with the previous year. In the following, we report separately on deliveries in the Passenger Cars Business Area and Commercial Vehicles Business Area.

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

	2019	2018	%
Passenger Cars	5,242,011	5,407,298	–3.1
Commercial Vehicles	123,336	112,134	+10.0
Total	**5,365,347**	**5,519,432**	**–2.8**

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure. The figures include the Chinese joint ventures.

GLOBAL DELIVERIES BY THE PASSENGER CARS BUSINESS AREA

Global demand for the Volkswagen Group's passenger cars and light commercial vehicles fell year-on-year by 3.1% to 5,242,011 units during the reporting period amid continuously challenging market conditions. The decrease was mainly attributable to declining markets, especially in China. Other causes were the shift to the WLTP, the limited availability of petrol engines and model changes. As a result, the Volkswagen Passenger Cars, Audi and ŠKODA brands fell short of their high prior-year levels, while Volkswagen Commercial Vehicles reached the volume seen in that period. The SEAT (+8.4%) and Lamborghini (+95.7%) brands performed especially well, both recording the best first six months in their corporate history. Porsche, Bentley and Bugatti also increased their deliveries year-on-year. We registered declining sales figures in all regions, however, demand for Group models rose in some core markets. Our passenger car market share expanded in a declining overall market worldwide to 12.5 (12.2)%.

The table on the next page provides an overview of deliveries of passenger cars and light commercial vehicles to customers by market in the reporting period. Sales trends in the individual markets are described in the following sections.

Deliveries in Europe/Other markets

In Western Europe, the Volkswagen Group delivered 1,936,686 vehicles to customers in the first six months of 2019. This was 1.4% fewer than in the same period of 2018. Increases in some core markets were unable to offset negative impacts – especially arising from the shift to the WLTP, customer uncertainty due to the public debate on driving bans for diesel vehicles, and restricted capacity for petrol engines. Encouraging increases in deliveries were recorded by the T-Roc from Volkswagen Passenger Cars, the Karoq from ŠKODA, the Arona and Ateca from the SEAT brand, the Porsche Macan and the Crafter from Volkswagen Commercial Vehicles. Additionally, new or successor models introduced the previous year were very popular with customers, these being the Touareg from Volkswagen Passenger Cars and Audi's A1 Sportback, Q3, A6 and Q8. The T-Cross from the Volkswagen Passenger Cars brand, the ŠKODA Scala, the e-tron (the Audi brand's first all-electric production model), the SEAT Tarraco and the Porsche Cayenne Coupé were successfully launched on the market as new or successor models. The Volkswagen Group's share of the passenger car market in Western Europe rose to 22.7 (22.2)%.

In Germany, demand for vehicles from the Volkswagen Group from January to June 2019 was in line with the previous year's figure (+0.1%), which had been bolstered by the environmental bonus and a pull-forward effect resulting from the WLTP. The most popular Group models included the T-Roc and Tiguan from Volkswagen Passenger Cars, the Audi A3 Sportback, the Karoq, Octavia and Superb from the ŠKODA brand, the Arona and Ateca from the SEAT brand and the Porsche Macan. The Touareg from Volkswagen Passenger

Cars, the Audi A6 Avant and the ŠKODA Fabia, all of which had been introduced in the previous year, were also in high demand from customers. Seven Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the Polo, Golf, T-Roc, Tiguan, Touran, Audi A6 and Multivan/Transporter. In the first six months of 2019, the Golf was again the most popular passenger car in Germany in terms of registrations.

In the Central and Eastern Europe region, we delivered 1.6% fewer vehicles to customers in the reporting period than in the same period of 2018. Positive momentum came from Russia and Poland, while deliveries declined in the Czech Republic. Demand developed encouragingly for the T-Roc, Tiguan and Touareg models from the Volkswagen Passenger Cars brand, for ŠKODA's Rapid/Scala, Karoq and Kodiaq models, and for the SEAT Arona and Ateca. The Volkswagen Group's share of the passenger car market in the Central and Eastern Europe region amounted to 21.1 (21.8)%.

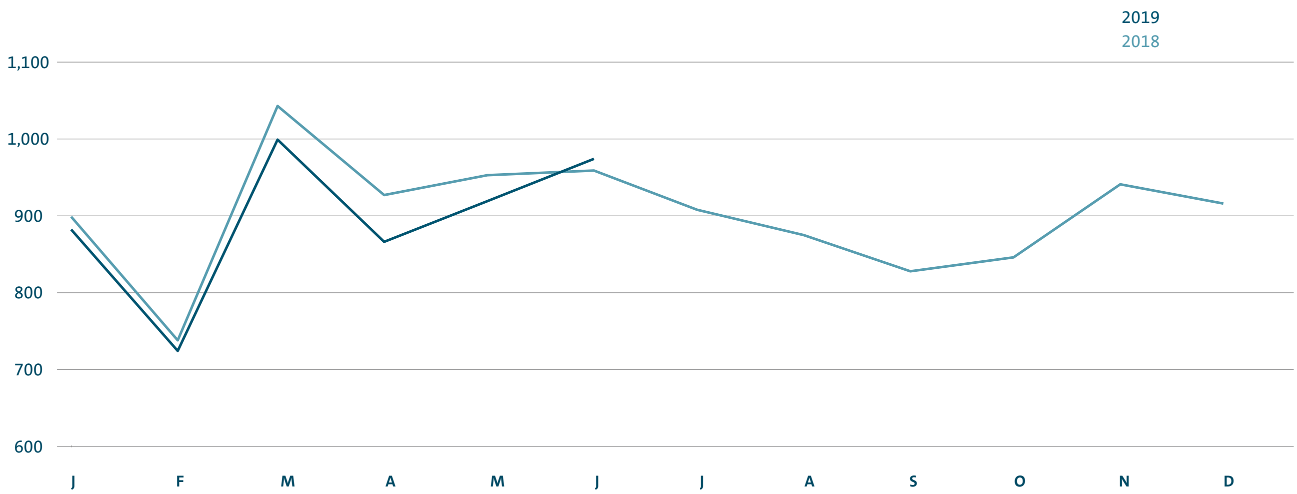
In Turkey, the number of Volkswagen Group vehicles delivered to customers from January to June of this year fell by more than half compared to the same period of the previous year as a result of this market's decline. On the South African market, the number of Group models sold fell by 0.9%. The Polo from Volkswagen Passenger Cars continued to be the most frequently sold Group model there.

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

	DELIVERIES (UNITS)		CHANGE
	2019	2018	(%)
Europe/Other markets	**2,476,020**	**2,529,979**	**–2.1**
Western Europe	**1,936,686**	**1,964,467**	**–1.4**
of which: Germany	693,466	692,464	+0.1
United Kingdom	301,989	312,493	–3.4
Italy	172,016	167,864	+2.5
Spain	171,537	174,682	–1.8
France	155,531	147,999	+5.1
Central and Eastern Europe	**378,506**	**384,786**	**–1.6**
of which: Russia	103,310	97,720	+5.7
Poland	84,335	83,715	+0.7
Czech Republic	69,154	77,660	–11.0
Other markets	**160,828**	**180,726**	**–11.0**
of which: Turkey	30,480	63,698	–52.1
South Africa	41,970	42,337	–0.9
North America	**459,091**	**463,388**	**–0.9**
of which: USA	318,435	311,891	+2.1
Mexico	87,199	94,050	–7.3
Canada	53,457	57,447	–6.9
South America	**255,806**	**258,550**	**–1.1**
of which: Brazil	190,161	157,917	+20.4
Argentina	38,019	71,479	–46.8
Asia-Pacific	**2,051,094**	**2,155,381**	**–4.8**
of which: China	1,914,071	1,992,359	–3.9
Japan	39,169	43,992	–11.0
India	25,264	30,831	–18.1
Worldwide	**5,242,011**	**5,407,298**	**–3.1**
Volkswagen Passenger Cars	2,998,182	3,118,702	–3.9
Audi	906,180	949,233	–4.5
ŠKODA	620,935	652,735	–4.9
SEAT	314,279	289,946	+8.4
Bentley	4,785	4,430	+8.0
Lamborghini	4,553	2,327	+95.7
Porsche	133,484	130,598	+2.2
Bugatti	42	34	+23.5
Volkswagen Commercial Vehicles	259,571	259,293	+0.1

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure. The figures include the Chinese joint ventures.

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



Deliveries in North America

In a declining market for passenger cars and light commercial vehicles in North America, demand for Group models fell by 0.9% from January to June this year compared to the same period of 2018. The Group's share of the market in this region amounted to 4.6 (4.5)%. The Tiguan Allspace and Jetta from Volkswagen Passenger Cars were the Volkswagen Group's most in-demand models in North America.

In the first six months of 2019, the Volkswagen Group delivered 2.1% more vehicles to customers in the declining US market than in the same period of the previous year. The biggest increases of all Group models were recorded by the Jetta, Tiguan Allspace and Atlas from the Volkswagen Passenger Cars brand, the Audi Q5, Audi A6 and Porsche Cayenne. The Audi e-tron was successfully rolled out.

In Canada, deliveries to Volkswagen Group customers fell by 6.9% year-on-year in the reporting period. The market as a whole also declined during this period. The Tiguan Allspace and Jetta models from Volkswagen Passenger Cars were particularly popular.

In a weaker overall market in Mexico, we handed over 7.3% fewer vehicles to customers than in the same period of the previous year. The Group models with the highest volume of demand were the Vento, Jetta and Tiguan Allspace from the Volkswagen Passenger Cars brand.

Deliveries in South America

In the South American passenger car and light commercial vehicles markets, the number of Group models delivered to customers fell by 1.1% year-on-year in the first half of 2019. The Gol and Polo from the Volkswagen Passenger Cars brand achieved the highest demand volume of all Group models. The T-Cross from Volkswagen Passenger Cars was successfully introduced to the market. The Group's share of the market in South America was 12.2 (11.6)%.

The Volkswagen Group benefited from the sustained recovery in the Brazilian market and recorded a year-on-year increase of 20.4% in its sales to customers there during the reporting period. This was due primarily to the market launch of the new T-Cross from the Volkswagen Passenger Cars brand, as well as the success of the Virtus, Jetta and Tiguan Allspace from Volkswagen Passenger Cars, which had been introduced as new or successor models to the market in the previous year. Demand for this brand's Fox, Polo and Gol models as well as for the Amarok from Volkswagen Commercial Vehicles, was also very encouraging.

In Argentina, the number of vehicles delivered to Volkswagen Group customers in the first six months of 2019 fell by almost half compared to the prior-year period amid a dramatic contraction in the market as a whole. The Gol and Suran from Volkswagen Passenger Cars and the Amarok from Volkswagen Commercial Vehicles saw the highest demand of all Group models. The Virtus and Tiguan Allspace models, newly introduced by the Volkswagen Passenger Cars brand in the previous year, were also well received by customers.

Deliveries in the Asia-Pacific region

The Volkswagen Group recorded a decline in demand in the Asia-Pacific region from January to June 2019 amid market conditions that continued to be difficult, delivering 4.8% fewer vehicles to customers than a year earlier. The Group's share of the passenger car market in this region was at 12.1 (12.0)%.

In China, the number of Group models sold during the reporting period fell by 3.9% year-on-year. Pull-forward effects resulting from the new C6 emission standard, which applies there from July 2019 had a positive impact on sales in the month of June. The T-Roc, Tayron, Tharu, Bora and Lavida models from Volkswagen Passenger Cars, the Audi Q2L and Q5L, the ŠKODA Karoq and Kamiq, and the Porsche Cayenne, all of which had been introduced as new or successor models in the previous year, were in especially high demand. The T-Cross, Polo, Sagitar and Teramont X models from the Volkswagen Passenger Cars brand and the Audi Q3 and Audi A6L were successfully launched on the market as new or successor models during the reporting period.

In the Indian passenger car market, deliveries to Volkswagen Group customers in the first half of 2019 were 18.1% down on the previous year's figure. Of the Group's models, the Polo from Volkswagen Passenger Cars was the most popular there.

In Japan, we handed over 11.0% fewer vehicles to customers than in same period of the previous year. The Tiguan from the Volkswagen Passenger Cars brand, the Audi Q5 and the Porsche 911 all recorded encouraging growth in demand.

COMMERCIAL VEHICLE DELIVERIES

In the first six months of 2019, the Volkswagen Group delivered a total of 123,336 commercial vehicles to customers worldwide (+10.0%). Trucks accounted for 105,846 units (+8.3%) and buses for 10,224 units (–9.1%). Deliveries of light commercial vehicles of the MAN brand amounted to 7,266 (3,178) units.

In Western Europe, sales increased by 20.8% compared with the corresponding prior-year period to a total of 62,692 units, of which 53,602 were trucks and 2,750 were buses. Here, the MAN brand delivered 6,340 light commercial vehicles.

In the period from January to June 2019, deliveries in the markets of the Central and Eastern Europe region rose by 6.2% to 19,590 vehicles; of this figure, 18,166 were trucks, 718 were buses and 706 were light commercial vehicles. In Russia, the region's largest market, sales declined year-on-year by 26.6% to 3,817 units.

In the Other markets, particularly in Turkey, deliveries of Volkswagen Group commercial vehicles decreased by 40.2% year-on-year to a total of 5,809 units; of this figure 4.923 were trucks and 668 were buses.

Sales in North America declined in the first half of 2019 to 1,481 vehicles (–8.1%), which were handed over almost exclusively to customers in Mexico; this included 636 trucks and 845 buses.

Deliveries in South America rose to a total of 27,552 vehicles (+23.1%); of which 23,068 were trucks and 4,484 were buses. Following continued improvement in the economic climate in Brazil, we were able to increase our sales here by 45.7%. Of the units delivered, 20,732 were trucks and 3,254 were buses.

In the Asia-Pacific region, the Volkswagen Group sold 6,212 vehicles to customers in the reporting period; among these 5,451 were trucks and 759 were buses. Overall, this was 23.0% less than in the previous year. In China, sales increased by 21.2% to 2,500 vehicles, of which 2,351 were trucks and 149 were buses.

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

	DELIVERIES (UNITS)		CHANGE
	2019	2018	(%)
Europe/Other markets	**88,091**	**80,068**	+10.0
Western Europe	62,692	51,897	+20.8
Central and Eastern Europe	19,590	18,449	+6.2
Other markets	5,809	9,722	–40.2
North America	**1,481**	**1,612**	**–8.1**
South America	**27,552**	**22,388**	**+23.1**
of which: Brazil	23,986	16,466	+45.7
Asia-Pacific	**6,212**	**8,066**	**–23.0**
of which: China	2,500	2,062	+21.2
Worldwide	**123,336**	**112,134**	**+10.0**
Scania	51,524	46,778	+10.1
MAN	71,812	65,356	+9.9

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure.

DELIVERIES IN THE POWER ENGINEERING SEGMENT

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

In the period from January to June 2019, sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated more than two-thirds of overall sales revenue.

GROUP FINANCIAL SERVICES

The Financial Services Division includes the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania and Porsche Holding Salzburg. As of January 1, 2019, contracts signed by our international joint ventures are also included; the comparison figures have been adjusted accordingly.

The Financial Services Division's products and services were very popular in the period from January to June 2019. The number of new financing, leasing, service and insurance contracts signed worldwide stood at 4.5 (4.5) million. The ratio of leased and financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets amounted to 34.5 (34.1)% in the first six months of 2019. As of June 30, 2019, the total number of contracts was 23.2 million, 4.8% higher than on December 31, 2018.

In the Europe/Other markets region, the number of new contracts signed in the reporting period increased by 3.8% to 3.5 million. At 17.1 million at the end of June 2019, the total number of contracts exceeded the year-end figure for 2018 by 6.1%. Of these contracts, 7.5 million (+4.5%) related to the Customer Financing/Leasing area.

In North America, the number of new contracts signed in the first six months of 2019 fell by 5.8% year-on-year to 473 thousand. At 3.1 (3.0) million, the number of contracts at the end of June 2019 was slightly up on the figure at year-end 2018. The Customer Financing/Leasing area recorded 1.9 (1.9) million contracts.

In South America, the initial consolidation of Porsche Volkswagen Servicios Financieros Chile S.p.A. led to a considerable increase in the number of contracts. A total of 151 (138) thousand new contracts were concluded in the first two quarters of this year. At 628 (589) thousand, the total number of contracts at the end of June 2019 exceeded the figure on December 31, 2018. The contracts mainly related to the Customer Financing/Leasing area.

At 454 thousand, the number of new contracts signed in the Asia-Pacific region in the first six months of 2019 was 6.4% lower than a year earlier. The total number of contracts at the end of the reporting period stood at 2.4 million. This was 1.1% higher than at the end of 2018. The Customer Financing/Leasing area accounted for 1.8 million contracts (+0.7%).

SALES TO THE DEALER ORGANIZATION

In the first six months of 2019, the Volkswagen Group's unit sales to the dealer organization (including the Chinese joint ventures) fell by 4.2% on the prior-year period to 5,338,759 vehicles. This was due to lower demand, especially in China, Turkey and Argentina. Unit sales outside Germany declined by 5.2% compared to the period from January to June 2018. In Germany, unit sales rose by 2.3% year-on-year. Vehicles sold in Germany as a proportion of overall sales increased to 13.3 (12.5)%.

PRODUCTION

Between January and June 2019, the Volkswagen Group's production decreased by 6.3% year-on-year to a total of 5,421,876 vehicles. Production in Germany fell by 14.7% to 1,132,455 units. The proportion of production in Germany declined to 20.9 (22.9)%.

INVENTORIES

Global inventories at Group companies and in the dealer organization were higher on June 30, 2019 than at year-end 2018 but below the corresponding prior-year figure.

EMPLOYEES

The Volkswagen Group had 636,988 active employees on June 30, 2019. A further 9,402 employees were in the passive phase of their partial retirement. In addition, there were 16,397 young people in vocational traineeships. At the end of the first half of the year of 2019, the Volkswagen Group had a total of 662,787 employees worldwide. This was roughly on a level with the figure at year-end 2018. At 291,717, the number of employees in Germany was also almost on a level with the end of 2018.

Results of Operations, Financial Position and Net Assets

APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

The new accounting standard IFRS 16, which came into effect on January 1, 2019, amends the previous lease accounting rules with the central aim of recognizing all leases in the balance sheet. Accordingly, it establishes that lessees are no longer required to classify their leases as either finance leases or operating leases. They will instead generally be required to recognize a right-of-use asset and a lease liability for every lease in the balance sheet. The right-of-use assets are recognized in the balance sheet under those items in which the assets underlying the lease would have been reported if they were owned by the Volkswagen Group. Using the modified retrospective method (adjustments to the opening balance sheet), right-of-use assets were recognized under noncurrent assets and lease liabilities as financial liabilities for the first time as of January 1, 2019. This led to an increase in total assets but did not affect equity.

The new approach results in a slight increase in operating profit in 2019, because the only items allocated to operating profit as from January 1, 2019 are depreciation charges on right-of-use assets. Interest expenses on lease liabilities in the Automotive Division are recognized in the financial result and have a corresponding negative impact here.

In the cash flow statement, the modified presentation of leases in the statement of income as a result of the new IFRS 16 is expected to have a positive effect on full-year gross cash flow, and therefore subsequently also on net cash flow (depreciation is a non-cash expense) in an amount in the mid three-digit million euro range. Repayments of the principal portion of the lease liability have a corresponding negative impact on cash flows from financing activities.

The initial recognition of lease liabilities as financial liabilities in the balance sheet led to a significant increase in third-party borrowings in the cash flow statement, which in turn resulted in a negative one-off effect of €–4.8 billion on the disclosure of the Automotive Division’s net liquidity as of January 1, 2019.

The prior-year figures have not been adjusted.

NEW REPORTING STRUCTURE

Since January 1, 2019, we have allocated the Volkswagen Commercial Vehicles brand to the Passenger Cars segment and renamed the segment Passenger Cars and Light Commercial Vehicles. Consequently, the Passenger Cars Business Area includes the Volkswagen Commercial Vehicles brand in the financial reporting. The Commercial Vehicles segment will continue to correspond to the Commercial Vehicles Business Area, but now excluding the Volkswagen Commercial Vehicles brand. The prior-year figures have been adjusted. The Automotive Division will remain unchanged.

SPECIAL ITEMS

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

In the first half of 2019, negative special items in connection with the diesel issue affected the Passenger Cars Business Area’s operating profit in an amount of €–1.0 (–1.6) billion. They are attributable to the administrative fine order of €0.5 billion issued by the Stuttgart Office of the Public Prosecutor, which ended the ongoing regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG, and higher legal defense costs.

COMPENSATION PAID TO THE NONCONTROLLING INTEREST SHAREHOLDERS OF MAN SE

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of January 1, 2019. Following the announcement that the termination of the control and profit and loss transfer agreement had been recorded in the commercial register, the noncontrolling shareholders of MAN SE were entitled under the provisions of the control and profit and loss transfer agreement to tender their shares to Volkswagen within a two-month period. This resulted in cash outflows of €1.1 billion in the first half of this year for the acquisition of tendered shares and for compensation payments. The “Put options and compensation rights granted to noncontrolling interest shareholders” item reported in the balance sheet was reduced accordingly. The put options granted to noncontrolling interest shareholders of MAN SE expired on March 4, 2019. The remaining amount of €0.7 billion was reclassified directly to equity; €0.3 billion of this amount is attributable to noncontrolling interests.

IPO OF TRATON SE

Since June 28, 2019, shares of TRATON SE have been traded on the regulated market of the Frankfurt Stock Exchange and the NASDAQ Stockholm Exchange. The offer price was set at €27.00 per share. This led to an increase of €1.4 billion in the

Volkswagen Group's equity, of which €1.2 billion is reported as noncontrolling interests. The payment claim of €1.4 billion from the sale of the shares were recognized as a receivable in the balance sheet as of June 30, 2019; the cash inflow occurred at the beginning of the third quarter of 2019.

RESULTS OF OPERATIONS OF THE GROUP

Between January and June 2019, the Volkswagen Group generated sales revenue of €125.2 billion, thus exceeding the prior-year figure by 4.9%. Despite the negative volume trend, sales revenue increased, mainly because of mix and price improvements and the healthy business performance in the Financial Services Division. The proportion of sales revenue generated abroad amounted to 80.8 (79.8)%. Gross profit was on a level with the previous year, at €24.7 (24.8) billion. The gross margin stood at 19.8 (20.8)%.

The Volkswagen Group's operating profit before special items rose by €0.2 billion to €10.0 billion in the first half of 2019, while the operating return on sales before special items amounted to 8.0 (8.2)%. Improvements in the mix and in price positioning, as well as a year-on-year decline in special items, more than offset the rise in fixed costs, negative exchange rate movements and lower vehicle sales. As a result, the Volkswagen Group's operating profit of €9.0 billion was up €0.8 billion compared with the prior-year figure. The operating return on sales increased to 7.2 (6.8)%.

The financial result fell by €0.3 billion to €0.6 billion. The decrease is mainly attributable to higher interest expenses, which were driven up by the rise in the refinancing volume, the interest expense on provisions and the application of the new IFRS 16. The result of equity-accounted investments and the result of the Chinese joint ventures included in that item were down slightly on the previous year. The remeasurement of put options and compensation rights in connection with the control and profit and loss transfer agreement with MAN SE had had a negative impact in the prior-year period.

The Volkswagen Group's profit before tax, which amounted to €9.6 billion, exceeded the previous year's figure by €0.6 billion. Profit after tax of €7.2 billion was also €0.6 billion higher than at the end of the first half of 2018.

Results of operations in the Automotive Division

The Automotive Division's sales revenue amounted to €106.1 billion in the period from January to June 2019, 4.3% more than in the previous year. The rise resulted mainly from improvements in the mix and in price positioning, while a decline in volumes had a negative effect. Sales revenue in the Passenger Cars, Commercial Vehicles and Power Engineering Business Areas exceeded the respective prior-year figures, in some cases significantly. As our Chinese joint ventures are accounted for using the equity method, the Group's performance in the Chinese passenger car market is mainly reflected in consolidated sales revenue only through deliveries of vehicles and vehicle parts.

Cost of sales rose faster than sales revenue, driven primarily by higher depreciation and amortization charges due to the large volume of capital expenditure as well as higher research and development costs recognized in profit or loss. The ratio of cost of sales to sales revenue was also up on the prior-year period. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) stood at 6.6 (6.6)% in the reporting period.

Both distribution expenses and their ratio to sales revenue declined in the period from January to June 2019. There was a rise in administrative expenses and their ratio to sales revenue. The other operating result amounted to €–0.8 (–1.9) billion. A year-on-year decline, to €–1.0 (–1.6) billion, in special items related to the diesel issue, lower exchange rate losses and a decrease in net fair value losses on derivatives to which hedge accounting is not applied had a positive impact.

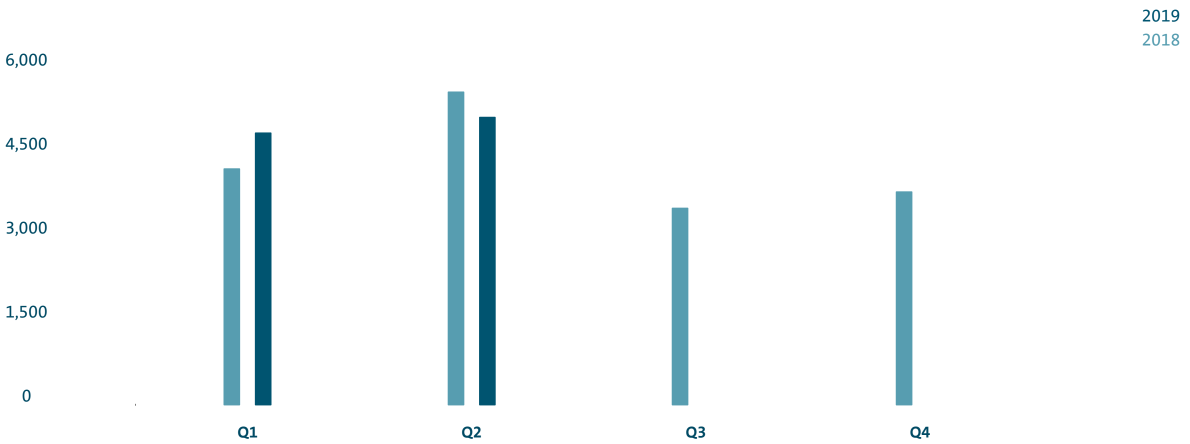
At €7.6 billion, the Automotive Division's operating profit of the first six months of 2019 was €0.7 billion higher than the prior-year figure. The increase was particularly attributable to mix and price positioning improvements and a year-on-year decline in negative special items. A contraction in new vehicle sales and higher depreciation and amortization charges as well as research and development costs had an offsetting effect. The operating return on sales increased to 7.2 (6.8)%. Excluding special items, the Automotive Division's operating profit was on a level with the previous year at €8.6 (8.5) billion. The operating return on sales before special items was 8.1 (8.4)%. Since the profit recorded by joint ventures is accounted for in the financial result using

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

€ million	2019	2018
Passenger Cars[1]		
Sales revenue	90,942	88,090
Operating result	6,693	6,217
Operating return on sales (%)	7.4	7.1
Commercial Vehicles[1]		
Sales revenue	13,320	11,988
Operating result	959	707
Operating return on sales (%)	7.2	5.9
Power Engineering		
Sales revenue	1,864	1,637
Operating result	–63	–58
Operating return on sales (%)	–3.4	–3.5

1 The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

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



the equity method, the business growth of our Chinese joint ventures is primarily reflected in the operating profit only through deliveries of vehicles and vehicle parts, and through license income.

Results of operations in the Financial Services Division

In the first six months of 2019, the Financial Services Division recorded sales revenue of €19.1 billion; the year-on-year increase of 8.0% was primarily attributable to a rise in business volumes.

Cost of sales expanded by €1.2 billion to €15.6 billion, growing slightly faster than sales revenue. Distribution expenses increased due to volume effects, while their ratio to sales revenue was largely unchanged. Administrative expenses and their ratio to sales revenue were both lower.

The operating profit of the Financial Services Division totaled €1.4 billion, exceeding the prior-year figure by 8.9%. The operating return on sales was 7.4 (7.3)%.

FINANCIAL POSITION OF THE GROUP

In the first half of 2019, the Volkswagen Group's gross cash flow was €20.7 billion, up €0.4 billion on the prior-year figure. The change in working capital amounted to €–14.3 (–15.5) billion. Included in the special items recognized in the first six months of 2019 is a cash outflow related to the payment of an administrative fine following the regulatory offense proceeding. Cash flows from operating activities rose to €6.4 (4.8) billion.

The Volkswagen Group's investing activities attributable to operating activities stood at €8.1 billion in the reporting period, €0.9 billion more than in the previous year.

Financing activities led to a cash outflow of €–2.1 billion, compared with an inflow of €6.4 billion in the previous year. Financing activities primarily include the dividend paid to the shareholders of Volkswagen AG, the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement, and the issuance and redemption of bonds and other financial liabilities. Following the application of the new IFRS 16, payments for the principal portion of the lease liability have to be recognized under financing activities since January 1, 2019.

At the end of the first half of 2019, the Volkswagen Group's cash and cash equivalents reported in the cash flow statement were €23.0 (21.2) billion.

On June 30, 2019, the Volkswagen Group's net liquidity was €–146.6 billion, compared with €–134.7 billion at the end of 2018.

Financial position of the Automotive Division

In the period from January to June 2019, the Automotive Division generated gross cash flow of €15.9 (15.5) billion. The increase mainly resulted from higher profits and positive effects of the application of the new IFRS 16. The dividend of the Chinese joint venture FAW-Volkswagen, which has not yet been resolved in the reporting period, had a negative influence compared with the previous year. The change in working capital amounted to €–2.4 (–5.2) billion. The dividend of FAW-Volkswagen, which was not yet recognized as a receivable, and a smaller increase in inventories had a positive effect. The cash outflows attributable to the diesel issue were significantly lower than in the prior-year period. Cash flows from operating activities were up by €3.3 billion to €13.5 billion.

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

€ million	2019	2018
Passenger Cars[1]		
Gross cash flow	14,002	13,826
Change in working capital	–769	–3,802
Cash flows from operating activities	13,233	10,024
Cash flows from investing activities attributable to operating activities	–9,232	–6,270
Net cash flow	4,001	3,754
Commercial Vehicles[1]		
Gross cash flow	1,772	1,468
Change in working capital	–1,399	–1,182
Cash flows from operating activities	373	286
Cash flows from investing activities attributable to operating activities	1,412	–533
Net cash flow	1,784	–247
Power Engineering		
Gross cash flow	121	163
Change in working capital	–204	–265
Cash flows from operating activities	–83	–102
Cash flows from investing activities attributable to operating activities	–135	–59
Net cash flow	–217	–161

1 The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

The Automotive Division's investing activities attributable to operating activities amounted to €8.0 billion in the first six months of 2019, a rise of €1.1 billion compared with the previous year. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) increased by €0.8 billion to €5.2 billion. The ratio of capex to sales revenue was 4.9 (4.3)%. Capex was invested primarily in our production facilities and in models to be launched in 2019 and 2020, as well as in the ecological focus of our model range, the electrification and digitalization of our products and in our modular toolkits. Additions to capitalized development costs declined by €0.2 billion to €2.3 billion in the period from January to June 2019. The "Acquisition and disposal of equity investments" item went up by €0.4 billion to €0.5 billion as a result of strategic investments in a number of companies.

The Automotive Division's net cash flow was €5.6 billion, €2.2 billion more than a year earlier.

Financing activities accounted for total cash flows of €–8.7 (–2.7) billion in the first six months of 2019. The dividend paid to the shareholders of Volkswagen AG in May 2019 amounted to €2.4 billion, an increase of €0.5 billion compared with the previous year. Financing activities also include the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement with MAN SE and the issuance and redemption of bonds and other financial liabilities. Since January 1, 2019, repayments of the principal portion of the lease liability have also been reported in this item, as required following the application of the new IFRS 16.

The recognition of lease liabilities as financial liabilities required by IFRS 16 led to a €5.1 billion increase in third-party borrowings in the Automotive Division as of the end of the second quarter of 2019. As a result of this non-cash effect, the Automotive Division's net liquidity of €15.9 billion reported at the end of June 2019 was down significantly on the figure of €19.4 billion as of December 31, 2018.

Financial position of the Financial Services Division

The gross cash flow recorded in the Financial Services Division was €4.8 (4.9) billion in the first half of 2019. The change in working capital of €–12.0 (–10.2) billion was attributable to an increase in funds tied up in working capital, mainly driven by the growth in business volume. As a result, cash flows from operating activities amounted to €–7.1 (–5.4) billion.

Investing activities attributable to operating activities decreased by €0.2 billion to €0.1 billion.

Financing activities resulted in a cash inflow of €6.6 (9.1) billion in the Financial Services Division in the period from January to June 2019. This figure primarily included the issuance and redemption of bonds and other financial liabilities.

On June 30, 2019, the Financial Services Division's negative net liquidity, which is common in the industry, amounted to €–162.5 billion, compared with €–154.1 billion on December 31, 2018.

CONSOLIDATED BALANCE SHEET STRUCTURE

At the end of the first six months of 2019, the Volkswagen Group's total assets had increased by 4.8% compared with the end of 2018, to €480.0 billion. The rise was mainly attributable to the growth of the Financial Services Division and the application of the new IFRS 16. The Group's equity was €118.6 billion, €1.3 billion more than at the end of 2018. The equity ratio was 24.7 (25.6)%.

Automotive Division balance sheet structure

On June 30, 2019, the Automotive Division's intangible assets were almost unchanged compared with the 2018 balance sheet date. The new IFRS 16 resulted in a marked rise in property, plant and equipment. At the end of the first half of 2019, equity-accounted investments were slightly down on the amount recognized at the end of 2018: the business results of the Chinese joint ventures for the first six months of 2019 were set against the dividend resolved by

SAIC VOLKSWAGEN. Overall, noncurrent assets were 4.3% higher than at the end of 2018.

Current assets rose by 6.7%; the inventories included in this item increased, mainly for production-related reasons. The rise in current other receivables and financial assets is primarily attributable to higher trade receivables, the receivable from the sale of the shares of TRATON SE, and the remaining portion of the dividend receivable from SAIC VOLKSWAGEN. Due among other things to the redemption of current financial liabilities, cash and cash equivalents in the Automotive Division declined by €6.7 billion to €17.5 billion.

At the end of June 2019, the Automotive Division's equity stood at €89.1 (88.9) billion. Healthy earnings growth had a positive effect. As a result of the termination of the control and profit and loss transfer agreement as of January 1, 2019, the amount of €0.7 billion remaining from the put options and compensation rights in MAN SE granted to noncontrolling interest shareholders was reclassified directly to equity; €0.3 billion of this amount had an increasing effect on noncontrolling interests. The issuance of TRATON SE shares led to a further rise of €1.2 billion. The noncontrolling interests are now held by the noncontrolling interest shareholders of TRATON, Renk and Audi. The dividend paid to the shareholders of Volkswagen AG, a rise in actuarial losses from the measurement of pension provisions, and negative effects from the measurement of derivatives recognized directly in equity had a decreasing effect on equity.

Noncurrent liabilities increased by 17.4% to a total of €91.2 billion. The noncurrent financial liabilities included in this item were much higher, mainly as a result of the application of the new IFRS 16. The rise in pension provisions was primarily due to the actuarial remeasurement following a change in the discount rate.

Current liabilities amounted to €66.5 (68.0) billion in total, down on the figure recorded at the end of 2018. As a result of the extraordinary termination of the control and profit and loss transfer agreement with MAN SE, the "put options and compensation rights granted to noncontrolling interest shareholders" account was settled: the tendered MAN shares were acquired, the cash compensation was paid and the remaining amount was reclassified directly to equity. Current financial liabilities stood at €–5.8 (–1.5) billion. The figures for the Automotive Division also contain the elimination of intragroup transactions between the Automotive and Financial Services divisions. As the current financial liabilities for the primary Automotive Division were lower than the loans granted to the Financial Services Division in both periods, a negative amount was disclosed in each case. The marked increase in current other liabilities compared with the end of 2018 is primarily due to cyclical effects in the buyback business.

At €246.9 billion, the Automotive Division's total assets at the end of the first six months of 2019 were 5.3% up on the figure reported on December 31, 2018.

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

€ million	Jun. 30, 2019	Dec. 31, 2018
Passenger Cars[1]		
Noncurrent assets	121,915	116,537
Current assets	80,752	70,408
Total assets	**202,667**	**186,945**
Equity	72,894	72,110
Noncurrent liabilities	79,382	66,406
Current liabilities	50,391	48,429
Commercial Vehicles[1]		
Noncurrent assets	24,813	24,117
Current assets	13,084	17,366
Total assets	**37,897**	**41,483**
Equity	13,377	13,788
Noncurrent liabilities	10,938	10,532
Current liabilities	13,582	17,162
Power Engineering		
Noncurrent assets	2,638	2,499
Current assets	3,693	3,597
Total assets	**6,331**	**6,097**
Equity	2,869	2,953
Noncurrent liabilities	906	754
Current liabilities	2,556	2,391

1 The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

Financial Services Division balance sheet structure

The Financial Services Division had total assets of €233.1 billion on June 30, 2019, 4.2% more than at the end of 2018.

Noncurrent assets were up by 5.7% in total. The property, plant and equipment included in this item decreased. Investment property and lease assets rose due to business growth and as a result of the application of the new IFRS 16, while other receivables and financial assets declined by a corresponding amount. Noncurrent financial services receivables increased, driven by higher volumes.

Current assets were 2.1% up on the figure as of December 31, 2018. Current other receivables and financial assets declined considerably, while current financial services receivables increased. As of the balance sheet date, cash and cash equivalents in the Financial Services Division rose by €3.5 billion to €8.3 billion.

At the end of the first half of 2019, the Financial Services Division accounted for around 48.6 (48.8)% of the Volkswagen Group's assets.

At the end of the reporting period, the Financial Services Division's equity stood at €29.5 billion, 3.5% higher than on December 31, 2018 due to earnings-related factors. The equity ratio was 12.7 (12.7)%.

Noncurrent liabilities rose by 8.4%, due mainly to higher noncurrent financial liabilities to refinance the business volume.

Current liabilities amounting to €100.4 (100.0) billion were on a level with the end of December 2018.

Deposits from the direct banking business totaled €31.4 (29.9) billion at the end of June 2019, slightly above the figure at the end of 2018.

REPORT ON EXPECTED DEVELOPMENTS, RISKS AND OPPORTUNITIES

Special items resulting from the diesel issue had a negative impact on operating profit in the reporting period. Our forecast for operating profit before special items for the Group and the Passenger Cars Business Area remains unchanged. We have reduced the forecast for operating profit including special items. For the Power Engineering Business Area, we anticipate a distinctly higher operating loss due to expenses.

The Outlook for fiscal year 2019 can be found on page 23.

Diesel issue

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

In a pending class action lawsuit in Brazil involving some 17 thousand vehicles, an appeals court rendered a judgment in May 2019 that only partially upheld the lower court's decision. The judgment initially reduced the damage liability of Volkswagen do Brasil significantly to an amount fixed at €35 million plus interest. This amount can increase as a result of the adjudicated inflation rate and the assertion of individual claims alleging declines in the value of affected Amarok vehicles. The judgment remains non-final.

In Italy, the court decision dismissing the class action filed by the consumer association Codacons as inadmissible has become legally final.

In Germany more than 60,000 individual lawsuits of automobile purchasers are now pending against Volkswagen AG or other Group companies, with the plaintiffs suing for damages or rescission of the contract in most cases.

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

The Braunschweig Office of the Public Prosecutor has issued indictments against, among other persons, a former chairman of the Board of Management of Volkswagen AG. Based on the information available at the present time, no change in the risk situation of the Volkswagen Group results from the indictment of this former chairman of the Board of Management.

The administrative fine order issued on May 7, 2019 by the Stuttgart Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against Dr. Ing. h.c. F. Porsche AG in connection with the diesel issue. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit "Prüffeld Entwicklung Gesamtfahrzeug/Qualität" (Overall Vehicle Development/Quality - Testing Facility). The administrative order imposes a total fine of €535 million, consisting of a penalty payment of €4 million and the forfeiture of economic benefits in the amount of €531 million. After thorough examination, Dr. Ing. h.c. F. Porsche AG has accepted the fine and paid it in full, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG. Further sanctions against or forfeitures by Dr. Ing. h.c. F. Porsche AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

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

Holding that the factual situation at issue is by and large already covered by the model case proceedings being heard by the Braunschweig Higher Regional Court and that these proceedings, being paramount in this regard, preclude further such actions, the Stuttgart Higher Regional Court in March 2019 refused to proceed with the capital investor model cases that had been referred to it by the Stuttgart Regional Court. The plaintiff side has appealed one of these decisions to the Federal Court of Justice.

4. Proceedings in the USA/Canada

With respect to the consumer protection claims asserted by the New Mexico Attorney General against Volkswagen AG and certain affiliates, in March 2019 a New Mexico state court denied Volkswagen's motion to dismiss those claims, and in April 2019 the court declined to grant Volkswagen permission to appeal that decision.

Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliated companies continue to litigate claims asserted by the attorneys general of certain U.S. states and municipalities based on alleged violations of local environmental laws. In March 2019, the Tennessee Court of Appeals dismissed the claims of the Attorney General of the State of Tennessee as preempted by federal law. The Tennessee Attorney General declined to pursue further appeal so the decision of the Tennessee Court of Appeals is final. Also in March 2019, the New Mexico Attorney General voluntarily dismissed its environmental claims, and the Alabama Attorney General declined to appeal the dismissal of its claims against Volkswagen AG by the Alabama Supreme Court.

In March 2019 the U.S. Securities and Exchange Commission filed a lawsuit against Volkswagen AG, Volkswagen Group of America Finance, LLC, VW Credit, Inc. and a former chairman of the Board of Management of Volkswagen AG, asserting claims under U.S. federal securities law and alleging misstatements and omissions in connection with the offer and sale of certain bonds and asset-backed securities.

5. Additional proceedings
In June 2019, the Hanover Regional Court rejected the motion by three U.S. funds to replace the special auditor. This decision is not yet legally final.

Additional important legal cases

In April 2019 the European Commission issued a statement of objections to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG in connection with the Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity to comment. Volkswagen will examine the statement of objections. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of SCR systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. Volkswagen was given access to the investigation files in July 2019 and is preparing its reply to the statement of objections of the European Commission.In the same matter, the Chinese Competition Authority also issued an information request to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG in March 2019.

In the proceedings against a number of captive automobile finance companies regarding potential competition law infringements, Volkswagen AG and Volkswagen Bank GmbH filed an appeal in March 2019 against the administrative fine order issued by the Italian Competition Authority.

In June 2019, the U.S. District Court for the Northern District of California dismissed two putative class action complaints brought by purchasers of German luxury vehicles alleging that, since the 1990s, several automobile manufacturers, including Volkswagen AG and other Group companies conspired to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support the alleged anticompetitive agreements. The court granted plaintiffs the opportunity to file amended complaints.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in fiscal year 2019 contained in the combined management report in the 2018 Annual Report, specifically in the chapters "Report on Expected Developments" and "Report on Risks and Opportunities" including the sections "Risks from the diesel issue" and "Litigation/Diesel issue" and the underlying description of the issues in the chapter entitled "Diesel Issue". In particular, based on the information as it exists and has been established, there continue to be no conclusive findings or assessments available to the Board of Management of Volkswagen AG regarding the described facts that would suggest that a different assessment of the associated risks should have been made.

This report contains forward-looking statements on the business development of the Volkswagen Group. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions, and in particular for the automotive industry, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. The estimates given entail a degree of risk, and actual developments may differ from those forecast. Any changes in significant parameters relating to our key sales markets, or any significant shifts in exchange rates or raw materials relevant to the Volkswagen Group, will have a corresponding effect on the development of our business. In addition, expected business development may vary if the assessments of the factors influencing sustainable value enhancement, as well as risks and opportunities presented in the 2018 Annual Report develop in a way other than we are currently expecting, or additional risks and opportunities or other factors emerge that affect the development of our business.

Outlook

The Volkswagen Group's Board of Management expects the growth of the global economy to slow somewhat in 2019. We still believe that risks will continue to arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts. We therefore expect both the advanced economies and the emerging markets to show weaker momentum than in 2018. We anticipate the strongest rates of expansion in Asia's emerging economies.

We expect trends in the passenger car markets in the individual regions to be mixed in 2019. Overall, global demand for new vehicles will probably be slightly below the prior-year level. We anticipate that the volume of new registrations for passenger cars in Western Europe will also fall slightly short of the figure seen in the previous year. After a positive performance overall in recent years, we also estimate that demand in the German passenger car market will fall slightly year-on-year. Sales of passenger cars in 2019 are expected to slightly exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America is likely to be slightly lower than in the prior year. We expect new registrations in the South American markets for passenger cars and light commercial vehicles to be on a level with the previous year overall. The passenger car markets in the Asia-Pacific region are expected to fall slightly short of the prior-year level.

Trends in the markets for light commercial vehicles in the individual regions will be mixed again in 2019; on the whole, we anticipate a slight dip in demand.

In the markets for mid-sized and heavy trucks that are relevant for the Volkswagen Group and in the relevant markets for buses, new registrations in 2019 are expected to slightly exceed the prior-year level.

We believe that automotive financial services will continue to be very important for vehicle sales worldwide in 2019.

The Volkswagen Group is well prepared overall for the future challenges pertaining to the automobility business and the mixed developments in regional vehicle markets. Our brand diversity, our presence in all major world markets, our broad, selectively expanded product range and pioneering technologies and services put us in a good competitive position worldwide. As part of the transformation of our core business, we are positioning our Group brands with a stronger focus on their individual characteristics and optimizing the vehicle and drive portfolio. The focus hereby is primarily on our vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, we are working to make even more focused use of the advantages of our multibrand group by continuously developing new technologies and our toolkits.

We expect that deliveries to customers of the Volkswagen Group in 2019 will slightly exceed the prior-year figure amid continuously challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, exchange rate volatility and more stringent WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) requirements.

We expect the sales revenues of the Volkswagen Group and its Passenger Cars and Commercial Vehicles business areas to grow by as much as 5% year-on-year. In terms of the operating profit before special items for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2019. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of between 6.0% and 7.0%. In the Power Engineering Business Area, we expect a distinctly higher operating loss than in the previous year amid a slight rise in sales revenue. For the Financial Services Division, we are forecasting a moderate increase in sales revenues and an operating profit at the prior-year level.

After special items, we anticipate that the operating return on sales will be at the lower end of the expected range for both the Group and the Passenger Cars Business Area.

Brands and Business Fields

SALES REVENUE AND OPERATING PROFIT BY BRAND AND BUSINESS FIELD

The Volkswagen Group generated sales revenue of €125.2 (119.4) billion in the first half of 2019. Operating profit before special items improved to €10.0 (9.8) billion. The diesel issue gave rise to special items of €–1.0 (–1.6) billion in the reporting period.

Unit sales at the Volkswagen Passenger Cars brand amounted to 1.9 (1.9) million vehicles in the first six months of 2019. The T-Roc, Tiguan, Touareg and Atlas models were particularly popular. The new T-Cross was well received by the market. Sales revenue increased by 3.4% year-on-year to €44.1 billion. Operating profit before special items rose to €2.3 (2.1) billion. Improvements in the mix and price positioning as well as positive cost development more than offset the negative impact of lower volumes and exchange rates. The diesel issue gave rise to special items of €–0.4 billion in the reporting period.

Effective 2019, the multibrand sales companies are separated from the Audi brand and reported in the Others category to increase overall transparency and comparability. The Audi brand sold 632 (812) thousand vehicles worldwide between January and June of this year. The Chinese joint venture FAW-Volkswagen sold a further 258 (293) thousand Audi vehicles. The Q2 and A8 models recorded an increase in demand, the new Q8 was also popular. The Audi e-tron, the all-electric, mass-produced SUV, will be gradually introduced in the market. The new allocation of companies contributed to the decline in sales revenue, which decreased to €28.8 (31.2) billion. Operating profit was down on the prior-year period at €2.3 (2.8) billion. Negative effects resulted from model start-ups and phase-outs, WLTP-related lower volume, higher upfront expenditure for new products and technologies, cost increases and exchange rate effects. Improvements in the mix and product costs had a positive impact. The financial key performance indicators for the Audi brand include the Lamborghini and Ducati brands. Ducati sold 33,315 (33,834) motorcycles in the first half of the year 2019.

In the first six months of 2019, the ŠKODA brand lifted its unit sales to 560 thousand vehicles, 9.6% more than a year before. Above, all, the Kodiaq and Karoq models were strongly sought-after. Sales revenue increased by 10.8% year-on-year to €10.2 billion. The gain in unit sales and sales revenue was particularly due to assuming regional responsibility for India. Operating profit rose by €3 million to €824 million. Volume increases and pricing measures compensated for negative exchange rate effects and cost increases.

The SEAT brand sold 370 thousand units in the reporting period, an increase of 6.7% on the previous year. This figure includes the A1 manufactured for Audi. Demand was particularly strong for the Arona and Ateca models. At €6.3 billion, sales revenue exceeded the prior-year period's good figure by 8.3%. Volume and mix improvements boosted operating profit by 1.9% to €216 million, which more than offset the negative impact of cost increases.

The Bentley brand lifted its unit sales in the first two quarters of 2019 to 4,670 (4,520) vehicles, which was mainly the result of the availability of the new Continental GT and GTC models. Sales revenue climbed to €835 (757) million. Operating profit increased to €57 (–80) million. In addition to volume, cost savings in connection with the ongoing efficiency program as well as mix effects and exchange rate trends had a positive impact.

VOLKSWAGEN GROUP REPORTING STRUCTURE

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

Porsche Automotive sold 136 thousand vehicles worldwide in the period from January to June 2019, 10.1% more than a year before. Sales revenue amounted to €12.2 (11.2) billion. Operating profit before special items rose by 2.5% to €2.1 billion, primarily due to volume effects. In addition, product costs had a positive impact, while exchange rate trends had a negative influence. The diesel issue gave rise to special items of €–0.5 billion in the reporting period.

Global sales at Volkswagen Commercial Vehicles amounted to 256 (248) thousand vehicles in the first half of 2019. The Crafter, in particular, recorded increases. Sales revenue rose by 2.6% to €6.5 billion. Despite higher volumes, lower product costs and improved margins, operating profit declined by 10.8% to €506 million, primarily on the back of increased fixed and development costs as well as a deterioration in the mix.

From January 1, 2019, Scania's financial services business is being reported in the Other category. Scania Vehicles and Services lifted its unit sales during the reporting period to 52 (47) thousand vehicles. Sales revenue rose to €7.1 (6.3) billion. The operating profit of Scania Vehicles and Services improved to €828 (618) million, which was mainly attributable to higher vehicle sales, an improvement in the genuine parts and service business and favorable mix effects and exchange rate trends. Meanwhile, cost increases had an offsetting effect.

MAN Commercial Vehicles sold 72 thousand units in the first six months of 2019, up 9.9% year-on-year. Sales revenue rose to €6.3 (5.8) billion. Operating result fell to €248 (258) million; volume and margin improvements were set against upfront expenditure for the new truck and bus generation, cost increases and negative exchange rate effects.

In the first half of 2019, Power Engineering generated sales revenue of €1.9 (1.6) billion. At €42 (68) million, the operating result declined due to expenses.

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

	VEHICLE SALES		SALES REVENUE		OPERATING RESULT	
Thousand vehicles/€ million	2019	2018	2019	2018	2019	2018
Volkswagen Passenger Cars	1,886	1,931	44,146	42,704	2,286	2,130
Audi[1]	632	812	28,761	31,183	2,300	2,761
ŠKODA[1]	560	511	10,154	9,161	824	821
SEAT	370	347	6,266	5,786	216	212
Bentley	5	5	835	757	57	–80
Porsche Automotive[2]	136	123	12,212	11,231	2,117	2,064
Volkswagen Commercial Vehicles	256	248	6,489	6,324	506	567
Scania Vehicles and Services[3]	52	47	7,115	6,322	828	618
MAN Commercial Vehicles	72	65	6,283	5,814	248	258
Power Engineering	–	–	1,864	1,637	42	68
VW China[4]	1,789	1,999	–	–	–	–
Other[5]	–418	–512	–16,919	–18,206	–727	–856
Volkswagen Financial Services	–	–	17,992	16,664	1,281	1,231
Volkswagen Group before special items	**–**	**–**	**–**	**–**	**9,979**	**9,794**
Special items	–	–	–	–	–981	–1,635
Volkswagen Group	**5,339**	**5,575**	**125,197**	**119,377**	**8,997**	**8,160**
Automotive Division[6]	5,339	5,575	106,126	101,715	7,589	6,866
of which: Passenger Cars Business Area[7]	5,215	5,463	90,942	88,090	6,693	6,217
Commercial Vehicles Business Area[7]	124	113	13,320	11,988	959	707
Power Engineering Business Area	–	–	1,864	1,637	–63	–58
Financial Services Division	–	–	19,071	17,662	1,409	1,294

1 2019 according to the new allocation of companies; the prior-year figures have not been adjusted.
2 Porsche (including Financial Services): sales revenue €13,405 (12,287) million, operating profit before special items €2,209 (2,154) million.
3 Scania (including Financial Services): sales revenue €7,336 (6,515) million, operating profit €895 (684) million.
4 The sales revenue and operating profits of the joint venture companies in China are not included in the figures for the Group. These Chinese companies are accounted for using the equity method and recorded a proportionate operating profit of €2,103 (2,318) million.
5 In operating profit, mainly intragroup items recognized in profit or loss, in particular from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocation as well as companies not allocated to the brands.
6 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
7 The Volkswagen Commercial Vehicles brand has been reported as part of the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

Since January 1, 2019, Volkswagen Financial Services has also included the contracts concluded by the international joint ventures in its figures. The prior-year figures have been adjusted. The number of new financing, leasing, service and insurance contracts signed in the period from January to June 2019 was 4.1 (4.1) million. Based on unchanged credit eligibility criteria, the penetration rate, expressed as the ratio of leased or financed vehicles to relevant Group delivery volumes, amounted to 34.1 (33.7)%. At the end of the reporting period, there was a total of 20.9 million contracts, thus exceeding the figure for year-end 2018 by 3.2%, while it improved by 2.9% to 11.0 million contracts in the customer financing/leasing area. At 9.9 (9.6) million, the number of contracts in the service/insurance area saw an increase. As of June 30, 2019, Volkswagen Bank managed around 1.5 (1.5) million deposit accounts. The operating profit improved by 4.0% to €1.3 billion in the reporting period, driven by growth in business and exchange rate effects.

UNIT SALES AND SALES REVENUE BY MARKET

In the Europe/Other markets region, the Volkswagen Group's unit sales amounted to 2.5 million vehicles in the first half of 2019; a decrease of 2.5% compared with the previous year, which was caused by, among other things, the WLTP. Mix improvements increased sales revenue to €77.3 (76.4) billion.

At 486 thousand vehicles, the Volkswagen Group's unit sales in the North American markets were up by 12.2% in the reporting period. Sales revenue rose by 22.7% to €21.8 billion, primarily due to higher volumes and positive exchange rate effects.

In South America we sold 280 (293) thousand vehicles in the period from January to June of this year. Sales revenue was in line with the prior-year level at €5.2 (5.2) billion.

In the Asia-Pacific region, sales by the Volkswagen Group – including the Chinese joint ventures – fell to a total of 2.0 (2.2) million vehicles in the first two quarters of 2019. Sales revenue rose by 9.5% to €20.8 billion due to mix effects and the improved components business. This figure does not include the sales revenue of our Chinese joint ventures, as these are accounted for using the equity method.

In the first six months of 2019, hedging transactions relating to sales revenue in foreign currency increased Volkswagen Group's sales revenue by €0.1 (1.0) billion.

KEY FIGURES BY MARKET FROM JANUARY 1 TO JUNE 30

	VEHICLE SALES		SALES REVENUE	
Thousand vehicles/€ million	2019	2018	2019	2018
Europe/Other markets	2,543	2,608	77,251	76,414
North America	486	433	21,762	17,730
South America	280	293	5,247	5,236
Asia-Pacific[1]	2,029	2,241	20,797	18,996
Hedges on sales revenue	–	–	140	1,000
Volkswagen Group[1]	**5,339**	**5,575**	**125,197**	**119,377**

1 The sales revenue of the joint venture companies in China is not included in the figures for the Group and the Asia-Pacific market.

Interim Consolidated Financial Statements (Condensed)

Income Statement for the Period January 1 to June 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Sales revenue	**125,197**	**119,377**	**106,126**	**101,715**	**19,071**	**17,662**
Cost of sales	–100,454	–94,549	–84,883	–80,182	–15,571	–14,367
Gross result	**24,743**	**24,828**	**21,242**	**21,533**	**3,501**	**3,295**
Distribution expenses	–9,997	–10,244	–9,223	–9,547	–774	–697
Administrative expenses	–4,523	–4,226	–3,599	–3,250	–924	–976
Other operating income/expense	–1,226	–2,198	–832	–1,870	–394	–328
Operating result	**8,997**	**8,160**	**7,589**	**6,866**	**1,409**	**1,294**
Share of the result of equity-accounted investments	1,599	1,680	1,570	1,641	29	39
Interest result and other financial result	–1,039	–867	–1,060	–868	21	0
Financial result	**560**	**813**	**509**	**774**	**51**	**39**
Earnings before tax	**9,557**	**8,972**	**8,098**	**7,640**	**1,459**	**1,333**
Income tax expense	–2,389	–2,360	–1,994	–1,845	–395	–515
Earnings after tax	**7,168**	**6,613**	**6,104**	**5,794**	**1,064**	**818**
of which attributable to						
Noncontrolling interests	24	5	–7	–27	31	32
Volkswagen AG hybrid capital investors	268	156	268	156	–	–
Volkswagen AG shareholders	6,875	6,452	5,843	5,665	1,033	786
Basic earnings per ordinary share (€)[2]	**13.69**	**12.85**				
Diluted earnings per ordinary share (€)[2]	**13.69**	**12.85**				
Basic earnings per preferred share (€)[2]	**13.75**	**12.91**				
Diluted earnings per preferred share (€)[2]	**13.75**	**12.91**				

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Explanatory information on earnings per share is presented in the "Earnings per share" section.

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

€ million	2019	2018
Earnings after tax	**7,168**	**6,613**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–6,494	–159
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	1,913	46
Pension plan remeasurements recognized in other comprehensive income, net of tax	–4,580	–113
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	17	32
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	19	1
Items that will not be reclassified to profit or loss	**–4,545**	**–80**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	107	–494
Transferred to profit or loss	–	–
Exchange differences on translating foreign operations, before tax	107	–494
Deferred taxes relating to exchange differences on translating foreign operations	11	6
Exchange differences on translating foreign operations, net of tax	119	–489
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	–256	–644
Transferred to profit or loss (OCI I)	–520	–1,032
Cash flow hedges (OCI I), before tax	–777	–1,675
Deferred taxes relating to cash flow hedges (OCI I)	230	472
Cash flow hedges (OCI I), net of tax	–547	–1,203
Fair value changes recognized in other comprehensive income (OCI II)	–890	–582
Transferred to profit or loss (OCI II)	497	116
Cash flow hedges (OCI II), before tax	–393	–466
Deferred taxes relating to cash flow hedges (OCI II)	116	138
Cash flow hedges (OCI II), net of tax	–277	–328
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	52	–2
Transferred to profit or loss	0	1
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	52	–1
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	–16	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	36	–1
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	58	94
Items that may be reclassified to profit or loss	**–611**	**–1,927**
Other comprehensive income, before tax	–7,410	–2,670
Deferred taxes relating to other comprehensive income	2,254	662
Other comprehensive income, net of tax	**–5,156**	**–2,008**
Total comprehensive income	**2,012**	**4,605**
of which attributable to		
Noncontrolling interests	19	4
Volkswagen AG hybrid capital investors	268	156
Volkswagen AG shareholders	1,724	4,444

Income Statement for the Period April 1 to June 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Sales revenue	**65,185**	**61,149**	**55,349**	**51,972**	**9,836**	**9,177**
Cost of sales	–52,130	–47,891	–44,078	–40,399	–8,052	–7,493
Gross result	**13,055**	**13,258**	**11,271**	**11,573**	**1,784**	**1,685**
Distribution expenses	–5,056	–5,485	–4,664	–5,102	–392	–383
Administrative expenses	–2,252	–2,101	–1,790	–1,573	–461	–529
Other operating income/expense	–618	–1,723	–394	–1,604	–223	–119
Operating result	**5,130**	**3,948**	**4,422**	**3,294**	**707**	**654**
Share of the result of equity-accounted investments	791	852	771	829	20	23
Interest result and other financial result	–434	–305	–431	–328	–3	22
Financial result	**357**	**547**	**340**	**502**	**17**	**45**
Earnings before tax	**5,486**	**4,495**	**4,762**	**3,796**	**724**	**699**
Income tax expense	–1,372	–1,182	–1,161	–836	–211	–346
Earnings after tax	**4,115**	**3,313**	**3,601**	**2,959**	**514**	**354**
of which attributable to						
Noncontrolling interests	17	3	1	–16	16	19
Volkswagen AG hybrid capital investors	134	79	134	79	–	–
Volkswagen AG shareholders	3,964	3,230	3,466	2,896	498	334
Basic earnings per ordinary share (€)[2]	**7.91**	**6.44**				
Diluted earnings per ordinary share (€)[2]	**7.91**	**6.44**				
Basic earnings per preferred share (€)[2]	**7.91**	**6.44**				
Diluted earnings per preferred share (€)[2]	**7.91**	**6.44**				

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Explanatory information on earnings per share is presented in the “Earnings per share” section.

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

€ million	2019	2018
Earnings after tax	**4,115**	**3,313**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–2,408	685
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	714	–209
Pension plan remeasurements recognized in other comprehensive income, net of tax	–1,694	477
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	–6	53
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	6	–11
Items that will not be reclassified to profit or loss	**–1,694**	**518**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–753	102
Transferred to profit or loss	–	–
Exchange differences on translating foreign operations, before tax	–753	102
Deferred taxes relating to exchange differences on translating foreign operations	–1	2
Exchange differences on translating foreign operations, net of tax	–754	103
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	1,564	–1,449
Transferred to profit or loss (OCI I)	–311	–435
Cash flow hedges (OCI I), before tax	1,253	–1,884
Deferred taxes relating to cash flow hedges (OCI I)	–364	545
Cash flow hedges (OCI I), net of tax	889	–1,339
Fair value changes recognized in other comprehensive income (OCI II)	–372	–446
Transferred to profit or loss (OCI II)	262	117
Cash flow hedges (OCI II), before tax	–110	–329
Deferred taxes relating to cash flow hedges (OCI II)	31	97
Cash flow hedges (OCI II), net of tax	–79	–232
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	28	–22
Transferred to profit or loss	0	0
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, before tax	28	–21
Deferred taxes relating to fair value valuation of securities and receivables (debt instruments) recognized in other comprehensive income	–8	5
Fair value valuation of securities and receivables (debt instruments) that may be reclassified to profit or loss, net of tax	20	–17
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–140	94
Items that may be reclassified to profit or loss	**–64**	**–1,391**
Other comprehensive income, before tax	–2,129	–1,312
Deferred taxes relating to other comprehensive income	371	440
Other comprehensive income, net of tax	**–1,758**	**–872**
Total comprehensive income	**2,357**	**2,440**
of which attributable to		
Noncontrolling interests	13	4
Volkswagen AG hybrid capital investors	134	79
Volkswagen AG shareholders	2,209	2,358

Balance Sheet as of June 30, 2019 and December 31, 2018

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Assets						
Noncurrent assets	**288,358**	**274,620**	**149,365**	**143,153**	**138,993**	**131,467**
Intangible assets	64,947	64,613	64,746	64,404	201	209
Property, plant and equipment	62,781	57,630	61,553	54,619	1,227	3,010
Lease assets	45,960	43,545	1,908	5,297	44,052	38,249
Financial services receivables	82,842	78,692	–222	9	83,064	78,684
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	31,829	30,140	21,379	18,824	10,449	11,315
Current assets	**191,623**	**183,536**	**97,530**	**91,371**	**94,093**	**92,165**
Inventories	49,786	45,745	45,263	41,302	4,523	4,443
Financial services receivables	56,744	54,216	–567	–510	57,311	54,726
Other receivables and financial assets	42,398	37,557	21,987	13,033	20,411	24,524
Marketable securities	16,918	17,080	13,347	13,376	3,571	3,703
Cash, cash equivalents and time deposits	25,778	28,938	17,501	24,169	8,277	4,769
Total assets	**479,981**	**458,156**	**246,895**	**234,524**	**233,086**	**223,632**
Equity and Liabilities						
Equity	**118,637**	**117,342**	**89,140**	**88,850**	**29,497**	**28,492**
Equity attributable to Volkswagen AG shareholders	104,410	104,522	75,531	76,624	28,879	27,898
Equity attributable to Volkswagen AG hybrid capital investors	12,471	12,596	12,471	12,596	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	116,881	117,117	88,002	89,219	28,879	27,898
Noncontrolling interests	1,756	225	1,139	–369	617	594
Noncurrent liabilities	**194,405**	**172,846**	**91,226**	**77,692**	**103,180**	**95,154**
Financial liabilities	113,537	101,126	19,026	14,187	94,510	86,939
Provisions for pensions	39,787	33,097	39,082	32,535	705	563
Other liabilities	41,082	38,623	33,117	30,970	7,965	7,652
Current liabilities	**166,939**	**167,968**	**66,529**	**67,982**	**100,410**	**99,986**
Put options and compensation rights granted to noncontrolling interest shareholders	–	1,853	–	1,853	–	–
Financial liabilities	85,514	89,757	–5,816	–1,504	91,330	91,261
Trade payables	25,187	23,607	21,873	20,962	3,314	2,645
Other liabilities	56,238	52,750	50,472	46,671	5,766	6,079
Total equity and liabilities	**479,981**	**458,156**	**246,895**	**234,524**	**233,086**	**223,632**

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

Statement of Changes in Equity

€ million	Subscribed capital	Capital reserve	Retained earnings	OTHER RESERVES Currency translation reserve
Unadjusted balance at Jan. 1, 2018	**1,283**	**14,551**	**81,367**	**–3,223**
Changes in accounting policy to reflect IFRS 9 and 15	–	–	–282	–
Balance at Jan. 1, 2018	**1,283**	**14,551**	**81,085**	**–3,223**
Earnings after tax	–	–	6,452	–
Other comprehensive income, net of tax	–	–	–113	–489
Total comprehensive income	**–**	**–**	**6,339**	**–489**
Disposal of equity instruments	–	–	–	–
Capital increases/Capital decreases[1]	–	–	–	–
Dividends payment	–	–	–1,967	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	–1	–
Balance at June 30, 2018	**1,283**	**14,551**	**85,456**	**–3,712**
Balance at Jan. 1, 2019	**1,283**	**14,551**	**91,105**	**–3,576**
Earnings after tax	–	–	6,875	–
Other comprehensive income, net of tax	–	–	–4,575	119
Total comprehensive income	**–**	**–**	**2,300**	**119**
Disposal of equity instruments	–	–	–4	–
Capital increases/Capital decreases	–	–	–	–
Dividends payment	–	–	–2,419	–
Capital transactions involving a change in ownership interest[2]	–	–	363	169
Other changes	–	–	62	–
Balance at June 30, 2019	**1,283**	**14,551**	**91,407**	**–3,288**

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

2 For the change in capital transactions involving a change in ownership interest see the section entitled “Key events”.

	HEDGING							
	Cash flow hedges (OCI I)	Deferred costs of hedging (OCI II)	Equity and debt instruments	Equity-accounted investments	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to Volkswagen AG shareholders and hybrid capital investors	Noncontrolling interests	Total equity
	3,525	**–**	**91**	**166**	**11,088**	**108,849**	**229**	**109,077**
	56	63	–225	–	–	–388	1	–387
	3,581	**63**	**–133**	**166**	**11,088**	**108,461**	**229**	**108,690**
	–	–	–	–	156	6,608	5	6,613
	–1,203	–328	31	94	–	–2,008	0	–2,008
	–1,203	**–328**	**31**	**94**	**156**	**4,600**	**4**	**4,605**
	–	–	–	–	–	–	–	–
	–	–	–	–	2,737	2,737	–	2,737
	–	–	–	–	–282	–2,249	–4	–2,253
	–	–	–	–	–	–	–	–
	–	–	–	–	70	70	2	71
	2,378	**–265**	**–102**	**260**	**13,770**	**113,619**	**231**	**113,850**
	1,790	**–629**	**–230**	**228**	**12,596**	**117,117**	**225**	**117,342**
	–	–	–	–	268	7,144	24	7,168
	–547	–277	53	76	–	–5,151	–5	–5,156
	–547	**–277**	**53**	**76**	**268**	**1,993**	**19**	**2,012**
	–	–	4	–	–	–	–	–
	–	–	–	–	–	–	–	–
	–	–	–	–	–393	–2,812	–4	–2,816
	1	0	–1	–11	–	521	1,513	2,034
	–	–	–	–	–	62	2	65
	1,243	**–906**	**–173**	**293**	**12,471**	**116,881**	**1,756**	**118,637**

Cash flow statement for the Period January 1 to June 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Cash and cash equivalents at beginning of period	**28,113**	**18,038**	**23,354**	**13,428**	**4,759**	**4,609**
Earnings before tax	9,557	8,972	8,098	7,640	1,459	1,333
Income taxes paid	–1,137	–1,459	–703	–1,682	–435	223
Depreciation and amortization expense[2]	11,975	10,745	7,900	7,388	4,075	3,357
Change in pension provisions	201	198	190	191	11	7
Share of the result of equity-accounted investments	368	1,479	397	1,519	–29	–39
Other noncash income/expense and reclassifications[3]	–220	387	12	402	–233	–15
Gross cash flow	**20,744**	**20,323**	**15,895**	**15,457**	**4,849**	**4,865**
Change in working capital	**–14,350**	**–15,487**	**–2,372**	**–5,250**	**–11,977**	**–10,237**
Change in inventories	–4,004	–5,502	–3,929	–5,663	–75	161
Change in receivables	–3,557	–7,811	–3,438	–4,541	–119	–3,270
Change in liabilities	4,636	5,663	3,851	4,391	785	1,272
Change in other provisions	879	1,428	954	1,390	–75	38
Change in lease assets (excluding depreciation)	–6,178	–5,964	126	–671	–6,303	–5,294
Change in financial services receivables	–6,127	–3,300	63	–156	–6,190	–3,144
Cash flows from operating activities	**6,394**	**4,836**	**13,523**	**10,208**	**–7,128**	**–5,372**
Cash flows from investing activities attributable to operating activities	**–8,070**	**–7,158**	**–7,955**	**–6,862**	**–115**	**–296**
of which: Investments in intangible assets (excluding capitalized development costs), property, plant and equipment, and investment property	–5,300	–4,610	–5,202	–4,398	–98	–212
capitalized development costs	–2,338	–2,490	–2,338	–2,490	–	–
acquisition and disposal of equity investments	–537	–196	–504	–80	–33	–116
Net cash flow[4]	***–1,675***	***–2,322***	***5,568***	***3,346***	***–7,243***	***–5,668***
Change in investments in securities, loans and time deposits	–1,485	–766	–5,645	2,172	4,160	–2,939
Cash flows from investing activities	**–9,555**	**–7,924**	**–13,599**	**–4,690**	**4,045**	**–3,235**
Cash flows from financing activities	**–2,142**	**6,352**	**–8,706**	**–2,722**	**6,564**	**9,074**
of which: capital transactions with noncontrolling interests	–19	–	–19	–	–	–
capital contributions/capital redemptions	–	2,732	–998	2,708	998	24
MAN noncontrolling interest shareholders: compensation payments and acquisition of shares tendered	–1,109	–1	–1,109	–1	–	–
Effect of exchange rate changes on cash and cash equivalents	195	–68	163	–69	32	1
Change of loss allowance within cash and cash equivalents	1	0	1	0	0	0
Net change in cash and cash equivalents	**–5,107**	**3,195**	**–8,620**	**2,728**	**3,513**	**468**
Cash and cash equivalents at June 30[5]	**23,006**	**21,233**	**14,734**	**16,156**	**8,272**	**5,077**
Securities, loans and time deposits	29,479	26,535	14,382	12,746	15,097	13,789
Gross liquidity	**52,485**	**47,768**	**29,116**	**28,902**	**23,369**	**18,866**
Total third-party borrowings	–199,051	–169,267	–13,211	–2,604	–185,840	–166,663
Net liquidity at June 30[6]	**–146,565**	**–121,499**	**15,905**	**26,298**	**–162,471**	**–147,797**
For information purposes: at Jan. 1	–134,735	–119,143	19,368	22,378	–154,103	–141,522

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

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

Notes to the Consolidated Financial Statements

Accounting in accordance with International Financial Reporting Standards (IFRSs)

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2018 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. These interim consolidated financial statements for the period ended June 30, 2019 were therefore also prepared in accordance with IAS 34 (Interim Financial Reporting) and are condensed in scope compared with the consolidated financial statements.

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

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

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

Accounting policies

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning on or after January 1, 2019.

IFRS 16 – LEASES

IFRS 16 amends the rules for lease accounting and replaces the previous IAS 17 standard and related interpretations.

The main objective of IFRS 16 is to recognize all leases. It establishes that lessees are no longer required to classify their leases as either finance leases or operating leases. In general, they will instead be required to recognize a right-of-use asset and a lease liability for the leases in the balance sheet. In the Volkswagen Group the lease liability is measured on the basis of the outstanding lease payments, discounted using the incremental borrowing rate, while the right-of-use asset is always measured at the amount of the lease liability plus any initial direct costs. During the lease term, the right-of-use asset must be depreciated and the lease liability adjusted using the effective interest method and taking the lease payments into account. IFRS 16 offers practical expedients for short-term and low-value leases; the Volkswagen Group makes use of this option and therefore does not recognize right-of-use assets or liabilities for these types of leases. In this respect, the lease payments will continue to be recognized in the income statement in the same way as before. At the initial application date, leases whose term ends before January 1, 2020 were reclassified as short-term leases, irrespective of the start date of the lease. In addition, existing leases were not assessed at the initial application date to determine whether or not they are leases under the criteria of IFRS 16. Instead, contracts classified as leases under IAS 17 or IFRIC 4 will continue to be accounted for as leases. Contracts not classified as leases under IAS 17 or IFRIC 4 will continue not to be accounted for as leases.

Lessor accounting essentially follows the previous guidance of IAS 17. Lessors will be required to continue to classify their leases as finance leases or operating leases on the basis of the risks and rewards incidental to ownership of the leased asset.

The Volkswagen Group accounts for leases in accordance with IFRS 16, using the modified retrospective method, for the first time as of January 1, 2019. Prior-year periods have not been restated. According to this method, the lease liability to be recognized at the transition date is the present value of the outstanding lease payments, which is determined using the incremental borrowing rates as of January 1, 2019. The weighted average interest rate applied in the Volkswagen Group was 3.7%.

To simplify, the right-of-use assets are recognized in the amount of the corresponding lease liability, adjusted for any prepaid or accrued lease payments. Applying the permitted exemption, the right-of-use asset is adjusted for the amounts that were recognized in the balance sheet as provisions for onerous operating leases as of December 31, 2018. The right-of-use assets were not tested for impairment in this context at the initial application date. The right-of-use assets are recognized in the balance sheet under those items in which the assets underlying the lease would have been reported if they were owned by the Volkswagen Group. For this reason, the right-of-use assets are presented under noncurrent assets, mostly in property, plant and equipment, as of the balance sheet date.

The initial recognition of right-of-use assets and lease liabilities had the following effects as of January 1, 2019:

- Right-of-use assets of €5.5 billion were recognized in the opening balance sheet (including €5.4 billion under property, plant and equipment and €0.1 billion under investment property). Prepayments capitalized, accrued liabilities and provisions for onerous operating leases were offset with the right-of-use assets. The right-of-use assets recognized included an amount of €0.4 billion that had already been recognized under finance leases as of December 31, 2018. In connection with the initial application of IFRS 16 there was an adjustment to the classification of noncurrent assets, resulting in the reclassification of property, plant and equipment of €0.4 billion to lease assets and investment property.
- Lease liabilities are recognized in the opening balance in an amount of €5.6 billion; they are reported under noncurrent and current financial liabilities. The lease liabilities recognized included an amount of €0.4 billion that had already been recognized under finance leases as of December 31, 2018.
- Initial application did not have any effect on equity.

The difference between the expected payments for operating leases in an amount of €4.9 billion, discounted using the incremental borrowing rate as of December 31, 2018, and the lease liabilities in an amount of €5.6 billion recognized in the opening balance sheet is mainly the result of taking account of existing finance leases and a new estimate of expected lease payments, attributable to the capitalization of certain variable lease payments, for example. The lease terms taken into account when recognizing lease liabilities were also reassessed in accordance with the rules of IFRS 16. In this process, reasonably certain extension or termination options were taken into account in determining the lease payments to be capitalized. Moreover, the opening balance sheet does not include lease payments for low-value or short-term leases.

Unlike the previous procedure, under which all operating lease expenses were reported under operating profit, the only items allocated to operating profit in the Automotive Division under IFRS 16 are depreciation charges on right-of-use assets. Interest expense from adding interest on lease liabilities in the Automotive Division is reported in the financial result. This had a positive impact of €0.1 billion on the operating result in the first half of 2019.

The change in the way expenses from operating leases are presented in the statement of cash flows resulted in an improvement of €0.5 billion in cash flows from operating activities and net cash flow in the first half of the year of 2019, of which €0.4 billion is attributable to the Automotive Division. Cash flows from financing activities declined accordingly. The increase in financial liabilities attributable to the change in accounting rules had a negative impact of €5.4 billion on the Volkswagen Group's net liquidity as of June 30, 2019, of which €5.1 billion is attributable to the Automotive Division.

This standard also results in far more extensive disclosures in the notes.

OTHER ACCOUNTING POLICIES

A discount rate of 1.2% (December 31, 2018: 2.0%) was applied to German pension provisions in the accompanying interim consolidated financial statements.

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

In other respects, the same accounting policies and consolidation methods that were used for the 2018 consolidated financial statements are generally applied to the preparation of the interim consolidated financial statements and the measurement of the prior-year comparatives. A detailed description of the policies and methods applied is published in the "Accounting policies" section of the notes to the 2018 consolidated financial statements.

In addition, details of the effects of new standards can be found in the "New and amended IFRSs not applied" section. The 2018 consolidated financial statements can also be accessed on the Internet at www.volkswagenag.com/en/InvestorRelations.html.

Key events

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NO_X) emissions had been discovered in emissions tests on certain vehicles of Volkswagen Group with type 2.0 l diesel engines in the USA. This was followed by further reports on the scope of the diesel issue. Detailed information can be found in the “Key events” section of the 2018 consolidated financial statements.

In the first half of fiscal year 2019, additional expenses of €1.0 billion had to be recognized for legal risks in this connection. They are mainly attributable to additional expenses for legal risks, in particular the administrative fine order of €0.5 billion issued in May 2019 by the Stuttgart Office of the Public Prosecutor, which ended the ongoing misdemeanor proceedings against Dr. Ing. h.c. F. Porsche AG, and higher legal defense costs.

Moreover, the publications released by the reporting date, as well as the investigations and interviews in connection with the diesel issue, did not provide the Group Board of Management with any new reliable findings or judgments regarding the underlying facts and the assessment of the associated risks (e.g. investor lawsuits) and did not reveal any material effects on the quarterly financial statements in the reporting period.

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

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary notice as of January 1, 2019. Following the announcement of the termination of the control and profit and loss transfer agreement and the recording thereof in the commercial register, the noncontrolling shareholders of MAN SE had the right to tender their shares to Volkswagen, pursuant to the provisions of the control and profit and loss transfer agreement, within a two-month period. This resulted in cash outflows of €1.1 billion in the first half of this year for the acquisition of shares tendered and compensation payments. There was a corresponding decline in the amount of “put options and compensation rights granted to noncontrolling interest shareholders” reported in the balance sheet. The put options granted to noncontrolling interest shareholders of MAN SE expired on March 4, 2019. The remaining liability of €0.7 billion was reclassified directly to equity; €0.3 billion of this amount is attributable to noncontrolling interests.

Since June 28, 2019, 50 million shares of TRATON SE have been traded on the regulated markets of the Frankfurt Stock Exchange and of the Nasdaq Stockholm. The offer price was set at €27.00 per share. This led to an increase of €1.4 billion in the Volkswagen Group’s equity, of which €1.2 billion is reported as noncontrolling interests. The cash inflow of €1.4 billion occurred at the beginning of the third quarter of 2019.

In addition, if the banks in the consortium exercised the greenshoe option of up to 7.5 million shares, additional shares could be offered at the offer price in the third quarter of 2019.

Basis of consolidation

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

Disclosures on the interim consolidated financial statements

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE H1 2018[1]

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	73,595	7,641	–	–	81,235	–6,381	74,854
Genuine parts	6,358	1,661	–	–	8,019	–48	7,971
Used vehicles and third-party products	5,831	710	–	–	6,541	–250	6,291
Engines, powertrains and parts deliveries	5,930	326	–	–	6,255	–8	6,247
Power Engineering	–	–	1,637	–	1,637	–1	1,636
Motorcycles	375	–	–	–	375	–	375
Leasing business	418	801	–	13,695	14,913	–2,148	12,765
Interest and similar income	120	3	–	3,564	3,687	–91	3,597
Hedges sales revenue	950	9	0	–	959	41	1,000
Other sales revenue	3,952	837	–	403	5,192	–552	4,640
	97,527	**11,988**	**1,637**	**17,662**	**128,815**	**–9,437**	**119,377**

1 Since January 1, 2019, sales revenue from the sale of light commercial vehicles of the Volkswagen Commercial Vehicles brand has not been reported in the Commercial Vehicles segment. The prior-year figures have been adjusted accordingly.

STRUCTURE OF GROUP SALES REVENUE H1 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	78,061	8,849	–	–	86,910	–7,773	79,136
Genuine parts	6,599	1,719	–	–	8,318	–58	8,260
Used vehicles and third-party products	6,431	716	–	–	7,147	–223	6,924
Engines, powertrains and parts deliveries	5,385	320	–	–	5,705	–10	5,695
Power Engineering	–	–	1,864	–	1,864	–1	1,862
Motorcycles	378	–	–	–	378	–	378
Leasing business	485	858	0	14,657	16,000	–2,055	13,945
Interest and similar income	112	2	–	3,970	4,084	–109	3,975
Hedges sales revenue	79	–11	–	–	68	72	140
Other sales revenue	3,713	867	–	444	5,024	–143	4,881
	101,243	**13,320**	**1,864**	**19,071**	**135,498**	**–10,301**	**125,197**

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

2. Cost of sales

Cost of sales includes interest expenses of €1,357 million (previous year: €1,065 million) attributable to the financial services business.

In addition to depreciation and amortization expenses, cost of sales also includes impairment losses on intangible assets, items of property, plant and equipment, and lease assets. The impairment losses identified on the basis of updated impairment tests amount to a total of €502 million (previous year: €336 million). The value in use is used as the basis for calculating impairment losses.

3. Research and development costs

€ million	H1 2019	H1 2018	%
Total research and development costs	7,033	6,747	4.2
of which: capitalized development costs	2,338	2,490	–6.1
Capitalization ratio in %	33.2	36.9	
Amortization of capitalized development costs	1,827	1,845	–1.0
Research and development costs recognized in profit or loss	**6,522**	**6,102**	**6.9**

4. Earnings per share

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

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

		Q2 2019	Q2 2018	H1 2019	H1 2018
Weighted average number of shares outstanding					
Ordinary shares: basic	million	295.1	295.1	295.1	295.1
diluted	million	295.1	295.1	295.1	295.1
Preferred shares: basic	million	206.2	206.2	206.2	206.2
diluted	million	206.2	206.2	206.2	206.2
Earnings after tax	€ million	4,115	3,313	7,168	6,613
Noncontrolling interests	€ million	17	3	24	5
Earnings attributable to Volkswagen AG hybrid capital investors	€ million	134	79	268	156
Earnings attributable to Volkswagen AG shareholders	€ million	3,964	3,230	6,875	6,452
Earnings per share					
Ordinary shares: basic	€	7.91	6.44	13.69	12.85
diluted	€	7.91	6.44	13.69	12.85
Preferred shares: basic	€	7.91	6.44	13.75	12.91
diluted	€	7.91	6.44	13.75	12.91

5. Noncurrent assets

CHANGES IN SELECTED NONCURRENT ASSETS BETWEEN JANUARY 1 AND JUNE 30, 2019

€ million	Carrying amount at Jan. 1, 2019[1]	Additions/ Changes in consolidated Group	Disposals/ Other changes	Depreciation and amortization	Carrying amount at June 30, 2019
Intangible assets	64,613	2,584	63	2,187	64,947
Property, plant and equipment	62,345	5,723	–364	5,652	62,781
Lease assets	43,922	11,773	5,603	4,133	45,960

1 Value in the opening balance adjusted (see disclosures on IFRS 16).

6. Inventories

€ million	June 30, 2019	Dec. 31, 2018
Raw materials, consumables and supplies	6,199	5,543
Work in progress	4,712	4,382
Finished goods and purchased merchandise	32,320	30,553
Current lease assets	6,380	5,107
Prepayments	175	168
Hedges on inventories	–1	–8
	49,786	**45,745**

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

7. Current other receivables and financial assets

€ million	June 30, 2019	Dec. 31, 2018
Trade receivables	19,876	17,888
Miscellaneous other receivables and financial assets	22,522	19,669
	42,398	**37,557**

In the period January 1 to June 30, 2019, impairment losses and reversals of impairment losses on noncurrent and current financial assets reduced operating profit by €413 million (previous year: €402 million).

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

8. Equity

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

Volkswagen AG distributed a dividend of €2,419 million in the reporting period (previous year: €1,967 million). €1,416 million (previous year: €1,151 million) of this amount was attributable to ordinary shares and €1,002 million (previous year: €817 million) to preferred shares.

The noncontrolling interests in equity are attributable primarily to shareholders of TRATON SE, MAN SE, SCANIA AB, RENK AG and AUDI AG.

9. Noncurrent financial liabilities

€ million	June 30, 2019	Dec. 31, 2018
Bonds, commercial paper and notes	88,729	81,391
Liabilities to banks	16,354	15,447
Deposit business	1,985	1,455
Lease liabilities	4,825	399
Other financial liabilities	1,644	2,433
	113,537	**101,126**

10. Current financial liabilities

€ million	June 30, 2019	Dec. 31, 2018
Bonds, commercial paper and notes	37,375	41,513
Liabilities to banks	16,289	18,455
Deposit business	29,598	28,555
Lease liabilities	968	51
Other financial liabilities	1,283	1,183
	85,514	**89,757**

11. Fair value disclosures

Generally, the principles and techniques used for fair value measurement remained unchanged year-on-year. Detailed explanations of the measurement principles and techniques can be found in the "Accounting policies" section of the 2018 consolidated financial statements.

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

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

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

Uniform valuation techniques and inputs are used to measure fair value. The fair value of Level 2 and 3 financial instruments is measured in the individual divisions on the basis of Group-wide specifications.

Reconciliation of balance sheet items to classes of financial instruments

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

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

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

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2018

	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT ALLOCATED TO A MEASUREMENT CATEGORY	BALANCE SHEET ITEM AT DEC. 31, 2018
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,434	8,434
Other equity investments	134	–	–	–	1,340	1,474
Financial services receivables	286	46,905	47,789	–	31,501	78,692
Other financial assets	772	4,240	4,252	1,510	–	6,521
Current assets						
Trade receivables	–	17,537	17,537	–	352	17,888
Financial services receivables	22	36,529	36,529	–	17,665	54,216
Other financial assets	1,094	9,179	9,179	1,341	1	11,615
Marketable securities	16,940	140	140	–	–	17,080
Cash, cash equivalents and time deposits	–	28,938	28,938	–	–	28,938
Noncurrent liabilities						
Noncurrent financial liabilities	–	100,727	100,964	–	399	101,126
Other noncurrent financial liabilities	767	2,085	2,087	368	–	3,219
Current liabilities						
Put options and compensation rights granted to noncontrolling interest shareholders	–	1,853	1,853	–	–	1,853
Current financial liabilities	–	89,707	89,707	–	51	89,757
Trade payables	–	23,607	23,607	–	–	23,607
Other current financial liabilities	718	8,010	8,010	721	–	9,449

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF JUNE 30, 2019

	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT ALLOCATED TO A MEASUREMENT CATEGORY	BALANCE SHEET ITEM AT JUNE 30, 2019
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,348	8,348
Other equity investments	146	–	–	–	1,522	1,668
Financial services receivables	288	49,235	50,420	–	33,319	82,842
Other financial assets	747	3,237	3,279	1,465	–	5,449
Current assets						
Trade receivables	2	19,456	19,456	–	418	19,876
Financial services receivables	22	38,344	38,344	–	18,378	56,744
Other financial assets	1,062	12,044	12,044	949	–	14,055
Marketable securities	16,757	161	161	–	–	16,918
Cash, cash equivalents and time deposits	–	25,778	25,778	–	–	25,778
Noncurrent liabilities						
Noncurrent financial liabilities	–	108,712	110,578	–	4,825	113,537
Other noncurrent financial liabilities	963	2,168	2,173	560	–	3,692
Current liabilities						
Current financial liabilities	–	84,546	84,546	–	968	85,514
Trade payables	–	25,187	25,187	–	–	25,187
Other current financial liabilities	861	8,775	8,775	840	–	10,476

The carrying amount of lease receivables was €51,696 million (previous year: €49,166 million) and their fair value (fair value hierarchy level 3) was €52,575 million (previous year: €49,791 million). The carrying amount of lease liabilities was €5,793 million (previous year: €449 million) and their fair value (fair value hierarchy level 2) was €5,829 million (previous year: €466 million). The increase in lease liabilities is mainly due to the initial application of IFRS 16 (see disclosures on IFRS 16).

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

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE BY LEVEL

€ million	Dec. 31, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	134	56	25	53
Financial services receivables	286	–	–	286
Other financial assets	772	–	357	415
Current assets				
Financial services receivables	22	–	–	22
Other financial assets	1,094	–	880	214
Marketable securities	16,940	16,940	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	767	–	250	516
Current liabilities				
Other current financial liabilities	718	–	419	299

€ million	June 30, 2019	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	146	66	0	79
Financial services receivables	288	–	–	288
Other financial assets	747	–	485	262
Current assets				
Trade receivables	2	–	–	2
Financial services receivables	22	–	–	22
Other financial assets	1,062	–	726	336
Marketable securities	16,757	16,757	–	–
Noncurrent liabilities				
Other noncurrent financial liabilities	963	–	474	489
Current liabilities				
Other current financial liabilities	861	–	570	291

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

€ million	Dec. 31, 2018	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	1,510	–	1,510	–
Current assets				
Other financial assets	1,341	–	1,341	–
Noncurrent liabilities				
Other noncurrent financial liabilities	368	–	368	0
Current liabilities				
Other current financial liabilities	721	–	721	–

€ million	June 30, 2019	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	1,465	–	1,465	–
Current assets				
Other financial assets	949	–	949	–
Noncurrent liabilities				
Other noncurrent financial liabilities	560	–	560	–
Current liabilities				
Other current financial liabilities	840	–	840	–

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

The table below provides a summary of changes in level 3 balance sheet items measured at fair value:

CHANGES IN BALANCE SHEET ITEMS MEASURED AT FAIR VALUE BASED ON LEVEL 3

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

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2019	**990**	**816**
Foreign exchange differences	8	0
Total comprehensive income	48	62
recognized in profit or loss	40	62
recognized in other comprehensive income	8	–
Additions (purchases)	20	–
Sales and settlements	–71	–76
Transfers into Level 2	–6	–21
Balance at June 30, 2019	**990**	**780**
Total gains or losses recognized in profit or loss	**40**	**–62**
Net other operating expense/income	45	–61
of which attributable to assets/liabilities held at the reporting date	40	–37
Financial result	–4	–1
of which attributable to assets/liabilities held at the reporting date	–4	–

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

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

If commodity prices for commodity futures classified as Level 3 had been 10% higher (lower) as of June 30, 2019, earnings after tax would have been €117 million (previous year: €11 million) higher (lower). The equity is not affected.

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

If the assumed enterprise values at June 30, 2019 had been 10% higher, earnings after tax would have been €2 million (previous year: €3 million) higher. If the assumed enterprise values at June 30, 2019 had been 10% lower, earnings after tax would have been €2 million (previous year: €3 million) lower.

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

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

If the prices of the used cars covered by the residual value protection model had been 10% higher as of June 30, 2019, earnings after tax would have been €327 million (previous year: €317 million) higher. If the prices of the used cars covered by the residual value protection model had been 10% lower as of June 30, 2019, earnings after tax would have been €347 million (previous year: €335 million) lower.

If the risk-adjusted interest rates applied to receivables measured at fair value had been 100 basis points higher as of June 30, 2019, earnings after tax would have been €2 million (previous year: €7 million) lower. If the risk-adjusted interest rates as of June 30, 2019 had been 100 basis points lower, earnings after tax would have been €2 million (previous year: €7 million) higher.

If the corresponding vehicle price used in the vehicle financing programs had been 10% higher as of June 30, 2019, earnings after tax would have been €6 million higher. If the corresponding vehicle prices used in the vehicle financing programs had been 10% lower as of June 30, 2019, earnings after tax would have been €6 million lower.

If the result of operations of equity investments measured at fair value had been 10% better as of June 30, 2019, the equity would have been €5 million higher. If the result of operations had been 10% worse, the equity would have been €5 million lower.

12. Cash flow statement

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

€ million	June 30, 2019	June 30, 2018
Cash, cash equivalents and time deposits as reported in the balance sheet	25,778	21,720
Time deposits	–2,772	–487
Cash and cash equivalents as reported in the cash flow statement	**23,006**	**21,233**

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

€ million	H1 2019	H1 2018
Capital contributions	–	2,732
Dividends paid	–2,816	–2,253
Capital transactions with noncontrolling interest shareholders	–19	–
Proceeds from issuance of bonds	15,896	13,840
Repayments of bonds	–11,530	–7,087
Changes in other financial liabilities	–3,266	–866
Repayments of lease liabilities	–407	–14
	–2,142	**6,352**

13. Segment reporting

Segments are identified on the basis of the Volkswagen Group's internal management and reporting. In line with the Group's multibrand strategy, each of its brands (operating segments) is managed by its own board of management. The Group targets and requirements laid down by the Board of Management of Volkswagen AG must be complied with. Segment reporting comprises four reportable segments: Passenger Cars and Light Commercial Vehicles, Commercial Vehicles, Power Engineering and Financial Services. As a result of an internal management change as from January 1, 2019, light commercial vehicles of the Volkswagen Commercial Vehicles brand are no longer allocated to the Commercial Vehicles segment, but reported under the Passenger Cars and Light Commercial Vehicles segment. The prior-year figures have been adjusted accordingly.

The activities of the Passenger Cars and Light Commercial Vehicles segment cover the development of vehicles and engines, the production and sale of passenger cars and light commercial vehicles, and the corresponding genuine parts business. In the Passenger Cars and Light Commercial Vehicles reporting segment, the individual brands are being combined into a single reportable segment, in particular as a response to the high degree of technological and economic interlinking in the production network. Furthermore, there is collaboration within key areas such as procurement, research and development or treasury.

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

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

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

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

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

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

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

REPORTING SEGMENTS H1 2018[1]

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	90,122	11,498	1,636	16,008	119,263	114	119,377
Intersegment sales revenue	7,406	490	1	1,654	9,551	–9,551	–
Total sales revenue	97,527	11,988	1,637	17,662	128,815	–9,437	119,377
Segment result (operating result)	7,596	707	–58	1,294	9,539	–1,380	8,160

1 The prior-year figures have been adjusted to reflect a change in the allocation of Light Commercial Vehicles of the Volkswagen Commercial Vehicles brand.

REPORTING SEGMENTS H1 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	92,974	12,784	1,862	17,442	125,062	135	125,197
Intersegment sales revenue	8,269	537	1	1,629	10,436	–10,436	–
Total sales revenue	101,243	13,320	1,864	19,071	135,498	–10,301	125,197
Segment result (operating result)	8,558	959	–63	1,409	10,862	–1,865	8,997

RECONCILIATION

€ million	H1 2019	H1 2018
Segment result (operating result)	**10,862**	**9,539**
Unallocated activities	–78	11
Group financing	–21	–13
Consolidation	–1,766	–1,378
Operating result	**8,997**	**8,160**
Financial result	**560**	**813**
Consolidated earnings before tax	**9,557**	**8,972**

14. Related party disclosures

At 53.1%, Porsche SE held the majority of the voting rights in Volkswagen AG as of June 30, 2019.

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.

€ million	SUPPLIES AND SERVICES RENDERED H1		SUPPLIES AND SERVICES RECEIVED H1	
	2019	2018	2019	2018
Porsche SE and its majority interests	2	2	1	0
Supervisory Board members	1	3	1	1
Unconsolidated subsidiaries	816	537	837	724
Joint ventures and their majority interests	7,678	7,516	314	356
Associates and their majority interests	84	96	469	334
State of Lower Saxony, its majority interests and joint ventures	7	6	2	2

€ million	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
	June 30, 2019	Dec. 31, 2018	June 30, 2019	Dec. 31, 2018
Porsche SE and its majority interests	4	4	0	1
Supervisory Board members	0	0	164	205
Unconsolidated subsidiaries	1,431	1,319	1,574	1,869
Joint ventures and their majority interests	12,354	11,989	2,676	2,671
Associates and their majority interests	164	112	716	487
State of Lower Saxony, its majority interests and joint ventures	2	1	1	2

The tables above do not contain the dividend payments of €1,138 million (previous year: €1,641 million) received from joint ventures and associates.

Receivables from joint ventures are primarily attributable to loans granted in an amount of €7,513 million (December 31, 2018: €7,606 million) as well as trade receivables in an amount of €3,778 million (December 31, 2018: €4,045 million). Receivables from non-consolidated subsidiaries also result from loans granted in an amount of €840 million (December 31, 2018: €741 million) as well as trade receivables in an amount of €259 million (December 31, 2018: €214 million).

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

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

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €341 million (December 31, 2018: €239 million).

Impairment losses of €57 million (previous year: €59 million) were recognized on the outstanding related party receivables. In the first half of the year, expenses of €15 million (previous year: €17 million) were incurred in this context.

In the first six months, the Volkswagen Group made capital contributions of €128 million (previous year: €455 million) at related parties.

15. Litigation

Diesel issue

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

In a pending class action lawsuit in Brazil involving some 17 thousand vehicles, an appeals court rendered a judgment in May 2019 that only partially upheld the lower court's decision. The judgment initially reduced the damage liability of Volkswagen do Brasil significantly to an amount fixed at €35 million plus interest. This amount can increase as a result of the adjudicated inflation rate and the assertion of individual claims alleging declines in the value of affected Amarok vehicles. The judgment remains non-final.

In Italy, the court decision dismissing the class action filed by the consumer association Codacons as inadmissible has become legally final.

In Germany more than 60,000 individual lawsuits of automobile purchasers are now pending against Volkswagen AG or other Group companies, with the plaintiffs suing for damages or rescission of the contract in most cases.

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

The Braunschweig Office of the Public Prosecutor has issued indictments against, among other persons, a former chairman of the Board of Management of Volkswagen AG. Based on the information available at the present time, no change in the risk situation of the Volkswagen Group results from the indictment of this former chairman of the Board of Management.

The administrative fine order issued on May 7, 2019 by the Stuttgart Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against Dr. Ing. h.c. F. Porsche AG in connection with the diesel issue. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit “Prüffeld Entwicklung Gesamtfahrzeug/Qualität” (Overall Vehicle Development/Quality - Testing Facility). The administrative order imposes a total fine of €535 million, consisting of a penalty payment of €4 million and the forfeiture of economic benefits in the amount of €531 million. After thorough examination, Dr. Ing. h.c. F. Porsche AG has accepted the fine and paid it in full, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG. Further sanctions against or forfeitures by Dr. Ing. h.c. F. Porsche AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

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

Holding that the factual situation at issue is by and large already covered by the model case proceedings being heard by the Braunschweig Higher Regional Court and that these proceedings, being paramount in this regard, preclude further such actions, the Stuttgart Higher Regional Court in March 2019 refused to proceed with the capital investor model cases that had been referred to it by the Stuttgart Regional Court. The plaintiff side has appealed one of these decisions to the Federal Court of Justice.

4. Proceedings in the USA/Canada

With respect to the consumer protection claims asserted by the New Mexico Attorney General against Volkswagen AG and certain affiliates, in March 2019 a New Mexico state court denied Volkswagen's motion to dismiss those claims, and in April 2019 the court declined to grant Volkswagen permission to appeal that decision.

Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliated companies continue to litigate claims asserted by the attorneys general of certain U.S. states and municipalities based on alleged violations of local environmental laws. In March 2019, the Tennessee Court of Appeals dismissed the claims of the Attorney General of the State of Tennessee as preempted by federal law. The Tennessee Attorney General declined to pursue further appeal so the decision of the Tennessee Court of Appeals is final. Also in March 2019, the New Mexico Attorney General voluntarily dismissed its environmental claims, and the Alabama Attorney General declined to appeal the dismissal of its claims against Volkswagen AG by the Alabama Supreme Court.

In March 2019 the U.S. Securities and Exchange Commission filed a lawsuit against Volkswagen AG, Volkswagen Group of America Finance, LLC, VW Credit, Inc. and a former chairman of the Board of Management of Volkswagen AG, asserting claims under U.S. federal securities law and alleging misstatements and omissions in connection with the offer and sale of certain bonds and asset-backed securities.

5. Additional proceedings

In June 2019, the Hanover Regional Court rejected the motion by three U.S. funds to replace the special auditor. This decision is not yet legally final.

Additional important legal cases

In April 2019 the European Commission issued a statement of objections to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG in connection with the Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity to comment. Volkswagen will examine the statement of objections. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of SCR systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. Volkswagen was given access to the investigation files in July 2019 and is preparing its reply to the statement of objections of the European Commission. In the same matter, the Chinese Competition Authority also issued an information request to Volkswagen AG, AUDI AG and Dr. Ing. h.c. F. Porsche AG in March 2019.

In the proceedings against a number of captive automobile finance companies regarding potential competition law infringements, Volkswagen AG and Volkswagen Bank GmbH filed an appeal in March 2019 against the administrative fine order issued by the Italian Competition Authority.

In June 2019, the U.S. District Court for the Northern District of California dismissed two putative class action complaints brought by purchasers of German luxury vehicles alleging that, since the 1990s, several automobile manufacturers, including Volkswagen AG and other Group companies conspired to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support the alleged anticompetitive agreements. The court granted plaintiffs the opportunity to file amended complaints.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group’s expected development in fiscal year 2019 contained in the combined management report in the 2018 Annual Report, specifically in the chapters “Report on Expected Developments” and “Report on Risks and Opportunities” including the sections “Risks from the diesel issue” and “Litigation/Diesel issue” and the underlying description of the issues in the chapter entitled “Diesel Issue”. In particular, based on the information as it exists and has been established, there continue to be no conclusive findings or assessments available to the Board of Management of Volkswagen AG regarding the described facts that would suggest that a different assessment of the associated risks should have been made.

16. Contingent liabilities

Compared with the 2018 consolidated financial statements, contingent liabilities increased by €0.6 billion to €10.4 billion, mainly due to the recognition of additional tax positions.

17. Other financial obligations

Other financial liabilities declined by €3.9 billion compared with the 2018 consolidated financial statements to reach €22.8 billion. The decline is mainly due to the initial application of IFRS 16 (see disclosures on IFRS 16). Higher obligations from credit commitments and a rise in the purchase order commitments for intangible assets and property, plant and equipment had an offsetting effect.

Significant events after the balance sheet date

The cash raised by the IPO of TRATON SE flowed to the Volkswagen Group after the balance sheet date. More information can be found in the “Key events” section.

On July 12, 2019, Volkswagen announced that it would be investing with Ford Motors Corporation in Argo AI, a company that specializes in software platforms for autonomous driving. This step will allow both car companies to integrate Argo AI’s self-driving system into their own models independently of each other. The Volkswagen Group is investing a total of USD 2.6 billion in Argo AI for this purpose. The investment will include the provision of financial resources totaling USD 1.0 billion. In addition, Volkswagen will contribute its subsidiary Autonomous Intelligent Driving (AID), which is valued at USD 1.6 billion. For the contribution of AID, Volkswagen is expecting to realize a non-cash accounting profit from the fair value measurement of the shares in the high three-digit million range.

Moreover, Volkswagen will take over Argo AI shares totaling USD 0.5 billion from Ford. The agreement is subject to the approval of the competent supervisory authorities and the fulfillment of contractual conditions.

Responsibility Statement

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

Wolfsburg, July 25, 2019

Volkswagen Aktiengesellschaft

The Board of Management

Review Report

On completion of our review, we issued the following unqualified review report dated July 25, 2019. This report was originally prepared in German. In case of ambiguities the German version takes precedence:

To VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg

We have reviewed the condensed consolidated interim financial statements – comprising the condensed income statement and condensed statement of comprehensive income, condensed balance sheet, statement of changes in equity, condensed statement of cash flows and selected explanatory notes – and the interim group management report of VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, for the period from January 1 to June 30, 2019, which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

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

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

We draw attention to the updated information provided in section “Key events” of the notes to the condensed consolidated interim financial statements and in chapter “Report on Expected Developments, Risks and Opportunities” of the interim group management report with regard to the Diesel Issue, which in addition to the explanations of allegations made and claims filed essentially refer to the information provided and statements made in the 2018 consolidated financial statements and in the group management report as at December 31, 2018.

Based on the results of the various measures taken to investigate the issue presented so far, which underlie these condensed consolidated interim financial statements and interim group management report, there is still no evidence that members of the Company’s Board of Management were aware of the deliberate manipulation of engine management software before summer 2015. Nevertheless, should as a result of the ongoing investigation new knowledge be obtained showing that members of the Board of Management were informed earlier about the Diesel Issue, this could eventually have an impact on the condensed interim financial statements and interim group management report as well as on the annual and consolidated financial statements and on the group management report for the financial year 2018 and prior years.

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

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

Hanover, July 25, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Harald Kayser	Frank Hübner
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Glossary

Selected terms at a glance

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

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

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

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

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

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

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

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

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

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

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

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

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