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Annual Media Conference 2019

Annual Media Conference

March 12, 2019 | Wolfsburg

Speeches

Check against delivery

1. Dr. Herbert Diess

Chairman of the Board of Management of Volkswagen AG

2. Frank Witter

Member of the Board of Management of Volkswagen AG

with responsibility for Finance and IT

DISCLAIMER

The following presentations contain forward-looking statements and information on the business development of the Volkswagen Group. These statements may be spoken or written and can be recognized by terms such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “will” or words with similar meaning. These statements are based on assumptions, 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. These assumptions relate in particular to the development of the economies of individual countries and markets, the regulatory framework and the development of the automotive industry. Therefore the estimates given involve a degree of risk, and the actual developments may differ from those forecast. The Volkswagen Group currently faces additional risks and uncertainty related to pending claims and investigations of Volkswagen Group members in a number of jurisdictions in connection with findings of irregularities relating to exhaust emissions from diesel engines in certain Volkswagen Group vehicles. The degree to which the Volkswagen Group may be negatively affected by these ongoing claims and investigations remains uncertain.

Consequently, a negative impact relating to ongoing claims or investigations, any unexpected fall in demand or economic stagnation in our key sales markets, such as in Western Europe (and especially Germany) or in the USA, Brazil or China, and trade disputes among major trading partners will have a corresponding impact on the development of our business. The same applies in the event of a significant shift in current exchange rates in particular relative to the US dollar, sterling, yen, Brazilian real, Chinese renminbi and Czech koruna.

If any of these or other risks occur, or if the assumptions underlying any of these statements prove incorrect, the actual results may significantly differ from those expressed or implied by such statements.

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This information does not constitute an offer to exchange or sell or an offer to exchange or buy any securities.

Dr. Herbert Diess
Manuscript of Speech at the
Annual Media Conference
on March 12, 2019

Ladies and Gentlemen,

I wish you a very warm welcome to our Annual Media Conference here in Wolfsburg. I am delighted to have the opportunity to talk to you about our business results from the past fiscal year – and, what is just as important, look ahead to what the future holds.

The transformation of our industry is picking up pace. We are striving to provide individual mobility for the years to come – for millions of people across the entire globe. The challenge is to ensure this mobility is even safer, cleaner, fully connected and, above all, CO₂-neutral.

We are seizing this opportunity for change and aim to take up a leading role in the new world of mobility as well. This is why, three years ago, we started the process to realign our Group. We have now completed the first stage of our journey.

We are aligning Volkswagen with e-mobility like no other company in our industry. To a large extent, that is reflected in our planning. We are also starting to evolve from a pure automaker into a software-driven enterprise.

In order to shoulder the investments needed for this, we are boosting our efficiency – in manufacturing, sales and administration. We are becoming more agile and more innovative – but are nevertheless aware that we have to become even faster. Our new competitors are setting the pace.

Ladies and Gentlemen,

Volkswagen will change radically. I think this has become clear over the last few weeks and months. Some of you may still be rubbing your eyes in amazement. But, make no mistake – the supertanker is picking up speed. We are addressing the key trends of the future, particularly in connection with climate protection. We are taking on leadership responsibility – with our global presence, strong brands and operative strength. A look back at the last fiscal year will underline the truth of this statement.

1. Review of 2018 *Solid operating business, good financial basis*

2018 was a successful year for the Group. We performed well – despite the strong headwinds and major challenges.

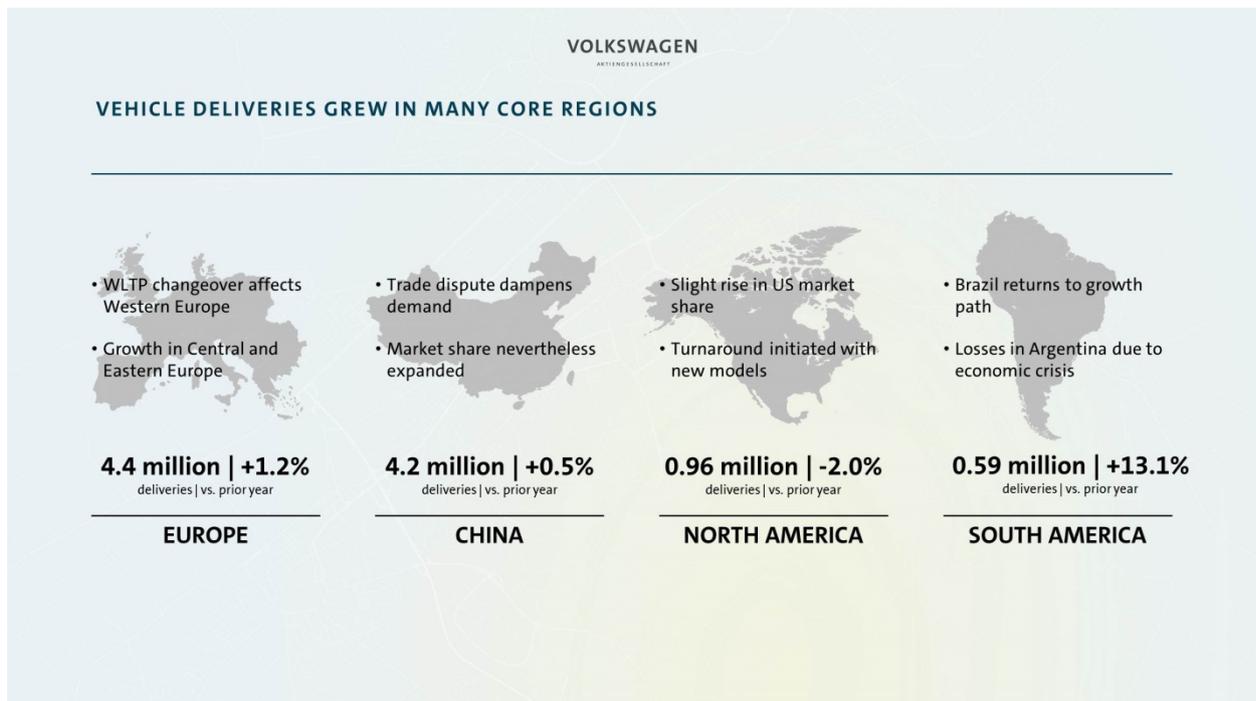


This success is reflected in the 10.8 million vehicles delivered. The more than 70 new models launched by our brands were well received by our customers – particularly the numerous new SUVs such as the Volkswagen Touareg and T-Roc, the ŠKODA Karoq, the SEAT Arona and the Audi Q8.

The trust our customers are placing in us is also reflected in our financial figures: our sales revenue rose by 2.7 percent to € 235.8 billion. Operating profit before special items increased slightly to € 17.1 billion. At € 3.2 billion, the negative special items were on the same level as the previous year, and mainly attributable to the diesel issue. Before special items, the Volkswagen Group achieved an operating return on sales of 7.3 percent. This result is at the upper end of our target corridor.

Frank Witter will be giving you more details about our business performance shortly.

As the results show, we are one of the few automotive companies that was able to meet its annual forecast on the operating business side. Our operating business is robust and resilient, even in times of great uncertainty. Examples of this uncertainty include the ongoing trade dispute between the USA and China, the still unresolved Brexit situation, exchange rate fluctuations, and the ailing economies in many regions of the world.



The greatest challenge for us in 2018 was the changeover to the new WLTP-based approval process for our vehicle fleet. In **Europe**, the new test procedure led to a downturn in sales and a loss of market share, particularly in the second half of the year. There were delays in delivering numerous vehicles to customers. Our complex portfolio meant that we were more seriously affected than our competitors. Not only that, our own preparations could also have been better.

Audi was hit particularly hard. It will probably be the end of the first quarter before all variants are available again. We had to fight to produce every single car at the Volkswagen brand too, right up to very end of December. I have great respect for the team effort it took to achieve these results. This applies particularly to our engine developers, who had to work more or less around the clock.

WLTP will continue to be a challenge in 2019. There could be some temporary restrictions once again – but much less extensive than in 2018.

We have learned our lessons. The VW brand has reduced the number of its model variants by 25 percent, and Audi by 30 percent. The streamlined portfolio helps us to improve productivity, lower manufacturing costs and reduce fixed costs. At the same time, we have increased our test bench capacities and built up personnel to ease bottlenecks.

In **Europe**, we delivered a total of 4.4 million vehicles – 1.2 percent more than in 2017.

After a positive start to the year the overall market in **China** dipped sharply from last June. For the first time in more than two decades, the world's largest single market reported negative growth rates. Nevertheless, we achieved a new delivery record in this challenging environment and grew our share of the market to 18.5 percent. That shows the strength of the Volkswagen Group and its brands. Additional potential in a market that continues to decline will come from our new JETTA brand. It will directly target the rapidly emerging young middle class with its high quality, safety, emotionality and attractive pricing.

China is now setting productivity and quality standards for the entire Group. It is setting the pace with regard to innovation as well – for e-mobility, digitalization and new mobility concepts. Volkswagen's future will be determined in China. It is our most important market – and will remain so. This was also a reason for strengthening its Board-level representation. Stephan Wöllenstein, CEO of the Volkswagen brand in China, is now also a member of the Brand Board of Management.

In **North America**, unit sales declined by 2 percent. This was due to exiting unprofitable market segments in Mexico. In the USA, we were able to increase deliveries by 2.1 percent. We are gradually making progress thanks to new models tailored to market needs such as the Atlas SUV. The turnaround is scheduled for 2020.

We are expanding our plant in Chattanooga so that it can produce vehicles based on our Modular Electric Drive Toolkit. This € 700 million investment represents a clear commitment to the U.S. market. The transition to e-mobility gives us the opportunity to significantly expand market share and reposition the brand in the USA.

There have been positive developments in **South America** as well. With a rise in unit sales of more than 13 percent, we are back on track after dramatic restructuring in Brazil. Attractive new products such as the Polo or Virtus have brought positive momentum. We intend to move back into the black this year – with new models such as the T-Cross which will be coming to the showrooms in the next few days. The ongoing economic crisis in Argentina has led to losses. Here, too, we have initiated countermeasures and are working on new, locally produced vehicles tailored to market needs.



Ladies and Gentlemen,

The success of the Volkswagen Group is a global achievement, made possible by the efforts of our twelve Group brands. All of them are striving tirelessly to enhance their future viability and performance. We have improved in almost all brands and regions. I would like to express my sincere thanks to our teams.

Our **core Volkswagen brand** has achieved new record figures in unit sales and sales revenue. The core task now is to steer the changeover to e-mobility with the MEB while improving the cost effectiveness of the MBQ at the same time. Progress has already been made in this regard, above all in containing fixed costs. The brand has brought its 6 percent target for return on sales forward to 2022 – notwithstanding the high costs for the necessary future investments.

But there is still quite a backlog – in administration, production and development. In tomorrow's brand press conference, we will be telling you how Volkswagen is switching to have a leaner, more efficient and more digital way of working in the future.

ŠKODA is continuing its excellent development. The brand grew once again in 2018. The plants are operating at more than 120 percent of capacity. This is why we are planning to build an additional multibrand plant in Eastern Europe, and are currently looking at sites in four different countries. To an increasing extent, ŠKODA is also taking over tasks for the entire Group: in leading Group activities in India and Russia. Or, going forward, in production of the Passat family at the plant in Kvasiny, Czech Republic. However, ŠKODA needs to work on its return on sales, which has dipped recently.

SEAT is also rapidly picking up speed. The brand was able to increase its vehicle deliveries by 10.5 percent to 518,000 vehicles, making it Europe's fastest growing brand. It is the brand that attracts the youngest customers as well. SEAT has also taken on strategic responsibility for micro-mobility in the Group.

Looking further ahead, SEAT is concentrating on generating a return on investment at Group level. The return in 2018 was already 13.2 percent, not far off the Group target. Incidentally, the return on investment will become our most important performance indicator in future, even more important than the return on sales.

The **Volkswagen Commercial Vehicles** brand is also on the right track. The brand has set itself what are probably the most challenging goals and projects. The conversion of the Hanover plant to an electric production location is an important strategic decision. What's more, the recently agreed collaboration with Ford opens up new horizons and growth opportunities, with regard to mid-sized pickups, for example. Volkswagen and Ford will be using a joint platform for the successor to the Amarok. We will be making a decision on the production location soon. We are also consolidating the Group's activities in new mobility services, such as MOIA, at VWN. The same applies for the development of fully-automated vehicles, or robotaxis.

2018 was an extremely challenging year for **Audi**. We have already touched on the impact of WLTP. The brand was especially hard hit as a result of its complex drive portfolio and the ongoing diesel refits. This was compounded by the change in leadership. Looking forward, however, we see excellent opportunities for regaining the initiative. It is worth bearing in mind that an operating profit of € 4.7 billion and a return on sales of 8 percent still represent respectable annual figures for Audi. The Audi team is powerful, and the product pipeline is nicely filled. The new management team headed by Bram Schot will refine and implement Audi's transformation plan. e-tron, the recently presented electric SUV, is an important milestone in the brand's electric offensive – and the first genuine alternative to Tesla in the premium segment. Up to January, 20,000 reservations had already been received. The first dealership presentation was so successful that all test drive slots were booked out within the space of 16 minutes.

Our colleagues at **Porsche** once again enjoyed a record year with regard to unit sales, sales revenue and earnings. The 8th generation of the 911 will be the best of all time and has been warmly received by customers. Preparations for the first all-electric Porsche are now underway in Zuffenhausen. The Taycan will be the sportiest electric car on the market and opens up great potential. 20,000 prospective buyers have already expressed serious interest. The most challenging task for Porsche is continuing to achieve a more than 15 percent return on sales – despite the transformation to e-mobility.

The **Truck & Bus** business has also seen positive development. Sales revenue across all brands rose by 6 percent to €25.9 billion. Adjusted operating profit increased by about 13 percent to approximately €1.7 billion. **TRATON**, the new independent entity, has the potential to become a global champion, and is currently making preparations for the IPO. A date for this will be agreed in the foreseeable future. Conditions on the money markets and capital markets have to be right. We are weighing things up and assessing the situation over the next few days.

Ladies and Gentlemen,

Alongside the successes achieved in our operating business, 2018 was also marked by important strategic decisions.



In April, the Group was given a new and leaner management structure. This means that responsibilities are now spread across more shoulders than before. Decisions are made at the lowest responsible level, as close to actual operations as possible. A lean Group drives strong brands. This is the motto that guides the work of the brand groups as well. In addition to this, individual brands are assuming responsibility for specific regions. The Group deals with the major synergies: the MEB, MQB and PPE modular toolkits, the product portfolio, plant assignment and purchasing.

We are breathing life into the new structure, on a personnel level too. All in all, nearly 40 top positions at Group and brand level have been reallocated. For example, on the Board of Management, Gunnar Kilian now has functional responsibility for Human Resources and Stefan Sommer for Components and Procurement. Bram Schot is now the Audi CEO, and Ralf Brandstätter the COO of the VW brand.

Moving forward, we intend to fill more top management and board positions with candidates already working within the Group. With this in mind, we have introduced a new executive-level training program, in which almost 400 managers from across the entire Group will be participating. We are also revising the management remuneration system:

the bonus will be oriented to Group earnings. The rise in share price becomes an important parameter. The focus is on Group targets with a view to fostering collaboration.

Our managers will also play a key role in the process of realigning our company culture. Despite the progress that has already been made, much work still remains to be done on this topic – work that goes far beyond the diesel issue itself. In the meantime, 99 percent of the affected diesel vehicles in Germany have been rectified. Nevertheless, what we need to install is a culture in which integrity and an open approach to dealing with mistakes and problems are a matter of course throughout the entire Group.

Larry Thompson, our Independent Compliance Monitor, and his team are helping us with these endeavors, and I would like to take the opportunity to express my gratitude. Working together, we intend to make Volkswagen a better company. All in all, we are making good progress and remain on schedule. We have already received the Monitor's second report and are implementing the recommendations it contains.

Alliances with third parties will be a further key lever for our future viability. In one such alliance, we are working with Ford to develop vans and mid-sized pickups. And discussions about further possible collaborations in the areas of e-mobility and autonomous driving are at an advanced stage. We have also entered into a partnership with Microsoft to develop the Volkswagen Automotive Cloud.

The restructuring of our Group Components is a further key pillar of our strategy. As of January 2019, Volkswagen Group Components is working as an independent business unit. At a stroke, we have created one of the world's largest suppliers with a business volume of some € 35 billion and over 80,000 employees. In this unit we have also consolidated all activities related to batteries for electric vehicles. We are focusing on in particular on the battery value chain for electric vehicles: from raw materials and cell production to use in vehicles and raw material recycling. Components will be optimizing all of this, much of it using its own resources. MEB components such as cells, electric motors, power electronics or drives will be available to third parties .

Last but not least, our most recent planning session laid other important foundations: we have reorganized the way our plants are utilized. To support our electric offensive, even more factories are being converted into sites solely producing electric vehicles. We also made the decision to reduce the size of the workforce at our German sites in a socially acceptable manner. You will be hearing more about our electric offensive shortly.

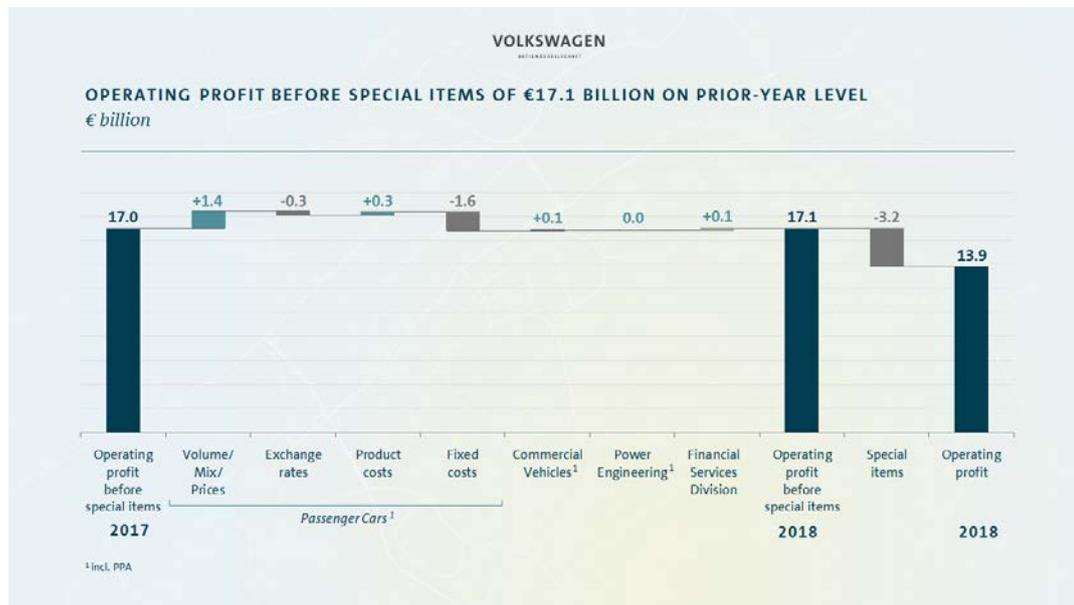
First, however, Frank Witter will give you more details about our business performance in 2018.

Frank Witter
Content of Speech at the
Annual Media and Investor Conference
on March 12, 2019



- In spite of the challenges presented by the diesel issue and public discussion pertaining to diesel vehicles, the persistently difficult market conditions and the new WLTP test procedure, Volkswagen Group could achieve a new sales record.
- *Quotation Frank Witter: "Group sales revenue of €235.8 billion exceeds the prior-year figure by 2.7% in 2018 and achieves a new record."*
- The Volkswagen Group recorded sales revenue of €235.8 billion in fiscal year 2018, thus exceeding the prior-year figure by €6.3 billion. Improvements in volumes and in the mix, and the healthy business performance in the Financial Services Division were offset by negative exchange rate effects.
- At €17.1 (prior-year: €17.0) billion, the Volkswagen Group's operating profit before special items was on a level with the previous year. Special items in connection with the diesel issue weighed on operating profit, reducing this item by €-3.2 (prior-year: €-3.2) billion. These were mainly attributable to the fines resulting from the final administrative fine orders issued by the Braunschweig public prosecutor's office (€1.0 billion) and the Munich II public prosecutor's office (€0.8 billion), to higher legal risks and legal defense costs and an increase in expenses for technical measures.

- The operating return on sales before special items amounted to 7.3 (prior-year: 7.4) % and was within the range forecast at the beginning of the year of 6.5–7.5%.



- In the Passenger Cars Business Area the effect of volume improvements was positive, while an increase in depreciation and amortization charges, higher research and development costs recognized in profit or loss, and the fair value measurement of gains and losses on certain derivatives, which have had to be reported in operating profit since the beginning of the year, had a negative impact.
- At €2.0 billion, the operating profit of the Commercial Vehicles Business Area was €0.1 billion higher than in the previous year. The year-on-year increase was mostly driven by higher volumes, positive mix and exchange rate effects, while cost increases had a negative impact.
- The operating loss in the Power Engineering Business Area amounted to €–0.1 (prior-year: €–0.1) billion. Volume improvements were offset by a deterioration in the mix.
- The Financial Services Division's operating profit improved by 4.5% compared with the previous year, increasing to €2.8 billion. The rise was mainly due to higher business volume.
- At €17.1 (prior-year: €17.0) billion, the Volkswagen Group's operating profit before special items was on a level with the previous year.

VOLKSWAGEN						
VOLKSWAGEN GROUP OPERATING PROFIT BEFORE SPECIAL ITEMS BY BRAND						
€ million / %						
	January – December		Change		Operating return on sales	
	2017	2018	absolute	%	2017	2018
Volkswagen Passenger Cars	3,301	3,239	-62	-1.9	4.2	3.8
Audi	5,058	4,705	-353	-7.0	8.5	7.9
ŠKODA	1,611	1,377	-235	-14.6	9.7	8.0
SEAT	191	254	64	33.4	1.9	2.5
Bentley	55	-288	-343	x	3.0	-18.6
Porsche Automotive	4,003	4,110	108	2.7	18.5	17.4
Volkswagen Commercial Vehicles	853	780	-73	-8.6	7.2	6.6
Scania ¹	1,289	1,346	57	4.4	10.1	10.1
MAN Commercial Vehicles	362	332	-30	-8.3	3.3	2.7
MAN Power Engineering	193	193	0	0.1	5.9	5.3
Other	-2,335	-1,557	778	33.3		
Volkswagen Financial Services	2,460	2,612	152	6.2		
Volkswagen Group before special items²	17,041	17,104	63	0.4	7.4	7.3

¹ Including financial services. ² The operating profit of the joint venture companies in China is not included in the figures for the Group; they are accounted for using the equity method.

- The changeover to the new WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) as of September 1, 2018 led to pull-forward effects of the total number of new passenger car registrations in Western Europe in the months of July and August and to significant declines from September until December in some cases.
- Operating profit before special items of the **Volkswagen Passenger Cars** brand amounted to €3.2 (prior-year: 3.3) billion. The increase in vehicle sales and improved product costs had a positive effect. Higher sales expenses resulting from factors such as the environmental bonus, exchange rate effects and upfront expenditures for new products, especially in connection with the implementation of the electric mobility campaign, weighed on the operating profit. In addition, the WLTP test procedure presented challenges. The operating return on sales before special items was 3.8 (prior-year: 4.2) %. The diesel issue gave rise to special items of €–1.9 (prior-year: –2.8) billion.
- Operating profit before special items of the **Audi** brand was 7.0% lower, at €4.7 billion. Mix improvements, positive exchange rate effects and product cost optimization were unable to compensate for lower vehicle sales and higher sales costs, both of which primarily reflect the impact of the WLTP, as well as higher depreciation and amortization charges due to the large volume of capital expenditure. Audi generated an operating return on sales before special items of 7.9 (prior-year: 8.5) %. Special items resulting from the diesel issue amounted to €–1.2 (prior-year: –0.4) billion. The financial key performance indicators for the Lamborghini and Ducati brands are included in the financial figures for the Audi brand.
- Operating profit of **ŠKODA** brand fell by 14.6% to €1.4 billion; the decline mainly resulted from negative exchange rate effects, negative impacts resulting from WLTP, a rise in personnel costs and higher upfront expenditure for new products. Meanwhile, growth in unit sales, product cost optimization and improved price positioning had a positive impact. The operating return on sales declined from 9.7% in the previous year to 8.0%.

- Operating result of the **Bentley** brand fell to €–288 (prior-year: €55) million. In particular, delays to the start-up of the new Continental GT as well as exchange rate effects had a negative impact. The operating return on sales amounted to –18.6 (prior-year: 3.0)%.
- **SEAT** continued its upward trend in the reporting year. Operating profit rose to €254 (prior-year: €191) million, which was a new record. Positive volume and mix effects more than offset the negative impact of cost increases and exchange rates. The SEAT brand's operating return on sales improved to 2.5 (prior-year: 1.9) %.
- The 2018 fiscal year was once again very successful for **Porsche**: Operating profit of Porsche Automotive increased by 2.7% year-on-year to €4.1 billion. The rise was particularly attributable to the increased volume and positive mix effects, while higher research and development costs, particularly for e-mobility and digitalization had an offsetting effect. The operating return on sales stood at 17.4 (prior-year: 18.5) %.
- Despite positive mix effects and material cost optimization, operating profit of **Volkswagen Commercial Vehicles** declined to €780 (prior-year: 853) million, primarily as a result of higher upfront expenditure for new products, unfavorable exchange rate trends and the challenges arising from the WLTP. The operating return on sales fell to 6.6 (prior-year: 7.2)%.
- Operating profit of **Scania** brand improved by 4.4% to €1.3 billion, particularly as a result of the higher volume, positive mix effects, favorable exchange rate trends and a better financial services business. Meanwhile, cost increases had a negative impact. The operating return on sales amounted to 10.1 (prior-year: 10.1)% in the reporting period.
- As a result of the expenditure associated with the restructuring activities in India, operating profit of **MAN Commercial Vehicles** declined to €332 (prior-year: 362) million. The operating return on sales was 2.7 (3.3)%.
- The operating profit of **MAN power engineering segment** for 2018 was €193 (prior-year: 193) million; positive volume effects were offset by a deterioration in the mix. The operating return on sales stood at 5.3 (prior-year: 5.9)%.
- Operating profit of **Volkswagen Financial Services** rose by 6.2% to €2.6 billion – a new record. The increase was mainly attributable to business growth.



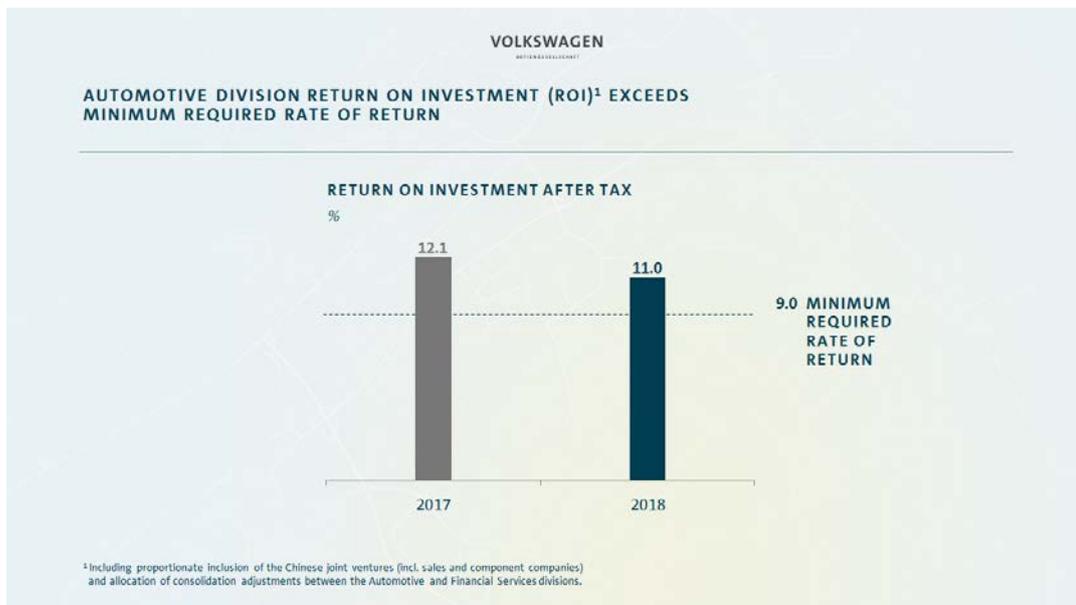
- Volkswagen Group delivered 4.2 (prior-year: 4.2) million vehicles (including imports) to customers in its biggest single market in the reporting period (+0.5%).
- The proportionate operating result of the joint ventures in the reporting year stood at €4.6 (prior-year: €4.7) billion. The negative impact of more intense market competition, adverse exchange rate effects as well as the increase in research and development costs were offset by improvements in the mix, higher volumes and product cost optimization.
- The figures of the Chinese joint venture companies are not included in the operating profit of the Group as they are accounted for using the equity method. Their profits are included solely in the Group's financial result on a proportionate basis.



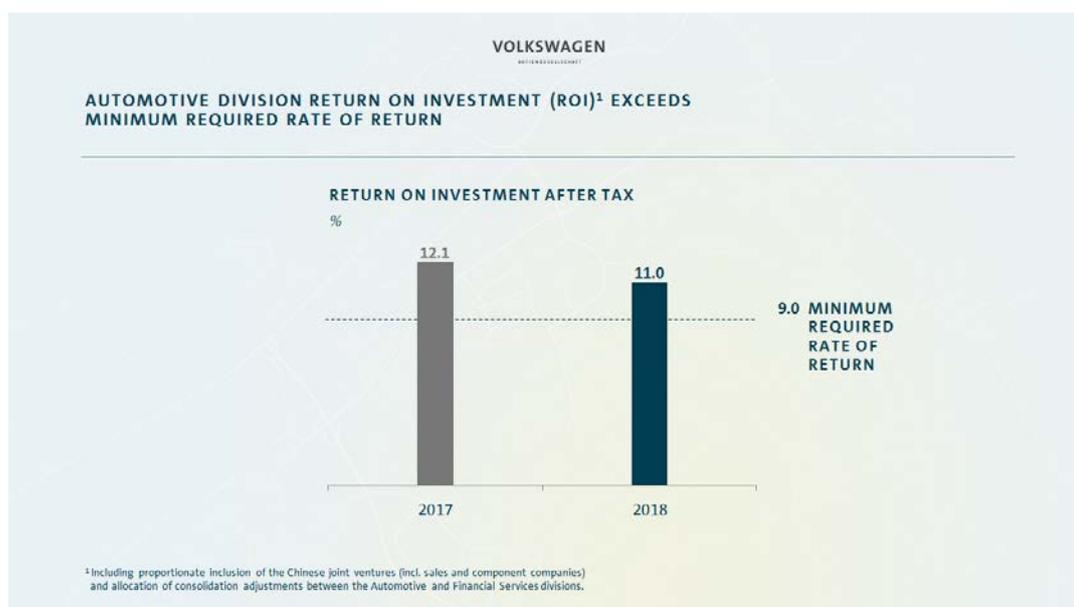
- The financial result increased by €1.9 billion to €1.7 billion.
- At € 3.4 billion, the share of the result of equity-accounted investments decreased year-on-year, while there was a rise in the profits generated by the Chinese joint ventures.



- **Quotation Frank Witter:** "In 2018, Volkswagen Group operating profit of €13.9 billion – even after special items – at a good level."



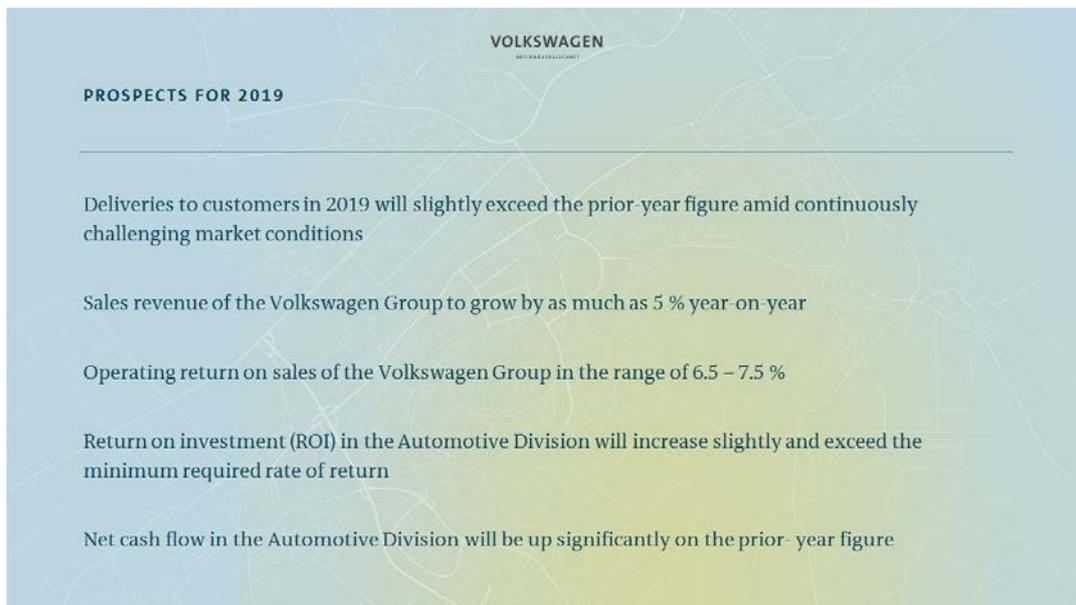
- In order to ensure the efficient use of resources in the Automotive Division and to measure the success of this, we have been using a value-based management system for a number of years, with return on investment (ROI) as a relative indicator.
- The return on investment (ROI) is used to calculate the return on invested capital for a particular period in the Automotive Division, including the Chinese joint ventures on a proportionate basis, by calculating the ratio of the operating result after tax to average invested capital.
- In the reporting year, the invested capital rose. The increase was particularly due to higher inventories as well as to additions to investments in property, plant and equipment and capitalized development costs.
- The ROI declined year-on-year as a result of the lower operating profit and higher invested capital. However, at 11.0 (prior-year: 12.1) %, it exceeded our minimum rate of return on invested capital of 9% in spite of the adverse effects of the special items on earnings.
- Volkswagen's goal of generating a sustained return on investment of over 15% is anchored in Strategy 2025.



- Net cash flow in the Automotive Division represents the excess funds from operating activities. It is calculated as cash flows from operating activities less cash flows from investing activities attributable to operating activities.
- Investing activities attributable to operating activities contain investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex), which were 4.6% higher, at €13.2 billion. The ratio of capex to sales revenue was 6.6 (prior-year: 6.5) %. We invested mainly in our production facilities and in models that we launched in the reporting period or are planning to launch next year. These are primarily the Touareg, T-Cross, Audi e-tron, Audi Q3, Audi A6, Porsche 911 and Porsche Taycan model series, and the Bentley Continental family. Other investment priorities included the ecological focus of the model range, product electrification and digitalization, and the modular toolkits.
- Due mainly to markedly lower cash outflows attributable to the diesel issue, net cash flow in the Automotive Division improved by €5.6 billion to €–0.3 (prior-year: €–6.0) billion compared with the previous year.
- **Quotation Frank Witter:** "Net cash flow is at – €0.3 billion significantly better than in the previous year. However, we have not succeeded in further reducing inventories and receivables as much as had been expected in the fourth quarter of 2018 due to the WLTP."



- Basic earnings per ordinary share were €23.57 (prior-year: €22.28) in fiscal year 2018. Basic earnings per preferred share were €23.63 (prior-year: €22.34).
- **Quotation Frank Witter:** "The Board of Management and Supervisory Board are delighted to propose to the shareholders a significant increase in the dividend to €4.80 per ordinary share and €4.86 per preferred share."
- The Board of Management and Supervisory Board of Volkswagen AG are proposing a dividend of €4.80 per ordinary share and €4.86 per preferred share for fiscal year 2018. On this basis, the total dividend amounts to €2.4 (prior-year: €2.0) billion.
- The distribution ratio is based on the Group's earnings after tax attributable to Volkswagen AG shareholders. This amounts to 20.4% for the reporting period and stood at 17.6% in the previous year. In the Group strategy, the Board of Management aims to achieve a distribution ratio of 30%.



- **Quotation Frank Witter:** *“The figures of the year 2018 demonstrate that in a challenging environment we have established a position that enables us to successfully shape the transformation of our Company. The year 2019 will not be easy, however, we are confident and resolved to achieve our set goals.”*
- The Board of Management expects that deliveries to customers of the Volkswagen Group in 2019 will slightly exceed the prior-year figure amid continuously challenging market conditions.
- The Board of Management expects 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 for the Group and the Passenger Cars Business Area, the Board of Management forecasts an operating return on sales in the range of 6.5–7.5% in 2019. For the Commercial Vehicles Business Area, an operating return on sales of between 6.0% and 7.0% is anticipated. In the Power Engineering Business Area, a loss around the previous year’s level amid a slight rise in sales revenue is expected. For the Financial Services Division, a moderate increase in sales revenues and an operating profit at the prior-year level is forecasted.
- 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.
- The Board of Management expects a slight increase in return on investment (ROI) compared with the previous year.
- The Board of Management’s unchanged stated goal is to continue its solid liquidity policy. Cash outflows resulting from the diesel issue will negatively impact the cash flow again in 2019, but will probably be significantly lower than in the reporting period.

Consequently, the Board of Management anticipates a positive net cash flow for 2019 that will be up significantly on the prior-year figure.

– Annex –

Frank Witter
Content of Speech at the
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on March 12, 2019



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VOLKSWAGEN GROUP OPERATING PROFIT EVEN AFTER SPECIAL ITEMS ON PRIOR-YEAR LEVEL
 € million

	January – December		Change	
	2017 ¹	2018	absolute	%
Sales revenue	229,550	235,849	6,299	2.7
Operating profit before special items	17,041	17,104	63	0.4
as a percentage of sales revenue	7.4	7.3		
Special items	-3,222	-3,184	39	1.2
Operating profit	13,818	13,920	102	0.7
as a percentage of sales revenue	6.0	5.9		
Financial result	-146	1,723	1,868	x
Profit before tax	13,673	15,643	1,970	14.4
Income tax expense	-2,210	-3,489	-1,279	-57.9
Profit after tax	11,463	12,153	691	6.0

¹ Prior-year figures were adjusted.

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VOLKSWAGEN GROUP INCOME STATEMENT

€ million

	2017	%	2018	%
Sales revenue	229,550	100.0	235,849	100.0
Cost of sales	-186,001	-81.0	-189,500	-80.3
Gross profit	43,549	19.0	46,350	19.7
Distribution expenses	-20,859	-9.1	-20,510	-8.7
Administrative expenses	-8,126	-3.5	-8,819	-3.7
Net other operating result	-745	-0.3	-3,100	-1.3
Operating profit	13,818	6.0	13,920	5.9
Financial result	-146	-0.1	1,723	0.7
Profit before tax	13,673	6.0	15,643	6.6
Income tax expense	-2,210	-1.0	-3,489	-1.5
Profit after tax	11,463	5.0	12,153	5.2
Earnings attributable to Volkswagen AG shareholders	11,179	4.9	11,827	5.0

Prior-year figures were adjusted.

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2018 – FINANCIAL HIGHLIGHTS

R&D ratio (total research and development costs as a percentage of the Automotive Division's sales revenue) at 6.8 % on prior-year's level (prior-year: 6.7 %)

Ratio of capex to sales revenue amounts to 6.6 % (prior-year: 6.5 %)

Net cash flow in the Automotive Division at € – 0.3 billion significantly better (prior-year: € – 6.0 billion)

Net liquidity in the Automotive Division at € 19.4 billion remains solid (prior-year: € 22.4 billion)

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AUTOMOTIVE DIVISION NET LIQUIDITY

€ million

	January – December		Change	
	2017	2018	absolute	%
Gross cash flow	23,418	25,964	2,546	10.9
Change in working capital	-11,732	-7,433	4,299	36.6
Cash flows from operating activities	11,686	18,531	6,845	58.6
Cash flows from investing activities attributable to operating activities	-17,636	-18,837	-1,201	-6.8
of which: Capex	-12,631	-13,218	-587	-4.6
as % of sales revenue ¹	6.5	6.6		
Additions to capitalized development costs	-5,260	-5,234	26	0.5
Acquisition/disposal of equity investments	-124	-594	-470	x
Net cash flow	-5,950	-306	5,644	94.9
Contributions/redemptions from hybrid capital	3,473	1,491	-1,982	-57.1
Capital contribution Financial Services Division	-1,073	-73	1,000	93.2
Acquisition of shares and compensation payments MAN	-118	-2,117	-1,999	x
Net liquidity at December 31	22,378	19,368	-3,011	-13.5

¹ Prior-year figures were adjusted.

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GENERAL MEETING

The Board of Management and Supervisory Board propose to increase the dividend per ordinary share to € 4.80 (prior-year: € 3.90) and per preferred share to € 4.86 (prior-year: € 3.96)

General Meeting: May 14, 2019 at the CityCube Berlin



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FORECAST VERSUS ACTUAL FIGURES

	Actual 2017	Original Forecast for 2018	Adjusted Forecast for 2018	Actual 2018
Deliveries to customers	10.7 million	moderate increase	moderate increase	10.8 million
Sales revenue	€ 229.6 billion	increase of up to 5 %	increase of up to 5 %	€ 235.8 billion
Operating return on sales before special items	7.4 %	6.5 – 7.5 % within the forecast range	6.5 – 7.5 % within the forecast range	7.3 %
Operating profit before special items	€ 17.0 billion	within the forecast range	within the forecast range	€ 17.1 billion
Operating profit	€ 13.8 billion	within the forecast range	within the forecast range	€ 13.9 billion
Automotive Division				
Return on investment (ROI)	12.1 %	slight increase, > 9 %	slight decline, > 9 %	11.0 %
Capex/sales revenue	6.5 %	6.5 – 7.0 %	6.5 – 7.0 %	6.6 %
R&D ratio	6.7 %	6.5 – 7.0 %	6.5 – 7.0 %	6.8 %
Net cash flow	€ -6.0 billion	significant increase, positive	significant increase, positive	€ -0.3 billion
Net liquidity	€ 22.4 billion	moderate increase	moderate decline	€ 19.4 billion

Prior-year figures were adjusted.

Dr. Herbert Diess
Manuscript of Speech at the
Annual Media Conference
on March 12, 2019

2. Focus on e-mobility *Commitment to climate protection, expansion of electric offensive*

Thank you, Frank.

The market environment remains challenging. Nevertheless, we are again setting ourselves ambitious goals for 2019. We aim to continue our profitable growth.

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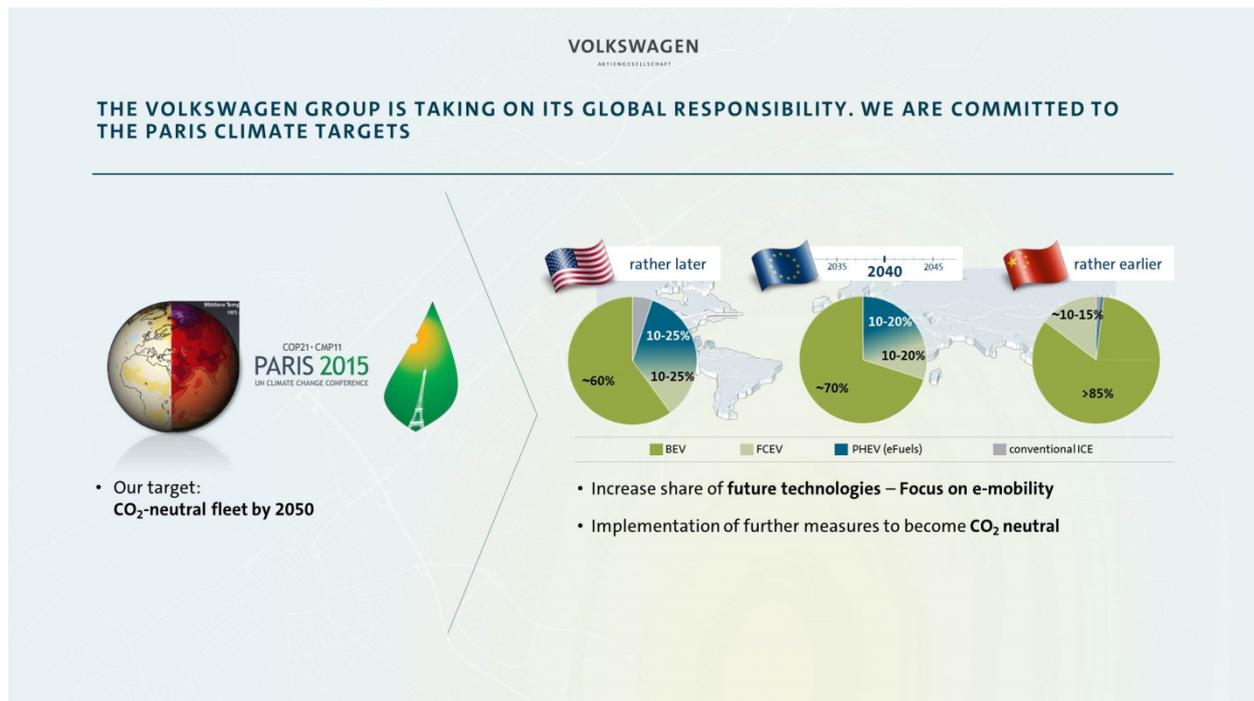
OUR PASSENGER CAR BRANDS ARE LAUNCHING OVER 90 MODELS IN 2019

Volkswagen Audi ŠKODA SEAT PORSCHE BENTLEY Bugatti Nutzfahrzeuge

INNOVATIONS / SUCCESSOR MODELS (NF) - CONVENTIONAL			INNOVATIONS – ELECTRIC VEHICLES	
 T-Cross	 B-SUV 5-Seater	 Q3 Sportback	 Bora BEV	 Lavida BEV
 Scala	 Kamiiq	 Tarraco	 e-tron	 Taycan
 911 Carrera (NF)	 Cayenne Coupé	 Flying Spur (NF)		

Contributing to this goal will be the 90-plus new models we are rolling out in 2019. We continue to e popular SUV segment, whose share in our overall unit sales increased by 5 percent in 2018. Solid growth is expected for the current year too. Highlights will include the Volkswagen T-Cross, the ŠKODA Scala and the SEAT Tarraco. And we shouldn't forget the next Golf generation that we will be presenting at the end of this year.

As you can see, our model offensive is continuing at full pace throughout 2019. At the same time, we also intend to pick up speed with regard to transforming our company. 2019 will be the key year for our Group-wide electric offensive, with the first all-electric vehicles of the new generation going into production – at Audi, at Porsche and at the Volkswagen brand.

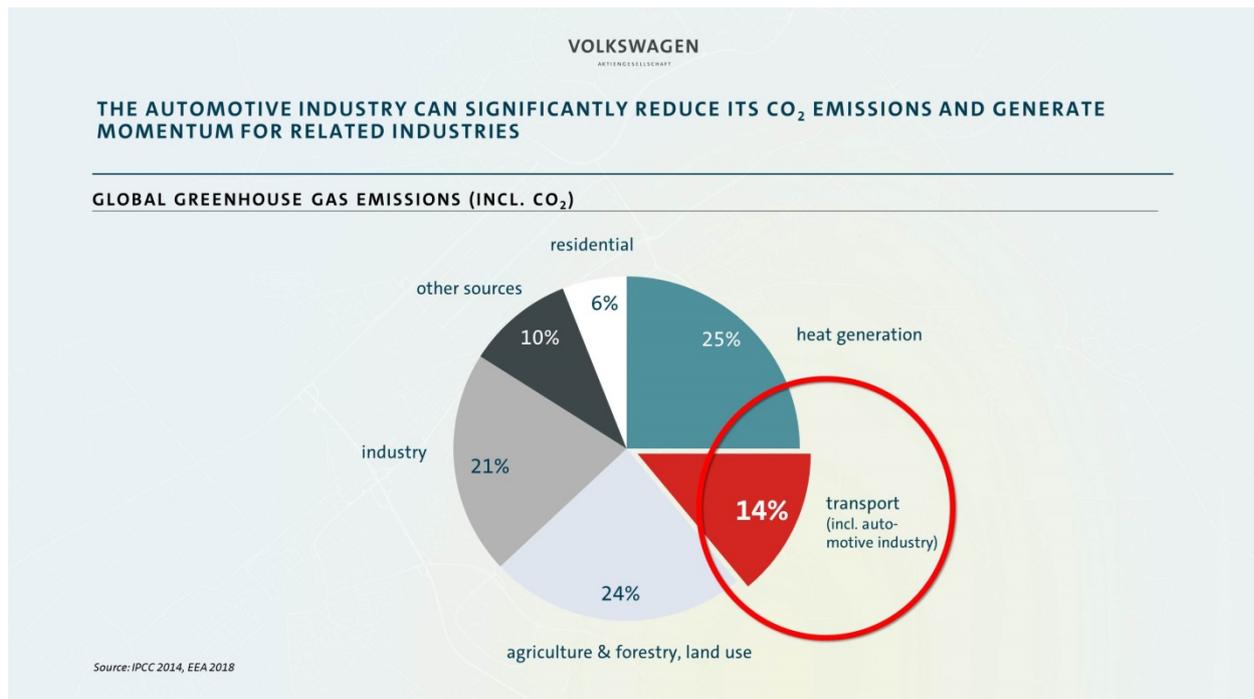


Ladies and Gentlemen,

The ability to mobilize people has always been part of Volkswagen's DNA. Our brands meet a wide variety of expectations. We are determined to make individual mobility possible for large numbers of people in the future as well, and make it affordable in the volume segments. We want to give people the freedom to move around wherever and whenever they will, without restrictions or driving bans.

This is why we will be gradually switching our vehicle portfolio over to clean mobility.

The Paris Agreement is the yardstick for our actions. Unless we can significantly cut CO₂ emissions over the coming years, global warming will continue unchecked – with devastating consequences. Volkswagen is therefore totally committed to the target of keeping global warming below 2 degrees Celsius by 2050.



This can be achieved through a considerable reduction in CO₂ emissions, across all sectors of industry and society.

At the current point in time, around 14 percent of CO₂ emissions worldwide stem from the transport sector – this includes airplanes and ships as well as passenger cars and trucks.

Through the use of their vehicles, Volkswagen AG's passenger car brands alone are responsible for 1 percent of global CO₂ emissions. We aim to reduce this to zero. That is our goal, and our contribution to climate protection.

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WE ARE LAUNCHING THE MOST AMBITIOUS DECARBONIZATION AND CLIMATE PROTECTION PROGRAM IN OUR INDUSTRY. VOLKSWAGEN WILL BE CO₂-NEUTRAL BY 2050



Zero CO₂

2050

INTERMEDIATE STEPS TO 2025

- 30% reduction in **CO₂ footprint** of our fleet
- 50% reduction in **CO₂ emissions** per vehicle at our plants
- Use **regenerative energies** for energy supply
- Set up €50 million **CO₂ fund** for reforestation projects

It is also why our Board of Management has agreed on a comprehensive decarbonization program. Our objective is to make the entire Volkswagen Group CO₂-neutral by 2050. This applies not only to our vehicles, but also to our own CO₂ footprint. Our goal is ambitious, but feasible.

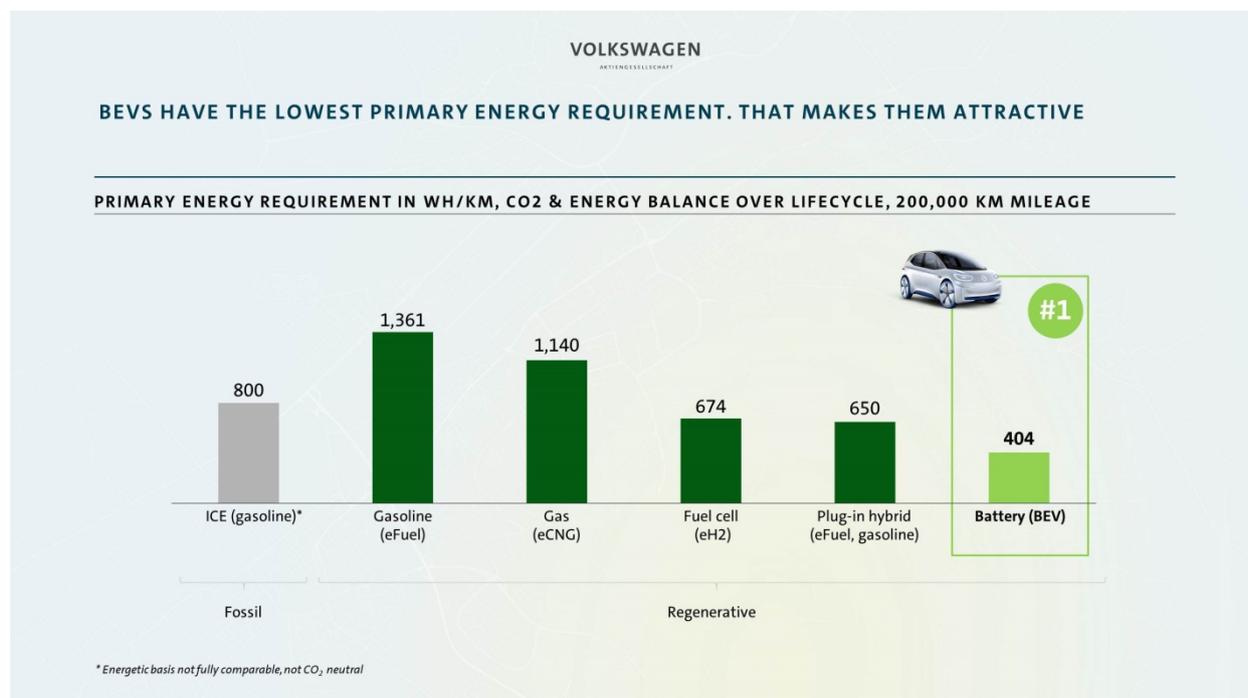
CO₂ will therefore become one of the key performance metrics in our vehicle projects, and in production and procurement as well. Because 2050 is still some distance away, we are setting ourselves binding interim objectives. By 2025, we intend to reduce the CO₂ footprint of our fleet over the entire life cycle by 30 percent in comparison to 2015. We also aim to cut the global CO₂ emissions produced by our plants by half compared to 2010.

To ensure that these are far more than vague declarations of intent, we are backing up our targets with quantifiable measures. These follow three principles. First: making effective and sustainable cuts to CO₂. Second: switching to renewable energy sources for power supply. Third: compensating for emissions whenever they cannot be avoided.

In striving to reduce the CO₂ balance of our vehicles, we are starting with the supply chain. We aim to make CO₂ a central aspect of the contracts with our suppliers. We have identified significant potential particularly in connection with batteries for electric vehicles, as well as with aluminum and steel.

Things are changing internally as well. The conversion of our power station in Wolfsburg from coal to gas will cut CO₂ emissions by 1.5 million tonnes annually from 2023 onwards. We are also switching to the use of renewable energies at our plants. Audi's production activities at the Brussels site, for example, are already completely CO₂-neutral.

To compensate for unavoidable CO₂ emissions, we are planning large-scale investments in climate protection projects – for reforestation and the protection of endangered woodlands, for example. These measures will be paid for out of a newly created CO₂ fund, with € 50 million planned as a starting sum. All in all, this is the most ambitious and comprehensive climate protection program ever undertaken in the automotive sector.



The electric drive will play the pivotal role in reducing the CO₂ footprint of our fleet and in complying with the strict EU requirements. For the foreseeable future, it will remain the best and most efficient way of cutting CO₂ in road traffic.

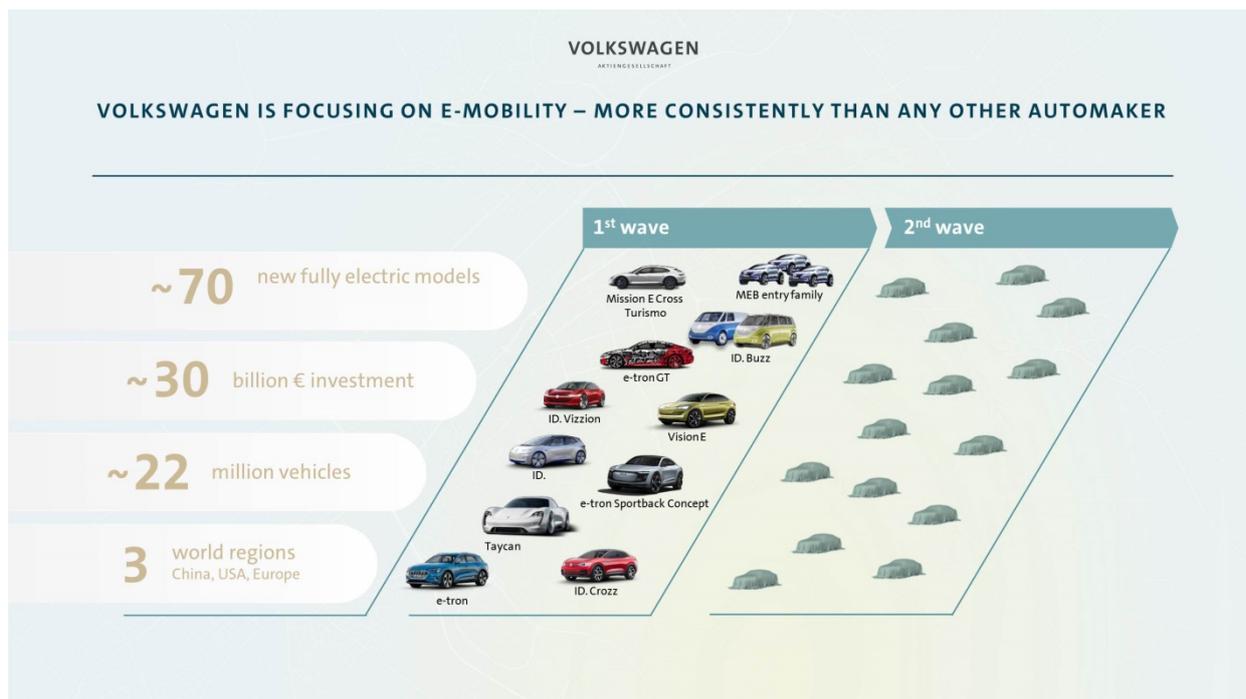
Based on a mileage of 200,000 kilometers, an electric car uses around 400 watt-hours per kilometer across its entire life cycle – including manufacturing. This means it is able to operate much more economically than other alternative drives. Using electricity in a drive system is three times as efficient as using synthetic fuel, as well as being significantly superior to the fuel cell.

In our view, there is no alternative to e-mobility over the next few decades.

Ladies and Gentlemen,

What we are initiating is a change of system. We must now concentrate all our energies on attaining our goal. A consistent focus is paramount. Openness to other technologies will not help us in our endeavors – it only serves to put off the change in system until further into the future. Political and social forces must join up to focus on making the transformation to e-mobility in order to build up the critical mass and vital infrastructure. Electric vehicles need a swift energy transition. Coal-free and CO₂-free power is a must. We call on industry, politics and society to pull out all the stops and help e-mobility achieve a real breakthrough.

This includes a frank and open debate about the consequences of e-mobility. The reality is that building an electric car involves some 30 percent less effort than one powered by an ICE. That means we will need to make job cuts, and achieving this purely through fluctuation and partial retirement will be difficult. This makes a good market position all the more important. The more successful we are with e-mobility as a company, the more long-term security this brings for jobs.



No other traditional car manufacturer is embarking on this new age with such a massive commitment as Volkswagen.

In last November's planning session, we presented the most far-reaching electric offensive our industry has ever seen. Now we are adjusting our sales plans accordingly. By 2028, the Group will be launching almost 70 new electric models, instead of the previous figure of 50.

I have already talked about the Audi e-tron¹ and the Porsche Taycan². Shortly after these, we will be launching the ID.², the first electric car selling for the price of a comparable Golf diesel. This will be followed, among others, by the ID. CROZZ², SEAT el-born², ŠKODA Vision E², ID. BUZZ² and ID. VIZZION² – all vehicles in our MEB family.

To achieve all this will require an investment of over € 30 billion up to 2023 alone, plus electrification of our portfolio in all segments.

¹AUDI e-tron: Combined electric power consumption in kWh/100 km*: 26.2 – 22.6 (WLTP); 24.6 – 23.7 (NEDC) CO2 emissions combined in g/km: 0. *Figures depending on the chosen equipment level.

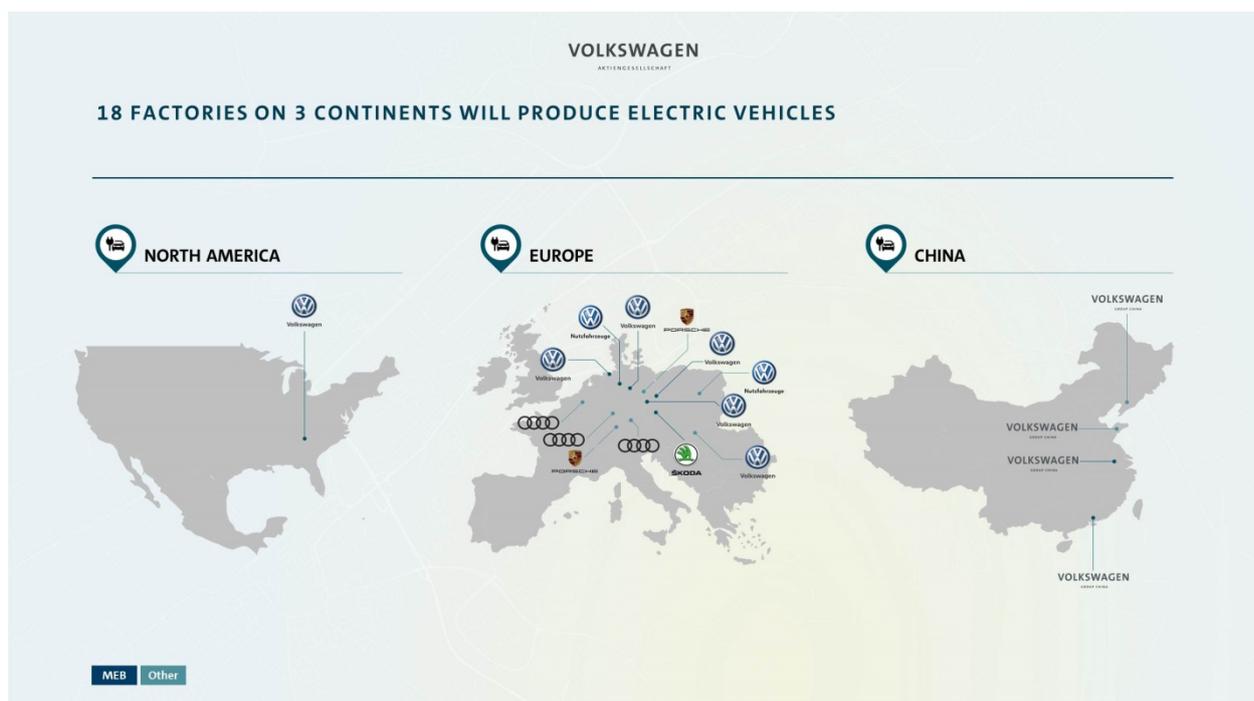
²Near-series design study

To make e-mobility affordable for as many people as possible, large-scale production is necessary. We will be using our new electric platforms to build up to 22 million vehicles in the next ten years. The electric-powered proportion of our fleet in Europe and China will rise to at least 40 percent by 2030.

In order to support the electric offensive, we have selected LG Chem, SKI, CATL and Samsung as strategic battery cell suppliers.

As a key component in any electric car, the battery is of major strategic importance to us. That is why we are investing in the next generation of battery cells. To make battery technology a permanent key area of expertise at Volkswagen, we have established a Center of Excellence in Salzgitter.

In view of the constantly increasing demand, we are also taking a close look at possible participation in battery cell manufacturing facilities in Europe of our own.



The electric offensive is also changing the face of our manufacturing plants.

By 2022, we will have set up 18 Group-wide electric production locations on three continents. 8 of these plants will be manufacturing vehicles on the basis of the Modular Electric Drive Toolkit (MEB).

The lead factory for the MEB will be our plant in Zwickau, where the conversion is in full swing. The first ID. is scheduled to roll off the production line there later this year. The plants in Emden and Hanover will also be converted for production of electric vehicles from 2022. These three sites will make up Europe's largest production network for electric vehicles.

With Anting and Foshan, two MEB plants are currently under construction in China as well, and will commence production only a few months after Zwickau. Chattanooga will be our site for the production of electric vehicles in North America.

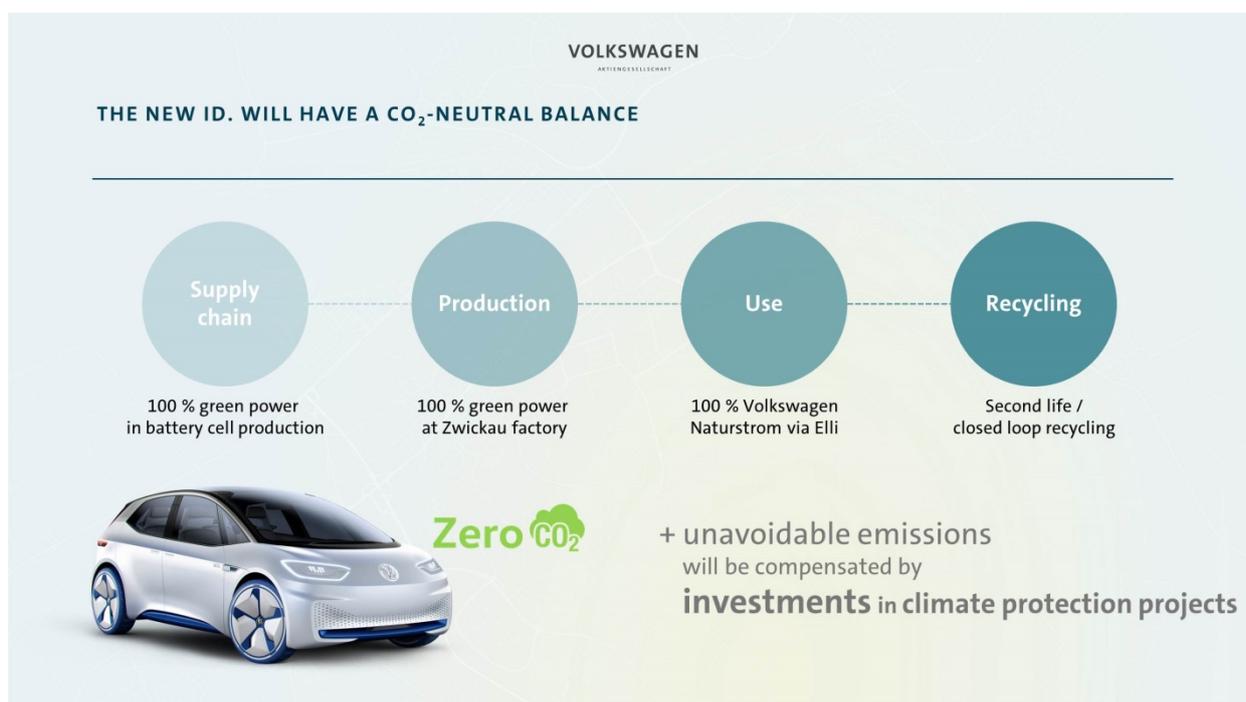


The Modular Electric Drive Toolkit lies at the heart of our electric offensive. We aim to make the MEB a new standard for our industry. Designed as an all-electric platform from the very beginning, it makes optimal use of the latest technologies – in terms of performance, space and digital offerings.

The MEB enables ranges in excess of 550 kilometers (in accordance with WLTP). It also has its own completely new on-board network. The vw.OS operating system receives over the air updates, turning the car into a “tablet on wheels”.

Application areas for the MEB range from small city cars and large limousines through to electrically-powered campervans. The platform can also be used to build small-series vehicles like the ID. Buggy. The more cars that are manufactured using this platform, the cheaper they become – a compelling advantage. That’s why we are opening the MEB to partners. This will result in economies of scale, increase our competitiveness and bring e-mobility into the mainstream more rapidly.

Our first partnership was announced last week in Geneva. e.GO, with Professor Schuh as CEO, will become the first third-party company to use our platform.



The first car to be produced on the MEB platform will be the ID. You will be hearing more about this vehicle from the Brand Board of Management tomorrow, so I would like to emphasize only a single aspect of it today. The ID. will be launched with a CO₂-neutral balance, which makes it an important part of the decarbonization program I talked about earlier.

A CO₂-neutral balance needs to encompass the vehicle's entire supply chain. And this is precisely the case with the ID.:

- Our suppliers will exclusively use green electricity for the huge amounts of energy consumed during battery cell production.
- For car production in Zwickau, we use energy from renewable sources.
- We offer our customers electricity that has been generated in a climate-neutral way to charge their vehicles.
- In the future, we will be using recycled battery cells in our new mobile charging stations.
- And, as I mentioned before, we will compensate for emissions that are not currently avoidable by investing in climate protection projects.

At the same time, we will also be working on the necessary infrastructure – a critical factor for the success of e-mobility.

- In collaboration with industry partners in the IONITY joint venture, we will be installing 400 fast-charging stations along Europe's major roads and highways by 2020. 100 of these will be located in Germany, with a charging opportunity every 120 kilometers.
- Elli, our new subsidiary, offers wallboxes for charging at home – using green power.
- We are setting up charging points on employee car parks and at dealerships. The VW brand alone will be installing around 3,500 charging opportunities for electric vehicles in its German plants.
- We are also entering into partnerships with large retail chains, where customers will be able to charge their vehicles while they shop. Tesco in the UK will be our first such partner, and others will follow.

All this shows how massive Volkswagen's investments in e-mobility will be over the coming years.

Nevertheless, a few key prerequisites still need to be fulfilled before e-mobility can achieve a real breakthrough. Over the coming years, the infrastructure must grow at the same rapid rate as the availability of electric vehicles. Owners and tenants, for example, need to be given an official right to install private wallboxes of their own. Towns and cities could introduce useful incentives for purchasing electric vehicles by providing special "fast lanes" or more parking places and charging points. And we also need a new tax system that helps to limit climate change. Customers are looking forward to the new, efficient electric cars and the low running costs. But they need certainty as regards tax treatment and charging structure. That certainty can only come from policy makers.

I believe more and more people are now coming round to this way of thinking. I sincerely hope that it will not stop at discussions, but will lead to a bundling of energies. Let us stop criticizing and debating. Let's shape the transformation together.

3. Strategic outlook: Speeding up the transformation, securing the future



Ladies and Gentlemen,

The great transformation to e-mobility is underway, and, thanks to our vehicles, we have an excellent opportunity to gain a clear lead on our competitors. With regard to the second great transformation – digital connectivity and autonomous driving – we are tackling the change with a similarly challenging, even radical, plan.

Software will play a vital role in cars of the future. It represents an ever greater portion of a vehicle’s value. Software will account for 90 percent of future innovations in the car. Where we previously thought and worked in the 7-year cycles traditional to the automotive industry, we now need to think in periods of weeks or merely days. Our customers expect us to provide updates for our vehicles across their entire life cycles. They expect us to be always ready to identify new needs and meet demands with our software. By adding a software dimension to our vehicles, we have entered a world that operates at a much faster “clock rate”.

This paradigm shift is a real challenge, and the pace of change is increasing all the time. Compared to a smartphone, a car of today has ten times as many lines of code. And a self-driving car will have a thousand times as many. The new Golf ramp up has shown us that networking the various control units is currently much too complex. We will be combining the 70 control units from up to 200 different suppliers into three central on-board computers. At the same time, we are the first traditional car manufacturer to separate the organizational structure for hardware and software development. Christian Senger recently took charge of the “Digital Car & Services” function at the Volkswagen brand with responsibility for Group activities in this field.

We are developing vw.OS, our own operating system for all of our car services, similar to iOS or Android. Consequently, our future business model will be more like that of a mobile phone company, whose customer are loyal fans of the hardware – the mobile phones that are the main source of revenue for these companies – primarily because of the ecosystems and numerous services they provide. Under the new dealer contracts, every customer will have an individual ID from April 2020. That enables us to come into direct contact with our customers for the first time – if they so wish – above all via digital channels.

These fundamental changes in our business represent a dramatic realignment that calls for entirely new skills. Today, our 20,000 developers are 90 percent hardware-oriented. That will change radically by 2030. Software will account for half of our development costs. We will be doing more of the work ourselves in future and are also planning to take over suppliers that to date have delivered software. This is why we are accelerating our efforts to build up expertise in software and information technology for cars. Our focus is on specialized training for our workforce, as part of the new Faculty 73 program, for example – our talent incubator for software developers. We are also competing to recruit the best minds in the digital world.

All this will not be enough, however. This is why we have entered into collaboration with IT companies such as Microsoft, WirelessCar or diconium. Cooperation with Microsoft and the participations in the other two companies give our technological expertise an enormous boost and add over 1,500 software developers. We will continue our endeavors to strengthen our know-how in this field.

We are addressing this topic in the core brand through our digital roadmap. The Brand Board of Management will be giving you details of this on Wednesday.

Ladies and Gentlemen,

Volkswagen is now better prepared for the future than many would have thought possible.



What we now need to do is to act more quickly and to address our deficits.

That's why we are working hard on the further refinement of the Group's "Together 2025+" strategy – with quantifiable targets, concrete measures and the aim of aligning our strategy with the rapidly accelerating speed of change. We want to become a stronger company for our employees, a more innovative company for our customers, a better company for society, and – last but not least – a more valuable company for our investors.

We will be discussing this in more detail at a Strategy Day planned for this summer.

Our mission is more topical than ever before: in a world in which environmental protection is becoming increasingly important, and in which social values are changing, Volkswagen is the watchword for a good future for individual mobility. I firmly believe that the car will remain the most important means of transport for people in tomorrow's world as well – clean, safer and more comfortable than today!

Many thanks for your attention.