

Business Development

The robust growth of the global economy continued in fiscal year 2018 with a slight decrease in momentum. Global demand for vehicles was somewhat lower than in the previous year. Amid persistently challenging market conditions, the Volkswagen Group delivered 10.8 million vehicles to customers.

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global economy sustained its robust growth in 2018 with a slight decrease in momentum: global gross domestic product (GDP) rose by 3.2 (3.3)%. Economic momentum nearly matched the prior-year level both in advanced economies and emerging markets. With interest rates remaining comparatively low and prices for energy and other commodities rising year-on-year on the whole, consumer prices continued to increase worldwide. Growing upheaval in trade policy at international level and geopolitical tensions led to much greater uncertainty.

Europe/Other Markets

The solid GDP growth in Western Europe slowed to 1.8 (2.3)% as the year went on. The rate of change in the majority of countries in this region decreased compared with the previous year. The Brexit negotiations between the United Kingdom and the European Union (EU), which continued for the entire year, generated uncertainty, as did the related question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 8.1 (9.0)%, though rates remained considerably higher in Greece and Spain.

At 2.9 (4.0)%, the Central and Eastern Europe region also recorded a slower growth rate in the reporting period than in the previous year. While the comparatively high level of GDP growth in Central Europe slowed down on the whole, economic growth in Eastern Europe remained unchanged.

Higher prices for energy and other commodities led to further stabilization of the economic situation in the countries from this region that export raw materials. Russia's economy improved somewhat with a growth rate of 1.6 (1.5)%.

Growth in the Turkish economy slumped substantially to 2.5 (7.3)% after the first half of 2018. South Africa's GDP rose by just 0.7 (1.3)% in the reporting period, down on the already low figure for the previous year. Ongoing structural deficits, social unrest and political challenges weighed on the economy.

Germany

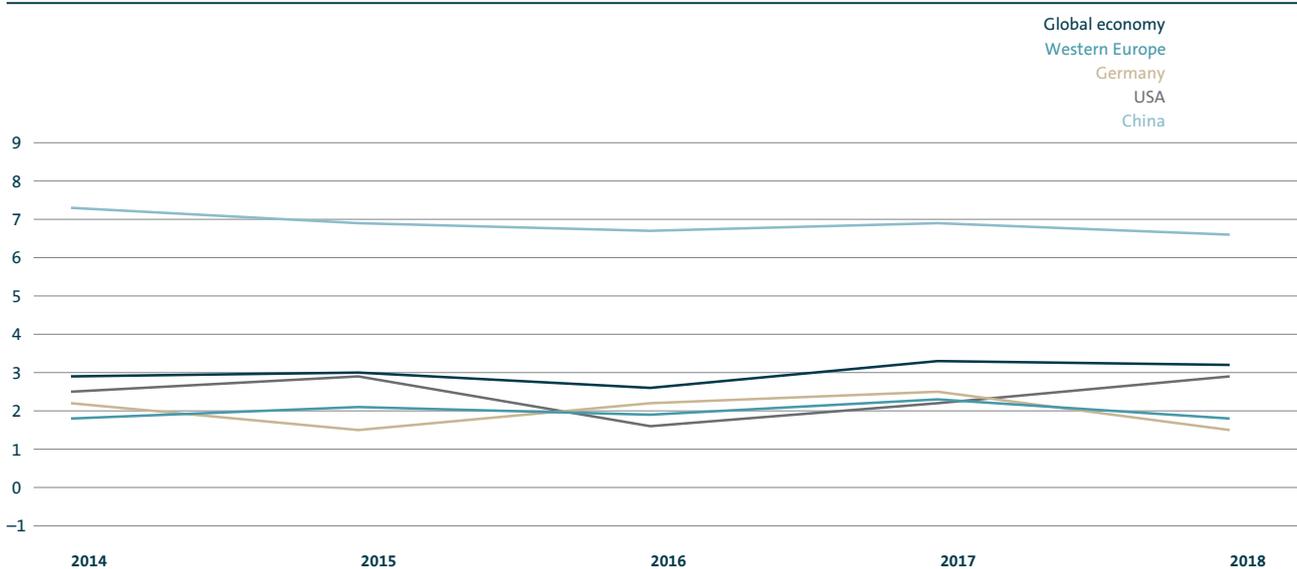
Germany's GDP continued to grow in 2018 on the back of the good labor market, however, momentum diminished year-on-year to 1.5 (2.5)%. Both company and consumer sentiment darkened as the year progressed.

North America

Economic growth in the USA picked up in the reporting period, reaching 2.9 (2.2)%. The economy was supported mainly by domestic consumer demand. The unemployment rate in the United States in 2018 was at 3.9 (4.3)%. Based on the stable situation in the labor market and the expected inflation trend, the US Federal Reserve successively raised its key interest rate. The US dollar gained strength against the euro in the course of the year. In neighboring Canada and Mexico, GDP grew at a slower rate than in the previous year, at 2.1 (3.0)% and 2.2 (2.3)%, respectively.

ECONOMIC GROWTH

Percentage change in GDP

**South America**

Brazil's economy once again recorded slight growth, at 1.4 (1.1)%. However, the situation in South America's largest economy remained tense due to political uncertainty, among other factors. The economic situation in Argentina deteriorated increasingly as the year went on. The country was in recession amid persistently high inflation: GDP fell by 1.7 (+2.9)%. In view of this difficult situation, the Argentine government requested financial aid from the International Monetary Fund.

Asia-Pacific

China's economy recorded a growth rate of 6.6 (6.9)% in 2018, but its rate of expansion was not quite as strong as in the previous year. The Chinese government responded to the trade disputes with the United States by stepping up state support measures. The Indian economy continued its positive trend, with growth in the reporting period of 7.2 (6.7)%. However, the pace of growth tapered off in the course of the year. Japan's GDP grew by only 0.8 (1.9)%.

TRENDS IN THE PASSENGER CAR MARKETS

In fiscal year 2018, the global market volume of passenger cars fell slightly below the prior-year level to 82.8 million vehicles (-1.2%) after increasing for eight years in a row. This decrease was attributable in particular to weaker performance in the Western Europe and Asia-Pacific regions in the fourth quarter. In the reporting period, stronger demand in

Central and Eastern Europe as well as in South America was offset by declining volumes in the Asia-Pacific, Middle East, North America and Western Europe regions.

Sector-specific environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed considerably to the mixed trends in sales volumes in the markets last year. These measures included tax cuts or increases, incentive programs and sales incentives, as well as import duties.

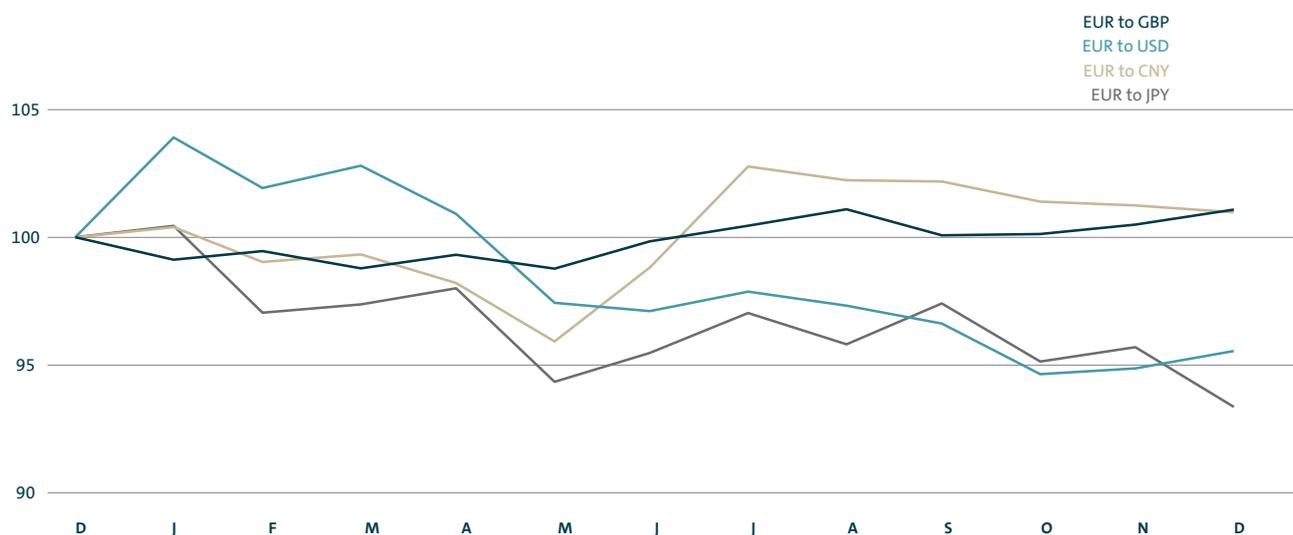
In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the movement of vehicles, parts and components more difficult.

Europe/Other Markets

In Western Europe, the total number of new passenger car registrations in the reporting period was down 0.7% in total on the prior-year figure, at 14.2 million. The continuing strong macroeconomic environment, positive consumer sentiment and low interest rates generated a slight increase in the first half of the year. The changeover to the new WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) as of September 1, 2018 led to pull-forward effects in the months of July and August and to significant declines from September until December in some cases. New vehicle registrations were mixed in the largest single markets. Spain (+7.0%) and France (+3.0%) continued to record increases. Both countries benefited from a buoyant macroeconomic

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2017 TO DECEMBER 2018

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



environment. In Italy, falling demand from both private and commercial customers put a damper on market development (-3.1%), among other things, as a consequence of the political uncertainty during and after the formation of government. The UK passenger car market saw a continuation of the negative trend from the previous year (-6.8%). This was due, among other things, to the uncertain outcome of the Brexit negotiations with the EU. The share of diesel vehicles (passenger cars) in Western Europe slipped to 36.4 (44.4)% in the reporting year.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2018 rose markedly by 11.0% year-on-year to 3.4 million vehicles. New passenger car registrations in the EU member states of Central Europe increased further by 8.0% to 1.4 million units. Passenger car sales in Eastern Europe also achieved a double-digit growth rate (+13.1%), starting from a low level. The Russian market was the main growth driver in the region with an increase of 13.2%. This was mainly attributable to government programs to promote sales as well as to pull-forward effects resulting from a value-added tax increase entering into force on January 1, 2019.

The Turkish passenger car market recorded a substantial drop in demand of 32.7%, largely due to the rapidly deteriorating macroeconomic situation. In South Africa (-0.1%),

the number of new passenger car registrations in the reporting period stayed at the comparatively low level seen in recent years. The change in political environment as a result of the new presidency had little positive impact on the overall economy and the automotive market.

Germany

Amounting to 3.4 million units (-0.2%) in the reporting period, passenger car registrations in Germany sustained the previous year's high level. This was attributable not only to the buoyant macroeconomic environment but also to manufacturer discounts in the form of trade-in and scrapping bonuses for older diesel models as well as to an environmental bonus for electric-powered vehicles (all-electric and plug-in hybrid drives). The changeover to the WLTP test procedure as of September 1, 2018, which limited model availability in some cases, in total led to a slightly declining overall market, whereas the rise in new registrations for private customers (+2.0%) in particular had a positive effect.

Domestic production and exports once again fell short of the comparable prior-year figures in 2018: passenger car production decreased by 9.3% to 5.1 million vehicles, while passenger car exports fell by 8.9% to 4.0 million units. This was primarily caused by declining volumes in Europe resulting to some extent from the changeover to the WLTP.

North America

At 20.7 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region in fiscal year 2018 did not match the high prior-year figure (-0.6%). In the US market, demand was almost flat on the 2017 level at 17.3 million units (+0.2%). A favorable labor market and the greater purchasing power of consumers largely compensated for increased financing costs resulting from higher interest rates. The shift in demand from traditional passenger cars (-13.5%) to light commercial vehicles such as SUVs and pickup models (+8.1%) also continued in the reporting period. Due to sales figures, which had declined since the second quarter, the Canadian automotive market remained below the record figure of the previous year (-2.6%). In Mexico, sales of passenger cars and light commercial vehicles fell short of the prior-year figure (-6.6%) for the second year in a row.

South America

In the markets of the South America region, the recovery continued in the reporting period – starting from a low level – with demand for passenger cars and light commercial vehicles rising by 6.2% to 4.5 million units. The main driver was the Brazilian automotive market, whose 13.8% growth outperformed the strong momentum of the preceding year. However, the market volume was still around a third lower than the record figure for 2012. Brazil's vehicle exports declined to 629 thousand units in the course of 2018, a decrease of 17.9% on the previous year's record high. Particularly from mid-year onwards, exports were impacted by the market trend in Argentina, where demand slumped on account of the progressive deterioration of the macroeconomic situation (-10.4%).

Asia-Pacific

After many years of uninterrupted growth, the market volume in the Asia-Pacific region decreased by 2.3% in fiscal year 2018 to 36.1 million units. This was mainly due to the weakness of the Chinese passenger car market (-4.6%). The trade dispute between China and the United States of America in the reporting period weighed on business and consumer confidence, among other things, and led to a marked decline in demand, especially in the second half of the year. By contrast, the Indian market continued growing and achieved a new record with a 4.8% increase in passenger car sales year-on-year. Alongside attractive financing products, the positive trend continued to profit from the goods and services tax introduced on July 1, 2017, which resulted in part in improved purchasing conditions for the consumer. The Japanese passenger car market almost matched the volumes recorded in the previous year (-0.4%).

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Overall demand for light commercial vehicles in fiscal year 2018 was slightly lower than in the previous year. A total of 9.0 (9.2) million vehicles were registered worldwide.

Despite the uncertain outcome of the Brexit negotiations between the EU and the UK, new registrations in Western Europe were up 2.8% to 2.0 million units. In Germany, the comparative figure for 2017 was exceeded by 6.0%. The market in Spain grew distinctly and the market in France recorded moderate growth, while Italy and the United Kingdom registered a decline.

The markets in Central and Eastern Europe grew noticeably on the whole, with 352 (324) thousand light commercial vehicle registrations including 130 (124) thousand in Russia alone. Most of the markets in this region succeeded in maintaining or exceeding their prior-year results.

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

Registration volumes of light commercial vehicles in the Asia-Pacific region decreased to 6.0 million units (-2.7%) in the reporting period. In China, the region's dominant market and the largest market worldwide, demand for light commercial vehicles of 3.0 million units was down 12.0% on the prior-year figure. This decline is mainly due to the shift in demand for micro vans towards more cost-effective MPVs and SUVs. As a consequence of the sustained economic growth, new registrations in India increased sharply compared to 2017; here, 710 (575) thousand new units were registered. The market volume in Japan rose by 3.2% to 770 thousand vehicles. The number of new vehicle registrations in Thailand and Indonesia saw a significant increase versus the previous year.

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in fiscal year 2018 than in the previous year, with 591 thousand new vehicle registrations (+6.6%).

In Western Europe, the number of new truck registrations exceeded the prior-year figure by 2.2% at a total of 297 thousand vehicles. In Germany, Western Europe's largest market, the previous year's level was also exceeded slightly. While demand in the United Kingdom and in Spain witnessed a decline, it rose in France and Italy.

The Central and Eastern Europe region saw demand rise by 6.0% to 169 thousand units on the back of the positive economic performance. The Russian market deteriorated as the year progressed and recorded only slight year-on-year growth over the year as a whole. New registrations there increased by 2.6% to 78 thousand vehicles.

In fiscal year 2018, the market volume in South America rose compared with the previous year. Here, the number of new vehicle registrations rose by 19.5% to 125 thousand units. In Brazil, the region's largest market, demand for trucks grew very sharply compared with the relatively low figure for the prior-year period as a consequence of the economic recovery. By contrast, Argentina saw new registrations fall by more than a quarter. This was due to weak economic performance with a related weakening of the peso and rising interest rates.

Demand for buses in the markets that are relevant for the Volkswagen Group was slightly higher than in the previous year. The markets in Brazil as well as in Central and Eastern Europe contributed in particular to this growth. Demand in Western Europe was slightly down on the previous year's level.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

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

The marine market remained at the previous year's low level in 2018. Steady demand in merchant shipping was largely based on orders of container ships and LNG carriers. Demand for cruise ships, passenger ferries, fishing vessels and dredgers also remained steady. The special market for government vessels also continued on a stable trajectory. The existing overcapacity in the market continued to curb investment in offshore oil production and thus in new ship construction in this segment. Planned tighter emission standards resulted in a positive trend toward gas-powered or dual fuel-engined ships. China, South Korea and Japan remained the dominant shipbuilding countries, accounting for a global market share of more than 85% measured in terms of the number of ships. Because market volumes are still low, all segments in the marine market are continuing to experience significant competitive pressure and a sharp drop in prices as a result.

The market for power generation showed a slight recovery compared with the previous year. Higher demand was registered in all areas of application, for gas in particular. This confirms the shift away from oil-fired power plants towards dual-fuel and gas-fired power plants. Demand for energy solutions remained high, with a strong trend towards greater flexibility and decentralized availability. The economies of key emerging markets recovered somewhat. However, continued strong pressure from competition and pricing 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.

In 2018, the market for turbomachinery improved somewhat year-on-year. Demand for turbo compressors in the raw materials, oil, gas and processing industry increased slightly but remained volatile owing to political uncertainty. The steam and gas turbine business continued to be dominated by overcapacity on the part of electricity producers; however, signs pointed towards a slight recovery, especially in regions with a low level of electrification. Although pressure from competition and pricing was somewhat lower than in the prior-year period, the overall level remained high due to existing overcapacity and market volatility.

The marine and power plant after-sales business for diesel engines performed positively overall and benefited from a continued increase in interest in long-term maintenance contracts and retrofit solutions. The after-sales market for turbomachinery remained under pressure, impacted by a price war and competition to improve efficiency. It is recovering, but only slowly.

TRENDS IN THE MARKET FOR FINANCIAL SERVICES

Demand for automotive financial services was once again high in 2018 in a slightly shrinking overall market. Service products such as maintenance and servicing agreements or insurance were especially popular, as customers in more advanced automotive financial services markets are putting their focus on optimizing total cost of ownership. In the fleet segment, some customers elicited the support of automotive financial service providers in order to optimize their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than on ownership.

In Europe, sales of financial services climbed further in the reporting period, strengthened by higher vehicle sales and strong growth in financing agreements and leases. The used-vehicle market expanded, particularly in Western and Central Europe. Demand for after-sales products such as servicing, maintenance and spare parts agreements as well as automotive-related insurance also developed positively. Automotive financial services products enjoyed rising popularity, particularly in Spain and Italy, while in the United Kingdom and France demand for financial services remained high.

In the German market, the share of loan-financed or leased vehicles remained stable at a high level in 2018. Along-

side traditional products, integrated mobility services in the business customer segment and after-sales products were particularly popular.

In South Africa, demand for automotive financial services products was stable.

Sales of automotive financial services in North America remained at a high level in the past fiscal year. In the USA, the overall market for financial services products once again performed well; above all, demand for leasing through captive financial services products was consistently high. Automotive financial services products were also popular in Mexico.

Brazil continued to witness a recovery in 2018 despite the political tensions. Sales of vehicle financing arrangements and the country-specific financial services product Consorcio, a lottery-style savings plan, as well as of insurance and other services rose in the reporting period. The current economic crisis in Argentina brought the positive trend seen in 2017 to a halt. Due to the sharp rise in interest rates, sales of financing and leasing products proved challenging in 2018, though the situation stabilized somewhat at the end of the year.

The markets in the Asia-Pacific region turned in a mixed performance during the reporting period. In China, the proportion of loan-financed vehicle purchases rose. Despite increasing restrictions on registrations in metropolitan areas, there is considerable potential to acquire new customers for automotive-related financial services, particularly in the interior of the country. Demand for automotive financial services rose in the Indian market. It was stable on the whole in Japan and South Korea. In Australia, amid a slight downturn in the vehicle market, demand for financial services products remained high.

In the commercial vehicles segment, the European market for financial services again performed well; demand for these products was also high in China. The economic situation in Brazil stabilized and the truck and bus business and the related financial services market developed encouragingly.

NEW GROUP MODELS IN 2018

The Volkswagen Group launched a large number of attractive new models on the market in fiscal year 2018. The current product portfolio comprises 365 models. It covers almost all key segments and body types, with offerings from small cars to super sports cars in the passenger car segment, and from pickups to heavy trucks and buses in the commercial vehicles segment, as well as motorcycles.

The Volkswagen Passenger Cars brand continued its global product initiative in the past year. The new Touareg plays a leading role in the premium SUV segment with its

expressive design, its equipment and the high-quality materials and craftsmanship. The rollout of the new Polo GTI and the up! GTI put two models on the market that are distinguished in particular by their driving dynamics and sportiness. In China, a total of four new SUV models were launched, including the compact, sporty T-Roc. Further successors to important volume models were also introduced: the Lávda, Bora and Passat NMS. Added to these were other plug-in hybrid models brought out to meet the growing demand for new energy vehicles in China. In the USA, the new Jetta came on the market. The latest generation of the US bestseller, which is now also based on the Modular Transverse Toolkit, is quite different from its predecessor, both visually and from a technological perspective. South America celebrated the rollout of the Virtus, a notchback saloon based on the Polo; the further rejuvenation and expansion of the product range is an important element of the brand's realignment in this region.

The Audi brand launched a successor model in each of its A6 and A7 premium series. Since 2018, the sporty Q8 SUV has been the top model in the Q family. The second model generations of the compact A1 and Q3 model series each celebrated their premieres. All vehicles are winning over customers in their respective segments with a brand-new virtual cockpit architecture, a large number of innovative driver assistance systems and Audi's characteristic dynamism.

ŠKODA launched its revamped compact Fabia model in the reporting period, which impresses in particular with a more modern exterior. In China, the brand rolled out its third SUV, the Kamiq. It features a spacious interior, emotional design and connectivity solutions. With the Kodiaq GT, the dynamic coupé version of the popular SUV, ŠKODA is presenting its new flagship, which will be offered exclusively in the Chinese market.

The SEAT brand continued its SUV product initiative in 2018 and unveiled the seven-seater Tarraco. The model fits perfectly into the Spanish brand's SUV model range alongside the smaller Arona and Ateca models. In addition, SEAT established the new sporty CUPRA line and included the dynamic CUPRA Ateca in its range at the end of the year.

After rolling out the new Cayenne in the European market in 2017, Porsche launched this model in the United States, China and other countries during the reporting period. In addition, the product range was supplemented by the Cayenne E-Hybrid. The GTS models of the 718 Boxster and Cayman were also delivered to overseas markets in 2018 for the first time. The 911 GT3 RS, which was likewise launched in 2018, impressed customers with its dynamics. The new Macan came on the Chinese market in the fall and subsequently on the European market at the end of the year.

Furthermore, the Panamera model range was expanded by the addition of the GTS models.

In 2018, Bentley again set standards in the luxury grand tourer segment with the third generation of the Continental GT. Moreover, the brand expanded its successful Bentayga series by adding the powerful Bentayga V8.

Lamborghini established a third series with the Urus super-SUV, significantly expanding its customer base. The Huracán Performante Spyder was also introduced to the market.

Bugatti offered additional options for its super sports car, the Chiron, including the Sky View glass roof.

Since 2018, Volkswagen Commercial Vehicles has been offering the Amarok with a new top-of-the-range V6 TDI engine. The battery-electric e-Crafter is the brand's first zero-emission van and has been specially designed for couriers, express and parcel delivery services.

In the reporting period, Scania presented a plug-in hybrid drive that allows fuel savings of up to 15% for its latest generation of trucks. Furthermore, the first long-distance truck with an efficient LNG drive and a range of up to 1,000 km was unveiled.

MAN celebrated the rollout of its fully electric eTGE in 2018. The van has a range of around 160 km, which makes it particularly suitable for inner-city distribution logistics. With the XLION special edition, MAN introduced special equipment packages for long-distance, distribution and traction trucks. In the bus sector, MAN presented the new Lion's City G city bus with a newly developed CNG gas-powered engine.

In 2018, Ducati launched numerous new models on the market, including the Scrambler 1100, the Monster 821, the Multistrada 1260, the 959 Panigale Corse and the Panigale V4.

VOLKSWAGEN GROUP DELIVERIES

In fiscal year 2018, the Volkswagen Group increased its deliveries to customers worldwide by 0.9% year-on-year and achieved a new record of 10,834,012 vehicles. The chart on the next page shows how deliveries changed from month to month and compares each monthly figure to the same month of the previous year. Deliveries of passenger cars and commercial vehicles are reported separately in the following.

PASSENGER CAR DELIVERIES WORLDWIDE

With its passenger car brands, the Volkswagen Group is present in all relevant automotive markets around the world. The key sales markets currently include Western Europe, China, the USA, Brazil, Russia and Mexico. The Group recorded encouraging growth in many key markets.

VOLKSWAGEN GROUP DELIVERIES¹

	2018	2017	%
Passenger Cars	10,101,297	10,038,756	+0.6
Commercial Vehicles	732,715	702,778	+4.3
Total	10,834,012	10,741,534	+0.9

¹ Deliveries for 2017 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

During the reporting period, deliveries of passenger cars to Volkswagen Group customers worldwide rose to 10,101,297 units amid difficult conditions in some countries in Western Europe – mainly as a result of the changeover to the WLTP – and in the Chinese market, which was impacted by macro-economic uncertainty. This was an increase of 62,541 vehicles or 0.6% on the previous year. The Group's new SUV models made a particular contribution to this rise. As the passenger car market as a whole declined by 1.2% in the same period, the Volkswagen Group's share of the global market rose to 12.3 (12.0)%. The largest increases in volume in absolute terms were seen in Brazil and Russia. Sales figures were down on the previous year in Germany, the United Kingdom, Mexico and Turkey, among other countries. The Volkswagen Passenger Cars, ŠKODA, SEAT, Porsche and Lamborghini brands delivered record numbers of vehicles. The brands that experienced the largest growth in absolute terms were ŠKODA and SEAT; Audi and Bentley fell short of the respective prior-year levels.

The table on page 104 gives an overview of passenger car deliveries to customers of the Volkswagen Group in the regions and the key individual markets. The demand trends for Group models in these markets and regions are described in the following sections.

Deliveries in Europe/Other markets

In the reporting period, the passenger car market as a whole in Western Europe fell 0.7% short of the prior-year figure. With 3,138,419 vehicles delivered to customers, the Volkswagen Group reached the level seen in the previous year (–0.6%) despite a considerable drop in the second half of the year resulting from the changeover to the WLTP. Other adverse effects were attributable to the fact that customer confidence has not yet been fully restored following the diesel issue and to customer uncertainty generated by the public discussion on driving bans for diesel vehicles. The ŠKODA Kodiaq, Porsche 911 and Porsche Cayenne saw

VOLKSWAGEN GROUP DELIVERIES BY MONTH

Vehicles in thousands



encouraging growth. Furthermore, the new Polo, T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq and SEAT Arona were very popular. The Touareg from Volkswagen Passenger Cars was successfully launched in the market along with the Audi A1 Sportback, Audi Q3, Audi A6, Audi A7 Sportback, Audi Q8 and ŠKODA Fabia. The Group's share of the passenger car market in Western Europe was 22.0 (22.0)%.

In the significantly growing passenger car markets in the Central and Eastern Europe region, the number of deliveries to Volkswagen Group customers in fiscal year 2018 rose by 6.8% year-on-year. Whereas in Russia and Poland demand for Group models grew strongly in some cases, the number of vehicles sold in the Czech Republic saw a decline. The Polo and the Tiguan from Volkswagen Passenger Cars along with the ŠKODA Rapid and Octavia were the models most in demand. The new T-Roc from Volkswagen Passenger Cars, the ŠKODA Karoq and the SEAT Arona were also very popular SUV models. The Volkswagen Group's share of the passenger car market in Central and Eastern Europe was 21.2 (22.0)%.

In Turkey, the Volkswagen Group delivered 40.5% fewer vehicles than in the previous year in a substantially weaker overall market. In South Africa's passenger car market, which was almost on a level with the previous year, demand for Volkswagen Group vehicles rose by 3.5%. The best-selling Group model in South Africa was the Polo.

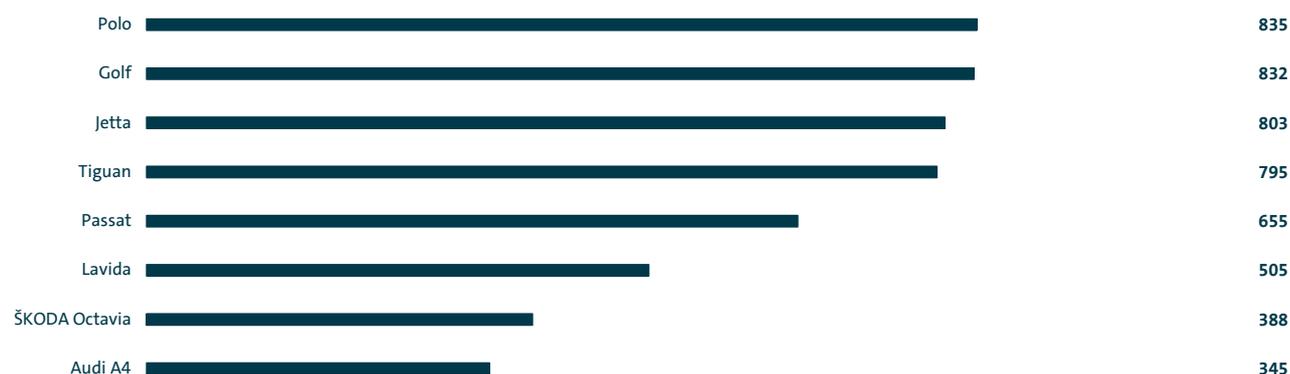
Deliveries in Germany

In the reporting period, the German passenger car market matched the high prior-year level (-0.2%). The Volkswagen

Group delivered 1,121,289 vehicles to customers in its home market, a slight decrease on the prior-year level (-0.9%). In addition to the decreases in the second half of the year caused by the changeover to the WLTP, the fact that customer confidence has not yet been fully restored following the diesel issue weighed on demand, as did customer uncertainty generated by the public discussion on driving bans for diesel vehicles. The Golf continued to top the list of the most popular passenger cars in Germany in terms of registrations. The Polo, Tiguan and Passat Estate from Volkswagen Passenger Cars were among the most popular Group models, as were the ŠKODA Kodiaq, ŠKODA Octavia Combi and Audi A4 Avant. The new Polo, T-Roc, Tiguan Allspace and Arteon models from the Volkswagen Passenger Cars brand, the ŠKODA Karoq and the SEAT Arona were also in high demand among customers. In the registration statistics of the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority), seven Group models led their respective segments at the end of 2018: the up!, Polo, Golf, Tiguan, Touran, Passat, and Porsche 911.

Deliveries in North America

Demand for Volkswagen Group models in North America in the reporting period was 2.0% lower than the prior-year figure at 943,621 vehicles in a slightly declining overall passenger car and light commercial vehicle market. The Group's market share was 4.6 (4.7)%. The new Jetta was successfully rolled out. Moreover, the Tiguan Allspace was the most sought-after Group model in North America.

WORLDWIDE DELIVERIES OF THE MOST SUCCESSFUL GROUP MODEL RANGES IN 2018*Vehicles in thousands*

In the US market, demand for Volkswagen Group models rose by 2.1% in fiscal year 2018 compared with the previous year. In this period, the market as a whole matched the prior-year level. Demand remained higher for models in the SUV and pickup segments than for conventional passenger cars. The Group models achieving the largest increases in absolute terms were the Audi Q5 and Audi A5 Sportback. In addition, the Jetta and the Porsche Macan as well as the new Tiguan Allspace and Atlas SUVs from the Volkswagen Passenger Cars brand were very popular among customers.

In Canada, demand for Group models in the reporting period increased by 3.7% year-on-year in a shrinking overall market. The Golf saloon, Jetta and Audi Q5 models and the new Tiguan Allspace and Atlas SUVs from the Volkswagen Passenger Cars brand were particularly popular.

In the Mexican market, which was declining on the whole, the Volkswagen Group delivered 16.4% fewer vehicles to customers compared with the previous year. The Vento, Jetta and Tiguan Allspace models recorded the highest demand.

Deliveries in South America

The South American market for passenger cars and light commercial vehicles continued its recovery path overall in the reporting year. In this region we delivered 497,820 vehicles to customers, 11.7% more than a year before. Among others, the Virtus, Jetta and Touareg from the Volkswagen Passenger Cars brand were successfully launched in the market along with the Audi Q3, Audi Q8 and Porsche Boxster. The Volkswagen Group's share of the passenger car market in South America rose to 11.9 (11.4)%.

The Brazilian market also recovered further in the reporting period. The Volkswagen Group benefited from this

development and delivered 27.1% more vehicles to customers there than in the previous year. Above all, demand was particularly high for the new Polo and Virtus models from the Volkswagen Passenger Cars brand. Demand for the Gol and Amarok models also developed encouragingly.

In Argentina, the Group recorded a 22.3% decline in sales year-on-year amid a considerably weaker overall market. The Gol and Amarok recorded the highest demand among Group models. The new Polo, Virtus and Tiguan Allspace models were also well received by customers.

Deliveries in the Asia-Pacific region

In 2018, the passenger car markets in the Asia-Pacific region registered their first decline in many years. Despite adverse effects from the Chinese market in particular, the Volkswagen Group handed over 4,503,791 units to customers here, 0.9% more vehicles than a year before. The Volkswagen Group's market share in the Asia-Pacific region rose to 12.5 (12.1)%.

China, the world's largest single market and the main growth driver of the Asia-Pacific region for many years, experienced a downturn in the reporting period. The Volkswagen Group increased sales here and delivered 0.5% more vehicles to customers in China than in the prior year. The models that achieved the largest growth in absolute terms were the Magotan from Volkswagen Passenger Cars, the Audi A4 and the Porsche Panamera. In addition, the new Phideon from Volkswagen Passenger Cars and the ŠKODA Octavia Combi were highly sought-after. The new Teramont and Tiguan Allspace SUVs from the Volkswagen Passenger Cars brand, the Audi Q5 and the ŠKODA Kodiaq were also very popular. The T-Roc, Tayron, Tharu, Bora, Lavida, Gran Lavida, Passat and Touareg models from Volkswagen Passenger Cars

as well as the Audi Q2 and ŠKODA's Karoq and Kamiq models were successfully launched in the market.

The Indian passenger car market continued its growth in the reporting period. Demand for models from the Volkswagen Group fell by 15.4% in this period compared with the previous year. The Polo was the Group's most sought-after model in India.

In Japan, the number of passenger cars delivered to Volkswagen Group customers exceeded the prior-year figure by 1.8%, while the total market volume remained on the prior-year level. The Polo and Audi Q2 models recorded promising increases in demand.

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET¹

	DELIVERIES (UNITS)		CHANGE (%)
	2018	2017	
Europe/Other markets	4,156,065	4,167,753	-0.3
Western Europe	3,138,419	3,157,107	-0.6
of which: Germany	1,121,289	1,131,417	-0.9
United Kingdom	493,768	531,592	-7.1
Spain	291,407	270,640	+7.7
Italy	273,548	259,920	+5.2
France	259,468	256,716	+1.1
Central and Eastern Europe	713,799	668,629	+6.8
of which: Russia	209,261	173,491	+20.6
Poland	152,720	145,024	+5.3
Czech Republic	131,761	142,842	-7.8
Other markets	303,847	342,017	-11.2
of which: Turkey	94,335	158,523	-40.5
South Africa	82,744	79,968	+3.5
North America	943,621	962,980	-2.0
of which: USA	638,274	625,128	+2.1
Mexico	186,864	223,548	-16.4
Canada	118,483	114,304	+3.7
South America	497,820	445,636	+11.7
of which: Brazil	346,025	272,231	+27.1
Argentina	97,224	125,153	-22.3
Asia-Pacific	4,503,791	4,462,387	+0.9
of which: China	4,196,702	4,173,834	+0.5
Japan	86,356	84,827	+1.8
India	61,277	72,467	-15.4
Worldwide	10,101,297	10,038,756	+0.6
Volkswagen Passenger Cars	6,244,869	6,230,335	+0.2
Audi	1,812,485	1,878,105	-3.5
ŠKODA	1,253,741	1,200,535	+4.4
SEAT	517,627	468,431	+10.5
Bentley	10,494	11,089	-5.4
Lamborghini	5,750	3,815	+50.7
Porsche	256,255	246,375	+4.0
Bugatti	76	71	+7.0

1 Deliveries for 2017 have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

COMMERCIAL VEHICLE DELIVERIES

The Volkswagen Group delivered a total of 732,715 commercial vehicles to customers worldwide in 2018 (+4.3%). Trucks accounted for 202,492 (+10.4%) units and buses for 22,629 (+17.8%) units. Sales of light commercial vehicles increased by 1.5% year-on-year to 507,594 units.

In Western Europe, deliveries were up by 4.3% on the previous year at 445,081 vehicles; of this total, 344,034 were light commercial vehicles, 95,299 were trucks and 5,748 were buses. The Transporter and Caddy were the most sought-after Group models in the Western European markets.

We handed over 83,365 vehicles to customers in the markets in Central and Eastern Europe in the period from January to December 2018 (+9.6%); of this figure, 44,530 were light commercial vehicles, 37,400 were trucks and 1,435 were buses. The Transporter and the Caddy were the Group models experiencing the highest demand. In Russia, the region's largest market, sales climbed in the wake of economic recovery by 12.4% year-on-year to 20,567 units.

In the Other markets, particularly in Turkey, deliveries of Volkswagen Group commercial vehicles fell by 15.8% to a

total of 56,514 units: 38,271 light commercial vehicles, 14,491 trucks and 3,752 buses.

Deliveries in North America amounted to 13,074 vehicles (-2.5%), which were handed over almost exclusively to customers in Mexico. In this region, we handed over 9,567 light commercial vehicles, 1,256 trucks and 2,251 buses to customers.

The Volkswagen Group sold a total of 92,161 units (+21.3%) in South America. Of the units delivered, 44,417 were light commercial vehicles, 40,451 were trucks and 7,293 were buses. The Amarok was particularly popular. Following continued improvement in the economic climate, deliveries rose by 55.7% in Brazil; 17,739 light commercial vehicles, 32,903 trucks and 5,081 buses were handed over to customers here.

In the Asia-Pacific region, the Volkswagen Group sold 42,520 vehicles in the reporting period: 26,775 light commercial vehicles, 13,595 trucks and 2,150 buses. In total this was 2.2% less than in the previous year. The Transporter and the Amarok were the most popular Group models. In China, sales were on a level with the previous year at 10,353 vehicles (-0.5%). Of this total, 5,695 were light commercial vehicles, 4,247 were trucks and 411 were buses.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET¹

	DELIVERIES (UNITS)		CHANGE
	2018	2017	(%)
Europe/Other markets	584,960	569,962	+2.6
Western Europe	445,081	426,773	+4.3
Central and Eastern Europe	83,365	76,031	+9.6
Other markets	56,514	67,158	-15.8
North America	13,074	13,410	-2.5
South America	92,161	75,949	+21.3
of which: Brazil	55,723	35,781	+55.7
Asia-Pacific	42,520	43,457	-2.2
of which: China	10,353	10,408	-0.5
Worldwide	732,715	702,778	+4.3
Volkswagen Commercial Vehicles	499,723	497,862	+0.4
Scania	96,475	90,782	+6.3
MAN	136,517	114,134	+19.6

¹ Deliveries for 2017 have been updated to reflect subsequent statistical trends.

DELIVERIES IN THE POWER ENGINEERING SEGMENT

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

Sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated two-thirds of overall sales revenue.

ORDERS RECEIVED IN THE PASSENGER CARS SEGMENT IN WESTERN EUROPE

The temporary restrictions on the range of models on sale attributable to the introduction of the WLTP with effect from September 1, 2018 had a negative impact on the order situation in Western Europe in fiscal year 2018. Incoming orders in the reporting period were down 5.9% year-on-year. Developments in the key markets were mixed: while especially Germany and the United Kingdom registered a larger decline, incoming orders rose in Spain, France and Italy.

ORDERS RECEIVED FOR COMMERCIAL VEHICLES

Orders received for light commercial vehicles of the Volkswagen Group in Western Europe were 1.6% lower than in the previous year at 342,386 units.

Orders received for mid-sized and heavy trucks and buses increased by 3.5% year-on-year to 233,627 vehicles in 2018. In Western Europe, our main sales market, ongoing positive economic stimulus gave a boost to incoming orders. Orders received in South America were up in response to the economic recovery in Brazil.

ORDERS RECEIVED IN THE POWER ENGINEERING SEGMENT

The long-term performance of the Power Engineering business is determined by the macroeconomic environment. Individual major orders lead to fluctuations in incoming orders during the year that do not correlate with these long-term trends.

Orders received in the Power Engineering segment in 2018 amounted to €4.0 (3.7) billion. Engines & Marine Systems and Turbomachinery generated more than two-thirds of the order volume in a persistently difficult market environment. In the marine business, for example, orders came in for the supply of engines and exhaust gas treatment systems for seven new cruise ships with an aggregate output of 290 MW. In the power plant business, orders were won in Bangladesh for 36 engines with an aggregate output of 724 MW. In the area of turbomachinery, we received a follow-up order for the expansion of an underwater compressor station in the North Sea.

VOLKSWAGEN GROUP FINANCIAL SERVICES

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

The Financial Services Division's products and services remained very popular in fiscal year 2018. At 7.6 (7.3) million, the number of new financing, leasing, service and insurance contracts signed worldwide exceeded the comparable prior-year figure. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets was 33.7 (33.4)% in the reporting period. As of December 31, 2018, the total number of contracts was 19.6 million, up 6.4% from the year before. The number of contracts in the customer financing/leasing area climbed 5.4% to 10.6 million, while it increased by 7.6% to 9.0 million in the service/insurance area.

In the Europe/Other markets region, the number of new contracts signed between January and December 2018 increased by 3.9% to 5.6 million. The penetration rate rose to 48.4 (47.6)%. At the end of the reporting period, the total number of contracts was 14.2 million, an increase of 6.0% as against December 31, 2017. The customer financing/leasing area accounted for 6.7 million contracts (+5.6%).

The number of contracts in North America as of December 31, 2018 increased to 2.9 million, 6.0% more than in the previous year. The customer financing/leasing area accounted for 1.9 million contracts (+5.6%). The number of new contracts signed amounted to 935 thousand, an increase of 7.0% versus the previous year. The ratio of leased or financed vehicles to Group deliveries in North America was 66.3 (60.5)%.

In South America, 236 (205) thousand new contracts were signed in the past fiscal year. The penetration rate increased to 29.1 (26.6)%. At the end of the reporting period, the total number of contracts was 487 thousand, 9.4% fewer than at the end of 2017. The contracts mainly related to the customer financing/leasing area.

In the Asia-Pacific region, the number of new contracts signed rose by 6.7% to 889 thousand units in 2018. The ratio of leased or financed vehicles to Group deliveries was 14.8 (16.1)%. On December 31, 2018, the total number of contracts amounted to 2.1 million, up 14.6% on the previous year. The customer financing/leasing area accounted for 1.6 million contracts (+8.3%).

SALES TO THE DEALER ORGANIZATION

The Volkswagen Group’s sales to the dealer organization increased by 1.1% to 10,899,869 units (including the Chinese joint ventures) in the reporting year. This was due to higher demand in Brazil, China and Central and Eastern Europe. Outside Germany, the unit sales volumes rose by 1.6%. Owing to the changeover to the WLTP test procedure, which took place in the third quarter of 2018, unit sales in Germany decreased by 2.2%. At 11.3 (11.7%), the proportion of the Group’s total sales accounted for by Germany was lower than in 2017.

The Polo, Tiguan, Golf, Laida and Jetta were our biggest sellers last year. The largest increases in demand were recorded by the Polo, Tiguan, Atlas/Teramont and Phideon models from the Volkswagen Passenger Cars brand, the Audi Q5 and A8, as well as the ŠKODA Kodiaq and Karoq/Kamiq and the SEAT Arona. The Porsche Cayenne and the Crafter from the Volkswagen Commercial Vehicles brand also achieved a strong growth rate.

PRODUCTION

The Volkswagen Group produced 11,017,621 vehicles worldwide in fiscal year 2018, 1.3% more than in the previous year. In total, our Chinese joint ventures manufactured 1.9% more units than in the year before. In the German market, the production declined by 10.7%, which was largely WLTP-related. The percentage of the Group’s total production accounted for by Germany was lower than in 2017, at 20.9 (23.7)%.

INVENTORIES

Global inventories at Group companies and in the dealer organization were higher at the end of the reporting period than at year-end 2017.

EMPLOYEES

Including the Chinese joint ventures, the Volkswagen Group employed an average of 655,722 people in fiscal year 2018, an increase of 3.4% year-on-year. In Germany, we employed 290,757 people on average in 2018; at 44.3 (44.9)%, their share of the total headcount was slightly below the level of the previous year.

The Volkswagen Group had 636,156 active employees (+3.4%) as of December 31, 2018. In addition, 9,096 employees were in the passive phase of their partial retirement and 19,244 young people were in vocational traineeships. The Volkswagen Group’s headcount was 664,496 employees (+3.5%) at the end of the reporting period. The main contributors to this were the volume-related expansion, the recruitment of specialists inside and outside Germany and the expansion of the workforce at our new plants in China. A total of 292,729 people were employed in Germany (+1.8%), while 371,767 were employed abroad (+4.8%).

EMPLOYEES BY DIVISION/BUSINESS AREA

as of December 31, 2018

