

# Volkswagen AG

(Condensed, in accordance with the German Commercial Code)

Unit sales of Volkswagen AG were on a level with the previous year in 2018, while sales and profit increased.

## ANNUAL RESULT

Additional special items in connection with the diesel issue amounting to €2.0 billion were recognized in fiscal year 2018. These were mainly attributable to the administrative fine order of €1.0 billion imposed by the Braunschweig public prosecutor's office, higher legal risks and legal defense costs and an increase in expenses for technical measures. Special items had an impact of €0.1 (–2.0) billion on cost of sales and of €–2.0 (–0.9) billion on other operating income.

In the reporting period, sales were 1.7% higher than in the previous year, at €78.0 billion. Sales generated abroad accounted for a share of 64.7 (62.5)%. Due to a decline in special items, cost of sales decreased by 0.9% to €72.7 billion.

Gross profit rose accordingly to €5.3 (3.4) billion.

At €7.6 billion, distribution, general and administrative expenses were up €0.5 billion on the prior-year figure.

The net other operating result was €0.3 billion lower, at €–0.4 (–0.2) billion. The decline was mainly attributable to the year-on-year rise of €1.1 billion in special items.

At €8.3 (8.6) billion, the financial result stood at the prior-year level.

Including the income tax expense of €–0.9 (–0.4) billion, net income for the year amounted to €4.6 (4.4) billion in fiscal year 2018.

## INCOME STATEMENT OF VOLKSWAGEN AG

| € million   | 2018         | 2017         |
|---|--------------|--------------|
| Sales   | 78,001       | 76,729       |
| Cost of sales                                     | –72,700      | –73,355      |
| <b>Gross profit on sales</b>                      | <b>5,301</b> | <b>3,375</b> |
| Distribution, general and administrative expenses | –7,624       | –7,104       |
| Net other operating result                        | –415         | –154         |
| Financial result <sup>1</sup>                     | 8,264        | 8,644        |
| Taxes on income                                   | –907         | –409         |
| <b>Earnings after tax</b>                         | <b>4,620</b> | <b>4,353</b> |
| <b>Net income for the fiscal year</b>             | <b>4,620</b> | <b>4,353</b> |
| Retained profits brought forward                  | 3            | 2            |
| Appropriations to revenue reserves                | –2,204       | –2,174       |
| <b>Net retained profits</b>                       | <b>2,419</b> | <b>2,181</b> |

1 Including write-downs of long-term financial assets.

## BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

| € million                      | 2018           | 2017           |
|--------------------------------|----------------|----------------|
| Fixed assets                   | 119,713        | 113,703        |
| Inventories                    | 5,140          | 4,889          |
| Receivables <sup>1</sup>       | 36,965         | 32,303         |
| Cash-in-hand and bank balances | 14,595         | 5,798          |
| <b>Total assets</b>            | <b>176,412</b> | <b>156,693</b> |
| Equity                         | 33,090         | 30,438         |
| Special tax-allowable reserves | 19             | 21             |
| Long-term debt                 | 40,348         | 33,060         |
| Medium-term debt               | 37,422         | 33,415         |
| Short-term debt                | 65,533         | 59,759         |

1 Including prepaid expenses.

**NET ASSETS AND FINANCIAL POSITION**

Total assets amounted to €176.4 billion on December 31, 2018, up €19.7 billion on the prior-year figure. Property, plant and equipment was down by €0.2 billion, capital expenditure was lower than depreciation charges. Financial assets increased, driven in particular by capital increases at Volkswagen Finance Luxemburg S.A. (€2.7 billion), Volkswagen Klassik GmbH (€2.3 billion) and Porsche Holding Stuttgart GmbH (€0.9 billion) and by the increased stake in Volkswagen Klassik GmbH recognized directly in equity due to an intragroup reorganization (€2.6 billion). Particularly the capital decrease of €3.3 billion implemented at TRATON SE (formerly TRATON AG) had an offsetting effect.

Fixed assets accounted for a share of 67.9 (72.6)% of total assets.

Current assets (including prepaid expenses) amounted to €56.6 (43.0) billion on December 31, 2018.

At €33.1 billion, equity increased due in particular to the improved net income for the year at the end of the reporting period. The equity ratio was 18.8 (19.4)%.

Other provisions decreased by €2.1 billion to €20.0 (22.1) billion, due primarily to the utilization of provisions in connection with the diesel issue. Provisions for pensions and similar obligations rose by €1.8 billion to €16.1 billion, primarily as a result of a change in measurement inputs, while provisions for taxes increased by €0.2 billion to €3.7 billion.

The €17.1 billion rise in total liabilities (including deferred income) to €103.4 billion is, above all, attributable to higher liabilities to affiliated companies.

Volkswagen AG's cash funds, comprising cash instruments with a maturity of less than three months, less bank and cash pooling liabilities repayable on demand, improved year-on-year from €-8.5 billion to €-0.2 billion. The interest-bearing portion of debt amounted to €87.9 (74.0) billion. In our assessment, the economic position of Volkswagen AG is just as positive overall as that of the Volkswagen Group.

**DIVIDEND PROPOSAL**

In fiscal year 2018, net retained profits amounted to €2.4 billion. The Board of Management and Supervisory Board are proposing to pay a total dividend of €2.4 billion, i.e. €4.80 per ordinary share and €4.86 per preferred share.

**PROPOSAL ON THE APPROPRIATION OF NET PROFIT**

| €  | 2018                    |
|--|-------------------------|
| Dividend distribution on subscribed capital (€1,283 million) | 2,418,589,589.10        |
| of which on: ordinary shares                                 | 1,416,431,126.40        |
| preferred shares   | 1,002,158,462.70        |
| Balance (carried forward to new account)                     | 338,837.15              |
| <b>Net retained profits</b>                                  | <b>2,418,928,426.25</b> |

**EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG**

| € million                          | 2018          | %            | 2017          | %            |
|------------------------------------|---------------|--------------|---------------|--------------|
| Direct pay including cash benefits | 8,175         | 70.6         | 7,637         | 70.7         |
| Social security contributions      | 1,437         | 12.4         | 1,361         | 12.6         |
| Compensated absence                | 1,350         | 11.7         | 1,161         | 10.7         |
| Retirement benefits                | 611           | 5.3          | 640           | 5.9          |
| <b>Total expense</b>               | <b>11,573</b> | <b>100.0</b> | <b>10,799</b> | <b>100.0</b> |

**VEHICLE SALES**

Volkswagen AG sold a total of 2,597,126 (2,584,375) vehicles in fiscal year 2018. Vehicles sold abroad accounted for a share of 71.0 (70.0)%.

**PRODUCTION**

Volkswagen AG produced a total of 1,113,415 vehicles at its vehicle production plants in Wolfsburg, Hanover and Emden in the reporting period (-9.1%).

**EMPLOYEES**

As of December 31, 2018, a total of 119,394 (117,420) people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. Of this figure, 5,009 (4,953) were vocational trainees. 4,785 (4,380) employees were in the passive phase of their partial retirement.

Female employees accounted for 17.3 (17.1)% of the workforce. Volkswagen AG employed 5,883 (5,069) part-time workers. The percentage of foreign employees was 6.3 (6.1)%. 83.2 (83.4)% of the employees in Volkswagen AG's production area were in possession of vocational or additional training in the reporting period. The proportion of graduates was 19.5 (18.9)% in the same period. The average age of employees in fiscal year 2018 was 43.9 (43.6) years.

**RESEARCH AND DEVELOPMENT**

Volkswagen AG's research and development costs as defined in the German Commercial Code increased to €5.6 (4.8) billion in the reporting period. 12,796 (12,332) people were employed in this area at the end of the reporting period.

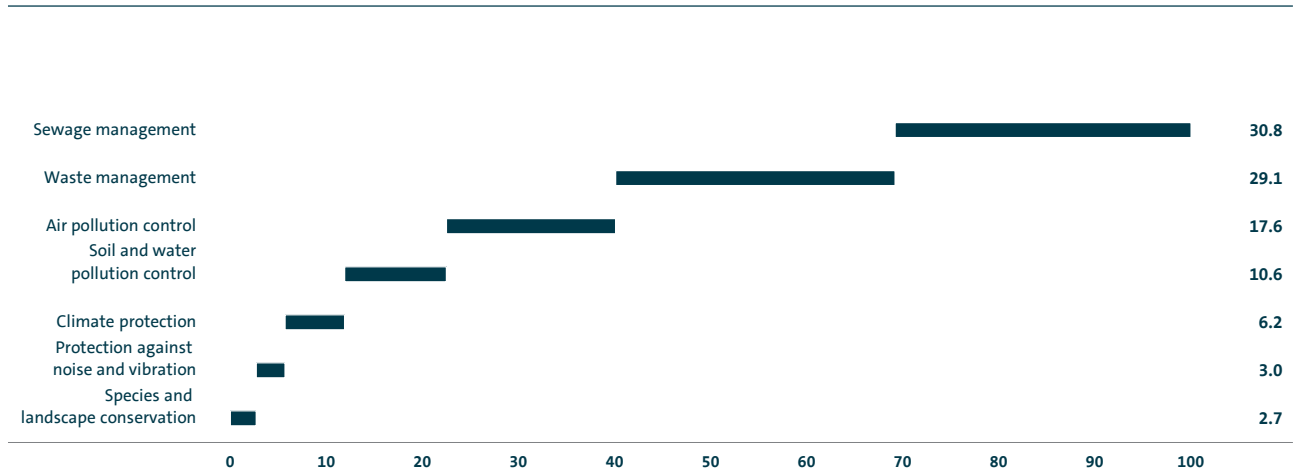
**EXPENDITURE ON ENVIRONMENTAL PROTECTION**

When measuring expenditure on environmental protection, a distinction is made between investments and operating costs for production-related environmental protection measures. Of our total investments, only those that are spent exclusively or primarily on environmental protection are included in environmental protection investments. We distinguish here between additive and integrated investments. Additive environmental protection measures are separate measures upstream or downstream of the production process. In contrast to additive environmental protection measures, integrated measures reduce the environmental impact already during the production process. In 2018 we invested primarily in soil and water pollution control.

The recognized operating costs relate to measures that protect the environment against harmful factors by avoiding, reducing, or eliminating emissions by the Company. Resources are also conserved. For example, these include expenditures incurred to operate equipment that protects the environment as well as expenditures for measures not relating to such equipment. As in previous years, the emphasis in 2018 was on sewage and waste management.

**VOLKSWAGEN AG EXPENDITURE ON ENVIRONMENTAL PROTECTION**

| € million       | 2018 | 2017 | 2016 | 2015 | 2014 |
|-----------------|------|------|------|------|------|
| Investments     | 13   | 17   | 11   | 21   | 19   |
| Operating costs | 230  | 227  | 223  | 244  | 226  |

**OPERATING COSTS FOR ENVIRONMENTAL PROTECTION AT VOLKSWAGEN AG 2018***Share of environmental protection areas in percent***BUSINESS DEVELOPMENT RISKS AND OPPORTUNITIES AT VOLKSWAGEN AG**

The business development of Volkswagen AG is exposed to essentially the same risks and opportunities as the Volkswagen Group. These risks and opportunities are explained in the Report on Risks and Opportunities on pages 163 to 187 of this annual report.

**RISKS ARISING FROM FINANCIAL INSTRUMENTS**

Risks for Volkswagen AG arising from the use of financial instruments are the same as those to which the Volkswagen Group is exposed. An explanation of these risks can be found on pages 185 to 186 of this annual report.

**DEPENDENT COMPANY REPORT**

The Board of Management of Volkswagen AG has submitted to the Supervisory Board the report required by section 312 of the AktG and issued the following concluding declaration:

“We declare that, based on the circumstances known to us at the time when the transactions with affiliated companies within the meaning of section 312 of the German Stock Corporation Act (AktG) were entered into, our Company received appropriate consideration for each transaction. No transactions with third parties or measures were either undertaken or omitted on the instructions of or in the interests of Porsche or other affiliated companies in the reporting period.”