2018
Annual Report

e-valuation

PHOTOS: Tobias Sagmeister, AUDI AG // SOURCES, COVER: see p. 10, 24, 46, 62

Chairman of the Board of Management of AUDI AG

BRAM SCHOT

Dear Readers,
Dear Shareholders,

Just meeting expectations – that's not enough for us. We want to set new standards! For this reason, we are completely re-thinking Audi. We are convinced of the great potential of both our company and our brand. We have learned from past mistakes: Today Audi stands for a culture of openness and honesty.

We place our customers at the center of our actions. We focus on customer-relevant solutions and implement them resolutely. By doing so, we are, for example, creating a new ecosystem for electric cars by developing a worldwide charging network with our partners. Our Roadmap E features the market launch of our first fully electric SUV, the Audi e-tron, followed by a total of a dozen electrified models by 2020, including five with full battery-electric drive. This means we will offer sustainable premium mobility to our customers in all segments.

An important pillar of our global business model is China. We already invested in this market 30 years ago as the first premium brand. We are currently deepening our commitment here and, when it comes to our products, focusing even more closely on local development and production. Furthermore, we can pick up on technology and mobility trends in China directly and incorporate these into our products for customers worldwide.

We are expanding our business to include new service products that range from digital services to intermodal mobility concepts. The need for investments in pioneering fields such as electric mobility, autonomous driving and digital services is enormous. The underlying transformation of Audi therefore requires focus and resolve.

Read how we at Audi are continuing to develop our business model 110 years on. The motto of this Annual Report "e-valuation" stands for a transparent company that lives its values and creates value sustainably.

Bram Schot

Electric mobility

Digital business

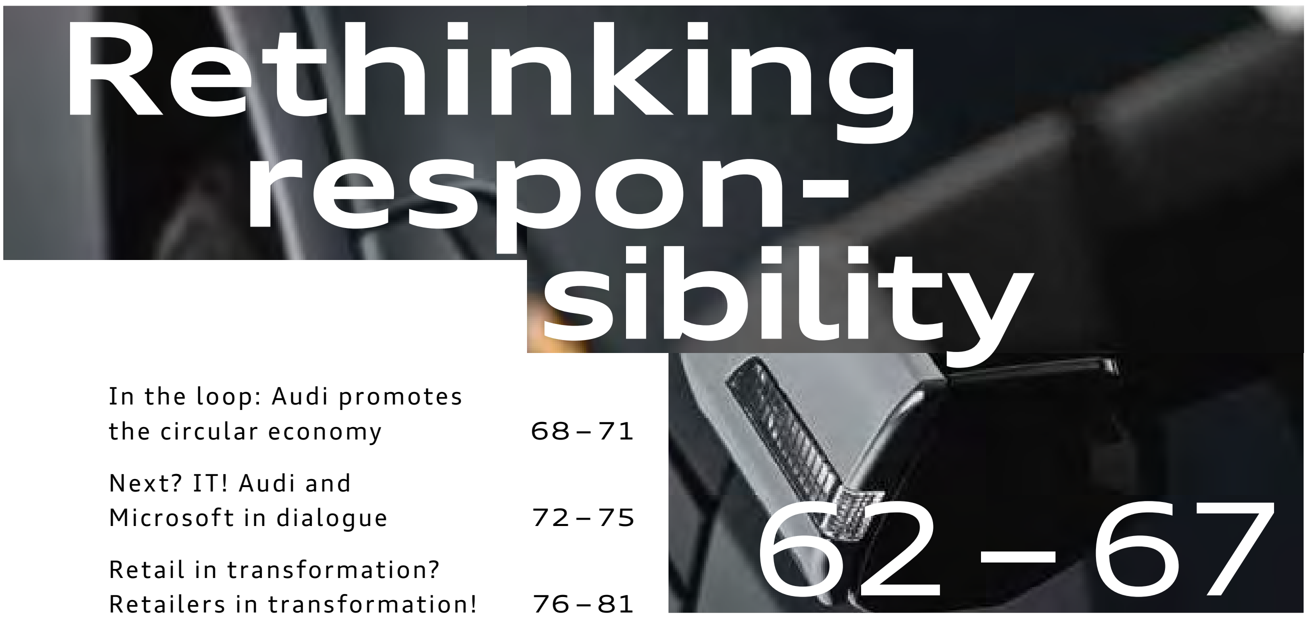
T

Transparency is our mission: The numbers have to be right. But it takes more to make the transformation of Audi tangible and to keep all stakeholders informed. It takes backgrounds. Strategic. Substantiated. Compact.
Here we are **Talking Business.**

audi.com/talking-business

B

Future market China



Rethinking respon-sibility

Finances

What drives us: projects of the Board of Management

2019 is an important year for Audi, a year of transformation. The Audi Board of Management is driving the company's new departure with these projects.

» My aspiration: To set new standards with Audi. We are currently in a challenging phase. Our sustainable economic success, our profitability and our future viability are at stake. That is why 2019 is the year of new beginnings for us. We at Audi are all pitching in and giving our company and the brand with the Four Rings a new direction. We operate with focus and resolve. We are putting our cost structures to the test and are improving these sustainably. At the same time, we will make even more systematic use in the future of the synergies and scaling effects offered by the Volkswagen Group. Setting standards to me means being the benchmark. We will continue to hone our business model in China together with our partners. In this way we wish to keep our leading role in the Chinese premium automotive market in the future. At the same time, the significance of digital services or intermodal mobility concepts is also growing at a rapid rate – and not only in China. We will offer the right solutions for our customers because we listen to them and place their needs at the center of all that we do. To shape the future in this way, we will develop our team and our organization further. Training and agility for me are as much of a focus as the systematic implementation of our plans. But there is one thing that is particularly important to me: I want to pull together with all Audi employees. Only together will we be successful in making Audi the benchmark. We are Audi. «

Audi CEO Bram Schot has a plan for the Four Rings.

BRAM SCHOT

Chairman of the Board of Management of AUDI AG and interim Member of the Board for Marketing and Sales

Total expenditures of the company in the next five years around

40 billion euros

by 2023 →

PHOTOS: Thomas Dashuber, Matthias Haslauer, Jens Passoth

CFO Alexander Seitz is firmly advancing the company's business in China, the largest single market for Audi.

ALEXANDER SEITZ

Member of the Board of Management of AUDI AG
Finance, China, Compliance and Integrity

» The future is already becoming reality in China. Many Chinese are enthusiastic about technological innovations. They view their smartphones as portable all-rounders for every area of their lives, including their cars, of course. In part, it is this openness and this hands-on mentality that make China, in my view, the orientation market for the mobility of the future – and they are also the reason why I find this international collaboration so rewarding.

I lived and worked in China for many years. I understand the restlessness of the Chinese. We are keeping up with this speed. China is the largest market for Audi. This is why we are driving our business in China forward faster and moving the product even closer to customers' needs: In the future, we plan to sell more than one million Audi models across China every year. In addition, the local portfolio with our partner FAW will grow to 12 models by 2022. We are also developing further collaborations in order to strengthen our business in China. This is also advancing the Audi Transformation Plan. With this program of measures, we want to free up around 15 billion euros between 2018 and the end of 2022 to make our company fit for the future and safeguard our rates of return. «

By 2022, Audi wants to increase the local portfolio in China together with its partner FAW to

12

models.

WENDELIN GÖBEL

Member of the Board of Management of AUDI AG
Human Resources and Organization

For its advanced training initiative, Audi is also placing an emphasis on digital learning formats. Wendelin Göbel in discussion with Audi apprentices about their experiences with the virtual reality headset.

» Thinking differently and daring to try new things are part of our company's DNA. Nonetheless, the upheaval in the automotive industry is presenting us with major challenges. I am convinced that this transformation will succeed if we embrace it resolutely and play a significant role in shaping it. This requires changed ways of thinking and greater openness for what is new. Essentially, we need to critically examine our processes and make them more customer-oriented. Compliance and integrity are at the center of our corporate culture. Agile ways of working unlock creative potential. As a result, our brand will become faster, more innovative and therefore commercially more successful. In the automotive future, certain key skills will become increasingly more important as digitalization progresses. Here we have committed ourselves to the task of further expanding the expertise of our employees. Because it is the people at Audi, with their ideas and passion, who will fuel our future success. This is why we are counting on targeted internal human resources development and have increased our advanced training budget to about 500 million euros by 2025. Together we will tackle this transformation and the changes it requires – and in this way secure new 'Vorsprung'. «

Audi has increased its budget for advanced training to 500 million euros through 2025.

500
million euros
2025

In discussions with suppliers, Dr. Bernd Martens pays attention not only to quality and cost, but also to their sustainability standards.

Sustainability ratings carried out at suppliers by the end of 2018

1,000

»»»»»»»»»»»»»»»»»»»» 2018

DR. BERND MARTENS

Member of the Board of Management of AUDI AG Procurement and IT

» At Audi, sustainability and profitability do not contradict each other: To ensure that we are financially successful, my procurement team and I consistently optimize material costs. But not at any price: We at Audi also take responsibility for the environment and society. That is why we set up a sustainability rating for suppliers in 2017, including an on-site check. The first phase focused in particular on suppliers for the Audi e-tron. Because in making the transition to electrification, it is becoming increasingly more important for us to ensure a sustainable supply chain. Beginning in fall 2019, the rating will be a key factor in the awarding of contracts to suppliers. The selection criterion of sustainability will thus be just as important as costs, quality, technological competence and innovativeness. We place a particular focus on our own carbon footprint. We are optimizing it not just in our own plants. We also want to reduce CO_2 emissions generated in the production of the parts we purchase. For this we have launched a program with our suppliers and are working together with them on the sustainable mobility of the future. «

The mobility experience goes beyond the car itself: Hans-Joachim Rothenpieler (right) and Head of Design Marc Lichte in discussion about the future concept Audi Aicon.

HANS-JOACHIM ROTHENPIELER

Member of the Board of Management of AUDI AG
Technical Development

» Audi stands for 'Vorsprung durch Technik.' We are redefining this by further developing the car as a central element in a connected ecosystem and thinking in terms of mobility experiences from the customer's perspective. We will be realigning Technical Development for this purpose. Based on my many years of experience in the Volkswagen Group, the following is important to me: Consistent process discipline and operational excellence are just as valuable as the innovative power that has always characterized Audi. By the end of 2023, we will invest 14 billion euros in electric mobility, digital services and autonomous driving. At the same time, Technical Development is pursuing one clear technological goal for the next few years. We will produce new freedom in mobility for our customers, and the interior will enable unique worlds of experience. An important aspect in this context is autonomous driving. I want to and will work with my team not just to keep up with this turbulent phase of technological change, but to set the pace once again. Because 'Vorsprung durch Technik' has to be demonstrated all over again every day. This is our, this is my aspiration. «

14
billion euros

2023

Investments by the end of 2023 in electric mobility, digital services and autonomous driving

Everything at a glance thanks to a digital device: Peter Kössler and an employee in the production area at the Audi plant in Ingolstadt.

PETER KÖSSLER

Member of the Board of Management of AUDI AG
Production and Logistics

Increase in productivity at Audi plants by 2025 by an average of

+30%

2025

» Making the Audi sites fit for the future – that is our joint task in the Production team. To do so, we have set ourselves ambitious goals: For example, we want to increase productivity in our plants by an average of 30 percent by 2025. One contribution to this is made by innovative technologies, which already help us structure our manufacturing processes to be more efficient, connect interfaces optimally with each other and thus make factories more intelligent. One example is the electronic quality check. This digitally maps the production line and ensures a high level of quality in our vehicles. This process optimization supports our team and sustainably increases efficiency. Thanks to mobile end devices, employees gain more time for each car. And the environment also benefits: We now use around ten million fewer pieces of paper a year, or almost 83,000 kilograms less. This shows just how important the mindful use of valuable resources is for us at Audi. Our site in Mexico, for example, manufactures the Audi Q5 entirely without waste water. And we are continuing to work intensively to reduce the carbon footprint of our manufacturing sites. Audi Brussels is a pioneer here: The plant has been manufacturing the first fully electric Audi since 2018 using completely carbon-neutral processes. In the long term, we want production at every site to be completely carbon-neutral. Every one of these milestones makes me proud and allows me to look to the future with optimism. We have chosen the correct path for preparing Audi Production as well as possible for the challenges of the future. «

Electric mobility is becoming increasingly important worldwide

Production of electric vehicles and plug-in hybrids through 2021 (overall market forecast)

China will lead the market with the highest production volume, followed by the USA and Germany.

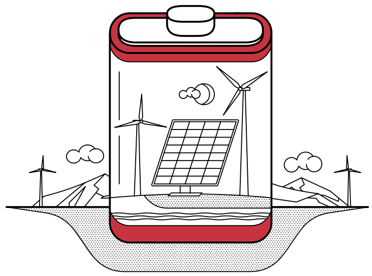
PHOTO: Tobias Sagmeister // ILLUSTRATIONS: Eva Revolver // SOURCES: Forschungsgesellschaft Kraftfahrwesen Aachen, Roland Berger

Electric mobility is changing our daily lives. For the automotive industry, what will really count in the future is optimal networking and the right partners.

by Dirk Böttcher

To understand how electric mobility will change our lives, let us take a look at an ordinary streetlight. It has been standing shoulder to shoulder with other streetlights for generations, turning itself on in the evening and off in the morning. But most of the time, it does: nothing. Sure, you can chain your bicycle to it or post a message on it about lost keys, but that's about it. A smart streetlight, on the other hand – and here we are fast-forwarding to the future of electric mobility – is a true jack of all trades: You can use it to charge your smartphone or all kinds of electric vehicles and pay for the electricity using your mobile device. This streetlight is so smart, it not only illuminates all the traffic going by, it even analyzes each car that passes. The data gathered by the streetlight and its curbside colleagues is fed into an even cleverer computer. That computer then calculates in real time how, for instance, the city's traffic lights should be phased to ensure traffic flows smoothly. The fact that a streetlight also illuminates the street at night is almost beside the point. Welcome to the future? The ingredients for this scenario have been around for some time now. And they already work, right here and now. Electric mobility requires changing more than just the engine. This is why the debate on battery range and charging stations instead of gas stations falls short of the mark. Electric vehicles are triggering developments that will change our everyday lives. They are breaking down established structures and promoting cooperation between industries. New services are arising in connection with networked driving – from intelligent charging infrastructures all the way to billing models. New standards need to be created and implemented – a process in which cooperation and competition will fuse. Coopetition is the new buzzword. Both new and proven players will contribute to the best solution in order to achieve a specific goal together.

The two most important questions are: Where does the power come from? And who provides the infrastructure? That is something car manufacturers cannot do alone. The era of electric mobility will be much too diverse for that. This is by no means the only sector undergoing reorientation: Power companies, for example, are also rethinking their business models. They are connecting buildings or even whole residential areas with the help of smart grids to ensure that electricity is always available where it is needed. If private households, for example, generate more power than necessary through solar systems, the customers in turn supply this electricity to the energy providers. Electric cars play an important role in these complex structures. In the future they will store energy, then use it or feed unused battery capacity into the network – thus becoming part of the system.



It is not likely that electric mobility will run out of electricity. American economist Jeremy Rifkin even prophesies a surplus of electrical power that is unique in human history – and it will not come from fossil energy sources. In his book “The Third Industrial Revolution,” Rifkin describes a scenario in which more and more renewable energy will be produced at ever lower prices because buildings will also produce electricity, just like windparks and various types of power plant. Every last square meter of surface on the facade and roof will contain integrated thin-film solar panels. Green energy will flow in abundance, writes Rifkin, be intelligently stored and cleverly distributed with the help of algorithms. Technically speaking, it is all possible today.

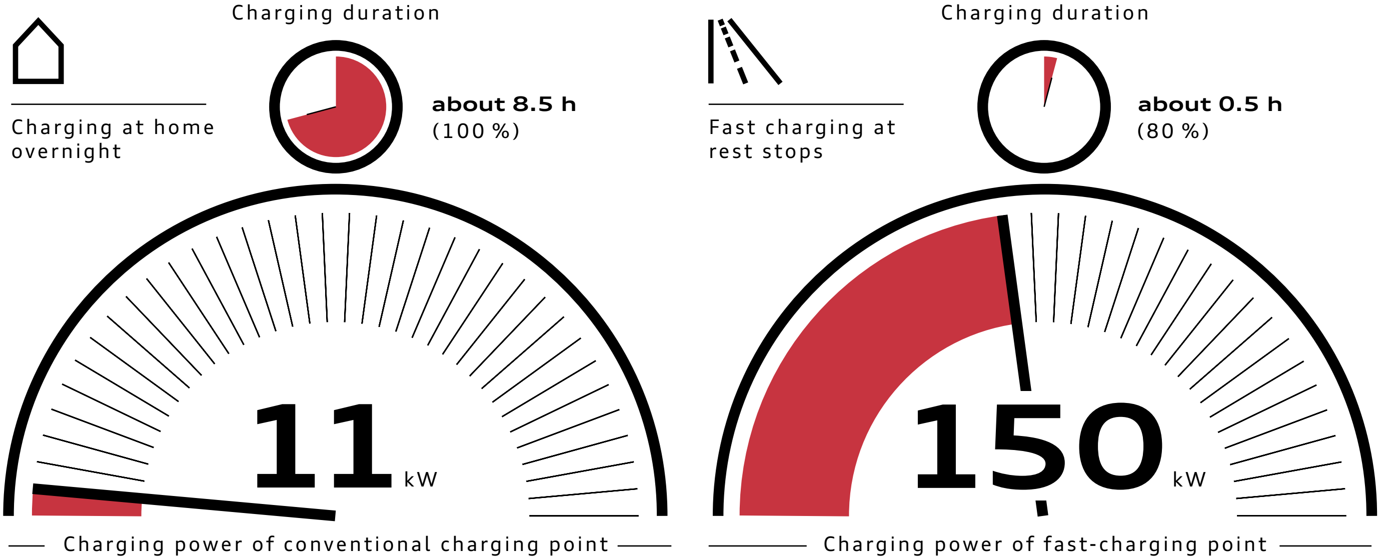
What is possible must, however, be supported if it is to become a reality. For this reason, governments around the world have launched ambitious programs to promote electric mobility. They focus on these core areas: expansion of the charging infrastructure, buying incentives for customers as well as electric vehicles in government-agency fleets. Norway could serve as a role model in this regard: Electric cars there are exempt from import tax and the 25 percent value-added tax. They enjoy a privileged status on Norway’s roads, including toll exemptions, free ferry trips and, in some cities, even free parking. The result: In 2018, nearly half of all newly licensed cars in Norway had an electric or plug-in hybrid drive system. Larger markets still have a long way to go to achieve numbers like these. This figure was 4.5 percent in China and 2.1 percent in the United States, whereas in Germany it rose to 2.0 percent. But even if the growth curve in industrial nations already suggests a steep rise: the management consulting firm Boston Consulting Group assumes that only 5.0 percent of cars worldwide will be plug-in hybrids or electric cars in 2020. Only in the coming decade will electric mobility really pick up speed, with the share of electric cars rising to more than one-third, and even higher in highly developed markets.

Where does the power come from? And who provides the infrastructure? That is something car manufacturers cannot do alone.

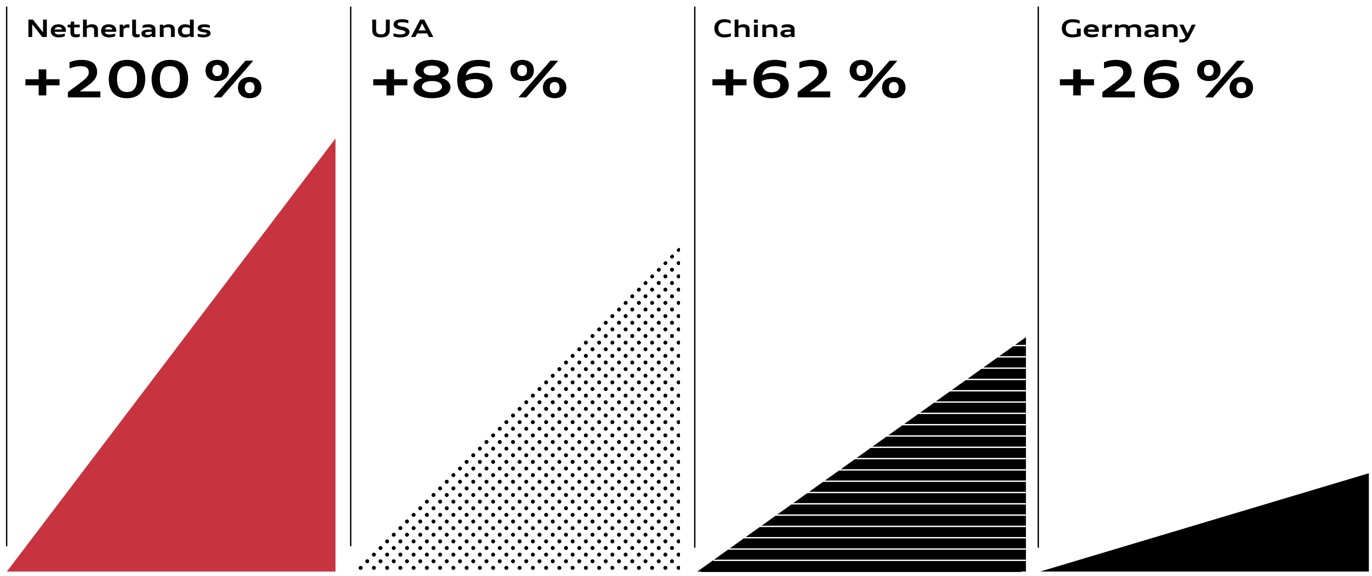
At least if the discussion about range can be ended by then. At the moment, drivers worry that their electric cars will leave them stranded when they are trying to get somewhere. Due to insufficient range. This has led to tinkering with the charging infrastructure and plans to increase battery capacity.

SOURCES: AUDI AG, Center of Automotive Management, McKinsey & Company

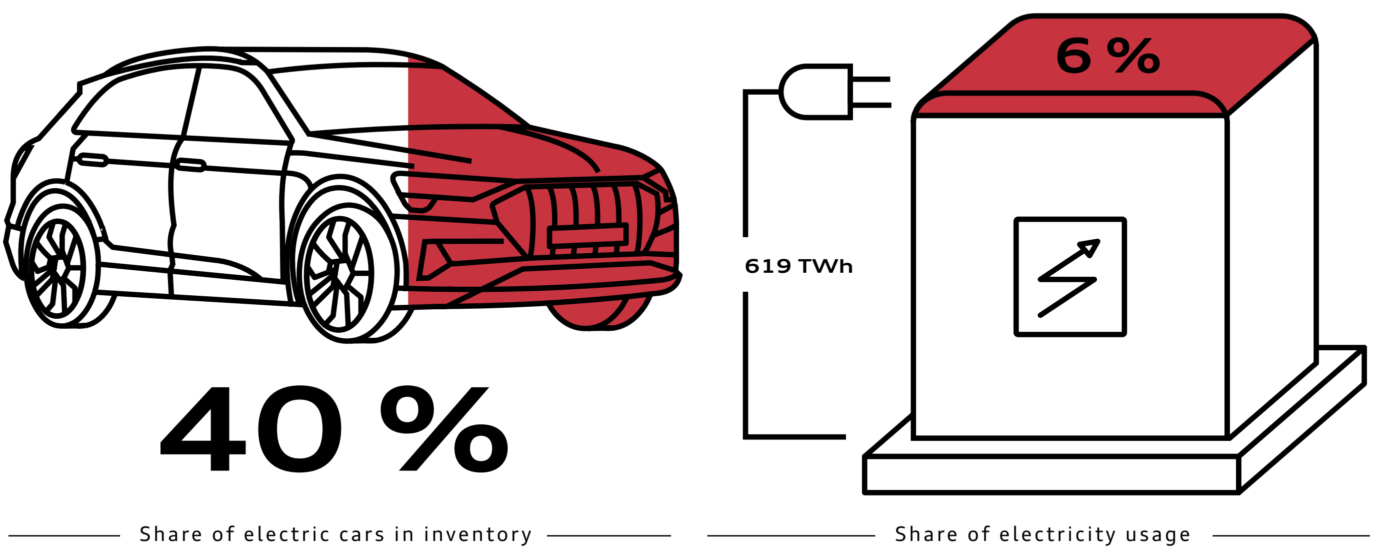
▼ **Charging power and charging duration** (using the Audi e-tron as an example, battery energy content 95 kWh)



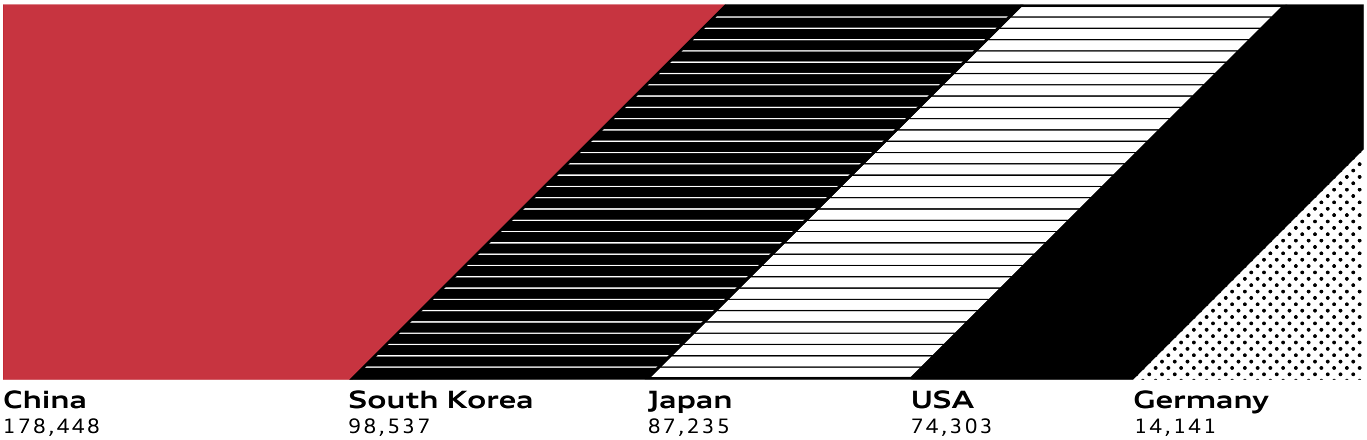
▼ **Increase in sales of electric vehicles and plug-in hybrids** 2018



▼ **Share of electric cars in electricity demand** (forecast 2050 for Germany)

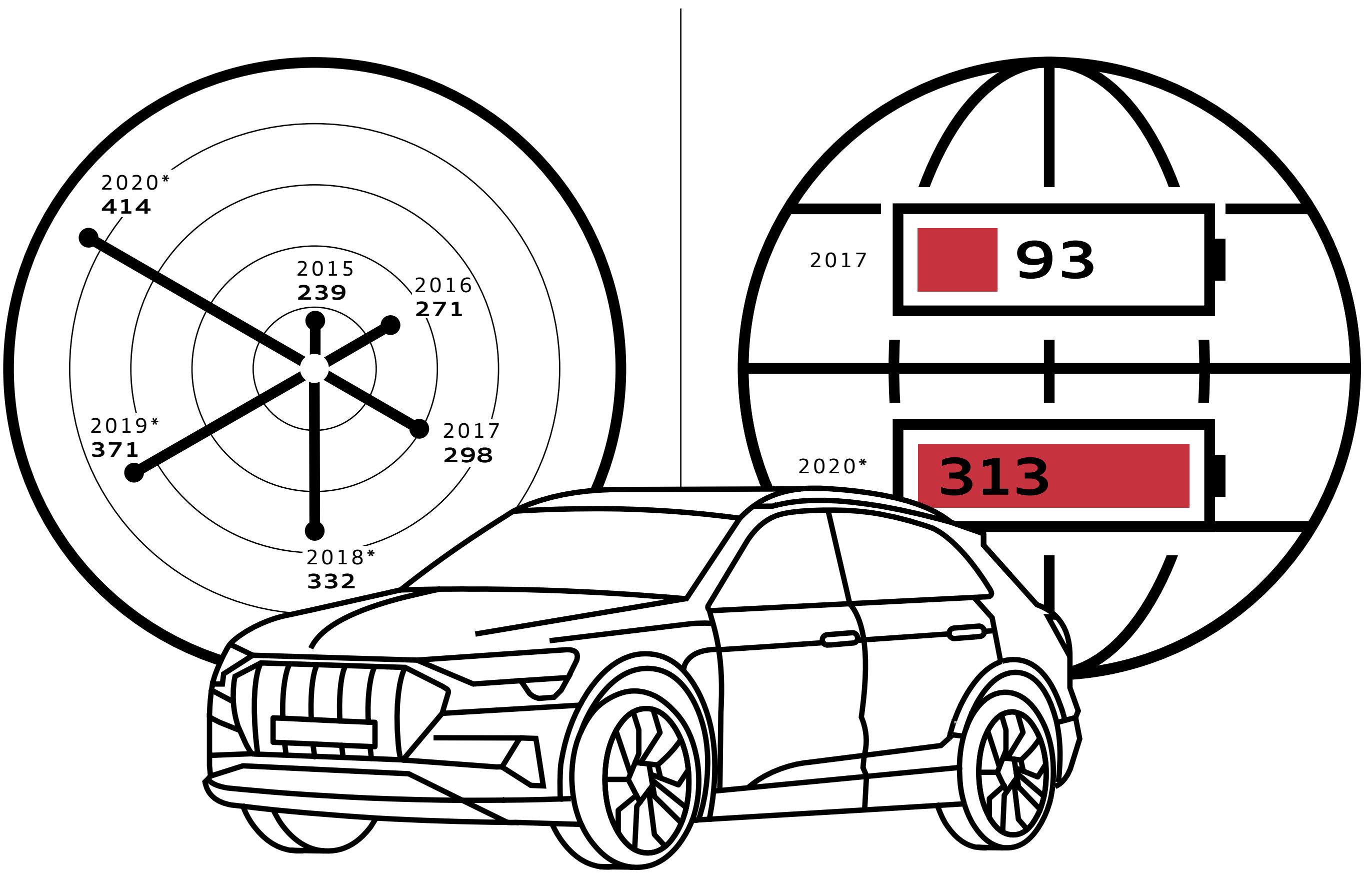


▼ Battery cell production for electric cars (selected countries, from 2016 to 2021, in MWh, forecast)



▼ Range of electric vehicles based on NEDC (average in km, *forecast)

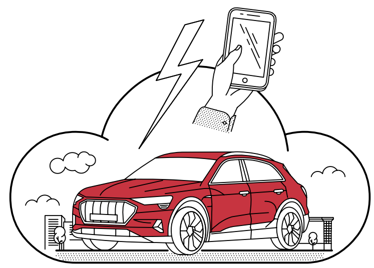
▼ Production capacity of battery cells for electric cars (worldwide, in GWh, *forecast)



▼ Number of public charging points

The product will become a part of the system and the infrastructure, in which supporting apps will be just as important as output.

Solid-state batteries could replace standard lithium-ion batteries, some manufacturers swear by phosphate-based compounds, others by sodium. Then 800 kilometers should be possible. Batteries are in the spotlight for another reason as well: because of the sheer number of them needed for electric mobility worldwide. If urban transportation becomes purely electric, we will need factories somewhere to manufacture the batteries. And manufacturing batteries currently requires raw materials for which sustainable mining poses a challenge. The debate on range will probably lose steam as soon as a reliable network of charging stations is established. Precisely this network will become even denser, everywhere in the world. In Denmark, there are now more charging stations than gas stations. IONITY is planning to operate a network of around 400 fast-charging stations in 25 European countries by 2020. The company, a joint venture of several car manufacturers, is a good example of coopetition. And of how automakers are thinking – and taking action – beyond apparent boundaries. The product will become a part of the system and the infrastructure, in which supporting apps will be just as important as output. To develop such apps, the companies are working with software companies. To create a dense network of charging stations, they are involving power companies. Navigation systems guide drivers and their electric cars to tens of thousands of charging points. When charging their cars, drivers will be automatically billed at the end of the month on the basis of only one contract that has uniform and transparent price structures – a kind of credit card for mobility. With the help of cryptographic processes, vehicles will very soon even authorize themselves when charging. In this way, manufacturers will offer their customers a comprehensive ecosystem. After all, people do not want to have their cars just sitting in front of their houses, they also want to link them to their home electricity production. Companies are developing products that contain both the necessary hardware as well as smart solutions that, for example, use electricity at the cheapest times for charging or only use self-produced solar energy. Wisely implemented, electric mobility can and will move people – in both senses of the word. The car communicates with the driver, with other vehicles and with the infrastructure, and adjusts its driving and charging behavior accordingly. Cities will connect their systems; local public transportation, private vehicles and car-sharing models will smoothly merge together; demand for parking areas will fall significantly; city dwellers will recover urban space. Whether or not you will still be able to chain your bicycle to a streetlight is debatable, however. After all, those streetlights will be high tech by then.



SOURCES: Roland Berger, Forschungsgesellschaft Kraftfahrwesen Aachen, Horváth & Partners, IHS Markit, IEA

Further articles on the subject at:

audi.com/talking-business

Electric mobility only works as a system

Dr. Stefan Niemand is convinced that the Audi e-tron is a game changer. He has been at Audi since 2011 and responsible for electrification in the product line since 2016.

TEXT: Franziska Queling // PHOTOS: Tobias Sagmeister

Electric mobility is changing not only how we drive cars. It is also changing our lives. We will largely charge our vehicles at home – but we will also need a source of energy while out and about. That is why Audi is making electric mobility suitable for daily use for its customers – far beyond the market introduction of its first fully electric model, the e-tron. Audi is helping customers around the world to integrate electric mobility into their lives. Dr. Stefan Niemand, who is responsible for electrification in the Audi e-tron product line, talks about this integrated approach.

In September 2018, the Audi e-tron was presented in San Francisco. The fully electric SUV is being well-received by customers: At the end of 2018, there were already just under 20,000 advance orders. What does this model mean for Audi?

Niemand For us, the Audi e-tron is more than just a standard new model. The e-tron takes Audi into the age of electric mobility. It is the first premium SUV for comfortable everyday use – plus it has an appealing design and innovative features. It was important to us to present a strong electric car in this rapidly growing segment early on. And our production planning for the Brussels plant shows we believe in the Audi e-tron as a volume model. Together with the e-tron Sportback, the Belgian site is fully booked out. Adopting an integrated approach in this area was equally important to us.

What exactly does your integrated strategy for electrification involve?

There is far more to electrification than the car – it only works as a system. Aside from the vehicle's price and range, the charging infrastructure and charging duration are key factors in helping electric mobility become successfully established. Even if we are a premium manufacturer of cars, we want to play our part in helping build up an integrated ecosystem of electric mobility. Only then will our customers have access to a premium experience right across the board. Our involvement here spans everything from participating in the cross-OEM joint venture IONITY, which is establishing fast-charging stations along major European traffic routes, through expanding into the USA with Electrify America, to home-based charging solutions that are being offered in the USA in partnership with Amazon Home Services. We hope all this will also jump-start acceptance among the wider population and so help make electric mobility a success.

What are the concerns that you would like to address?

One is definitely the fear of lengthy charging times. With the Audi e-tron, we are offering our customers a car that is efficient and can be charged in quite a variety of ways: in the garage and in transit with alternating current, or in IONITY's new direct-current charging network – there the battery can be topped up for the next long drive in around half an hour. Also, a lot of people think charging is more complicated than refueling. But they overlook the fact that charging at home or while at work guarantees that our customers will then set off with a full "tank" every day, and that it actually only costs ten seconds of their time: five seconds to plug in, five seconds to unplug. This means that, for ordinary day-to-day driving, going to a gas station is no longer necessary. If our e-tron customers do need to recharge on longer drives or at their destination, the Audi e-tron Charging Service is a very convenient solution. Just one card gives them access to 80 percent of public charging points – more than 72,000 throughout Europe. All that is also fully connected with the smartphone. In the course of 2019, the car will even authorize itself at the charger and activate it. That is what we mean by straightforward, carefree electric mobility. The route planner

Electric mobility is changing our lives, particularly as refueling makes way for recharging. Vehicles are usually charged at home or while at work. But public charging stations are also available en route.

displaying charging stations along the planned route is hugely beneficial, too.

By 2025, the aim is for one in three sold Audi cars to be electric, and the company wants to sell around 800,000 electric cars and plug-in hybrids. How do you propose to achieve these ambitious targets?

The Audi e-tron kicks off the roll-out of the comprehensive Audi Roadmap E for the coming years. The goal is to electrify all segments completely or in part by 2025. The next steps after the Audi e-tron will be the e-tron Sportback and the Audi Q2 L e-tron for China. The series-production version of the e-tron GT concept will follow in 2020, and shortly after that we will also be launching an electrified model in the compact segment.

**A number of analysts and competitors claim that product profitability is the biggest challenge when it comes to electric mobility – primarily owing to the battery costs.
How does Audi intend to make a profit?**

Electrification is allowing developers to reinvent the car. A first impressive result: the Audi e-tron.

Obviously new technologies involve high initial costs – among other reasons because we want to deliver our customary standard of quality. We will nevertheless achieve our goals with a competitive cost structure. For example, we are tapping Group-wide synergies with modular assembly matrixes, platforms and carry-over parts. Innovations specifically in battery technology and the electric driveline, ongoing improvements to the value chain, reducing complexity and localization decisions equally play an important role. Within the Volkswagen Group, we are working together on the electric architecture for the compact and high-end segments. Being able to exploit that synergy potential is a clear USP of the Group structure. Close cooperation, distinct areas of responsibility and scaling are what drive increased profitability – whether in partnership with Volkswagen or Porsche. The Premium Architecture Electrification (PPE), for

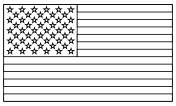
example, will be taking effect from as early as 2022. This will help both Audi and Porsche to increase efficiency by up to 30 percent compared with separate development by the individual brands. Economies of scale also play an important role – and that is where the Volkswagen Group is clearly at an advantage, having annual sales of more than 10 million cars. Audi is also tapping into new sources of revenue, such as supplemental digital services that our customers can order via app, as well as charging and energy services. Someday, electric cars will cost just the same as vehicles with a combustion engine.

When is someday?

We will not have to wait too much longer. I am convinced that we will get there in the next few years.

Charging in the USA and Europe: an overview

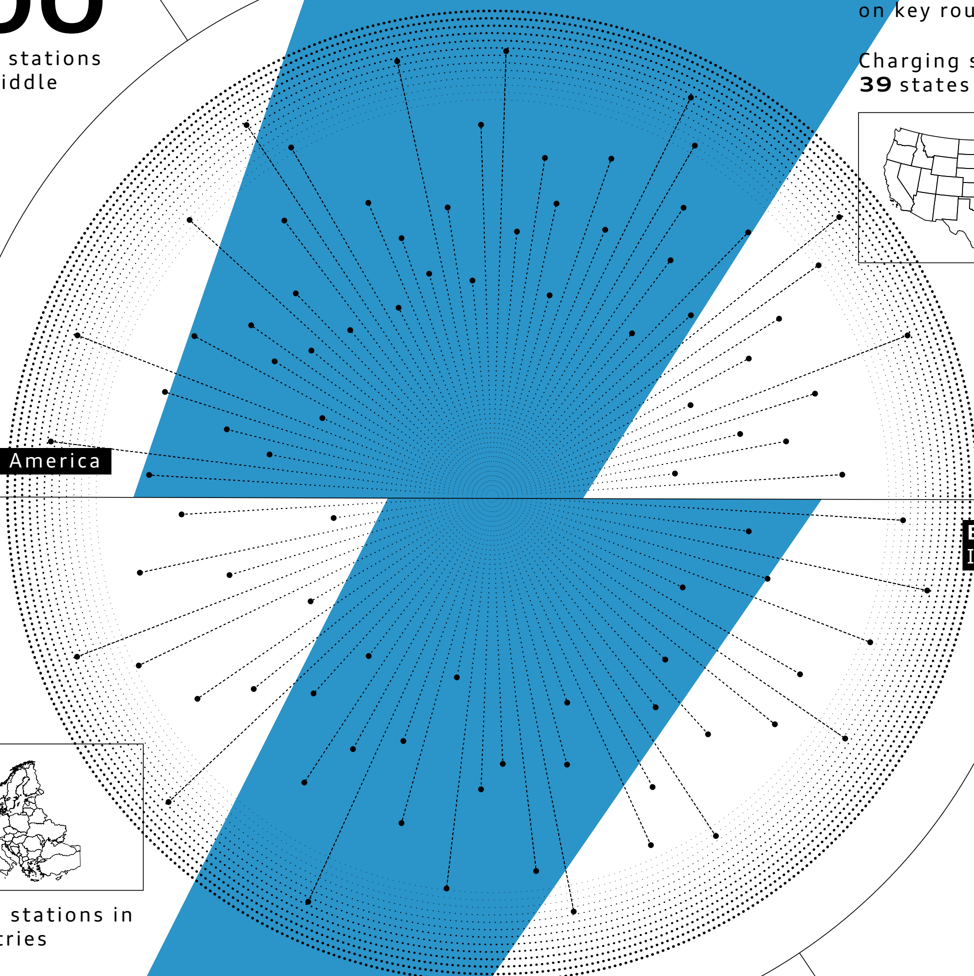
Electrify America wants to build around 500 fast-charging stations. In Europe, IONITY is planning 400 locations with several chargers each, and is targeting this goal for 2020.



500

charging stations
by the middle
of 2019

• = 10 charging stations



USA /
Electrify America

17 metropolitan regions
2 coast-to-coast routes

One charging station every

193 km

112 km

on key routes

Charging stations in
39 states

Europe /
IONITY

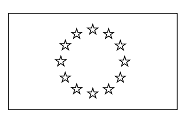
Charging stations in
25 countries

One charging station every

120 km

400

charging stations
by 2020



Additionally in Europe:

Audi e-tron Charging Service
Currently, access to 80 percent of all public chargers in more than 13 European countries, i.e. over 72,000 charging points from 220 providers

SOURCES: AUDI AG, Electrify America, IONITY GmbH

Ensuring that charging does not take longer than your coffee break

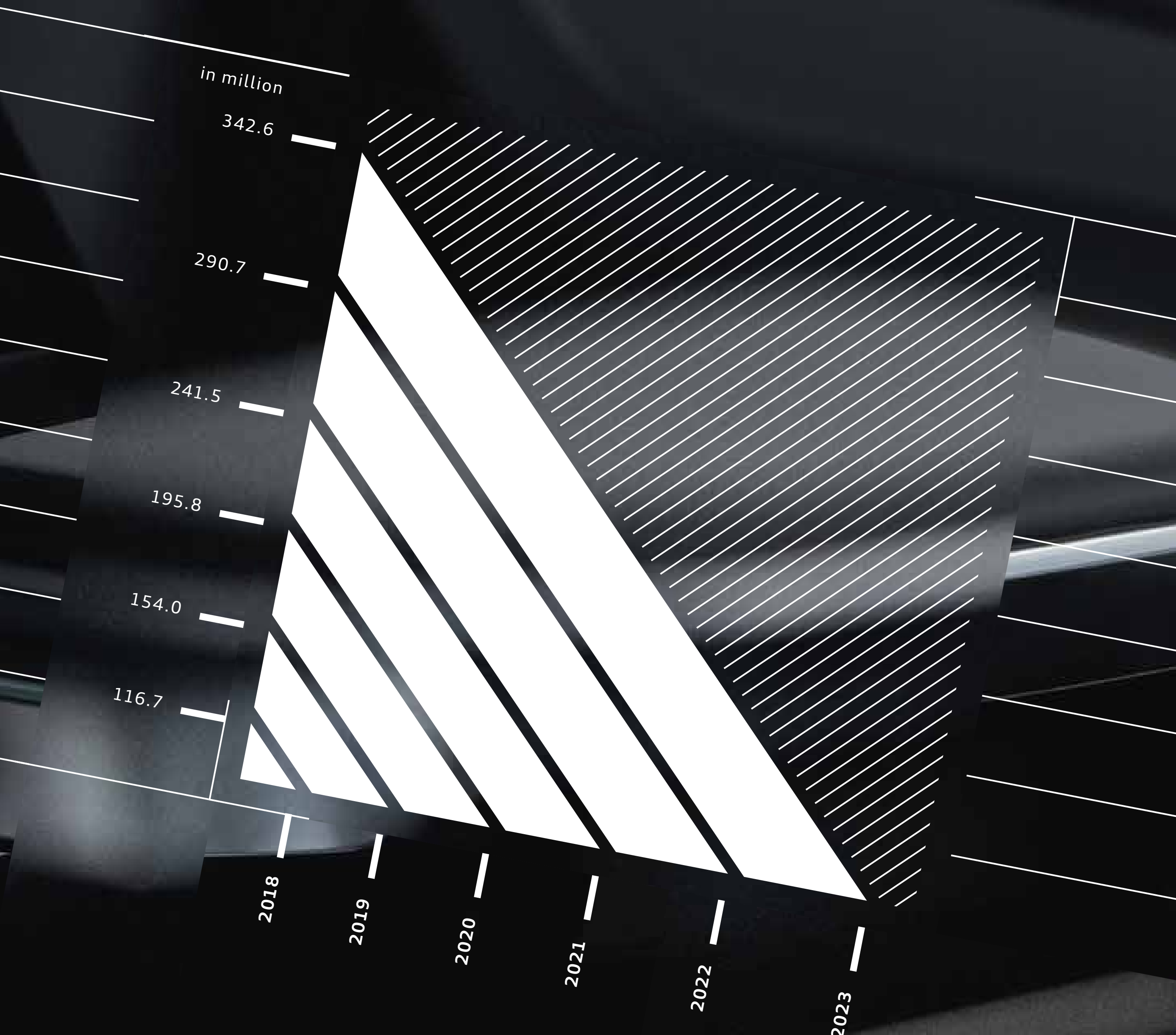
- The Audi e-tron is the first vehicle in the Audi electric initiative that the premium brand is following to electrify every segment of its portfolio by 2025. That will involve bringing out around 30 electrified models in rapid succession: In 2019, the Audi e-tron Sportback will be the second electric car to go on sale, while the Q2 L e-tron will be introduced in China. The series-production version of the e-tron GT concept from Audi Sport will follow in 2020. Audi will also unveil an electric model in the premium compact segment in 2020.

- Audi wants to sell around 800,000 electric cars and plug-in hybrids in 2025. To achieve that goal, around 14 billion euros are to be invested in future topics by the end of 2023, above all in areas such as electric mobility, autonomous driving and digitalization. The company benefits here from increased profitability within the Group as a result of clear areas of responsibility and scalability – whether in partnership with Volkswagen or Porsche.

- Alongside price and the cars’ range, the charging infrastructure and charging duration are important success factors for electric mobility. For this reason, Audi is contributing to the integrated ecosystem – for example, by participating in the cross-OEM joint venture IONITY, through the expansion with Electrify America in the USA or with charging solutions at home.

- Through its subsidiary company Electrify America, the Volkswagen Group is setting up a total of 2,000 fast-charging stations along main traffic routes in the USA where every electric car can be charged irrespective of brand. This initiative is based on settlement agreements with the US authorities as a result of the diesel issue.

Everything will be connected in the automotive future



Forecast of the worldwide stock of connected cars

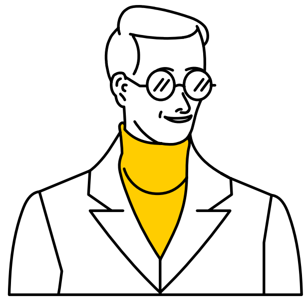
The worldwide stock of connected cars is expected to triple by 2023 to 342.6 million.

PHOTO: Tobias Sagmeister // ILLUSTRATIONS: Eva Revolver // SOURCE: Statista GmbH by Georg Dahm

Digital business: The mobility of tomorrow builds on people's digital worlds. So car manufacturers are using digital services to find new business models and sources of income.

There is always room for improvement. Engineers from around the world are competing to develop the best possible car. Now the rules of the game are changing and car manufacturers are questioning the way they have always defined themselves. They are thinking beyond cars as a product and focusing on the digital world of the customer, worlds in which mobility is naturally integrated. The best possible user experience is what is required: Customers want to book, use and manage digital services as conveniently as possible. For that reason, mobility is being tailored to the touchpoints of a changed customer journey. Sounds pretty abstract, right? The following pages offer you a look at a future in which car manufacturers have reinvented themselves through lucrative digital business models. As mobility providers.

VINCENT



Age	46
Profession	FINANCIAL ANALYST
Status	MARRIED
Location	FRANKFURT
Uses	PERSONALIZED ENTERTAINMENT/ OWNERSHIP MODEL/ INTELLIGENT NAVIGATION

< Daddy, when will we be at Grandma's? > Amelie asks from the back seat, surrounded by a bunch of stuffed animals.

< Soon, > says Vincent and sighs. < Is your audiobook boring? >

< It's really weird. Joe, the man in the book, is walking all over town looking for his car. It's so stupid. Cars come to us, don't they?! >

< It must be an old book. Things used to be different. Today we are pleased that we have the autonomous school bus to pick you and Hanna up at home in the morning and take you to school. >

The onboard computer chimes in: < We can offer you an optimized route in the automatic lane. The average speed of the cars in the lane that you are merging onto is 80 kilometers per hour. You will save energy by using the slipstream. If you stay in the manual lane, this route will cost you an additional five percent in your rate category. >

< Does the route include the same recharging stops that were calculated before? > Vincent asks the car's virtual assistant.

< You have a calculated stop at the Charge & Ride station in Frankfurt and a minimal charging time of 15 minutes for your route. Your prebooked charging time is two hours, which includes a shuttle to the city center for your restaurant reservation. Payments are made through the default settings in the app. >

< Then merge onto the automatic lane, > says Vincent, bringing his seat into the relax position.

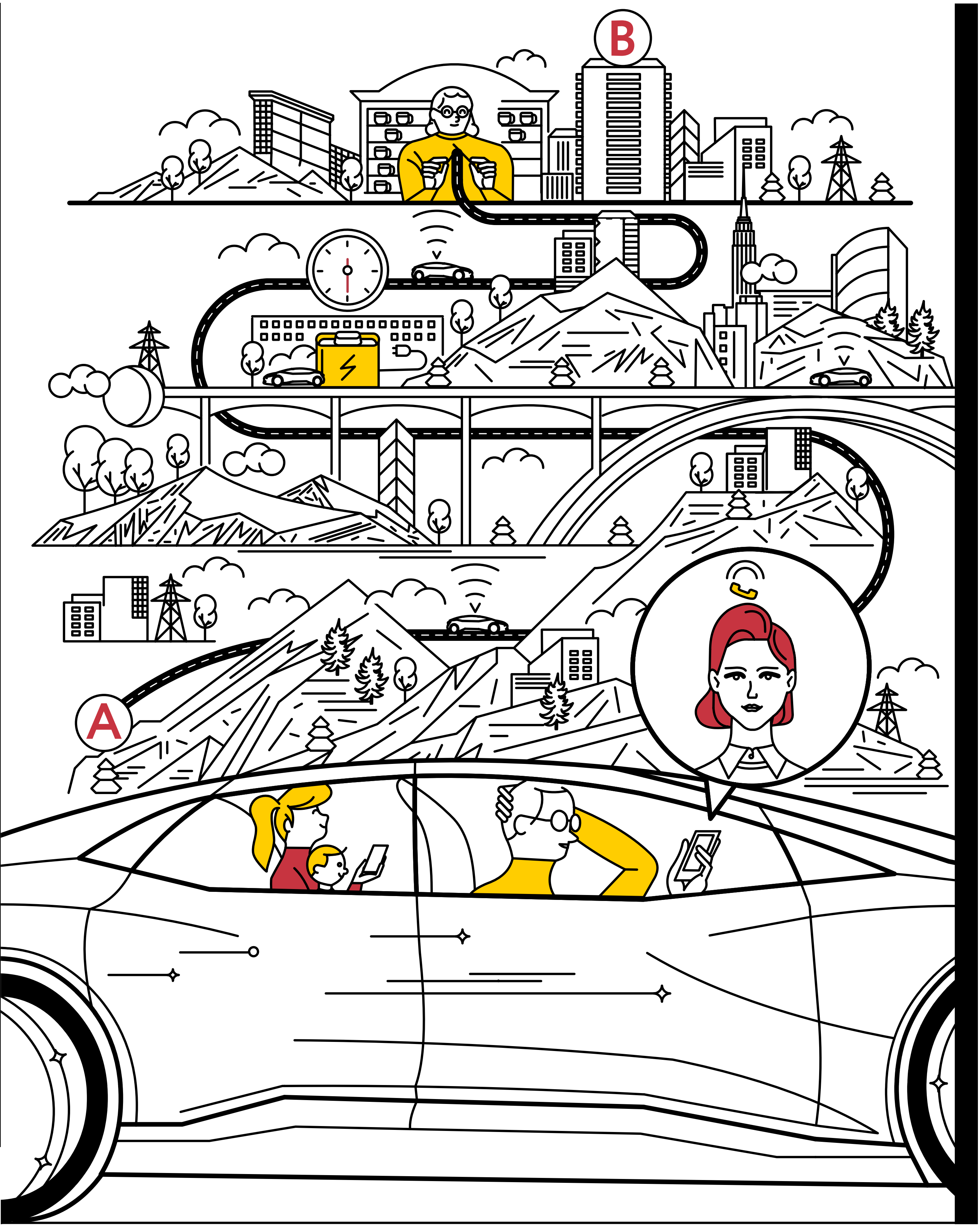
< Does Grandma still drive herself? > his teenage daughter Hanna asks from the back seat.

< Not as much as before. At first she refused to drive autonomously. She said she'd gone 40 years without having a single accident and she didn't need it. But since the first time we watched her favorite show together while we were traveling, she's been a big fan. >

< Movies in the car? Where Grandma lives? I thought there didn't use to be any Internet reception out there! >

< Well, they added the lane for electric trucks to the highway, so they put in a power grid and set up cell towers. But you two need to be quiet for a moment, I have to call your mother. Alexa, call Ada Zobel. >

< Calling Ada Zobel. >



On their way to Grandma's
The computer recognizes the best route and plans convenient charging stops.

The car drives itself
Autonomous driving allows passengers to use their car as a mobile office.

< Alexa, accept incoming call, > Ada says and uses the touchscreen console to turn down the volume a bit. < Hey, Señor, how are you? Just so you know, I have you on speaker. >

< No problem, I have to behave myself anyway – the kids are in the car, > says Vincent, his voice coming in through the digital cockpit.

< Mommy, Mommy, > Amelie can be heard saying from the back seat. < We're almost at Grandma's! >

< Hey, that's right, that's today! Are you all doing okay? Did you pick up the car from the shop? >

< No, we're still using the replacement car. The mechanic and I had a video call this morning and he showed me something on the battery he wants to look at again. The shop found a discrepancy in our driving data. Once the car's repaired, they'll deliver it. Too bad, actually. I really like this loaner. But never mind that – are you coming home tomorrow? I saw on our customer account that you rented a just-in-time car in Madrid. >

< Yeah, Stephen and I have to visit the client. Luckily we were able to rent a self-driving car at the airport and are driving the whole way fully autonomously. So we can finalize the presentation now and sleep a couple of hours on the way back to the airport. >

< That's fantastic – that's a good use of your time! Stephen, how's everything your end? >

< Things are great! What's the problem with your car? Don't you have the SUV anymore? >

< No. Last time, the Sales Advisor came over with his tablet and said: 'We looked at your driving profile and the shuttles and vacations you've booked – why are you driving around with so much storage space that you don't need?' >

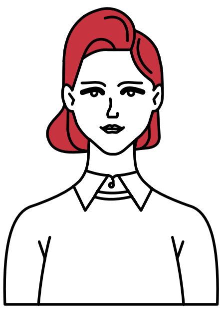
Ada jumps in: < They gave us two weeks to test the car. The new one is much more compact. I like it. That makes it a lot easier to find a parking spot in the app. >

< Speaking of parking spots, > Stephen says and looks at the route planner. < We have another 52 minutes and I'd like to arrive with a finished presentation. >

< Sorry, you're right, > says Ada. < Enjoy the rest of the trip! By the way, is Hanna with you? She hasn't said anything yet. >

< Our teenager is in the back on her smartphone – which is naturally much more important! She's probably on your daughter Nina's channel, Stephen. She seems to be really successful as an influencer. >

ADA



Age	39
Profession	MANAGER
Status	MARRIED
Location	MADRID
Uses	ON-DEMAND SERVICES/ AUTONOMOUS DRIVING/ MOBILE PAYMENT/ MOBILE OFFICE

< Look, my dad shared my story again. He's really great, > says Nina during her break from the video shoot.

< Does he do it for you or for the cars? > asks Fred, her cameraman.

< For me, naturally. Otherwise he would have never gone to the showroom. But I had just promoted it downtown: 'Virtual reality driving – better than the real thing.' >

< And what did he think? >

< First he couldn't stop grumbling: 'Are you crazy? Buy a car I've never driven?' Then he tried out the VR headset in the showroom – and he loved it. But I was really surprised that he actually picked out his next car there. >

< Is he generally a catalog kind of guy? >

< Totally. He took home huge piles of them and made a science out of reading them all. >

< But he still has his own car? >

< Yeah – he'll never switch to on-demand completely. But when he drives his own car, he's really glad there aren't any trucks blocking the fast lane on the highway, since they now all automatically drive behind each other in one lane. And he's always booking extra services through his app that he used to say were 'total junk!' >

< What does he consider 'junk'? >

< He thought watching 4D movies in the car was unnecessary – that is until the first time he drove autonomously and got bored. And he treated himself to the traffic lane assistant for the serpentine roads through the Alps – and then just kept using the service. Oh, and don't get me started on the navigation system ...! >

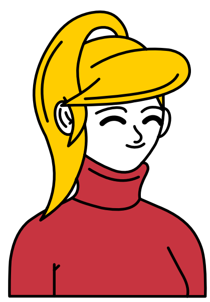
< But that's standard! >

< Yeah, but a navigation system that learns, one that plans not just the charging stops on your route, but also stops in restaurants and cafés that meet your personal preferences – that's something he never dreamed of. It really is a whole new level of navigation ... >

< Say, do you even know how to navigate your own way around? I bet you can't without autopilot! >

< Oh yeah? You're on! Let's settle this here and now! We'll let the likes decide which one of us is the better driver. >

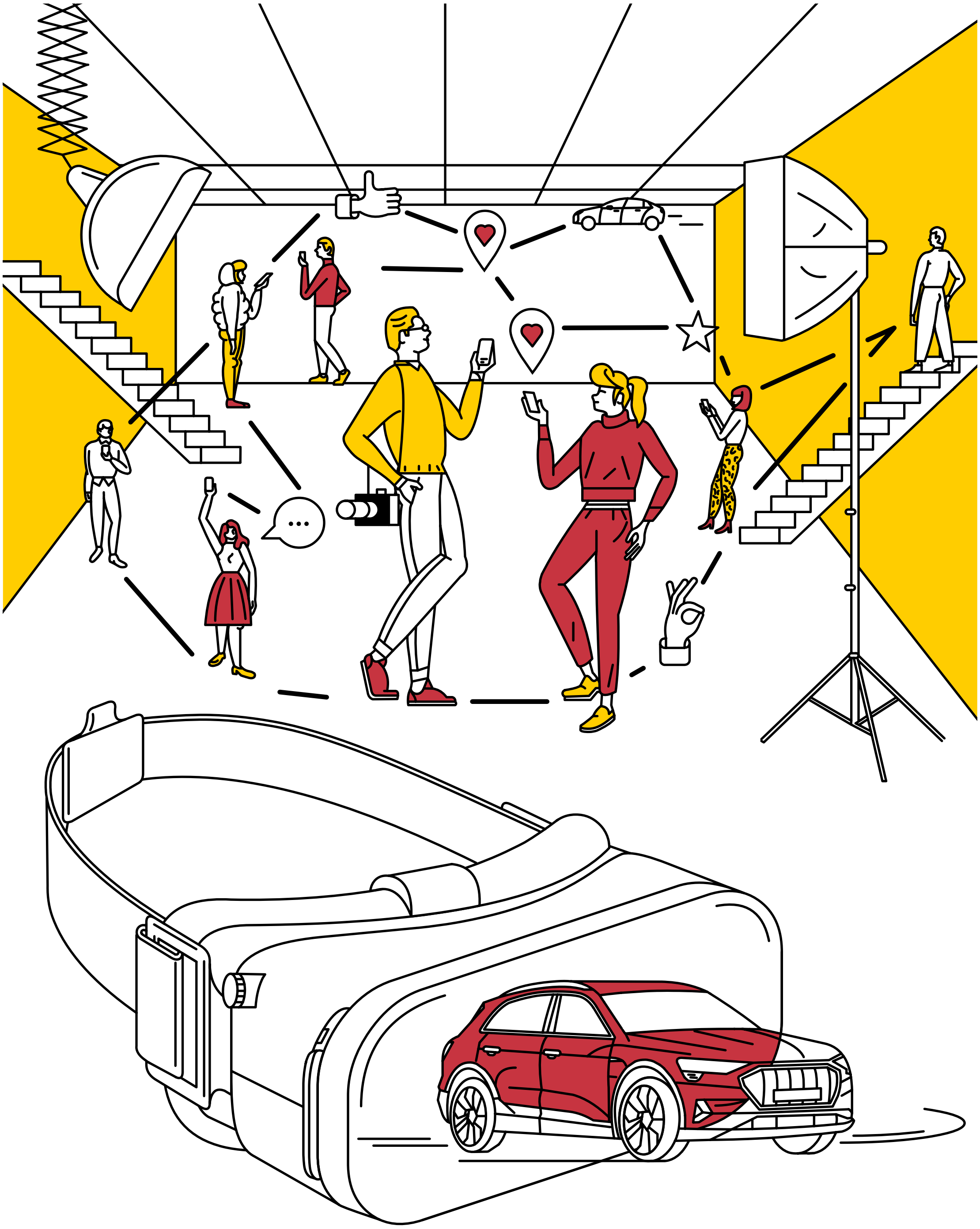
NINA



Age	21
Profession	INFLUENCER
Status	SINGLE
Location	BERLIN
Uses	VIRTUAL REALITY/ ON-DEMAND SERVICES/ PERSONALIZED ENTERTAINMENT

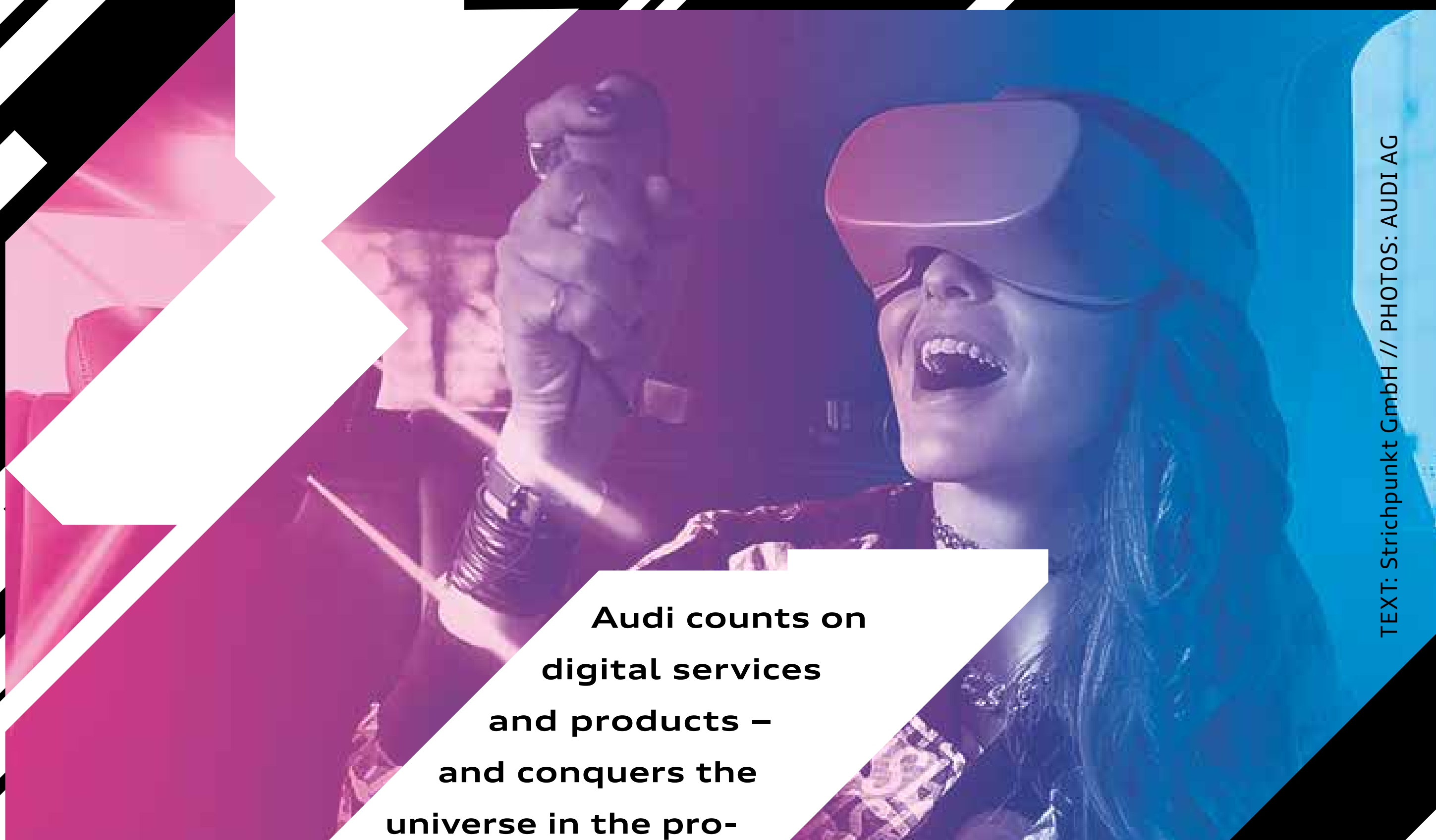
Further articles on the subject at:

audi.com/talking-business



Always online
The car of the future fits seamlessly into people's digital worlds.

Real revenues in digital worlds



Audi counts on digital services and products – and conquers the universe in the process. Virtually, anyway.

TEXT: Strichpunkt GmbH // PHOTOS: AUDI AG

The spaceship gets closer and closer, a collision is just seconds away. Your own vehicle suddenly veers to the left. Saved at the last minute! But the Audi isn't exploring outer space, it was simply making a very terrestrial left turn. For its passenger, however, it was something of a galactic swerve: Using a virtual reality headset, they were out saving the universe as an "Avenger." Extended reality is the key term here. The technology matches virtual content to the movements of the car in real time, the real and virtual worlds becoming one. Audi developed the interactive experience together with Disney Games and Interactive Experiences and presented it in January 2019 at the CES technology show in Las Vegas. To commercialize the technology behind it, the subsidiary Audi Electronics Venture GmbH co-founded the startup holoride. The goal is to introduce this new entertainment format on the market across manufacturers as an open platform. The showcase is an example of how new digital business models covering all aspects of the car are being developed: The vehicle is becoming a digital platform. But premium mobility will also become digital in the future beyond just interactive entertainment. Customers' daily lives are networked – and they expect their cars to be integrated seamlessly. Through its digital services, Audi is tapping new business models and sales potential. The myAudi customer portal is the central access point into the digital ecosystem, where all digital solutions can be booked, managed and used via an intuitive interface. Today customers can already sit on their sofas and order and finance Audi Approved *:plus* models around the clock, including Germany-wide delivery at a desired time and place. Audi is gradually scaling the platform internationally and is adding services and service products to it. The vehicle history of used cars will also be depicted electronically and transparently in the future. This is aimed at making the purchase of a used Audi easier and safer. The licensing of swarm data to card providers, among others, could evolve into another business model. A few more digital ideas perhaps? Using functions on demand, customers will in the future be able to order optional extras such as for lighting, assistance systems and infotainment flexibly and as needed even after a car has been purchased. Audi is also developing and scaling premium mobility solutions: In more than 20 locations around the world, customers can already use Audi on demand on their smartphones to select, book and actively experience their dream vehicle from a fleet of top models. Following the acquisition by the Four Rings of the car-rental service Silvercar in the United States, 25 mobility hubs have been created under the "Silvercar by Audi" name. All the available destinations form the starting point for a global mobility network. The range of offerings clearly shows that if you are serious about digitalization, you have to think and act holistically. And it's also worth exploring new galaxies.

Further information is available at:

audi.com/talking-business/holoride

Financial contribution of digital business models

- Audi is becoming a provider of individual premium mobility. This also includes the digital business models and services that are to contribute substantially to the Audi Group's operating profit in 2025.
- The following action areas were defined to reach this goal: connected car, connected data, connected mobility and connected retail.
- The personal key to the digital Audi world is myAudi. Through the portal, customers can access their Audi cars, book and use products and services.

Ducati and Audi join forces for more safety

People want technology to assist them, especially when things become dangerous. Ducati and Audi are jointly developing C-V2X assistance systems to help avoid accidents. Using the 5G mobile communications standard, the two companies are moving forward into the digitally connected traffic system of the future.

A foggy fall evening on California's Highway 1. Darkness has descended over the coastal road. Leo Warren's Ducati Monster 821 glides over the asphalt, purring deeply. He needs to make a left turn in just over 200 meters, at the end of a long curve in the road. Suddenly, an exclamation mark with a red border flashes in his helmet's head-up display and a woman's voice says: "Caution, Leo, vehicle approaching from the left." At the same time, a similar alarm sounds in the car: "Attention, motorcycle approaching from the right." Not a second too soon, because the driver is tired and distracted. He would probably not have seen the Ducati. But with the warning, he stops in time. Leo Warren turns off – and will soon be home with the family. Admittedly, this scenario is still rather futuristic – warning systems like these are not available for sale yet. But that is set to change soon. Audi and Ducati are working intensively to develop systems that will enable motorcycles, cars, trucks, pedestrians, cyclists, traffic signals and other elements of the traffic infrastructure to communicate directly with one another. C-V2X technology, Cellular Vehicle-to-Everything, should be operational within just two years. It is based on the ultrafast, high-performance 5G mobile communications standard that will revolutionize data transfers worldwide.

The motorcyclist applies the brakes – and a red warning triangle appears immediately in the Audi following behind.

TEXT: Peter Gaide // PHOTOS: Lukas Barth

The traffic jam beyond the curve

The idea is to prevent dangerous situations from arising in the first place. But this requires vehicles that are extensively connected. They each warn their drivers of hazards in real time – even if they are still some distance apart. A traffic jam beyond the next curve, a truck driver who suddenly hits the brakes or a motorcyclist who wants to make a left turn against traffic: Vehicle sensors pick up these signals at a very early stage. If necessary, a warning signal will light up once the information has been received and forwarded. The result is a digitalized network of vehicles with the highest transmission rates that prevents stress, avoids traffic jams and can significantly improve safety. It also paves the way for fully automated vehicles.

"We're making significant progress," says Christoph Voigt, Head of Connectivity, Mobile Communications and Car2X Technologies at Audi Development. He also chairs the 5G Automotive Association, or 5GAA for short – an association that brings together Audi, Ducati and around 90 other companies from the automotive and supply industries as well as the mobile communications sector. Their joint goal is to help 5G achieve a breakthrough on roads. Thanks to its low latency and very high data rates, this new mobile communications standard can effectively map complex traffic situations with many participants and constantly shifting constellations – in real time. "5G allows an extremely fast, error-free exchange of position and vehicle information among road users," Voigt says. "That wasn't possible up to now." The new mobile communications standard is set to be introduced in China first to manage urban traffic flows more efficiently. Europe will benefit as well. An independent study commissioned by the 5GAA developed four model scenarios. They predict a potential net benefit by 2035 of 20 to 43 billion euros from C-V2X throughout Europe, largely due to improved road safety and traffic efficiency.

5G enables an extremely fast, error-free exchange of information among road users.

Watchful observers: the Audi visionaries Christoph Voigt (left) and Gerhard Stanzl.

Increased safety for motorcyclists is the aim of Pierluigi Zampieri, Vehicle Innovation Manager at Ducati.

The future: safe, comfortable and autonomous

The future has already been brought to life in the Bavarian town of Neuburg an der Donau. On the testing area, the C-V2X system – a black box about as big as a medium-sized book packed with cutting-edge mobile communications technology – has been installed in a Ducati Multistrada 1200 Enduro, an Audi Q7 and an Audi A4. The drivers simulate three common situations that frequently lead to accidents: entering an intersection, making a turn across traffic and a sudden braking maneuver by a vehicle in front. Do the systems give drivers prompt, visual and acoustic warnings on their vehicle displays and enable them to apply the brakes in time? Pierluigi Zampieri monitors the test intensely from the rear seat of the Q7, smiling in satisfaction when the warning signal flashes and the motorcycle is seen even at high speed in critical situations. "Safety is a top priority at Ducati," says the company's Vehicle Innovation Manager. "The situations tested account for nearly one-third of all motorcycle accidents. C-V2X is an effective way to help prevent them." The technology is part of the long-term Ducati Safety Roadmap 2025. Other features intended to increase safety include airbag systems integrated into the rider's protective clothing, ABS devices for inclined riding and assistance systems that monitor the blind spot behind the bike using radar sensors. Some of these products are already on the market, and other systems will be introduced gradually starting in 2020. Safety also plays a prominent role for Audi. "Direct communication between vehicles using 5G enables us to make real progress in avoiding accidents – across manufacturers and on a broad basis. That's really important to us," comments Gerhard Stanzl, Head of Smart Mobility/Machine Learning Advance Development at Audi Electronics Venture GmbH. The mobile communications standard is just as important for pushing additional services and developing new business models. Such as for autonomous driving. "With 5G, the high-precision, memory-intensive maps that are needed for automated systems can be transferred to the car very quickly." This also creates a wide array of opportunities for digital convenience functions that make travel more entertaining and comfortable for the passengers. But Stanzl is not yet prepared to divulge exactly what they will be. A development secret. He grins. "It'll be great. Just be patient a little longer."

The exchange of electronic data between a motorcycle and a car is tested on the Audi proving ground in Neuburg.

The tests in Neuburg are part of the ConVex C-V2X project, in which Audi, Ducati, Audi Electronics Venture, Qualcomm CDMA Technologies, Ericsson, the Technical University of Kaiserslautern and Swarco are participating. It is being co-funded by the German Ministry of Transport and Digital Infrastructure through the program "Automated and connected driving on digital test fields in Germany" in the amount of 1.8 million euros. The venture will receive a total of 3.3 million euros in funding and will run until June 2019.

Further information is available at:

audi.com/talking-business/ducati

More safety – and lucrative services

- Innovative mobility solutions and new concepts for traffic planning and control are becoming increasingly important when it comes to maintaining the quality of life in urban areas. At the same time, technologies such as 5G and automated driving are enabling the interconnectedness of vehicles and infrastructure, which paves the way for safer, more efficient, more comfortable and sustainable mobility of the future. The fifth generation of the mobile communications and network technology is currently being developed and is expected to be available in many countries from 2025.

- Close cooperation is taking place within the Audi Group. As part of the Ducati Strategy 2025, the company is seeking to increasingly leverage more synergies within the Group to promote topics such as digitalization, electrification and the dealer network – not least with a view to profitability. This cooperation also involves the development of urban solutions and new business models for the premium mobility of the future, including the integration of two-wheel concepts.

- As well as its claim to driving experience and emotion, Ducati is demonstrating its commitment to safety – strategically formulated in its Safety Roadmap 2025. With a focus on the connected bike, the company is introducing features such as radar-based functions that, unlike cameras, work independently of visibility, and the e-call system, which cuts rescue times significantly.

Q8

A1

Driving fun, safety and the highest quality: The demands of the broad Audi clientele are high, from the luxury segment down to the entry-level model. Audi sent potential customers on a fast-paced test drive in an Audi Q8 and an A1 – and simply let the camera roll.

Mobility at Audi is becoming multifaceted: One-third of the company's vehicles will be electric in 2025, and two-thirds will still be powered by internal combustion engines. To remain financially strong, Audi will continue to rely in coming years on models equipped with continuously refined conventional drive systems. No matter which drive system the car has, Audi delights its customers with state-of-the-art technologies. Innovations that are initially introduced in higher segments gradually work their way down to other models as well. As a result, all Audi customers can enjoy premium standards and experience technical expertise in models from very different price segments.

From A to Q: the tech experience for all customer segments

TEXT: Franziska Queling // PHOTOS: Revl Inc.

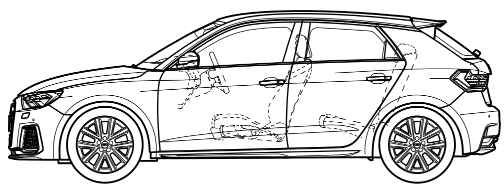
Driving fun live: Jonas Schmid and Magdalena Seidenschwarz test the cornering of the Audi A1 and Q8.

It is unbelievable just how much high tech you can fit into an A1! “Vorsprung durch Technik” is not just a slogan for the full-size class. An A1 without a smartphone connection to the high-resolution MMI and without rich sound? Hard for the young target group to imagine. The compact car is turned into a concert hall. Quality is large as life here – for young ears, too. Thanks to the optional Bang & Olufsen speakers. The system controls 11 loudspeakers with 560 watts of power and uses the windshield as a reflecting surface to produce a 3D effect.

“MY FAVORITE SONG CAME ON AS SOON AS I GOT INTO THE CAR – THE SAME SONG I HAD JUST HEARD AT HOME.”

JONAS SCHMID, 19

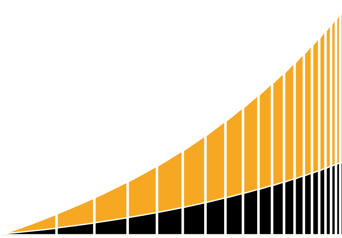
Potential for a new business model? With the help of the Audi MyMemories app, Audi drivers can take the premium feeling of their Audi driving experience home with them to relive the moments over and over or to share them on social media. The Audi Innovation Research Office in San Francisco developed the app together with the California startup Revl after customer surveys in the United States found that target groups wanted videos of their driving experience.

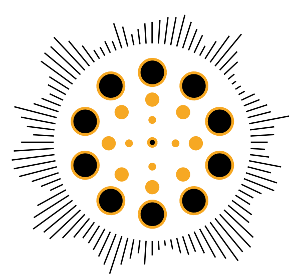


Side view of the Audi A1

Driving fun

BANG & OLUFSEN SOUND SYSTEM





	Total output	Loudspeakers
Audi A1	560 W	11
Audi Q8	1,920 W	23

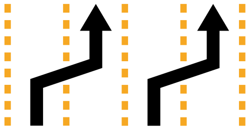
Assistance systems ensure safety: Armin Muck, Max Brunner and Renate Seiler (from left) get a vibrant feel for the road on the curve-filled test track.

SIDE ASSIST

helps drivers traveling at

15 km/h

or faster to change lanes and reacts with the help of rear-end radar sensors that can take measurements extending out about 70 meters: also in the A1 starting mid-2019.



In general, assistance systems can assist the driver with the driving task only within the relevant system limits. The driver always remains responsible for driving the vehicle and is required to be attentive at all times.

“EVEN THOUGH I’M MORE OF A Q8 CUSTOMER: THE A1 IS REALLY SOMETHING SPECIAL – AN ABSOLUTE CORNERING DREAM. IT’S SMALL, SNAPPY AND FUN – PERFECT FOR YOUNGER CUSTOMERS AS AN ENTRY MODEL.”

ARMIN
MUCK, 50

The Audi driving experience center in Neuburg an der Donau.

The circuit is up to

2.2 km

long.

Whether you are driving in the town or long distances, assistance systems support the driver and increase convenience. One example of technology transfer from the full-size class is adaptive cruise control. It brings the car to a halt in stop-and-go traffic and then automatically starts it again. The system is optionally available not only in the Q8, but in the A1 as well. During test drives, the lane departure warning system and the pre sense front system in both models can provide support in traffic – and are fitted as standard. Another feature of the Q8 is the optional narrowed road assist, which provides longitudinal and lateral guidance when a vehicle drives through construction sites on the freeway.

Quality

AUDI VIRTUAL COCKPIT

12.3" 1,920 × 720 pixels (Audi Q8)

10.25" 1,280 × 480 pixels (Audi A1)

“I REALLY LIKED THE DISPLAY SETTING IN THE AUDI Q8. I WANTED TO TOUCH AND TRY EVERYTHING RIGHT AWAY.”

DANIEL
MARR, 31

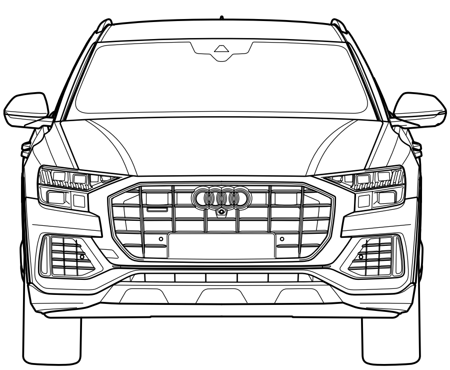
Further information is available at:

audi.com/talking-business/tech-experience

Market introduction of new Audi models in the Management Report starting on page 114.

The touch display invites you to try it out: Daniel Marr and Awa Jaiteh on their test drive.

"The cockpit in the Audi Q8 is easy to understand and has a very high quality," Awa Jaiteh says. Brilliantly sharp, high-contrast and glare-free, the display presents all its functions and services in a vivid graphic, from the detailed effects of the assistance systems to images from the reversing camera and dynamic vehicle animations. If you switch to the infotainment mode, you gain plenty of space in a central window for a navigation map or audio, radio and telephone lists. And not to be forgotten: The A1 also comes with a digital cockpit as standard equipment.



Frontal view of the Audi Q8

"Vorsprung durch Technik": the Audi model initiative

- Audi is creating a new premium experience – in the product as well as in its digital ecosystem myAudi. In this way, young customers develop enthusiasm for the brand and a relationship with it at an early stage.

- Audi continues its model offensive: Following the presentation of the new full-size class in 2018 with models such as the A6, A7 Sportback and Q8 as well as the Audi e-tron, the first volume-built model with fully electric drive, the electrified portfolio will be expanded in 2019. The company therefore presented four new plug-in hybrid models at the first "all-electric press conference" at the Geneva Motor Show: Q5 TFSIe, A6 L TFSIe, A7 Sportback TFSIe and the A8 L TFSIe.

- In 2025, around every third Audi will be sold with an electric motor or plug-in hybrid drive. The remaining two-thirds will continue to be defined by optimized internal combustion models that will safeguard the company's financial base. The entire range of models is required here – from the lower to the upper price segments.

- By the end of 2023, Audi will have invested about 14 billion euros in digital, electric and autonomous mobility. At the same time, the Audi Group wants to achieve a long-term, strategic operating return on sales of 9 to 11 percent. Using measures such as process optimization and tapping synergies in the Volkswagen Group as part of the Audi Transformation Plan, the company will free up around 15 billion euros for future-oriented investments over the next five years.

Produced vehicles 2018

Urus **2,565**

Aventador **1,216**

Huracán **2,790**

The Urus catapults Lamborghini forward

The year 2018 marked the beginning of a new era for Lamborghini. The Urus is becoming the driver of transformation. For one thing, the Super SUV appeals to new groups of customers: More than two-thirds of Urus buyers are ordering a Lamborghini for the first time in their lives. For another, it is fueling cooperation within the Group. Synergies are possible – as reflected in the steadily increasing profitability of Lamborghini.

The foundation of this long-term growth is the plant expansion in Sant'Agata Bolognese. The company has not only doubled its production space to 160,000 square meters, it has also achieved unprecedented production efficiency through state-of-the-art manufacturing technology. That is the basis for additional sales records and opens up new opportunities for cooperation within the Group. These ensure that Lamborghini can drive forward the electrification of its luxury sports cars and make better use of scaling options. For example, Italian engineers are working closely with their colleagues at Audi and Porsche on the development of future electric powertrains. In doing so, Lamborghini is accelerating the pace of development. Thanks to these synergies, the time to market of new models is also being cut to under four years. The derivatives of these models are expected to enter the market in less than three years – in the future as plug-in hybrids, too. "Hybrid supercars will be on the road as early as the next Lamborghini generation," CEO Stefano Domenicali says. The Italians are guided by the megatrends digitalization and sustainability, but with an

TEXT: Strichpunkt GmbH // PHOTO: Automobili Lamborghini S.p.A.

Lamborghini Urus:
combined fuel consumption
in l/100 km: 12.7;
combined CO_2 emissions
in g/km: 325

Total increase in produced vehicles

2010 – **346%** – 2018

interpretation tailored to the company's customers that is based on "trailblazing products" and "inspiring brand experience," the two main pillars. "Our vision is to become the icon of supercars and Super SUVs," Domenicali says. The Lamborghini Unica app, for example, stands for digital products. Presented in September 2018, the service allows customers to experience the Lamborghini lifestyle as "informal luxury" through news and events. This fits with the brand positioning as the "icon of luxury" – just as its customized and exclusive services do. Lamborghini delivers sustainability by improving the power-to-weight ratio, for instance: The use of ultra-lightweight materials enables maximum performance with optimized efficiency. Assistance systems ensure that the driver and the car are always safely in control of the situation, whether in city traffic or on the open road.

Drivers love their Lamborghini – and this love has a wider impact. While 1,302 of the brand's supercars were sold in 2010, the figure has meanwhile tripled. 3,989 Huracán and Aventador models were sold in 2018, and 1,761 Urus SUVs have been sold since its market introduction in July.

Talking Business – Key Facts

This kind of acceleration cannot be measured with the speedometer

- In 2018, Lamborghini boosted its sales volume by 51 percent in comparison with the previous year. This was made possible by expanding the plant in Sant'Agata Bolognese from 80,000 to 160,000 square meters. Production has doubled as a result. The company sold 3,989 supercars and 1,761 Super SUV models in 2018. In 2019, Lamborghini expects to sell about 8,000 units, more than 50 percent of which will be Urus models.

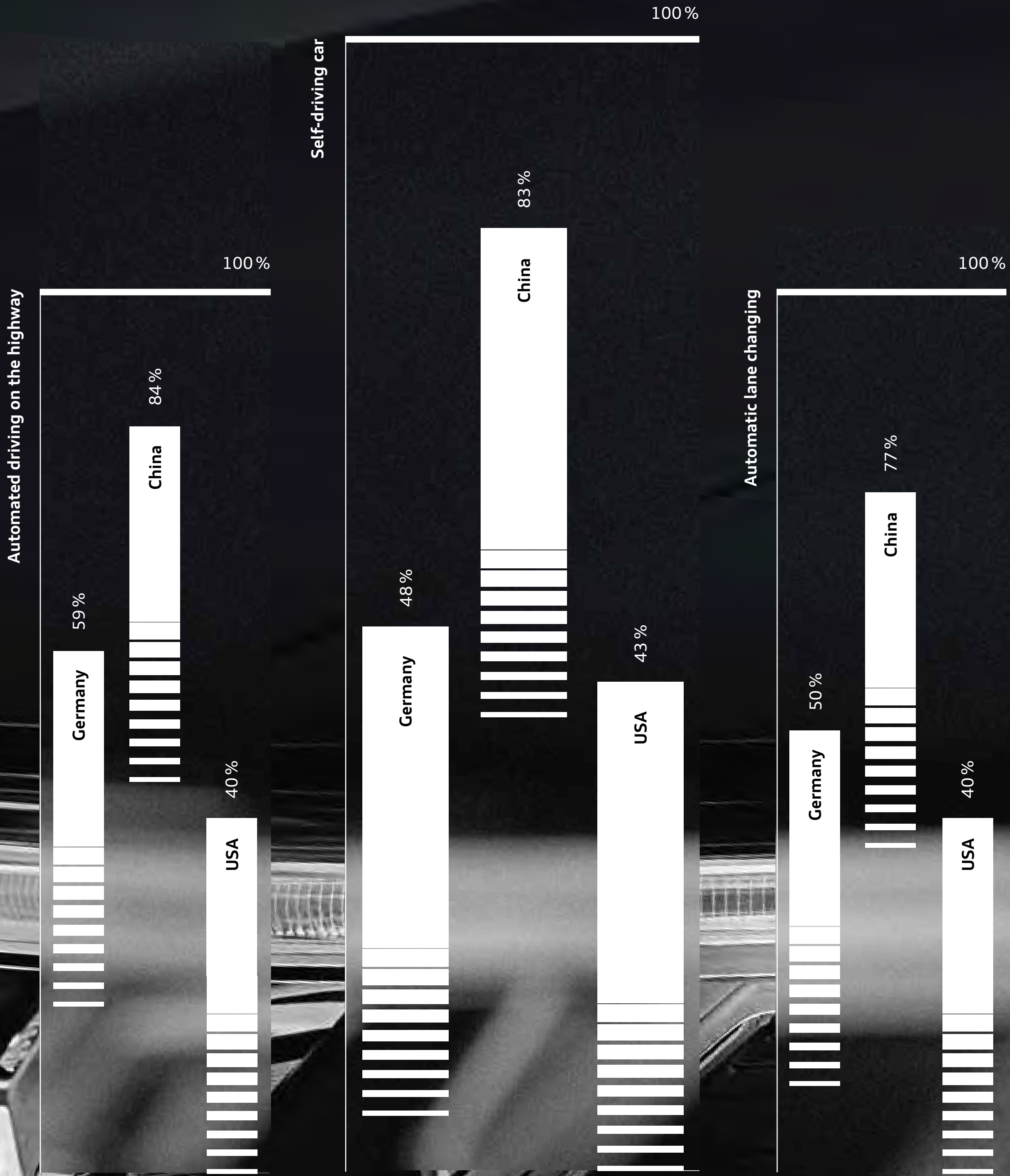
- The expanded operation and the shared focus within the Group will create opportunities for cooperation. Lamborghini will be able to make better use of scaling options, become more profitable and drive forward the electrification of its hybrid supercars more quickly – for example, by sharing information with intra-Group specialists at Audi and Porsche.

- Lamborghini is shortening the time it takes to develop new models. Time to market has fallen to under four years. The derivatives of new models enter the market in less than three years. The drivers of this development are improved agility and synergies leveraged within the Group.

Further information is available at:

audi.com/talking-business/lamborghini

The future market China is open to new technologies



General willingness to buy a self-driving car in 2017

Whether autonomous driving or digital services: The Chinese are particularly open to anything new.

PHOTOS: Tobias Sagmeister, Jens Passoth // ILLUSTRATIONS: Eva Revolver // SOURCE: Boston Consulting Group

An excursion into the future. In China, the world of tomorrow is emerging today. China's enthusiasm for technical advances has turned the country into the blueprint for the automotive world.

by Michael Radunski

Paved paths snake their way through meadows, shrubbery and trees. Decorative pavilions and small benches offer a place to relax. This tranquil park is located in the Beijing district of Haidian, where hundreds of high-tech companies have made their homes. Baidu is one of them, the company that operates China's largest search engine – and the world's first artificial intelligence park. Here, every visitor can take an individual journey into the future. At the entrance, visitors stow their valuables and bags in lockers that operate using facial recognition. Afterward, self-driving minibuses take them on an excursion through the 34-hectare park. Anyone who is interested can take Tai Chi lessons from virtual trainers in the augmented reality sections. Joggers can have their running performance monitored by smart streetlights and cameras, and then have their speed, route and calorie consumption analyzed and displayed on monitors. Artificial intelligence is no longer just about robots, says Robin Li, the head of Baidu: "Everyone can do AI." The days are gone when China, as the workbench of the world, produced masses of cheap products for Europe and the United States. After generating double-digit growth for decades, the country is now one of the leading industrial nations. Today, billions of

Shenzhen, also known as China's Silicon Valley, is considered the epicenter for electric mobility, electronics and telecommunications. The metropolis is one of the fastest growing cities in the world.

euros are being poured into the research and development of cutting-edge technologies. No other country registers as many patents as China. Propelled by the government's strategic plan "Made in China 2025," Beijing has finally set its sights on becoming an industrial superpower. The interest of the Chinese in new technologies is a plus here. This is reflected in everyday life, for example at the restaurants operated by Haidilao, one of the most popular restaurant chains in China. The lines in front of its locations in such rapidly growing cities as Shenzhen, Chongqing and Guangzhou are as legendary as the quality of the hot-pot dishes in which fish, meat, vegetables and noodles are stewed in broth. Haidilao combines tradition with the technical future in completely automatic restaurants. Robots take orders, cut up the vegetables in the kitchen, filet the raw meat and then serve the food at the tables. The customers appear absolutely delighted with the fusion of the traditional and modern worlds. Food preparation is cleaner and safer as a result. A cook can cut a finger, meat in the pot may not be cooked completely – but all these problems will be eliminated in the future thanks to this "smart" workforce.


华强电子世
NICO

"The Chinese are much more open to new technologies than Europeans and Americans are," says Jeffrey Towson of the University of Beijing. To understand this difference, the expert advises people to just look at what the Chinese hold in their hand: their smartphone. About 700 million Chinese use one today. Always online, always reachable. The Chinese do absolutely everything with their mobile device, with phone calls being the most banal task of all. They chat, watch videos, place orders, take courses and book taxis, hotels and train tickets. Once they are done, they pay for everything with their smartphone, too. "In Europe, people carry cash, and more modern consumers use credit cards," Towson says. In China, credit cards will never be modern: From luxury hotels to street vendors, a smartphone is used everywhere for mobile payment. Experts call this leapfrogging: when people deliberately skip over a particular technology.

From mobile payment and big data to deliveries made just minutes after an order is placed – China's rapid modernization is based on far-reaching digitalization. Users have one top priority: Service must be fast and convenient. This was the secret to success for a startup called Luckin Coffee. Luckin was not established until November 2017, but since then, the company has grown at a breathtaking pace: Two to three new coffee shops were opened each day during the company's first months in business. In its first investment round, the company's founders collected more than 200 million dollars, and now they are launching an attack on the giant in the business: "Starbucks is all about a good location, while Luckin wants to get into your smartphone," Towson says, explaining the two companies' different approaches. In the blue-and-white Luckin shops, customers can only use their mobile phones to pay.

Always online, always reachable. The Chinese do absolutely everything with their mobile device.

The smartphone has paved the way to success in China. You can see that on the streets of Beijing, too: Here, the companies Mobike and Ofo have made the bicycle rental business attractive again with their digital sharing service. Dozens of bright red bicycles are parked on virtually every street corner. Fixed stations have been taken out of service. Instead, customers use GPS on their smartphone to locate the bikes. When customers scan the QR code located on the bicycle's fender, they receive a text message with a code to unlock the bike – and off they go. It's fast, inexpensive, digital and convenient.

Yet while bicycles still rely on human pedaling power,

SOURCE: Internet World Stats

cars are increasingly using energy produced by electric motors. For decades, car manufacturers in China competed against international companies to develop gasoline and diesel engines. But now the rules are changing with the advent of electric mobility.

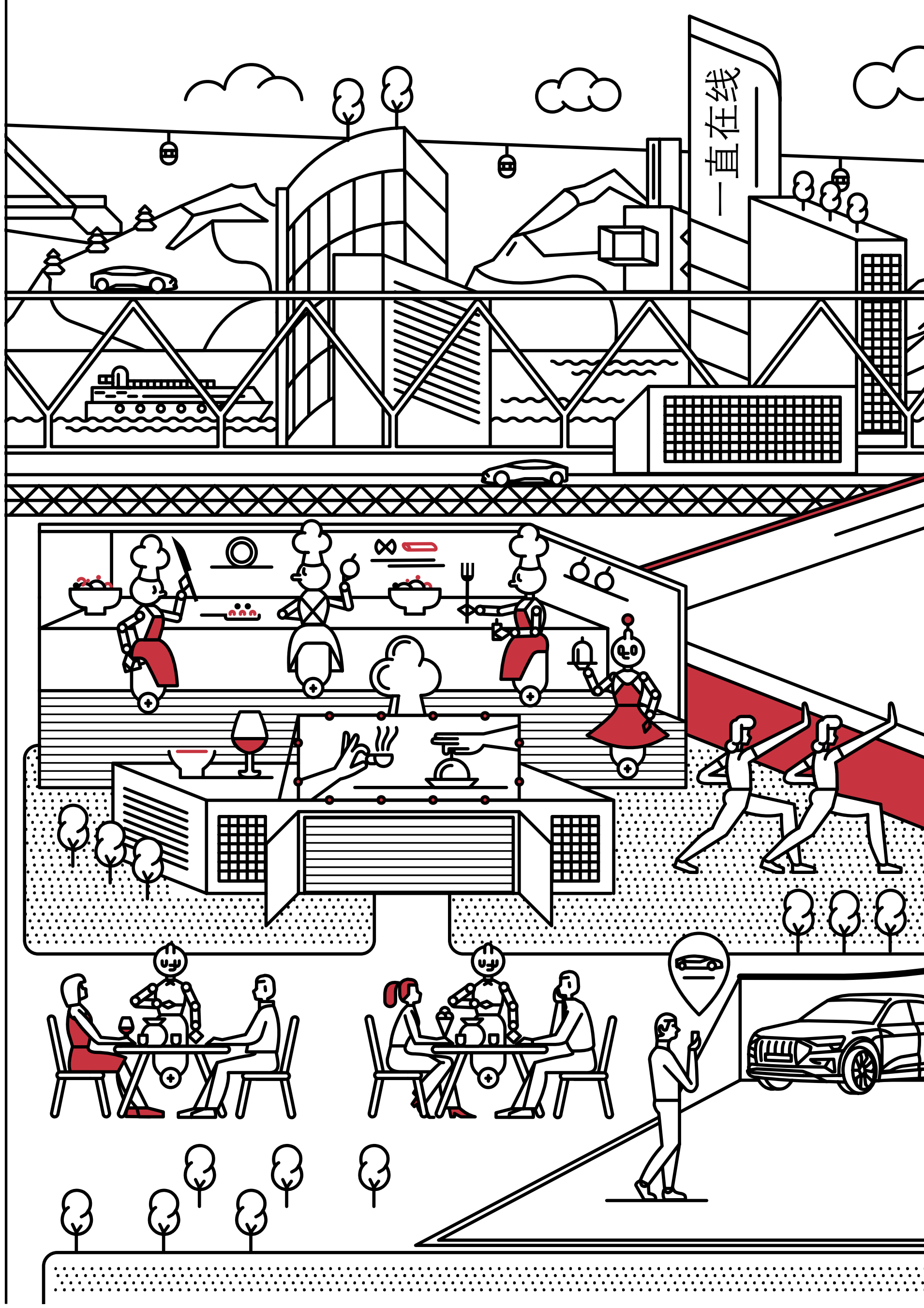
"China can become a world market leader in the automotive industry thanks to new energy vehicles," says Hu Xingdou, a professor at the Beijing Institute for Technology. "China and the rest of the world can now all start from the same position." Without worrying that they are only serving a niche market. In 2018, more than one million cars with electric or plug-in hybrid drive were sold for the first time in China. No other country has so many electric vehicles on the road.

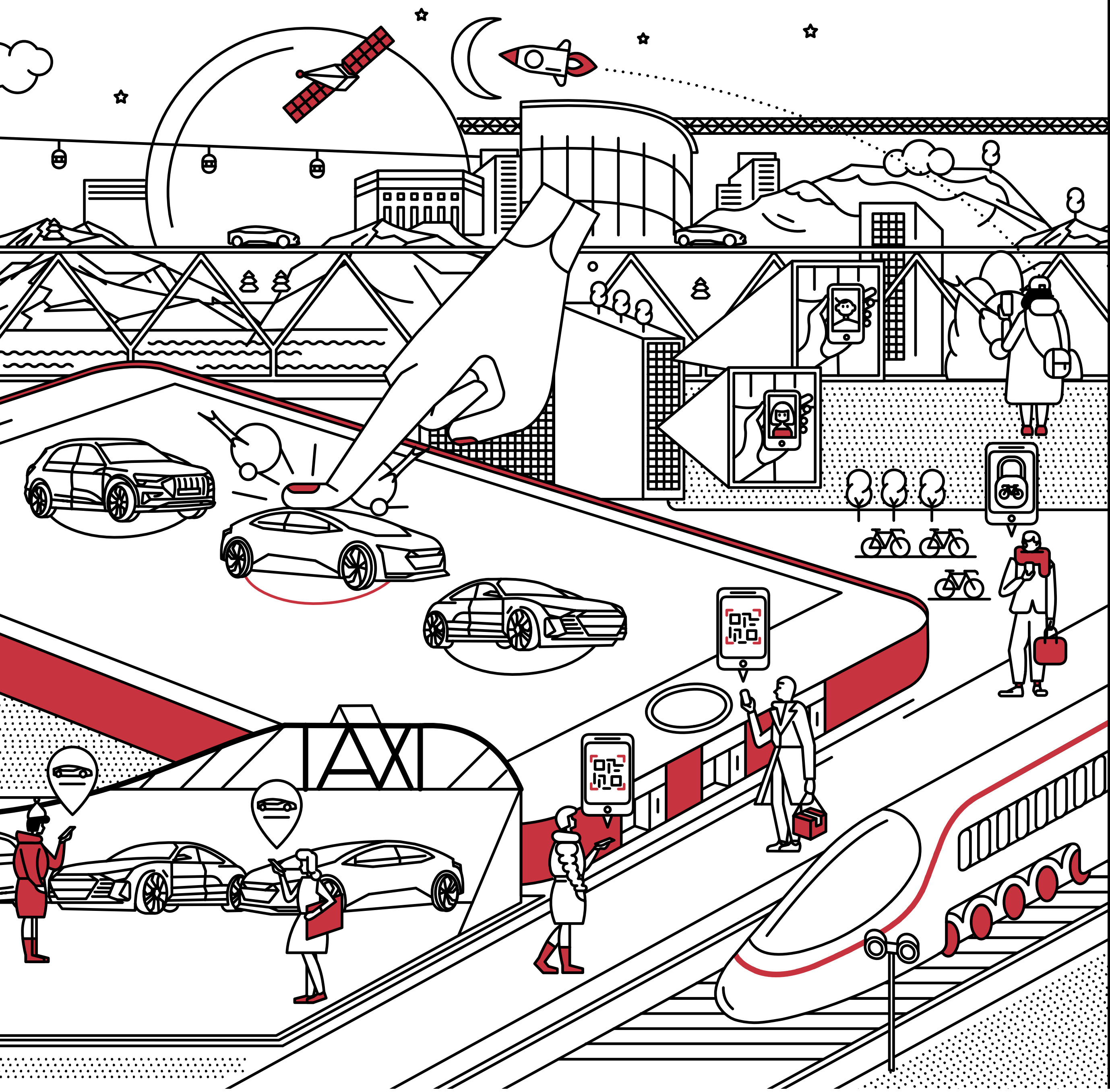
And this share will climb, due to a government-ordered electric quota. Expressed in simple terms, car manufacturers must now meet the following requirements: Starting in 2019, 10 percent of the vehicles they produce in China must be electric, by 2020 the figure must rise to 12 percent. In 2025, 25 percent of all vehicles sold in China must be electric. In taking these steps, China is becoming the blueprint for the automotive world – not least due to its openness to technological innovations. 83 percent of Chinese would in principle buy a self-driving car, according to the Boston Consulting Group. Only 48 percent of Germans would be willing to do the same. A McKinsey study also found that 52 percent of Chinese were willing to give up car ownership. The main thing is car availability – conveniently orderable via an app.

For Chinese customers, what matters is how easily cars fit into their digital world – in terms of general availability and digital connectivity. In other words, in China the car is evolving into a type of smartphone for the road – a genuine mobile device.

Computer on wheels?

The very first computer that most young Chinese ever had was a smartphone. However, the Chinese use their mobile phones less like computers and more like an electronic companion or even a virtual self. Interfaces between the digital and real worlds are plentiful. Chinese use their smartphones not just for chatting, but also to order and pay for clothes, food, vacations and, not least, cars. Loans and insurance policies? Handled by smartphone. The shuttle to the airport? Ordered and paid for by mobile phone. This open enthusiasm is turning China into an orientation market for the technologies of the future.





Further articles on the subject at:

audi.com/talking-business

“Vorsprung” in Chinese

Alexander Seitz
The CFO and Board Member for China speaks at the celebration in November 2018 marking the 30th anniversary of the partnership between Audi and FAW.

TEXT: Franziska Queling // PHOTOS: Jens Passoth, AUDI AG

Audi has never had a bigger presence in the blueprint market of China. Specific models, local research and development as well as cooperations are driving the automotive future even faster.

Alexander Seitz is the CFO at Audi – and, alongside Compliance and Integrity, has been additionally responsible for the China business since 2018. This newly created position reflects the country's importance for the Four Rings. "China is the most powerful motor of growth at Audi," Seitz says. The company is fueling this growth by conducting more research locally, by producing more local models and by intensifying existing partnerships and initiating new ones. In China, the company ranks once again as the number one premium brand. Seitz wants to extend this leading position, for instance by strengthening commitment to the joint-venture partner FAW. "We will draw on our 30 years of experience to introduce even more products tailored specifically to the Chinese market," Seitz explains. Working with its Chinese partner FAW, Audi wants to increase its local portfolio to 12 models by 2022. Together with FAW, the company has produced about 4.7 million cars since the start of the partnership and delivered more than 5.3 million vehicles in the Chinese market. Since 2008 alone, the brand has increased its sales volume more than five-fold. In the future, the Four Rings want to sell over one million Audi vehicles a year throughout China. The Audi e-tron in particular has great potential: It will be introduced to the market in 2019 and will also be produced in Changchun starting in 2020. Another step in the localization strategy is the start of production of the Q3 successor at the Tianjin site. Production in Qingdao will also begin soon. As a result, Audi will produce vehicles in four Chinese plants – and there is room to grow. Thanks to their flexible plant structure, these locations could soon be producing more than 700,000 cars annually, depending on market demand. The long versions of models such as the A4, A6, A8 and Q5 are some of the most popular cars among Chinese customers. Many of the new models, including the Q5 L, Q2 L, A6 L and Q3, have already been customized to meet Chinese preferences and are produced locally.

They all make China the largest sales market for Audi. And Audi wants to further expand this standing in the area of electric mobility. In 2019, the Q2 L e-tron will become the first fully electric car to go on sale – locally produced and tailored to the needs of Chinese consumers. In addition, Audi will assume Group-wide development responsibility as the Center of Excellence for high-voltage battery cells in Beijing.

To keep pace with Chinese customers' wishes and expectations, Audi is expanding the R&D center opened in 2013 in Beijing. By 2023, the number of employees is planned to almost triple. An additional test center with a development department is being built in Wuxi, where Audi is already testing highly automated driving on public streets. Wuxi, a city of 6.5 million residents near Shanghai, was selected by the government to serve as a test field for autonomous driving and smart-city infrastructure. In 2018, the company also received a license to test highly automated driving in the capital Beijing.

Audi is therefore tapping the technological affinity of the Chinese to its own advantage and is expanding its own developmental standpoint. "We want to refine our products even further to meet the needs of our customers, and learn lessons from them that we can apply in other markets," Seitz says. New models are scheduled to be introduced faster. China-specific products will be an even larger part of portfolio planning. In taking these steps, the company is thinking and acting in terms that extend beyond the car itself. The inventiveness and curiosity of the Chinese people as well as the interest of the government offer optimum conditions for developing viable digital business solutions based on fast customer feedback. The Audi on demand+ mobility service, which allows customers to select models from a wide range and drive them themselves, has been available since 2017 and is currently offered in Beijing and Sanya.

Chinese people are enthusiastic about technology. That is why they are fascinated by Audi.

To optimally tap the innovative power of new business models, the Four Rings is also opening up to new cooperation models – to generate and use data, for instance. They will include the partnership that the Volkswagen Group has established with the Baidu platform Apollo to jointly prepare autonomous driving in China for market maturity. In the area of shared mobility as well, Audi services are being offered in cooperation with Chinese partners: Together with Shouqiyueche, Audi launched a premium ride hailing service in 2018. This chauffeur service is currently offered in Xi'an and Chengdu, and other locations will follow in 2019. It can be booked via WeChat. This Chinese super app is used by more than 900 million people. Among other things, it combines familiar functions from Facebook and WhatsApp.

Audi will also strengthen its presence by making structural changes. This is the purpose of a new joint venture with FAW for mobility solutions and an independent Audi Sales Company. A new management model for the Chinese market was also introduced in September 2018 to keep the Audi headquarters in Ingolstadt in the loop in this blueprint market. This shows the importance of the Chinese market for Audi and, thanks to the company's stronger presence there, it has also become a second home for Seitz, the CFO and Board Member for China.

Further information is available at:

audi.com/talking-business/shenzhen

Audi counts on China. In China

- Premium leadership is decided in China – because it is the world's largest automotive market. More than 23 million vehicles were sold here in 2018 alone. Established OEMs are competing with new, local players. The Audi strategy for China is a growth strategy and is based on the development of the local premium market.

- Working with its Chinese partner FAW, Audi wants to increase its local portfolio to 12 models by 2022. From long-wheelbase versions and the expansion of the SUV model range to the further development of alternative drive systems or new designs, everything is being implemented quickly to increase the attractiveness of Audi for Chinese customers. For example, the brand is launching around 10 new SUV variants on the market, half of which are produced locally. Audi has also announced plans for further electric models in China. The Audi e-tron, the company's first fully electric vehicle, and the locally produced Audi Q2 L e-tron will go on sale in the Chinese market in 2019. In a second step, the Audi e-tron will be produced locally beginning in 2020.

- In 2018, Audi delivered 663,049 cars to customers in China. This represents an increase of almost 11 percent and a higher market share. In the future, the Four Rings want to increase that number to over one million Audi models sold in China. The company is thus building on its long-standing success story with the joint venture FAW-Volkswagen. Audi is also developing further collaborations in order to strengthen its business in China.

Always on

The end of the steering wheel

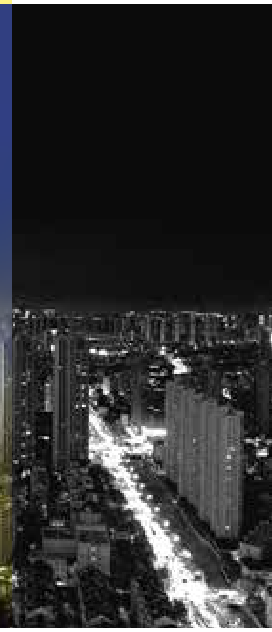
The Fraunhofer Institute for Industrial Engineering has teamed up with Audi to determine what millennials enjoy about autonomous driving and what bothers them.

Connected to the world's cities, Audi is shaping the future of urban premium mobility – both profitably and with vision.

TEXT: Jan Rentzow // PHOTOS: AUDI AG, Getty Images, Inc.

The test city of Wuxi

In the megacities of the future, traffic will flow because vehicles will interact with the infrastructure.



The car talks to other vehicles. It communicates with traffic lights and electronic signs and it adapts autonomously to the behavior of other road users. In busy cities, it automatically finds the ideal speed and slots into a flow of traffic with no congestion or honking horns.

This car is a vehicle of the future – and is to be found on the roads of Wuxi, China's model city for autonomous driving. For this metropolis, with its more than six million inhabitants and 1.76 million vehicles, Audi is providing the key technology for making progress in urban mobility: the system for communication between cars and traffic lights, known as Audi Traffic Light Information. Audi is the first international car manufacturer to test Level 4 vehicles – cars at the penultimate level on the way to autonomous driving – in the model region.

The tests rely on C-V2X technology, which is based on swarm data that are exchanged with other road users and the infrastructure in real time. C-V2X stands for Cellular Vehicle-to-Everything and supports intelligent functions for improved safety, efficiency and comfort. This enables the development of a comprehensive, higher-level system architecture that connects to data platforms and mobile devices – as the Internet of Things. The boundaries between the real and digital world are becoming increasingly blurred.

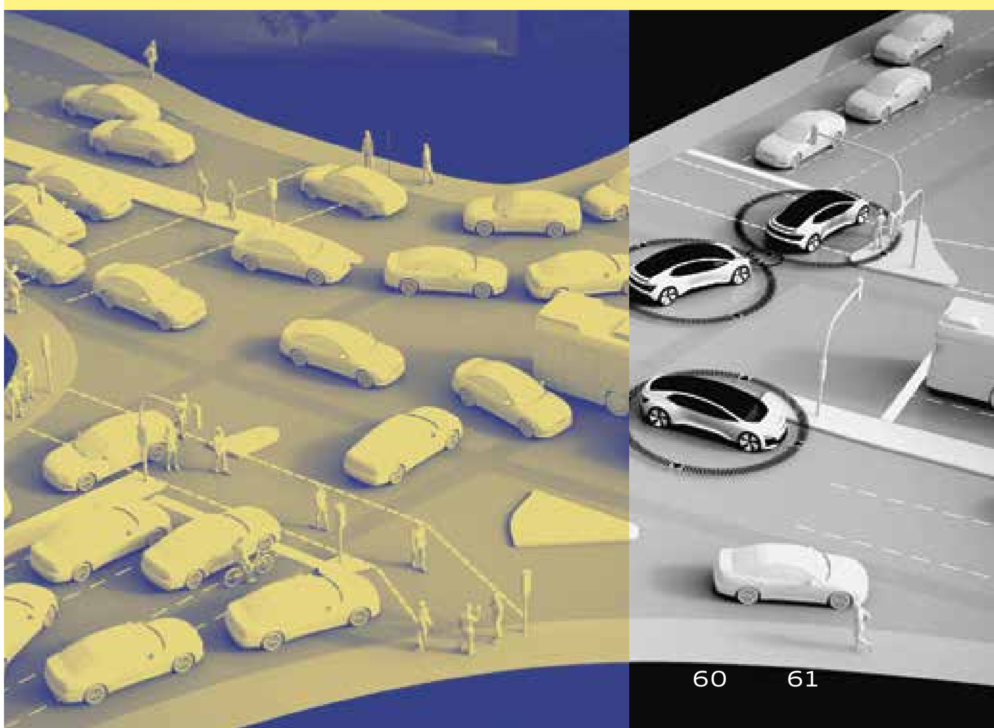
Audi is researching and testing these very technologies because they are the keys to tomorrow's success. This all starts with questions: What trends will customers follow tomorrow? What technologies are needed for these new services and processes? What will it cost to provide them? How can they be sold to customers? What benefits will they offer them? With specific customer scenarios, technological opportunities and strategic sales potential can be harmonized – as economically as necessary and with as much vision as possible.

What is being tested in Wuxi will turn Ingolstadt – where Audi has its headquarters – into a model city for intelligent and connected mobility. Road safety will improve, traffic will be controlled intelligently, mobility will become efficient, emissions will be permanently reduced and people's overall quality of life will increase. Much of this will be achieved thanks to autonomous driving. When cars no longer have steering wheels – such as the Audi Aicon concept car presented in 2017 – premium mobility will be redefined. In the future, people will be able to relax and surf the Internet, play with their children or concentrate on their work while traveling from A to B. Working together with the Fraunhofer Institute for Industrial Engineering, Audi is carrying out a laboratory experiment to determine what millennials (those born in or after 1980) find positive about autonomous driving and what bothers them. What's sure to please: arriving earlier. According to a study carried out by Audi and the Karlsruhe Institute for Technology, drivers spend 50 minutes in their cars every day. With fully autonomous traffic and a connected infrastructure, commuting times could be reduced by a third. The condition? Clever traffic management. And at least 40 percent of vehicles would have to be controlled autonomously for traffic flow to improve noticeably. There is another technical condition as well: The ultra-fast 5G mobile communications network, which exchanges data practically in real time, must be rolled out everywhere. Audi is working for this, too, as a founding member of the 5G Automotive Association interest group. China is introducing 5G rapidly. In the future, the Chinese government wants to equip 90 percent of its cities and motorways with V2X technology. In 2025, 25 percent of all vehicles will have Level 4 or

Autonomous driving

In 2017, a fully autonomous Audi of the future was presented with no steering wheel or pedals: the design vision Audi Aicon.

Fewer traffic jams in smart cities? This will be possible as soon as 40 percent of vehicles are autonomous.



Level 5 driving assistants. People do not seem to be afraid of the idea: 83 percent of the Chinese questioned by the Boston Consulting Group said that they would be willing to buy a self-driving vehicle. As the Audi project in Wuxi shows, autonomously connected driving is the result of cooperation with agile cities that upgrade their infrastructure to keep up with digital developments. There are cities like this outside China, too. Thanks to Audi Electronics Venture GmbH (AEV), its fully owned subsidiary and innovation powerhouse, Audi works together with cities all over the world that want to become smart and permanently improve people's quality of life. Three Chinese ministries are involved in the partnership in Wuxi. Progress is encouraged at the very highest level with quick decisions as part of a master plan for autonomous driving. When they talk about the partnership between the Chinese government and companies, developers describe the willingness to develop autonomous innovations as "exceptional" and the speed at which public and private data are coordinated early on as "decisive." Audi is already testing 15 different V2X functions in Wuxi. As of 2019, an additional development and testing center with 150 employees will be in operation here. After all, what happens in Wuxi applies not just to Wuxi and not just to China. Wuxi serves as a model for smart cities all over the world.

Talking Business – Key Facts

Making cities smart

- The trend of urbanization will shape future mobility. Audi is cooperating with cities on various continents to improve the flow of traffic and ultimately the quality of life for all residents. Wuxi near Shanghai is a test area for these smart cities. Audi is the first foreign car manufacturer to test Level 4 vehicles here.

- In Wuxi, Audi is providing Audi Traffic Light Information, a key technology allowing communication between cars and traffic lights. Audi is also testing this communication in Hamburg, in the Italian city of Verona and in Las Vegas and Washington in the USA. Another project in Somerville, a suburb of Boston, is focusing on enabling cars to park autonomously in a new multi-story parking garage. This helps reduce the distance between vehicles and the room needed to maneuver, and results in around 60 percent more space.

- In a smart city with autonomous mobility, commuters can travel approximately one-third faster during rush hour, according to the Audi study "25th Hour – Flow!". The study found that at least 40 percent of all cars must be autonomous in order to achieve a noticeable improvement in traffic flow.

- The Four Rings are a trendsetter for autonomous mobility. The Audi subsidiary company Autonomous Intelligent Driving GmbH is one of the companies working on this technology. In 2021, it will launch a production-ready software module for autonomous driving – for robotaxis and, potentially, for autonomous private cars.

Further information is available at:

audi.com/talking-business/smart-city

Responsible action becomes a competitive advantage

Worldwide investments in sustainable assets

The interest in sustainability aspects is particularly evident in Europe.

TEXT: Janina Weigel // PHOTOS: Tobias Sagmeister, Thomas Dashuber // SOURCES: Global Sustainable Investment Alliance

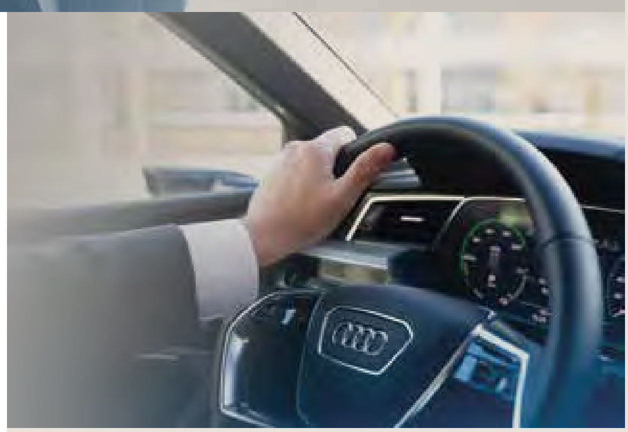
How can the automotive industry get back into the fast lane? Innovative and agile companies know when the time is right, activate the turn signal and accelerate boldly.

Together with Reto Ringger, a value-driven asset manager and CEO of Globalance Bank, Audi CEO Bram Schot looks at how companies can speed up processes and make decisions more quickly – and why the capital markets reward this decisiveness.

At the moment, the capital market has a skeptical attitude toward established car manufacturers. New players, such as Tesla, inspire imagination. Why is this?

Schot Without Tesla, we wouldn't have made as much progress in the area of electric mobility as we have. I have a lot of respect for what Tesla has achieved. With almost two million cars a year, however, Audi exists on a different scale and has a different business model. We have an ambitious Roadmap E, which begins with the Audi e-tron. It is the game changer in the area of electric mobility. Cutting-edge technology in an impressive design – it's simply irresistible.

Ringger I can't wait. To see the car and find out the extent to which Audi's long-term success is linked to the success of the e-tron.



Bram Schot (right) and Reto Ringger in conversation about value-oriented corporate management and about what status electric mobility will have for the future of the automotive industry.

S With the e-tron and the e-tron Sportback, which will also appear in 2019, we are opening the door to a new era. It's not just about how many market shares electric vehicles have tomorrow or the day after. Conventionally powered cars still make up the basis for our success. This will change gradually – depending on how our customers take to electric mobility. However, what's also clear is that it's not just the means of propulsion that is changing. In the past, the focus was on the car as a product and everything else was grouped around it. Today people are creating environments for themselves in which the car, although still important, plays an integrated role. This is new.

R This calls upon car manufacturers to question their own self-image. Building great cars is no longer enough. Car manufacturers need to completely reinvent themselves as providers of mobility. When I see which companies are truly dynamic, innovative and successful, then it's usually those that are still managed by their founders. Just look at Amazon, Facebook, Google and Alibaba. Apple was like that, too. These entrepreneurially managed companies change the rules of the game. In comparison, companies run by managers seem like plodding giants. How do you avoid this sluggishness at Audi?

S It is indeed a huge challenge to keep up with this speed. Technology alone is no longer our USP. In this volatile world, the right people and culture are crucial. They allow us to change a lot more than before – the difference between what is conceivable and what is achievable was never as small as it is today. Our imagination is the only limit.

R Exactly. The challenge for a CEO is to attract employees with these abilities. Out-of-the-box skills – in other words, the ability to think creatively and unconventionally without limits – are becoming more and more important. As an entrepreneur and also as an investor, I notice again and again that the importance of culture exceeds the importance of strategy many times over. The well-known consultant Peter Drucker once said in this regard: “Culture eats strategy for breakfast.”

S That is why I asked my team for their feedback when I became the new CEO. In the process, we came up with lots of ideas that move our company forward. Every manager has a role to play in order to make this a success. They have to be role models, be present, evaluate, coach and build up confidence within the team. Honesty and trust must be the basis for this. But not everyone must do everything perfectly. For me, the courage to experiment and make unpopular decisions is more important.

R Because risk-taking is not the most marked characteristic of large companies?

S Right. The car industry is not sufficiently willing to take risks and is too complex. We must reduce complexity while speeding up innovations, either in-house or with partners. I am convinced that excessively rigid planning stifles new ideas. Robust, innovative and above all agile companies will be particularly successful when it comes to making the necessary change. The skills and motivation of employees are the differentiating factor.

Reto Ringger tests
the new Audi e-tron.

How do you ensure the support of Audi employees?

S It's not about changing employees, it's about inspiring them. Plan, plan, plan must become play, play, play. A shared mindset is the most important thing. We need to revive the Audi spirit. In order to do this, we need a more flexible organization. Success depends on speed. And speed requires simple processes. Simple and clear processes come from confident people. We need more collective intelligence and less hierarchy. This is what we Dutch are good at: flat hierarchies, being approachable, experimenting ...

And everything under the watchful eye of investors on the capital markets. Are you annoyed by their current lack of confidence as regards the future of car manufacturers?

S No, the capital market rewards a firm future outlook, especially if company development is consistently geared to it. This creates trust. We are currently working to achieve this clear picture and are consistently aligning Audi with this through our strategy as well as our measures for strengthening the brand. I do not want aggressive volume policies. I would rather sell fewer cars but earn more money with exactly those products that inspire customers. In the run-up to the Annual General Meeting in May, we have defined the action areas, indicators and corresponding goals which we will use to measure our progress in the years ahead.

R For 25 years, I have looked at how sustainability is rewarded or penalized by stock markets. The word “sustainability” has unfortunately become just another empty cliché. I prefer the term “future viability.” And the stock market tells us where the future is happening. Stocks are bought because investors think that companies can tackle the new business, social and ecological challenges and quickly adapt their business model. The automotive industry is facing major challenges in this regard, and car manufacturers have to have three responses to them. First: Yes, we have understood. Second: Yes, we can implement that quickly and competently. That is why we – third – will be one of the winners as a result of the change. In the end, it is not words that count, but actions. Then future viability that is demonstrated through action will also be rewarded by the stock market.

S Audi is therefore on the right track. After all, we have understood, we are implementing and we are using the change that is taking place in our industry as an opportunity for our company. It is not just a matter of innovations – it is also about focusing. We will consistently align our business with what customers want. And we need to become more feminine, younger and more international. After all, a large part of our growth will continue to come from China. We need to optimize costs and sharpen the brand. Because Audi is a strong brand. And I am convinced that we will make Audi the benchmark again.

The Audi e-tron marks the start of a new era – Audi CEO Bram Schot is convinced of it.

The Audi e-tron electrifies: Reto Ringger and Bram Schot after the test drive.

Further information is available at:

audi.com/talking-business/CEO

Water: saved

Audi México treats all its waste water before feeding it back into the San José Chiapa plant's water system. After being treated, the hygienically clean water is reused in production – or to water green areas, for example. The next step is an even greater saving in groundwater consumption.

In the loop: Audi promotes the circular economy

Sustainability is the foundation of economic activity. Audi is therefore working continually to reduce its ecological footprint, for example through the responsible handling of resources. The vision is a closed circular economy: reduce, reuse, recycle.

REDUCE

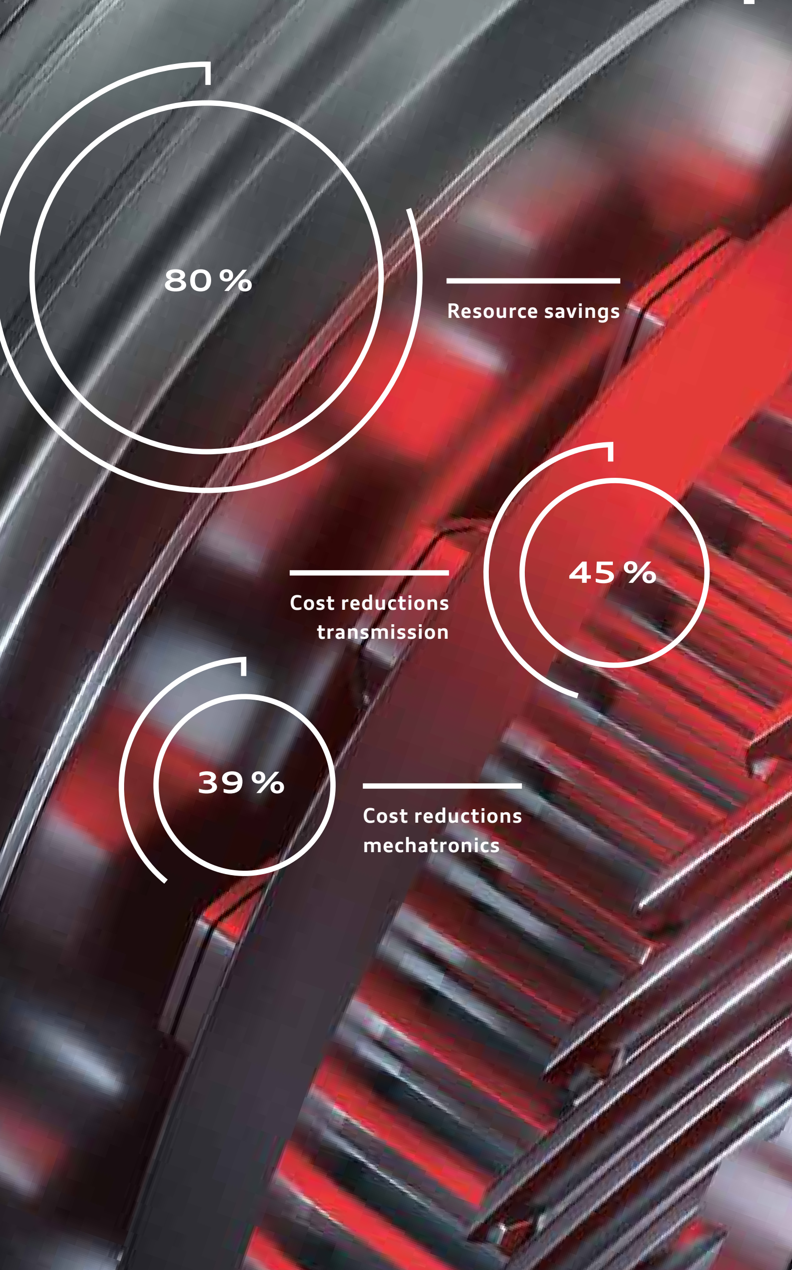
>> ANNUAL REDUCTION IN GROUNDWATER USE AT THE SAN JOSÉ CHIAPA PLANT IN MEXICO

TEXT: AUDI AG // ILLUSTRATIONS: Vinzent Britz

In order to achieve the ambitious goal of a circular economy, Audi thinks holistically – and this starts in production. The vision is to manufacture vehicles at all Audi sites without producing any waste water at all. The San José Chiapa site in Mexico serves as a model. Reuse is another part of the circular economy: Remanufacturing is the industrial overhaul of used parts to produce parts of original quality. This process and the sale of these parts through our spare parts business generates significant added value. And not just environmentally, but also economically, since it saves money. The program for remanufacturing these parts uses digital diagnostic methods to detect, analyze and correct mechatronic anomalies. The program is currently being tested on transmissions and will be extended to other spare parts in the future.

REUSE

>> SAVING RESOURCES AND REDUCING COSTS WITH REMANUFACTURING



Transmission: remanufactured
Do electronics in modern devices make repairs impossible? On the contrary: Digital diagnostic methods can be used to detect, analyze and solve mechatronic problems. Repairing instead of scrapping.

Batteries: recycled

Valuable raw materials such as lithium and cobalt are needed for electric car batteries, and battery manufacturing is very energy-intensive. Audi will thus focus even more in the future on sustainability along the supply chain and has also joined forces, for instance, with the Global Battery Alliance. The initiative is concerned with sustainable recycling concepts in the sense of a circular economy as well as innovations that promote the sustainability of the battery.

By 2025, one in every three Audi vehicles sold will be electric. The demand for batteries will therefore increase in the future. Audi is taking steps to make the life cycle of these batteries as sustainable as possible and has been an active member of the Global Battery Alliance since 2017. The alliance focuses both on the protection of human rights and social standards when extracting raw materials as well as on the creation of solutions for reusing lithium-ion batteries. Audi also enters into research cooperations, for example with the recycling group Umicore, in order to develop a loop for parts of high-voltage batteries that could in this way be reused again and again.

RECYCLE

>> TARGET RECYCLING QUOTA FOR COBALT, NICKEL AND COPPER IN COOPERATION WITH THE UMICORE RECYCLING GROUP

Audi also uses aluminum for its battery housings. This light metal is obtained from bauxite in a process that is very energy-intensive. In order to save resources and energy, Audi has launched the Aluminium Closed Loop project, in which offcuts are returned to suppliers and recycled. In 2018 alone, some 70,000 metric tons of CO_2-equivalent emissions were saved this way. Audi is the first car manufacturer to be awarded the Aluminium Stewardship Initiative (ASI) sustainability certificate for the sustainable production of battery housings. These are just a few areas where Audi is focusing on sustainability in order to close material loops as part of a circular economy. And they show that it is possible.

Further information on sustainability aspects in the Management Report starting on page 128.

Audi on the way to the circular economy

- At Audi, sustainability means future viability and is the foundation of all economic activities. The company supports the United Nations' Sustainable Development Goals (SDGs).

- Audi is a member of various initiatives, associations and working groups, for example the Global Battery Alliance and the Aluminium Stewardship Initiative (ASI), working with stakeholders to address ecological, economic and social issues.

- The company considers a car's entire product life cycle, not just its emissions during use. By the end of 2025, Audi wants to reduce the environmental impact of Group sites by 35 percent per car produced compared with the reference year 2010. One long-term goal is the closed circular economy.

- The Audi vision is to produce vehicles at all sites with no CO_2 emissions or waste water whatsoever. The Brussels (CO_2-neutral) and San José Chiapa (no waste water) plants have already achieved this goal.

Meeting place: Data:Lab in Munich, the digital forge of the Volkswagen Group.

Next? IT!

TEXT: Michael Prellberg // PHOTOS: Julian Baumann

From enabler in the background to strategy-driver: Audi CIO Frank Loydl discusses the new role of IT with Sabine Bendiek, Managing Director of Microsoft Germany.

Microsoft is one of the world's most valuable companies. Five years ago, that seemed unimaginable. What does it take for investors to support this successful transformation?

B**endiek** A lot of patience and trust. We were transparent about the goals we want to achieve – and showed that we are achieving them. This generates positive momentum, also in terms of the willingness to invest. Microsoft views information technology as a fundamental facilitator of new forms of collaboration in which people interact with machines intuitively. Digital transformation means that IT is present in every product and in nearly every situation in life, in one form or another.

Frank Loydl, does the transformation at Audi also require perseverance?

L**oydl** Yes. However, IT and digitalization are Microsoft's core business. At Audi, the core business is mobility, and that is strongly tied to hardware. In general, IT is the key driving force behind the company's transformation. In strategic terms, we view things from three perspectives: Part one is the car as a product and the product-related IT. Part two involves connect services and new digital business models. Part three affects the existing company IT. We can't lump everything together. The main change involves leaving behind the silos of individual business divisions like "IT for Development" or "IT for Production" and intelligently orienting ourselves toward specific fields of technology. Since we're not starting from scratch, we launched the transformation project NEXT:IT to migrate Audi IT from the existing structure to this new one.

B Making the interfaces between divisions more flexible is the right approach. That's the only way that agile cooperation is possible. It is also important to understand the requirements of the divisions at such interfaces and let the employees actively help shape things so that IT can really provide the support needed.

L And that puts us right in the middle of the transformation. It's important to us to gain the support of as many participants as possible – not as spectators, but as players. This is certainly a challenge in the automotive world, which is still strongly rooted in industrial hierarchal structures.

B Transformation needs technology as a means to an end. But people remain at the center of it. So it's also the managers' job to bring together many of the demands on IT. We're asking: How do you deal with people? How do you succeed in approaching entire teams and gaining their support?

Sabine Bendiek
has been Managing Director of Microsoft Germany since 2016. Bendiek, who graduated from MIT (Massachusetts Institute of Technology), entered the IT industry after various stations as a business consultant. Before joining Microsoft, she was a manager at Dell and Managing Director of EMC Deutschland.

Frank Loydl
joined the IT industry after graduating in computer engineering. In 2013, he joined Volkswagen, where he took over IT management of the Group and was responsible for software development. Loydl has been CIO of Audi since February 2018.

L Exactly. I think a shared system of values is needed for the transformation, one that everyone in the company can refer to – such as respect, courage and openness. This reduces conflicts of goals because people can connect quickly at the values level. Under these conditions, we can introduce agile ways of working into the organization sustainably while simultaneously strengthening the individual skills of individual employees. Nonetheless, I don't think 100 percent agility makes sense. Instead, we want to use "hybrid agile" work models, in other words models that are flexible and dependent on the specific task. For me, barrier-free and value-oriented cooperation is the most important key to success.

How crucial are digital tools to the unfolding of these opportunities?

B They can play an important role. Collaboration platforms help change the ways we work and help us develop continually. That takes a combined process: I have a new technology, I change my managers' way of thinking and I motivate a broad range of employees to live this new world of communication.

In this new world, people increasingly work on a cross-company basis. Sometimes you're a customer, sometimes a partner. How does that work between Audi and Microsoft?

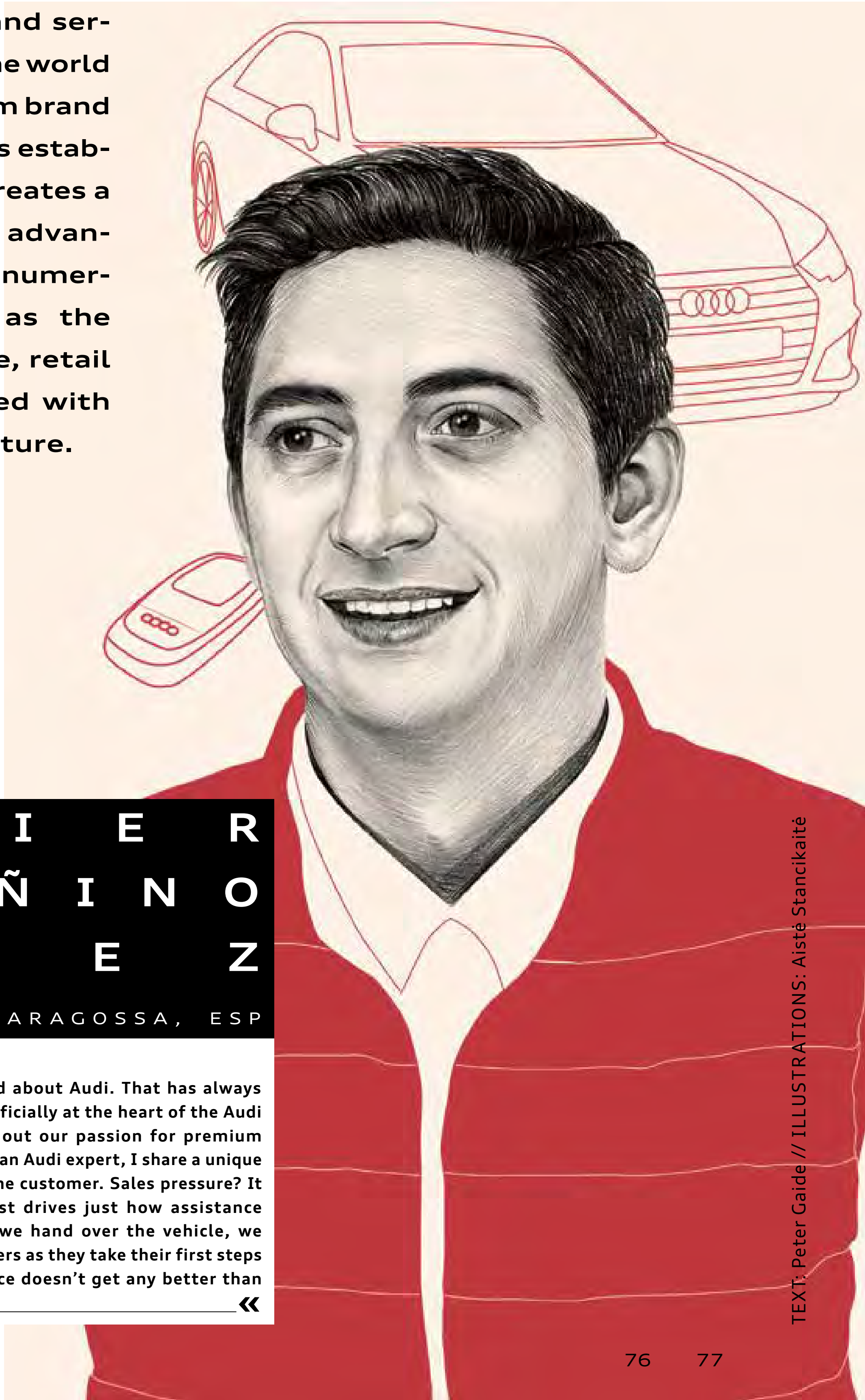
L We are working intensively Group-wide with external partners such as Microsoft, for instance in cloud development. And we are in the process of adding Office 365 and therefore new tools for collaboration to complement our proven cooperation tools. We intensively share experiences about how we can achieve maximum benefits from these IT solutions – across divisions and national borders. Co-innovation will increase speed, quality and also efficiency at Audi. Depending on the topic, we will strengthen value creation in-house or develop digital products or platforms together with partners such as Microsoft in order to offer our customers added value.

Audi on the way to NEXT:IT

- The strategic role of Audi IT as the primary driver of the digital transformation throughout the company focuses on three areas: first, on the car as a product and product-related IT; second, on new digital products and services and third, on company IT that manages processes in the background.
- The goal of the transformation project NEXT:IT is to establish more agile processes and to reposition IT at Audi – according to technologies, not divisions. In addition, different work models are to be adapted so that they optimally match the individual task. The catchphrase is "hybrid agile."
- Audi is counting on connected platforms throughout the Volkswagen Group. Topics such as the connected car are mapped throughout the Volkswagen Group to achieve maximum synergies.
- Moreover, Audi is increasingly entering into cooperation with other companies. This enables development work that is faster and more effective.

Retail in transformation? Retailers in transformation!

Around 5,000 retail and service partners around the world make the Audi premium brand a living experience. This established sales network creates a strategic competitive advantage. With the help of numerous initiatives such as the Audi Retail Experience, retail and service are aligned with the mobility of the future.



Audi Expert

JAVIER CEGOÑINO LÓPEZ

AUDI EXPERT /// SARAGOSSA, ESP

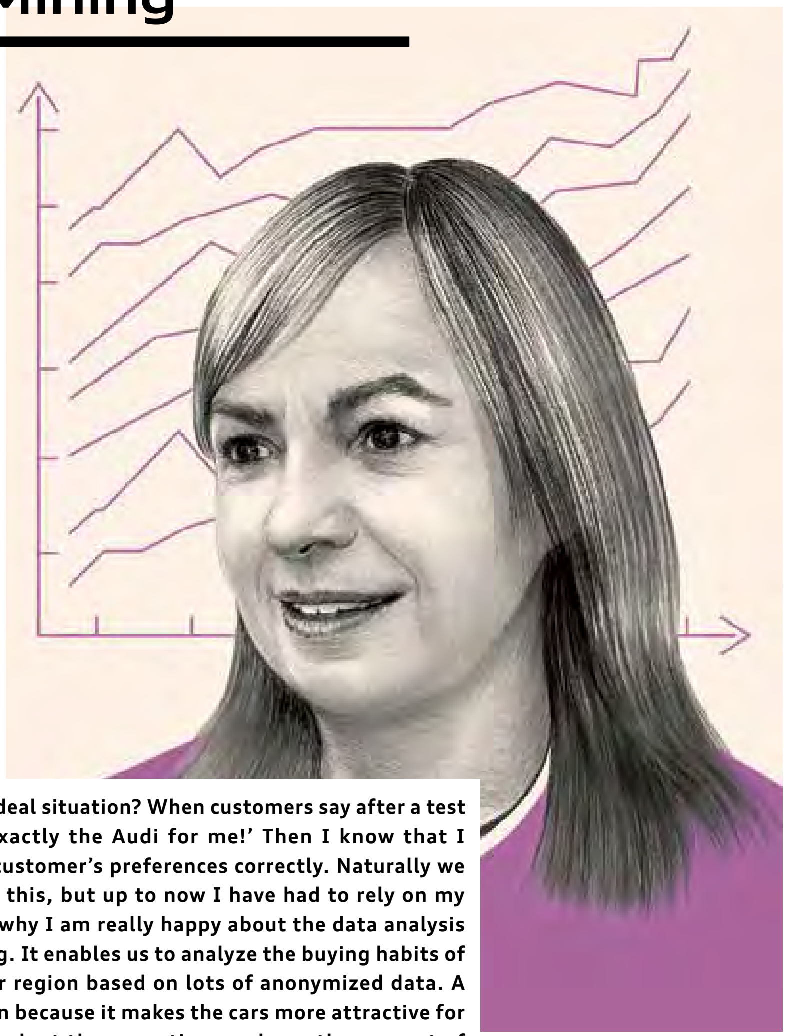
» We get customers excited about Audi. That has always been our favorite job, but now it is officially at the heart of the Audi Retail Experience. This lets us live out our passion for premium automotive technology to the full. As an Audi expert, I share a unique product and brand experience with the customer. Sales pressure? It drops. We can show live during test drives just how assistance systems support the driver. When we hand over the vehicle, we explain how it works and join customers as they take their first steps into the digital world of Audi. Service doesn't get any better than this. I'm proud of that. «

TEXT: Peter Gaide // ILLUSTRATIONS: Aistė Stancikaitė

"The stronger the bond with the customer, the more Audi profits, too," says Horst Hanschur, Head of Sales Strategy/Retail Business Development. This is why Audi counts on a network of dealers and importers who are as much at home in the automotive future as the Group itself. Digitalization, electric mobility and mobility services are the three action areas that will shape the field of sales more strongly in the future.

New dealer contracts reflect this change and include activity-based pay in addition to the basic salary alone. This is about more than just car sales: It is about playing an active part in customers' mobile, increasingly digital lifestyles when it comes to their cars. In this way, Audi is laying the foundation for its dealers' future profitability. For example, with ProfitMining – a tool with which data and therefore customer needs can be analyzed. To achieve its financial goals, Audi worked with importers and dealers to develop the Audi Retail Experience concept. It includes a flexible, customer-focused retail journey that seamlessly connects the online and offline worlds.

ProfitMining



» The ideal situation? When customers say after a test drive: 'This is exactly the Audi for me!' Then I know that I understood my customer's preferences correctly. Naturally we always try to do this, but up to now I have had to rely on my feelings. This is why I am really happy about the data analysis tool ProfitMining. It enables us to analyze the buying habits of customers in our region based on lots of anonymized data. A win-win situation because it makes the cars more attractive for our customers and, at the same time, reduces the amount of time they stand at our dealerships and therefore also the capital tied up. Since October 2018, I have been one of nine Spanish dealers who are testing ProfitMining. I have already noticed: It's worth it! «

CONXI LÓPEZ PEDROSA

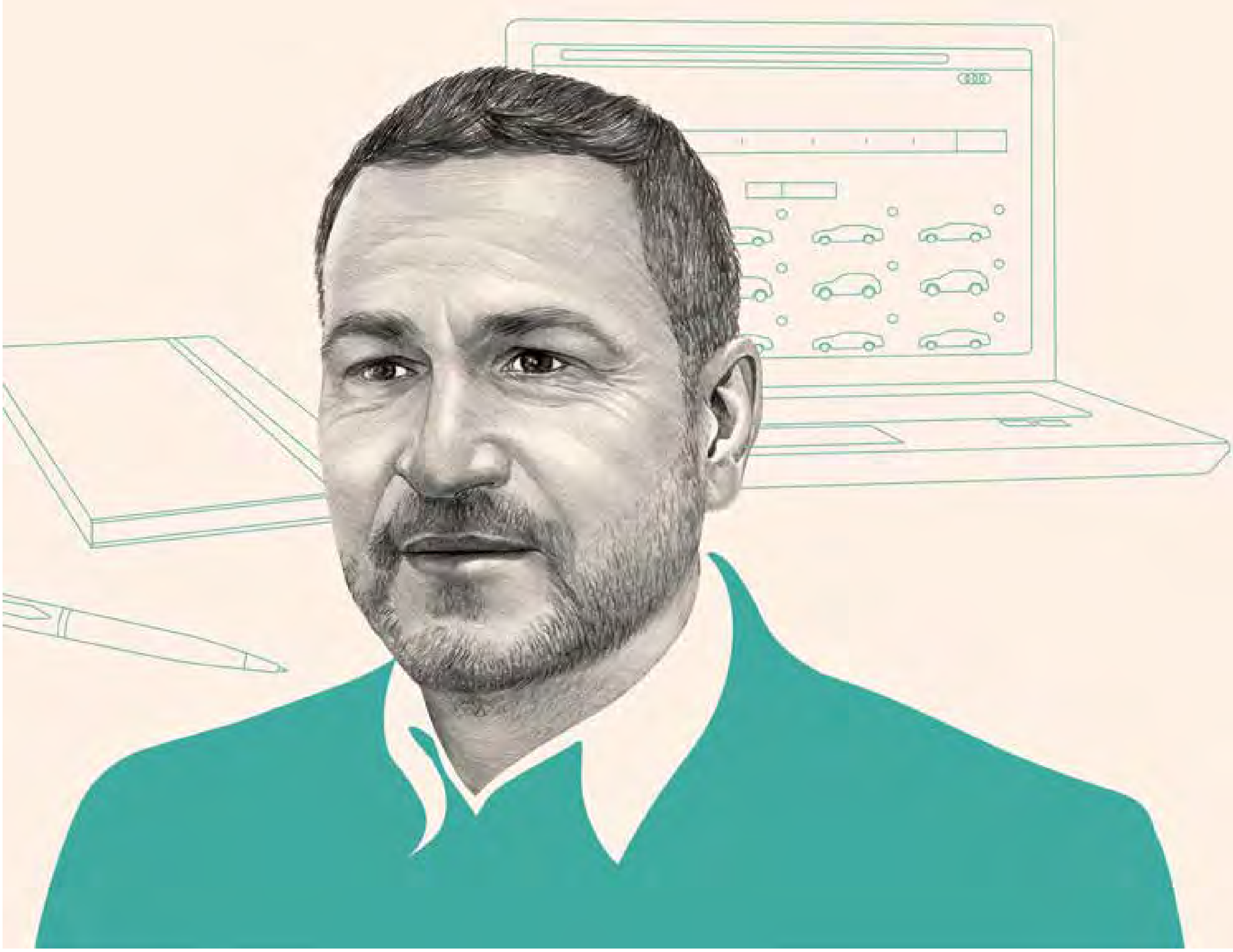
COMMERCIAL DIRECTOR /// BARCELONA, ESP

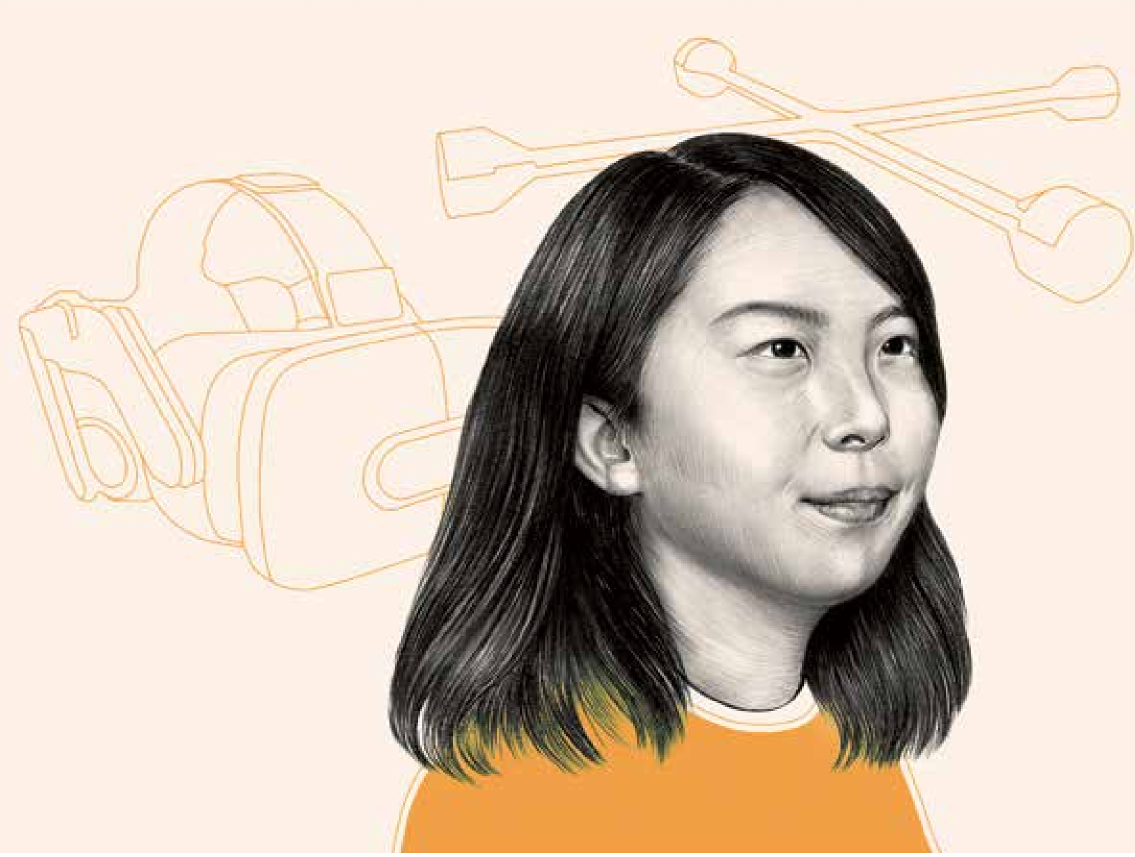
E-commerce

GENERAL SALES MANAGER USED CARS ///
AUDI ZENTRUM FRANKFURT, DEU

CARSTEN RICHTER

» The Audi Zentrum Frankfurt was one of the first in a group that now consists of more than 100 contract partners in Germany, where customers can buy and finance cars from Audi Approved *:plus*. Online, around the clock. Although the traditional customer still wants to see the car and take it for a test drive before buying it, the Internet is becoming increasingly more important as a sales channel. Our Audi Zentrum was involved in the development of the e-commerce project from the very beginning, because we dealers are very familiar with our customers' wishes. Many of them want fast handling and delivery. In the future, the used-car market will become even more attractive through functions on demand, because customers can have the desired functions activated later on. That is a further bonus for customers – and for us as contract partners. «





Training

» Our dealers in China really know their way around internal combustion engines. Electric motors are new in the Audi range. That is why customers also approach the dealers with lots of questions – and dealers must be able to provide the right answers. It is my job to train them for this task. This training program is largely digital: In technical training, Audi has a series of effective digital learning formats that dealers can access flexibly and regardless of location via a cloud-based platform. The spectrum ranges from web-based training and self-study programs to Audi Service TV clips and, in the future, augmented reality training on tablets. Most recently, I can also prepare dealers for electric mobility in live training sessions using virtual reality headsets. I call that 'Vorsprung'! «

YA WEN

TECHNICAL TRAINER FAW-VW ///
CHANGCHUN, CHN

At its core is the desire to create a special brand experience that the customer will have only at Audi. The key principle: Customers can tailor their individual advice and purchase experience to their priorities and receive the best offer for their individual circumstances. Dealerships are increasingly becoming places where customers can discover all technological and emotional aspects of the Audi brand individually. The dealer is the central touchpoint with the customer in the physical world and the person who provides comprehensive information as well as an exciting product and brand experience. Naturally, the same service standard and brand identity are offered to Audi customers across all countries and continents.

Audi on demand

» Our business model has progressed from that of a traditional Audi dealer to that of a wider provider of comprehensive mobility services. That's due to Audi on demand. Customers can choose from a range of high-profile models allowing a short-term experience of the Audi brand. This flexible mobility solution can be booked online or via smartphone, allowing the user to experience a digital all-inclusive offer. The booking period is between one hour and 28 days, giving choice and flexibility. What brings me to offer Audi on demand? It allows me to better utilize my own fleet and to leverage customer bookings efficiently and profitably through this flexible mobility alternative. The future uses of this solution are extensive and will see us better adopt a one-fleet approach within the business. «

CAMERON WADE

FRANCHISE DIRECTOR /// LOOKERS AUDI, GLASGOW, GBR

New roles complement established job profiles. Audi is training its sales partners to act as hubs for digitally based mobility services such as Audi on demand. This premium mobility service can be tailored to local customer needs. In London, for example, Audi partners serve as a first stop, while in Hong Kong the service is available in private residential complexes, Audi showrooms and an exclusive shopping mall. The company is continuing to expand Audi on demand worldwide. The more active a retail partner is in such consulting and sales processes, the higher the partner's compensation will be in the future. "This is the only way we can create a seamless customer journey from which customers, Audi and dealers will profit," the sales strategist Hanschur says.

T

Talking Business – Key Facts

Retail as a competitive advantage

- Through its global network of around 5,000 retail and service outlets, Audi enjoys a strategic competitive advantage and offers a place where customers can physically experience new technologies and mobility services. The focus is on market penetration, and this is a key part of the Audi Transformation Plan.
- The role of Audi dealers is changing and shifting increasingly toward the action areas of digitalization, electric mobility and mobility services. New contracts with dealers reflect this transformation.
- In the digital era, customers demand seamless, individual care at all times and via all sales and communication channels. This is exactly what the Audi Retail Experience provides. It is a win-win situation: maximum convenience for customers and attractive business potential for Audi and the sales network.

B

Audi Group Key Figures

		2018	2017[1]	Change in %
Production				
Automotive segment	Cars[2]	1,871,386	1,879,840	–0.4
	Engines	1,955,532	1,966,434	–0.6
Motorcycles segment	Motorcycles	53,320	56,743	–6.0
Deliveries to customers				
Automotive segment	Cars	2,081,418	2,105,084	–1.1
Audi brand[3]	Cars	1,812,485	1,878,105	–3.5
Lamborghini brand	Cars	5,750	3,815	50.7
Other Volkswagen Group brands	Cars	263,183	223,164	17.9
Motorcycles segment	Motorcycles	53,004	55,871	–5.1
Ducati brand	Motorcycles	53,004	55,871	–5.1
Workforce	Average	91,477	90,402	1.2
Revenue	EUR million	59,248	59,789	–0.9
Operating profit before special items	EUR million	4,705	5,058	–7.0
Operating profit	EUR million	3,529	4,671	–24.4
Profit before tax	EUR million	4,361	4,717	–7.5
Profit after tax	EUR million	3,463	3,432	0.9
Operating return on sales before special items	Percent	7.9	8.5	
Operating return on sales	Percent	6.0	7.8	
Return on sales before tax	Percent	7.4	7.9	
Return on investment (ROI)	Percent	10.0	14.4	
Ratio of capex[4]	Percent	5.9	6.5	
Research and development ratio	Percent	7.1	6.4	
Cash flow from operating activities	EUR million	7,013	6,173	13.6
Net cash flow[5]	EUR million	2,141	4,312	–50.4
Balance sheet total (Dec. 31)	EUR million	65,598	63,680	3.0
Equity ratio (Dec. 31)	Percent	45.3	44.2	

1) Some of the prior-year financial key figures have been adjusted to reflect the first-time adoption of IFRS 9 and IFRS 15 (see also the comments regarding IFRS 9 and IFRS 15 in the Notes to the Consolidated Financial Statements).
2) Including vehicles built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China)
3) Including delivered vehicles built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China)
4) Investments in property, plant and equipment, investment property and other intangible assets (without capitalized development costs) according to the Cash Flow Statement in relation to revenue
5) Taking into account the transfer of the minority interest in Volkswagen International Belgium S.A., Brussels (Belgium), to Volkswagen AG, Wolfsburg, in 2017

089 Finances

INFORMATION
All figures are rounded off, which may lead to minor deviations when added up. The figures in brackets refer to the figures for the previous year. Internet sources refer to the status as of February 20, 2019. The Management Report contains forward-looking statements relating to anticipated developments. These statements are based upon current assessments and are by their very nature subject to risks and uncertainties. Actual outcomes may differ from those predicted in these statements.

Dr.-Ing. Herbert Diess
Chairman of the Supervisory Board

Dear Shareholders,

2018 was a year of major challenges and new departures for the Audi Group. In the second half of the year in particular, the switch to the new WLTP test cycle resulted in a restricted sales range. On top of this was the political debate about banning the use of diesel vehicles, along with a downturn in important passenger car markets. Financial burdens arose from a fine imposed under the administrative order by the Munich II public prosecutors in connection with the diesel crisis. When Chairman of the Board of Management Rupert Stadler was accused and taken into custody on June 18, 2018, this came as a shock to the entire Audi and Volkswagen family.

The active commitment of everyone at Audi was especially important in 2018. The Supervisory Board would particularly like to thank all employees of the Audi Group for this. I am convinced of the potential of the brand with the Four Rings. With its capabilities and spirit, the Audi team will rise to the forthcoming challenges. Every effort must be made to achieve this.

The Supervisory Board is supporting the Board of Management with the repositioning of Audi. It is careful to ensure that the lessons learned in the past are firmly anchored in the corporate culture and strategy. The new Chairman and his management team will define and substantiate the action areas, goals and approach in the corporate strategy in time for the Audi 2019 Annual General Meeting.

The Supervisory Board was newly elected in 2018.

The Supervisory Board was newly constituted last year. With effect from the close of the Annual General Meeting on May 9, 2018, Senator h. c. Helmut Aurenz, Berthold Huber and Max Wäcker left the Supervisory Board. The Supervisory Board and Board of Management have always appreciated their constructive advice and critical questions. The Supervisory Board would like to express its deep gratitude to these former members in acknowledgment of the work they performed.

At its constituent meeting on May 9, 2018, the Supervisory Board elected me as its Chairman and Peter Mosch as Vice Chairman. The Negotiating Committee, the Presiding Committee, the Audit Committee and the “Diesel” Committee were also elected. The Presiding Committee as well as all other committees were also constituted and commenced work.

The Board of Management gave regular, up-to-date, comprehensive accounts of its actions to the Supervisory Board. The Supervisory Board considered the economic framework and the Company’s business development and policy as well as its risk management and risk situation at ordinary meetings of the Supervisory Board convened each quarter, as well as on the basis of regular oral and written reports from the Board of Management, and consulted with the Board of Management closely on these matters.

At its four ordinary meetings in 2018, the Supervisory Board also considered at length the opportunities and risks for Audi in key markets, in particular China, the United States and European markets. In that connection it explored subject areas such as how to assure a sustainable return and the WLTP test cycle. The Supervisory Board also held discussions with the Board of Management on progress with the digitalization and electrification of vehicles. It approved a new remuneration system for the members of the Board of Management and, together with the Board of Management, routinely determined the content of the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG).

In agreeing to the plans for human resources, financial and investment planning, the Supervisory Board once again confirmed the Board of Management's strategic decisions.

The diesel issue, in particular concerning the V6 3.0 TDI engine, as well as human resources decisions in addition accounted for a significant portion of the Supervisory Board's work in the year under review. The Supervisory Board was kept constantly informed of the diesel issue by the Board of Management in the past fiscal year, both in writing and orally. In this connection the Supervisory Board held six extraordinary meetings in the past fiscal year. In addition to its four ordinary meetings, the Presiding Committee of the Supervisory Board held five extraordinary meetings in 2018.

All Supervisory Board members were present at more than half of the meetings. The average attendance rate in the past fiscal year was 94.1 percent. The Negotiating Committee did not need to be convened in 2018.

The “Diesel” Committee oversees and supports the Board of Management in its investigation and reappraisal of events related to diesel issues. It also prepares the Supervisory Board's consultations and resolutions on diesel issues.

The “Diesel” Committee came together for four meetings in the 2018 fiscal year.

The Audit Committee met once per quarter in the past fiscal year and devoted its attention mainly to risk management as well as compliance and auditing work. In addition, the Audit Committee concerned itself with the 2018 Interim Financial Report prior to its publication and the preparatory work for the 2018 Annual Financial Statements. It also advised on the independence of the auditor, the findings of additional audits commissioned and the situation of the Company at the end of 2018. It passed the necessary resolutions for putting the auditing of the Annual Financial Statements out to tender.

“I am convinced of the potential of the brand with the Four Rings. With its capabilities and spirit, the Audi team will rise to the forthcoming challenges.”

Upon the proposal of the Supervisory Board, the Annual General Meeting of AUDI AG appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as auditor of the accounts for the 2018 fiscal year. The auditor of the accounts confirmed the Annual Financial Statements of AUDI AG, the Consolidated Financial Statements of the Audi Group as well as the Combined Management Report of the Audi Group and AUDI AG for the 2018 fiscal year, and in each case issued its unqualified certification with an additional note.

The auditing firm’s representatives explained the key findings of their audit in detail at the meetings of the Audit Committee and Supervisory Board. According to information supplied by the auditing firm, there were no circumstances that might give cause for concern about the auditor’s partiality.

Following examination of the audit documents received and based on its own conclusions, the Audit Committee recommended to the Supervisory Board at the meeting on February 21, 2019, that the Annual and Consolidated Financial Statements each be signed off. The Supervisory Board accepted this recommendation and signed off the Annual and Consolidated Financial Statements prepared by the Board of Management. The Annual Financial Statements are thus established.

There have been no changes in the composition of the Supervisory Board since the close of the last Annual General Meeting on May 9, 2018.

There have been the following changes in the composition of the Company's Board of Management since the close of the last Annual General Meeting on May 9, 2018:

With effect from June 19, 2018, Abraham Schot assumed responsibility for the function of Chairman of the Board of Management of AUDI AG for an interim period, alongside his responsibility for the "Marketing and Sales" division. Previously the Supervisory Board had temporarily released Rupert Stadler from his office as "Chairman of the Board of Management" and member of the Board of Management of AUDI AG.

Rupert Stadler left the Board of Management of AUDI AG from the close of October 2, 2018.

Hans-Joachim Rothenpieler assumed responsibility for the "Technical Development" division with effect from November 1, 2018, succeeding Dr. Peter Mertens, who had left the Company's Board of Management at the close of October 31, 2018.

With effect from January 1, 2019, the Supervisory Board appointed Abraham Schot as the Company's Chairman of the Board of Management. In addition, the Supervisory Board appointed Hildegard Wortmann as member of the Board of Management with responsibility for the "Marketing and Sales" division. Hildegard Wortmann will take up office on July 1, 2019. Until then, Abraham Schot will be in charge of the division temporarily.

The Board of Management has suitably taken account of the economic environment and also of future challenges when making its plans. It will proceed systematically with the transformation of Audi together with the entire workforce. The Supervisory Board will continue to support the Board of Management actively and constructively on this journey in the future.

Ingolstadt, February 21, 2019

Sincerely H. Diess

Dr.-Ing. Herbert Diess
Chairman of the Supervisory Board of AUDI AG

089 Combined Management Report

of the Audi Group and AUDI AG for the fiscal year from January 1 to Dezember 31, 2018

SEPARATE NON-FINANCIAL REPORT
AUDI AG uses the option pursuant to Section 289b, Para. 2 of the German Commercial Code (HGB) and pursuant to Section 315b, Para. 2 of the German Commercial Code (HGB) to be exempted from submitting the non-financial declaration and the non-financial Group declaration, and refers to the combined separate non-financial report of Volkswagen AG for the 2018 fiscal year, which will be made available on the Internet in German at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2018/Nichtfinanzieller_Bericht_2018_d.pdf and in English at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2018/Nonfinancial_Report_2018_e.pdf by no later than April 30, 2019.

BASIS OF THE AUDI GROUP

The Audi Group, comprising the Audi, Lamborghini and Ducati brands, is among the best-known manufacturers of premium automobiles, supercars, Super SUVs and sporty motorcycles. With our strategy, we want to develop into a worldwide provider of sustainable, individual premium mobility.

STRUCTURE

/ *COMPANY*

The parent company of the Audi Group is AUDI AG.
In addition to AUDI AG, the Audi Group comprises all material companies or entities over which AUDI AG exercises direct or indirect influence. The Audi Group is a decentralized organization, with the individual subsidiaries conducting their business activities independently. Group management and governance are ensured through guidelines, channels of reporting and committees.
Our business activities mainly comprise the development, production and sale of cars, along with the task of managing the Audi Group. The Management Reports of the Audi Group and AUDI AG are combined in this report.

/ *CONSOLIDATED COMPANIES*

The group of consolidated companies has been extended since December 31, 2017, to include Audi Immobilienverwaltung GmbH, Ingolstadt, and Audi Real Estate GmbH, Ingolstadt. The first-time consolidation of these companies resulted in material impacts on the non-current assets of the Audi Group. In addition, in June 2018, the Audi Group acquired a one percent participation in SAIC Volkswagen Automotive Company, Ltd., Shanghai (China). The participation is reflected in the Consolidated Financial Statements using the equity method based on the rules of IAS 28.6.

*Read more online about the Group companies in the **statement of interests** pursuant to Sections 285 and 313 of the German Commercial Code (HGB) at **www.audi.com/subsidiaries.***

/ *BRANDS AND PRODUCT PORTFOLIO*

The Audi Group, comprising the Audi, Lamborghini and Ducati brands, is one of the best-known manufacturers of premium automobiles, supercars, Super SUVs and sporty motorcycles.

The Audi brand stands for “Vorsprung durch Technik.” For our customers, “Vorsprung” is to express sustainable, individual premium mobility and an extension of their personal freedom. The model portfolio of the Audi brand spans major automobile segments. Our customers can select whichever model in our product range meets their individual requirements, from the compact Audi A1 car line across the A3, A4 and A5 product families right up to the full-size car lines A6, A7 and A8. In addition, our TT car line emphasizes our brand’s sporty character. We also enjoy a broad presence in the SUV segment with the Audi Q2, Q3, Q5, Q7 and Audi Q8. Series production of the Audi e-tron SUV began in the 2018 fiscal year. As the first volume-built model with all-electric drive from the brand with the Four Rings, the Audi e-tron signals the start of our electrification initiative. We present our performance and high-performance models under the Audi Sport sub-brand. These include the S and RS models as well as the R8 car line, which is also the mainstay of our customer racing activities. A wide range of customization options available through the programs Audi exclusive and Audi Sport performance parts alongside high-quality lifestyle articles in the Audi collection completes our portfolio.
The exclusive high-performance models of the Lamborghini brand are renowned for their excellent driving dynamics, unmistakable design, consistent use of lightweight construction and high quality of materials and finish. The product portfolio of the Lamborghini brand comprises models of the Huracán and Aventador car lines, as well as their exclusive special models. The Urus was added to the product range in 2018. With the Urus, Lamborghini is tapping into the segment of the Super SUV, which combines off-road capability with the handling characteristics of a supercar. This third car line also strengthens volume development and brand awareness, while improving profitability.

With its motorcycles, the Ducati brand particularly embodies sportiness, modern design, lightweight construction and high-performance engines. The product portfolio comprises the models of the Scrambler series as well as the models that make up the Diavel, Hypermotard, Monster, Multistrada, Superbike and SuperSport series.

The introduction of the brand groups “Volume,” “Premium” and “Sport & Luxury” was among the measures resolved in spring 2018 as part of the extensive revision of the Volkswagen Group’s management structure. The new structure paves the way for streamlining Volkswagen Group management processes, strengthening the brands and extending their scope of responsibility. This allows for synergies within the Volkswagen Group to be harnessed more consistently and decisions to be made and implemented more rapidly. Under the new approach the Audi, Lamborghini and Ducati brands constitute the “Premium” brand group.

*Read more online about our **product portfolio** on our brand websites **www.audi.com**, **www.lamborghini.com** and **www.ducati.com.***

/ MAIN PRODUCTION SITES

The sites at which cars of the Audi and Lamborghini brands as well as motorcycles of the Ducati brand were manufactured in the 2018 reporting year are shown in the following diagram.

Brussels/Belgium
Audi Brussels S.A./N.V.
> A1
> A1 Sportback
> S1
> S1 Sportback
> e-tron [1)]
> e-tron Sportback [1)]

Ingolstadt/Germany
AUDI AG
> Q2
> SQ2
> A3 Sportback [2)]
> S3 Sportback
> RS 3 Sportback
> A4 Sedan
> A4 Avant
> A4 allroad quattro
> S4 Sedan
> S4 Avant
> RS 4 Avant
> A5 Coupé
> A5 Sportback
> S5 Coupé
> S5 Sportback
> RS 5 Coupé
> RS 5 Sportback

Bratislava/Slovakia
Volkswagen Slovakia, a.s.
> Q7 [2)]
> SQ7
> Q8

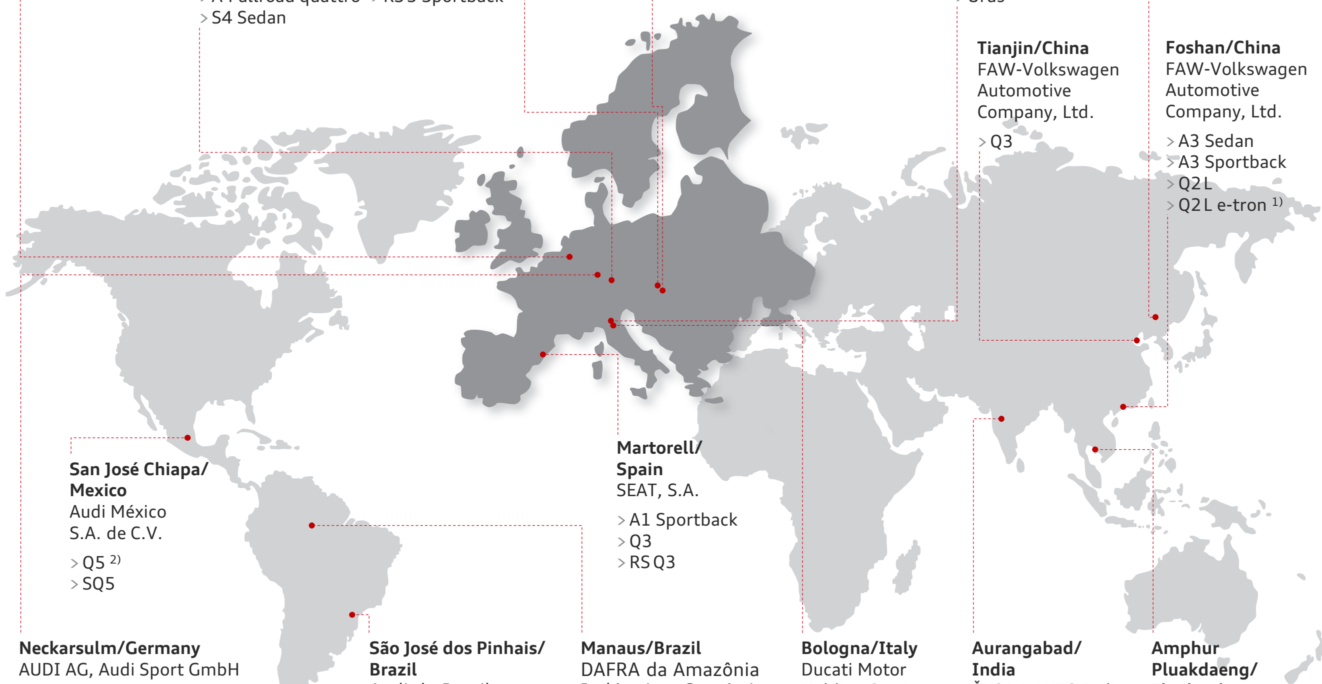
Győr/Hungary
Audi Hungaria Zrt.
> A3 Sedan
> A3 Cabriolet
> S3 Sedan
> S3 Cabriolet
> RS 3 Sedan
> TT Coupé
> TT Roadster
> TTS Coupé
> TTS Roadster
> TT RS Coupé
> TT RS Roadster
> Q3

Sant’Agata Bolognese/Italy
Automobili Lamborghini S.p.A.
> Huracán Coupé
> Huracán Spyder
> Aventador Coupé
> Aventador Roadster
> Urus

Changchun/China
FAW-Volkswagen Automotive Company, Ltd.
> Q3
> A4 L Sedan
> Q5
> Q5 L
> A6 L Sedan [2)]

Tianjin/China
FAW-Volkswagen Automotive Company, Ltd.
> Q3

Foshan/China
FAW-Volkswagen Automotive Company, Ltd.
> A3 Sedan
> A3 Sportback
> Q2 L
> Q2 L e-tron [1)]



San José Chiapa/Mexico
Audi México S.A. de C.V.
> Q5 [2)]
> SQ5

Martorell/Spain
SEAT, S.A.
> A1 Sportback
> Q3
> RS Q3

Neckarsulm/Germany
AUDI AG, Audi Sport GmbH
> A4 Sedan
> A5 Cabriolet
> S5 Cabriolet
> A6 Sedan
> A6 Avant
> A6 allroad quattro
> S6 Sedan
> S6 Avant
> RS 6 Avant
> A7 Sportback [2)]
> S7 Sportback
> RS 7 Sportback
> A8 [2)]
> A8 L [2)]
> S8
> S8 L
> R8 Coupé
> R8 Spyder

São José dos Pinhais/Brazil
Audi do Brasil Indústria e Comércio de Veiculos Ltda.
> A3 Sedan
> Q3

Manaus/Brazil
DAFRA da Amazônia Indústria e Comércio de Motocicletas Ltda.
> Scrambler
> Diavel
> Monster
> Multistrada
> Superbike
> SuperSport

Bologna/Italy
Ducati Motor Holding S.p.A.
> Scrambler
> Diavel
> Monster
> Hypermotard
> Multistrada
> Superbike
> SuperSport

Aurangabad/India
ŠKODA AUTO India Private Ltd.
> A3 Sedan
> Q3
> A4 Sedan
> Q5
> A6 Sedan
> Q7

Amphur Pluakdaeng/Thailand
Ducati Motor (Thailand) Co., Ltd.
> Scrambler
> Diavel
> Monster
> Hypermotard
> Multistrada
> Superbike
> SuperSport

[1)] fully electric vehicles [2)] also with plug-in hybrid drive

Neckarsulm is home to Audi Sport GmbH, a fully owned subsidiary of AUDI AG. As well as cars, Audi Hungaria Zrt., Győr (Hungary), builds engines for AUDI AG and other Volkswagen Group companies. In addition, vehicles are manufactured in Kaluga (Russia) and, since 2018, in Relizane (Algeria) for those respective markets at the partner companies OOO Volkswagen Group Rus and SOVAC Production S.p.A. The models are produced at the main plants and prepared for shipping. Final assembly then takes place locally at the plants in Kaluga and Relizane.

/ SALES STRUCTURES

The Audi Group sells vehicles of the Audi and Lamborghini brands as well as motorcycles of the Ducati brand internationally through its own sales companies and in partnership with local importers. Besides this, vehicles of the Bentley, SEAT, Škoda, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands are sold through our multi-brand sales companies Volkswagen Group Italia S.p.A., Verona (Italy), Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), Audi Singapore Pte. Ltd., Singapore (Singapore), and Audi Volkswagen Taiwan Co., Ltd., Taipei. Effective January 1, 2019, management responsibility for multi-brand sales companies was transferred to Volkswagen AG, Wolfsburg, and the companies concerned were deconsolidated. Under this approach, similar business activities will be grouped together at Volkswagen Group level and their management harmonized accordingly. The Audi Group's reporting will also become more precise and transparent as a result. From the 2019 fiscal year, the companies will appear in the Consolidated Financial Statements of the Audi Group as associated companies using the equity method. The legal ownership structure remains unchanged.

*Read more about our **deliveries** on pages 113 ff.*

STRATEGY

The automotive industry is undergoing radical change: New technologies such as autonomous driving, electric drives and digital services are becoming incorporated into its products. At the same time, regulatory requirements such as WLTP and diverging regional CO_2 and emissions regulations are increasing further. Our customers' desire for individual mobility, for example in intermodal formats or through ride/car sharing, is rapidly changing and increasingly becoming our focus of attention. We at Audi are grasping the need for change as an opportunity to define the future shape of premium mobility.

/ STRATEGIC DIRECTION

We place the customer at the center of our actions. We systematically assess all decisions in terms of whether they bring added value for our customers. We therefore rigorously look for customer relevance in all our activities and pursue them methodically.
We will have defined and substantiated our direction as well as our approach, goals and action areas in greater detail by the time of the Audi 2019 Annual General Meeting.

*Read more online about the **strategic direction of the Audi Group** at **audi.com/strategy.***

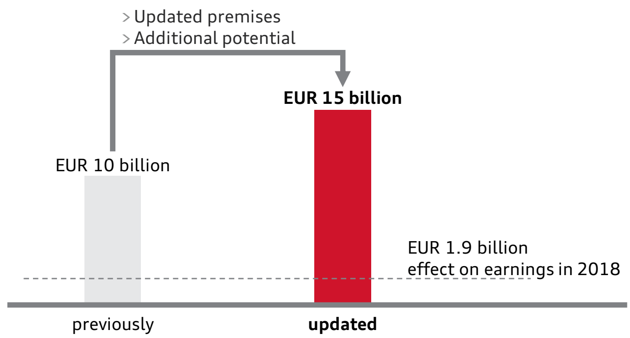
/ AUDI TRANSFORMATION PLAN AS THE BASIS FOR IMPLEMENTING THE STRATEGY

We are making Audi fit for the future both strategically as well as organizationally and financially. For example, over the period 2019 through the end of 2023 we will be investing some EUR 14 billion in the future topics of electric mobility, digital services and autonomous driving. This figure includes capex as well as research and development activities. The Audi Transformation Plan (ATP), which was launched highly successfully in the 2018 fiscal year, is playing a major role in generating the financial resources for these upfront expenditures. At the same time, it is helping us achieve our profitability targets. The ATP addresses both the performance side and our cost structures as well as capital employed in the form of invested assets. In the year under review, on the basis of

the model decisions taken, we were for example able to transfer the “Model initiative” work package to the line organization. Against the background of current peripheral factors, we adjusted the ATP in the 2018 fiscal year. For example, the new “capital employed” work package was also added to bring the key performance indicator of return on investment (ROI) more sharply into focus.
We generated positive effects on earnings worth EUR 1.9 billion through the ATP in 2018. In addition, a number of ideas for profit-boosting measures were approved for future years.

Based on updated assumptions and potential, we now want to realize a total of around EUR 15 billion in profit potential by the end of 2022. In this way we want to safeguard our return target throughout the intensive transformation phase and raise the requisite future investments from our own resources.

Profit potential of Audi Transformation Plan 2018 through the end of 2022



The ATP is currently subdivided into seven work packages, with one Board team responsible for each one. In the individual work packages, module managers take charge of developing and implementing the necessary measures. A Project Management Office (PMO) oversees implementation of the ATP.

The Audi Transformation Plan

Project Management Office (PMO)

	Market penetration	Material, investment and indirect purchasing costs	Factory costs	Technical Development transformation	Organization	China	Capital employed
Board team:	Schot/ Seitz	Martens/ Rothenpieler	Kössler/ Göbel	Rothenpieler/ Martens	Göbel/ Seitz	Seitz/ Schot	Seitz/Kössler/ Rothenpieler
Examples:	Profit-oriented sales management	Optimization of material costs	Optimization of production	Process initiative	Digitalization of processes	Implementation of China strategy	Optimization of invested assets

/ INTEGRITY AND COMPLIANCE ALONG WITH RESPECT AND COOPERATION AS THE FOUNDATION FOR THE STRATEGY

Integrity, respect and values-based, compliant behavior build trust, make us fit for the future and are the basis of our success. We want cooperation within Audi itself as well as throughout the Volkswagen Group to be honest, uncomplicated, unreserved, at eye level and in our mutual interest – entirely in keeping with the Group-wide Code of Cooperation.

*Read more about **integrity and compliance** as well as our corporate culture at Audi on pages 155 ff.*

MANAGEMENT SYSTEM

We apply central benchmarks to manage and monitor the strategic and operational goals of the Audi Group. Alongside important financial key figures, the Audi Group management system also contains non-financial performance indicators. In addition, the management's remuneration is linked to the management system. In the course of repositioning the Company, the Audi Group's management system will undergo various changes in the future, for instance to make a clearer distinction between vehicle and service business.
The current internal management process is outlined below and the current key performance indicators in our management system are described.

/ *MANAGEMENT PROCESS IN THE AUDI GROUP*

The Audi Group is integrated into the management process of the Volkswagen Group. Management of the Audi Group encompasses AUDI AG and the consolidated companies, which is why there is no separate management and forecast of the key performance indicators for AUDI AG. Appropriate account is taken of the complex value chains and organizational structures as well as the legal requirements.

The starting point for the management of the Audi Group is the long-term strategic planning prepared every year for a period of ten years, as well as the medium-term planning derived from this for a five-year period.

In order to shape the future of our Company, the individual planning topics are defined on the basis of their time horizons:

- The product range is the strategic, long-term determinant of corporate orientation.
- The long-term sales plan, which highlights market and segment trends, is the starting point for identifying the volume of deliveries.
- Planning for the individual production sites is based on the capacity and utilization plan.

The coordinated results of the upstream planning processes are fed into the financial medium-term planning. This includes investment planning as an input for determining future alternatives for products and courses of action, financial planning of the income statement as well as financial and balance sheet planning.

A binding first-year plan is derived from the medium-term planning and a budget for operations is drawn up on a month-by-month basis. The level of budgetary target attainment is tracked and reviewed each month with the help of various management tools such as target/actual analyses, year-on-year comparisons and deviation analyses. If necessary, action plans are developed and implemented to back up the budgeted objectives. On a rolling monthly basis, detailed advance estimates are drawn up for the full year and also for the following three-month period. Measures developed to reflect the prevailing opportunity and risk position are also taken into account. Continuously adapting to internal and external changes is therefore of central importance for management during the year. At the same time, the current forecast constitutes the basis for the next medium-term and budget planning.

/ *KEY PERFORMANCE INDICATORS OF GROUP MANAGEMENT*

The basis for the management of the Audi Group is a value-oriented corporate management approach in combination with the following key performance indicators, which are important drivers of our corporate development and have been derived from the strategic goals:

- Deliveries to customers of the Audi brand
- Revenue
- Operating profit/operating return on sales
- Return on investment (ROI)
- Net cash flow
- Research and development ratio
- Ratio of capex

The non-financial indicator of deliveries to customers reflects the number of new vehicles handed over to end customers. This performance indicator reflects demand from customers for products of the Audi brand and shows our competitive and image position in the various markets worldwide. Strong demand for our products has a major impact on production, and consequently also on the capacity utilization of our sites and the deployment of our workforce. In addition, a continuing high level of deliveries to customers reflects a high level of satisfaction among our customers.

The financial key performance indicators include Audi Group revenue, which is a financial reflection of our market success.

A further financial key performance indicator is the operating profit of the Audi Group, which is the balance of revenue and resources employed (cost of goods sold, distribution costs and administrative expenses), also taking into account the other operating result (balance of other operating income and other operating expenses). Operating profit represents the economic performance of our core business and our fundamental business activity.
We place particular emphasis on our return ratios. For example, the operating return on sales is the ratio of operating profit to revenue.

Another return ratio is return on investment (ROI), which reflects how effective our business activities are. This ratio considers the return achieved on the capital employed over a given period. We obtain this indicator by determining the ratio of operating profit after tax to average invested assets. The standardized average tax rate for the Volkswagen Group of 30 percent is assumed for this purpose. Invested assets are calculated from the asset items on the balance sheet that serve the core business purpose (intangible assets, property, plant and equipment, leasing and rental assets, investment property, inventories and receivables) less non-interest-bearing liabilities (trade payables and advance payments). The average of the value of invested assets at the start and the value of the invested assets at the end of the fiscal year is then calculated.

Net cash flow indicates the cash flow from operating activities less the cash flow from investing activities, not including the change in investments in securities or fixed deposits and loans extended. This key performance indicator serves as a measure of our Company's level of self-financing.

The research and development ratio expresses the innovative strength of our Company and also ensures that it maintains competitive cost structures. The ratio expresses research and development activities as a ratio of the revenue of the Audi Group. Development projects take shape from product or technology decisions or are launched in response to strategic directions.

The ratio of capex is another indicator of our Company's innovative strength and competitiveness. It is obtained by expressing capex according to the cash flow statement as a ratio of the revenue of the Audi Group. Capex includes investments in property, plant and equipment, investment property and other intangible assets (without capitalized development costs). Here, capital investment in essence comprises financial resources for modernizing and expanding the product range, for increasing our capacity and for improving the Audi Group's production processes. Investment decisions are requested by the specialist areas, then scrutinized and prioritized by Investment Controlling and the Investment Group corporate committee. Major decisions affecting investment policy are also approved by the Company's Supervisory Board.

*Read more about our **key performance indicators** on pages 99 ff., 105 ff., 113 ff. and 118 ff.*

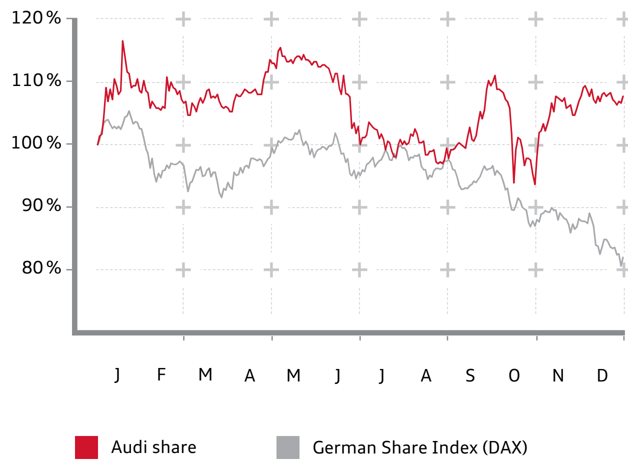
SHARES

/ *AUDI TRADING PRICE TREND*

The German Share Index (DAX) showed a negative overall development in 2018. The trading prices of German car manufacturers and suppliers listed in the DAX also revealed downward momentum, with greater volatility than the DAX as a whole. The shares of the premium car manufacturer Audi are listed in the General Standard stock exchange segment and, in a reflection of the low free float of around 0.36 percent, have a comparatively low trading volume. Audi shares bucked the market trend in displaying a mild upward trend overall over the past fiscal year.

On the first day of trading in 2018, Audi shares closed at EUR 726. A short time later – on January 18, 2018 – they recorded the year-high of EUR 846. Against the backdrop of industry-specific negative factors, such as the supply-end distortions following the adoption of the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) in September 2018, the trading price of Audi shares generally showed a sideways shift over the first ten months of 2018 – despite some positive and negative fluctuations. On October 16, 2018, AUDI AG published an ad hoc announcement following the administrative order imposing a fine from the completed regulatory offense proceedings conducted by the Munich II public prosecutor against AUDI AG. The order penalized the departure from regulatory requirements for certain V6/V8 diesel engines and diesel vehicles manufactured or sold by AUDI AG. A short time later, Audi shares touched their year-low of EUR 680 on October 26, 2018. An upward trend in the Audi trading price then set in and continued for the remainder of the year, despite isolated price fluctuations. Among other factors, the successful presentation of the Audi e-tron in the second half of the year is likely to have lifted the trading price. As the first volume-built model with all-electric drive from the brand with the Four Rings, the e-tron signals the start of its electrification initiative. While investors appear to be recognizing the long-term opportunities that arise for the Audi Group from its investments in future technologies, the stock market values of automotive shares as a whole remain low compared with other sectors. Audi shares closed at EUR 782 on the year's final day of trading, 7.7 percent up on the level at the start of the year.

Indexed Audi trading price trend in 2018 (ISIN: DE0006757008, stock exchange: Xetra)



*Read more about **Audi shares** at **www.audi.com/shares**.*

DISCLOSURES REQUIRED UNDER TAKEOVER LAW

The following disclosures under takeover law are made pursuant to Section 289a, Para. 1 and Section 315a, Para. 1 of the German Commercial Code (HGB).

/ CAPITAL STRUCTURE

On December 31, 2018, the subscribed capital of AUDI AG remained unchanged at EUR 110,080,000 and comprised 43,000,000 no-par bearer shares. Each share represents a notional share of EUR 2.56 of the subscribed capital.

/ SHAREHOLDERS' RIGHTS AND OBLIGATIONS

Shareholders enjoy property and administrative rights.

The property rights include, above all, the right to a share in the profit (Section 58, Para. 4 of the German Stock Corporation Act [AktG]) and in the proceeds of liquidation (Section 271 of the German Stock Corporation Act), as well as a subscription right to shares in the event of capital increases (Section 186 of the German Stock Corporation Act).

The administrative rights include the right to participate in the Annual General Meeting and the right to speak, ask questions, table motions and exercise voting rights there. Shareholders may assert these rights in particular by means of a disclosure and avoidance action.

Each share carries an entitlement to one vote at the Annual General Meeting. The Annual General Meeting elects the members of the Supervisory Board to be appointed by it, as well as the auditor; in particular, it decides on the ratification of the acts of members of the Board of Management and Supervisory Board and, if necessary, on amendments to the Articles of Incorporation and Bylaws, as well as on capital measures, on authorizations to acquire treasury shares and on the conducting of a special audit, the dismissal of members of the Supervisory Board within their term of office and on liquidation of the Company.

The Annual General Meeting normally adopts resolutions by a simple majority of votes cast, unless a qualified majority is specified by statute. A control and profit transfer agreement exists between AUDI AG and Volkswagen AG, Wolfsburg, as the controlling company. This agreement permits the Board of Management of Volkswagen AG to issue instructions. The profit after tax of AUDI AG is transferred to Volkswagen AG. Volkswagen AG is obliged to make good any loss. All Audi shareholders (with the exception of Volkswagen AG) receive a compensatory payment in lieu of a dividend. The amount of the compensatory payment corresponds to the dividend that is distributed in the same fiscal year to Volkswagen AG shareholders for each Volkswagen ordinary share.

/ CAPITAL INTERESTS EXCEEDING 10 PERCENT OF THE VOTING RIGHTS

Volkswagen AG, Wolfsburg, holds around 99.64 percent of the voting rights in AUDI AG. For details of the voting rights held in Volkswagen AG, please refer to the Management Report of Volkswagen AG.

/ STATUTORY REQUIREMENTS AND PROVISIONS UNDER THE ARTICLES OF INCORPORATION AND BYLAWS ON THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE BOARD OF MANAGEMENT

The appointment and dismissal of members of the Board of Management are stipulated in Sections 84 and 85 of the German Stock Corporation Act (AktG). Members of the Board of Management are accordingly appointed by the Supervisory Board for a period of no more than five years. A renewal of the term of office, in each case for no more than five years, is permitted. Section 6 of the Articles of Incorporation and Bylaws further stipulates that the number of members of the Board of Management is to be determined by the Supervisory Board and that the Board of Management must comprise at least two persons.

/ AUTHORIZATIONS OF THE BOARD OF MANAGEMENT IN PARTICULAR TO ISSUE NEW SHARES AND TO PURCHASE TREASURY SHARES

According to stock corporation regulations, the Annual General Meeting may grant authorization to the Board of Management for a maximum of five years to issue new shares. The meeting may authorize the Board of Management, again for a maximum of five years, to issue convertible bonds on the basis of which new shares are to be issued. The extent to which the shareholders have an option on these new shares is likewise decided upon by the Annual General Meeting. The acquisition of treasury shares is regulated by Section 71 of the German Stock Corporation Act (AktG). No resolutions to this effect were passed by the Annual General Meeting of AUDI AG in the 2018 fiscal year.

/ KEY AGREEMENTS BY THE PARENT COMPANY THAT ARE CONDITIONAL ON A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

AUDI AG is party to the shareholder agreement concerning There Holding B.V., Rijswijk (Netherlands), which is the majority shareholder of the HERE Group. Under the shareholder agreement, in the event of a change of control at a party to the agreement, that party must offer the shares it holds directly or indirectly in There Holding B.V. to the other shareholders for purchase. In the case of AUDI AG, a change of control occurs if a person acquires or loses control over AUDI AG, wherein control is defined as (i) holding or having control over more than 50 percent of the voting rights, (ii) the scope for controlling more than 50 percent of the voting rights that can be exercised at Annual General Meetings on all or virtually all matters, or (iii) the right to determine the majority of the members of the Board of Management or Supervisory Board. Furthermore, a change of control occurs if competitors of the HERE Group or certain potential competitors of the HERE Group from the technology industry acquire at least 25 percent of AUDI AG. If none of the other shareholders takes on these shares, the other shareholders have the right to resolve the dissolution of There Holding B.V. Other than the above, AUDI AG has not reached any key agreements that are conditional on a change of control following a takeover bid. Nor has any compensation been agreed with members of the Board of Management or employees in the event of a takeover bid.

ECONOMIC REPORT

In a difficult market environment, the Audi Group pushed ahead with its biggest-ever model and technology initiative in the past fiscal year. Switching the entire product portfolio to the new WLTP test procedure caused deliveries of the Audi brand to decline by –3.5 percent to 1,812,485 cars. In addition, the effects of the diesel issue negatively impacted our business activity again in 2018.

BUSINESS AND UNDERLYING SITUATION

/ *GLOBAL ECONOMIC SITUATION*

Global economic growth reached 3.2 (3.3) percent in 2018. Economic dynamism both in advanced economies and in emerging countries stayed broadly on the level of the prior-year period. The global inflation rate was up on the previous year, with interest levels for the most part low. Monetary policy as a whole remained expansionary. In addition, such factors as growing protectionist tendencies worldwide and geopolitical tensions triggered rising economic uncertainty.

In Western Europe, the growth rate for gross domestic product (GDP) reached 1.8 (2.3) in the period under review. Economic growth in a majority of Western European countries was down on the prior-year period. Sources of uncertainty included particularly the negotiations on the exit of the United Kingdom from the European Union (EU) and the budget dispute between Italy and the EU. In Germany, the region's largest national economy, GDP grew by 1.5 (2.5) percent based on healthy levels of employment and the relatively optimistic mood among consumers, despite the dwindling rate of growth.

The Central and Eastern Europe region achieved economic growth of 2.9 (4.0) percent. While economic momentum in Central Europe slowed somewhat, Russia's economic output developed positively with GDP growth of 1.6 (1.5) percent, above all as a result of the rebound in commodity price levels.

Economic output in the United States rose by 2.9 (2.2) percent on the back of strong consumer spending and the expansionary fiscal policy.

Brazil's GDP grew by 1.4 (1.1) percent in the period under review. However, the increase was held in check by political uncertainties.

The Asia-Pacific region again delivered the most dynamic economic performance worldwide. The Chinese economy achieved a GDP growth rate of 6.6 (6.9) percent – a high growth in economic output in international terms – despite trade disputes with the United States. Economic policy measures had a stimulating impact on the Chinese economy. Japan's GDP improved by 0.8 (1.9) percent.

/ *INTERNATIONAL CAR MARKET*

After eight successive years of growth, worldwide demand for cars in 2018 amounting to 82.8 (83.8) million vehicles was down –1.2 percent on the prior-year level. Central and Eastern Europe along with South America saw rises in new registrations, whereas sales figures were down in Western Europe as well as the Asia-Pacific and North America regions. The industry-specific framework conditions were influenced by fiscal measures that played a major part in the mixed development in new registrations between markets in the past fiscal year. The industry saw everything from tax cuts to tax increases, incentive programs, buyer's premiums and import duties. Non-tariff trade barriers to protect the domestic automotive industry in various countries also negatively impacted worldwide sales figures.

Despite the economy's healthy development, the Western European car market fell just short of the previous year's level with 14.2 (14.3) million vehicles sold, a change of –0.7 percent. The supply-end distortions following the introduction of the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure) from September 1, 2018, depressed the sales total. In Germany, market volume remained virtually flat. New registrations came to 3.4 (3.4) million cars – a change of –0.2 percent compared with the prior-year level. New registrations in the United Kingdom showed a fall of –6.8 percent, reflecting among other things the growing uncertainty surrounding the United Kingdom's expected exit from the EU. The car market in Italy equally contracted, by –3.1 percent. Conversely, the French car market enjoyed 3.0 percent growth in new registrations. On the back of the positive overall development in the economy, the Spanish passenger car market returned a growth rate of 7.0 percent.

New registrations of vehicles in Central and Eastern Europe were 11.0 percent up on the previous year, at 3.4 (3.0) million cars. The main driver of this development was the Russian car market, the largest in the region. With the improving fortunes of the economy as a whole and thanks to pull-forward effects ahead of the increase in the rate of value-added tax on January 1, 2019, vehicle sales there rose by 13.2 percent.

From January through December 2018, the U.S. market for passenger cars and light commercial vehicles reached the previous year's comparatively high level with 17.3 (17.2) million newly registered units – a change of 0.2 percent. Demand continued to shift towards SUV and pick-up models, while the classic passenger car segments contracted. At the same time, higher financing costs due to higher interest rates put a strain on registration figures.

In Brazil, the market for passenger cars and light commercial vehicles again benefited from an improved economic situation in 2018. The previous year's volume was increased by 13.8 percent to 2.5 (2.2) million units.

In the Asia-Pacific region, the car market contracted by –2.3 percent to 36.1 (37.0) million units in the period under review. The drop in demand in China, the world's biggest car market, was the main reason. In the wake of falling consumer confidence due to the trade conflict between China and the United States, new registrations were down –4.6 percent at 22.8 (23.9) million units. The Japanese car market also showed a negative development compared with the prior-year period. Sales of cars were down –0.4 percent on the previous year, at 4.4 (4.4) million units.

/ INTERNATIONAL MOTORCYCLE MARKET

In 2018, international registrations of new motorcycles in the displacement segment above 500 cc declined by –2.7 percent. The individual markets presented a mixed picture. While the Italian and German motorcycle markets achieved growth of 6.2 and 2.8 percent respectively, the world's largest motorcycle market – the United States – saw the number of newly registered motorcycles fall by –8.9 percent.

/ MANAGEMENT'S OVERALL ASSESSMENT [1)]

// COURSE OF BUSINESS

The 2018 fiscal year was a year of important landmark decisions for the Audi Group, but also brought major challenges. Abraham Schot was appointed Chairman of the Board of Management of AUDI AG with effect from January 1, 2019. He had headed the Company as the interim Chairman since June 2018. In a difficult market environment, the Audi Group pushed ahead with its biggest-ever model and technology initiative in the past fiscal year. With a large number of market introductions, such as the Audi Q8 and the Lamborghini Urus, we continued to rejuvenate our model portfolio in the year under review and further enhanced our product portfolio. The most important new product presented in the 2018 fiscal year was the Audi e-tron. The fully electric SUV is being well received by customers: By the end of the year, advance orders had reached around 20,000 vehicles. The e-tron kicks off our ambitious electrification roadmap. To make electric mobility profitable as quickly as possible, we are prioritizing optimized cost structures and maximum synergies – between the individual models, but above all within the context of the Volkswagen Group. Up until the end of 2023 alone, we have plans for upfront spending of around EUR 14 billion on the future topics of electric mobility, digitalization and autonomous driving. In total, Audi envisages total expenditures of around EUR 40 billion over the planning period of the coming five years.

1) The prior-year figures have been adjusted to reflect the first-time adoption of IFRS 9 and IFRS 15 (see also the comments on IFRS 9 and IFRS 15 in the Notes to the Consolidated Financial Statements).

To ensure our future profitability levels, in the year under review we adopted significantly more ambitious goals compared with those expressed in the Audi Transformation Plan (ATP) at the time it was launched in 2017. This far-reaching program of measures is the basis for implementing our strategy – alongside reallocating resources to future areas, Audi is streamlining costs, tapping fresh income potential and reducing complexity. Thanks to the ATP, we already generated around EUR 1.9 billion in positive effects on earnings in the year under review and therefore compensated for a large number of negative factors. The need to switch our model portfolio to the new WLTP test cycle was the main adverse effect in the 2018 fiscal year. Following a good first half, the constraints of this industry-wide changeover led to a restricted sales range in the second half of the year. The situation was exacerbated by the political debate about banning the use of diesel vehicles, along with a downward trend in demand and intense competition in important passenger car markets. Furthermore, there were negative special items in connection with the diesel issue – especially from the legally binding administrative order imposing a fine on AUDI AG by the Munich II public prosecutor. In addition, the period January through December 2018 brought product discontinuations and launches for a large number of new models under our comprehensive model initiative, as well as the restructuring of our production network.
The overall financial performance of the Audi Group in the 2018 fiscal year was somewhat weaker than in 2017.

In light of the challenges from WLTP and the general market situation, we delivered 1,812,485 (1,878,105) cars of the Audi brand to customers – a fall of –3.5 percent compared with one year earlier. At the start of the year we had anticipated that deliveries to customers of the Audi brand would approximately reach the previous year's record level.

The revenue of the Audi Group was almost on a par with the previous year at EUR 59,248 (59,789) million. In the 2017 Annual Report we forecast Audi Group revenue slightly above the prior-year figure for 2018 as a whole. Especially the supply-end distortions following the switch to the new WLTP test cycle, the large number of product discontinuations and launches necessitated by the model initiative and the unfavorable currency environment for us compared with the previous year were the major factors in this development.

The Audi Group generated an operating profit amounting to EUR 3,529 (4,671) million in the 2018 fiscal year, representing an operating return on sales of 6.0 (7.8) percent. This figure includes special items in connection with the diesel issue totaling EUR –1,176 (–387) million. Adjusted to take account of these special items, operating profit totaled EUR 4,705 (5,058) million and the operating return on sales came to 7.9 (8.5) percent. There were positive effects especially from the ATP and our currency management activities. In addition to the special items from the diesel issue, aspects such as our temporarily restricted sales range following the introduction of the new WLTP test cycle put pressure on our figures. We also provided substantial upfront financing for future mobility solutions and new technologies. Furthermore, the number of product discontinuations and launches involved in implementing our product initiative as well as the restructuring of our new production network weighed on our operating profit. In the 2017 Annual Report we had anticipated an operating return on sales within the target corridor of 8 to 10 percent.

The return on investment (ROI), which was also negatively impacted by the special items, reached 10.0 (14.4) percent and thus exceeded our minimum rate of return of 9 percent. This key figure also reflects our model and technology initiative along with the associated effects on invested assets. In the 2017 Annual Report we had forecast an ROI of between 14 and 17 percent for 2018.

Thanks to its financial strength and despite the outflows in connection with the diesel issue in the past fiscal year, the Audi Group achieved a net cash flow of EUR 2,141 (4,312) million. In our forecast from the start of 2018, we had still anticipated a net cash flow of between EUR 2.7 and 3.2 billion.

In the Third Quarter Report 2018 for the Audi Group we announced that, in light of the special items from the diesel issue, we were likely to fall significantly short of the forecasts for operating return on sales, return on investment and net cash flow for the year as a whole.

The research and development ratio of the Audi Group reached a figure of 7.1 (6.4) percent and therefore – as forecasted – came in slightly above the previous strategic target corridor of 6.0 to 6.5 percent.

Despite the large number of vehicle launches, we held our investment activity steady compared with the prior-year period. The ratio of capex for the 2018 fiscal year of 5.9 (6.5) percent was slightly above our previous strategic target corridor of 5.0 to 5.5 percent and therefore in the range of our updated forecast in the First Quarter Report 2018. In the 2017 Annual Report we had anticipated that the ratio of capex for 2018 would be moderately above the previous target corridor.

Forecast/actual comparison Audi Group [1)]

	Actual 2017	Forecast for 2018	Actual 2018	Evaluation [2)]
Deliveries of cars of the Audi brand to customers	1,878,105	at the previous year's level	1,812,485	⇨
Revenue in EUR million	59,789	slight increase	59,248	⇨
Operating profit in EUR million	4,671	within the strategic target corridor of 8 to 10 percent [3)]	3,529	⇩
Operating return on sales in percent	7.8		6.0	
Return on investment (ROI) in percent	14.4	between 14 and 17 percent and therefore above the minimum rate of return of 9 percent [3)]	10.0	⇩
Net cash flow in EUR million	4,312 [4)]	between EUR 2.7 and 3.2 billion [3)]	2,141	⇩
Research and development ratio in percent	6.4	slightly above the strategic target corridor of 6.0 to 6.5 percent	7.1	✓
Ratio of capex in percent	6.5	moderately above the strategic target corridor of 5.0 to 5.5 percent [5)]	5.9	⇨

1) The prior-year figures have been adjusted to reflect the first-time adoption of IFRS 9 and IFRS 15 (see also the comments on IFRS 9 and IFRS 15 in the Notes to the Consolidated Financial Statements).
2) The evaluation reflects the Company's assessment of target attainment.
Forecast achieved ✓ Significantly above forecast ⇧ Significantly below forecast ⇩ Slight forecast deviation ⇨
3) Updated in the ad hoc announcement of October 16, 2018, and also in the Third Quarter Report 2018 to significantly below our previous forecast
4) Included a positive non-recurring effect of EUR 3,278 million from the transfer of the minority interest in Volkswagen International Belgium S.A., Brussels (Belgium), to Volkswagen AG, Wolfsburg.
5) Updated in the First Quarter Report 2018 to "slightly above the strategic target corridor of 5.0 to 5.5 percent"

// EXCEPTIONAL EVENTS

/// DIESEL ISSUE

//// IRREGULARITIES IN NO_X EMISSIONS

In September 2015, the U.S. Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with four-cylinder diesel engines of type EA 189 made by the Volkswagen Group. In this context, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around 11 million vehicles worldwide with type EA 189 diesel engines, including around 2.4 million Audi vehicles. In November 2015, the EPA announced in a "Notice of Violation" that irregularities had also been identified in the software installed in U.S. vehicles with type V6 3.0 TDI engines. The matter affected around 113,000 vehicles in the United States and Canada, where the regulations on NO_x limits are stricter than in other parts of the world. The California Air Resources Board (CARB) – part of the Californian Environmental Protection Agency – announced its own investigations into this matter.
In response, a large number of court and governmental proceedings were started in the United States and elsewhere in the world. We have since succeeded in making substantial progress and ending a great number of these proceedings.

//// COMPREHENSIVE INVESTIGATIONS LAUNCHED BY VOLKSWAGEN AND AUDI

After the first "Notice of Violation" was issued, Volkswagen and Audi immediately initiated their own internal as well as external investigations; both have since been concluded for the most part. Extensive inquiries were also conducted at AUDI AG in relation to the potential use of unlawful "defeat devices" under U.S. law in the type V6 3.0 TDI diesel engines and concluded for the most part.

In addition, the Board of Management of AUDI AG has established an internal task force, provided committees and departments with the necessary resources and requested regular reports. Furthermore, in September 2015, Volkswagen AG and AUDI AG filed a criminal complaint in Germany against unknown persons. Volkswagen AG and AUDI AG are cooperating with all relevant authorities.

While Volkswagen AG holds internal development responsibility for the four-cylinder diesel engines within the Group, AUDI AG is responsible for the development of the six and eight-cylinder diesel engines, such as diesel engines of types V6 and V8.
AUDI AG has concluded an agreement with Volkswagen AG in the event that the U.S. authorities, U.S. courts and potential out-of-court settlements do not differentiate fully between the four-cylinder diesel engine issue for which Volkswagen AG is accountable and V6 3.0 TDI engines that are the responsibility of AUDI AG, and that joint and several liability thus arises. Against the background of the settlement agreements reached, these costs will be passed on to AUDI AG according to a causation-based allocation.

The members of the Board of Management of AUDI AG at that time have declared that prior to their notification by EPA in November 2015, they had no knowledge of the use of unlawful "defeat device software" under U.S. law in the V6 3.0 TDI engines.
Also, the publications released at the time of preparation of the Annual and Consolidated Financial Statements as well as the Combined Management Report for the 2018 fiscal year, along with the continued investigations and interviews in connection with the diesel issue, did not provide the Board of Management with any reliable findings or assessments on the matter that would lead to a different evaluation of the associated risks.
Besides, there are no reliable findings or facts available to the incumbent members of the Board of Management of AUDI AG suggesting that the Annual and Consolidated Financial Statements as well as the Combined Management Report for the 2018 fiscal year and previous years were materially incorrect. However, if new findings should come to light that indicate that individual members of the Board of Management at that time were aware of the diesel issue earlier, this could potentially have an effect on the Annual and Consolidated Financial Statements as well as on the Combined Management Report for the 2018 fiscal year and previous years.

//// *PRODUCT-RELATED LAWSUITS WORLDWIDE*

In principle, it is possible that customers in the affected markets will file civil lawsuits or that importers and dealers will assert recourse claims against Volkswagen AG and other Volkswagen Group companies, including AUDI AG. Besides individual lawsuits, various forms of collective actions (i.e. assertion of individual claims by plaintiffs acting jointly or as representatives of a class) are available in various jurisdictions. Furthermore, in a number of markets it is possible for consumer and/or environmental organizations to bring suit to enforce alleged rights to injunctive relief, declaratory judgment, or damages.

In the context of the diesel issue, various class action proceedings as well as individual lawsuits are currently pending against Volkswagen AG and other Volkswagen Group companies, including AUDI AG. Work in respect of the legal proceedings that are still pending in the USA and the rest of the world is ongoing, still requires considerable efforts and will continue for some time. Volkswagen AG and AUDI AG are being advised by a number of external law firms in this connection.

//// *AGREEMENTS AND PROCEEDINGS IN THE USA/CANADA*

In the USA and Canada three generations of certain vehicles with 2.0 TDI engines and two generations of certain vehicles with the type V6 3.0 TDI engines are affected, which come to a total of approximately 700,000 vehicles. Due to NO_x limits that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge here to retrofit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

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

Volkswagen AG and other Volkswagen Group companies are facing litigation in the USA/Canada on a number of different fronts relating to the matters described in the EPA's "Notices of Violation." In that respect, investigations by various U.S. and Canadian regulatory and government authorities are ongoing, particularly in areas relating to securities, financing and tax. Additionally, in the USA and Canada, certain putative class actions by customers, investors, salespersons and dealers as well as individual customers' lawsuits and state or municipal claims have been filed in various courts, including state and provincial courts.
A large number of these putative class action lawsuits have been filed in U.S. federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

In the USA, Volkswagen AG and certain affiliates, including AUDI AG, reached settlement agreements (including various consent decrees) with the U.S. Department of Justice (DOJ), the EPA, the State of California, the CARB, the California Attorney General, the U.S. Federal Trade Commission, and private plaintiffs represented by a Plaintiffs' Steering Committee in a multidistrict litigation in California. These settlement agreements resolved certain civil claims made in relation to affected diesel vehicles in the United States.

Volkswagen AG also entered into agreements to resolve U.S. federal criminal liability and certain civil penalties and claims relating to the diesel issue. As part of its plea agreement, Volkswagen AG agreed to plead guilty to three felony counts under U.S. law – including conspiracy to commit fraud, obstruction of justice and using false statements to import cars into the United States – and has been sentenced to three years' probation.

Additionally Volkswagen and Audi have reached separate agreements with the attorneys general of 49 states, the District of Columbia and Puerto Rico to resolve their existing or potential consumer protection and unfair trade practices claims in connection with both 2.0 TDI and V6 3.0 TDI vehicles in the USA. New Mexico still has consumer protection claims outstanding. Volkswagen and Audi have also reached separate agreements with the attorneys general of 13 U.S. states (California, Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws. The attorneys general of eight other U.S. states (Alabama, Illinois, Montana, New Hampshire, New Mexico, Ohio, Tennessee and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, including AUDI AG, alleging violations of environmental laws. The environmental claims of eight states – Alabama, Illinois, Minnesota, Missouri, Ohio, Tennessee, Texas and Wyoming – as well as Hillsborough County (Florida), Salt Lake County (Utah) and two Texas counties have been dismissed in full or in part by trial or appellate courts as preempted by federal law. Alabama, Illinois, Ohio, Tennessee, Hillsborough County and Salt Lake County have appealed or may still appeal the dismissal of their claims.

In the 2018 fiscal year, the EPA and CARB issued the outstanding official approvals needed for the technical solutions for the affected vehicles with 2.0 TDI and with V6 3.0 TDI engines. On October 31, 2018, after discussions with DOJ, EPA, and CARB, the parties agreed to modify the First and Second Partial Consent Decrees to clarify that Volkswagen may repair certain technical issues with approved emissions modifications through an "AEM Correction" (Approved Emissions Modifications).

Since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles with gasoline engines. Additionally, putative class actions filed against AUDI AG and certain affiliates have been transferred to the federal multidistrict litigation proceeding in the State of California and consolidated. The lawsuits allege that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. Other actions alleging similar claims are also pending in the Northern District of California and two provincial courts in Canada.

On December 21, 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving V6 3.0 TDI vehicles that was approved by the courts in Ontario and Quebec in April 2018. Also in Canada, a criminal enforcement-related investigation related to 2.0 and 3.0 diesel vehicles by the federal environmental regulator is ongoing, and a quasi-criminal enforcement-related offense has been charged by the Ontario provincial environmental regulator related to 2.0 diesel vehicles. Additionally, in Quebec, a certified environmental class action on behalf of residents is pending. This environmental class action was authorized on the sole issue of whether punitive damages could be recoverable. Volkswagen is seeking leave to appeal this authorization ruling. Class action and joinder lawsuits have also been filed in Canada, including alleged consumer protection and securities claims asserting damages among other things.

//// CONSULTATION WITH GOVERNMENT AGENCIES ON TECHNICAL MEASURES WORLDWIDE

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines.
Within its area of responsibility, the German Federal Motor Transport Authority (Kraftfahrt-Bundesamt or KBA) ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emission figures, engine power, maximum torque, and noise emissions.

AUDI AG has worked intensively for many months to check all relevant diesel concepts for possible discrepancies and retrofit potentials. The measures proposed by AUDI AG have been adopted and mandated in various recall notices issued by the KBA for vehicle models with V6 and V8 TDI engines. Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. The measures submitted by AUDI AG are being examined by the KBA and can only be made available to customers after corresponding approval by the KBA.

The Ministry of Environment in South Korea qualified certain emissions strategies in the engine control software of various diesel vehicles with V6 or V8 TDI engines meeting the Euro 6 emission standard as an unlawful defeat device and ordered a recall on April 4, 2018; the same applies to the Dynamic Shift Program (DSP) in the transmission control of a number of Audi models.

//// CRIMINAL AND ADMINISTRATIVE PROCEEDINGS IN GERMANY

The Munich II Office of the Public Prosecutor is conducting investigations against 24 persons, including the former Chairman of the Board of Management of AUDI AG and another active member of the Board of Management of AUDI AG. The investigations are ongoing. AUDI AG has appointed two renowned major law firms to clarify the matters underlying the public prosecutor's accusations. The Board of Management and Supervisory Board of AUDI AG are being regularly updated on the current state of affairs.

The administrative fine order issued on October 16, 2018, by the Munich II Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against AUDI AG in this connection. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit "Emissions Service/Engine Type Approval." The administrative order imposes a total fine of EUR 800 million, consisting of a penalty payment of EUR 5 million and the forfeiture of economic benefits in the amount of EUR 795 million. After thorough examination, the fine has been accepted and paid in full by AUDI AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against AUDI AG. Further sanctions against or forfeitures by AUDI AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

In Germany, the Verbraucherzentrale Bundesverband e. V. (Federation of Consumer Organizations) filed an action on November 1, 2018, with the Braunschweig Higher Regional Court for model declaratory judgment against Volkswagen AG. The complaint is seeking a ruling that certain preconditions for potential consumer claims against Volkswagen AG are met;

however, no specific payment obligations would result from any determinations the court may make. Individual claims then have to be reduced to judgment afterwards in subsequent separate proceedings.

//// *FINANCIAL IMPACT OF THE DIESEL ISSUE*

In connection with the diesel issue, there were special items affecting Audi Group operating profit in the amount of EUR –1,176 (–387) million in the 2018 fiscal year. These are based mainly on the legally binding administrative order imposing a fine on AUDI AG by the Munich II public prosecutor. They also reflect spending for technical measures, customer measures as well as expenses and provisioning for legal risks. The special items in connection with the diesel issue over the years 2015 through 2018 came to EUR –3,423 million overall. Of this total, the balance sheet showed outstanding obligations or risk provisioning amounting to EUR –822 million at the end of the 2018 fiscal year.

The risk provisioning made to date in the form of provisions for the diesel issue is based on current knowledge and fundamentally subject to significant evaluation risks because of the large number of still-uncertain measurement inputs. Provisions deemed appropriate were created or contingent liabilities were disclosed for identifiable and measurable risks. Contingent liabilities were not disclosed if they are not currently measurable. In view of the still-ongoing process of clarifying the facts as well as the complexity of the individual factors involved and the ongoing consultations with the government agencies, the provisions created for the diesel issue as well as the contingent liabilities reported and the further latent legal risks are to some extent subject to substantial evaluation risks. If these risks should materialize, there could be substantial financial burdens.

RESEARCH AND DEVELOPMENT [1)]

The Audi Group continued its technology and product initiative in 2018. For subsequent years through to the end of 2023, we plan to invest up to EUR 40 billion. This includes spending of EUR 14 billion alone on the future topics of electrification, digitalization and autonomous driving. Alongside capex, this figure includes mainly research and development activities. When developing our products and services, we focus primarily on the customer experience. We are thus stepping up the pace of transformation in our Company. The Audi e-tron premiered in 2018 signals not only a new era in electric mobility, but also in our vehicles' connectivity within a customer-focused mobility ecosystem.

In the year under review, the Audi Group employed 14,026 (13,672) people on average in Research and Development.

Workforce in the Research and Development area

Average for the year	2018	2017
AUDI AG	11,108	10,823
Audi (China) Enterprise Management Co., Ltd.	253	242
Audi Hungaria Zrt.	383	348
Automobili Lamborghini S.p.A.	369	364
Italdesign Giugiaro S.p.A.	812	785
PSW automotive engineering GmbH	849	871
Ducati Motor Holding S.p.A.	237	231
Other	15	8
Workforce in the Research and Development area	**14,026**	**13,672**

In addition to staging the biggest model initiative in our history, we are consistently advancing the future topics of electric mobility, digitalization and autonomous driving. For

1) To reflect the first-time adoption of IFRS 9 and IFRS 15, the revenue and consequently also the research and development ratio of the previous year have been adjusted (see also the comments on IFRS 9 and IFRS 15 in the Notes to the Consolidated Financial Statements).

that, we need efficient processes along with clear planning, allocation and management of both human and financial resources. The transformation in the Research and Development area that we already initiated in the 2017 fiscal year is a logical start. In the year under review, for example, we trained more than 2,000 employees in future areas that are strategically important for us. Moving forward, we will continue to promote internal HR development and forge external partnerships to promote expertise in crucial areas of innovation quickly and selectively.

Competitive cost structures are essential to the long-term success of Audi. That is why we have defined the research and development ratio as a strategic target corridor and a key performance indicator for financial management. As well as allocating resources efficiently and steadily optimizing processes, the task at hand also involves using and building on synergies even further within the Volkswagen Group. For example, we are working together with Dr. Ing. h.c. F. Porsche AG, Stuttgart, on the electrification of both brands' product portfolios. The Audi e-tron GT concept, a study unveiled in November 2018, is one early result of this partnership. The fully electric four-door coupé intended for series production underscores the potential for synergies within the Volkswagen Group. We are also pooling our resources with our sister brand in the joint development of vehicle architectures, modules and components in what is known as the premium architecture electrification (PPE). The first model based on this platform is to appear on the market at the start of the next decade. In the smaller vehicle segments, we are collaborating with the Volkswagen Passenger Cars brand on the basis of the modular electric drive matrix (MEB).

The technological area of autonomous driving calls for the deployment of considerable human and financial resources, which we raise through intra-Group projects, but also by being increasingly open to cooperation with external parties. Within the Volkswagen Group, Audi for instance holds responsibility for the development of the highway pilot, a particularly important future application in our vehicles. Together with our fully owned subsidiary Autonomous Intelligent Driving GmbH, Munich, we are developing hardware and software for autonomous driving in urban and confined traffic zones.

In addition, we are responsible within the Volkswagen Group for fuel cell technology – with the objective of making the h-tron ready for series production in the near future. We are steadily expanding the competence center for that area of activity at our Neckarsulm site.

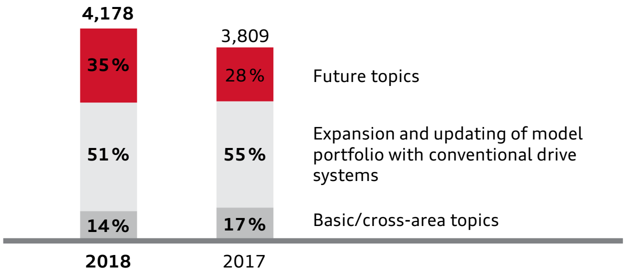
The research and development activities of the Audi Group came to EUR 4,178 (3,809) million in the year under review. This represents a research and development ratio of 7.1 (6.4) percent. The year-on-year rise is attributable to increased investment in automated and autonomous driving as well as in expanding the portfolio of hybrid and electric vehicles. Capitalized development costs rose to EUR 1,593 (1,243) million – equivalent to a capitalization ratio of 38.1 (32.6) percent. This ratio expresses capitalized development costs in relation to total research and development activities. Amortization of capitalized development costs totaled EUR 856 (1,025) million in the 2018 fiscal year.

Research and development activities

EUR million	2018	2017
Research expense and non-capitalized development costs	2,585	2,565
Capitalized development costs	1,593	1,243
Research and development activities	**4,178**	**3,809**

Our activities in the Research and Development area can be categorized into three main subject areas: "future topics," "expansion and updating of model portfolio with conventional drive systems" and "basic/cross-area topics." The "future topics" include research and development activities that support us particularly with the implementation of our strategy. Currently, "expansion and updating of model portfolio with conventional drive systems" mainly reflects our model initiative. Under "basic/cross-area topics" we essentially address cross-model activities in the Research and Development area as well as trial runs and tests. The increasing prioritization of future topics, ongoing process optimizations as well as a differentiated consideration of cross-area topics are the main drivers behind the change year on year.

Research and development activities by subject area (EUR million)



Selected activities in the Research and Development area in the 2018 fiscal year

Future topics	
Electrification, sustainability and efficiency	> Development of models with fully electric drive (series-production start of Audi e-tron; Audi e-tron Sportback and series-production version of Audi e-tron GT concept to follow by 2020; one-third of vehicles produced will be electrically powered by 2025) > Development of a shared premium architecture electrification (PPE) with Dr. Ing. h.c. F. Porsche AG > Expansion of plug-in hybrid range (preparation of plug-in initiative in 2019, e.g. Audi A6, Audi A7, Audi A8, Audi Q5, Audi Q7) > Expansion of efficiency technologies (including new mild-hybrid technology) > New quattro generation: electric all-wheel-drive in the Audi e-tron > Expansion of charging infrastructure/systems (including Audi e-tron Charging Service as part of a wider charging concept, in collaboration with IONITY GmbH, Munich, and Electrify America, LLC, Reston (USA) > Further development of h-tron fuel cell technology (including envisaged cooperation with Hyundai Motor Company, Seoul (South Korea); first small-series model at start of next decade) > Further development of alternative fuels (e.g. Audi e-fuels) > Systematic lightweight construction involving multi-material applications (including sustainable aluminum for battery housings in Audi e-tron) > Development of circular economy solutions (including development of a closed loop for components of high-voltage batteries)
Driver assistance systems, automated driving and artificial intelligence	> Further development of automated driving (including highway pilot and parking garage pilot; expansion of safety functions including using swarm data via HERE back end) > Development of autonomous driving (including by the subsidiary Autonomous Intelligent Driving GmbH, Munich) > Expansion of enabler technologies for automated and autonomous driving as well as for digital functions (modular hardware and software concept E^3) > Expansion of the range of intelligent systems in the vehicle (including new intersection assist in Audi A6) > Further development of connected chassis systems (e.g. active suspension in Audi A8) > Pioneering computing power in the vehicle (e.g. zFAS as central control unit incorporates up to five wheel sensors, six cameras, 12 ultrasound sensors and a laser scanner into Audi Q8) > Expansion of vehicle connectivity with its environment (including seamless integration of Audi e-tron into connected home; vehicle communication with traffic lights available as option in 15 cities in the United States)
Audi connect and connectivity technologies	> New display and operating systems (MMI touch response in Audi A7, Audi A6, Audi Q8 and Audi e-tron) > Expansion of Internet services in vehicle (Amazon Alexa in Audi e-tron; Audi connect with Amazon Music) > High-precision navigation thanks to HERE map data (e.g. self-learning function based on the route driven: recognizes the driver's preferences and can therefore propose appropriate routes) > Connectivity beyond the car with the myAudi app (unlocking, locking and engine starting possible via an Android smartphone using NFC) > Natural-language voice control as intelligent dialogue partner > Expansion of broadband connectivity (LTE Advanced, 5G)
User experience (UX)	> New air quality systems (e.g. optional air quality package with fragrancing and ionizer in new Audi Q8) > Development of adaptive user interface (UI) and optimum integration of third-party applications into the Audi ecosystem > Functional integration via intelligent components (advance development) > Development of new UI/UX technologies such as holography or the presentation of light and sound

Future topics	
Audi design and aerodynamics	> Progressive, sophisticated design solutions for exterior and interior (e.g. new Audi Q8: luxury coupé meets SUV; octagonal Singleframe as new distinguishing feature of Audi Q family) > Development of new interior concepts that enable a range of application-based worlds of experience for the customer (including for autonomous driving) > Aerodynamics (Audi e-tron with range-optimized aerodynamics concept: C_d value of 0.27)
Audi Sport	> Formula E

Expansion and updating of model portfolio with conventional drive systems	
Model portfolio	> Expansion of the model portfolio to tap into new customer segments: > Audi SQ2 > Audi Q3 Sportback (market introduction in 2019) > Audi RS 5 Sportback > Audi Q5 L > Audi Q8 > Lamborghini Urus > Updating of existing model portfolio in the fiscal year: > Audi A1 Sportback > Audi Q3 > Audi RS 4 Avant > Audi A6 Avant > Audi A6 Sedan > Audi A7 Sportback > Lamborghini Huracán Performante Spyder > Lamborghini Aventador SVJ (market introduction in 2019) > Preparations for models appearing on the market in the near future, including: > Audi A3 Sportback > Audi A5 > Audi A6 allroad quattro > Audi S6 > Audi S7 Sportback > Audi RS 7 Sportback > Audi Q7 and Audi SQ7 > Audi SQ8, RS Q8
Updating of model portfolio	> Model updates to existing product portfolio (market introduction in 2019): > Audi TT/TTS Coupé > Audi TT/TTS Roadster > Audi R8 Coupé > Audi R8 Spyder > Audi A4 > Lamborghini Huracán Evo

Basic/cross-area topics	
Basic/cross-area topics	> Cross-model activities, including trial runs, tests and type approvals > Audi System Engineering (including expansion of virtual development) > Motorsport

*Read more about our innovations and technologies at **www.audi.com, www.audi-mediacenter.com** and **www.audi.com/innovation.***

PROCUREMENT

Changed conditions in the automotive industry plus the strategic direction of the Audi Group are also redefining the role of Procurement. One priority area in the 2018 fiscal year was innovation management and cooperation with suppliers in the advance development phase. We also made progress with ensuring sustainability standards in our supply chain.
In addition, the emphasis in 2018 was very much on implementing the Audi Transformation Plan (ATP) with a view to systematically making the Company fit for the future.
In 2018, the prices of the commodities that are relevant for the Audi Group rose again. To minimize fluctuations in commodity prices, we fundamentally seek long-term strategic solutions with our partners. In this way we want to guarantee price stability and reliability of supplies. We continuously observe the availability of resources and demand, and take appropriate action together with our suppliers as necessary.
The cost of materials, which also includes expenses for raw materials and supplies, as well as purchased goods and services, amounted to EUR 41,023 (40,370) million in the past fiscal year. The increase can be explained by higher purchase costs, including in connection with the volume development of other brands.

/ *REDUCING COMPLEXITY AND OPTIMIZING COSTS*

As part of the ATP, Procurement is working intensively with Technical Development to permanently reduce material, investment and indirect purchasing costs. This work package is the biggest contributor to the overall success of the ATP. For that reason, we comprehensively analyze our products right from the early development phase, and also later during series production. In the early product development phase we place even greater emphasis on design to cost, as well as on greater standardization. The use of carry-over parts and reduced product complexity are also important courses of action for optimizing the cost of materials. We employ tools such as benchmark and cost/value analyses here. In addition, we have also cut the costs for services and optimized capital investment on the procurement side. We tap further potential by pooling processes, structures and expertise Company-wide and by using ideas generated by suppliers in joint workshops as well as suggestions for improvements from our employees. In all measures, our focus is on premium quality standards and customer benefit.

/ *CREATING AND SOURCING INNOVATIONS*

The goal of Audi Procurement is to identify innovative suppliers, join forces with them to turn ideas into innovations and bring these to market in our Audi models before our competitors do. We ensure a close strategic dialogue with selected suppliers through the Volkswagen Group initiative FAST (Future Automotive Supply Tracks). We also secure strategic innovations by suppliers through the innovation process introduced at Audi in 2016 that makes it possible to award contracts in the early phase of product development. Our long-term goal is to develop into the preferred customer of suppliers through this approach. We continued the program in the 2018 fiscal year, succeeded in concluding further innovation contracts with new partners and made series-production preparations for a large number of new products.

/ *STRENGTHENING SUSTAINABILITY IN THE SUPPLY CHAIN*

We are convinced that entrepreneurial responsibility is a decisive factor in success, and therefore attach great importance to a sustainable supply chain. The previous year had already seen us introduce a sustainability rating for suppliers with the goal of protecting the environment and guaranteeing social standards. As well as a self-disclosure by our suppliers based on a standardized questionnaire, the rating includes an on-site check. We carry this out together with our partners at their production locations. The check covers 12 general criteria in the areas of environment and social. From fall 2019, the sustainability rating will then be elevated to the status of a major decision-making criterion for the awarding of contracts to all suppliers. Only suppliers that achieve a positive rating have the prospect of becoming Audi partners. This will make sustainability just as important a selection criterion as costs, quality, technological expertise and innovativeness.
We have already inspected some 1,000 partners through on-site checks at their production locations. Back in 2013, Audi furthermore signed up to the Aluminium Stewardship Initiative (ASI) for a global sustainability standard for aluminum. In 2018 we became the world's first car manufacturer to be awarded a sustainability certificate by the ASI. The production and assembly of the battery housing for the Audi e-tron are certified. Our next move will be to work towards ASI certification with our suppliers in the upstream supply chain.

PRODUCTION

/ AUTOMOTIVE SEGMENT [1)]

Car production by model

	2018	2017
Audi A1	8,750	19,010
Audi A1 Sportback	71,637	76,336
Audi Q2	108,454	102,084
Audi A3	–	7,818
Audi A3 Sportback	171,729	167,741
Audi A3 Sedan	123,647	127,204
Audi A3 Cabriolet	9,571	10,716
Audi Q3	167,800	205,001
Audi TT Coupé	8,756	17,568
Audi TT Roadster	3,362	4,606
Audi A4 Sedan	244,484	205,423
Audi A4 Avant	86,548	99,505
Audi A4 allroad quattro	13,591	20,379
Audi A5 Sportback	80,162	76,919
Audi A5 Coupé	18,753	25,102
Audi A5 Cabriolet	12,629	17,574
Audi Q5	298,793	289,892
Audi A6 Sedan	195,270	195,295
Audi A6 Avant	51,990	54,131
Audi A6 allroad quattro	7,588	10,192
Audi A7 Sportback	20,058	16,968
Audi e-tron	2,404	4
Audi e-tron Sportback	21	–
Audi Q7	110,099	106,847
Audi Q8	22,414	436
Audi A8	24,541	15,854
Audi R8 Coupé	1,224	1,888
Audi R8 Spyder	540	1,291
Audi brand	**1,864,815**	**1,875,784**
Lamborghini Urus	2,565	121
Lamborghini Huracán	2,790	2,649
Lamborghini Aventador	1,216	1,286
Lamborghini brand	**6,571**	**4,056**
Automotive segment	**1,871,386**	**1,879,840**

// AUDI BRAND

In the 2018 fiscal year, we produced 1,864,815 (1,875,784) premium cars of the Audi brand.

We adjusted production operations at our sites due to the switching of Audi models to the new WLTP test cycle. We produced 491,262 (538,103) vehicles at our Group headquarters in Ingolstadt. In Neckarsulm we manufactured 186,196 (193,016) Audi models, fewer than in the previous year due in part to new model launches.

From January through December 2018, we built 173,734 (158,543) of the second-generation Audi Q5 at our production site at Audi México S.A. de C.V. in San José Chiapa (Mexico). Over the same period, Audi Hungaria Zrt. manufactured a total of 100,000 (105,491) cars at the Győr site (Hungary). The new Audi Q3 has also been built in Győr since September 2018 following the restructuring of our production network. We produced a total of 66,286 (95,288) vehicles at Audi Brussels S.A./N.V. in Brussels (Belgium). The lower volume compared with the previous year is mainly due to the transfer of production of the Audi A1 to Martorell (Spain). In addition, series production of the Audi e-tron – our first fully electric SUV – commenced in Brussels in the third quarter of 2018. In preparation for the series-production start in 2019, we already built the first Audi e-tron Sportback cars at the end of 2018.

Audi do Brasil Indústria e Comércio de Veiculos Ltda., São Paulo (Brazil), manufactured a total of 6,568 (5,159) cars in São José dos Pinhais, near Curitiba, in the 2018 fiscal year.

At the Volkswagen Group sites in Martorell (Spain) and Bratislava (Slovakia), 83,629 (114,372) and 131,758 (106,640) cars of the Audi brand left the production lines respectively. The production processes at both plants were also affected by the restructuring of our production network. The new Q8 is now being built in Bratislava in addition to the

1) This includes 617,940 (552,659) Audi models manufactured by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China).

Audi Q7, while the new generation of the Audi A1 – which previously came from the Brussels plant – is now built in Martorell.

We manufactured 7,442 (6,513) cars in Aurangabad (India), another Volkswagen Group site.

In the 2018 fiscal year, the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China), produced a total of 511,177 (467,468) cars at the company headquarters in Changchun and 106,647 (85,191) vehicles in the southern Chinese city of Foshan. Production preparations for new models are taking place here, too. For example, the first Q2 L e-tron cars are now being built there in preparation for the start of series production in 2019. The Q2 L e-tron is our first electric car tailored to Chinese customers. At the new site in Tianjin, the first Audi Q3 cars were manufactured in preparation for its series production there starting in 2019.

// LAMBORGHINI BRAND

Automobili Lamborghini S.p.A. built 6,571 (4,056) cars of the Lamborghini brand at its company headquarters in Sant'Agata Bolognese (Italy) in the year under review. The major contributor to the increase in volume year on year was the series production ramp-up of the Lamborghini Urus.

// ENGINE AND MOTOR PRODUCTION

The Audi Group produced a total of 1,955,532 (1,966,434) engines and motors for cars in the 2018 fiscal year. Of this total, 1,954,301 (1,965,165) units were manufactured by Audi Hungaria Zrt. in Győr (Hungary). The figure includes electric motors for the electrified powertrain of the Audi e-tron, our first fully electric SUV. Over the same period, Automobili Lamborghini S.p.A. built 1,231 (1,269) 12-cylinder engines in Sant'Agata Bolognese (Italy).

/ MOTORCYCLES SEGMENT

The Ducati brand produced 53,320 (56,743) motorcycles worldwide in the past fiscal year. 44,221 (46,780) units were built at the company headquarters in Bologna (Italy). Ducati produced 8,150 (8,792) motorcycles at the Amphur Pluakdaeng (Thailand) plant. In addition, 949 (1,171) bikes were built on a contract manufacturing basis in Manaus (Brazil).

Motorcycle production

	2018	2017
Scrambler	14,654	14,461
Naked/Sport Cruiser (Diavel, Monster)	10,800	17,069
Dual/Hyper (Hypermotard, Multistrada)	13,728	14,357
Sport (SuperSport, Superbike)	14,138	10,856
Ducati brand	**53,320**	**56,743**
Motorcycles segment	**53,320**	**56,743**

*Read more about the **production sites** of the individual models on page 91.*

/ SIGNIFICANT EXPANSIONS AT THE GROUP SITES

// NEW DEVELOPMENTS AT THE INGOLSTADT SITE

The focus of our capital investment at the Ingolstadt site is on improving production flexibility. At the north end of our plant in Ingolstadt, for example, we are currently constructing a body shop with which we are introducing greater flexibility into the process of managing the production volume. Compact segment models are set to share the A4 and A5 assembly line in the future. Furthermore, it will be possible to manufacture both models with combustion engine and ones with alternative drives on the same assembly line in the future.

// EXPANSIONS AT THE NECKARSULM SITE

In the southeast of the Neckarsulm site we are constructing a new body shop, for which we started the groundwork in 2018. Another new building will house logistics and pre-assembly zones. These structural measures will give us greater flexibility. In addition, the new Materials Testing Technical Center was inaugurated in 2018. This is where experts develop aluminum materials for lightweight construction, for example.

// PRODUCTION START OF AUDI E-TRON IN BRUSSELS

Volume production of our first fully electric SUV – the Audi e-tron – started at the Brussels site in 2018. Another fully electric car – the Audi e-tron Sportback – will go into production there beginning in 2019. Due to these changes, we comprehensively modernized and reorganized our production operations. Since 2018, the site has been certified as carbon-neutral and has been given its own battery assembly facility, for example. As part of restructuring our production network, production of the Audi A1 has been transferred from Belgium to Martorell (Spain).

// FUTURE FOCUS IN HUNGARY

In the course of restructuring the production network, we have transferred production of the Audi Q3 from Martorell to Győr (Hungary). We expect this restructuring to give us even greater scope for exploiting synergies within the Volkswagen Group and for pooling important key expertise – with the result of further increasing our production efficiency at all sites. The Audi Q3 will soon be joined by an additional Győr-built SUV model in 2019. Numerous expansion measures were carried out in the 2018 fiscal year to accommodate the two new models. For example, a new body shop has been created on a site covering some 80,000 square meters. Production of electric motors for the Audi e-tron according to an innovative production concept, modular assembly, has also commenced on a site of around 8,500 square meters. These motors are assembled using a modular approach on various production islands. In addition, in 2018 a highly efficient three-cylinder gasoline engine was added to the portfolio of combustion engines manufactured at the site.

// EXPANSION OF LOCAL PRODUCTION IN CHINA

In partnership with FAW-Volkswagen Automotive Company, Ltd., Changchun (China), production capacities in China are being ramped up flexibly over the next few years to over 700,000 units annually, depending on market demand. Furthermore, the locally built product portfolio is to be increased to 12 models. To that end, local production operations are being expanded, including the Tianjin site. This plant will build SUV models for the Volkswagen and Audi brands. A further plant in Quingdao will also build two Audi models in the future. In addition, fully electric vehicles will also be locally produced in China in the future. For example, series production of the fully electric Audi Q2 L e-tron, which is tailored specifically to the requirements of Chinese customers, starts in 2019. The production preparations for it already started in the 2018 fiscal year. The Audi e-tron will also be produced locally in China starting in 2020.

DELIVERIES AND DISTRIBUTION

/ *AUTOMOTIVE SEGMENT* [1)]

Car deliveries to customers by model

	2018	2017
Audi A1	10,713	19,541
Audi A1 Sportback	70,800	76,184
Audi Q2	97,091	93,483
Audi A3	997	9,166
Audi A3 Sportback	161,351	172,142
Audi A3 Sedan	125,861	128,032
Audi A3 Cabriolet	9,688	12,594
Audi Q3	170,458	207,774
Audi TT Coupé	11,539	18,901
Audi TT Roadster	3,102	4,998
Audi A4 Sedan	244,707	215,146
Audi A4 Avant	83,774	105,503
Audi A4 allroad quattro	16,105	20,722
Audi A5 Sportback	72,786	67,784
Audi A5 Coupé	20,268	25,506
Audi A5 Cabriolet	14,725	13,534
Audi Q5	294,905	281,854
Audi A6 Sedan	197,212	190,696
Audi A6 Avant	47,721	54,946
Audi A6 allroad quattro	8,887	10,523
Audi A7 Sportback	19,974	18,641
Audi Q7	95,768	106,004
Audi Q8	10,543	40
Audi A8	20,045	21,323
Audi R8 Coupé	1,862	1,916
Audi R8 Spyder	898	1,152
Internal vehicles before market introduction	705	–
Audi brand	**1,812,485**	**1,878,105**
Lamborghini Urus	1,761	–
Lamborghini Huracán	2,780	2,642
Lamborghini Aventador	1,209	1,173
Lamborghini brand	**5,750**	**3,815**
Other Volkswagen Group brands	**263,183**	**223,164**
Automotive segment	**2,081,418**	**2,105,084**

// *AUDI BRAND*

In the 2018 fiscal year, we delivered 1,812,485 (1,878,105) cars of our core brand Audi to customers worldwide. The fall of –3.5 percent meant we were unable to match the previous year's record volume. In addition to the complexities of handling the product discontinuations and launches that the biggest model initiative in Audi history involved, we faced challenging conditions in individual markets. For instance, switching our entire model portfolio to the new WLTP test cycle in particular negatively impacted the development in our deliveries compared with the previous year.

In Western Europe, our delivery volume fell by –13.9 percent to 693,330 (805,388) Audi vehicles. The large number of model discontinuations and launches as a result of our model initiative as well as restrictions to the sales range due to the WLTP changeover adversely affected the sales situation, especially in the second half of the year. Against this background, deliveries in our home market Germany also contracted. In that market, we delivered 260,456 (294,544) cars to customers, representing a fall of –11.6 percent compared with the previous year. In the United Kingdom – our biggest European export market – a total of 143,716 (175,217) customers chose vehicles of the brand with the Four Rings in the 2018 fiscal year. We consequently experienced a fall of –18.0 percent compared with the prior-year volume, the contributing factors including the contraction in the market as a whole in the context of the expected Brexit. In Italy we delivered 62,256 (68,954) Audi vehicles to customers, a decrease of –9.7 percent. While we delivered 51,710 (63,980) cars and therefore –19.2 percent fewer in France, our volume in Spain came to 53,105 (56,083) Audi models, a total of –5.3 percent down on the prior-year figure. In Belgium, our volume reached 27,996 (32,760) cars – a decrease of –14.5 percent compared with the previous year.

The Central and Eastern Europe region recorded deliveries of 50,283 (55,236) Audi models from January through December 2018, a decline in volume of –9.0 percent. Along with most countries in Central Europe, the development in the Russian car market was also negative for Audi. Our deliveries in Russia decreased by –3.9 percent to 16,216 (16,876) vehicles.

1) This includes 600,700 (545,000) delivered Audi models built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China).

In the North America region we delivered 275,012 (277,569) units in the same period, and almost equaled the high prior-year level with a fall of just –0.9 percent. The 2018 fiscal year brought a large number of model changeovers in the United States. Despite that, with 223,323 (226,511) Audi models delivered, the success of our SUV models meant our deliveries figure was only –1.4 percent down on the prior-year period. We achieved satisfying growth of 2.5 percent to 36,908 (36,007) cars in Canada.

With 18,841 (21,864) cars, we saw deliveries in the South America region fall by –13.8 percent. The main factor at work here was the volume development in Brazil – our biggest national market in the region. We handed 8,810 (10,035) Audi vehicles over to customers in that country in the year under review – a decrease of –12.2 percent.

Over the period January through December 2018, we delivered a total of 739,018 (669,771) Audi vehicles to customers in the Asia-Pacific region. The volume was therefore 10.3 percent up on the previous year's already high total. In our largest market China, we delivered 663,049 (597,866) cars of the Audi brand to customers. Despite the contracting overall market, we were able to improve on the prior-year volume by 10.9 percent. We have therefore increased our volume five-fold since 2008 and again enjoyed the status of premium-segment market leader in 2018. In Japan, deliveries of 26,479 (28,301) units were –6.4 percent below the prior-year figure.

Market introductions of new Audi models in the 2018 fiscal year

Models	Main characteristics and new features
Audi RS 4 Avant *(new model)* 	> Combines everyday usability with RS performance > Sharper RS design (e.g. large air inlets with typical RS honeycomb structure, prominent Singleframe, striking roof edge spoiler) > Enhanced efficiency and reduced weight compared with predecessor model > Phased market introduction since January 2018
Audi A7 Sportback *(new model)* 	> Four-door coupé embodies dynamic elegance in design and technology > Clear, minimalistic formal idiom in interior complemented by new MMI touch response operating concept > Systematic electrification of the driveline: with new mild-hybrid system as standard > Extensive range of standard and optional driver assistance systems (e.g. intersection assist) > Gradual market introduction since March 2018
Audi A6 Sedan *(new model)* 	> New full-size sedan embodies progress, cutting-edge technology and sophistication > Customizable, fully digital MMI touch response system with intuitive operation > Systematic electrification of the driveline: with new mild-hybrid system as standard > Extensive range of standard and optional driver assistance systems (e.g. intersection assist) > Presentation in February 2018, gradual market introduction since July 2018
Audi A6 Avant *(new model)* 	> Combines versatility with dynamic design and driving enjoyment > Customizable, fully digital MMI touch response system with intuitive operation > Systematic electrification of the driveline: with new mild-hybrid system as standard > Extensive range of standard and optional driver assistance systems (e.g. intersection assist) > Presentation in April 2018, gradual market introduction since September 2018
Audi Q8 *(new model, no predecessor)* 	> New face of the Q family with expressive design and comprehensive connectivity > Elegant interior with MMI touch response system, high-tech navigation and innovative voice control > Systematic electrification of the driveline: new mild hybrid technology with 48-volt electrical system as standard > Extensive range of standard and optional driver assistance systems (e.g. intersection assist) and innovative driver assistance systems such as remote parking pilot or remote garage pilot (expected from 2020) > Presentation in June 2018, gradual market introduction since August 2018
Audi RS 5 Sportback *(new model, no predecessor)* 	> Progressive interpretation of a high-performance, five-door coupé > Combines emotional design with everyday usability and superior driving performance > Powerful V6 biturbo engine, quattro permanent all-wheel drive as standard and RS sport suspension plus with DRC (optional) ensure dynamic handling with outstanding traction > Presentation in March 2018, market introduction since fourth quarter of 2018 initially in the United States and Canada

Models	Main characteristics and new features
Audi A1 Sportback *(new model)* 	> Distinctive, masculine design with streamlined styling plus extensive customization options > Infotainment and driver assistance systems of full-size caliber (e.g. Audi pre sense front, lane departure warning as standard in Europe) > Strongly driver-oriented interior design with fully digital instrument cluster and optional MMI touch display > Presentation in June 2018, market introduction in fall 2018 in Europe
Audi Q3 *(new model)* 	> Striking front end with octagonal-design Singleframe plus LED headlights as standard > Excellent everyday utility thanks to longer wheelbase, variable interior configuration with sliding rear seat > Smart infotainment with digital instrument cluster and new form of voice control as an option > Increased comfort thanks to refined suspension and new adaptive cruise assist (optional) > Presentation in July 2018, gradual market introduction since November 2018 in Europe
Audi SQ2 *(new model, no predecessor)* 	> New top model of Q2 family with striking exterior design and many sporty highlights in interior > High-performance engine with spontaneous response and increased torque > quattro all-wheel drive as standard delivers up to 100 percent of power to rear wheels if required > Driver assistance systems from full-size class, such as traffic jam assist and park assist (both optional) > Presentation at end of September 2018, phased market introduction since end of December 2018

Audi models presented in the 2018 fiscal year with phased market introduction in 2019

Models	Main characteristics and new features
Audi TT/TTS Coupé *(product improvement)* 	> Sporty, sharper exterior design with three-dimensional radiator grille and new bumpers > Higher-powered engines with gasoline particulate filter, precise and dynamic handling with progressive steering > Extended range of standard equipment (e.g. Audi drive select and Bluetooth) > Digital connectivity thanks to Audi connect (optional) using high-speed LTE standard and Audi smartphone interface > Presentation in July 2018, market introduction in first quarter of 2019 initially in Europe
Audi TT/TTS Roadster *(product improvement)* 	> Sporty, sharper exterior design with three-dimensional radiator grille and new bumpers > Higher-powered engines with gasoline particulate filter, precise and dynamic handling with progressive steering > Extended range of standard equipment (e.g. Audi drive select and Bluetooth) > Digital connectivity thanks to Audi connect (optional) using high-speed LTE standard and Audi smartphone interface > Presentation in July 2018, market introduction in first quarter of 2019 initially in Europe
Audi e-tron *(new model, no predecessor)* 	> Full-size SUV as first fully electrically powered series-production Audi model with electric all-wheel drive > Range of up to 417 km (to WLTP), e-tron Charging Service with access to currently over 72,000 charging points in 16 EU markets and fast-charging capability at up to 150 kW ensure high everyday suitability > Virtual exterior mirrors as high-end option available for first time in a series-production car > Presentation in September 2018, market introduction in first quarter of 2019 initially in Europe
Audi R8 Coupé *(product improvement)* 	> Fastest series-production Audi now with more sporty design and more performance > Optimized naturally aspirated engines with unique sound feature gasoline particulate filters and deliver more power and torque > Improvements to suspension provide even more stability and precision > Presentation in October 2018, phased market introduction in the course of first quarter of 2019
Audi R8 Spyder *(product improvement)* 	> Fastest Audi convertible now with more sporty design and more performance > Optimized naturally aspirated engines with unique sound feature gasoline particulate filters and deliver more power and torque > Improvements to suspension provide even more stability and precision > Presentation in October 2018, phased market introduction in the course of first quarter of 2019

*Read more online about our **Audi models** at*
www.audi.com/models.

// LAMBORGHINI BRAND

Our Italian brand Lamborghini delivered a total of 5,750 (3,815) vehicles to customers in the 2018 fiscal year. The substantial increase of 50.7 percent year on year represents a new high and is based principally on the market introduction of the new Lamborghini Urus in the year under review. The Urus is the third Lamborghini product line and has opened the Super SUV segment. In addition, Lamborghini has significantly broadened its customer base with the Urus and substantially increased its brand recognition, especially among young customers. The United States was again the largest single market for the Lamborghini brand in the year under review, followed by the United Kingdom, Japan, Germany and China. Lamborghini deliveries were well up in these markets, where it also set new national records.

*Read more online about our **Lamborghini models** at **www.lamborghini.com.***

Lamborghini models presented or introduced in the period under review

Models	Main characteristics and new features
Lamborghini Urus *(new model, no predecessor)* 	> First Super SUV of the Lamborghini brand combines off-road capability with the handling characteristics of a supercar > Permanent all-wheel drive and all-wheel steering enable precision handling > Carbon ceramic brakes, adaptive air suspension and active roll stabilization provide high safety and comfort (including on long journeys) > Luxurious interior with room for up to five people > Gradual market introduction since summer 2018
Lamborghini Huracán Performante Spyder *(new model)* 	> Most powerful Spyder in the Huracán family > Hybrid aluminum and carbon fiber chassis with clear focus on lightweight construction > Active aerodynamic system “Aerodinamica Lamborghini Attiva” (ALA) actively distributes the aerodynamic load (for either high downforce or low drag) > Presentation in March 2018, gradual market introduction since summer 2018
Lamborghini Aventador SVJ *(new model)* 	> Limited-edition generation of V12 top model from Lamborghini > New design features with focus on aerodynamic performance > All-wheel drive, all-wheel steering and lightweight construction for technical brilliance and optimized handling > Presentation in August 2018, gradual market introduction from start of 2019
Lamborghini Huracán Evo *(product improvement)* 	> Next-generation V10 supercar takes performance of Huracán Performante to the next level > Fully integrated Lamborghini vehicle dynamics control system combined with permanent all-wheel drive and all-wheel steering produces even more agility and easiness to drive > New infotainment system with ultramodern connectivity solutions > Presentation in January 2019, gradual market introduction in spring 2019

// OTHER VOLKSWAGEN GROUP BRANDS

Our multi-brand sales companies Volkswagen Group Italia S.p.A., Verona (Italy), Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), Audi Singapore Pte. Ltd., Singapore (Singapore), and Audi Volkswagen Taiwan Co., Ltd., Taipei, delivered a total of 263,183 (223,164) vehicles of other Volkswagen Group brands in the 2018 fiscal year. These include vehicles of the Bentley, SEAT, Škoda, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands.

/ MOTORCYCLES SEGMENT

Our Italian motorcycle manufacturer Ducati handed 53,004 (55,871) motorcycles over to customers worldwide in the 2018 fiscal year – a decline of –5.1 percent. The Ducati brand benefited from a positive trend in deliveries in its home market Italy. In contrast, the volume of deliveries in the United States, the largest market, fell at a time when overall market demand was likewise on the retreat. In Germany, the Ducati brand also reported a lower volume of deliveries than one year earlier.

Motorcycle deliveries to customers

	2018	2017
Scrambler	13,137	14,055
Naked/Sport Cruiser (Diavel, Monster, Streetfighter)	13,375	17,173
Dual/Hyper (Hypermotard, Multistrada)	13,761	14,784
Sport (SuperSport, Superbike)	12,731	9,859
Ducati brand	**53,004**	**55,871**
Motorcycles segment	**53,004**	**55,871**

In the 2018 fiscal year we brought the Ducati Panigale V4 onto the market, our first volume-production motorcycle with a four-cylinder engine positioned at the pinnacle of the Ducati Sport segment. All three versions of the new Panigale V4 – V4, V4 S and V4 Speciale – raise the bar further still in terms of performance and rideability thanks to racing expertise and technology. We also unveiled the Panigale V4 R as the most powerful series-production motorcycle ever built by Ducati. It will be arriving at dealers starting in 2019.

In addition, since the first quarter of 2018, the new Ducati Panigale 959 Corse has represented the sportiest expression of the Panigale 959. The successful Ducati Scrambler portfolio has grown, expanding to include the 1100, 1100 Special and 1100 Sport models. The new Ducati Multistrada 1260 Enduro has also joined the Multistrada range. The year under review equally saw the presentation of the second-generation Diavel 1260 and the new Ducati Hypermotard 950, both of which will be going on sale from 2019.

Read more online about our ***Ducati models*** *at* ***www.ducati.com.***

FINANCIAL PERFORMANCE INDICATORS

The Audi Group generated revenue of EUR 59.2 billion in the 2018 fiscal year. The operating return on sales was significantly influenced particularly by special items in connection with the diesel issue as well as by supply-end distortions following the switch to the WLTP test cycle, and came to 6.0 percent. Before special items, we achieved an operating return on sales of 7.9 percent thanks especially to the successfully started Audi Transformation Plan.

FIRST-TIME ADOPTION OF NEW ACCOUNTING STANDARDS

The Audi Group has implemented all of the accounting standards whose adoption became mandatory with effect from the 2018 fiscal year. The changes involved in the first-time adoption of IFRS 9 were generally applied prospectively. Retrospective adoption of the IFRS 9 requirements relating to the designation of options resulted in a minor-extent restatement of prior-year figures. For IFRS 15, the modified retrospective transition method was applied. In addition, expenses for individual sales programs had to be reclassified.

FINANCIAL PERFORMANCE [1)]

The Audi Group generated revenue of EUR 59,248 (59,789) million in the 2018 fiscal year.

In the Automotive segment revenue came to EUR 58,550 (59,055) million.
We generated revenue of EUR 37,259 (40,728) million through sales of vehicles of our core brand Audi. Revenue performance was held back by a temporarily limited sales range because of the new WLTP test cycle, model changeovers affecting a large number of product lines and exchange rate factors. Positive drivers included especially the market success of our new Audi Q8 as well as volume growth in our largest single market China.
We increased revenue from engines, powertrains and parts deliveries to EUR 8,326 (7,607) million, among other things due to higher proceeds from deliveries of parts sets for local production in China. Revenue from other automotive business also developed positively to EUR 6,305 (5,886) million, especially thanks to the genuine parts business.
Above all due to the new Lamborghini Urus, sales of vehicles of the Lamborghini brand increased revenue to EUR 1,316 (933) million.
In addition to cars of the Audi and Lamborghini brands, the Audi Group sells vehicles of the Bentley, SEAT, Škoda, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands through its own sales companies. Revenue from the sale of vehicles of these other brands developed positively thanks to the higher sales volume and reached EUR 4,728 (3,900) million in the 2018 fiscal year.
Under the new IFRS 9 accounting standard, results from currency hedging transactions that had previously been reported mainly under the other operating result were now shown within revenue in the period under review. Other changes arose in connection with sales-related payments, which were still reported in distribution costs in the 2017 fiscal year but from 2018 are recognized as sales allowances pursuant to IFRS 15 with the effect of reducing revenue. The effects from the adoption of the new accounting standards were broadly balanced out within revenue.

1) The prior-year figures have been adjusted to reflect the first-time adoption of IFRS 9 and IFRS 15 (see also the comments on IFRS 9 and IFRS 15 in the Notes to the Consolidated Financial Statements).

In the Motorcycles segment, revenue generated in connection with the Ducati brand amounted to EUR 699 (736) million. This development was attributable mainly to the downturn in volume, in a reflection of the negative market development.

Condensed Income Statement, Audi Group

EUR million	2018	2017
Revenue	59,248	59,789
Cost of goods sold	– 50,117	– 50,076
Gross profit	**9,131**	**9,713**
Distribution costs	– 4,155	– 4,925
Administrative expenses	– 696	– 682
Other operating result	– 751	565
Operating profit	**3,529**	**4,671**
Financial result	831	46
Profit before tax	**4,361**	**4,717**
Income tax expense	**– 898**	**– 1,285**
Profit after tax	**3,463**	**3,432**

Key operating performance figures, Audi Group

EUR million	2018	2017
Operating profit before special items	**4,705**	**5,058**
Special items	– 1,176	– 387
Operating profit	**3,529**	**4,671**
Automotive segment	3,505	4,643
Motorcycles segment	25	28
adjusted for effects of PPA [1]	*49*	*51*
Profit before tax	**4,361**	**4,717**

in %	2018	2017
Operating return on sales before special items	**7.9**	**8.5**
Operating return on sales	**6.0**	**7.8**
Automotive segment	6.0	7.9
Motorcycles segment	3.6	3.8
adjusted for effects of PPA [1]	*7.0*	*7.0*
Return on sales before tax	**7.4**	**7.9**

1) Adjusted for the effects of subsequent measurement in connection with the purchase price allocation (PPA) amounting to EUR 23 (23) million

In the 2018 reporting year, the cost of goods sold for the Audi Group totaled EUR 50,117 (50,076) million. Compared with the revenue performance, this is attributable to largely constant fixed costs following the adjustment of the production range in connection with the switch to WLTP. The cost of goods sold also includes expenses in connection with the diesel issue.
Higher purchase costs reflecting the growth in trading transactions with other Volkswagen Group brands as well as increased direct material costs for our parts business equally impacted the cost of goods sold.
We continue to drive forward the transformation of Audi with high investments in future topics. We are also in the midst of our model and technology initiative. Consistent management of resources and further improvements to efficiency in the Research and Development area are very important in that regard. Research and development activities in the 2018 fiscal year amounted to EUR 4,178 (3,809) million. Relative to revenue, the research and development ratio came to 7.1 (6.4) percent. An amount of EUR 1,593 (1,243) million of development activities was capitalized – this represents a capitalization ratio of 38.1 (32.6) percent. Research and development expenditure recognized as an expense declined to EUR 3,441 (3,590) million in the period under review. The amortization of capitalized development costs fell to EUR 856 (1,025) million, while research and non-capitalized development costs came to EUR 2,585 (2,565) million.

The gross profit of the Audi Group reached EUR 9,131 (9,713) million in the year under review.

Distribution costs fell to EUR 4,155 (4,925) million. The decrease year on year is due in part to changes in connection with IFRS 15. For example, sales-related payments were recognized within revenue as sales allowances from the start of 2018 – these payments had still been reported under distribution costs in the previous year. New priorities within our sales and marketing activities also had the effect of holding distribution costs in check.

The administrative expenses of the Audi Group were almost on a par with the previous year at EUR 696 (682) million.

The other operating result fell to EUR –751 (565) million. Year on year, this is primarily due to expenses in connection with the diesel issue. For example, it contains the costs of the legally binding administrative order imposing a fine on AUDI AG by the Munich II public prosecutor. In response to the new accounting standard IFRS 9, hedging transactions on the development of residual values have additionally been recognized within the other operating result rather than in the financial result since the start of the 2018 fiscal year. In the opposite direction there were positive effects from the measurement of receivables and liabilities settled in foreign currency at the reporting date.

The operating activities of the Audi Group are reflected in operating profit before special items of EUR 4,705 (5,058) million. This represents an operating return on sales before special items of 7.9 (8.5) percent. With the adverse effect of special items totaling EUR –1,176 (–387) million, operating profit of the Audi Group came to EUR 3,529 (4,671) million. This corresponds to an operating return on sales of 6.0 (7.8) percent. The special items amounting to EUR –1,176 million resulted mainly from the legally binding administrative order imposing a fine in connection with the diesel issue. They also reflect spending for technical measures, customer measures as well as expenses and provisioning for legal risks. In the prior-year period, the special items affecting profit or loss from the diesel issue amounted to EUR –387 million and related to updated measurement assumptions following the settlement agreements in North America. Special items reflect certain matters in the financial statements in cases where we believe their separate disclosure, based on our assessment, permits a more accurate evaluation of the economic performance of the Audi Group.

*Read more about the **diesel issue** on pages 101 ff.*

In the Automotive segment, taking into account the negative special items, we achieved an operating profit of EUR 3,505 (4,643) million and an operating return on sales of 6.0 (7.9) percent. In addition to the special items, operating profit was influenced especially by the supply-end distortions in connection with the switch to the new WLTP test cycle. The implementation of our product initiative and the model discontinuations and launches it involves also adversely affected the situation. Upfront financing for future mobility solutions and new technologies, increased depreciation and amortization and the restructuring of our production network equally had a negative impact on operating profit. The successful establishment of the Audi Transformation Plan in the Company had a positive impact. As a result, operating profit for the 2018 reporting period already benefited from measures worth EUR 1.9 billion in terms of revenue and costs; this helped us compensate for an array of negative factors. These efforts saw us put the first successful projects into routine operation. Our currency management activities also had a positive effect on operating profit. Following the ramping-up of our production operations in Mexico, we are now also capitalizing on the natural hedge in the U.S. dollar region. The adoption of the new accounting standards had a negative overall effect on operating profit.

In the Motorcycles segment, the fall in volume was the dominant factor shaping operating profit, which came to EUR 25 (28) million. This represents an operating return on sales of 3.6 (3.8) percent. After adjusting for the effects of subsequent measurement in connection with the purchase price allocation of EUR 23 (23) million, operating profit reached EUR 49 (51) million and the operating return on sales 7.0 (7.0) percent.

Financial result, Audi Group

EUR million	2018	2017
Result from investments accounted for using the equity method	261	526
of which FAW-Volkswagen Automotive Company, Ltd.	*171*	*301*
of which Volkswagen Automatic Transmission (Tianjin) Company Limited	*176*	*86*
of which SAIC Volkswagen Automotive Company Ltd.	*21*	*–*
of which There Holding B.V.	*– 106*	*121*
Net interest result	118	– 39
Other financial result	452	– 441
of which brand settlement/ performance-related income, China business [1]	*540*	*271*
of which dividend from FAW-Volkswagen Automotive Company, Ltd. [2]	*162*	*–*
Financial result	**831**	**46**
of which China business [3]	*1,071*	*658*

1) Financial brand settlement agreed between AUDI AG and Volkswagen AG, Wolfsburg, and performance-related income for China business in connection with associated companies
2) Share of available-for-sale assets
3) Includes the items FAW-Volkswagen Automotive Company, Ltd., Volkswagen Automatic Transmission (Tianjin) Company Limited, SAIC Volkswagen Automotive Company Ltd., brand settlement/performance-related income for China business and dividend from FAW-Volkswagen Automotive Company, Ltd.

The financial result of the Audi Group showed an increase to EUR 831 (46) million in the past fiscal year. The result from our China business increased to EUR 1,071 (658) million. This was also influenced positively by the restructuring of participations in connection with our shares in FAW-Volkswagen Automotive Company, Ltd., Changchun (China), and the associated dividend. The restructuring of participations means the financial performance is now reported largely within the brand settlement for China business and therefore under the other financial result.

The adoption of IFRS 9 had a positive impact on the financial result. In the 2018 fiscal year, hedging transactions for matters such as developments in residual values were reported under the other operating result instead of under the other financial result.
In addition, there had been a positive non-recurring effect amounting to EUR 183 million in the prior-year period from the investments accounted for using the equity method in There Holding B.V., Rijswijk (Netherlands), as a result of the participation of a new investor in the mapping services company HERE.

The Audi Group posted a profit before tax of EUR 4,361 (4,717) million in the 2018 fiscal year. The return on sales before tax was 7.4 (7.9) percent. After deduction of income tax expense, we generated a profit of EUR 3,463 (3,432) million.

Return on investment, Audi Group

EUR million	2018	2017
Operating profit after tax	2,471	3,270
Invested assets (average)	24,829	22,659
Return on investment (ROI) in %	**10.0**	**14.4**

The return on investment (ROI) expresses the return achieved on the capital employed. We obtain this indicator by determining the ratio of operating profit after tax to average invested assets. The return on investment for the Audi Group consequently reached 10.0 (14.4) percent in the 2018 fiscal year, and therefore exceeded our minimum rate of return of 9 percent for invested assets. Year on year, the development in return on investment is largely attributable to the lower operating profit after tax because of the special items from the diesel issue. Our ongoing product and technology initiative as well as higher inventories were reflected in the higher level of invested assets. That, too, weighed on ROI. Operating profit after tax of the Audi Group for the year under review reached EUR 2,471 (3,270) million. The standardized average tax rate for the Volkswagen Group of 30 percent was assumed for this purpose. The average invested assets came to EUR 24,829 (22,659) million and are calculated from the asset items on the balance sheet that serve the core business purpose (intangible assets, property, plant and equipment, leasing and rental assets, investment property, inventories and receivables) less non-interest-bearing liabilities (trade payables and advances received). The average of the value of invested assets at the start and the value of the invested assets at the end of the fiscal year is then calculated.

NET WORTH

The balance sheet total of the Audi Group as of December 31, 2018, rose to EUR 65,598 (63,680) million.

Condensed Balance Sheet, Audi Group

EUR million	Dec. 31, 2018	Dec. 31, 2017
Non-current assets	32,393	29,469
Current assets	33,205	33,846
Available-for-sale assets	–	365
Balance sheet total	**65,598**	**63,680**
Equity	29,698	28,171
Liabilities	35,900	35,509
of which non-current liabilities	*14,549*	*14,301*
of which current liabilities	*21,351*	*21,208*
Balance sheet total	**65,598**	**63,680**

As of the end of 2018, non-current assets of the Audi Group totaled EUR 32,393 (29,469) million. The increase stems especially from the development in other financial assets to EUR 5,742 (4,940) million. Above all because of the capitalized development costs balance sheet item, intangible assets increased to EUR 7,585 (6,785) million. Property, plant and equipment also rose to EUR 14,293 (13,660) million. The balance sheet item of investments accounted for using the equity method reflects the acquisition of 1 percent of the shares in SAIC Volkswagen Automotive Company, Ltd., Shanghai (China), in the fiscal year.

Total capital investments in the 2018 fiscal year rose to EUR 5,552 (5,235) million.

Current assets at December 31, 2018, were almost on a par with the previous year at EUR 33,205 (33,846) million. Lower cash funds of EUR 9,309 (11,273) million were the main reason for the fall in current assets. The drivers included a partial change in the investment horizon. In addition, the fine imposed under the administrative order by the Munich II public prosecutor in connection with the diesel issue led to a cash requirement of EUR -800 million. On the other hand, inventories of EUR 9,406 (7,893) million showed an increase on the previous year. This change is attributable to such factors as the measures taken to manage inventories for our sales and retail organization in connection with WTLP.

The equity of the Audi Group as of December 31, 2018, rose to EUR 29,698 (28,171) million. The consolidated net profit remaining after the transfer of profit in accordance with IFRS increased retained earnings by EUR 2,286 million. The development in equity was held back by the measurement effects to be recognized with no effect on profit or loss under IFRS rules, which led overall to a decrease in equity of EUR –852 million. These result primarily from fluctuations in the market value of hedge-effective currency hedging instruments mainly in connection with the revaluation of the U.S. dollar as well as the pound sterling and the Chinese renminbi against the euro. The equity ratio of the Audi Group as of December 31, 2018, was 45.3 (44.2) percent. It expresses equity as a percentage of the balance sheet total as of December 31 of the respective fiscal year.

As of the end of 2018, the Audi Group's non-current liabilities of EUR 14,549 (14,301) million were virtually on a par with the prior-year level.

The current liabilities of the Audi Group as of December 31, 2018, grew to EUR 21,351 (21,208) million mainly because of the rise in trade payables to EUR 8,565 (7,313) million. Other financial liabilities as of the end of 2018 showed a movement in the opposite direction to EUR 4,067 million, compared with EUR 4,928 million as of December 31, 2017. These include a liability in connection with the upcoming profit transfer to Volkswagen AG, Wolfsburg, for the 2018 fiscal year.

In the 2017 fiscal year, the balance sheet item "Available-for-sale assets" relates to the following two matters: In December 2017, contracts for the sale of a combined 3.9 percent of the shares in There Holding B.V., Rijswijk (Netherlands), were signed between the Audi Group and Robert Bosch Investment Nederland B.V., Boxtel (Netherlands), and Continental Automotive Holding Netherlands B.V., Maastricht (Netherlands).
In addition, the sale of 5 percent of the shares in FAW-Volkswagen Automotive Company, Ltd., Changchun (China), was negotiated with Volkswagen AG, Wolfsburg.

The above transactions were approved by the respective government agencies in the 2018 year under review and successfully completed.

As of January 1, 2019, the Audi Group will for the first time recognize leases according to the rules of IFRS 16. Due to the first-time recognition of rights of use and the corresponding lease liabilities, the balance sheet total will increase by around 1 percent after preliminary calculations.

FINANCIAL POSITION [1)]

/ PRINCIPLES AND GOALS OF FINANCIAL MANAGEMENT

Our overriding financial goal is to ensure the solvency and financing of the Audi Group at all times, while at the same time achieving a suitable return on the investment of surplus liquid funds. To that end, we identify cash flows in a multi-stage liquidity planning process and consolidate them at Audi Group level. The material companies of the Audi Group are included in the cash pooling of the Volkswagen Group. This permits the efficient handling of intra-Group and external transactions, and also reduces transaction costs for the Audi Group.

*Read more about the principles and goals of financial management, and in particular about **financial opportunities and risks**, in the report on risks and opportunities on pages 150 ff.*

/ FINANCIAL SITUATION

The Audi Group generated cash flow from operating activities of EUR 7,013 (6,173) million in the 2018 fiscal year. The increase was achieved essentially through our working capital management. Higher inventories contrasted with optimized management of liabilities. As expected, cash used in connection with the diesel issue of around EUR 1.2 billion impacted cash flow from operating activities unfavorably. This figure reflects the outflows for provisions drawn on, as well as temporary inventory effects within working capital.

The cash used for investing activities attributable to operating activities came to EUR 4,871 (1,861) million in 2018. The prior-year period was influenced by a positive non-recurring effect in connection with the transfer of the minority interest in Volkswagen International Belgium S.A., Brussels (Belgium), to Volkswagen AG, Wolfsburg, totaling EUR 3,278 million. Despite high investments in the future of the Audi Group and the continuing product initiative, we reduced capex – which also contains investment property and other intangible assets (without capitalized development costs) – to EUR 3,493 (3,872) million. The 2018 fiscal year consequently saw us invest principally in manufacturing structures for the production start of our new models, and in the expansion and conversion of our sites – a new body shop is being built in Ingolstadt, for example. We also started to bring our new products – such as the Audi A6, the Audi A7 and also the Audi Q3 – onto the markets. In addition, series production of the Audi e-tron – our first fully electric full-size SUV – got under way and initial preparations were made for the series production start of the Audi e-tron Sportback in 2019. The ratio of capex in the year under review of 2018 came to 5.9 (6.5) percent. This expresses capex in relation to revenue.
In terms of segments, EUR 5,018 (5,047) million of investments in property, plant and equipment, investment property and intangible assets (including capitalized development costs) was for the Automotive segment and EUR 69 (69) million for the Motorcycles segment.

1) The prior-year figures have been adjusted to reflect the first-time adoption of IFRS 9 and IFRS 15 (see also the comments on IFRS 9 and IFRS 15 in the Notes to the Consolidated Financial Statements).

The investing activities attributable to operating activities also include capitalized development costs amounting to EUR 1,593 (1,243) million. The increase compared with the prior-year period highlights the high product-related upfront spending on the future of Audi. In the year under review, the acquisition and sale of participations totaled EUR 136 (3,190) million. In the 2017 fiscal year, the Audi Group had transferred its minority interest in Volkswagen International Belgium S.A., Brussels (Belgium), to Volkswagen AG, Wolfsburg, thus generating a payment flow of EUR 3,278 million.

From January through December 2018, we generated an overall net cash flow of EUR 2,141 (4,312) million. The figure was once again clearly positive despite the cash used in connection with the diesel issue and substantial investments.

Taking account of changes in cash deposits and loans extended, the total cash flow from investing activities came to EUR –7,169 (–5,498) million. The changes in cash deposits and loans extended in the year under review also include loans extended to affiliated companies of the Volkswagen Group.

Cash flow from financing activities amounted to EUR –2,564 (–524) million. It comprises for example the profit transfer to Volkswagen AG, Wolfsburg, of EUR 2,406 million. In the previous year this item contained returns on the capital injection into AUDI AG by Volkswagen AG, Wolfsburg, amounting to EUR 459 million.

As of the balance sheet date, cash funds showed a decrease to EUR 8,550 (11,255) million.

The net liquidity of the Audi Group as of December 31, 2018, amounted to a total of EUR 20,442 (20,788) million. This sum includes an amount of EUR 98 (126) million on deposit at Volkswagen Bank GmbH, Braunschweig, mainly for the financing of independent dealers and which is only available to a limited extent. Furthermore, as of December 31, 2018, the Audi Group had committed but currently unused external credit lines amounting to EUR 349 (282) million.

Other financial obligations, which comprise ordering commitments in particular, totaled EUR 4,758 (4,883) million as of December 31, 2018. There were other off-balance-sheet obligations in the form of contingent liabilities and financial guarantees amounting to EUR 289 (281) million.

*Read more about **other financial obligations** and **contingent liabilities** in the Notes to the Consolidated Financial Statements under Note 42 and Note 39.*

Condensed Cash Flow Statement, Audi Group

EUR million	2018	2017
Cash and cash equivalents at beginning of period	11,255	11,395
Cash flow from operating activities	**7,013**	**6,173**
Investing activities attributable to operating activities [1]	– 4,871	– 1,861
of which capital expenditure [2]	*– 3,493*	*– 3,872*
of which capitalized development costs	*– 1,593*	*– 1,243*
of which acquisition and sale of participations [3] [4]	*136*	*3,190*
Net cash flow	2,141	4,312
Change in cash deposits and loans extended [4]	– 2,297	– 3,637
Cash flow from investing activities	**– 7,169**	**– 5,498**
Cash flow from financing activities	**– 2,564**	**– 524**
Change in cash and cash equivalents due to changes in exchange rates	16	– 292
Change in cash and cash equivalents	**– 2,705**	**– 140**
Cash and cash equivalents at end of period	**8,550**	**11,255**

1) The item also includes other cash changes of EUR 79 (64) million.
2) This includes investments in property, plant and equipment, investment property and other intangible assets.
3) Including changes in capital
4) For reasons of internal management, the disposal of the minority interest in Volkswagen International Belgium S.A., Brussels (Belgium), in the amount of EUR 3,278 million and the related long-term loan extended to Volkswagen AG were reported gross in the 2017 fiscal year.

EUR million	Dec. 31, 2018	Dec. 31, 2017
Cash funds as per Cash Flow Statement	8,550	11,255
Fixed deposits, securities and loans extended	12,319	10,180
Gross liquidity	**20,869**	**21,435**
Credit outstanding [5]	– 427	– 647
Net liquidity	**20,442**	**20,788**

5) Current financial liabilities and non-current financial liabilities

AUDI AG (SHORT VERSION ACCORDING TO GERMAN COMMERCIAL CODE, HGB)

Despite a difficult environment, AUDI AG revenue for the 2018 financial year came to EUR 50.2 billion. Reflecting the negative impact of special items from the diesel issue, AUDI AG generated profit before tax of EUR 1.7 billion.

FINANCIAL PERFORMANCE

AUDI AG generated revenue of EUR 50,203 (51,402) million in 2018. Revenue from the sale of cars of the Audi brand came to EUR 36,907 (38,833) million. The main positive factor was the market success of the new Audi Q8. At the same time, revenue performance was held back by a temporarily limited sales range because of the new WLTP test cycle, model changeovers affecting a large number of product lines and exchange rate factors.
Within other automotive business, in particular higher revenue from deliveries of parts sets for local production in China made a positive contribution to the revenue performance.

Condensed Income Statement, AUDI AG

EUR million	2018	2017
Revenue	50,203	51,402
Cost of goods sold	– 45,887	– 45,711
Gross profit	**4,316**	**5,691**
Distribution costs	– 3,425	– 3,725
Administrative expenses	– 385	– 361
Other operating result	1,350	1,431
Financial result	– 192	521
Profit before tax	**1,664**	**3,557**
Income tax expense	– 568	– 1,151
Profit transferred under a profit transfer agreement	– 1,096	– 2,406
Net profit for the year	**–**	**–**

The cost of goods sold was almost on a par with the previous year at EUR 45,887 (45,711) million. Lower production material and other direct costs than in the previous year contrasted with higher research and development costs in particular. The cost of goods sold additionally included expenses in connection with the special items from the diesel issue, which were at the previous year's level.

AUDI AG posted a gross profit of EUR 4,316 (5,691) million for the past fiscal year.

Distribution costs were reduced to EUR 3,425 (3,725) million through such factors as our priorities within sales and marketing activities.

Administrative expenses increased to EUR 385 (361) million.

The other operating result of AUDI AG fell to EUR 1,350 (1,431) million in the past fiscal year. Especially the expenses in connection with the diesel issue were in evidence in the other operating result. Positive effects were generated by the sale of shares in FAW-Volkswagen Automotive Company, Ltd., Changchun (China), to Volkswagen AG, Wolfsburg, among other things by way of a restructuring of participations as well as by a better result for the settlement of foreign currency hedges.

AUDI AG generated a financial result of EUR –192 (521) million in the 2018 fiscal year. The net interest result declined, in particular reflecting the change in the actuarial interest rate applied in measuring pension obligations. The investment result also fell.

As a result of the effects presented here, AUDI AG posted a profit before tax of EUR 1,664 (3,557) million. The figure also includes special items for the diesel issue amounting to EUR –1,176 (–387) million. After deduction of income tax expense, AUDI AG earned EUR 1,096 (2,406) million. Consequently, the return on sales after tax was 2.2 (4.7) percent.

NET WORTH

The balance sheet total of AUDI AG as of December 31, 2018, was at the previous year's level at EUR 39,492 (39,312) million.

Fixed assets rose to EUR 16,772 (16,425) million – especially as a result of higher property, plant and equipment.

In the 2018 fiscal year, the total capital investments of AUDI AG came to EUR 3,316 (3,070) million.

The development in current assets (including deferred expenses) to EUR 22,720 (22,887) million is attributable especially to lower liquid assets and lower receivables. By contrast, inventories rose in connection with measures taken to manage inventories for our sales and retail organization in conjunction with the new WLTP test cycle.

Equity including the special reserve with an equity portion came to EUR 13,708 (13,708) million as of December 31, 2018. This represents an equity ratio for AUDI AG of 34.7 (34.9) percent.

Borrowed capital (including deferred income) was at the previous year's level at EUR 25,784 (25,604) million. Provisions rose due to such factors as measurement-related higher provisions for pensions, whereas liabilities fell among other reasons because of the lower profit transfer to Volkswagen AG, Wolfsburg.

Condensed Balance Sheet, AUDI AG

EUR million	Dec. 31, 2018	Dec. 31, 2017
Fixed assets	16,772	16,425
Current assets incl. deferred expenses	22,720	22,887
Balance sheet total	**39,492**	**39,312**
Equity incl. special reserve with an equity portion	13,708	13,708
Provisions	17,341	16,317
Liabilities incl. deferred income	8,443	9,287
Balance sheet total	**39,492**	**39,312**

FINANCIAL POSITION

AUDI AG generated a cash flow from operating activities totaling EUR 5,021 (2,582) million in the 2018 fiscal year. Positive effects from working capital management in particular contrasted with the lower profit before tax. The figure also includes cash outflows in connection with the diesel issue – these were approximately at the previous year's level.

In the same period, the cash used in investing activities attributable to operating activities, excluding the change in securities, amounted to EUR 2,345 (3,049) million. The investment focus in the 2018 fiscal year was above all on manufacturing structures for the production start of our new models, and on the expansion and conversion of our sites.

Conversely, the driver of the decrease compared with the previous year was the sale of shares in FAW-Volkswagen Automotive Company, Ltd., Changchun (China), to Volkswagen AG, Wolfsburg, in the course of the restructuring of participations. The net cash flow before the change in cash deposits in marketable securities came to EUR 2,676 (–467) million, with the result that all investments were financed from own resources. Including cash deposits in securities, the cash used in investing activities came to EUR 2,003 (3,176) million, leading to a net cash flow of EUR 3,018 (–594) million. Net liquidity as of December 31, 2018, was EUR 12,446 (12,679) million.

PRODUCTION

In the 2018 fiscal year, AUDI AG produced 1,228,189 (1,295,792) cars of the Audi brand. It also manufactured a total of 639,480 (560,150) parts sets for local production in China.

DELIVERIES AND DISTRIBUTION

In the past fiscal year, 1,812,485 (1,878,105) cars of the Audi brand were delivered to customers worldwide. In the home market Germany, a total of 260,456 (294,544) vehicles were handed over to customers. Deliveries to international customers dropped to 1,552,029 (1,583,561) cars.

EMPLOYEES

Workforce, AUDI AG

Average for the year	2018	2017
Ingolstadt plant	42,784	42,498
Neckarsulm plant	16,029	15,995
Employees	**58,813**	**58,493**
Apprentices	2,476	2,470
Workforce [1]	**61,289**	**60,963**

1) Of these, 1,732 (1,304) were in the passive stage of their partial retirement.

In the 2018 fiscal year, AUDI AG had an average of 61,289 (60,963) employees. As of the end of the year, the workforce increased to 61,497 (61,172) employees. The year-on-year rise is mainly attributable to the many product launches for our model initiative. We also hired further experts for our strategic future areas such as electric mobility, digitalization and autonomous driving.

RESEARCH AND DEVELOPMENT

On average, 11,108 (10,823) people were employed in the Research and Development area of AUDI AG in the past fiscal year. Research and development activities came to EUR 3,796 (3,401) million.

PROCUREMENT

The cost of materials for AUDI AG fell to a total of EUR 35,595 (37,358) million in the 2018 fiscal year, partly as a result of the reduction in volume.

REPORT ON RISKS AND OPPORTUNITIES

In essence, the risks and opportunities affecting the business performance of AUDI AG are the same as for the Audi Group.

*Read more about the **risks and opportunities** of the Audi Group on pages 144 ff.*

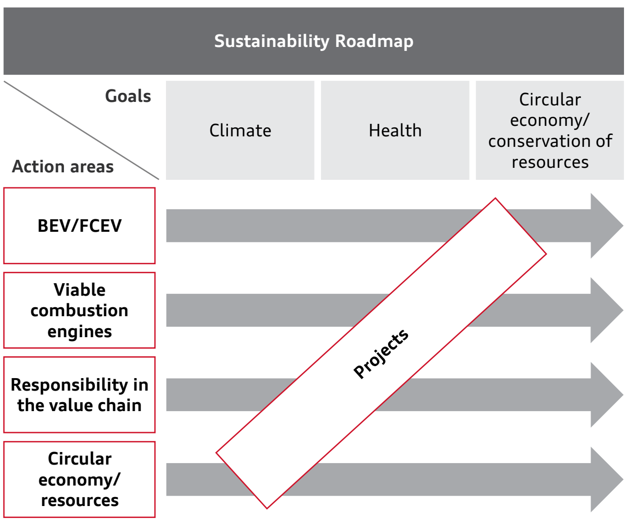
SUSTAINABILITY ASPECTS

To us, sustainability means future viability. We take economic, social and ecological aspects into account when making corporate decisions. Our ambition is to act in a comprehensively responsible manner. That applies to our products and services, the entire value chain and our responsibility for our employees.

SUSTAINABILITY ROADMAP

For us, sustainable action means considering both the immediate and long-term consequences of our decisions. Economic success, environmental compatibility and social responsibility are equally important. We therefore developed our Sustainability Roadmap in the year under review. Through it, we are detailing our goals and benchmarks. Our Sustainability Roadmap places the spotlight on goals relating to climate, health and the circular economy/conservation of resources.

Goals and action areas of the Sustainability Roadmap



Specific key figures are defined for the individual goals and their attainment will be consistently monitored over the coming years. Based on these goals, we have defined the following main action areas:

- BEV (Battery Electric Vehicle)/ FCEV (Fuel Cell Electric Vehicle)
- Viable combustion engines
- Responsibility in the value chain
- Circular economy/resources

The action areas are underpinned by a variety of projects. In addition, the sustainability projects are closely linked to the future Audi product range. In the first instance the roadmap focuses on our products and value creation processes, but will soon be widened to include additional social areas of focus.

/ *BEV/FCEV*

With the BEV/FCEV action area, we are pushing the further development of alternative drive concepts. For example, we are systematically expanding our product portfolio and the accompanying system offerings in the direction of electrification. As well as fully electric models (BEV), we also offer part-electrified vehicles, for example with plug-in hybrid drive or 48-volt main electrical system. By 2025, the goal is for one in three Audi models delivered to be electrified. The Audi e-tron presented in the year under review and available from the first quarter of 2019 will be joined by the Audi e-tron Sportback in the same year. A little later on, we will be bringing the series-production version of the four-door coupé Audi e-tron GT concept onto the market. Other all-electric vehicles will follow. We also continue to expand our portfolio of models with plug-in hybrid drive. The general objective is a significant reduction in our vehicle fleet's CO_2 emissions.

As part of our holistic approach to electric mobility, we also promote the further development of charging technologies and the charging infrastructure. For example, to complement our product range we are developing a comprehensive network of fast-charging stations together with other manufacturers through IONITY GmbH, Munich. By 2020, there are to be around 400 stations installed along Europe's main transport routes. At the end of 2018 there were already around 40 fast-charging stations in operation, and many more under construction. These stations reduce charging time significantly compared with existing charging solutions. By offering the new e-tron Charging Service to coincide with the market launch of the Audi e-tron, we are also providing access to currently about 80 percent of all public charging stations in Europe. That means more than 72,000 charging points at present. In addition, the Volkswagen Group is setting up a total of 2,000 fast-charging stations along major traffic routes in the United States via its subsidiary Electrify America LLC, Reston (United States). This move is a component of the settlement agreement with the authorities in the United States as a consequence of the diesel issue. The first 500 stations are expected to go into service in 2019.

A green electricity offering for our customers is another building block that will help us to cut the life-cycle emissions of our electric vehicles still further and promote emission-free mobility as part of an environmentally friendly ecosystem.

The development of an environmentally friendly fuel cell vehicle (FCEV) is also part of this action area. A small series is planned for the start of the next decade. As part of the preparations for it, we are steadily expanding our competence center for fuel cell technology in Neckarsulm. For this technology – where hydrogen serves as the energy source – Audi has development responsibility within the Volkswagen Group.

/ VIABLE COMBUSTION ENGINES

As well as developing electric cars, we believe it is important to continue development work on our conventional drive concepts to create a comprehensive range for sustainable mobility. For example, in addition to the Audi A8, the new generations of the Audi A6 and A7 which appeared in the year under review as well as the new Audi Q8 are equipped with mild-hybrid technology as standard, and in some cases have a 48-volt main electrical system. The 48-volt main electrical system opens up completely new potential for improving efficiency. The benefits of this technology include the ability to coast at speeds of between 55 and 160 kilometers per hour and, depending on engine version, to enter the start/stop range from speeds as high as 22 kilometers per hour.

Alongside innovative and sustainable drive technologies, there is also scope for carbon-neutral synthetic fuels to improve our vehicles' emissions. As well as Audi e-gas, which we have been producing in Werlte, north Germany, since 2013, these include the manufacture of Audi e-diesel. In addition, we are working on the development of renewable gasoline fuels and reached a major milestone for Audi e-gasoline in 2018. For the first time, together with our development partner Global Bioenergies S.A., Evry (France), we produced a sufficient quantity of the renewable fuel for initial engine tests.

// CO_2 EMISSION STATISTICS FOR AUDI MODELS

According to provisional figures released by the European Commission, the average CO_2 emissions figure for newly registered Audi vehicles in the European Union (EU 28 [1)]) in 2017 was 126 g/km. Based on our provisional calculations, the average CO_2 emissions of newly registered Audi vehicles in the EU 28, calculated in the NEDC, is expected to be around 129 g/km in 2018 [2)]. The year-on-year increase is mainly attributable to shifts in the model portfolio driven by supply and demand. The reasons for this include the model changeover of the Audi A1 and a lower share of vehicles with diesel engine. For the 2019 fiscal year, we anticipate lower CO_2 emissions from newly registered Audi vehicles in the European Union following the market introduction of the Audi e-tron and of further plug-in hybrid models.

/ RESPONSIBILITY IN THE VALUE CHAIN

// SUSTAINABILITY IN THE SUPPLY CHAIN

In our supply chain we have also set ourselves the goal of rendering CO_2 emissions transparent and reducing them over the long term. In the previous year we had therefore already introduced a sustainability rating for suppliers with the goal of protecting the environment and ensuring social standards. In addition to a self-disclosure based on a standardized questionnaire, we actively conduct an on-site check at the

1) For 2017: EU28 including Iceland; for 2018: EU28 including Norway and Iceland
2) Provisional internal calculations for 2018 subject to confirmation by the EU. Based on regulation UN ECE R83/101 on the measurement of CO_2 emissions. According to EU Directive 1999/94/EC relating to the availability of consumer information on fuel economy, the official fuel consumption must be stated as determined by the approval authorities under the type approval procedure pursuant to Directive 80/1268/EEC, taking the UN-specified type approval approach of the NEDC (New European Driving Cycle) as the basis. Differences may occur in everyday practical operation as a result, for example, of different speed profiles, payloads or auxiliary systems, because not all possible factors influencing consumption have been standardized for the type approval approach.

production location together with the supplier. The check covers 12 general criteria in the areas of environment and social. From fall 2019, the sustainability rating will then be elevated to the status of a major decision-making criterion for the awarding of contracts to all suppliers. Only suppliers that achieve a positive rating have the prospect of becoming Audi partners. This will make sustainability just as important a selection criterion as costs, quality, technological expertise and innovativeness.
By joining the "Global Battery Alliance" back in 2017 – a platform for cooperation with the goal of promoting a sustainable battery supply chain – Audi took a major step towards sustainability for the age of electric mobility.

// ENVIRONMENTAL MANAGEMENT

The environmental management systems implemented at our sites target, among other things, the effective and efficient use of the resources required and are intended to promote a culture of innovation aimed at making our products and processes environmentally acceptable. With that objective in mind, we have installed the rigorous environmental management system of the European Union, EMAS (Eco-Management and Audit Scheme), at many European automotive plants of the Audi Group. The Ingolstadt, Neckarsulm, Győr (Hungary), Brussels (Belgium) and Sant'Agata Bolognese (Italy) sites also meet the requirements of energy management systems according to ISO 50001, which sets high standards for systematic and continuous reductions in energy consumption. Furthermore, our plants in Neckarsulm, Győr, Sant'Agata Bolognese and our motorcycle plant in Bologna (Italy) as well as our Mexican plant in San José Chiapa are accredited under the worldwide ISO 14001 environmental management standard. The same accreditation has been received for the Volkswagen Group production sites that we use in Bratislava (Slovakia), Martorell (Spain), São José dos Pinhais (Brazil) and Aurangabad (India) as well as for the Changchun and Foshan plants of the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China).
Back in 2014, we were the first premium car manufacturer to start disclosing our corporate carbon footprint and obtaining its certification in accordance with ISO 14064. This process involves disclosing our Company-wide greenhouse gas emissions along the entire value chain so that we can analyze them even more specifically and reduce them further.

// EMISSIONS REDUCTION AND RESOURCE EFFICIENCY

Our site-based environmental activities focus on reducing the ecological footprint of automotive manufacturing. To this end, the Audi Group has set itself ambitious targets for the sparing use of resources. For example, by 2025 we want to reduce the environmental impact of Audi production sites by 35 percent per vehicle produced compared with the reference year 2010. We apply the following five key performance indicators (KPI):

- CO_2 emissions (kg/vehicle)
- Energy consumption (kWh/vehicle)
- Solvent and VOC emissions (kg/vehicle)
- Water consumption (m^3/vehicle)
- Volume of waste (kg/vehicle)

The changes in the key performance indicators over the reference period are combined into the overall indicator "environmental impact reduction in Production" as the measure of target attainment. In 2018, we already succeeded in reducing environmental impact by just under 24 percent as against the reference year 2010. Compared with the previous period, for the indicators disclosed we have switched from an absolute figure to a figure relative to the vehicles produced because this approach allows a clearer assessment of how the figures have developed. This enables us to observe how effective our emissions reduction and resource efficiency measures are.

Environmental structural data [1)]

		2018	2017
CO_2 emissions [2)]	kg/veh.	599	660
Energy consumption [3)]	kwh/veh.	2,678	2,647
VOC emissions [4)]	kg/veh.	1.06	1.31
Water consumption	m^3/veh.	3.98	3.78
Volume of waste [5)]	kg/veh.	6.16	9.33

1) Ingolstadt, Neckarsulm, Brussels, Győr, San José Chiapa, Sant'Agata Bolognese sites; 2018 figures provisional
2) This figure is made up of CO_2 emissions generated by the use of fuel at the plant, and CO_2 emissions produced by the operation of test rigs.
3) Total electrical energy, heat, fuel gases for production processes and externally supplied refrigeration
4) VOC emissions (volatile organic compounds): This figure is made up of emissions from the paint shops, test rigs and other facilities.
5) Excluding non-production-specific waste

In the year under review, we achieved certification of the first carbon-neutral Audi plant for the Brussels (Belgium) site in parallel with the series-production start of the Audi e-tron. Through 2030, our goal is to achieve vehicle production certified as carbon-neutral at all our sites.

Another important step towards making our sites environmentally friendly is the multi-stage reprocessing method for waste water at our plant in Mexico. This has enabled us to make our production operations completely waste water-free since 2018. Our long-term vision for all Audi sites worldwide is to avoid generating any waste water in production.

In addition to the ongoing optimization of our processes, for the environmental activities at our sites we also place the focus on energy-saving measures when planning production and supply facilities, buildings and when defining logistics processes.

// EMISSIONS TRADING

The third trading period in the EU-wide trading of CO_2 emission rights has been running since 2013. This phase ends in 2020. The Ingolstadt, Neckarsulm, Brussels and Győr (Hungary) sites are subject to EU emissions trading rules. Unused certificates from previous years are sufficient to minimize the risk of a future shortfall in cover during the third trading period and of the potential costs that would arise for the Audi Group.

/ CIRCULAR ECONOMY/RESOURCES

As part of the circular economy/resources action area, we want to conserve resources by reusing processed and raw materials. We therefore examine the environmental impact of our products and components throughout their entire life cycle. The transparency that this achieves enables us to optimize the manufacture of vehicles with regard to resource efficiency or to recondition and reuse certain vehicle components. In this respect, recycling scrap also plays an important role – this is used as secondary raw materials.
By repairing or reusing battery components, for example, the utilization phases of certain components can be significantly extended. Based on this consideration, we are investigating the topic in a focus project. Through the strategic research partnership for battery recycling concluded between Audi and the materials technology and recycling group Umicore N.V., Brussels (Belgium), in the year under review, we are developing a closed cycle for high-voltage battery components. The objective of this is to be able to keep reusing batteries. In this way, especially valuable materials could then be retrieved from a commodity bank at the end of their life cycle and incorporated into new products.

Furthermore, for aluminum processing Audi is cooperating with a variety of stakeholders with the goal of establishing intelligent material cycles along the supply chain in order to minimize environmental risks and prevent wasting resources. Back in 2013, Audi signed up to the Aluminium Stewardship Initiative (ASI) for a global sustainability standard for aluminum. In 2018 we became the first automotive manufacturer in the world to receive a sustainability certificate from the ASI for the sustainable production of the aluminum components in the battery housing for the Audi e-tron. Our next move will be to assure sustainability in the upstream supply chain for these components and to work specifically with partners that also have ASI certification.

/ AUDI ENVIRONMENTAL FOUNDATION

Audi Stiftung für Umwelt GmbH, Ingolstadt – the Audi Environmental Foundation – is an active supporter of research in new technologies and scientific methods for a livable future. It was established by AUDI AG in 2009 as a fully owned subsidiary and is part of the Company’s social and environmental commitment. Its declared aim is to help protect the environment through suitable projects and events, and to create and promote opportunities for sustainable action. The foundation sees its goals as falling into the three action areas of greenovation, enthusiasm and responsibility. These comprise the fields of environmental technology, environmental education as well as specific protective measures for natural habitats. The objectives are to advance and experience environmental technologies, to make people enthusiastic about the environment and to give something back to society and the environment.

*Read more about the **Audi Environmental Foundation** on the Internet at **www.audi-umweltstiftung.de.***

EMPLOYEES

/ WORKFORCE

Average for the year	2018	2017
Domestic companies [1]	**59,754**	**59,448**
of which AUDI AG	*58,813*	*58,493*
Ingolstadt plant	*42,784*	*42,498*
Neckarsulm plant	*16,029*	*15,995*
Foreign companies	**28,702**	**27,904**
of which AUDI BRUSSELS S.A./N.V.	*2,768*	*2,656*
of which Audi Hungaria Zrt.	*12,825*	*11,888*
of which AUDI MÉXICO S.A. de C.V.	*5,682*	*6,211*
of which Automobili Lamborghini S.p.A.	*1,643*	*1,465*
of which Ducati Motor Holding S.p.A.	*1,278*	*1,240*
Employees	**88,456**	**87,352**
Apprentices	2,582	2,618
Employees of Audi Group companies	**91,038**	**89,970**
Staff employed from other Volkswagen Group companies not belonging to the Audi Group	439	432
Workforce Audi Group	**91,477**	**90,402**
Workforce Audi Group at year-end	**91,674**	**91,231**

1) Of these, 1,732 (1,304) employees were in the passive stage of their partial retirement.

Employee structural data (AUDI AG)

		2018	2017
Average age [2) 3)]	Years	41.2	40.8
Average length of service [3)]	Years	17.5	17.0
Proportion of women [2) 3)]	Percent	14.9	14.6
Proportion of academics (indirect employees) [3)]	Percent	50.9	49.9
Proportion of foreign nationals	Percent	8.4	8.4
Proportion of people with severe disabilities	Percent	6.5	6.1
Contracts to workshops for people with disabilities	EUR million	7.9	7.0
Frequency of accidents [4)]		5.6	5.0
Attendance rate [3)]	Percent	95.2	95.5
Savings through Audi Ideas Program	EUR million	109.1	108.6
of which implementation rate	*Percent*	*55.5*	*54.9*

2) Audi Group
3) Excluding apprentices
4) The accident frequency figure indicates how many industrial accidents involving one or more days' work lost occur per million hours worked.

In the 2018 fiscal year, the average level of the Audi Group workforce was 91,477 (90,402) employees. There were 91,674 (91,231) employees at the end of 2018. The year-on-year change, including between the companies, is mainly attributable to the large number of product launches in the wake of our model initiative. We also hired further experts for the strategic future areas of electric mobility, digitalization and autonomous driving. We assign our employees to plant and model startups according to needs. This involves posting experts to key strategic positions worldwide, for example. We also increasingly include employees from our sites outside Germany in this international exchange. In addition, employees were posted internationally in 27 countries in the 2018 fiscal year.

/ THE AUDI GROUP'S HUMAN RESOURCES POLICY

As part of our human resources policy, we create a needs-based human resources structure as well as an attractive social and working environment for our workforce. Furthermore, the workforce of AUDI AG enjoys an employment guarantee up until the end of 2025. The very cornerstones of the working world at Audi include flexible forms of work and the entitlement to mobile work as well as agile structures, processes and models for collaboration. This freedom introduces flexibility in a global context, encourages people to be innovative, and helps employees strike a better balance between their work and personal lives. We apply strategic resource and competence management to plan our human resources requirements sustainably and in a goal-oriented way, and to get our employees fit for the future. Enabling employees to participate in the Company's financial success is a further important component of our human resources policy. There are also specific profit-sharing arrangements for a large number of domestic and international subsidiaries.

/ CORPORATE CULTURE AND COLLABORATION

We have made a commitment to four corporate values as the basis for cooperation at Audi: responsibility, appreciation, openness and integrity. We promote a leadership and collaborative culture that is in keeping with these values and with our Code of Cooperation. Audi wants to stand for trust-based cooperation and individual responsibility in the future – in accordance with the values and rules of the Company as well as individuals' own moral compass. Various tools and platforms offer possibilities for knowledge transfer, skills development and an innovative corporate culture with the objective of jointly shaping future areas. With our "MQ! Innovation Summit" we have created an attractive platform for open dialogue between internal and external experts as an opportunity to question the status quo and thus enhance the readiness for transformation to a new age of mobility.

/ TRAINING AND DEVELOPMENT

Around 800 young people embarked on an apprenticeship at the German sites in 2018. As well as the apprentices, dual studies students started out on their career paths once again at the Ingolstadt and Neckarsulm sites. Vocational training today gives particular emphasis to topics of future relevance such as electric mobility and digitalization. For example, all prospective automotive mechatronics technicians already learn about handling high-voltage technology and connected in-car systems as part of their training.

Key expertise relating to the topics of training and development are pooled at Audi Akademie. It organizes specialist and interdisciplinary training for employees and managers, and assists the various areas of the Company in an advisory capacity. In order to handle the transformation at Audi successfully, we increased our further training budget by one-third to an annual total of EUR 80 million in the year under review.

/ HEALTH MANAGEMENT

A fundamental goal of our occupational health management is to maintain and promote the health of our employees. We have anchored all the relevant measures and programs in a works agreement. Our holistic approach addresses a variety of topics ranging from workplace design and providing advice on health-appropriate working assignments to gradual reintegration after lengthy absences. We also offer comprehensive preventive programs. In doing so, the Company goes well beyond what is required by law.
To sensitize and motivate our employees on health matters, we offer various health activities and fitness programs, for example. We are also providing these in digital formats. In addition, we are extending health protection arrangements at the international locations.

Another mainstay of occupational health management is the Audi Checkup. The aim of this individual preventive program is the prevention and early detection of health risks. Around 90 percent of employees regularly take part in the program, which has been in existence since 2006.

/ JOB AND PERSONAL LIFE

We offer a large number of working time models and the option of mobile work to improve the work-life balance. Our employees can also take time off for personal reasons – for instance, to look after their children or to care for close relatives. From 2019, the pay deal for the German sites will additionally enable all eligible employees at Audi to convert their collectively agreed extra pay into an additional six or, subject to certain criteria, eight days' paid leave.

/ *FROM EQUAL OPPORTUNITIES TO DIVERSITY MANAGEMENT*

To us, diversity is an important prerequisite for competitiveness and sustained corporate success. The aim is to create an environment that promotes the individuality of each person in the interest of the Company. There are currently people from around 100 different nations working at AUDI AG. As well as cultural background, we focus on such aspects as age and gender in our diversity management work and actively strive for inclusion. For example, the Company employs around 3,200 severely disabled people and people with an equivalent status at its German sites in Ingolstadt and Neckarsulm. Audi also supports the Prout-at-Work foundation. As an open-minded enterprise, we create awareness of diversity and are receptive to all people, whatever their sexual orientation or gender identity. There are also diversity concepts for the Supervisory Board and management of AUDI AG.

*Read more online about the **diversity concepts for the Board of Management and Supervisory Board** of AUDI AG pursuant to Section 289f, Para. 2, No. 6 of the German Commercial Code (HGB) in the Group Management Declaration at **www.audi.com/corporate-management.***

A major focus of our human resources strategy is to recruit and promote well-qualified women. In this respect, we depend on certain surrounding conditions because many areas of the Company need predominantly technical graduates. For that reason, we use the proportion of female graduates from each degree program as a guideline. Averaged across all degree programs that are relevant for the Company, the target proportion of women among new recruits has been determined to be around 30 percent.

The Company has set itself targets for women in leadership positions for the time horizon up until 2021: By the end of 2021, women should comprise 8 percent of the first management tier below the Board of Management and 16 percent in the second management tier.

Proportion of women at AUDI AG

in %	2018	2017
Total proportion of women	15.4	15.2
Apprentices	27.2	29.1
of which industrial apprentices	*24.2*	*26.3*
of which clerical apprentices	*81.1*	*80.6*
Management	10.9	10.1

The proportion of women on the Board of Management of AUDI AG is also to be increased in the long term. The Supervisory Board of AUDI AG decides each year on the target quota of women on the Board of Management. Up until December 31, 2018, the Supervisory Board of AUDI AG had resolved a target quota of zero, for the sake of formality. There were no women on the Board of Management at the end of 2018. In the year under review, the target quota for the proportion of women on the Board of Management up until December 31, 2019, was resolved to be zero percent, for formality's sake. However, the Supervisory Board has since succeeded in recruiting one woman, Hildegard Wortmann, with high specialist expertise as member of the Board of Management for Marketing and Sales.

In addition, the legally prescribed quota of 30 percent applies to the Supervisory Board. As of December 31, 2018, there were 35 percent women on the Supervisory Board of AUDI AG.

REPORT ON EXPECTED DEVELOPMENTS, RISKS AND OPPORTUNITIES

The 2019 fiscal year will be dominated by particular challenges. We will, for example, take important structural and strategic decisions that will lay the foundations for a long-term increase in the value of the Audi Group. 2019 will be a year of transition with a forecast operating return on sales of between 7.0 and 8.5 percent. For the long term, we have adjusted our strategic target corridor to 9 to 11 percent.

REPORT ON EXPECTED DEVELOPMENTS

/ ANTICIPATED DEVELOPMENT OF THE ECONOMIC ENVIRONMENT

// GLOBAL ECONOMIC SITUATION

Our statements on the general economic situation are based in particular on current assessments by external institutions. These include economic research institutes, banks, multinational organizations and consultancy firms.

For 2019, the Audi Group anticipates a slightly weaker pace of economic growth in the world economy. We expect lower growth rates than in 2018 for both advanced and emerging economies. As before, we believe the Asia region will deliver the highest rates of GDP growth. However, political uncertainties, a sharper than expected rise in inflation or early exit from the overall expansionary monetary policy could additionally dampen global growth prospects. In addition, geopolitical tensions and conflicts, structural weaknesses in individual countries and financial market turbulence continue to represent potential disruptive factors.

Western Europe's economic growth is likely to weaken in 2019 as a result of economic factors. The region's economic development continues to suffer from structural problems that remain to be overcome, especially in southern Europe. In addition, uncertainties surrounding the United Kingdom's exit from the European Union could slow economic growth. In all probability, Germany's economic expansion will equally lose some momentum amid a stable situation on the labor market and good consumer sentiment.

We expect lower economic momentum in Central and Eastern Europe compared with the past fiscal year. The Russian economy is also likely to exhibit slightly slower growth than in 2018.

For 2019, we expect economic development in the United States to weaken somewhat. The Federal Reserve could further raise the key interest rate during the course of the year. Meanwhile, fiscal measures should continue to have a supporting effect.

The Brazilian economy is expected to stabilize further in 2019 and grow at a slightly faster rate. The large number of reforms announced should have a positive impact.

We expect to see the highest rates of economic growth worldwide in the Asia-Pacific region. China's economy is likely to achieve high growth by international comparison, albeit with reduced momentum. Japan's economy will probably grow at a similar rate as in the previous year.

// INTERNATIONAL CAR MARKET

The Audi Group expects individual regions to develop at different rates in 2019. Overall, worldwide demand for new vehicles is likely to remain at the 2018 level.

We anticipate that new registrations in Western Europe will be on a par with the 2018 reporting year. On the German passenger car market, on the other hand, demand for cars is expected to drop slightly. In the Central and Eastern Europe region, we expect a further rise in new registrations.

Sales of passenger cars and light commercial vehicles in the United States will probably be below the previous year's level. Conversely, in South America the market for passenger cars and light commercial vehicles should continue to develop positively.

The Asia-Pacific region is again expected to be the biggest contributor to worldwide growth in the automotive market in 2019. The Chinese passenger car market is also expected to put in a positive performance. In Japan, we are anticipating a fall in demand for cars.

// INTERNATIONAL MOTORCYCLE MARKET

For 2019 we expect to see a downward trend in demand worldwide for motorcycles in the displacement segment above 500 cc. In particular the U.S. market for motorcycles, the largest in the world, is expected to show a negative development.

/ OVERALL ASSESSMENT OF THE ANTICIPATED DEVELOPMENT OF THE AUDI GROUP

The forecasts for the 2019 fiscal year are based on our expectations with regard to how the global economy and the international car market will develop. For example, we expect slightly weaker growth in the world economy in 2019 compared with 2018. We anticipate a slight overall rise in demand for cars worldwide for the 2019 fiscal year – though with variations from region to region. Above all economic uncertainties, growing protectionist tendencies and geopolitical tensions make it more difficult to predict future developments.

Along with growing macroeconomic uncertainties, the radical transformation of the entire automotive industry in particular is also likely to define our 2019 fiscal year. Customer expectations and traditional value added streams are changing dramatically. Market participants expect urban mobility of the future with comprehensive digital connectivity and a high degree of automation in products and processes, while satisfying sustainability aspects. Automotive manufacturers need to make huge capital investments and upfront spending – especially for new technologies and business areas – to be viable in the future. In addition, new competitors, in some cases from outside the industry, are also entering the mobility business with the effect of noticeably increasing competition. As well as shifting customer expectations, increasingly tough regulations and laws worldwide will again drive the further development of alternative drive concepts in the 2019 fiscal year.

The Audi Transformation Plan (ATP) is the basis for implementing this strategy and for future viability. Through the ATP, we have again stepped up targets within the Company up until 2022 and embarked on a new work package focusing on capital employment. Through the ATP, we will be seeking to exploit overarching potential in particular in the 2019 fiscal year. For example, we want to focus even more strongly on customer benefit when making decisions, reduce the complexity of our products and processes further and continually scrutinize and optimize work flows and investments. The profitable employment of our capital will thus be put at the center of our actions. We are systematically exploiting synergies within Audi and the Volkswagen Group for this purpose.
We are also advancing the further development of our China business. We therefore want to build further on our research and development expertise there, so that we can bring even more China-specific model versions and digital services onto the market. In addition, the locally built product portfolio is to be increased to 12 models over the next few years. The Audi Q2 L e-tron – the first fully electric vehicle tailored specifically to Chinese customers – will become available on the Chinese market in the 2019 fiscal year, for example.

The target vision of a lean, agile company also involves continuously examining organizational structures. For example, management responsibility for multi-brand sales companies was transferred to Volkswagen AG, Wolfsburg, as of January 1, 2019, and the companies concerned were deconsolidated. Under this approach, similar business activities will be grouped together at Volkswagen Group level and their management harmonized accordingly. The Audi Group's reporting will also become more precise and transparent as a result.

The 2018 fiscal year was clearly dominated by our model initiative and efforts to deal with the new emissions requirements of the WLTP test cycle. These factors will continue to impact the 2019 fiscal year, especially at the start of the year. The focus is also on the market introduction of the new Audi e-tron – our first SUV with fully electric drive – which will be gradually rolled out on markets from the first quarter of 2019. The Audi e-tron will be followed by other fully and partly electric vehicles. As part of our model initiative and the associated market introductions of the new models, we will again be confronted with the growing challenge of handling the product launches and the required homologation processes for these products in the 2019 fiscal year. In addition, we will need to implement the next stage of the WLTP test cycle with its stricter statutory requirements. This could also

result in substantial in-year fluctuations in our deliveries and in our financial key figures over the course of 2019.
Abraham Schot, the new Chairman of the Board of Management, has headed Audi since January 1, 2019. The Company will continue to drive forward its repositioning as well as its operational, strategic and cultural transformation. The 2019 fiscal year will also be dominated by particular challenges. We will take further structural and strategic landmark decisions as we develop into a lean and agile company. We cannot rule out that the processes involved will weigh on our financial performance in the form of non-recurring effects, but also as a result of upfront expenditures on the future viability of Audi. We also expect to have to contend with unfavorable macroeconomic developments and a weaker position regarding exchange rates and commodities, for example once previously advantageous hedges expire. The Board of Management nevertheless regards the Company as generally well placed to regain its status as a top performer financially, and to implement successfully the plans to increase the long-term value of the Audi Group.

The following forecasts on the development of our key performance indicators are subject to various risks and opportunities which could result in the actual development in the key performance indicators deviating from the respective forecast. We present the material risks and opportunities of the Audi Group in the report on risks and opportunities.

The effects of the diesel issue are reflected and presented in the 2018 Annual Financial Statements, in our forecasts for the 2019 fiscal year as well as in the report on risks and opportunities, based on current assessments. Bearing in mind the matters that have not yet been fully clarified and their limited predictability, it cannot be ruled out that risks and opportunities, particularly those in the form of reporting-date measurements, may be assessed differently in the future.

/ *KEY PERFORMANCE INDICATOR FORECASTS*

Effective January 1, 2019, management responsibility for the multi-brand sales companies Volkswagen Group Italia S.p.A., Verona (Italy), Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), and Audi Volkswagen Taiwan Co., Ltd., Taipei, was transferred to Volkswagen AG, Wolfsburg, under a control agreement and the companies concerned were deconsolidated. From the 2019 fiscal year, the companies will appear in the Consolidated Financial Statements of the Audi Group as associated companies using the equity method. The legal ownership structure remains unchanged.
The deconsolidation of these companies will affect the development of the following key performance indicators in the 2019 fiscal year:

- Revenue
- Operating profit/operating return on sales
- Return on investment (ROI)
- Net cash flow
- Research and development ratio
- Ratio of capex

To render the development of these key performance indicators transparent in the 2019 fiscal year, adjusted figures are provided as a basis for comparison alongside the figures disclosed in the 2018 Consolidated Financial Statements of the Audi Group. The figures reported in the 2018 Consolidated Financial Statements of the Audi Group are presented after elimination of the respective shares in the multi-brand sales companies.

*The **adjusted figures** that represent the basis of the forecast of our key performance indicators in 2019 can be found in the table on page 139.*

// *ANTICIPATED DEVELOPMENT OF DELIVERIES*

In the 2018 fiscal year, the Audi Group delivered 1,812,485 vehicles of the Audi brand to customers amid challenging conditions. It is likely that we will again have to contend with a difficult environment in the 2019 fiscal year. The development in deliveries especially at the start of 2019 should reflect our efforts to handle the emissions requirements of the WLTP test cycle introduced in 2018. As the year progresses we will then need to implement the next stage of the WLTP test cycle with its stricter statutory requirements. There may also be distortions in the delivery figures in the course of the year as a result of the high fluctuations in the prior-year figures. In addition, our continuing model initiative and the model discontinuations and launches that it involves will shape the 2019 fiscal year. We therefore currently anticipate that the volume potential of our new and improved products will not yet be fully reflected in the figures for the 2019 fiscal year. In light of our plans to optimize stocks, we nevertheless forecast a delivery volume for Audi brand vehicles that is likely to be moderately up on the 2018 level. Provided the tougher WLTP requirements are successfully implemented, we expect growth especially in the second half of 2019.

In terms of regional developments, we expect to see a rise in deliveries of the Audi brand in the core regions compared with 2018. For example, we anticipate catch-up effects for the Western Europe region and improved availability of our models for the North America region following model changeovers. We also expect a positive development in volume in China, with a large number of product launches.

On the models side, our plans envisage that our SUV models in particular will provide positive volume stimulus in the 2019 fiscal year. The Audi Q2 L e-tron will become available as our first fully electric vehicle for the Chinese market that is produced locally. The new Audi Q3 and the Q5 will also contribute to growth. We expect that the new Audi Q8 and the Audi e-tron – our first series-production model with all-electric drive – will provide clearly positive growth impetus. Conversely, we anticipate a falling trend in deliveries for the car lines that will see model changeovers in the 2019 fiscal year.

// ANTICIPATED FINANCIAL PERFORMANCE

For the 2019 fiscal year, we expect revenue of the Audi Group to increase slightly. Our basis for comparison is the figure for the 2018 fiscal year after elimination of the effects of the deconsolidation of multi-brand sales companies.

Volume growth in particular should help to lift revenue. The development in other automotive business should also have a positive impact on revenue performance. By contrast, we expect adverse exchange rate effects compared with the previous year. However, these expectations are dependent on economic conditions and actual exchange rate trends. Compared with the average exchange rates in 2018, we expect the euro to be slightly weaker against the U.S. dollar in the 2019 fiscal year. On the other hand, the euro should strengthen somewhat against the pound sterling and the Chinese renminbi.

We want to regain our financial strength over the next few years and increase the value of the Audi Group over the long term. In light of that – and taking account of the effects of the deconsolidation of multi-brand sales companies – we have adjusted our long-term strategic target corridor for operating return on sales to 9 to 11 percent. To achieve this, important structural and strategic decisions will be our priority in the 2019 fiscal year. These are to form the foundations for the long-term increase in the value of the Audi Group. Within this context we see the 2019 fiscal year as a period of transition, with an anticipated operating return on sales of between 7.0 and 8.5 percent, and therefore not yet in line with our new long-term strategic target corridor.
The main pressures will stem from the high upfront expenditures for the future viability of Audi – for instance in the electrification of our vehicle fleet and for potential new areas of business connected with autonomous driving and digitalization. We also expect adverse effects from a lower capitalization quota than in the previous year, in a reflection of our product cycle. In addition, a further tightening of emissions requirements and the costs incurred in that connection will affect the operating return on sales in 2019. Furthermore, we currently anticipate currency and commodity price developments to be negative from our perspective, compared with the previous year. Nor can effects from structural non-recurring expenses be ruled out. There should be positive effects in particular from the development in revenue and the next stage of the Audi Transformation Plan (ATP).

In the 2018 fiscal year, the operating return on sales was influenced by special items in connection with the diesel issue. The risk provisioning undertaken in 2018 in the form of provisions was also adjusted accordingly to reflect up-to-date information. Our current plans for the 2019 fiscal year work on the assumption that there will be no additional special items. However, it cannot be ruled out that the assessment of the risks may change in the future.

For the 2019 fiscal year, we forecast a return on investment (ROI) for the Audi Group within the range of 11 to 14 percent. This means we should again exceed our minimum rate of return of 9 percent in the 2019 fiscal year. It is based on our forecast operating return on sales. Above all in connection with the new rules on the recognition of leasing transactions under IFRS 16, we also expect a rise in average invested assets.

// ANTICIPATED FINANCIAL POSITION

The Audi Group again intends to finance itself fully from internally generated cash flow in the 2019 fiscal year. We expect a net cash flow of between EUR 2.5 and 3.0 billion. The main drivers of the positive net cash flow should include the profit performance. Conversely, continuing high cash outflows for investing activities combined with the upfront spending to ensure the future viability of Audi are likely to reduce the net cash flow. Cash requirements for continuing obligations in connection with the diesel issue are again expected to have a negative impact on the financial position in the 2019 fiscal year, though to a much lesser extent than in the 2018 fiscal year.

// RESEARCH AND DEVELOPMENT COSTS, CAPITAL INVESTMENTS

In connection with the deconsolidation of multi-brand sales companies and the related development in revenue, we have adjusted our strategic target corridor for the research and development ratio to 6.5 to 7.0 percent and the target corridor for the ratio of capex to 5.5 to 6.0 percent.

For the 2019 fiscal year, we forecast a research and development ratio that is likely to come in slightly above our strategic target corridor. Our focuses here are on the future topics of electrification as well as automated and autonomous driving. Investment in a cutting-edge electronics architecture as the basis for new services and products as well as the further rejuvenation of our product range are equally reflected in the development spending plans for the 2019 fiscal year. Efficiency improvements in the Research and Development area are accompanied by high investments in the future.

In connection with the repositioning of Audi, we place particular focus on the profitable employment of capital. We have consequently given this issue the status of a new work package within the ATP. We already expect it to produce the first positive results in the course of the 2019 fiscal year. In that connection we anticipate that the ratio of capex for 2019 will be within our strategic target corridor. Preparations for the production starts of our new models are likely to be major investment priorities.

Anticipated development in the key performance indicators of the Audi Group

	Actual 2018	Basis for the forecast [1]	Forecast 2019 [2]
Deliveries of cars of the Audi brand to customers [3]	1,812,485	1,812,485	moderately above the previous year's level
Revenue in EUR million	59,248	53,617	slight increase
Operating profit/operating return on sales in percent	6.0	6.6	between 7.0 and 8.5 percent and therefore not yet within our strategic target corridor of 9 to 11 percent
Return on investment (ROI) in percent	10.0	10.4	between 11 and 14 percent and therefore above our minimum rate of return of 9 percent
Net cash flow in EUR million	2,141	2,080	between EUR 2.5 and 3.0 billion
Research and development ratio in percent	7.1	7.8	slightly above the strategic target corridor of 6.5 to 7.0 percent
Ratio of capex in percent	5.9	6.5	within the strategic target corridor of 5.5 to 6.0 percent

1) Calculation of the adjusted figures: The figures reported in the 2018 Consolidated Financial Statements have been adjusted for the respective effects of the multi-brand sales companies (Volkswagen Group Italia S.p.A., Verona (Italy), Audi Volkswagen Korea Ltd., Seoul (South Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), and Audi Volkswagen Taiwan Co., Ltd., Taipei).
2) The forecast for 2019 is based on the adjusted figures.
3) This includes delivered Audi models built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China).

REPORT ON RISKS AND OPPORTUNITIES

/ *RISK MANAGEMENT SYSTEM IN THE AUDI GROUP*

// *OPERATING PRINCIPLE OF THE RISK MANAGEMENT SYSTEM*

As a company with global operations, the Audi Group is exposed to a dynamic environment. Furthermore, the automotive industry is undergoing a comprehensive process of transformation that is bringing changing customer requirements, value chains and business models. This situation continually confronts us with diverse and new opportunities and risks. Integrity as well as behavior that complies with statutory and regulatory requirements are the basis of our entrepreneurial actions and are treated as a top priority. We seek to maintain a constructive dialogue and address opportunities and risks openly so that we can ensure lasting success with our entrepreneurial activities. The particular purpose of an effective Risk Management System (RMS) – besides fulfilling statutory requirements – is to validate entrepreneurial goals, protect stakeholders against negative corporate developments, fulfill the Company's far-reaching duty of care in respect of how it handles risks as well as protect long-term viability and competitiveness. The risk propensity of the Audi Group is reflected in the ambitious corporate targets it formulates based on conscientious risk/return analyses. These are synchronized both Company-wide and with the Volkswagen Group. Our Internal Control System (ICS) is designed to ensure the functioning and stability of our processes. In the past fiscal year we launched further initiatives to reinforce our ICS.

The Risk Management System of the Audi Group is based on the internationally recognized standard of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Risks are to be identified, evaluated and appropriately managed by those responsible. A control is also to be carried out on the management of risks. The higher-level internal business units and Group functionalities responsible must communicate in a transparent, accurate and timely manner. All organizational levels of the Audi Group are integrated into the Risk Management System in order to satisfy both business and statutory requirements. Changes in the legal framework with respect to risk management are also continually monitored and are acted on promptly if relevant for the Company. The integration of all material participations into the risk management system is ensured. New companies are gradually integrated.

The RMS/ICS is closely interlocked with the compliance functionality (central governance, risk & compliance (GRC) organization/central GRC organization) as part of an integrated and comprehensive management approach. The Board of Management and the Supervisory Board, especially the Audit Committee, are kept regularly informed about the RMS/ICS as well as the Compliance Management System (CMS) in a combined report.

*For information about **integrity and compliance**, please refer to the **Corporate Governance Report** on pages 155 ff.*

The central tasks of risk management are to identify and analyze risks, ensure transparent reporting of these risks and improve their controllability using suitable risk management tools. This process also creates scope for generating and exploiting opportunities. Using the COSO framework, risk-appropriate internal controls are defined and performed along the entire value chain (ICS). The Audi Group promotes the further development of the RMS/ICS through cross-divisional and cross-company projects. The priority here is to interlink the system closely with corporate financial planning and management, as well as with accounting. In view of its high strategic relevance, the regulatory framework for the RMS/ICS is firmly established both in an internal Corporate Policy of AUDI AG and at the material participations.

To systematically structure its risk management architecture, the Audi Group follows the "Three Lines of Defense" model – a recommendation of the European Confederation of Institutes of Internal Auditing (ECIIA). Taking this basis, the RMS/ICS of the Audi Group features three lines of defense that are intended to protect the Company against the occurrence of material risks.

The “Three Lines of Defense” model

Supervisory Board		
Board of Management		
First line of defense	Second line of defense	Third line of defense
Divisions	**Central GRC organization**	**Internal Audit**
Operational risk management	Coordination of control processes, governance and methodology	Audit of RMS/ICS

The individual risk owners of the AUDI AG divisions and participations are responsible for the operational management of risks and their control, as well as for reporting on them. They represent the first line of defense.

In the second line of defense, the central GRC organization takes charge of the fundamental functionality of the RMS/ICS as well as the CMS. Core activities involve monitoring system performance and submitting an aggregated report on the risk situation to the Board of Management and the Audit Committee of the Supervisory Board. This ensures that the statutory requirements for the early identification of risks and the effectiveness of the RMS/ICS are met. Ad hoc projects on operational risk management and regular training courses are also held to reinforce awareness of risk management and compliance as well as promote a positive risk culture in the Audi Group. In the year under review, the training program was significantly extended and focused on the various target groups through mandatory modules and function-specific programs. AUDI AG also has risk compliance coordinators who liaise between the first and second lines of defense. At the participations, this function is handled by clearly designated risk and compliance officers.

In the third line of defense, Internal Audit as an impartial body examines the security, regularity and economic effectiveness of the systemic and operational activities of the RMS/ICS. The RMS/ICS for accounting is additionally subject to scrutiny by the independent auditor of the Consolidated Financial Statements.

Each line of defense furthermore submits reports independently and at least ad hoc to the full Board of Management and the Supervisory Board of AUDI AG.

// OPERATING PRINCIPLE OF OPPORTUNITIES MANAGEMENT

To secure the sustained success of the Audi Group, as well as managing risks effectively it is necessary to identify and take entrepreneurial opportunities. In all business decisions that have a long-term impact, we therefore consider not only the risks but also the opportunities that they present. Opportunities management – which includes such aspects as optimizing revenue, costs and products – is integrated into the operational and organizational structure of the Audi Group and is closely aligned with our strategic objectives. To that end we continuously analyze the international context for potential impacts on the business model in order to identify trends and industry-specific key factors early on. Relevant developments are studied in detail with the help of scenario analyses. The possible consequences for Audi are identified jointly with Strategic Corporate Planning, the divisions affected and the Controlling area. The purpose of this cooperation is to create and exploit opportunities. Medium and short-term potential opportunities are identified and operationalized by the divisions. We also aim to secure our long-term competitiveness and future viability through efficiency and opportunities initiatives, such as the Audi Transformation Plan (ATP), as well as through benchmarking. Over and above pursuing specific targets, further opportunities may come to light when implementing these initiatives.

// INTEGRATED RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM FOR THE FINANCIAL REPORTING PROCESS

The financial reporting section of the RMS/ICS that is relevant for the financial statements of AUDI AG and the Audi Group contains all measures that are designed to ensure the complete, accurate and prompt communication of all relevant information. Its purpose is to minimize or altogether avoid risks in the preparation of the AUDI AG financial statements and the Consolidated Financial Statements as well as the Combined Management Report.

In light of the decentralized organization of the accounting system in the Audi Group, the consolidated companies for the most part handle accounting tasks independently. In individual instances, tasks are passed on to AUDI AG and companies of the Volkswagen Group on the basis of service agreements. The individual financial statements of AUDI AG and the participations are prepared in keeping with the applicable national legislation and transferred to the Consolidated Financial Statements of the Audi Group in accordance with IFRS.

The IFRS accounting manual issued by the Volkswagen Group is used in order to ensure uniformity of accounting and measurement principles in accordance with the applicable accounting standards. The Audi Group guideline for the annual financial statements details further rules on the scope of reporting and the definition of the group of consolidated companies for the Consolidated Financial Statements, as well as the uniform application of statutory requirements. Intra-Group business transactions are duly reflected by means of proven processes and instruments such as comprehensive rules on the reconciliation of balances between the Group companies.

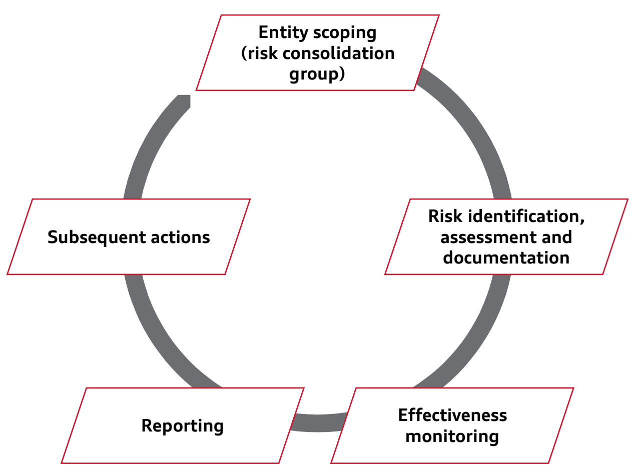
At Audi Group level, the IFRS individual financial statements of the participations are analyzed and validated as part of control activities. The reports presented by the independent auditors and the findings of the concluding discussions with representatives of the individual companies are also taken into account. Systematic plausibility checks are run to some extent automatically, but also conducted by experts. Complex specific matters are regularly coordinated during the year between the Consolidated Financial Statements department and the participation in question. The dual control principle and the separation of functions are likewise applied as key instruments of control in the preparation of the financial statements by the Group companies. In addition, Group Auditing examines the regularity of the financial reporting process for domestic and foreign companies. Changes in the statutory framework and prescribed standards with respect to the financial reporting process are continually monitored and are acted on promptly where relevant for the Company. This ensures compliance with standards.

Financial reporting is mapped on the basis of the Group-wide Volkswagen consolidation and corporate management system (VoKUs). Furthermore, information is continually shared with Volkswagen Group Accounting. VoKUs contains both historical data from Accounting and planning data from Controlling, and as such provides extensive scope for consolidation and analysis. The system also offers central master data management, a uniform reporting system, an authorization concept and maximum flexibility to adapt to changes in the legal framework. Data consistency is checked with the aid of systematic, multi-stage validation functions, such as completeness and content plausibility checks on the Balance Sheet, Cash Flow Statement, Statement of Comprehensive Income, Income Statement and Notes.

// RISK EARLY WARNING SYSTEM AND MONITORING EFFECTIVENESS

Section 91, Para. 2 of the German Stock Corporation Act (AktG) governs the early identification obligations of the Board of Management concerning risks that are a threat to the Company as a going concern (supplemented by the German Corporate Control and Transparency Act [KonTraG]). Section 107, Para. 3 of the German Stock Corporation Act (AktG) (supplemented by the German Accounting Law Modernization Act [BilMoG]) furthermore obliges the Audit Committee of the Supervisory Board to monitor the effectiveness of the RMS/ICS.
The Board of Management is responsible for the organizational structure of the RMS/ICS. A Group-wide systematic risk identification process (regular governance, risk & compliance (GRC) process) plays a key role in meeting statutory requirements. Within this process, fundamental recurring risks, countermeasures and controls within the Company are systematically identified, evaluated and documented so as to generate an overall picture of the risk situation. Meanwhile, the effectiveness of the control processes and overall system is assessed.

/// REGULAR GRC PROCESS



//// *RISK CONSOLIDATION GROUP*

The risk consolidation group is formed by a uniform selection process in which all participations and other relevant companies are assessed according to quantitative and qualitative features, and classified according to risk criteria. In the 2018 fiscal year, there were 22 companies fully integrated into the regular GRC process in addition to AUDI AG.

Germany:

- AUDI AG
- Audi Electronics Venture GmbH
- Audi Interaction GmbH
- Audi Sport GmbH
- PSW automotive engineering GmbH

International:

- Audi Australia Pty. Ltd.
- Audi Brussels S.A./N.V.
- Audi Canada Inc.
- Audi (China) Enterprise Management Co., Ltd.
- Audi do Brasil Indústria e Comércio de Veículos Ltda.
- Audi Hungaria Zrt.
- Audi Japan K.K.
- Audi México S.A. de C.V.
- Audi of America, LLC
- Audi Singapore Pte. Ltd.
- Audi Tooling Barcelona S.L.
- Audi Volkswagen Korea Ltd.
- Audi Volkswagen Middle East FZE
- Audi Volkswagen Taiwan Co., Ltd.
- Automobili Lamborghini S.p.A.
- Ducati Motor Holding S.p.A.
- Italdesign Giugiaro S.p.A.
- Volkswagen Group Italia S.p.A.

Participations that are not included in the risk consolidation group are included in the Risk Management System of the Audi Group on the basis of Group-wide minimum requirements. This is subject to a majority interest or management responsibility being held.

//// *RISK IDENTIFICATION, ASSESSMENT AND DOCUMENTATION*

Under the regular GRC process, the risk managers in the respective divisions and departments as well as the participations record and evaluate the risks that fundamentally apply to the Audi Group once a year using a specially developed IT system. Risks are evaluated using a standard procedure for the Volkswagen Group. The risk score for each case is obtained by multiplication of the criteria probability of occurrence and potential impact. The probability of occurrence is determined by the risk manager based on ranges. The second criterion of potential impact is broken down into various subcategories. This allows criminal-law aspects to be considered as well as material and non-material evaluation aspects. We fundamentally adopt the net perspective, in other words the probability of occurrence and potential impact are considered in the light of any countermeasures already taken. The appropriateness and plausibility of risk reports are examined on a random basis in more in-depth interviews conducted by the central GRC organization with the appropriate divisions and companies. Based on the process documentation, the independent auditor also assesses whether the Board of Management has taken appropriate measures for the early indication of risks in accordance with Section 91, Para. 2 of the German Stock Corporation Act (AktG).

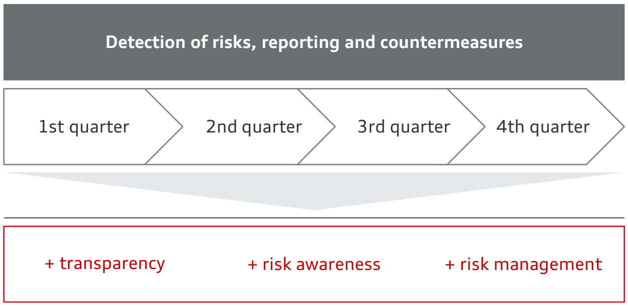
//// *MONITORING OF EFFECTIVENESS, REPORTING AND SUBSEQUENT ACTIONS*

By way of a functionality check, the regular GRC process includes departments or external assessors conducting an effectiveness check of all material risks and of significantly risk-reducing countermeasures and management controls. If effectiveness is deemed inadequate, the department in question must carry out improvements as a subsequent action. The central GRC organization monitors timely implementation. The regularity and effectiveness of selected elements are also monitored by Internal Audit in its capacity as an impartial body. The status and evolutionary developments of the RMS/ICS are reported to the Board of Management and the Audit Committee of the Supervisory Board both on a regular and an ad hoc basis.

/// *RISK QUARTERLY PROCESS AND AD HOC INFORMATION*

The regular GRC process is supplemented by a Risk Quarterly Process (RQP) that represents the current operational risk situation of the Audi Group. Its focus is on implementation of countermeasures and the associated short-term management of risks. In an initial step the overall risk situation as well as accompanying countermeasures are presented to top management in the Audi Executive Committee (AEC) on a quarterly basis, examined and then reported to the Board of Management. Any further countermeasures are initiated by the AEC and Board of Management as appropriate. This serves to increase risk transparency, further raise risk awareness in the Company and ensure effective, prompt risk management. The evaluation of risks from this Risk Quarterly Process is synchronized with the regular GRC process.

The Risk Quarterly Process (RQP)



In addition, a separate process is used to deal with significant changes in the risk situation that may occur at short notice due, for example, to unexpected external events. A significant change in the risk situation occurs if there is a risk that poses a threat to the Company as a going concern or to its strategy, or if critical monetary thresholds are exceeded. Other potential triggers include serious inaccuracies in financial reporting and compliance breaches. All Group companies are obliged to inform the Board of Management of AUDI AG and the central GRC organization of such developments by means of an internal ad hoc announcement. Priority is given to defining preventive measures for limiting losses, communicating the updated risk situation to the corporate bodies and examining whether an ad hoc announcement needs to be published in accordance with capital market principles.

/ RISKS AND OPPORTUNITIES OF THE AUDI GROUP

The most significant risks and opportunities for the Audi Group are described below. Based on current assessments, these have been categorized as materially relevant to future development and may lead to negative or positive deviations from the key performance indicators forecast. The basis for the risks stated comprises both the regular GRC process and the Risk Quarterly Process. The opportunities listed are determined analytically and are operationalized when they become sufficiently specific. In addition, latent risks and opportunities that exist for the Audi Group are listed. For the sake of clarity, the risks and opportunities are presented in various categories. The risks within each category are presented in descending order of significance and are explained within the context of the overall assessment of the risk and opportunity situation.

// ECONOMIC RISKS

There are fundamentally economic risks for the Audi Group from external developments that it is unable to influence. For instance, the United Kingdom's planned exit from the EU (Brexit) would have macroeconomic and political consequences that are likely to have a direct impact on the Audi Group. A possible collapse in the overall passenger car market in that region would also adversely affect our volume development in the automotive and accessories area. Possible consequences could stem from a potential economic slowdown or recession, for example, a possible devaluation in the pound sterling and additional import duties on vehicles in the event of a hard Brexit – in other words, a no-deal exit. In addition, extensive border checks may lead to delays in the supply of vehicles to the market at the sales end as well as in our supply chain. To manage the risk, a cross-division working group was set up to define and coordinate countermeasures and monitor their implementation. The risk previously recorded in the 2017 fiscal year continues to be rated as high.

Brexit aside, the economic environment is generally of major importance to the business success of our Company. Our focus is especially on the sales markets in Europe, the United States and China. There are risks to economic development from potential turbulence on the financial markets, protectionist trends, political upheaval and structural deficits in individual countries. For example, risks may result from protectionism in North America and China. The situation of a number of financial establishments in the southern eurozone, trade disputes as well as the high indebtedness of the private and public sector in parts of Europe further exemplify this type of risk. The monetary policy of the central banks is also important in this regard. In addition, geopolitical tension and conflicts can suddenly influence the economic development of individual countries and regions. A further escalation of conflicts in individual regions could also trigger fluctuations in worldwide financial, energy and commodity markets. Social conflicts, terrorist activities or pandemics could equally have a negative effect. Corruption, inadequate government structures and a lack of legal certainty also pose risks. As there may be marked deviations from our planning in the economic development of individual regions and countries, reflected for example in deliveries, price enforcement and plant utilization, there are risks to the attainment of volume and profit goals. As a countermeasure we can draw on the support of our worldwide sales network to compensate for market weakness in certain countries by shifting volumes to different markets. In addition, for risk management, we employ comprehensive risk early warning systems with which we continuously monitor sales markets. We also conduct market research and maintain a regular dialogue with our counterparts in the sales regions. In this way we seek to secure the competitiveness and long-term commercial success of the Audi Group – with the help of our strong brand, an attractive product portfolio, the focus on premium quality and a clear emphasis on future technologies. We respond to short-term developments with market-specific measures and management tools. Thanks to fundamentally needs-based production planning, we are able to respond flexibly to fluctuations in demand. However, the Audi Group would also have difficulty resisting global economic weakness.

There are also latent risks in connection with our supply chain. Fluctuations in our production may lead to violations of contractually agreed terms with corresponding financial consequences. In addition, temporary supply bottlenecks may be caused by disruptions to the supplier network and its environment. Their causes may include natural disasters, political unrest and strikes, but also economic crises, as well as quality problems and disrupted or lost production at suppliers and their own suppliers. In addition to permanently analyzing the wider situation, we manage supply-chain risks by preventive and reactive risk management within Procurement. In addition, decisions on the awarding of contracts to suppliers are subject to rigidly defined processes and are reached on the basis of a risk assessment. Comprehensive scenario and future analyses, emergency plans and appropriate insurance cover are also adopted to reduce risks. Furthermore, the Audi Group continues to develop its crisis organization to reinforce Group-wide crisis management.
In connection with the electrification of our product portfolio, the supply chain for batteries in particular is becoming ever more important. To counter the risk of batteries being unavailable or of high costs, permanent monitoring is already practiced as part of the product process.

// *ECONOMIC OPPORTUNITIES*

A positive economic development in the principal sales markets beyond general expectations could create additional sales potential for the Audi Group. To realize these opportunities, Audi is steadily increasing its market presence especially in the growth markets. The international production network is boosting worldwide brand awareness and helping the Audi Group to meet specific customer requirements flexibly. To exploit opportunities afforded by innovative solutions and new technologies at an early stage, economic developments and customer requirements are continually monitored worldwide.

// *INDUSTRY RISKS*

National legislation on CO_2 limits in various markets has a direct impact on the development, manufacturing and sale of vehicles. As a consequence, the Audi Group is exposed to the risk of not meeting statutory CO_2 fleet targets and potentially having to make compensatory payments as a result. To meet the CO_2 limits, Audi applies clearly defined CO_2 targets for the vehicle fleet and individual vehicles. These are continuously monitored in the form of a comparison between limit value and current CO_2 figure for the forecast volume mix. In addition, we build appropriate technical and product-specific measures into our plans early on. In automotive development, we also focus on steadily reducing weight, fuel consumption and vehicle emissions. In addition, the Audi Group pursues a product and powertrain strategy that emphasizes alternative drive concepts with hydrogen, synthetic fuels and above all the electrification of our vehicles, in addition to conventional combustion engines. We ensure this strategy is implemented by defining and following an electrification roadmap as well as with clearly defined CO_2 targets for the vehicle fleet and individual products. The risk assessment remains unchanged from the previous year.

A prolonged failure to address market-determining sustainability and responsibility aspects in our products and processes could lead to significant competitive disadvantages through, for example, image losses, volume losses or violations of the law. Specific goals and scopes of responsibility were defined and project plans drawn up to counteract this risk. These are managed both brand-wide and Group-wide through central functions, committees and work groups. In the 2018 fiscal year, we also approved our Sustainability Roadmap, through which we will use defined key figures to monitor and manage attainment of our sustainability goals. Awareness-raising measures to promote sustainable action by the management and employees as well as a systematic drive to embed sustainability aspects in our management and decision-making-processes also counteract this risk. This risk has not changed compared with the previous year.

An intensification of current international trade disputes – above all between Europe and the United States – potentially leading to the raising of import tariffs could adversely affect the development of our deliveries volume and therefore also our financial key figures. We endeavor to manage this risk to the best of our ability by means of ongoing tracking and possible price adjustments. In addition, over the medium and long term there is the possibility of countering these risks through regional adjustments to the value chain. The risk was recorded for the first time in the year under review.

Risks continue to exist in connection with potentially defective airbags from suppliers. By way of a countermeasure, extensive analysis programs were launched with the manufacturers in order to identify or exclude a systematic fault. We are also in permanent dialogue with government agencies to report swiftly on the latest results of the analyses. Risks in connection with airbags were already recorded in the previous year.

The intensive competitive situation worldwide is a latent risk for the development of the industry and therefore also for the Audi Group. It manifests itself through restrictions in price positioning or the increased use of sales incentives, for example. The public debate surrounding diesel technology is also reflected in a change in demand behavior. There are equally financial risks associated with the development of residual values of diesel vehicles in the used car business. Furthermore, new competitors from previously separate industries are emerging as challengers to the classic automotive industry. We are responding to this development by focusing on the transformation of our Company. In addition, our customers appreciate our progressive brand and attractive product range, coupled with the distinctive design and high quality of our products. We also actively watch and manage markets, and are receptive to new areas of business.

// *INDUSTRY OPPORTUNITIES*

Extensive megatrends offer diverse opportunities which we want to exploit. We have set ourselves the goal of making our cars an integral part of everyday digital life for our customers. We are therefore supplementing our existing business model with new digital services. The scaling of our mobility concepts and services also unlocks extra business potential. In addition, digitalization gives us the opportunity to further streamline our processes in order to leverage extra potential for efficiency.
In the medium and long term, we also expect electrification and the development of additional innovative drive technologies to provide fresh stimulus for the market. We therefore took the Audi e-tron, our first volume-built fully electric vehicle, into series production in the year under review. The Audi e-tron will be followed by other fully electric vehicles and models with plug-in hybrid drive over the next few years. We see further opportunities in the area of automated and autonomous driving and in the use of artificial intelligence. The challenge will be to rethink and redefine individual mobility, and come up with new solutions so that individual mobility does not grind to a halt. To seize this opportunity, we are developing Ingolstadt, for example, into a model city for autonomous driving and testing pioneering future technologies. Through Pop.Up Next, we have teamed up with AIRBUS S.A.S. and our subsidiary Italdesign Giugiaro S.p.A., Turin (Italy), to investigate a modular mobility concept that combines autonomous transport on roads with new possibilities for autonomous air taxis. In addition, in São Paulo (Brazil) and Mexico City (Mexico) Audi provides the chauffeur service for the air taxi arrangements with helicopters of the Airbus subsidiary Voom.

Alongside the megatrends we intend to use the opportunities provided by further developments in the automotive industry. For example, we are using the opportunities for growth created by the expansion of our SUV portfolio kicked off in the year under review.

An easing of the current trade disputes leading to a lowering of import tariffs could improve the economic conditions. That could, in turn, increase our customers' willingness to buy.

// RISKS FROM OPERATING ACTIVITIES

In the automotive industry, the development of new technologies in particular leads to high upfront expenditures in the form of development costs and capital investment. For the most part these are spread over several years and only pay off over the course of the product life cycle, which also stretches over several years.
There is the risk here of deviations in vehicle and powertrain projects from the planned project goals during the product process. The reasons for technical, temporal, content-related or financial deviations may include changes in statutory or market requirements, altered customer expectations or shifts in planning assumptions. The high complexity of entirely new projects – which to some extent are also developed jointly with other Group companies – may also lead to delayed timings and deadline overshoots. To counter these risks, we have implemented a systematic product process in the Audi Group with clear milestones, quality approvals, permanent monitoring and clear responsibilities. This also takes account of new requirements that arise from the future topics of electrification and digitalization as well as from technology partnerships. In addition to the separation of functions and principles of multiple-party control, the process entails a wide range of management and monitoring tools, along with regular reporting to top management to validate both the projects' maturity and their financial objectives. New products are defined on the basis of a comprehensive analysis of the environment and customers. The main revenue and cost drivers in the product development process are managed and monitored by the Controlling area and as a product management task. The key performance indicators applied for this are for the management of project-based cost and pricing, and for corporate financial management. In addition, needs-based task forces are being put in place and additional capacities are being created in the areas affected. The deadline risk in particular has increased compared with the previous year.

Even tougher exhaust, emission and homologation regulations worldwide, for example the WLTP in Europe, continue to present us with challenges in the development and homologation of our engine/transmission versions. Above all capacity bottlenecks in engine development and at the test centers could lead to certain engine and transmission versions being temporarily unavailable, thus putting the volume at risk and adversely affecting our financial key figures. By way of measures to minimize the risk, capacities in the areas affected were increased. We are also revising, optimizing and simplifying our powertrain portfolio in response. The risk remains high.

In view of the high complexity of market-specific statutory requirements and the speed with which they are changing, there is the risk that it may not be possible to implement required changes to product characteristics adequately during product development. This can also be caused by inadequate knowledge of the requirements. Violations may result in, for example, sales restrictions, penalty payments, image losses as well as other financial costs. As a countermeasure, we regularly and extensively scrutinize our internal processes and revise them. We also introduce control mechanisms including a review process. This risk has not changed compared with the previous year.

Field measures for certain engines and the resulting change in their characteristics could potentially cause problems in other components. A countermeasure, for example in the form of software solutions, is being developed. Audi is also in dialogue with the relevant government agencies. This issue emerged for the first time in the year under review.

// OPPORTUNITIES FROM OPERATING ACTIVITIES

Through the Audi Transformation Plan (ATP), we aim to scrutinize, query and improve mainly procedural, cross-disciplinary and structural issues, as well as improve efficiency and reduce complexity. The plan also offers scope to pinpoint and utilize further potential. The expansion of virtual development brings cost savings and greater flexibility, for example. Optimized tracking of deadlines and financial targets is designed to leverage extra potential. The fact that we are part of the Volkswagen Group also means we can enjoy further potential for synergies in the future, such as in the Research and Development area, where we are working jointly with Dr. Ing. h.c. F. Porsche AG, Stuttgart, on the development of vehicle architectures, modules and components for what is known as the premium architecture electrification (PPE).

// LEGAL RISKS

Despite considerable progress on the final agreement with various agencies and stakeholders, there continue to be risks in connection with the diesel issue. For example, there is the fundamental risk that the agreements reached with the U.S. agencies cannot be met in time or in full, despite the measures introduced to implement them. This would involve new financial consequences. The implementation of these agreements is managed by a specially created organizational unit in the Audi Group.

In addition, there is a fundamental risk of further governmental investigations and inquiries, judicial decisions as well as current and new lawsuits and proceedings – such as the consumer class action against Volkswagen AG or individual actions – including on similar technical matters, possibly in other jurisdictions.

Where manageable and economically practicable, appropriate levels of insurance cover were taken out to hedge risks. Provisions deemed appropriate were created or contingent liabilities were disclosed for identifiable and measurable risks. Contingent liabilities were not disclosed quantitatively if they are not currently measurable. Because some risks cannot be assessed or only assessed to a limited degree, losses arising that are not covered by the insured or reserved amounts cannot be ruled out. This applies in particular to the assessment of legal risks arising from the diesel issue.

*Read more about the **diesel issue** on pages 101 ff.*

In 2017, plaintiffs in various U.S. jurisdictions filed numerous lawsuits against several car manufacturers, including Volkswagen AG and other companies of the Volkswagen Group, on behalf of putative buyer classes of German luxury vehicles; the proceedings are now being instituted through two consolidated class actions in the multidistrict litigation in California. The lawsuits claim that since the 1990s, the defendants had engaged in a conspiracy to unlawfully increase the prices of German luxury vehicles and therefore violated U.S. antitrust and consumer protection laws. A similar argument was used by plaintiffs in Canada on behalf of putative buyer classes of German luxury vehicles in bringing lawsuits against several car manufacturers, including Volkswagen Canada Inc., Audi Canada Inc. and other companies of the Volkswagen Group. Neither provisions nor contingent liabilities have been stated because it is currently not yet possible to evaluate the proceedings based on their current status.

Because it has to deal with a large number of country-specific legal systems and standards, the Audi Group is confronted with a complex regulatory framework governing the approval of its vehicles – including the risk of non-attainment of market-specific certification requirements. Restrictions on the approval of our products as well as sales bans could consequently be imposed on the Audi Group, or delays to their market introduction could occur. The Audi Group addresses these risks through ongoing monitoring of the legal framework as well as through processes and control systems that include suitable reporting. The countermeasures are steadily refined and are supported by specific IT systems. The risk is on a par with the previous year.

Under the antitrust investigations of the automotive industry that are already in the public domain, on September 18, 2018, the European Commission instituted formal proceedings against the companies concerned. The investigations have been continuing for some time. As indicated in the European Commission press release, the European Commission has now narrowed down its investigations exclusively to the subject area of emissions. The instituting of proceedings is a customary and purely procedural move that Volkswagen was expecting. The Volkswagen Group and the Group brands affected are cooperating fully with the European Commission, and will continue to do so.

We are also exposed to the latent risk of litigation, especially in the areas of competition and antitrust law, product liability and patents. New risks may arise in the future especially in light of advancing digitalization. Necessary decisions and actions in all legal areas are therefore backed up with the expertise of the Audi internal legal counsel. In selected cases we also consult external legal experts.

There are fundamentally other risks associated with legislative changes, which could also give rise to differences in interpretation. Internal processes are continually adapted and improved accordingly and supervisory functions incorporated. All activities by corporate bodies, managers and employees must comply with the current legal framework and with internal corporate guidelines. We are able to sensitize employees through the preventive action of the Audi Group's compliance organization, for instance through a wide range of internal communication and information measures. In the 2018 fiscal year, we substantially extended our training program and focused it on the various target groups through mandatory modules and function-specific programs. Additional advisory programs on how to handle compliance topics are widely offered and are being expanded further. These organizational measures ensure that all actions are in accordance with the law, even if misconduct by individuals cannot be ruled out altogether.

// INFORMATION AND IT RISKS

The UNECE (United Nations Economic Commission for Europe) is currently discussing mandatory management systems in connection with cyber security and software updates, which could already be introduced from 2020. A certified Cyber Security Management System (CSMS) as a requirement for the homologation of vehicles along with a type approval certificate for cyber security as part of the approval process could be required in the future. The aim is to protect and safeguard the increasingly networked and autonomous functions in the vehicle more effectively. Along similar lines, a system for software updates needs to be introduced to ensure that these are protected against manipulation and misuse. Because of the system's high complexity, there is the risk that the new requirements will not be implemented by the planned introduction date, which could lead to an approval freeze and consequently put the volume at risk. By way of a countermeasure, the certification requirements are currently defined cross-divisionally. A project team is also already working on implementing the requirements on a process, organization and content-related level. The risk was recorded for the first time in the period under review.

Since the EU General Data Protection Regulation came into force in May 2018, the demands on data protection and data security have risen significantly. Companies that commit breaches in connection with IT systems for the storage or deletion of personal data, for example, face high financial penalties. The Audi Group counters this risk with a data privacy management system, data protection contacts in the departments and by holding awareness-raising measures for all employees. The system's ongoing development has also been commissioned. The risk was recorded for the first time in the 2017 fiscal year and has not increased since.

The growing professionalization of white-collar crime poses an increased threat to IT security for the businesses affected, for example. It may take the form of unauthorized access to and manipulation of data as well as deliberate sabotage. There are also threats in the form of data theft and systematic espionage of sensitive information. This risk is countered as effectively as possible by means of comprehensive IT security regulations and ongoing refinement of the IT security organization as well as by specifying Group-wide security standards and regular simulations of hacker attacks. We run risk analyses, security audits and optimization projects to sustainably ensure the continuity and security of internal processes. In addition, new IT systems are subjected to increased stress testing both before their adoption and also while in use. This risk has not increased compared with the previous year.

// INFORMATION AND IT OPPORTUNITIES

Further digitalization of our internal processes along the entire value chain as well as the standardization of our IT systems are being advanced intensively. For instance, we are targeting further efficiency improvements that will therefore save resources.

The use of data analytics offers us opportunities to align our products and new business models even more closely with what customers want, and develop them in a way that adds value and boosts efficiency. Data protection enjoys top priority in that regard. We are very aware of the sensitivity of the debate surrounding data protection in connection with vehicle data, and we are continuously developing appropriate solutions consistent with new technical innovations that strictly adhere to the principles of data protection law, in particular transparency, customer self-determination and data security. This subject area also offers us extensive opportunities and potential for our ATP.

// *FINANCIAL RISKS*

As a globally active company, the Audi Group is exposed to currency risks. Exchange rate fluctuations can, for example, influence payment streams and assets of the Audi Group. These fluctuations may be caused by economic or political developments, such as Brexit, trade disputes or a debt crisis. Changes in the sales volume with the result that there is an excess or shortfall in hedging may equally drive such developments. These risks are minimized by natural hedging and the use of original and derivative financial instruments. Natural hedging is achieved, for example, through local production in important sales regions and through the local sourcing of components. We reduce the residual exchange rate risk by means of foreign currency hedging transactions with matching currencies and maturities, in the form of forward transactions and options contracts. The goal of this cover is to hedge planned payment streams particularly from investment, production and sales planning. This approach then also increases short, medium and long-term planning certainty. Methodologically, simulations of multiple stress scenarios are used as the basis for currency risk management. Risks are predominantly connected with the following currencies: U.S. dollar, Chinese renminbi, pound sterling and Canadian dollar. The risk has increased compared with the previous year as a result of a change in the measurement model. The underlying risk situation has not changed materially.

Alongside exchange rate movements, the development in interest rates, commodity prices as well as stock and bond markets fundamentally represents a financial risk for the Audi Group.
In organizational terms, the management of financial and liquidity risks is the responsibility of the Treasury area, which uses original and derivative financial instruments to minimize these risks. An established regular process within the Audi Group supports the management of these risks. The current risk situation and the related hedging strategies, for example, are agreed regularly with the full Board of Management and actioned by Volkswagen Group Treasury. The derivatives used, provided the conditions are met, are fundamentally also reflected in the accounts as hedging relationships. To minimize transaction costs, hedging transactions are concluded in collaboration with the Volkswagen Group. The Audi Group additionally protects itself from commodity price developments by concluding long-term contracts. The goal is to ensure price stability in product costing.

The most important financial goal is to ensure the solvency and financing of the Audi Group at all times. At the same time, we seek to achieve a suitable return on the investment of surplus liquidity. Particularly if there are substantial deviations from plan – for example in the event of short-term negative economic developments – there could be liquidity risks in the form of higher capital costs or increased difficulty in raising financing for capital investment. This permanent risk is countered through a multi-stage liquidity planning process, the involvement of decision-making committees and daily cash disposition. Furthermore, the material companies of the Audi Group are included in the cash pooling of the Volkswagen Group. This arrangement makes intra-Group and external transactions efficient and also reduces transaction costs.

Counterparty risks also fundamentally occur if a contracting partner is no longer able to meet its contractual payment or delivery obligation. This can have considerable financial consequences. These credit risks are managed centrally by Volkswagen Group Treasury. A diversification strategy is applied and contracting partners are evaluated using creditworthiness criteria to counter the risk of losses or default.

Through cooperation with Volkswagen Financial Services AG, Braunschweig, the Audi Group is able to offer its customers borrowing and leasing arrangements. In connection with the refinancing of leasing agreements, deterioration in the cost of capital could fundamentally lead to financial or volume risks for the Audi Group.

*Read more about the **hedging policy** and **risk management** in the area of financial risks in the Notes to the Consolidated Financial Statements under Note 37.*

// FINANCIAL OPPORTUNITIES

Rising growth rates for economic output in export markets that are of importance to us may prompt appreciation of a country's national currency and have a correspondingly beneficial impact on the Audi Group. Political changes can also play a decisive role in such developments. In addition, rising interest rates may have a positive effect on returns from the investment of surplus liquidity. Our targeted working capital management can equally have positive financial consequences. An advantageous development in commodity prices from our perspective represents a further financial opportunity for us.

/ MOTORCYCLES SEGMENT

As well as the most significant and latent risks and opportunities for the Audi Group, we are exposed to specific risks and opportunities from the Motorcycles segment. The significance of these risks is also reflected in the order in which they are presented here.

// RISKS FOR MOTORCYCLES SEGMENT

Both the main production plant and the main warehouse of Ducati are situated in Bologna (Italy). It is therefore indispensable to keep these functioning and operational at all times in order to maintain business operations. Their failure or operational restriction – for example in the event of a fire or earthquake – would interrupt production and therefore have a major impact on our ability to deliver products. As well as the image loss, there would above all be financial consequences. Fire prevention measures and safety plans as well as insurance cover constitute risk-reducing measures and are regularly reviewed and developed. This risk has not increased compared with the previous year.

Tougher statutory requirements and the absence of uniformity in safety standards between delivering countries as well as quality problems in the production and development process can cause delays in the product development process and price fluctuations within the product range. There is also potential for a negative impact on the delivery volume, image and financial targets. Ducati ensures that the required characteristics are achieved by following a comprehensive product development process including the appropriate validations and quality checks.

// OPPORTUNITIES FOR MOTORCYCLES SEGMENT

A positive development in the worldwide economic situation and consequently a rise in demand for motorcycles in the premium segment fundamentally create additional sales opportunities for Ducati. The expansion of Ducati's product range and the development of new customer segments as well as new markets could generate further market opportunities for the Company.

The expertise and know-how of the Audi Group can help with the quick and efficient implementation of the Ducati brand's internationalization measures. In addition, Ducati can benefit from far-reaching synergy potential in the Audi Group's development, operating and purchasing processes.

/ *OVERALL ASSESSMENT OF THE RISKS AND OPPORTUNITIES SITUATION OF THE AUDI GROUP*

The overall risks and opportunities situation for the Audi Group arises from the individual risks and opportunities presented above. The most significant risks are currently in connection with deviations from planned project goals during product development, the further tightening of exhaust, emissions and homologation regulations worldwide as well as future potentially mandatory management systems for cyber security and software updates. These risks could have an adverse impact particularly on the planned volume development, as well as on our financial key figures.

Principal opportunities are offered by the implementation of the ATP, the renewal and expansion of our product portfolio as well as the future technologies such as autonomous driving. By being part of the Volkswagen Group, we also benefit from a wide range of synergies and increased competitiveness. In addition to the production network, this also applies to other elements of the value chain, such as in the areas of Research and Development as well as Procurement.

The current risk situation has already been built into the forecast for the 2019 fiscal year. The residual overall risk within the Audi Group that is not reflected in the forecast has fallen slightly compared with the previous year. However, particularly the number of risks reported has increased. Nevertheless, on the basis of the information known to us there continue to be no risks that could pose a threat to the Audi Group and material Group companies as going concerns.

DISCLAIMER

The report on expected developments, risks and opportunities contains forward-looking statements relating to anticipated developments. These statements are based upon current assessments and are by their very nature subject to risks and uncertainties. Actual outcomes may differ from those predicted in these statements.

REPORT ON POST-BALANCE SHEET DATE EVENTS

There were no reportable events of material significance after December 31, 2018.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

/ *GERMAN CORPORATE GOVERNANCE CODE IN 2018*

On April 24, 2017, the Federal Ministry of Justice and Consumer Protection announced a new version of the German Corporate Governance Code dated February 7, 2017, in the official section of the Federal Gazette (Bundesanzeiger). The Board of Management and Supervisory Board of AUDI AG also considered at length the recommendations and suggestions in the Code during the 2018 fiscal year and made inferences.

*Read online the current **joint declaration of the Board of Management and the Supervisory Board of AUDI AG** on the recommendations of the German Corporate Governance Code at **www.audi.com/cgc-declaration.***

/ *IMPLEMENTATION OF THE RECOMMENDATIONS AND SUGGESTIONS*

The recommendations of the "Government Commission on the German Corporate Governance Code" announced by the Federal Ministry of Justice on April 24, 2017, in the official section of the Federal Gazette (Bundesanzeiger), in the version dated February 7, 2017, were implemented in the period since the most recent Declaration of Conformity of November 30, 2017, and continue to be implemented with the exception of the following numbers:

- 4.2.3, Para. 2, Sentence 3 (variable components of Board of Management remuneration, multi-year measurement basis mainly relating to future periods),
- 5.3.2, Para. 3, Sentence 2 (independence of the Chairman of the Audit Committee),
- 5.3.3 (Nominating Committee),
- 5.4.1, Para. 6 (disclosure with regard to nominations),
- 5.4.6, Para. 2, Sentence 2 (performance-related remuneration of the Supervisory Board).

The Supervisory Board of AUDI AG considers a multi-year measurement basis for Board of Management remuneration, which is essentially a forward-looking approach, to be sensible. It has therefore approved an adjustment to the remuneration system in line with the recommendations of the currently valid German Corporate Governance Code for the first time for the 2019 fiscal year. Against this background, the deviation from the recommendation in No. 4.2.3, Para. 2, Sentence 3 regarding the variable components of Board of Management remuneration relating to future periods is declared for the 2018 fiscal year.

According to the recommendation No. 5.3.2, Sentence 3, the Chairman of the Audit Committee should, among other things, be "independent." The Chairman of the Audit Committee's membership of the Supervisory Board of Volkswagen AG and of the Board of Management of Porsche Automobil Holding SE may be indicative of a lack of independence as defined in the recommendations. In the view of the Board of Management and of the Supervisory Board, these activities neither give rise to a conflict of interest, nor do they have an adverse effect on the work of the Chairman of the Audit Committee. The exception is declared merely as a precaution.

With regard to No. 5.3.3 (Nominating Committee), a Nominating Committee would, in the view of the Supervisory Board, only increase the number of committees without, however, leading to a noticeable improvement in the work of the Board.

Regarding the recommendation set forth in No. 5.4.1, Para. 6 on the disclosure of certain circumstances when the Supervisory Board makes election recommendations to the General Meeting, the requirements in the Code are vague and not clearly defined. An exception is therefore declared merely as a precaution, while the Supervisory Board will endeavor to fulfill the requirements of the recommendation in the Code.

The Board of Management and the Supervisory Board believe that the current remuneration arrangements for Supervisory Board members set forth in Section 16 of the Articles of Incorporation and Bylaws of AUDI AG provide for a performance-related component that is oriented toward the sustainable growth of the enterprise. In view of the vagueness of the recommendation in No. 5.4.6, Para. 2, Sentence 2 of the Code, and considering that the scope of a performance-related remuneration component aimed at a sustainable growth of the enterprise has not yet been clarified, the Board of Management and the Supervisory Board declare this exception merely as a precaution.

The response to the suggestions made in the Code is as follows: The Supervisory Board concurs that all suggestions with the exception of the suggestion from No. 4.2.3, Para. 2, Sentence 9 (multi-year, variable remuneration components should not be paid out early) are met. The Supervisory Board will only approve such a remuneration rule in the future.

/ STOCK OPTION PLANS AND SIMILAR SECURITIES-BASED INCENTIVE ARRANGEMENTS

There were no agreements with members of the Board of Management concerning any such plans or incentive arrangements in the 2018 fiscal year.

*Read more about the planned **reorganization of the remuneration system** as well as the performance share plan **in the Notes to the Consolidation Financial Statements** under Note 47.*

/ GOALS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

Taking into account the specific situation of the Company, the business purpose, the size of the Company and the proportion of international business activities as well as the ownership structure, the Supervisory Board heeds the following elements when working towards its target composition:

- At least two seats on the Supervisory Board for persons who fulfill the criterion of internationality to a particular extent,
- At least one shareholder seat on the Supervisory Board for persons with no potential conflicts of interest, in particular as a result of performing an advisory or executive function at customers, suppliers, lenders or other third parties,
- At least one shareholder seat on the Supervisory Board for independent Supervisory Board members within the meaning of No. 5.4.2 of the Code (in this case, currently Dr. Julia Kuhn-Piëch),
- At least one seat on the Supervisory Board for persons who contribute to the Board's diversity in particular.

The Supervisory Board as an overall body must possess the requisite expertise and competences to be in a position to perform its supervisory function and assess and monitor the transactions that the Company conducts. To that end, the members of the Supervisory Board must as a whole be familiar with the sector in which the Company operates. Core competences and requirements for the Supervisory Board as an overall body include in particular:

- Knowledge of or experience in the manufacturing and sale of vehicles and powertrains of all kinds or of other technical products,
- Knowledge of the automotive industry, business model and market, knowledge of the products,
- Knowledge of the Research and Development area, in particular in the technological fields that are relevant for the Company,
- Experience in positions of entrepreneurial leadership or on Supervisory Boards of major corporations,
- Knowledge of the governance, legal and compliance areas,
- In-depth knowledge of the fields of finance, accounting or financial audit,
- Knowledge of the capital market,
- Knowledge of the areas of Controlling/Risk Management, Internal Control System,
- Human resources competence (in particular searching for and recruiting Board of Management members, successor process) as well as knowledge of incentive and remuneration systems for the Board of Management,
- In-depth knowledge of or experience in the areas of co-determination, employee affairs and the working world in the Company.

The current composition of the Supervisory Board satisfies the competence profile.

/ GROUP MANAGEMENT DECLARATION ON THE INTERNET

The Group Management Declaration pursuant to Section 315d of the German Commercial Code (HGB) in conjunction with Section 289f of the German Commercial Code (HGB) contains both the Declaration of Conformity by the Board of Management and Supervisory Board pursuant to Section 161 of the German Stock Corporation Act (AktG) and disclosures on corporate governance practices. The methods and practices of the Board of Management and Supervisory Board as well as the committees established and gender quotas are also described. In addition, disclosures on the diversity concept for the Board of Management and Supervisory Board are made.

*Read more online about the **Group Management Declaration** at **www.audi.com/corporate-management**.*

INTEGRITY AND COMPLIANCE

Integrity and compliance with laws and regulations are the basis of our corporate activity and have top priority in the Audi Group. They form the basis for a good reputation, for the trust of customers and business partners, for the wellbeing of employees as well as for sustainable economic success, which should not be diminished by the risk of high financial damage resulting from fines, a loss of profit, mandatory compensation payments or criminal investigations. To avoid the aforementioned, effective compliance is needed within the Company in addition to a culture based on integrity. The Audi Group pursues primarily a preventive approach in this regard. Its aim is to eliminate in advance any possible breaches of the rules.

Within the Audi Group, the topics of integrity, compliance and risk management at AUDI AG are handled by a dedicated organizational unit. This is headed by the Chief Compliance Officer and reports directly to the Board Member for Finance, China, Compliance and Integrity. Since June 2017, this organizational unit has also coordinated cooperation with the Independent Compliance Monitor/Auditor Mr. Larry D. Thompson, appointed by the U.S. authorities.
Mr. Thompson will assess and oversee the fulfillment by Volkswagen and Audi of the conditions from the agreements with the U.S. agencies on the diesel issue for a period of three years. These include measures to further strengthen compliance and the reporting and control systems as well as implementing an extended program for compliance and ethical conduct. The resources for integrity and compliance were substantially increased in the year under review, to anchor the numerous building blocks of effective integrity and compliance management in the Company. This was partly driven by the comprehensive substantive requirements under the agreement with the United States. Further conditions and requirements from the settlement agreements with the U.S. agencies were already implemented and met according to schedule in the period under review.

/ *INTEGRITY AND CORPORATE CULTURE*

Behaving with integrity generally means acting in a way that consciously reflects chosen values, principles and personal convictions. At Audi, we interpret integrity as acting in a responsible and entrepreneurial way that embraces general ethical standards and our corporate values. Behaving with integrity stems from the personal conviction of every individual to do the right thing and to adhere to the right principles regardless of emotional, economic or social pressure. This sets integrity apart from compliance, which we take to mean adhering to statutory regulations as well as internal corporate policies and our Code of Conduct. Compliance is about protecting employees and the Company. In our understanding, an organization whose employees operate in a legally compliant way and observe internal policies and codes of conduct can be considered a reliable and trustworthy partner.

Distinction between integrity and compliance in the Audi Group

	Integrity	Compliance
Motivation	Mainly intrinsic motivation (out of conviction/reason)	Mainly external pressure (e.g. through legislation)
Objective	Promotion of moral behavior	Prevention of unlawful actions
Approach	Values, corporate culture	Clear rules, policies, controls

We also attach particular importance to our corporate culture. Culture means the sum total of all values according to which we work together. It is evident in the way people, teams and departments within the company treat each other and work together. We believe every company needs not only ideals, but also shared cultural values. Our four corporate values at Audi provide the basis: appreciation, openness, responsibility and integrity.
Our integrity program is designed to further strengthen the corporate culture at Audi. It places the spotlight on a dialogue on the topic of integrity. We want to promote the open sharing of ideas within the Company, propagate a corporate culture based on trust and firmly embed moral, values-based action at Audi. To that end we defined six subject areas that have also been agreed within the Volkswagen Group.

Subject areas of the Audi integrity program

The topic of integrity was given further exposure at Audi in 2018 through regularly recurring events and dialogue-based communication measures. For example, we held the mandatory Audi Convention for all leaders from the Ingolstadt and Neckarsulm sites on the topics of integrity, culture and compliance, in the form of web-based training and a one-day face-to-face event. In all, 3,350 managers, leaders and Works Council members took part. The objective of the Audi Convention was to raise awareness of the economic and social relevance of integrity-led, upright behavior and value-based leadership. To communicate the topics addressed throughout the Company and thus raise awareness of them among all employees, after the event the participants were supplied with a starter kit containing various work materials. In addition, several fireside chats on the subject of integrity took place in the year under review. These provided Board of Management members, managers and employees with an opportunity to discuss the topic of integrity and its significance for Audi. A comprehensive web-based training range as well as face-to-face events on compliance and integrity, some of them mandatory, help to spread these topics among the workforce.

AUDI AG also launched a pilot project for the Volkswagen Group's integrity and compliance program "Together4Integrity" (T4I) in the 2018 fiscal year. The program is based on the principles of the Ethics & Compliance Initiative (ECI), a globally recognized standard for ethical corporate principles. T4I brings together all previous measures, projects and initiatives dealing with integrity and compliance. It aims to give employees a firm handle on behaving with integrity and promote cultural change at Audi.

/ *COMPLIANCE MANAGEMENT SYSTEM IN THE AUDI GROUP*

The Compliance Management System (CMS) is intended to ensure that the Company's corporate bodies and employees suitably comply with statutory and internal regulations. It incorporates all measures and systems to coordinate and ensure compliance within the Company – and in particular implementation of the compliance program. In addition to AUDI AG, around 50 participations worldwide fall within the scope of the CMS, with predominantly local compliance officers acting as multipliers.

Within the Audi Group, we have defined intrinsic compliance topics which need to be observed in order to protect our brands. These are permanently tracked and supplemented by the annually updated compliance program. They also essentially reflect the statutory framework that a company must comply with. Audi already offers various information and training measures as well as ad hoc consultancy services for the intrinsic compliance topics. The requirements on specific topics are additionally set forth in corporate policies that have been enacted on behalf of the Board of Management and are binding for all employees.

Intrinsic compliance topics at Audi:
- Anti-corruption/anti-fraud
- Data protection
- Prevention of money laundering
- Business partner approval
- Information security
- Insider information
- Antitrust law
- Issue of external contracts

The compliance program is an important tool for creating a uniform basis for compliance activities within the Audi Group and is approved annually by the Board Member for Finance, China, Compliance and Integrity. As well as continuously addressing the intrinsic compliance topics, it encompasses selected focal areas that reflect current developments in the Company and the industry. The activities in the period under review continued to be determined especially by requirements resulting from the settlement agreements reached with the U.S. agencies as a result of the diesel issue.

// IMPLEMENTATION OF THE RECOMMENDATIONS FROM THE MONITORSHIP

With the publication of the first Monitor Report and the recommendations that resulted from it for the Audi Group, a large share of resources in the year under review was dedicated to implementing these punctually. The recommendations included the organizational structuring and expansion of the compliance organization at head office and the sites worldwide, expanding the training programs and also revising or supplementing the corporate regulations. For example, the explicit inclusion of compliance in mergers & acquisitions projects was also a new stipulation.

// FURTHER MAIN FOCUSES

As well as regular recording of detailed risk assessments on the subject of compliance for the regular GRC process, the Internal Compliance Risk Assessment (ICRA) was carried out at 52 companies in Germany and internationally in the year under review. A questionnaire on the risk areas of corruption, money laundering and fraud served to render the risk landscape of the companies transparent so that suitable action to reduce the risk profile in each specific case can be taken as required.

The Audi Compliance Cockpit is the central digital compliance portal that brings together all digital applications of the Compliance area and is intended in particular to help the participations conduct their compliance work. Its components include for instance conducting business partner approval, easy custom solutions for online training and digital reporting of compliance measures required and implemented in the companies. The Audi Compliance Cockpit was introduced in 2018.

The revision of the Audi Corporate Regulations, started in 2017, also continued. The aim here is to restructure and simplify the collected internal corporate regulations and communicate them highly effectively. An important partial aspect of this project are the Volkswagen Group Policies, the influence of which on the regulatory hierarchy needs to be taken into account when defining the next steps.

REMUNERATION REPORT

/ SYSTEM OF REMUNERATION FOR THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

The remuneration report includes details of the remuneration paid to the members of the Board of Management and Supervisory Board of AUDI AG, broken down by individual member and by component, as well as information on the pension arrangements for members of the Board of Management, broken down by individual member, pursuant to Section 314, Para. 1, No. 6a), Sentence 5 ff. of the German Commercial Code (HGB) and the German Corporate Governance Code (DCGK). We also explain the main elements of the remuneration system for the Board of Management and Supervisory Board.

/ BASIC FEATURES AND DEVELOPMENT OF REMUNERATION PAID TO THE BOARD OF MANAGEMENT

The full Supervisory Board passes resolutions on the remuneration system and the total remuneration for individual members of the Board of Management of AUDI AG on the basis of the Presiding Committee’s recommendations. The remuneration of active members of the Board of Management complies with the statutory requirements of the German Stock Corporation Act (AktG) and the recommendations of the German Corporate Governance Code (DCGK). In particular, the remuneration structure is focused on ensuring the sustainable growth of the enterprise in accordance with the German Act on the Appropriateness of Management Board Remuneration (VorstAG; Section 87, Para. 1 of the German Stock Corporation Act [AktG]).

The system of remuneration for members of the Board of Management was approved by the 121st Annual General Meeting on May 20, 2010, by 99.70 percent of the votes cast.

The level of remuneration paid to the Board of Management should be appropriate and attractive by national and international comparison. The relevant criteria include the tasks of the individual Board member, the member's personal performance, the Company's economic situation, performance and future prospects, and also the standard nature of the remuneration, taking account of competitors on the market and the pay structure otherwise in place within the Audi Group and the Volkswagen Group. Regular comparisons of remuneration levels are carried out in this regard.

// COMPONENTS OF THE REMUNERATION PAID TO THE BOARD OF MANAGEMENT

The remuneration paid to the Board of Management comprises fixed (non-performance-related) and variable (performance-related) components. The fixed components guarantee basic remuneration that allows the individual members of the Board of Management to execute their duties conscientiously and in the best interests of the Company, without becoming dependent upon achieving short-term targets only. Variable components, dependent among other things on the financial performance of the Company, serve to ensure the long-term impact of performance incentives.

Pursuant to the Supervisory Board resolution of November 24, 2016, there is a cap on both total remuneration and its variable components.

/// FIXED REMUNERATION

The fixed (non-performance-related) remuneration comprises fixed remuneration and fringe benefits. In addition to the basic remuneration, the fixed remuneration includes varying levels of remuneration for appointments at Audi Group companies, subsidiaries and participations. The fringe benefits constitute remuneration in kind. These include in particular the provision of operating resources, such as company cars, as well as payment of insurance premiums. Taxes due on this remuneration in kind are paid by AUDI AG in accordance with Company guidelines.

The basic remuneration is reviewed on a regular basis and adjusted as necessary.

/// VARIABLE REMUNERATION

The variable (performance-related) remuneration consists of a business performance bonus, based on the year under review and the previous year (two-year period), and, since 2010, has also included a Long Term Incentive (LTI) based on performance in the year under review and over the previous three fiscal years (four-year period). These two components of variable remuneration are therefore calculated using a measurement basis spanning several years and take account of both positive and negative developments. In addition, a bonus may be awarded for the individual performance of members of the Board of Management (one-year variable remuneration).

The figures shown in the table “Board of Management remuneration for 2018 pursuant to German Commercial Code (HGB)” reflect the figures reported in the 2018 financial statements as expense.

The figures shown in the tables “Board of Management remuneration (benefits received) pursuant to German Corporate Governance Code (DCGK)” reflect the amounts paid out in the fiscal year in question.

The figures shown in the tables “Board of Management remuneration (benefits granted) pursuant to German Corporate Governance Code (DCGK)” are based on a mean probability scenario.

If extraordinary factors arise, the Supervisory Board may decide to impose a cap on the variable remuneration components.

//// BONUS SYSTEM

The business performance bonus rewards the positive business development of the Audi Group. Basically, the amount of the bonus is based on the results achieved, on the Company's economic situation and on the personal performance of the individual member of the Board of Management. Operating profit, in the form of a two-year average, is used as the calculation basis. The system is regularly reviewed by the Supervisory Board and adjusted where necessary.

//// LONG TERM INCENTIVE (LTI)

At Audi, the level of the LTI is determined by attainment of the strategic goals of the Volkswagen Group. The relevant target areas for the 2018 remuneration year are:

- Leader in customer satisfaction, measured using the customer satisfaction index,
- Leading employer, measured using the employee index,
- Rise in sales, measured using the growth index, and
- Rise in return, measured using the return index.

The customer satisfaction index is calculated based on indicators of our customers' overall satisfaction with the dealers supplying the products, with new vehicles and with the service establishments, based on the most recent workshop visit in each case. The employee index is calculated on the basis of such indicators as "employment" and "productivity," as well as the participation rate and results of employee surveys. The growth index is calculated from the indicators "deliveries to customers" and "market share." The return index is determined from the development in the return on sales and the dividend per ordinary share.

The calculated indices for customer satisfaction, employees and the sales situation are added together and the total is then multiplied by the return index. This method ensures that the LTI is only paid out if the Group has been financially successful. If the return on sales does not exceed a threshold of 1.5 percent, the return index will equal zero. Consequently, the overall index for the fiscal year in question will then also be zero.

/// OTHER AGREEMENTS

Contracts with members of the Board of Management include an entitlement to continued payment of the standard remuneration for a period of six to twelve months in the event of sickness, but not beyond the term of the employment contract. In the event of disability, members are entitled to retirement pay.

In addition, contracts with members of the Board of Management include an entitlement to a 60 percent widow's pension, a 15 percent half orphan's pension and a 30 percent full orphan's pension based on retirement pay.

/// OUTLOOK

The Supervisory Board of AUDI AG considers a multi-year measurement basis for Board of Management remuneration, which is essentially a forward-looking approach, to be sensible. It has therefore resolved an adjustment to the remuneration system in line with the recommendations of the current German Corporate Governance Code, which is to be implemented in 2019.

/ BOARD OF MANAGEMENT REMUNERATION FOR 2018 PURSUANT TO GERMAN COMMERCIAL CODE (HGB)

EUR	2018			2017
	Non-performance-related remuneration	Performance-related remuneration 1) 2)	Total remuneration	Total remuneration
Abraham Schot	1,206,615	1,849,700	3,056,315	886,835
Rupert Stadler (until Oct. 2, 2018) 3)	372,822	892,792	1,265,614	2,765,000
Wendelin Göbel	606,104	1,849,700	2,455,804	892,226
Peter Kössler	665,717	1,849,700	2,515,417	890,726
Dr. Bernd Martens	770,847	1,849,700	2,620,547	2,533,820
Dr.-Ing. Peter Mertens (until Oct. 31, 2018) 4)	520,685	1,541,417	2,062,102	7,807,686
Hans-Joachim Rothenpieler (since Nov. 1, 2018)	89,745	261,750	351,495	–
Alexander Seitz	601,268	1,849,700	2,450,968	1,205,759
Members of the Board of Management who left in the previous year	–	–	–	7,409,333
Total	**4,833,803**	**11,944,459**	**16,778,262**	**24,391,385**

1) Corresponds to the amounts set aside in the fiscal year. The Supervisory Board determines the amount of the payment.
2) In addition, provision shortfalls/surpluses result in a total expense in 2018 of EUR 1,236,000 (provision shortfalls for Rupert Stadler of EUR 1,066,000, Dr. Bernd Martens of EUR 226,500, Dr.-Ing. Peter Mertens of EUR 104,700; provision surpluses for Wendelin Göbel, Peter Kössler, Abraham Schot, Alexander Seitz EUR 40,300 each).
3) The remuneration of Rupert Stadler is determined according to the VW Group system, based on his activities as Group CEO of Volkswagen AG, and rebilled pro rata to AUDI AG. This approach may produce temporal and material discrepancies.
4) To compensate for lost entitlements resulting from the change in employer, Dr.-Ing. Peter Mertens received EUR 6.0 million in the previous year.

/ BOARD OF MANAGEMENT REMUNERATION (BENEFITS RECEIVED) PURSUANT TO GERMAN CORPORATE GOVERNANCE CODE (DCGK)

The figures for the variable remuneration shown here as benefits received reflect the amounts paid out in the respective fiscal year.

EUR	Abraham Schot	
	Chairman of the Board of Management [1]	
	2018	2017
Fixed remuneration	1,146,667	180,000
Fringe benefits	59,948	12,835
Total	**1,206,615**	**192,835**
One-year variable remuneration	265,000	–
Multi-year variable remuneration	388,700	–
Business performance bonus (two-year period)	180,200	–
LTI (four-year period)	208,500	–
Total	**1,860,315**	**192,835**
Pension expense	599,629	85,314
Total remuneration	**2,459,944**	**278,149**

1) Until Jun. 18, 2018, Member of the Board of Management for Marketing and Sales; from Jun. 19, 2018, to Dec. 31, 2018, Member of the Board of Management for Marketing and Sales and interim Chairman of the Board of Management; since Jan. 1, 2019, Chairman of the Board of Management and interim Member of the Board of Management for Marketing and Sales

EUR	Rupert Stadler [1]	
	Chairman of the Board of Management [2]	
	Left: October 2, 2018	
	2018	2017
Fixed remuneration [3]	372,822	810,000
Fringe benefits	–	–
Total	**372,822**	**810,000**
One-year variable remuneration	1,296,784	974,431
Multi-year variable remuneration	1,724,216	1,203,069
Business performance bonus (two-year period)	869,354	560,706
LTI (four-year period)	854,862	642,363
Total	**3,393,822**	**2,987,500**
Pension expense [4]	–	–
Total remuneration	**3,393,822**	**2,987,500**

1) The remuneration of Rupert Stadler is determined according to the VW Group system, based on his activities as Group CEO of Volkswagen AG, and rebilled pro rata to AUDI AG. This approach may produce temporal and material discrepancies.
2) Inactive from Jun. 19, 2018, until Oct. 2, 2018
3) In the 2018 fiscal year, the fixed remuneration was paid out up until Jun. 18, 2018.
4) Volkswagen AG granted the pension commitment to Rupert Stadler.

EUR	Wendelin Göbel Human Resources and Organization	
	2018	2017
Fixed remuneration	546,667	180,000
Fringe benefits	59,437	18,226
Total	**606,104**	**198,226**
One-year variable remuneration	265,000	–
Multi-year variable remuneration	388,700	–
Business performance bonus (two-year period)	180,200	–
LTI (four-year period)	208,500	–
Total	**1,259,804**	**198,226**
Pension expense	248,346	162,954
Total remuneration	**1,508,150**	**361,180**

EUR	Peter Kössler Production and Logistics	
	2018	2017
Fixed remuneration	546,667	180,000
Fringe benefits	119,050	16,726
Total	**665,717**	**196,726**
One-year variable remuneration	265,000	–
Multi-year variable remuneration	388,700	–
Business performance bonus (two-year period)	180,200	–
LTI (four-year period)	208,500	–
Total	**1,319,417**	**196,726**
Pension expense	221,521	96,721
Total remuneration	**1,540,938**	**293,447**

EUR	Dr. Bernd Martens Procurement and IT	
	2018	2017
Fixed remuneration	560,000	560,000
Fringe benefits	210,847	53,820
Total	**770,847**	**613,820**
One-year variable remuneration	980,500	980,000
Multi-year variable remuneration	1,166,000	1,171,300
Business performance bonus (two-year period)	540,600	545,900
LTI (four-year period)	625,400	625,400
Total	**2,917,347**	**2,765,120**
Pension expense	334,546	353,368
Total remuneration	**3,251,893**	**3,118,488**

EUR	Dr.-Ing. Peter Mertens	
	Technical Development	
	Left: October 31, 2018	
	2018	2017
Fixed remuneration [1]	463,334	6,360,000
Fringe benefits	57,351	58,686
Total	**520,685**	**6,418,686**
One-year variable remuneration	618,300	–
Multi-year variable remuneration	875,400	–
Business performance bonus (two-year period)	458,400	–
LTI (four-year period)	417,000	–
Total	**2,014,385**	**6,418,686**
Pension expense	861,169	928,370
Total remuneration	**2,875,554**	**7,347,056**

1) To compensate for lost entitlements resulting from the change in employer, Dr.-Ing. Peter Mertens received EUR 6.0 million in the previous year.

EUR	Hans-Joachim Rothenpieler	
	Technical Development	
	Joined: November 1, 2018	
	2018	2017
Fixed remuneration	80,000	–
Fringe benefits	9,745	–
Total	**89,745**	**–**
One-year variable remuneration	–	–
Multi-year variable remuneration	–	–
Business performance bonus (two-year period)	–	–
LTI (four-year period)	–	–
Total	**89,745**	**–**
Pension expense	69,025	–
Total remuneration	**158,770**	**–**

EUR	Alexander Seitz	
	Finance, China, Compliance and Integrity	
	2018	2017
Fixed remuneration	546,667	180,000
Fringe benefits	54,601	331,759
Total	**601,268**	**511,759**
One-year variable remuneration	265,000	–
Multi-year variable remuneration	388,700	–
Business performance bonus (two-year period)	180,200	–
LTI (four-year period)	208,500	–
Total	**1,254,968**	**511,759**
Pension expense	415,113	156,668
Total remuneration	**1,670,081**	**668,427**

/ BOARD OF MANAGEMENT REMUNERATION (BENEFITS GRANTED) PURSUANT TO GERMAN CORPORATE GOVERNANCE CODE (DCGK)

The figures for the variable remuneration shown here as benefits granted are based on a mean probability scenario.

EUR	Abraham Schot			
	Chairman of the Board of Management [1]			
	2018	2018 (minimum)	2018 (maximum)	2017
Fixed remuneration	1,160,000	1,160,000	1,160,000	186,667
Fringe benefits	59,948	59,948	59,948	12,835
Total	**1,219,948**	**1,219,948**	**1,219,948**	**199,502**
One-year variable remuneration	265,000	–	1,060,000	–
Multi-year variable remuneration	388,700	–	2,120,000	–
Business performance bonus (two-year period)	180,200	–	1,060,000	–
LTI (four-year period)	208,500	–	1,060,000	–
Total	**1,873,648**	**1,219,948**	**4,399,948**	**199,502**
Pension expense	599,629	599,629	599,629	85,314
Total remuneration	**2,473,277**	**1,819,577**	**4,999,577**	**284,816**

1) Until Jun. 18, 2018, Member of the Board of Management for Marketing and Sales; from Jun. 19, 2018, to Dec. 31, 2018, Member of the Board of Management for Marketing and Sales and interim Chairman of the Board of Management; since Jan. 1, 2019, Chairman of the Board of Management and interim Member of the Board of Management for Marketing and Sales

EUR	Rupert Stadler [1]			
	Chairman of the Board of Management [2]			
	Left: October 2, 2018			
	2018	2018 (minimum)	2018 (maximum)	2017
Fixed remuneration [3]	372,822	372,822	372,822	810,000
Fringe benefits	–	–	–	–
Total	**372,822**	**372,822**	**372,822**	**810,000**
One-year variable remuneration	974,431	–	1,590,000	883,315
Multi-year variable remuneration	1,203,069	–	3,180,000	1,374,045
Business performance bonus (two-year period)	560,706	–	1,590,000	637,950
LTI (four-year period)	642,363	–	1,590,000	736,095
Total	**2,550,322**	**372,822**	**5,142,822**	**3,067,360**
Pension expense [4]	–	–	–	–
Total remuneration	**2,550,322**	**372,822**	**5,142,822**	**3,067,360**

1) The remuneration of Rupert Stadler is determined according to the VW Group system, based on his activities as Group CEO of Volkswagen AG, and rebilled pro rata to AUDI AG. This approach may produce temporal and material discrepancies.
2) Inactive from Jun. 19, 2018, until Oct. 2, 2018
3) In the 2018 fiscal year, the fixed remuneration was paid out up until Jun. 18, 2018.
4) Volkswagen AG granted the pension commitment to Rupert Stadler.

EUR	Wendelin Göbel			
	Human Resources and Organization			
	2018	2018 (minimum)	2018 (maximum)	2017
Fixed remuneration	560,000	560,000	560,000	186,667
Fringe benefits	59,437	59,437	59,437	18,226
Total	**619,437**	**619,437**	**619,437**	**204,893**
One-year variable remuneration	265,000	–	1,060,000	–
Multi-year variable remuneration	388,700	–	2,120,000	–
Business performance bonus (two-year period)	180,200	–	1,060,000	–
LTI (four-year period)	208,500	–	1,060,000	–
Total	**1,273,137**	**619,437**	**3,799,437**	**204,893**
Pension expense	248,346	248,346	248,346	162,954
Total remuneration	**1,521,483**	**867,783**	**4,047,783**	**367,847**

EUR	Peter Kössler			
	Production and Logistics			
	2018	2018 (minimum)	2018 (maximum)	2017
Fixed remuneration	560,000	560,000	560,000	186,667
Fringe benefits	119,050	119,050	119,050	16,726
Total	**679,050**	**679,050**	**679,050**	**203,393**
One-year variable remuneration	265,000	–	1,060,000	–
Multi-year variable remuneration	388,700	–	2,120,000	–
Business performance bonus (two-year period)	180,200	–	1,060,000	–
LTI (four-year period)	208,500	–	1,060,000	–
Total	**1,332,750**	**679,050**	**3,859,050**	**203,393**
Pension expense	221,521	221,521	221,521	96,721
Total remuneration	**1,554,271**	**900,571**	**4,080,571**	**300,114**

EUR	Dr. Bernd Martens			
	Procurement and IT			
	2018	2018 (minimum)	2018 (maximum)	2017
Fixed remuneration	560,000	560,000	560,000	560,000
Fringe benefits	210,847	210,847	210,847	53,820
Total	**770,847**	**770,847**	**770,847**	**613,820**
One-year variable remuneration	980,500	–	1,060,000	980,000
Multi-year variable remuneration	1,166,000	–	2,120,000	1,171,300
Business performance bonus (two-year period)	540,600	–	1,060,000	545,900
LTI (four-year period)	625,400	–	1,060,000	625,400
Total	**2,917,347**	**770,847**	**3,950,847**	**2,765,120**
Pension expense	334,546	334,546	334,546	353,368
Total remuneration	**3,251,893**	**1,105,393**	**4,285,393**	**3,118,488**

EUR	Dr.-Ing. Peter Mertens			
	Technical Development			
	Left: October 31, 2018			
	2018	2018 (minimum)	2018 (maximum)	2017
Fixed remuneration [1)]	466,667	466,667	466,667	6,373,334
Fringe benefits	57,351	57,351	57,351	58,686
Total	**524,018**	**524,018**	**524,018**	**6,432,020**
One-year variable remuneration	618,300	–	883,334	–
Multi-year variable remuneration	875,400	–	1,766,668	–
Business performance bonus (two-year period)	458,400	–	883,334	–
LTI (four-year period)	417,000	–	883,334	–
Total [2)]	**2,017,718**	**524,018**	**3,174,020**	**6,432,020**
Pension expense	861,169	861,169	861,169	928,370
Total remuneration	**2,878,887**	**1,385,187**	**4,035,189**	**7,360,390**

1) To compensate for lost entitlements resulting from the change in employer, Dr.-Ing. Peter Mertens received EUR 6.0 million in the previous year.
2) Includes a top-up amount on minimum remuneration of EUR 1.87 million in the previous year

EUR	Hans-Joachim Rothenpieler			
	Technical Development			
	Joined: November 1, 2018			
	2018	2018 (minimum)	2018 (maximum)	2017
Fixed remuneration	83,335	83,335	83,335	–
Fringe benefits	9,745	9,745	9,745	–
Total	**93,080**	**93,080**	**93,080**	**–**
One-year variable remuneration	–	–	150,000	–
Multi-year variable remuneration	–	–	300,000	–
Business performance bonus (two-year period)	–	–	150,000	–
LTI (four-year period)	–	–	150,000	–
Total	**93,080**	**93,080**	**543,080**	**–**
Pension expense	69,025	69,025	69,025	–
Total remuneration	**162,105**	**162,105**	**612,105**	**–**

EUR	Alexander Seitz			
	Finance, China, Compliance and Integrity			
	2018	2018 (minimum)	2018 (maximum)	2017
Fixed remuneration	560,000	560,000	560,000	186,667
Fringe benefits	54,601	54,601	54,601	331,759
Total	**614,601**	**614,601**	**614,601**	**518,426**
One-year variable remuneration	265,000	–	1,060,000	–
Multi-year variable remuneration	388,700	–	2,120,000	–
Business performance bonus (two-year period)	180,200	–	1,060,000	–
LTI (four-year period)	208,500	–	1,060,000	–
Total	**1,268,301**	**614,601**	**3,794,601**	**518,426**
Pension expense	415,113	415,113	415,113	156,668
Total remuneration	**1,683,414**	**1,029,714**	**4,209,714**	**675,094**

/ BENEFITS PAID UPON REGULAR TERMINATION OF EMPLOYMENT

In the event of regular termination of their employment, the members of the Board of Management are granted retirement pay including a survivor's pension as well as the use of company cars for the period in which they receive retirement pay. The benefits granted are paid out or provided from the age of 63. Contracts from October 2015 fundamentally specify that these benefits will begin at the age of 65.

Retirement pay is calculated as a percentage of the basic remuneration. The individual percentage increases by a specified percentage with every year of service and may be up to 50 percent of the agreed monthly basic remuneration at the time of termination of employment.

The pension obligations in accordance with IAS 19 for members of the active Board of Management amounted to EUR 40,417 (32,951) thousand on December 31, 2018; the amount of EUR 8,612 (23,040) thousand including actuarial effects in accordance with IAS 19 and transfers was allocated to the provision in the year under review.

The measurement of pension obligations also includes other benefits such as surviving dependents' pensions and the provision of company cars. The pension obligations measured in accordance with the requirements of German commercial law came to EUR 31,228 (22,080) thousand; the amount of EUR 9,944 (16,259) thousand, including transfers, was allocated to the provision in the year under review in accordance with the requirements of German commercial law. Current pension payments are increased in line with the index-linking of the highest collectively agreed salary, provided that the application of Section 16 of the German Act on the Improvement of Company Pension Provision (BetrAVG) does not lead to a higher increase.

Former members of the Board of Management and their surviving dependents received EUR 21,440 (10,914) thousand in the past year. For this group of individuals there were pension obligations amounting to EUR 100,629 (99,642) thousand measured in accordance with IAS 19 or EUR 83,462 (75,551) thousand in accordance with the requirements of German commercial law.

// BOARD OF MANAGEMENT PENSIONS IN 2018 (IFRS)

EUR	2018		2017	
	Pension expense	Present values as of December 31	Pension expense	Present values as of December 31
Abraham Schot	599,629	4,347,545	85,314	3,859,969
Rupert Stadler (until Oct. 2, 2018) [1]	–	–	–	–
Wendelin Göbel	248,346	8,037,574	162,954	7,933,714
Peter Kössler	221,521	7,532,556	96,721	7,448,299
Dr. Bernd Martens	334,546	7,324,169	353,368	7,154,405
Dr.-Ing. Peter Mertens (until Oct. 31, 2018) [2]	861,169	–	928,370	1,146,784
Hans-Joachim Rothenpieler (since Nov. 1, 2018) [2]	69,025	7,386,338	–	–
Alexander Seitz	415,113	5,788,540	156,668	5,407,965
Members of the Board of Management who left in the previous year	–	–	817,768	–
Total	**2,749,349**	**40,416,722**	**2,601,163**	**32,951,136**

1) Volkswagen AG granted the pension commitment to Rupert Stadler.
2) Pension expense in 2018 is reported on a pro rata basis.

// BOARD OF MANAGEMENT PENSIONS IN 2018 (GERMAN COMMERCIAL CODE [HGB])

EUR	2018		2017	
	Service costs	Present values as of December 31	Service costs	Present values as of December 31
Abraham Schot	322,855	3,331,889	792,714	2,599,681
Rupert Stadler (until Oct. 2, 2018) 1)	–	–	–	–
Wendelin Göbel	58,849	6,081,993	– 816,915	5,233,316
Peter Kössler	22,917	5,969,060	1,034,706	5,260,022
Dr. Bernd Martens	109,457	5,413,389	13,611	4,561,203
Dr.-Ing. Peter Mertens (until Oct. 31, 2018) 2)	– 51,606	–	530,946	796,419
Hans-Joachim Rothenpieler (since Nov. 1, 2018) 2)	– 19,513	6,002,912	–	–
Alexander Seitz	245,628	4,428,616	150,821	3,629,830
Members of the Board of Management who left in the previous year	–	–	– 563,373	–
Total	**688,587**	**31,227,859**	**1,142,510**	**22,080,471**

1) Volkswagen AG granted the pension commitment to Rupert Stadler.
2) Service costs in 2018 are reported on a pro rata basis.

/ BENEFITS PAID UPON EARLY TERMINATION OF EMPLOYMENT

If the activity is ended with good cause for which the member of the Board of Management is not responsible, entitlement shall be limited to a maximum of two years' annual remuneration (settlement cap).

In the event that the employment is ended with good cause for which the member of the Board of Management is responsible, no termination payment is made to the Board of Management member.

In the event of premature termination of their employment, the members of the Board of Management are also granted retirement pay with a survivor's pension as well as the use of company cars for the period in which they receive retirement pay.

Former members of the Board of Management and their surviving dependents were allocated EUR 11,233 (24,262) thousand. This includes the amounts agreed with Rupert Stadler and Dr.-Ing. Peter Mertens in connection with their departure from the Board of Management.

Rupert Stadler was allocated remuneration that can be broken down into a non-performance-related component in the amount of EUR 3,228 thousand and a performance-related component in the amount of EUR 3,692 thousand. Payment of the above amounts to Mr. Stadler is subject to the course and outcome of the criminal proceedings. Volkswagen AG and AUDI AG essentially have joint and several liability for the amounts allocated.

Dr.-Ing. Peter Mertens was granted non-performance-related remuneration in the amount of EUR 2,673 thousand and performance-related remuneration in the amount of EUR 1,640 thousand for the period November 1, 2018, to October 31, 2019.

/ REMUNERATION OF THE SUPERVISORY BOARD

The remuneration paid to the Supervisory Board is composed of fixed and variable components in accordance with Section 16 of the Articles of Incorporation and Bylaws of AUDI AG. Pursuant to Section 314, Para. 1, No. 6a) of the German Commercial Code (HGB), the remuneration amounts to EUR 1,594 (1,207) thousand. The remuneration comprises EUR 290 (237) thousand in fixed and EUR 1,304 (970) thousand in variable components. The level of the variable remuneration components is based on the compensatory payment made for the 2018 fiscal year in accordance with the applicable provision in the Articles of Incorporation and Bylaws.

The actual payment of individual parts of the total remuneration, which will only be determined upon finalization of the compensatory payment, will be made in the 2019 fiscal year pursuant to Section 16 of the Articles of Incorporation and Bylaws.

EUR	Fixed	Variable	Total 2018	
Dr.-Ing. Herbert Diess (since May 7, 2018)	–	–	–	Chairman (since May 8, 2018) [1] Shareholder representative
Matthias Müller (resigned with effect from Apr. 13, 2018)	–	–	–	Chairman [1] Shareholder representative
Peter Mosch [2]	21,900	105,689	127,589	Vice Chairman [1] (since May 9, 2018) Employee representative
Berthold Huber [2) 3)]	7,450	41,567	49,017	Vice Chairman [1) 3)] Employee representative
Mag. Josef Ahorner	16,900	76,689	93,589	Shareholder representative [4]
Senator h. c. Helmut Aurenz [3]	4,225	20,783	25,008	Shareholder representative
Rita Beck [2]	14,500	58,000	72,500	Employee representative
Dr. rer. pol. h. c. Francisco Javier Garcia Sanz (resigned with effect from Apr. 12, 2018)	–	–	–	Shareholder representative
Marianne Heiß (since May 7, 2018)	10,350	37,700	48,050	Shareholder representative
Johann Horn [2]	16,400	76,689	93,089	Employee representative [4]
Gunnar Kilian (since May 9, 2018)	–	–	–	Shareholder representative
Rolf Klotz [2]	17,500	87,000	104,500	Employee representative [5]
Dr. Julia Kuhn-Piëch	13,500	58,000	71,500	Shareholder representative
Petra Otte [2] (since May 9, 2018)	9,800	37,378	47,178	Employee representative
Dr. jur. Hans Michel Piëch	19,000	87,000	106,000	Shareholder representative [1]
Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch	23,500	116,000	139,500	Shareholder representative [6]
Dr. jur. Ferdinand Oliver Porsche	18,500	87,000	105,500	Shareholder representative [5]
Dr. rer. comm. Wolfgang Porsche	13,500	58,000	71,500	Shareholder representative
Rainer Schirmer [2] (since May 9, 2018)	13,200	56,067	69,267	Employee representative [4]
Jörg Schlagbauer [2]	19,000	87,000	106,000	Employee representative [5]
Irene Schulz [2]	17,400	76,689	94,089	Employee representative [7]
Helmut Späth [2]	14,500	58,000	72,500	Employee representative
Stefanie Ulrich	14,500	58,000	72,500	Employee representative
Max Wäcker [2) 3)]	4,225	20,783	25,008	Employee representative
Hiltrud Dorothea Werner	–	–	–	Shareholder representative [5) 8)]
Prof. Dr. rer. pol. Carl H. Hahn	–	–	–	Honorary Chairman
Total	**289,850**	**1,304,034**	**1,593,884**	

1) Member of the Presiding Committee and the Negotiating Committee
2) The employee representatives have stated that their remuneration as Supervisory Board members shall be paid to the Hans Böckler Foundation, in accordance with the guidelines of the German Confederation of Trade Unions.
3) Until the close of the Annual General Meeting on May 9, 2018
4) Member of the Diesel Committee (since May 9, 2018)
5) Member of the Audit Committee
6) Chairman of the Audit Committee
7) Member of the Presiding Committee, Negotiating Committee and Audit Committee (since May 9, 2018)
8) Chairwoman of the Diesel Committee (since May 9, 2018)

MEMBERS OF THE BOARD OF MANAGEMENT AND THEIR MANDATES

Status of all data: December 31, 2018, or the date on which the member left the Board of Management

Abraham Schot (57)
Chairman of the Board of Management [1), since January 1, 2019
Marketing and Sales [2)
Member of the Board of Management of Volkswagen AG,
"Premium" brand group, since January 1, 2019

Wendelin Göbel (55)
Human Resources and Organization
Mandates:

- ◆ Lebenshilfe Werkstätten der Region 10 GmbH, Ingolstadt
- ◆ Volkswagen Pension Trust e.V., Wolfsburg

Peter Kössler (59)
Production and Logistics
Mandates:

- ◆ ERC Ingolstadt Eishockeyclub GmbH, Ingolstadt
- ◆ Volkswagen Group Services GmbH, Wolfsburg

Dr. Bernd Martens (52)
Procurement and IT

Hans-Joachim Rothenpieler (61)
Technical Development, since November 1, 2018

Alexander Seitz (56)
Finance, China, Compliance and Integrity

Resigned from the Board of Management at the close of October 2, 2018:
Rupert Stadler (55)
Chairman of the Board of Management [3),
"Premium" brand group [3)
Mandates (on October 2, 2018):

- ■ FC Bayern München AG, Munich (Vice Chairman)
- ◆ Porsche Holding Gesellschaft m.b.H., Salzburg, Austria

Resigned from the Board of Management at the close of October 31, 2018:
Dr.-Ing. Peter Mertens (57)
Technical Development

1) interim from June 19, 2018, to December 31, 2018
2) interim since January 1, 2019
3) inactive from June 19, 2018, to October 2, 2018

In connection with their duties of Group steering and governance within the Audi Group, the members of the Board of Management hold further supervisory board seats at Group companies and material participations.

- ■ Membership of statutorily constituted domestic supervisory boards
- ◆ Membership of comparable domestic and foreign regulatory bodies

MEMBERS OF THE SUPERVISORY BOARD AND THEIR MANDATES

Status of all data: December 31, 2018, or the date on which the member left the Supervisory Board

Dr.-Ing. Herbert Diess (60) [1], since May 7, 2018
Chairman
Chairman of the Board of Management of Volkswagen AG, Wolfsburg
Chairman of the Brand Board of Management of Volkswagen Passenger Cars;
"Volume" brand group; China, since January 11, 2019
Mandates:
- ▪ FC Bayern München AG, Munich
- ▪ Infineon Technologies AG, Neubiberg

Peter Mosch (46) [1]
Vice Chairman
Chairman of the General Works Council of AUDI AG, Ingolstadt
Mandates:
- ▪ Audi Pensionskasse – Altersversorgung der AUTO UNION GmbH, VVaG, Ingolstadt
- ▪ Volkswagen AG, Wolfsburg

Mag. Josef Ahorner (58)
Businessman, Vienna, Austria
Mandates:
- ▪ Porsche Automobil Holding SE, Stuttgart
- ◆ Automobili Lamborghini S.p.A., Sant'Agata Bolognese, Italy
- ◆ EMARSYS eMarketing Systems AG, Vienna, Austria (Chairman)

Rita Beck (48)
Vice Chairwoman of the Works Council of AUDI AG, Ingolstadt plant

Marianne Heiß (46), since May 7, 2018
Chief Financial Officer of BBDO Group Germany GmbH, Düsseldorf
Mandates:
- ▪ Porsche Automobil Holding SE, Stuttgart
- ▪ Volkswagen AG, Wolfsburg

Johann Horn (60)
District Manager of IG Metall Bayern, Munich
Mandates:
- ▪ EDAG Engineering GmbH, Wiesbaden
- ▪ EDAG Engineering Holding GmbH, Munich

Gunnar Kilian (43) [1], since May 9, 2018
Member of the Board of Management of Volkswagen AG, Wolfsburg
Mandat:
- ▪ Wolfsburg AG, Wolfsburg

Rolf Klotz (60)
Chairman of the Works Council of AUDI AG, Neckarsulm plant

Dr. Julia Kuhn-Piëch (37)
Property Manager, Salzburg, Austria
Mandates:
- ▪ MAN SE, Munich
- ▪ MAN Truck & Bus AG, Munich
- ◆ Audi Stiftung für Umwelt GmbH, Ingolstadt

Petra Otte (45), since May 9, 2018
Trade union secretary/press spokeswoman of IG Metall Baden-Württemberg, Stuttgart
Mandates:
- ▪ Aesculap AG, Tuttlingen
- ▪ Heidelberger Druckmaschinen AG, Wiesloch

1) In connection with their duties of Group steering and governance within the Volkswagen Group, this member of the Supervisory Board holds further supervisory board seats at Group companies and material participations.

▪ Membership of statutorily constituted domestic supervisory boards
◆ Membership of comparable domestic and foreign regulatory bodies

Dr. jur. Hans Michel Piëch (76)
Attorney, Vienna, Austria
Mandates:
- ■ Dr. Ing. h.c. F. Porsche AG, Stuttgart
- ■ Porsche Automobil Holding SE, Stuttgart (Vice Chairman)
- ■ Volkswagen AG, Wolfsburg
- ◆ Porsche Cars Great Britain Ltd., Reading, United Kingdom
- ◆ Porsche Cars North America Inc., Atlanta, USA
- ◆ Porsche Holding Gesellschaft m.b.H., Salzburg, Austria
- ◆ Porsche Ibérica S.A., Madrid, Spain
- ◆ Porsche Italia S.p.A., Padua, Italy
- ◆ Schmittenhöhebahn AG, Zell am See, Austria
- ◆ Volksoper Wien GmbH, Vienna, Austria

Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch (67)
Chairman of the Supervisory Board of Volkswagen AG, Wolfsburg
Chairman of the Board of Management and Chief Financial Officer of Porsche Automobil Holding SE, Stuttgart
Mandates:
- ■ Autostadt GmbH, Wolfsburg
- ■ Bertelsmann Management SE, Gütersloh
- ■ Bertelsmann SE & Co. KGaA, Gütersloh
- ■ Dr. Ing. h.c. F. Porsche AG, Stuttgart
- ■ TRATON AG, Munich (Chairman)
- ■ Volkswagen AG, Wolfsburg (Chairman)
- ■ Wolfsburg AG, Wolfsburg
- ◆ Porsche Austria Gesellschaft m.b.H., Salzburg, Austria (Chairman)
- ◆ Porsche Holding Gesellschaft m.b.H., Salzburg, Austria (Chairman)
- ◆ Porsche Retail GmbH, Salzburg, Austria (Chairman)
- ◆ VfL Wolfsburg-Fußball GmbH, Wolfsburg (Vice Chairman)

Dr. jur. Ferdinand Oliver Porsche (57)
Member of the Board of Management of Familie Porsche AG Beteiligungsgesellschaft, Salzburg, Austria
Mandates:
- ■ Dr. Ing. h.c. F. Porsche AG, Stuttgart
- ■ Porsche Automobil Holding SE, Stuttgart
- ■ TRATON AG, Munich
- ■ Volkswagen AG, Wolfsburg
- ◆ Porsche Holding Gesellschaft m.b.H., Salzburg, Austria
- ◆ Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg

Dr. rer. comm. Wolfgang Porsche (75)
Chairman of the Supervisory Board of Porsche Automobil Holding SE, Stuttgart
Chairman of the Supervisory Board of Dr. Ing. h. c. F. Porsche AG, Stuttgart
Mandates:
- ■ Dr. Ing. h.c. F. Porsche AG, Stuttgart (Chairman)
- ■ Porsche Automobil Holding SE, Stuttgart (Chairman)
- ■ Volkswagen AG, Wolfsburg
- ◆ Familie Porsche AG Beteiligungsgesellschaft, Salzburg, Austria (Chairman)
- ◆ Porsche Cars Great Britain Ltd., Reading, United Kingdom
- ◆ Porsche Cars North America Inc., Atlanta, USA
- ◆ Porsche Holding Gesellschaft m.b.H., Salzburg, Austria
- ◆ Porsche Ibérica S.A., Madrid, Spain
- ◆ Porsche Italia S.p.A., Padua, Italy
- ◆ Schmittenhöhebahn AG, Zell am See, Austria

Rainer Schirmer (52), since May 9, 2018
Vice Chairman of the Works Council of AUDI AG, Neckarsulm plant
Mandate:
- ■ Audi BKK, Ingolstadt

■ Membership of statutorily constituted domestic supervisory boards
◆ Membership of comparable domestic and foreign regulatory bodies

Jörg Schlagbauer (41)
Vice Chairman of the Works Council of AUDI AG, Ingolstadt plant
Mandates:
- ▪ Audi BKK, Ingolstadt (alternating Chairman)
- ▪ BKK Landesverband Bayern, Munich (Vice Chairman)
- ▪ Sparkasse Ingolstadt Eichstätt, Ingolstadt

Irene Schulz (54)
Executive Member of the Managing Board of the IG Metall trade union, Frankfurt am Main
Mandates:
- ▪ Osram Licht AG, Munich
- ▪ Osram GmbH, Munich

Helmut Späth (62)
Member of the Works Council of AUDI AG, Ingolstadt plant
Mandates:
- ▪ Audi BKK, Ingolstadt
- ◆ Volkswagen Pension Trust e.V., Wolfsburg

Stefanie Ulrich (53)
Personnel Management Neckarsulm, Neckarsulm plant
Mandates:
- ▪ Agentur für Arbeit, Heilbronn
- ▪ Audi BKK, Ingolstadt

Hiltrud Dorothea Werner (52) [1]
Member of the Board of Management of Volkswagen AG, Wolfsburg

Resigned from the Supervisory Board with effect from April 12, 2018:
Dr. rer. pol. h. c. Francisco Javier Garcia Sanz (61) [1] [2]
Member of the Board of Management of Volkswagen AG, Wolfsburg
Mandates (on April 12, 2018):
- ▪ Hochtief AG, Essen
- ◆ CriteriaCaixa Holding S.A., Barcelona, Spain

Resigned from the Supervisory Board with effect from April 13, 2018:
Matthias Müller (65) [2]
Chairman
Member of the Board of Management of Porsche Automobil Holding SE, Stuttgart

Resigned from the Supervisory Board at the close of the Annual General Meeting on May 9, 2018:
Senator h. c. Helmut Aurenz (81) [2]
Owner of the ASB Group, Stuttgart
Mandate (on May 9, 2018):
- ◆ Automobili Lamborghini S.p.A., Sant'Agata Bolognese, Italy

Berthold Huber (68) [2]
Vice Chairman

Max Wäcker (64) [2]
Mandate (on May 9, 2018):
- ▪ Audi BKK, Ingolstadt

1) In connection with their duties of Group steering and governance within the Volkswagen Group, this member of the Supervisory Board holds further supervisory board seats at Group companies and material participations.
2) Status of all data: date on which the member left the Supervisory Board.

▪ Membership of statutorily constituted domestic supervisory boards
◆ Membership of comparable domestic and foreign regulatory bodies

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of the Audi Group for the fiscal year from January 1 to December 31, 2018

INCOME STATEMENT OF THE AUDI GROUP

EUR million	Notes	2018	2017 [1]
Revenue	1	59,248	59,789
Cost of goods sold	2	–50,117	–50,076
Gross profit		**9,131**	**9,713**
Distribution costs	3	–4,155	–4,925
Administrative expenses	4	–696	–682
Other operating income	5	1,862	2,822
Other operating expenses	6	–2,613	–2,257
Operating profit		**3,529**	**4,671**
Result from investments accounted for using the equity method	7	261	526
Interest income	8	233	86
Interest expenses	8	–115	–125
Other financial result	9	452	–441
Financial result		**831**	**46**
Profit before tax		**4,361**	**4,717**
Income tax expense	10	–898	–1,285
Profit after tax		**3,463**	**3,432**
of which profit share of non-controlling interests		*82*	*–77*
of which profit share of AUDI AG shareholders		*3,382*	*3,509*
Appropriation of profit share due to AUDI AG shareholders			
Profit transfer to Volkswagen AG	11	–1,096	–2,406
Transfer to retained earnings		2,286	1,103

EUR	Notes	2018	2017 [1]
Earnings per share	12	78.64	81.60
Diluted earnings per share	12	78.64	81.60

1) The prior year has been adjusted (see disclosures on IFRS 9 and IFRS 15).

STATEMENT OF COMPREHENSIVE INCOME OF THE AUDI GROUP

EUR million	2018	2017 [1]
Profit after tax	**3,463**	**3,432**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income before tax	31	164
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	–17	–29
Pension plan remeasurements recognized in other comprehensive income after tax	14	135
Fair value measurement of securities (equity instruments) that will not be reclassified subsequently to profit or loss after tax	–	7
Share of other comprehensive income of equity-accounted investments that will not be reclassified subsequently to profit or loss after tax	0	0
Items that will not be reclassified to profit/loss after tax	**14**	**143**
Currency translation differences		
Gains/losses from currency translation recognized in other comprehensive income	75	–298
Currency translation differences before tax	75	–298
Deferred taxes on currency translation differences	–	–
Currency translation differences after tax	75	–298
Hedging transactions		
Fair value changes of cash flow hedges recognized in other comprehensive income	–482	2,323
Fair value changes of cash flow hedges transferred to profit or loss	–481	–111
Cash flow hedges before tax	–963	2,212
Deferred taxes on cash flow hedges	289	–662
Cash flow hedges after tax	–674	1,551
Costs of hedging relationships recognized in other comprehensive income	–227	24
Costs of hedging relationships transferred to profit or loss	–96	–
Costs of hedging relationships before tax	–323	24
Deferred taxes on costs of hedging relationships	96	–7
Costs of hedging relationships after tax	–227	17
Share of other comprehensive income of equity-accounted investments that will be reclassified subsequently to profit or loss after tax	–41	–47
Items that will be reclassified subsequently to profit/loss after tax	**–866**	**1,223**
Other comprehensive income before tax	–1,221	2,063
Deferred taxes relating to other comprehensive income	368	–697
Other comprehensive income after tax [2]	**–852**	**1,365**
Total comprehensive income	**2,611**	**4,797**
of which profit share of AUDI AG shareholders	*2,512*	*4,947*
of which profit share of non-controlling interests	*99*	*–149*

1) The prior year has been adjusted (see disclosures on IFRS 9).
2) A share of EUR 17 (–73) million of other profit after tax from currency translation differences with no effect on profit or loss is attributable to non-controlling interests.

BALANCE SHEET OF THE AUDI GROUP

ASSETS *in EUR million*	Notes	Dec. 31, 2018	Dec. 31, 2017
Intangible assets	14	7,585	6,785
Property, plant and equipment	15	14,293	13,660
Leasing and rental assets	16	11	6
Investment property	16	332	346
Investments accounted for using the equity method	17	1,627	1,224
Other participations		357	359
Deferred tax assets	18	2,319	2,003
Other financial assets	19	5,742	4,940
Other receivables	20	128	145
Non-current assets		**32,393**	**29,469**
Inventories	21	9,406	7,893
Trade receivables	22	5,800	5,533
Effective income tax assets	23	51	22
Other financial assets	19	1,999	1,947
Other receivables	20	914	1,176
Securities	24	5,726	6,002
Cash funds	24	9,309	11,273
Current assets		**33,205**	**33,846**
Available-for-sale assets	**25**	**–**	**365**
Total assets		**65,598**	**63,680**

EQUITY AND LIABILITIES *in EUR million*	Notes	Dec. 31, 2018	Dec. 31, 2017
Subscribed capital	26	110	110
Capital reserve	26	12,175	12,175
Retained earnings [1]	26	16,219	13,970
Other reserves [1]	26	569	1,430
AUDI AG shareholders' interest		29,073	27,685
Non-controlling interests	26	625	487
Equity		**29,698**	**28,171**
Financial liabilities	27	319	328
Other financial liabilities	29	463	448
Other liabilities	30	1,224	1,205
Provisions for pensions	31	5,194	5,135
Other provisions	33	6,288	6,193
Effective income tax obligations	32	792	775
Deferred tax liabilities	28	270	217
Non-current liabilities		14,549	14,301
Financial liabilities	27	108	319
Trade payables	34	8,565	7,313
Other financial liabilities	29	4,067	4,928
Other liabilities	30	2,634	2,508
Other provisions	33	5,593	5,550
Effective income tax obligations	32	383	590
Current liabilities		21,351	21,208
Liabilities		**35,900**	**35,509**
Total equity and liabilities		**65,598**	**63,680**

1) The prior year has been adjusted (see disclosures on IFRS 9).

CASH FLOW STATEMENT OF THE AUDI GROUP

EUR million	2018	2017 [1]
Profit before profit transfer and income taxes	4,361	4,717
Income tax payments	–978	–1,146
Amortization of and impairment losses (reversals) on capitalized development costs	856	1,025
Depreciation and amortization of and impairment losses (reversals) on property, plant and equipment, leasing and rental assets, investment property and other intangible assets	2,931	2,555
Depreciation of and impairment losses (reversals) on financial investments	62	13
Result from the disposal of assets	–163	–25
Result from investments accounted for using the equity method	–97	–155
Change in inventories	–1,416	–967
Change in receivables	–268	–448
Change in liabilities	1,618	643
Change in provisions	75	–343
Change in leasing and rental assets	–7	–5
Other non-cash income and expenses	40	310
Cash flow from operating activities	**7,013**	**6,173**
Additions to capitalized development costs	–1,593	–1,243
Investments in property, plant and equipment, investment property and other intangible assets	–3,493	–3,872
Acquisition of subsidiaries and changes in capital	–50	–77
Acquisition of investments in associates and other participations and changes in capital	–398	–15
Sale of subsidiaries, investments in associates, other participations and changes in capital [2]	585	5
Other cash changes	79	64
Change in investments in securities	184	–39
Change in fixed deposits and loans extended [2]	–2,481	–320
Cash flow from investing activities	**–7,169**	**–5,498**
Capital contributions	43	459
Transfer of profit	–2,406	–918
Change in financial liabilities	–192	–56
Leasing payments made	–10	–9
Cash flow from financing activities	**–2,564**	**–524**
Change in cash and cash equivalents due to changes in exchange rates	16	–292
Change in cash and cash equivalents	**–2,705**	**–140**
Cash and cash equivalents at beginning of period	11,255	11,395
Cash and cash equivalents at end of period	**8,550**	**11,255**

1) The prior year has been adjusted (see disclosures on IFRS 9).
2) In the 2017 fiscal year, the shares of Volkswagen International Belgium S.A., Brussels (Belgium), were sold at a price of EUR 3,278 million. A long-term interest-only loan for the same amount was also granted. Consequently, the transaction was not included in the Cash Flow Statement.

EUR million	Dec. 31, 2018	Dec. 31, 2017
Cash funds	8,550	11,255
Fixed deposits, securities and loans extended	12,319	10,180
Gross liquidity	**20,869**	**21,435**
Credit outstanding	–427	–647
Net liquidity	**20,442**	**20,788**

The Cash Flow Statement is explained in Note 38 in the Notes to the Consolidated Financial Statements.

STATEMENT OF CHANGES IN EQUITY OF THE AUDI GROUP

EUR million	Subscribed capital	Capital reserve	Retained earnings
			Statutory reserve and other retained earnings
Unadjusted position as of Jan. 1, 2017	110	11,716	12,731
Changes in accounting policy to reflect IFRS 9	–	–	2
Position as of Jan. 1, 2017	110	11,716	12,732
Profit after tax [1]	–	–	3,509
Other comprehensive income after tax [1]	–	–	135
Total comprehensive income	**–**	**–**	**3,644**
Capital increase	–	459	–
Profit transfer to Volkswagen AG	–	–	–2,406
Miscellaneous changes	–	–	–
Position as of Dec. 31, 2017	**110**	**12,175**	**13,970**
Unadjusted position as of Jan. 1, 2018	110	12,175	14,015
Changes in accounting policy to reflect IFRS 9 and IFRS 15	–	–	–96
Position as of Jan. 1, 2018	110	12,175	13,919
Profit after tax	–	–	3,382
Other comprehensive income after tax	–	–	14
Total comprehensive income	**–**	**–**	**3,395**
Capital increase	–	–	–
Profit transfer to Volkswagen AG	–	–	–1,096
Miscellaneous changes	–	–	–
Position as of Dec. 31, 2018	**110**	**12,175**	**16,219**

1) The prior year has been adjusted (see disclosures on IFRS 9).

Equity is explained in Note 26 in the Notes to the Consolidated Financial Statements.

Other reserves					Equity		
Reserve for currency translation differences	Hedging transactions		Equity and debt instruments	Investments accounted for using the equity method	AUDI AG shareholders' interest	Non-controlling interests	Total
	Reserve for cash flow hedges	Costs of hedging relationships					
222	–192	–	–30	128	24,685	636	25,321
–	–	–2	–	–	–	–	–
222	–192	–2	–30	128	24,685	636	25,321
–	–	–	–	–	3,509	–77	3,432
–225	1,551	17	7	–47	1,438	–73	1,365
–225	**1,551**	**17**	**7**	**–47**	**4,947**	**–149**	**4,797**
–	–	–	–	–	459	–	459
–	–	–	–	–	–2,406	–	–2,406
–	–	–	–	–	–	–	–
–3	**1,359**	**15**	**–23**	**81**	**27,685**	**487**	**28,171**
–3	1,329	–	–23	81	27,685	487	28,171
–	30	15	23	–	–28	–3	–31
–3	1,359	15	–	81	27,657	483	28,140
–	–	–	–	–	3,382	82	3,463
58	–674	–227	–	–41	–870	17	–852
58	**–674**	**–227**	**–**	**–41**	**2,512**	**99**	**2,611**
–	–	–	–	–	–	43	43
–	–	–	–	–	–1,096	–	–1,096
–	–	–	–	–	–	–	–
55	**685**	**–211**	**–**	**41**	**29,073**	**625**	**29,698**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DEVELOPMENT OF FIXED ASSETS IN THE 2018 FISCAL YEAR

EUR million	Gross carrying amounts								
	Costs	Adjust-ments to reflect IFRS 9	Changes in scope of consoli-dated companies	Currency changes	Addi-tions	Changes from investments accounted for using the equity method	Trans-fers	Dis-posals	Costs
	Jan. 1, 2018								Dec. 31, 2018
Concessions, industrial property rights and similar rights and assets as well as licenses and customer bases	1,305	–	–	0	207	–	13	19	1,507
Brand names	459	–	–	–	–	–	–	–	459
Goodwill	378	–	–	–	–	–	–	–	378
Capitalized development costs, products currently under development	2,057	–	–	–	927	–	–1,660	–	1,325
Capitalized development costs, products currently in use	6,627	–	–	–	666	–	1,660	1,141	7,812
Payments on account for intangible assets	9	–	–	0	9	–	–9	0	10
Intangible assets	**10,836**	**–**	**–**	**0**	**1,810**	**–**	**5**	**1,160**	**11,490**
Land, land rights and buildings, including buildings on third-party land	8,307	–	128	31	127	–	177	33	8,737
Plant and machinery	8,206	–	–	15	125	–	530	264	8,611
Other plant and office equipment	18,650	–	0	38	1,490	–	1,108	429	20,857
Payments on account and assets under construction	2,269	–	3	0	1,536	–	–1,820	24	1,964
Property, plant and equipment	**37,432**	**–**	**131**	**83**	**3,277**	**–**	**–4**	**751**	**40,168**
Leasing and rental assets	**7**	**–**	**–**	**–**	**7**	**–**	**–**	**0**	**14**
Investment property	**425**	**–**	**–**	**5**	**0**	**–**	**0**	**11**	**419**
Investments accounted for using the equity method	**1,224**	**3**	**–**	**–6**	**390**	**99**	**–**	**83**	**1,627**
Other participations	**392**	**–**	**–1**	**0**	**67**	**–**	**–**	**7**	**451**
Fixed assets	**50,316**	**3**	**130**	**81**	**5,552**	**99**	**0**	**2,012**	**54,168**

Adjustments									Carrying amounts	
Cumulative depreciation and amortization	Changes in scope of consolidated companies	Currency changes	Additions to cumulative amortization	Impair-ment losses	Trans-fers	Dis-posals	Reversal of impairment losses	Cumulative depreciation and amortization		
Jan. 1, 2018								Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2017
983	–	0	140	16	0	18	–	1,120	386	322
49	–	–	2	–	–	–	–	51	408	410
–	–	–	–	–	–	–	–	–	378	378
14	–	–	–	–	−14	–	–	–	1,325	2,043
3,005	–	–	856	–	14	1,141	–	2,734	5,077	3,623
–	–	–	–	–	–	–	–	–	10	9
4,051	**–**	**0**	**998**	**16**	**0**	**1,159**	**–**	**3,906**	**7,585**	**6,785**
3,361	3	4	265	–	0	24	–	3,609	5,128	4,946
5,687	–	0	607	7	43	253	4	6,086	2,525	2,519
14,723	0	14	1,681	106	−43	397	–	16,083	4,774	3,927
1	–	0	–	95	–	–	–	96	1,867	2,268
23,771	**3**	**17**	**2,553**	**208**	**0**	**674**	**4**	**25,874**	**14,293**	**13,660**
1	**–**	**–**	**2**	**–**	**–**	**0**	**–**	**3**	**11**	**6**
79	**–**	**1**	**14**	**–**	**–**	**7**	**–**	**87**	**332**	**346**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,627**	**1,224**
32	**–**	**–**	**–**	**62**	**–**	**–**	**–**	**94**	**357**	**359**
27,935	**3**	**18**	**3,567**	**286**	**–**	**1,841**	**4**	**29,964**	**24,204**	**22,381**

DEVELOPMENT OF FIXED ASSETS IN THE 2017 FISCAL YEAR

EUR million	Gross carrying amounts								
	Costs	Changes in scope of consolidated companies	Currency changes	Additions	Changes from investments accounted for using the equity method	Transfers	Disposals	Available-for-sale assets	Costs
	Jan. 1, 2017								Dec. 31, 2017
Concessions, industrial property rights and similar rights and assets as well as licenses and customer bases	1,255	–	–3	142	–	6	94	–	1,305
Brand names	459	–	–	–	–	–	–	–	459
Goodwill	378	–	–	–	–	–	–	–	378
Capitalized development costs, products currently under development	1,615	–	–	1,055	–	–613	–	–	2,057
Capitalized development costs, products currently in use	6,565	–	–	188	–	613	739	–	6,627
Payments on account for intangible assets	4	–	0	7	–	–2	–	–	9
Intangible assets	**10,276**	**–**	**–3**	**1,392**	**–**	**4**	**833**	**–**	**10,836**
Land, land rights and buildings, including buildings on third-party land	7,974	–	–84	197	–	232	12	–	8,307
Plant and machinery	7,969	–	–76	300	–	179	165	–	8,206
Other plant and office equipment	17,651	–	–118	1,268	–	201	352	–	18,650
Payments on account and assets under construction	927	–	–1	1,967	–	–615	8	–	2,269
Property, plant and equipment	**34,520**	**–**	**–279**	**3,732**	**–**	**–4**	**537**	**–**	**37,432**
Leasing and rental assets	**3**	**–**	**–**	**5**	**–**	**–**	**–**	**–**	**7**
Investment property	**444**	**–**	**–13**	**14**	**–**	**–**	**19**	**–**	**425**
Investments accounted for using the equity method	**4,763**	**–**	**–46**	**–**	**153**	**–**	**3,282**	**365**	**1,224**
Other participations	**299**	**–**	**–**	**92**	**–**	**–**	**–**	**–**	**392**
Fixed assets	**50,304**	**–**	**–340**	**5,235**	**153**	**–**	**4,671**	**365**	**50,316**

Cumulative depreciation and amortization	Changes in scope of consolidated companies	Currency changes	Additions to cumulative amortization	Impairment losses	Transfers	Disposals	Reversal of impairment losses	Cumulative depreciation and amortization	Carrying amounts	
Jan. 1, 2017								Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
946	–	–2	133	–	0	94	–	983	322	309
47	–	–	2	–	–	–	–	49	410	412
–	–	–	–	–	–	–	–	–	378	378
–	–	–	–	14	–	–	–	14	2,043	1,615
2,733	–	–	949	61	–	739	–	3,005	3,623	3,832
–	–	–	–	–	–	–	–	–	9	4
3,726	**–**	**–2**	**1,085**	**76**	**0**	**833**	**–**	**4,051**	**6,785**	**6,550**
3,118	–	–7	253	–	0	4	–	3,361	4,946	4,855
5,242	–	–20	597	27	0	158	1	5,687	2,519	2,727
13,569	–	–31	1,406	121	0	342	–	14,723	3,927	4,082
–	–	0	–	1	–	–	–	1	2,268	927
21,929	**–**	**–58**	**2,256**	**149**	**0**	**504**	**1**	**23,771**	**13,660**	**12,591**
0	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**1**	**6**	**3**
80	**–**	**–3**	**14**	**–**	**–**	**12**	**–**	**79**	**346**	**364**
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,224**	**4,763**
19	**–**	**–**	**–**	**13**	**–**	**–**	**–**	**32**	**359**	**280**
25,754	**–**	**–63**	**3,357**	**238**	**–**	**1,349**	**1**	**27,935**	**22,381**	**24,551**

GENERAL INFORMATION

AUDI AG has the legal form of a German stock corporation (Aktiengesellschaft). Its registered office is at Auto-Union-Straße 1, Ingolstadt, and the Company is recorded in the Commercial Register of Ingolstadt under HR B 1.

Around 99.64 percent of the subscribed capital of AUDI AG is held by Volkswagen AG, Wolfsburg, with which a control and profit transfer agreement exists. The Consolidated Financial Statements of AUDI AG are included in the Consolidated Financial Statements of Volkswagen AG, which are held on file at the Local Court of Braunschweig. The purpose of the Company is the development, production and sale of motor vehicles, other vehicles and engines of all kinds, together with their accessories, as well as machinery, tools and other technical articles.

/ *ACCOUNTING PRINCIPLES*

AUDI AG prepares its Consolidated Financial Statements in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC). All pronouncements of the International Accounting Standards Board (IASB) whose application is mandatory in the European Union (EU) have been observed. The prior-year figures have been calculated according to the same principles.

The Income Statement is prepared in accordance with the cost of sales method.

AUDI AG prepares its Consolidated Financial Statements in euros (EUR). All figures have been rounded in accordance with standard commercial practice, with the result that minor discrepancies may occur when adding these amounts.

The Consolidated Financial Statements provide a true and fair view of the net worth, financial position and financial performance of the Audi Group.

The requirements of Section 315e of the German Commercial Code (HGB) regarding the preparation of Consolidated Financial Statements in accordance with IFRS, as endorsed by the EU, are met.

All requirements that must be applied under German commercial law are additionally observed in preparing the Consolidated Financial Statements. Moreover, the requirements of the German Corporate Governance Code have been adhered to.

The Board of Management prepared the Consolidated Financial Statements on February 20, 2019. This date marks the end of the adjusting events period.

// *EFFECTS OF NEW OR REVISED STANDARDS*

The Audi Group has implemented all of the accounting standards whose application became mandatory with effect from the 2018 fiscal year. Since January 1, 2018, there have been changes to IAS 40 (Investment Property) that apply and which clarify when a property falls under the scope of IAS 40.

In addition, changes to IFRS 1 and IAS 28 are to be applied, which the IASB has implemented as part of improvements to International Financial Reporting Standards (Annual Improvement Project 2016). In IFRS 1 (First-time Adoption of IFRS), short-term relief for first-time users of the IFRS was removed. In IAS 28 (Investments in Associates), clarifications were made for investment companies.

Furthermore, IFRS 2 (Share-based Payment) was changed. These changes contain clarifications of classification and measurement of business transactions with share-based payment transactions.

In addition, changes to IFRS 4 (Insurance Contracts) also apply that limit the effects resulting from the different dates of first-time adoption of IFRS 9 and IFRS 17.

Furthermore, IFRIC 22 (Foreign Currency Transactions and Advance Consideration) has applied since January 1, 2018, and clarifies which exchange rates are to be used for foreign currency transactions for advance payments.

None of the above-described changes, or any of the other changes to the IFRS, have a material impact on the net worth, financial position, financial performance or on the cash flow of the Audi Group.

/// IFRS 9 – FINANCIAL INSTRUMENTS

IFRS 9 revises the accounting rules for the classification and measurement of financial assets and for hedge accounting.

The classification and measurement of financial assets are based on the business model in which an asset is held and on cash flow characteristics. Financial assets, at initial recognition, are either measured “at amortized cost,” “at fair value through other comprehensive income” (FVOCI), or “at fair value through profit or loss” (FVPL). The classification and measurement of financial liabilities under IFRS 9 is largely unchanged compared with the accounting rules of IAS 39.

The model for calculating impairments and recognizing loss allowances has changed from an incurred loss model to an expected loss model. This amended measurement method has led to an increase in loss allowances. The increase in loss allowances is partly attributable to the requirement to recognize loss allowances for performing loans for the first 12 months. Furthermore, the increase results from the requirement to report loss allowances based on the overall expected residual term for financial assets with a significantly increased default risk. The first-time adoption effect was reported in equity, taking into account deferred taxes and with no effect on profit or loss.

With regard to hedge accounting according to IFRS 9, the implementation of new complex reporting and measurement methods was required. In addition, the designation options have been expanded. The quantitative limits for the effectiveness test no longer apply.

Moreover, reclassification practice has changed under IFRS 9. Fluctuations in value of the forward element of hedging instruments and fluctuations in value in connection with the residual value hedging model are no longer reported in the financial result, but rather in operating profit. Depending on market developments, the aforementioned effects can be expected to have a greater impact on operating profit. Within operating profit, amounts from currency hedging instruments reclassified from equity are accounted for in revenue. The prior-year figures have been adjusted due to the retrospective application of the provisions governing the designation of options. The effect on profit after tax in the 2017 fiscal year amounts to EUR –47 million. Since the new rules for hedging relationships involving forward exchange contracts are applied prospectively, there are no first-time adoption effects in relation to these hedging relationships. The new rules also provide for considerably more comprehensive disclosures in the Notes.

The following explanations and tables present the material impact of the new accounting requirements under IFRS 9 on the classification and measurement of financial assets and with regard to hedge accounting.

As of December 31, 2017, no financial assets were recorded in the Balance Sheet that according to IAS 39 were measured at amortized cost and according to IFRS 9 are now measured at fair value.

//// ADJUSTMENT OF BALANCE SHEET VALUES EFFECTIVE JANUARY 1, 2018, AS A RESULT OF IFRS 9

ASSETS *in EUR million*	Dec. 31, 2017		Jan. 1, 2018
	Before adjustments	Adjustments	After adjustments
Intangible assets	6,785	–	6,785
Property, plant and equipment	13,660	–	13,660
Leasing and rental assets	6	–	6
Investment property	346	–	346
Investments accounted for using the equity method	1,224	3	1,227
Other participations	359	–	359
Deferred tax assets	2,003	21	2,025
Other financial assets	4,940	–4	4,936
Other receivables	145	–	145
Non-current assets	**29,469**	**20**	**29,489**
Inventories	7,893	–	7,893
Trade receivables	5,533	–72	5,461
Effective income tax assets	22	–	22
Other financial assets	1,947	0	1,947
Other receivables	1,176	–	1,176
Securities	6,002	–	6,002
Cash funds	11,273	–	11,273
Current assets	**33,846**	**–73**	**33,774**
Available-for-sale assets	**365**	**0**	**365**
Total assets	**63,680**	**–53**	**63,628**

EQUITY AND LIABILITIES *in EUR million*	Dec. 31, 2017		Jan. 1, 2018
	Before adjustments	Adjustments	After adjustments
Equity	**28,171**	**–57**	**28,114**
Financial liabilities	328	–	328
Other financial liabilities	448	5	453
Other liabilities	1,205	–	1,205
Provisions for pensions	5,135	–	5,135
Other provisions	6,193	–	6,193
Effective income tax obligations	775	–	775
Deferred tax liabilities	217	–1	216
Non-current liabilities	14,301	4	14,305
Financial liabilities	319	–	319
Trade payables	7,313	–	7,313
Other financial liabilities	4,928	–	4,928
Other liabilities	2,508	–	2,508
Other provisions	5,550	–	5,550
Effective income tax obligations	590	–	590
Current liabilities	21,208	–	21,208
Liabilities	**35,509**	**4**	**35,513**
Total equity and liabilities	**63,680**	**–53**	**63,628**

//// RECONCILIATION OF LOSS ALLOWANCES FOR FINANCIAL ASSETS FROM IAS 39 TO IFRS 9 AS OF JANUARY 1, 2018

EUR million	From "measured at fair value through other comprehensive income" IAS 39	From "measured at amortized cost" IAS 39	No measurement category under IAS 39	Total
To "measured at fair value through profit or loss" IFRS 9				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	–	–
Jan. 1, 2018	–	–	–	–
To "measured at fair value through other comprehensive income" IFRS 9 (equity instruments)				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	–	–
Jan. 1, 2018	–	–	–	–
To "measured at fair value through other comprehensive income" IFRS 9 (debt instruments)				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	–	–
Jan. 1, 2018	–	–	–	–
To "measured at amortized cost" IFRS 9				
Dec. 31, 2017	–	108	–	108
Adjustments	–	76	–	76
Jan. 1, 2018	–	183	–	183
To lease receivables				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	–	–
Jan. 1, 2018	–	–	–	–
To assets IFRS 15				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	1	1
Jan. 1, 2018	–	–	1	1
To credit commitments				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	1	1
Jan. 1, 2018	–	–	1	1
To financial guarantees				
Dec. 31, 2017	–	–	–	–
Adjustments	–	–	4	4
Jan. 1, 2018	–	–	4	4
Total Jan. 1, 2018	**–**	**183**	**6**	**190**

//// RECONCILIATION OF CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS FROM IAS 39 TO IFRS 9

EUR million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifi-cations	Adjustments IFRS 9	Carrying amount IFRS 9 Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at fair value through profit or loss IAS 39	**277**		**–**	**277**	**–**
Additions					
Available-for-sale financial assets IAS 39		6,003	–	6,003	–
Financial assets measured at amortized cost IAS 39		–	–	–	–
Deductions					
Financial assets measured at amortized cost IFRS 9		–	–	–	–
Financial assets measured at fair value through other comprehensive income IFRS 9		–	–	–	–
Financial assets measured at fair value through profit or loss IFRS 9				**6,280**	**–**

The reclassification of “Available-for-sale financial assets” amounting to EUR 6,003 million mostly affects securities.

//// RECONCILIATION OF CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME FROM IAS 39 TO IFRS 9

EUR million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifi-cations	Adjustments IFRS 9	Carrying amount IFRS 9 Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Available-for-sale financial assets IAS 39	**6,003**		**–**	**6,003**	**–**
Additions					
Financial assets measured at amortized cost IAS 39		–	–	–	–
Deductions					
Financial assets measured at amortized cost IFRS 9		–	–	–	–
Financial assets measured at fair value through profit or loss IFRS 9		–6,003	–	–6,003	–
Financial assets measured at fair value through other comprehensive income IFRS 9				**–**	**–**

//// RECONCILIATION OF CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST FROM IAS 39 TO IFRS 9

EUR million	Carrying amount IAS 39 Dec. 31, 2017	Reclassifi-cations	Adjustments IFRS 9	Carrying amount IFRS 9 Jan. 1, 2018	Change in retained earnings Jan. 1, 2018
Financial assets measured at amortized cost IAS 39	**21,798**		**–77**	**21,721**	**–77**
Additions					
Available-for-sale financial assets IAS 39		–	–	–	–
Deductions					
Financial assets measured at fair value through other comprehensive income IFRS 9		–	–	–	–
Financial assets measured at fair value through profit or loss IFRS 9		–	–	–	–
Financial assets measured at amortized cost IFRS 9				**21,721**	**–77**

/// IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 contains revised accounting rules in relation to revenue recognition. Audi applies the modified retrospective transition method to the new standard.

The changes relate to the recognition of sales-related payments, which are still reported in distribution costs in the 2017 fiscal year, but will henceforth be recognized as sales allowances under IFRS 15. In 2018, this will concern EUR 760 million. Moreover, income from the dissolution of provisions for sales allowances are no longer recognized in other operating income, but rather within revenue. This resulted in a shift of EUR 122 million in the 2018 fiscal year.

In addition, certain types of extended warranty provided as part of the sale of a vehicle are no longer deferred under IFRS 15 but are immediately recognized. The reduction in debt with no effect on profit or loss had a positive impact on retained earnings (taking account of deferred taxes) in the amount of EUR 26 million.

To facilitate presentation and comparison, an adjustment was made to the way in which other income from the dissolution of provisions and accrued liabilities is recorded. Income is now assigned to the functional area where the provisions were originally recognized. The prior-year figures have been adjusted accordingly. This reduced other operating income from the previous year by EUR 504 million. Cost of goods sold (EUR 468 million), distribution costs (EUR 33 million) and administrative expenses (EUR 3 million) were relieved as a result.

In addition, with the introduction of IFRS 15, it was determined that individual sales programs in certain countries are to be allocated to sales allowances instead of to distribution costs. As a consequence, the prior-year distribution costs have been adjusted by EUR 339 million. Revenue has contracted accordingly.

// NEW OR REVISED STANDARDS NOT APPLIED

The following new or revised accounting standards already approved by the IASB were not applied in the Consolidated Financial Statements for the 2018 fiscal year because their application was not yet mandatory:

Standard/Interpretation		Published by the IASB	Mandatory adoption [1]	Endorsed by the EU	Expected impact
IFRS 3	Business Combinations: Definition of a Business	Oct. 22, 2018	Jan. 1, 2020	No	No material impact
IFRS 9	Financial Instruments: Prepayment Features with Negative Compensation	Oct. 12, 2017	Jan. 1, 2019	Yes	None
IFRS 10 and IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Sep. 11, 2014	Postponed [2]	–	None
IFRS 16	Leases	Jan. 13, 2016	Jan. 1, 2019	Yes	Detailed descriptions according to the table
IFRS 17	Insurance Contracts	May 18, 2017	Jan. 1, 2021	No	None
IAS 1 and IAS 8	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Materiality	Oct. 31, 2018	Jan. 1, 2020	No	No material impact
IAS 19	Employee Benefits: Plan Amendment, Curtailment or Settlement	Feb. 7, 2018	Jan. 1, 2019	No	None
IAS 28	Investments in Associates: Long-term Interests in Associates and Joint Ventures	Oct. 12, 2017	Jan. 1, 2019	No	None
IFRIC 23	Uncertainty over Income Tax Treatments	June 7, 2017	Jan. 1, 2019	Yes	No material impact
	Improvements to International Financial Reporting Standards 2017 [3]	Dec. 12, 2017	Jan. 1, 2019	No	No material impact

1) Mandatory first-time adoption from the perspective of AUDI AG.
2) Decision made by the IASB on December 15, 2015, to postpone the date of first-time adoption for an indefinite period.
3) Minor changes to a number of IFRS.

/// *IFRS 16 – LEASES*

IFRS 16 changes the rules for the accounting of leases and replaces the previous standard IAS 17 and the associated interpretations. The main aim of IFRS 16 is for all leases to be recognized on the Balance Sheet. This means that contracts of lessees are no longer classified as finance and operating leases. Instead, they must create a right of use and a leasing liability in their Balance Sheet for all leases. The exceptions are for short-term and low-value leases. During the lease term, the right of use must be depreciated and the lease liability must be adjusted using the effective interest method and taking the lease payments into account. The Audi Group is primarily a lessee of real estate and IT equipment. The lessor accounting model generally corresponds to the current requirements of IAS 17. Lessors must in future also create a finance and operating leases classification based on the distribution of the opportunities and risks associated with the asset. As a lessor, the Audi Group is primarily involved with cars and real estate.

As of January 1, 2019, the Audi Group will for the first time recognize leases taking into account the modified retrospective transition method according to the rules of IFRS 16. Due to the first-time recognition of rights of use and the corresponding lease liabilities, the balance sheet total will increase by 1 percent after preliminary calculations. The increase in financial liabilities has a negative effect on the net liquidity of the Audi Group. No significant effect on equity is expected. Unlike the previous method, which showed all expenses for operating leases in the operating profit, according to IFRS 16 only depreciation and amortization will be allocated to the rights of use for operating profit.

The interest expenses from the accumulation of lease liabilities will be reported under the financial result. This leads to expectations that operating profit in the 2019 fiscal year will improve by a small increase in the double-digit millions. With the changed recording of expenses from operating leases in the Cash Flow Statement, there was a slight improvement in cash flow from operating activities and a corresponding reduction of cash flow from financing activities. The new rules also provide for considerably more comprehensive disclosures in the Notes.

/ NOTES ON THE DIESEL ISSUE

// IRREGULARITIES IN NO_x EMISSIONS

In September 2015, the U.S. Environmental Protection Agency (EPA) announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain vehicles with four-cylinder diesel engines of type EA 189 made by the Volkswagen Group. In this context, the Volkswagen Group announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around 11 million vehicles worldwide with type EA 189 diesel engines, including around 2.4 million Audi vehicles. In November 2015, the EPA announced in a "Notice of Violation" that irregularities had also been identified in the software installed in U.S. vehicles with type V6 3.0 TDI engines. The matter affected around 113,000 vehicles in the United States and Canada, where the regulations on NO_x limits are stricter than in other parts of the world. The California Air Resources Board (CARB) – part of the Californian Environmental Protection Agency – announced its own investigations into this matter.
In response, a large number of court and governmental proceedings were started in the United States and elsewhere in the world. We have since succeeded in making substantial progress and ending a great number of these proceedings.

// COMPREHENSIVE INVESTIGATIONS LAUNCHED BY VOLKSWAGEN AND AUDI

After the first "Notice of Violation" was issued, Volkswagen and Audi immediately initiated their own internal as well as external investigations; both have since been concluded for the most part. Extensive inquiries were also conducted at AUDI AG in relation to the potential use of unlawful "defeat devices" under U.S. law in the type V6 3.0 TDI diesel engines and concluded for the most part.

In addition, the Board of Management of AUDI AG has established an internal task force, provided committees and departments with the necessary resources and requested regular reports. Furthermore, in September 2015, Volkswagen AG and AUDI AG filed a criminal complaint in Germany against unknown persons. Volkswagen AG and AUDI AG are cooperating with all relevant authorities.

While Volkswagen AG holds internal development responsibility for the four-cylinder diesel engines within the Group, AUDI AG is responsible for the development of the six and eight-cylinder diesel engines, such as diesel engines of the types V6 and V8.
AUDI AG has concluded an agreement with Volkswagen AG in the event that the U.S. authorities, U.S. courts and potential out-of-court settlements do not differentiate fully between the four-cylinder diesel engine issue for which Volkswagen AG is accountable and V6 3.0 TDI engines that are the responsibility of AUDI AG, and that joint and several liability thus arises. Against the background of the settlement agreements reached, these costs will be passed on to AUDI AG according to a causation-based allocation.

The members of the Board of Management of AUDI AG at that time have declared that prior to their notification by EPA in November 2015, they had no knowledge of the use of unlawful "defeat device software" under U.S. law in the V6 3.0 TDI engines.
Also, the publications released at the time of preparation of the Annual and Consolidated Financial Statements as well as the Combined Management Report for the 2018 fiscal year, along with the continued investigations and interviews in connection with the diesel issue, did not provide the Board of Management with any reliable findings or assessments on the matter that would lead to a different evaluation of the associated risks.
Besides, there are no reliable findings or facts available to the incumbent Board of Management of AUDI AG suggesting that the Annual and Consolidated Financial Statements as well as the Combined Management Report for the 2018 fiscal year and previous years were materially incorrect. However, if new findings should come to light that indicate that individual members of the Board of Management at that time were aware of the diesel issue earlier, this could potentially have an effect on the Annual and Consolidated Financial Statements as well as on the Combined Management Report for the 2018 fiscal year and previous years.

// *PRODUCT-RELATED LAWSUITS WORLDWIDE*

In principle, it is possible that customers in the affected markets will file civil lawsuits or that importers and dealers will assert recourse claims against Volkswagen AG and other Volkswagen Group companies, including AUDI AG. Besides individual lawsuits, various forms of collective actions (i.e. assertion of individual claims by plaintiffs acting jointly or as representatives of a class) are available in various jurisdictions. Furthermore, in a number of markets it is possible for consumer and/or environmental organizations to bring suit to enforce alleged rights to injunctive relief, declaratory judgment, or damages.

In the context of the diesel issue, various class action proceedings as well as individual lawsuits are currently pending against Volkswagen AG and other Volkswagen Group companies, including AUDI AG. Work in respect of the legal proceedings that are still pending in the USA and the rest of the world is ongoing, still requires considerable efforts and will continue for some time. Volkswagen AG and AUDI AG are being advised by a number of external law firms in this connection.

// *AGREEMENTS AND PROCEEDINGS IN THE USA/CANADA*

In the USA and Canada three generations of certain vehicles with 2.0 TDI engines and two generations of certain vehicles with the type V6 3.0 TDI engines are affected, which come to a total of approximately 700,000 vehicles. Due to NO_x limits that are considerably stricter than in the EU and the rest of the world, it is a greater technical challenge here to retrofit the vehicles so that the emission standards defined in the settlement agreements for these vehicles can be achieved.

Following the publication of the EPA’s “Notices of Violation,” Volkswagen AG and other Volkswagen Group companies, including AUDI AG, have been the subject of intense scrutiny, ongoing investigations (civil and criminal) and civil litigation. Volkswagen AG and other Volkswagen Group companies, including AUDI AG, have received subpoenas and inquiries from state attorneys general and other governmental authorities.

Volkswagen AG and other Volkswagen Group companies are facing litigation in the USA/Canada on a number of different fronts relating to the matters described in the EPA’s “Notices of Violation.” In that respect, investigations by various U.S. and Canadian regulatory and government authorities are ongoing, particularly in areas relating to securities, financing and tax. Additionally, in the USA and Canada, certain putative class actions by customers, investors, salespersons and dealers as well as individual customers’ lawsuits and state or municipal claims have been filed in various courts, including state and provincial courts.
A large number of these putative class action lawsuits have been filed in U.S. federal courts and consolidated for pretrial coordination purposes in the federal multidistrict litigation proceeding in the State of California.

In the USA Volkswagen AG and certain affiliates, including AUDI AG, reached settlement agreements (including various consent decrees) with the U.S. Department of Justice (DOJ), the EPA, the State of California, the CARB, the California Attorney General, the U.S. Federal Trade Commission, and private plaintiffs represented by a Plaintiffs' Steering Committee in a multidistrict litigation in California. These settlement agreements resolved certain civil claims made in relation to affected diesel vehicles in the United States.
Volkswagen AG also entered into agreements to resolve U.S. federal criminal liability and certain civil penalties and claims relating to the diesel issue. As part of its plea agreement, Volkswagen AG agreed to plead guilty to three felony counts under United States law – including conspiracy to commit fraud, obstruction of justice and using false statements to import cars into the United States – and has been sentenced to three years’ probation.

Additionally Volkswagen and Audi have reached separate agreements with the attorneys general of 49 states, the District of Columbia and Puerto Rico to resolve their existing or potential consumer protection and unfair trade practices claims in connection with both 2.0 TDI and V6 3.0 TDI vehicles in the USA. New Mexico still has consumer protection claims outstanding. Volkswagen and Audi have also reached separate agreements with the attorneys general of thirteen U.S. states (California, Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Vermont and Washington) to resolve their existing or potential future claims for civil penalties and injunctive relief for alleged violations of environmental laws. The attorneys general of eight other U.S. states (Alabama, Illinois, Montana, New Hampshire, New Mexico, Ohio, Tennessee and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, including AUDI AG, alleging violations of environmental laws. The environmental claims of eight states – Alabama, Illinois, Minnesota, Missouri, Ohio, Tennessee, Texas and Wyoming – as well as Hillsborough County (Florida), Salt Lake County (Utah), and two Texas counties have been dismissed in full or in part by trial or appellate courts as preempted by federal law. Alabama, Illinois, Ohio, Tennessee, Hillsborough County and Salt Lake County have appealed or may still appeal the dismissal of their claims.

In the 2018 fiscal year, the EPA and CARB issued the outstanding official approvals needed for the technical solutions for the affected vehicles with 2.0 TDI and with V6 3.0 TDI engines.
On October 31, 2018, after discussions with DOJ, EPA, and CARB, the parties agreed to modify the First and Second Partial Consent Decrees to clarify that Volkswagen may repair certain technical issues with approved emissions modifications through an “AEM Correction” (Approved Emissions Modifications).

Since November 2016, Volkswagen has been responding to information requests from the EPA and CARB related to automatic transmissions in certain vehicles with gasoline engines. Additionally, putative class actions filed against AUDI AG and certain affiliates have been transferred to the federal multidistrict litigation proceeding in the State of California and consolidated. The lawsuits allege that defendants concealed the existence of defeat devices in Audi brand vehicles with automatic transmissions. Other actions alleging similar claims are also pending in the Northern District of California and two provincial courts in Canada.

On December 21, 2017, Volkswagen announced an agreement in principle on a proposed consumer settlement in Canada involving V6 3.0 TDI vehicles that was approved by the courts in Ontario and Quebec in April 2018. In Canada, a criminal enforcement-related investigation related to 2.0 and 3.0 diesel vehicles by the federal environmental regulator is ongoing, and a quasi-criminal enforcement-related offense has been charged by the Ontario provincial environmental regulator related to 2.0 diesel vehicles. Class action and joinder lawsuits have also been filed in Canada, including alleged consumer protection, securities and environmental claims asserting damages among other things.

// CONSULTATION WITH GOVERNMENT AGENCIES ON TECHNICAL MEASURES WORLDWIDE

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines.
Within its area of responsibility, the German Federal Motor Transport Authority (Kraftfahrt-Bundesamt or KBA) ascertained for all clusters (groups of vehicles) that implementation of the technical measures would not bring about any adverse changes in fuel consumption figures, CO_2 emission figures, engine power, maximum torque, and noise emissions.

AUDI AG has worked intensively for many months to check all relevant diesel concepts for possible discrepancies and retrofit potentials. The measures proposed by AUDI AG have been adopted and mandated in various recall notices issued by the KBA for vehicle models with V6 and V8 TDI engines. Currently, AUDI AG assumes that the total cost, including the amount based on recalls, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. The measures submitted by AUDI AG are being examined by the KBA and can only be made available to customers after corresponding approval by the KBA.

The Ministry of Environment in South Korea qualified certain emissions strategies in the engine control software of various diesel vehicles with V6 or V8 TDI engines meeting the Euro 6 emission standard as an unlawful defeat device and ordered a recall on April 4, 2018; the same applies to the Dynamic Shift Program (DSP) in the transmission control of a number of Audi models.

// CRIMINAL AND ADMINISTRATIVE PROCEEDINGS IN GERMANY

The Munich II Office of the Public Prosecutor is conducting investigations against 24 persons, including the former Chairman of the Board of Management of AUDI AG and another active member of the Board of Management of AUDI AG. The investigations are ongoing. AUDI AG has appointed two renowned major law firms to clarify the matters underlying the public prosecutor's accusations. The Board of Management and Supervisory Board of AUDI AG are being regularly updated on the current state of affairs.

The administrative fine order issued on October 16, 2018, by the Munich II Office of the Public Prosecutor terminates the regulatory offense proceeding conducted against AUDI AG in this connection. The administrative fine order is based on a negligent breach of the obligation to supervise occurring in the organizational unit "Emissions Service/Engine Type Approval." The administrative order imposes a total fine of EUR 800 million, consisting of a penalty payment of EUR 5 million and the forfeiture of economic benefits in the amount of EUR 795 million. After thorough examination, the fine has been accepted and paid in full by AUDI AG, rendering the administrative fine order legally final. The administrative fine order terminates the regulatory offense proceeding against AUDI AG. Further sanctions against or forfeitures by AUDI AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

In Germany, the Verbraucherzentrale Bundesverband e. V. (Federation of Consumer Organizations) filed an action on November 1, 2018, with the Braunschweig Higher Regional Court for model declaratory judgment against Volkswagen AG. The complaint is seeking a ruling that certain preconditions for potential consumer claims against Volkswagen AG are met; however, no specific payment obligations would result from any determinations the court may make. Individual claims then have to be reduced to judgment afterwards in subsequent separate proceedings.

// FINANCIAL IMPACT OF THE DIESEL ISSUE

In connection with the diesel issue, there were special items affecting Audi Group operating profit in the amount of EUR –1,176 (–387) million in the 2018 fiscal year. These are based mainly on the legally binding administrative order imposing a fine on AUDI AG by the Munich II public prosecutor. They also reflect spending for technical measures, customer measures as well as expenses and provisioning for legal risks.
The special items in connection with the diesel issue over the years 2015 through 2018 came to EUR –3,423 million overall. Of this total, the balance sheet showed outstanding obligations or risk provisioning amounting to EUR 822 million at the end of the 2018 fiscal year.

The risk provisioning made to date in the form of provisions for the diesel issue is based on current knowledge and fundamentally subject to significant evaluation risks because of the large number of still-uncertain measurement inputs. Provisions deemed appropriate were created or contingent liabilities were disclosed for identifiable and measurable risks. Contingent liabilities were not disclosed if they are not currently measurable. In view of the still-ongoing process of clarifying the facts as well as the complexity of the individual factors involved and the ongoing consultations with the government agencies, the provisions created for the diesel issue as well as the contingent liabilities reported and the further latent legal risks are to some extent subject to substantial evaluation risks. If these risks should materialize, there could be substantial financial burdens.

/ CONSOLIDATED COMPANIES

In addition to AUDI AG, all of the material domestic and international subsidiaries are included in the Consolidated Financial Statements in cases where AUDI AG has direct or indirect decision-making power over the relevant activities, thereby influencing its own variable returns. The inclusion in the group of consolidated companies begins or ends on the date on which the control is acquired or lost.

A special securities fund is also included in the Consolidated Financial Statements of the Audi Group. This structured entity pursuant to IFRS 12 does not present any special risks or result in any particular obligations for Audi.

Companies in which AUDI AG does not hold any interests, either directly or indirectly are also included in the Consolidated Financial Statements. Using contractual agreements, Audi is able to stipulate financial and operating policy. Because the purpose of these companies is to sell vehicles of the Audi brand and other products, there is economic benefit for Audi if these business operations are successful. Audi is thus able to exercise a controlling interest. Non-controlling interests in equity and in profit are allocated to the following companies on a 100 percent basis in each case.

Company	Non-controlling interests
Audi Canada Inc., Ajax (Canada)	Volkswagen Group Canada, Inc., Ajax (Canada)
Audi of America, LLC, Herndon (USA)	Volkswagen Group of America, Inc., Herndon (USA)
Automobili Lamborghini America, LLC, Herndon (USA)	Volkswagen Group of America, Inc., Herndon (USA)

Further information on non-controlling interests is provided in Note 26.

Subsidiaries with limited business operations that are of subordinate importance, both individually and in total, with regard to providing a true and fair view of the net worth, financial position, financial performance and cash flow are not consolidated. Before consolidation, these subsidiaries account for 0.6 (0.6) percent of consolidated equity, –0.2 (0.1) percent of profit after tax and 0.8 (0.8) percent of the total assets of the Audi Group. Associates and joint ventures, which, among other criteria, are of subordinate importance in terms of Audi's share in their equity and earnings, are not accounted for using the equity method for reasons of materiality.

Subsidiaries, associates and joint ventures that are not fully consolidated or consolidated using the equity method, as well as financial participations, are always reported at amortized cost. Where there is evidence that the fair value is lower, this fair value is recognized.

The group of consolidated companies has been extended since December 31, 2017, to include AUDI Immobilien Verwaltung GmbH, Ingolstadt, and Audi Real Estate GmbH, Ingolstadt. The first-time consolidation of these two companies resulted primarily in impacts on the non-current assets of the Audi Group. There were no other changes to the group of consolidated companies.

In December 2018, contracts were concluded with Volkswagen AG, Wolfsburg, that allow Volkswagen AG, as of January 1, 2019, unrestricted permission to occupy bodies within Audi Volkswagen Korea Ltd., Seoul (Republic of Korea), Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), Audi Volkswagen Taiwan Co., Ltd., Taipeh (Taiwan) and Volkswagen Group Italia S.p.A., Verona (Italy) that have significant influence on financial or operating policy. A controlling influence by AUDI AG is as such no longer possible and a deconsolidation is to be performed. Due to ongoing representation within relevant bodies and material business relationships, AUDI AG still has the opportunity to exercise significant influence. Because 100 percent of the shares in the sales companies will be maintained, the equity method will be used on this basis for financial accounting as of January 1, 2019.

The material companies within the Audi Group are listed following the Notes.

The full list of companies in which shares are held, according to commercial law, is recorded in the Commercial Register of Ingolstadt under HR B 1 and is also available on the Audi website at www.audi.com/subsidiaries. This list can additionally be requested directly from AUDI AG, Financial Communication/Financial Analysis, I/FU-23, Auto-Union-Straße 1, 85045 Ingolstadt, Germany.

By virtue of their inclusion in the Consolidated Financial Statements of the Audi Group, the following companies have fulfilled the requirements of Section 264, Para. 3 or Section 264b of the German Commercial Code (HGB) and make use of the exemption rule:

- Audi Electronics Venture GmbH
- AUDI Immobilien GmbH & Co. KG
- Audi Sport GmbH

// COMPOSITION OF THE AUDI GROUP

Total	2018	2017
AUDI AG and fully consolidated subsidiaries/structured entities	42	40
of which in Germany	*9*	*7*
of which international	*33*	*33*
Non-consolidated subsidiaries	37	36
of which in Germany	*23*	*24*
of which international	*14*	*12*
Investments accounted for using the equity method (international)	4	3
Investments and joint ventures not accounted for using the equity method	26	24
of which in Germany	*21*	*19*
of which international	*5*	*5*
	109	**103**

// PARTICIPATIONS IN ASSOCIATED COMPANIES

AUDI AG holds shares in FAW-Volkswagen Automotive Company, Ltd., Changchun, a Chinese automotive manufacturer which, among other activities, produces and distributes Audi brand vehicles for the Chinese market. On November 6, 2018, 5 percentage points of the original 10-percent share in FAW-Volkswagen Automotive Company, Ltd. were sold to Volkswagen AG, Wolfsburg. Through its representation in this company's management and supervisory board, AUDI AG is still in a position to exercise significant influence. The participating interest as of the balance sheet date is 5 percent. Further details can be found in Note 25.

Audi also holds a stake in Volkswagen Automatic Transmission (Tianjin) Company Limited, Tianjin, a Chinese manufacturer of transmission systems, including for Audi models. The interest in Volkswagen Automatic Transmission (Tianjin) Company Limited declined from 43 percent to around 40 percent during the fiscal year as a result of capital increases in which Audi did not participate.

The Audi Group, BMW Group and Daimler AG each held a 33.3 percent interest in There Holding B.V., Rijswijk (Netherlands), which was established in 2015. In December 2016, There Holding B.V. signed an agreement on the sale of 15 percent of the shares in HERE International B.V., Rijswijk (Netherlands) with Intel Holdings B.V., Schiphol-Rijk (Netherlands). The transaction with Intel Holdings B.V. was completed on January 31, 2017. This resulted in a loss of control within the meaning of IFRS 10 at the There Holding B.V. level. The deconsolidation gave rise to a proportionate effect on earnings for the Audi Group of EUR 183 million, which was shown in the prior-year result from investments accounted for using the equity method. Since a significant influence continues to exist, HERE International B.V. is included in the financial statements of There Holding B.V. as an associated company according to the equity method. There was no change in the participating interest of the Audi Group in There Holding B.V. as a result of this sale.

In December 2017, agreements on the sale of shares in There Holding B.V. were signed with Robert Bosch Investment Nederland B.V., Boxtel (Netherlands) and Continental Automotive Holding Netherlands B.V., Maastricht (Netherlands). Under these agreements, Robert Bosch Investment Nederland B.V. and Continental Automotive Holding Netherlands B.V. each acquired a 5.9 percent stake in There Holding B.V. The transactions were completed on February 28, 2018. The Audi Group, the BMW Group and Daimler AG sold the equivalent number of shares. The Audi Group's participating interests were reduced at that time to 29.4 percent as a result. The transactions had no material effect on the financial position or financial performance. Further details can be found in Note 25.

In February 2018, a capital reduction was carried out at There Holding B.V. The share of this accruing to Audi was EUR 96 million.

Furthermore, capital increases were made at There Holding B.V. in June 2018 and in November 2018. Audi took part in these. The shares accounted for using the equity method increased as a result by a total of EUR 62 million and the participating interest on the balance sheet date is 29.6 percent.

On June 22, 2018, the Audi Group bought a one-percent stake in SAIC Volkswagen Automotive Company Ltd., Shanghai, a Chinese company that develops, manufactures and distributes vehicles. Due to its right to occupy positions in relevant company bodies that are important in terms of financial and operating policy, Audi is in a position to exercise significant influence. For that reason, SAIC Volkswagen Automotive Company Ltd. is recognized in the Consolidated Financial Statements according to the equity method. The purchase price for the shares acquired by Volkswagen AG, Wolfsburg, was EUR 328 million. The process of identifying hidden reserves and expenses had not yet been concluded as of the balance sheet date.

Further information on the previously described associated companies, which are recognized using the equity method, can also be found under Note 17.

/ *CONSOLIDATION PRINCIPLES*

The assets and liabilities of the domestic and international companies included in the Consolidated Financial Statements are recognized in accordance with the standard recognition and measurement principles of the Audi Group.

In the case of subsidiaries that are being consolidated for the first time, the assets and liabilities are to be measured at their fair value at the time of acquisition. Any identified hidden reserves and expenses are amortized, depreciated or reversed in accordance with the development of the corresponding assets and liabilities as part of the subsequent consolidation process. Where the cost of purchase of a participation exceeds the Group share in the equity of the relevant company as calculated in this manner, goodwill is created. This is then allocated to identifiable groups of assets (cash-generating units) which should benefit from the synergies of the acquisition. Goodwill at this level is regularly subject to impairment testing as of the balance sheet date, with an impairment loss being recognized if necessary.

Within the Audi Group, the predecessor method is always applied in relation to common control transactions. Under this method, the assets and liabilities of the acquired company or business operations are measured at the gross carrying amounts of the previous parent company. The predecessor method thus means that no adjustment to the fair value of the acquired assets and liabilities is performed at the time of acquisition; any difference arising during initial consolidation is adjusted against equity, without affecting profit or loss.

Receivables and liabilities between consolidated subsidiaries are netted, and expenses and income eliminated. Interim profits and losses are eliminated from Group inventories and fixed assets. Consolidation processes affecting profit or loss are subject to deferrals of income taxes; deferred tax assets and liabilities are offset where the term and tax creditor are the same.

The same recognition and measurement principles for determining the pro rata equity as applied to subsidiaries are, as a general rule, applied to Audi Group companies accounted for using the equity method. This is done on the basis of the last set of audited financial statements of the company in question. Beginning from the 2018 fiscal year, transactions under common control, which from the perspective of the Audi Group relate to associated companies and joint ventures, will no longer be accounted for using the predecessor method, but rather the acquisition method. The economic substance of such transactions is better presented this way. There are no significant effects on the presentation of past transactions.

/ *FOREIGN CURRENCY TRANSLATION*

The currency of the Audi Group is the euro (EUR). Foreign currency transactions in the separate financial statements of AUDI AG and the subsidiaries are translated at the prevailing exchange rate at the time of the transaction in each case. Monetary items in foreign currencies are translated at the exchange rate applicable on the balance sheet date. Exchange differences are recognized through the income statements of the respective Group companies.

The international companies belonging to the Audi Group are independent entities and prepare their financial statements in their local currency. Only Audi Hungaria Zrt., Győr (Hungary), Audi México S.A. de C.V., San José Chiapa (Mexico), and Audi Volkswagen Middle East FZE, Dubai (United Arab Emirates), issue their annual financial statements in EUR or USD rather than in their national currencies. The concept of the “functional currency” is applied when translating financial statements prepared in a foreign currency. Assets and liabilities are translated at the closing rate. The effects of foreign currency translation of equity are reported in the reserve for currency translation differences with no effect on profit or loss. The items in the Income Statement are translated using weighted average monthly rates. Currency translation differences arising from the varying exchange rates used in the Balance Sheet and Income Statement are recognized in equity, without affecting profit or loss, until the disposal of the subsidiary.

// DEVELOPMENTS OF THE EXCHANGE RATES SERVING AS THE BASIS FOR THE CURRENCY TRANSLATION

1 EUR in foreign currency		Year-end exchange rate		Average exchange rate	
		Dec. 31, 2018	Dec. 31, 2017	2018	2017
Australia	AUD	1.6224	1.5329	1.5800	1.4732
Brazil	BRL	4.4449	3.9707	4.3079	3.6061
United Kingdom	GBP	0.8969	0.8873	0.8848	0.8768
Japan	JPY	125.9100	134.8700	130.3662	126.7252
Canada	CAD	1.5593	1.5026	1.5295	1.4648
Mexico	MXN	22.5204	23.6142	22.7069	21.3328
Republic of Korea	KRW	1,276.9000	1,278.2200	1,298.9713	1,276.8539
Switzerland	CHF	1.1264	1.1694	1.1549	1.1117
Singapore	SGD	1.5594	1.6014	1.5924	1.5589
Taiwan	TWD	35.0260	35.5391	35.5907	34.3659
Thailand	THB	37.0358	39.0553	38.1555	38.2960
USA	USD	1.1453	1.1988	1.1807	1.1297
People's Republic of China	CNY	7.8773	7.8009	7.8076	7.6295

RECOGNITION AND MEASUREMENT PRINCIPLES

/ *REVENUE AND EXPENSE RECOGNITION*

Revenue, interest income and other operating income are generally recorded when the services are provided, i.e., when the contractual partner has acquired control of the goods or the service. For new or used vehicle sales and for genuine parts sales, the service is provided regularly by the company with deliveries. Revenue is reported less deductions of sales allowances (discounts, price reductions, customer bonuses, rebates and financing cost subsidies). Sales allowances and other variable considerations are evaluated at the Audi Group based on both historical values and the respective current circumstances. Vehicles are typically sold with terms of payment. A trade receivable is created between the delivery of the vehicle and the receipt of payment. Any financing component contained in that arrangement is then only defined if the period of time between the service and return service is longer than one year and the accrued amount is significant. No significant financing components exist at the Audi Group.

No revenue is initially realized from the sale of vehicles subject to buyback agreements. The difference between the selling price and the expected buyback price is recognized as revenue on a straight-line basis over the contractual period. Until the time of the buyback, the assets for short-term contract periods are included in inventories and for long-term contract periods in the leasing and rental assets.

If services are already purchased with the vehicle and paid for in advance, a corresponding contractual liability is recorded until the service is provided. That applies to services such as inspections, maintenance and certain guarantee contracts as well as mobile online services. For guarantees that are provided to all customers for a certain model, provisions are typically set up according to the processes for statutory warranties. In all other cases, the amount paid in advance by the customer is deferred and recorded as revenue over the guarantee period. If the service is provided in parallel with the customer payments, then the revenue is realized with the associated invoice.

For construction contracts, such as toolmaking orders, the proceeds are recognized according to the stage of completion over the period of the manufacturing process. The stage of completion is generally determined on the basis of the contract costs incurred as of the balance sheet date as a proportion of the expected total costs. If the outcome of a construction contract cannot yet be reliably estimated, but there is still an expectation that costs will be covered, the revenue is recognized in the amount of the incurred contract costs. If costs exceed revenue as expected, the full amount of the losses is to be immediately recognized as an expense. When doing so, the related assets are impaired and provisions are recognized if necessary. Due to the fact that this is related to conditional receivables vis-à-vis the customer up until completion, or until payment from the customer, corresponding contractual assets are recorded. When the company’s service has been fully provided, a trade receivable is recorded.

Dividend earnings are recorded at the time they are legally valid.

For contracts with multiple components, the transaction price is distributed over the different service obligations of the contract. Insofar as the non-vehicle services of a multi-component contract only represent an insignificant proportion compared to the vehicle, the residual method is still used. In this way, the individual valid circumstances and framework conditions in the contract can be taken into consideration. Compared with allocating the transaction price based on the relative individual sale price, this process leads to insignificant deviations in recognizing revenue.

Measurement of revenue is generally carried out on the basis of the contract price. If a variable return service has been agreed to in a contract, the revenue will be estimated using the expected value method if a large number of comparable contracts exists. In exceptional cases, the most likely amount method is used. After the estimate of the expected revenue, another check is made to establish whether uncertainties exist that would necessitate a reduction of the initially recognized revenue in order to be able to virtually eliminate the danger of negative retroactive revenue corrections.

At the Audi Group, there were no costs incurred for contract initiation or fulfillment.

/ *INTANGIBLE ASSETS*

Intangible assets acquired for consideration are recognized at their cost of purchase, taking into account ancillary costs and cost reductions, and are amortized on a scheduled straight-line basis over their useful life.

Concessions, rights and licenses relate to purchased software and rights of use.

Goodwill from a business combination has an indefinite useful life and is subject to regular impairment testing.

Brand names from business combinations generally have an indefinite useful life and are therefore not amortized. An indefinite useful life frequently arises from the continued use and maintenance of a brand. Brand names are tested regularly for impairment.

Research costs are treated as current expenses pursuant to IAS 38. The development expenditure for products going into series production is recognized as an intangible asset, provided that the sale of these products is likely to bring economic benefit to the Audi Group. If the conditions stated in IAS 38 for capitalization are not met, the costs are expensed in the Income Statement in the year in which they occur.

Capitalized development costs encompass all direct and indirect costs that can be directly allocated to the development process. They are amortized on a straight-line basis from the start of production over the anticipated model life of the developed products.

Depreciation, allocated to the corresponding functional areas, is primarily based on the following useful lives, which are reassessed yearly:

	Useful life
Concessions, industrial property rights and similar rights and assets	2–15 years
of which software	*3–5 years*
of which customer base	*2–8 years*
Capitalized development costs	4-9 years

/ *PROPERTY, PLANT AND EQUIPMENT*

Property, plant and equipment are measured at cost of purchase or construction, with straight-line depreciation applied pro rata temporis over the expected useful life.

The costs of purchase include the purchase price, ancillary costs and cost reductions.

In the case of self-constructed fixed assets, the cost of construction includes both the directly attributable material and labor costs as well as the indirect material and labor costs to be capitalized, including pro rata depreciation.

Depreciation is generally based on the following useful lives, which are reassessed on a yearly basis:

	Useful life
Buildings	20–50 years
Site improvements	10–20 years
Plant and machinery	6–12 years
Plant and office equipment including special tools	3–15 years

Property, plant and equipment used on the basis of lease agreements is capitalized in the Balance Sheet if the conditions of a finance lease are met in accordance with IAS 17, i.e. if the significant opportunities and risks which result from the use of an asset have passed to the lessee. Capitalization is performed at fair value or the lower present value of the minimum lease payments. The straight-line depreciation method is based on the shorter of economically useful life or term of lease contract.

In the case of leases where not all opportunities and risks associated with the leased property (operating lease) have passed to them, leasing installments and rents are expensed directly in the Income Statement.

/ LEASING AND RENTAL ASSETS

Leased vehicles are recognized at cost of purchase or manufacturing cost in the case of operating lease agreements and depreciated using the straight-line method over the term of the lease down to their estimated residual value.
Impairments to be recognized due to the impairment test based on IAS 36 have been taken into account through impairment losses and adjustments of future depreciation rates.

/ INVESTMENT PROPERTY

Land or buildings held with the intention of generating rental income are reported in the Balance Sheet at amortized cost. The amortization periods applied are, as a general rule, those applied to property, plant and equipment used by the Group itself. In the case of measurement at amortized cost, the fair values calculated as a general rule using internal calculations based on the discounted cash flow method are also to be stated. These calculations are made based on the rental income generated from real estate and the real estate-specific discount rates.

/ INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Companies in which AUDI AG is directly or indirectly able to exercise significant influence on financial and operating policy decisions (associated companies) are accounted for using the equity method. This means that changes in equity are reflected on a pro rata basis in the carrying amount of the participation. The share of the profit of the associated company is reported under the financial result.

/ BORROWING COSTS

Borrowing costs that can be allocated directly to a qualifying asset are capitalized as part of that asset's cost of purchase or construction. A qualifying asset is deemed to exist if a longer period of time (at least one year) will be required before the asset will be ready for use or sale.

/ IMPAIRMENT TESTS

Fixed assets are tested regularly for impairment as of the balance sheet date.

With regard to impairment testing of goodwill and of other intangible assets, the Audi Group as a general rule reports the higher of value in use and fair value less costs to sell of the respective cash generating units (brands and/or products). The calculation of value in use is based on current planning prepared by the management. This planning is based on expectations regarding the future development of the respective markets, market shares and profitability of the products. The planning period covers a period of five years. Plausible assumptions about future development are made for the subsequent years. In each case, the planning assumptions are adjusted in line with current findings. Appropriate assumptions about macroeconomic trends and historical developments are taken into account.

Cash flows are, in principle, calculated on the basis of the expected growth rates in the sales markets concerned. Growth in the operating profit of the two cash generating units Automotive and Motorcycles is expected up to the end of the detailed planning period. Estimated cash flow following onto the detailed planning period is based on an annual growth rate of 1.0 (1.0) percent in the Automotive unit and 1.0 (1.0) percent in the Motorcycles unit.

When testing goodwill and other intangible assets with indefinite and limited useful lives, primarily capitalized development costs, in the two cash-generating units Automotive and Motorcycles business for impairment, the value in use is determined using the following weighted average cost of capital (WACC) before taxes:

in %	2018	2017
Automotive segment	5.5	5.8
Motorcycles segment	5.7	6.1

The cost of capital is calculated based on a risk-free interest rate. As well as the market risk premium and borrowing interest rate, specific peer group information for beta factors and the debt ratio are taken into account.

Impairment tests are carried out for development activities, acquired property rights, and property, plant and equipment on the basis of expected product life cycles, the respective revenue and cost situation, current market expectations and currency-specific factors.

Impairment losses pursuant to IAS 36 are recognized where the recoverable amount, i.e. the higher amount from either the continued use or the disposal of the asset in question, has declined below its carrying amount. If necessary, an impairment loss resulting from this test is recognized.

Sensitivity analyses have shown that, even in the case of differing key assumptions within a realistic framework, there is no need to recognize an impairment for goodwill and other intangible assets with an indefinite useful life.

If the reason for a previously recorded impairment loss ceases to exist, the asset is written up to the recoverable amount but to no higher than the amount of the amortized cost. Any impairment of goodwill is never reversed.

/ FINANCIAL INSTRUMENTS

Financial instruments are contracts that create financial assets for one party and, at the same time, a financial liability or equity instrument for the other party.

Financial assets are recognized on the settlement date. Initial measurement of financial assets and liabilities is carried out at fair value. The subsequent measurement depends on the allocation to categories according to the provisions of IFRS 9. Financial assets are categorized as follows:

- Financial assets measured at amortized cost,
- Financial assets measured at fair value through other comprehensive income (debt instruments),
- Financial assets measured at fair value through other comprehensive income (equity instruments) and
- Financial assets measured at fair value through profit or loss.

The classification and measurement of financial assets (debt instruments) is based on the business model in which an asset is held and on cash flow characteristics.

Financial assets measured at amortized cost (debt instruments) are held as part of a business model whose objective it is to recognize contractual cash flows. The cash flows of these financial assets exclusively affect repayment and interest payments on the outstanding capital amount.

Financial liabilities are categorized as follows:

- Financial liabilities measured at amortized cost,
- Financial liabilities measured at fair value through profit or loss.

The amortized cost of a financial asset (debt instruments) or a financial liability is the amount

- with which a financial asset or a financial liability was measured at the time of initial recognition,
- minus any repayments and
- any loss allowances made, depreciation and amortization for impairment losses, or uncollectable debts as well as any unplanned impairment losses or uncollectable financial assets, and
- plus or less the cumulated distribution or any difference between the original amount and the amount to be repaid at final maturity (premium or discount), that is distributed using the effective interest method over the term of the financial asset or the financial liability.

Financial assets measured at fair value through other comprehensive income (debt instruments) are held as part of a business model that stipulates the recognition of contractually agreed cash flow as well as the sale of financial assets.

Financial assets (debt instruments) that cannot be allocated to one of the aforementioned categories are measured at fair value and changes to the Income Statement are reported with an effect on profit or loss if the cash flows of the financial assets do not exclusively comprise interest payments or repayments on the outstanding capital amount, or they are held as part of a business model that stipulates the sale of financial assets.

At the Audi Group, equity instruments are measured at fair value through other comprehensive income if they are not held for trading purposes.

Other participations that are reported with their respective amortized costs taking into consideration planned impairment losses are measured at fair value. In general, the fair value OCI option without recycling is used for participations.

In the case of current financial assets and liabilities, the amortized costs basically correspond to the nominal value or the repayment value.

Fair value generally corresponds to the market value or trading price. If no active market exists, fair value is determined as far as possible using other observable input factors. If no such input factors are available, fair value is determined using market pricing techniques, for example by discounting future cash flows at a market interest rate or applying established option pricing models.

The fair value option of measuring financial assets and liabilities at fair value through profit and loss is not used at the Audi Group.

Financial instruments are derecognized if the rights to payments have expired or been transferred and the Audi Group has transferred substantially all opportunities and risks associated with their title. With regard to factoring, all opportunities and risks are transferred. Derecognition only takes place if a receivable is viewed as unrecoverable.

Financial assets and liabilities are only offset if offsetting the amounts is legally enforceable at the current time and if there is an actual intention to offset. As a general rule, no financial assets and liabilities are offset within the Audi Group due to the required conditions not being met. Given the general lack of any global offsetting agreements or similar arrangements, it is also not possible to carry out offsetting under certain conditions.

Subsidiaries or associates and joint ventures that are not consolidated for reasons of materiality, do not fall under the area of applicability of IFRS 9 and IFRS 7.

Receivables and liabilities connected with tax reclassification within the Volkswagen Group are classified as financial instruments as of the 2018 fiscal year and are to be recognized accordingly in the disclosures for IFRS 7.

Financial assets and liabilities include both non-derivative and derivative claims or commitments, as detailed below.

// FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST

Financial assets and liabilities that are measured at amortized cost primarily refer to

- trade receivables and payables,
- other receivables and financial assets and liabilities,
- financial liabilities,
- cash and cash equivalents and fixed deposits.

Receivables and liabilities in foreign currencies are measured at the relevant year-end exchange rates.

In the case of current items, the fair values to be additionally indicated in the Notes correspond to the amortized costs. For assets and liabilities with a remaining term of more than one year, fair values are determined by discounting future cash flows at market interest rate.

// NON-DERIVATIVE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Changes in value to financial assets that are allocated at fair value are reported either through other comprehensive income or with effect on profit or loss in the Income Statement.

The category "Measured at fair value through other comprehensive income" only includes debt instruments. Changes to the fair value are reported with no effect in equity taking into account deferred taxes. Lasting changes to the fair value (impairment losses, foreign currency profits and losses, and interest according to the effective interest method) are reported through profit or loss.

All financial assets that are neither recognized at amortized cost nor measured at fair value through other comprehensive income fall under the category "Measured at fair value through profit and loss." This applies to

- financial receivables as part of the "Sales" business model,
- hedging transactions outside of hedge accounting and
- financial instruments held for sale as part of the special securities fund.

For equity instruments not held for trading purposes, the measurement is at fair value through other comprehensive income. No recycling takes place.

If there is no active market for immaterial shares and the fair values cannot be determined with a justifiable amount of effort, they are recognized according to their respective amortized costs. If there are notes regarding impairments, the lower present value of the estimated future cash flow is recognized.

// DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments are used as a hedge against foreign exchange and commodity price risks for future cash flows and for items on the Balance Sheet (so-called underlying transactions). Futures, as well as options in the case of foreign exchange risks, are taken out for this purpose. The rules for hedge accounting are applied if a clear hedging relationship between the underlying transaction and the hedging instrument is documented and its effectiveness demonstrated.

The way in which the change in the fair value of hedging instruments is accounted for is dependent on the type of hedging relationship. When hedging exchange rate risks from future cash flow hedges, the hedging instruments are measured at fair value. The designated effective share of the hedging instrument is recognized with no effect on profit or loss in the reserve for cash flow hedges and the non-designated share of the hedging instrument is shown with no effect on profit or loss in the reserve for the costs of hedging relationships. Recognition through profit and loss is only carried out once the underlying transaction has been realized. The ineffective portion of a cash flow hedge is recognized immediately through profit or loss.

When hedging value changes for balance sheet items (fair value hedges), both the hedging instrument and the hedge risk share of the underlying transaction are recognized at fair value. Remeasurements of hedging transactions and underlying transactions are reported through profit and loss.

Derivative financial instruments that serve to hedge against market risks according to commercial criteria, but do not fulfill the strict criteria of IFRS 9 with regard to applying hedge accounting principles, are classified in the category "Financial assets and liabilities measured at fair value through profit or loss" (below also as derivatives without hedging relationship). This also applies to recognizing rights to purchase company shares as well as for the model for hedging against possible losses from buyback obligations for leasing vehicles. In addition, derivative financial instruments or parts of derivative financial instruments that are not classified as hedge accounting are classified in the category "Financial assets and liabilities measured at fair value through profit and loss." These include, for example, non-designated forward exchange contracts for hedging revenue, commodity futures, and forward exchange contracts for commodity futures.

The results from the measurement and settlement of the derivatives mentioned above are always carried out in operating profit. The net income effects from fair value hedges and from derivatives that are not directly connected with business operations are recognized in the financial result.

// VALUE ADJUSTMENTS TO FINANCIAL INSTRUMENTS

Financial assets are subject to default risks that are taken into consideration in the recognition of loss allowances or, for losses already incurred, when reporting an impairment.

Specifically, for financial receivables according to Group accounting standards, loss allowances in the amount of the expected default (expected loss) need to be recognized. The amount of the loss allowance is always determined based on historic default rates and in some cases also based on future-oriented parameters such as expected default probabilities. These loss allowances are taken into account when forming specific valuation allowances. Potential impairment is not just assumed in the event of various circumstances such as a payment delay of a specific duration, introduction of coercive measures, threat of insolvency or over-indebtedness, application for or opening of insolvency proceedings or failure of restructuring measures, but also for receivables that are not yet past due.

Credit default risks are to be considered for all financial assets that are measured at amortized costs or as having no effect on profit or loss at fair value with recycling, as well as for contractual financial assets pursuant to IFRS 15 and liabilities from lease contracts. Impairment requirements also apply for risks from off-balance-sheet, irrevocable credit commitments and for the measurement of financial guarantees. Impairments for receivables are generally taken into consideration by recognizing loss allowances and creating specific valuation allowances.

/ DEFERRED TAXES

Pursuant to IAS 12, deferred tax is determined according to the liability method in combination with the temporary concept. With this concept, deferred taxes are recognized for all temporary differences arising from the different valuations of assets and liabilities in the tax balance sheet and in the Consolidated Balance Sheet. Deferred tax assets relating to tax loss carryforwards must also be recognized.

Deferred tax assets include future tax relief resulting from temporary differences between the carrying amounts in the Consolidated Balance Sheet and the valuations in the tax balance sheet. In addition, deferred tax assets relating to tax loss carryforwards and deferred tax assets from tax relief are also recognized if it is likely that they will be used. Deferred tax liabilities depict future tax charges and are generally recorded for all taxable time differences between the figures posted in the tax balance sheet and those in the Consolidated Balance Sheet.

Deferrals amounting to the anticipated tax burden or tax relief in subsequent fiscal years are created on the basis of the anticipated tax rate at the time of realization. In accordance with IAS 12, the tax consequences of distributions of profit are never recognized until the resolution on the appropriation of profits is adopted. The measurement of deferred tax assets for tax loss carryforwards is generally based on future taxable income in the context of a planning period of five fiscal years. The carrying amount is reduced for deferred tax assets that are unlikely to be realized.

Deferred tax assets and deferred tax liabilities are netted if the taxable entities and maturities are identical. Deferred taxes are reported pursuant to IAS 1 in relation to non-current assets/liabilities.

/ INVENTORIES

Raw materials and supplies are measured at the lower of average cost of purchase or net realizable value. Other purchase-related costs and cost reductions are taken into account as appropriate.

Work and services in progress and finished goods are measured at the lower of cost of production or net realizable value. Cost of goods sold includes direct materials and direct production wages, as well as a directly attributable portion of the necessary indirect materials and indirect labor costs, scheduled production-related depreciation, and expenses attributable to the products from the scheduled amortization of capitalized development costs. Distribution costs, administrative expenses and interest on borrowed capital are not capitalized.

Finished goods and products are measured at the lower of cost of purchase or net realizable value.

Provision is made for all discernible storage and inventory risks in the form of appropriate reductions in the carrying amounts. Individual adjustments are made on all inventories as soon as the probable proceeds realizable from their sale or use are lower than the carrying amounts of the inventories. The net realizable value is deemed to be the estimated proceeds of sale less the estimated costs incurred up until the sale.

Current leased assets comprise vehicles leased out under operating leases with a term of up to one year and vehicles that are subject to a buyback obligation within one year on the basis of buyback agreements. These vehicles are capitalized at cost of goods sold and measured in accordance with the expected loss of value and likely useful life. Based on local factors and historical values from the marketing of used cars, updated internal and external information is incorporated into the measurement on an ongoing basis.

/ SECURITIES, CASH AND CASH EQUIVALENTS

Securities held as current assets are measured at market value, i.e. at the trading price on the balance sheet date. Cash and cash equivalents are stated at their nominal value. The cash figures encompass cash and cash equivalents. Included under cash equivalents are financial resources that are highly liquid with an insignificant risk of fluctuations in value.

The Audi Group is integrated into the financial management of the Volkswagen Group. As part of cash pooling arrangements, balances are settled on a daily basis and transformed into amounts owed to or by companies of the Volkswagen Group. This increases the efficiency of both intra-Group and external transactions and also reduces transaction costs. The functionality of payment transactions is subject to regular monitoring. In addition, sufficient liquidity reserves ensure that the balances are always available without any limitations. The cash pool receivables are allocated to cash and cash equivalents on the basis of their character as cash equivalents.

/ AVAILABLE-FOR-SALE ASSETS

Assets or groups of assets are accounted for as “Available for sale” in accordance with IFRS 5 if their sale is highly probable. If this is the case, they are presented separately in the Balance Sheet. The assets concerned are measured at the lower of their carrying amount and fair value less expected costs to sell. In certain cases, as with equity-method adjustments, no more adjustments are made to assets as a rule.

/ PROVISIONS FOR PENSIONS

Actuarial measurement of provisions for pensions is based on the projected unit credit method for defined retirement benefit plans as specified in IAS 19. This method takes account of pensions and entitlements to future pensions known at the balance sheet date as well as anticipated future pay and pension increases. The actuarial interest rate continues to be determined on the basis of profits realized on the capital market for prime-rated corporate bonds. Individual parameters used to measure provisions for pensions are described in Note 31. Any effects resulting from the new measurement are reported in equity as retained earnings taking account of deferred taxes and with no effect on profit or loss.

/ INCOME TAX OBLIGATIONS

Income tax liabilities comprise current income tax obligations. Deferred taxes are reported under separate balance sheet and income statement items. Provisions are created for potential tax risks based on the best estimate.

/ SHARE-BASED PAYMENT

Share-based payment consists of performance shares. The obligations arising from share-based payment are accounted for as cash-settled plans pursuant to IFRS 2. Cash-settled payment plans are measured at fair value during their term. Fair value is determined using a recognized measurement process. The compensation cost is part of personnel costs in the functional areas and is allocated over the vesting period.

/ OTHER PROVISIONS

Pursuant to IAS 37, provisions are recognized if a current obligation existing toward third parties on the basis of a past event is likely to lead to cash outflows and where the amount of the obligation can reliably be estimated. Provisions with a remaining term of over one year are measured at their discounted settlement value as of the balance sheet date. Market interest rates are used as the discount rates.
A nominal interest rate of 0.20 (0.08) percent was applied within the eurozone. The settlement value also includes the expected cost increases. The non-current portions of provisions for long-service awards were discounted at 1.8 (1.6) percent.

Recourse entitlements in relation to provisions are reported separately in the Balance Sheet as receivables if it is almost certain that compensation will be paid upon settlement of the obligation. They are reported under miscellaneous receivables in the other receivables item in the Balance Sheet.

Other provisions include bonus contributions relating to partial retirement agreements that are accrued on a pro rata basis in accordance with the block model.

/ CONTINGENT LIABILITIES

Contingent liabilities are stated in the Notes to the Consolidated Financial Statements (see Note 39, “Contingent liabilities”) if the criteria for the creation of provisions are not fulfilled but it is not unlikely that there will be an outflow of financial resources. These obligations are only recorded as liabilities once they have become specific, i.e., once the outflow of financial resources has become probable and once the amount of the outflow can be reliably estimated.

/ LIABILITIES

Non-current liabilities are reported in the Balance Sheet at amortized cost. Any differences between the historical costs of purchase and the repayment value are taken into account using the effective interest method. Liabilities from finance leases are reported in the Balance Sheet at the present value of the leasing installments. Current liabilities are recognized at the repayment value or settlement amounts.

/ GOVERNMENT GRANTS

Government grants related to assets are deducted from the cost of purchase or cost of goods sold and thus recognized through profit or loss as a reduced depreciation charge over the life of the depreciable asset. Government grants paid to compensate the Group for expenses are as a general rule recognized through profit or loss during the period in which the corresponding expenses were incurred. If a claim to an allocation arises retrospectively, the amount of the allocation that relates to earlier periods is recognized in income. Grants in the form of non-monetary assets (e.g. free use of land and premises or use of resources for free) are recognized at nominal amount.

/ MANAGEMENT’S ESTIMATES AND ASSESSMENTS

To some degree, the preparation of the Consolidated Financial Statements entails assumptions and estimates with regard to the level and disclosure of the recognized assets and liabilities, income and expenses, and disclosures with regard to contingent receivables and liabilities for the reporting period. The assumptions and estimates relate primarily to the following contents:

Impairment testing of non-financial assets (particularly goodwill, brand names and capitalized development costs) and of participations accounted for using the equity method or at the cost of purchase requires that assumptions be made with regard to future cash flows during the planning period and, where applicable, with regard to the discount rate to be applied. Any impairment of the Audi Group’s leased assets is also dependent in particular on the residual value of the leased vehicles after the expiry of the lease period, as this represents a significant portion of the expected incoming payment flows. Further information on impairment testing and on the measurement parameters applied can be found in the disclosures on the recognition and measurement principles.

Carrying out impairment testing on financial assets requires estimates of the scale and likelihood of occurrence of future events. To the extent possible, estimates should be made based on current market data as well as on rating categories and scoring information from historical sources. More details on how value adjustments are determined can be found in the additional Notes to the Balance Sheet pursuant to IFRS 7.

Provisions are also recognized and measured on the basis of an estimate of the scale and likelihood of occurrence of future events and on an estimate of the discount rate of interest. Where possible, experiences or external expert reports are also to be used. Measurement of provisions for pensions is additionally dependent on the estimated development of the plan assets. The assumptions on which the calculation of provisions for pensions is based are described in Note 31. Actuarial gains or losses are recognized in other comprehensive income and do not affect profit or loss. Changes to estimates relating to the amount of other provisions are always recognized in profit or loss. The expected value approach means that subsequent allocations are regularly made to provisions or unused provisions are released. Income from dissolution is assigned to the functional area where the provision was originally recognized. Warranty claims resulting from sales operations are determined on the basis of previous or estimated future losses. An overview of other provisions is provided in Note 33. Details with regard to litigation are provided in Note 40. The aforementioned points also contain information on the diesel issue.

Government grants are recorded based on the assessment of whether there is sufficient certainty that the required conditions are met and the grants will actually be awarded. This assessment is based on the type of legal entitlement and on past experience.

When calculating deferred tax assets, assumptions are required with regard to future taxable income and the dates on which the deferred tax assets are likely to be realized.

The assumptions and estimates are based on premises that reflect the facts as known at any given time. In particular, the circumstances at the time of the preparation of the Consolidated Financial Statements as well as the realistically assumed future development of the global and industry-specific environment are used as a basis for estimating expected future business development. Given that future business development is subject to various uncertain factors, some of which are outside the Group's control, the assumptions and estimates applied continue to be subject to a high level of uncertainty. This is particularly true of short and medium-term cash flow forecasts and of the discount rates used in forecasts.

Developments in this environment that deviate from assumptions and are beyond the management's sphere of influence may cause the actual amounts to differ from the estimates originally anticipated. If the actual development varies from the anticipated development, the premises and, if necessary, the carrying amounts for the assets and liabilities in question are adjusted accordingly.

The Audi Group anticipates a slight slowdown in global economic growth in 2019. Lower growth rates than in 2018 are expected for both advanced and emerging economies. As before, the Asia region will deliver the highest rates of GDP growth. However, political uncertainties, a sharper than expected rise in inflation or early exit from the overall expansionary monetary policy could additionally dampen global growth prospects. In addition, geopolitical tensions and conflicts, structural weaknesses in individual countries and financial market turbulence continue to represent potential disruptive factors. Overall, as things currently stand, no major adjustment is expected in the carrying amounts of assets and liabilities in the Consolidated Balance Sheet in the 2019 fiscal year.

The management's estimates and assessments were based in particular on assumptions regarding the development of the economy as a whole, the development of automotive and motorcycle markets, and the development of the basic legal parameters. These aspects, as well as further assumptions, are described in detail in the report on expected developments.

NOTES TO THE INCOME STATEMENT

1 / REVENUE

EUR million	2018	2017 1)
Audi brand	37,259	40,728
Lamborghini brand	1,316	933
Other Volkswagen Group brands	4,728	3,900
Engines, powertrains and parts deliveries	8,326	7,607
Other automotive business	6,305	5,886
Effects from hedging transactions	617	–
Automotive	**58,550**	**59,055**
Ducati brand	595	600
Other motorcycles business	104	134
Motorcycles	**699**	**734**
Revenue	**59,248**	**59,789**

1) The prior year has been adjusted (see disclosures on IFRS 15).

As well as revenue generated by the Audi and Lamborghini brands, revenue from the Automotive segment also includes revenue from the other brands in the Volkswagen Group. Revenue from other automotive business operations primarily includes proceeds from the sale of genuine parts.

Existing contractual liabilities as of December 31, 2017, have led to revenue of EUR 742 million. In the 2018 fiscal year, revenue of EUR 122 million was also realized resulting from contractual obligations from the previous period.

Revenue of EUR 293 (173) million was reported from construction contracts.

2 / COST OF GOODS SOLD

Amounting to EUR 50,117 (50,076) million, cost of goods sold comprises the costs incurred in generating revenue and purchase costs in trading transactions. This item also includes expenses resulting from the creation of provisions for warranty costs, for development costs that cannot be capitalized, for depreciation and impairment losses of capitalized development costs, and for property, plant and equipment for manufacturing purposes. Impairment losses on property, plant and equipment totaling EUR 208 (149) million and on intangible assets totaling EUR 16 (76) million in the 2018 fiscal year can be attributed to the lower value in use of various products in the Automotive segment, mainly as a result of market risks. The cost of goods sold also includes expenses of EUR 284 (277) million in relation to the diesel issue.

Government grants amounting to EUR 46 (17) million were recognized in profit or loss in the 2018 fiscal year. These grants are allocated to the corresponding functional areas.

3 / DISTRIBUTION COSTS

Distribution costs of EUR 4,155 (4,925) million mainly include labor and material costs for marketing and sales promotion, advertising, public relations activities and outward freight, as well as depreciation attributable to the sales organization.

4 / ADMINISTRATIVE EXPENSES

Administrative expenses of EUR 696 (682) million include labor and material costs as well as depreciation attributable to administrative operations.

5 / OTHER OPERATING INCOME

EUR million	2018	2017 1)
Income from the processing of payments in foreign currency	445	389
Income from currency hedging transactions in hedge accounting	2	604
Income from other hedging transactions	313	–
Income from the dissolution of loss allowances of receivables and other assets	27	6
Income from rebilling	324	623
Income from the dissolution of provisions and deferred liabilities	73	379
Income from ancillary business	315	335
Income from the disposal of assets	12	32
Income from reversal of impairment losses of property, plant and equipment and intangible assets	4	1
Miscellaneous operating income	347	453
Other operating income	**1,862**	**2,822**

1) The prior year has been adjusted (see disclosures on IFRS 15).

Income from ancillary business includes rental income from investment property in the amount of EUR 24 (25) million.

Income from the processing of payments in foreign currency largely comprises gains resulting from exchange-rate movements between the dates of output and payment, as well as exchange-rate gains resulting from measurement on the closing date.

Income from other hedging transactions mainly contains exchange rate profits from fair value measurement of derivative financial instruments for currency and commodities hedging that are not designated in a hedging relationship. In the previous year, these exchange rate profits were shown in the financial result and, from now on, will be reported in operating profit under IFRS 9. The effects of the reclassification of currency hedging transactions in hedge accounting are now primarily to be shown in revenue in accordance with IFRS 9.

6 / *OTHER OPERATING EXPENSES*

EUR million	2018	2017
Expenses from the processing of payments in foreign currency	425	596
Expenses from currency hedging transactions in hedge accounting	6	602
Expenses from other hedging transactions	609	–
Loss allowances on trade receivables including long-term manufacturing	99	–
Loss allowances on other receivables	1	112
Expenses from the allocation and rebilling of costs	110	103
Expenses relating to litigation risks and costs	982	258
Losses on disposal of assets	15	8
Miscellaneous operating expenses	367	577
Other operating expenses	**2,613**	**2,257**

With the introduction of IFRS 15, the expenses from loss allowances to trade receivables including long-term manufacturing are to be presented separately. The prior-year amount is contained in the loss allowances on other receivables.

Expenses relating to litigation risks and costs include expenses of EUR 890 (53) million in connection with the diesel issue. In addition, various effects related to the diesel issue in North America amounting to EUR 2 (57) million are included in miscellaneous operating expenses.

Costs from other hedging transactions mainly contain exchange rate losses from the fair value measurement of derivative financial instruments for currency and commodities hedging that are not designated in a hedging relationship. In the previous year, these exchange rate losses were shown in the financial result and, from now on, will be reported in operating profit under IFRS 9. The effects of the reclassification of currency hedging transactions in hedge accounting are now primarily to be shown in revenue in accordance with IFRS 9.

7 / *RESULT FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD*

The result from investments accounted for using the equity method amounted to EUR 261 (526) million. Further information on investments accounted for using the equity method is provided in Note 17.

8 / *NET INTEREST RESULT*

EUR million	2018	2017
Other interest and similar income	233	86
Interest income	**233**	**86**
Other interest and similar expenses	–49	–56
Interest expense included in lease payments	–19	–19
Net interest on the net defined benefit liability	–94	–91
Result from unwinding of discounts on/discounting other non-current liabilities	48	42
Interest expenses	**–115**	**–125**
Net interest result	**118**	**–39**

9 / *OTHER FINANCIAL RESULT*

EUR million	2018	2017 [1]
Result from participations	318	55
of which income from profit transfer agreements	*15*	*9*
of which expenses from the transfer of losses	*–29*	*–14*
Income from compensatory payments	386	271
Income and expenses from securities	–159	8
Realized income and expenses from loan receivables and payables in foreign currency	–51	–13
Income and expenses from remeasurement and impairment of financial instruments	–5	–56
Income and expenses from fair value changes of hedging transactions not included in hedge accounting	–37	–714
Income and expenses from fair value changes of hedging transactions included in hedge accounting	0	9
Other financial result	**452**	**–441**

1) The prior year has been adjusted (see disclosures on IFRS 9).

The result from participations in the amount of EUR 162 million primarily includes a share in the profits of Volkswagen Konzernlogistik GmbH & Co. OHG, Wolfsburg, dividend income from the portion of FAW-Volkswagen Automotive Company, Ltd., Changchun (China) that was classified as held for sale in the prior year as well as the capital gains from the sale of these shares in the amount of EUR 154 million. Furthermore, impairment losses of EUR 62 (13) million are included in participations in the Automotive segment. Among other factors, these were attributable to the continued negative business performance of the participations.

Income from compensatory payments concerns a financial compensation agreed between AUDI AG and Volkswagen AG, Wolfsburg, in relation to the economic performance of the respective brands achieved by FAW-Volkswagen Automotive Company, Ltd. and SAIC Volkswagen Automotive Company Ltd., Shanghai (China).

With the implementation of IFRS 9, some results from hedging transactions have been allocated to revenue or to the other operating result (see disclosures on IFRS 9).

10 / *INCOME TAX EXPENSE*

Income tax expense includes taxes passed on by Volkswagen AG, Wolfsburg, on the basis of the single-entity relationship between the two companies for tax purposes, along with taxes owed by AUDI AG and its consolidated subsidiaries, as well as deferred taxes.

EUR 531 (1,113) million of the actual income tax expense was charged to Volkswagen AG.

EUR million	2018	2017 [1]
Actual income tax expense	793	1,468
of which in Germany	*570*	*1,152*
of which international	*222*	*317*
of which income from the reversal of tax provisions	*–13*	*–7*
Deferred tax expense/income	105	–184
of which in Germany	*66*	*–248*
of which international	*39*	*64*
Income tax expense	**898**	**1,285**
of which non-periodic tax income/expense	*–114*	*62*

1) The prior year has been adjusted (see disclosures on IFRS 9).

The actual taxes in Germany are calculated at a tax rate of 29.9 (29.9) percent. This represents the sum of the corporation income tax rate of 15.0 percent, the solidarity surcharge of 5.5 percent and the average trade income tax rate for the Group. The deferred taxes for companies in Germany are calculated at a rate of 29.8 (29.9) percent. The local income tax rates applied to international companies range from 0 percent to 34 percent.

The effects arising as a result of tax-exempt foreign revenue and tax benefits on research and development expenditure in Hungary are reported under tax-exempt revenue in the tax reconciliation accounts.

The impairment testing of deferred tax assets is generally based on future taxable income within the context of a planning period of five fiscal years. The result of the impairment test is a deferred tax expense from the devaluation of deferred tax claims of EUR 8 (21) million and a deferred tax income from the reversal of impairment of deferred tax assets of EUR 5 (6) million.

Loss carryforwards total EUR 3,058 (3,075) million, of which EUR 158 (151) million may be used indefinitely, with EUR 2,900 (2,924) million that can be used within a time period of 12 or 17 years. Overall, loss carryforwards in the amount of EUR 2,109 (2,057) million were classed as unusable. In the 2018 fiscal year, the realization of tax losses led to a reduction in current income tax expense of EUR 16 (50) million. Deferred tax assets of EUR 257 (225) million relating to tax loss carryforwards were not reported due to impairment.

No deferred tax claims were recorded in the Balance Sheet for deductible temporary differences in the amount of EUR 1 (1) million. In the current fiscal year, the measurement of deferred tax assets relating to tax concessions led to their recognition in full in the Balance Sheet.

Deferred tax liabilities of EUR 107 (94) million for temporary differences and non-distributed profits of AUDI AG subsidiaries were not recorded due to the existence of control pursuant to IAS 12.39.

Deferred taxes of EUR 6 (11) million were capitalized, with no deferred tax liabilities in the corresponding amount being offset against them. Following a loss in the current fiscal year or in the prior year, the companies concerned are expecting to record a positive tax income in future.

Of the deferred taxes reported in the Balance Sheet, a total of EUR 368 million was recorded in the current fiscal year with a resulting increase in equity, without influencing the Income Statement. A total of EUR 697 million was recorded in the previous year with a resulting decrease in equity.

The recording of actuarial gains without affecting profit or loss, pursuant to IAS 19, led to a decrease in equity of EUR 17 (29) million in the current fiscal year from the creation of deferred taxes. The change in deferred taxes on the effects recognized in equity for hedging transactions led to an increase of EUR 385 million in equity during the course of the year. Deferred taxes amounting to EUR 669 million were recorded from these effects during the previous year with a resulting decrease in equity.

Deferred taxes posted directly in equity in the current fiscal year are broken down in detail in the Statement of Comprehensive Income.

10.1 / *DEFERRED TAX ASSETS AND LIABILITIES ON RECOGNITION AND MEASUREMENT DIFFERENCES RELATING TO INDIVIDUAL BALANCE SHEET ITEMS AND ON TAX LOSS CARRYFORWARDS*

EUR million	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Intangible assets	20	39	1,764	1,577
Property, plant and equipment	257	266	144	92
Long-term financial investments	0	–	39	33
Inventories	168	107	4	25
Receivables and other assets	261	251	686	903
Other current assets	205	245	1	–
Provisions for pensions	1,169	1,171	–	–
Liabilities and other provisions	2,385	2,036	34	34
Impairment losses on deferred tax assets from temporary differences	–41	–44	–	–
Temporary differences after impairment	4,424	4,070	2,672	2,664
Loss carryforwards after impairment	92	101	–	–
Tax credits after impairment	64	93	–	–
Value before consolidation and balancing	**4,579**	**4,264**	**2,672**	**2,664**
of which non-current	*2,807*	*2,664*	*2,079*	*2,035*
Offsetting	–2,434	–2,452	–2,434	–2,452
Consolidation measures	173	191	33	4
Carrying amount	**2,319**	**2,003**	**270**	**217**

10.2 / RECONCILIATION OF EXPECTED TO REPORTED INCOME TAX EXPENSES

EUR million	2018	2017 [1]
Profit before income tax	4,361	4,717
Expected income tax expense 29.9% (29.9%)	1,304	1,410
Reconciliation:		
Divergent foreign tax burden	–153	–92
Tax portion for tax-exempt income	–370	–261
Tax portion for expenses not deductible for tax purposes	55	58
Tax portion for effects from loss carryforwards and tax credits	39	–38
Tax portion for permanent accounting differences	23	–53
Non-periodic taxes	–114	62
Effects of tax rate changes	18	206
Other tax effects	96	–7
Income tax expense reported	**898**	**1,285**
Effective tax rate in %	20.6	27.2

1) The prior year has been adjusted (see disclosures on IFRS 9).

11 / PROFIT TRANSFER TO VOLKSWAGEN AG

The amount of EUR 1,096 (2,406) million will be transferred to Volkswagen AG, Wolfsburg, under the profit transfer agreement with AUDI AG.

12 / EARNINGS PER SHARE

	2018	2017 [1]
Profit share of AUDI AG shareholders (EUR million)	3,382	3,509
Weighted average number of shares	43,000,000	43,000,000
Earnings per share in EUR	**78.64**	**81.60**

1) The prior year has been adjusted (see disclosures on IFRS 9).

Basic earnings per share are calculated by dividing the share of profit due to AUDI AG shareholders by the weighted average number of shares in circulation during the fiscal year. Diluted earnings per share are the same as basic earnings per share, since there were no options on AUDI AG shares in existence on either December 31, 2018, or on December 31, 2017.

Free-float shareholders of AUDI AG will receive a compensatory payment for each no-par share in lieu of a dividend for the 2018 fiscal year. The level of this payment corresponds to the dividend that is paid on one ordinary share of Volkswagen AG, Wolfsburg. A decision regarding the dividend payment will be made at the Annual General Meeting of Volkswagen AG on May 14, 2019.

13 / ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS IN THE INCOME STATEMENT

13.1 / CATEGORIES

Financial instruments are categorized as follows pursuant to IFRS 7:

- measured at amortized cost,
- measured at fair value,
- derivative financial instruments in hedging relationships,
- not within the scope of IFRS 7 and
- credit commitments and financial guarantees.

The financial instruments that are not within the scope of IFRS 7 include shares in subsidiaries, associates and joint ventures. These are not deemed to be financial instruments for the purposes of IFRS 9.

13.2 / NET RESULTS OF FINANCIAL INSTRUMENTS BASED ON MEASUREMENT CATEGORIES PURSUANT TO IFRS 9

EUR million	2018
Financial assets measured at amortized cost	180
Financial liabilities measured at amortized cost	–201
Financial instruments measured at fair value through profit or loss	–421
Net results of financial instruments	**–443**

The “Financial assets measured at amortized cost” and “Financial liabilities measured at amortized cost” include income and expenses from the measurement and settlement of foreign currency transactions as well as from the impairment model. It also includes interest income and interest expenses.

The category “Financial instruments measured at fair value through profit or loss” primarily comprises the results from the settlement and measurement of derivative financial instruments not allocated to hedge accounting, including interest, currency translation results and securities investments.

Dividend income in the amount of EUR 1 million were also reported in the financial result from equity instruments measured at fair value through other comprehensive income.

The net results from the prior year according to the categories of IAS 39 are shown in the following table:

EUR million	2017
Financial instruments measured at fair value through profit or loss	–648
Loans and receivables	–317
Available-for-sale financial assets	76
Financial liabilities measured at amortized cost	331
Net results of financial instruments	**–558**

Explanations of individual categories can be found in the Annual Report 2017.

13.3 / *INTEREST INCOME AND INTEREST EXPENSES FOR FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS*

EUR million	2018
Interest income	161
Interest expenses	–56
Financial assets and liabilities measured at amortized cost	**104**

Interest income from "Financial assets and liabilities measured at amortized cost" primarily covers interest from the Audi Group's cash and cash equivalents, fixed deposits and loans extended.

Interest income and interest expenses from prior-year financial instruments not measured at fair value can be found in the following table.

EUR million	2017
Interest income	85
Interest expenses	–67
Interest income and interest expenses	**18**

13.4 / *PROFITS AND LOSSES FROM THE DISPOSAL OF FINANCIAL ASSETS TO BE MEASURED AT AMORTIZED COST*

EUR million	2018
Profits from disposals of financial assets	0
Losses from disposals of financial assets	–111
Result from disposals of financial assets	**–111**

13.5 / *IMPAIRMENT LOSSES FOR FINANCIAL ASSETS BY CATEGORY FROM IAS 39*

EUR million	2017
Measured at fair value	1
Measured at amortized cost	57
Impairment losses	**58**

Detailed information about the IFRS 9 impairment model can be found under Note 37.2, "Credit and default risks."

13.6 / *PROFITS AND LOSSES FROM HEDGING RELATIONSHIPS*

// *DETAILS OF PROFITS AND LOSSES FROM CASH FLOW HEDGES*

Cash flow hedges are formed in order to secure against the risks of fluctuations in future cash flows. These cash flows can result from recognized assets and liabilities or transactions that have a high probability of occurring. The following table shows the profits and losses from hedging relationships (cash flow hedges) after taxes.

EUR million	2018
Hedging of currency risk	
Profits and losses from fair value changes to hedging transactions within hedge accounting	
Recognized in equity	–494
Recognized in the Income Statement	0
Reclassifications from the reserve for cash flow hedges in the Income Statement	
due to the early termination of the hedging relationship	0
due to the recognition of the underlying transaction	–407

EUR 617 million were reported in revenue from the recognition of the underlying transactions. Due to time differences between the measurement of the reserve for cash flow hedges on the respective reporting date and the time of recognition of the underlying transaction, there are differences between the recategorized amount in equity and the amount reported in the Income Statement.

The reclassification due to changed expectations regarding the occurrence of the underlying transaction is done through the premature termination of hedging relationships. These are mostly generated by reducing projections for revenue hedges. The amounts to be reclassified from equity are recorded in operating profit.

// DEVELOPMENT OF RESERVES FOR CASH FLOW HEDGES

As part of cash flow hedge accounting, the designated effective shares of a hedging relationship are to be shown in equity with no effect on profit or loss under the reserve for cash flow hedges. All of the changes to the market value of the designated components beyond that are reported as ineffectiveness through profit and loss. The following table shows a reconciliation of the reserve.

EUR million	Currency risk
Position as of Jan. 1, 2018	**1,359**
Profits and losses from effective hedging relationships	–335
Reclassification due to changed expectations regarding the occurrence of the underlying transaction	–1
Reclassification due to the recognition of the underlying transaction	–338
Position as of Dec. 31, 2018	**685**

The profit or loss from changes to the fair value of hedging transactions within hedge accounting corresponds to the basis for determining the ineffectiveness within the hedging relationship. Income or expenses from changes in fair value of hedging instruments exceeding that of changes in fair value of the underlying transactions are identified as the ineffective portion of cash flow hedges. These ineffective elements within the hedging relationship occur as a result of differences in the parameters between the hedging instrument and the underlying transaction. This income and these expenses are reported immediately in the financial result.

// DEVELOPING RESERVES FOR THE COSTS OF HEDGING RELATIONSHIPS

Fair value changes of non-designated components of a derivative are typically to be reported directly in the Income Statement. An exception to this principle are the fair value changes from non-designated fair values of options, insofar as they are related to the underlying transaction. The table below shows the development of the corresponding reserve.

EUR million	Currency risk
Position as of Jan. 1, 2018	**15**
Profits and losses from non-designated fair values of options	–8
Position as of Dec. 31, 2018	**7**

In addition, within the Audi Group, fair value changes to non-designated fixed-date components and cross-currency basis spreads for currency hedging transactions as part of cash flow hedges are initially reported in equity under the reserves for deferred costs of hedging relationships. As such, changes to fair value of the non-designated components or shares thereof are only included immediately in the Income Statement in the event of ineffectiveness. The following table shows an overview of the changes in the other equity reserves resulting from the aforementioned non-designated portions.

EUR million	Currency risk
Position as of Jan. 1, 2018	**–**
Profits and losses from non-designated forward components and foreign currency basis spreads	–151
Reclassification due to the recognition of the underlying transaction	–69
Reclassification of losses anticipated to be uncollectable and thus reported in other comprehensive income	1
Position as of Dec. 31, 2018	**–219**

// PROFITS AND LOSSES FROM HEDGE ACCOUNTING UNDER IAS 39

In the 2017 fiscal year, EUR 112 million was transferred with a positive effect on the result from the cash flow hedge reserve to other operating profit and EUR 1 million was transferred to cost of goods sold, with a negative effect on the result.

The following table provides an overview of income and expenses from hedging relationships recorded in the financial result.

EUR million	2017
Hedging instruments fair-value-hedge	47
Underlying transactions fair value hedge	–37
Ineffectiveness	–1

The ineffective portion of cash flow hedges relates to the income or expense from changes in fair value of hedging instruments exceeding that of changes in fair value of the underlying transaction that are shown to be within the permitted range of 80 to 125 percent when measuring effectiveness.

NOTES TO THE BALANCE SHEET

14 / *INTANGIBLE ASSETS*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Concessions, industrial property rights and similar rights and assets as well as licenses and customer bases	386	322
Brand names	408	410
of which Automotive	*4*	*6*
of which Motorcycles	*404*	*404*
Goodwill	378	378
of which Automotive	*88*	*88*
of which Motorcycles	*290*	*290*
Capitalized development costs	6,402	5,666
of which products currently under development	*1,325*	*2,043*
of which products currently in use	*5,077*	*3,623*
Payments on account for intangible assets	10	9
Intangible assets	**7,585**	**6,785**

The reported goodwill retained its value during the fiscal year. The value is also deemed retained in the event of a variation in the growth forecast and/or discount rate of +/– 0.5 percentage points.

// RESEARCH AND DEVELOPMENT EXPENDITURE RECOGNIZED AS AN EXPENSE

EUR million	2018	2017
Research expense and non-capitalized development costs	2,585	2,565
Amortization of and impairment losses (reversals) on capitalized development costs	856	1,025
Research and development expenditure	**3,441**	**3,590**

During the 2018 fiscal year, a total of EUR 4,178 (3,809) million was spent on research and development. Of this total, EUR 1,593 (1,243) million was capitalized.

The capitalized development costs include borrowing costs of EUR 17 (29) million. An average rate of borrowing costs of 1.4 (1.5) percent was used as a basis for capitalization in the Audi Group. The capitalization ratio is 38.1 (32.6) percent.

15 / *PROPERTY, PLANT AND EQUIPMENT*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Land, land rights and buildings, including buildings on third-party land	5,128	4,946
Plant and machinery	2,525	2,519
Other plant and office equipment	4,774	3,927
Payments on account and assets under construction	1,867	2,268
Property, plant and equipment	**14,293**	**13,660**
of which finance lease	*71*	*74*

Land and buildings are secured with mortgages totaling EUR 16 (16) million. Finance leases exist mainly for land and buildings.

The leases are based on an interest rate of up to 11.6 (11.6) percent depending on the region. Options to purchase or extend the lease have partially been arranged.

// FUTURE PAYMENTS FOR NON-CANCELABLE FINANCE LEASES

EUR million	2019	2020 to 2023	from 2024	Total
Leasing payments to be made	10	32	80	122
Interest component	7	29	12	48
Present value	**3**	**2**	**68**	**74**

The following table shows the comparative figures for the 2017 fiscal year:

EUR million	2018	2019 to 2022	from 2023	Total
Leasing payments to be made	8	29	85	121
Interest component	7	27	17	51
Present value	**1**	**2**	**68**	**71**

Payments totaling EUR 189 (200) million for assets rented on the basis of operating leases were recognized as an expense.

16 / *LEASING AND RENTAL ASSETS AND INVESTMENT PROPERTY*

Leasing and rental assets, amounting to EUR 11 (6) million refers to vehicles which were leased out as part of an operating lease agreement.

Investment property totaling EUR 332 (346) million is leased out. No impairment losses were recorded for the 2018 fiscal year, as was also the case in the previous year. Operating costs totaling EUR 7 (6) million were incurred in relation to maintenance of the investment property.

The fair value of investment property exceeds the amortized costs by EUR 106 (95) million. Fair values are calculated as a general rule using a discounted cash flow method and correspond to level 3 of the fair value hierarchy.
Of the investment property, land and buildings totaling EUR 211 (209) million have been leased by the Audi Group within the scope of finance leases. These leases are based on a maximum interest rate of 9.0 (9.0) percent. Options to purchase or extend the lease have partially been arranged. The finance lease payments due in future are listed together with their present values under Note 16.1.

The investment property mentioned above is leased to third parties by means of either operating or finance leases. The resulting payment inflows are shown in the following Notes. Payment inflows from properties rented by the Audi Group by means of finance lease agreements are shown under Note 16.1, and payment inflows from the rental of properties that are under the legal ownership of the Audi Group are shown under Note 16.2.

16.1 / *FUTURE PAYMENTS FOR NON-CANCELABLE FINANCE LEASES*

EUR million	2019	2020 to 2023	from 2024	Total
Leasing payments to be made	19	85	256	359
Interest component	10	50	62	122
Present value	**9**	**35**	**193**	**237**
Leasing payments to be received from sub-leasing (operating lease)	23	82	262	367
Leasing payments to be received from sub-leasing (finance lease)	1	6	22	29
Interest component	1	3	4	9
Present value	**0**	**3**	**17**	**20**

The following table shows the comparative figures for the 2017 fiscal year:

EUR million	2018	2019 to 2022	from 2023	Total
Leasing payments to be made	18	89	272	378
Interest component	10	52	72	134
Present value	**8**	**37**	**200**	**244**
Leasing payments to be received from sub-leasing (operating lease)	18	73	248	338
Leasing payments to be received from sub-leasing (finance lease)	1	6	24	31
Interest component	1	4	6	11
Present value	**0**	**3**	**18**	**21**

16.2 / *FUTURE PAYMENT INFLOWS FOR NON-CANCELABLE OPERATING LEASES*

EUR million	2019	2020 to 2023	from 2024	Total
Leasing payments to be received from non-cancelable operating leases	16	49	13	78

The following table shows the comparative figures for the 2017 fiscal year:

EUR million	2018	2019 to 2022	from 2023	Total
Leasing payments to be received from non-cancelable operating leases	18	56	18	93

17 / *INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD*

Financial information on the material associated companies can be found in the following tables. The figures reflect the full values of the (converted) financial statements. Any adjustments to separate financial statements made during the application of the equity method have been taken into account accordingly.

17.1 / *NOTES TO THE BALANCE SHEET*

EUR million	Dec. 31, 2018			
	FAW-Volkswagen Automotive Company, Ltd.	SAIC Volkswagen Automotive Company, Ltd.	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Company Limited
Non-current assets	10,651	8,580	1,763	1,116
Current assets	10,903	6,689	2	1,279
Non-current liabilities	1,260	1,205	–	327
Current liabilities	12,936	8,526	1	1,023
Net carrying amount	7,358	5,538	1,764	1,044

EUR million	Dec. 31, 2017		
	FAW-Volkswagen Automotive Company, Ltd.	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Company Limited
Non-current assets	10,071	1,906	1,033
Current assets	13,018	289	827
Non-current liabilities	1,470	–	730
Current liabilities	14,768	0	543
Net carrying amount	6,851	2,195	586

17.2 / *RECONCILIATION AT CARRYING AMOUNT OF PARTICIPATIONS*

EUR million	2018			
	FAW-Volkswagen Automotive Company, Ltd.	SAIC Volkswagen Automotive Company, Ltd. [1]	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Company Limited
Net carrying amount as of Jan. 1	**6,851**	**3,622**	**2,195**	**586**
Profit after tax	3,665	2,058	–351	412
Other comprehensive income after tax	115	–143	–7	–12
Change in capital	–	–	–87	61
Dividends paid	–3,273	–	–	–
Miscellaneous changes	0	–	14	–4
Net carrying amount as of Dec. 31	**7,358**	**5,538**	**1,764**	**1,044**
Pro rata equity	368	55	522	418
Consolidation/Other	–28	291	–	–
Carrying amount of equity share	**340**	**346**	**522**	**418**

1) The reconciliation of the net carrying amount refers to the period between June 22, 2018, and December 31, 2018.

EUR million	2017			
	FAW-Volkswagen Automotive Company, Ltd.	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Company Limited	Volkswagen International Belgium S.A.
Net carrying amount as of Jan. 1	**7,466**	**1,832**	**365**	**10,860**
Profit after tax	3,538	362	159	77
Other comprehensive income after tax	–398	2	–25	3
Change in capital	–	–	88	–
Dividends paid	–3,755	–	–	–
Net carrying amount as of Dec. 31 [1]	**6,851**	**2,195**	**586**	**10,939**
Pro rata equity	343	646	254	3,282
Consolidation/Other	–18	–	–	–
Carrying amount of equity share [2]	**324**	**646**	**254**	**3,282**

1) For Volkswagen International Belgium S.A., the net carrying amount and the reconciliation of the carrying amount of the equity share as of November 30, 2017, are shown.
2) Shares of FAW-Volkswagen Automotive Company, Ltd. and There Holding B.V. were classified as available for sale under IFRS 5 (see Note 25).

17.3 / DISCLOSURES ON THE RESULT

EUR million	2018			
	FAW-Volkswagen Automotive Company, Ltd.	SAIC Volkswagen Automotive Company, Ltd. 1)	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Company Limited
Revenue	41,607	28,607	–	2,387
Result from continued operation 2)	3,665	2,058	–351	412
Profit after tax	**3,665**	**2,058**	**–351**	**412**
Other comprehensive income after tax	115	–143	–7	–12
Total comprehensive income	**3,780**	**1,916**	**–358**	**400**
Dividends received	327	–	–	–

1) For SAIC Volkswagen Automotive Company, Ltd., the information relates to the period from June 22, 2018, to December 31, 2018.
2) No operations were discontinued in the period under review.

EUR million	2017			
	FAW-Volkswagen Automotive Company, Ltd.	There Holding B.V.	Volkswagen Automatic Transmission (Tianjin) Company Limited	Volkswagen International Belgium S.A. 1)
Revenue 2)	40,828	71	1,790	23
Result from continued operation	3,538	–151	159	77
Result from discontinued operation	–	513	–	–
Profit after tax	**3,538**	**362**	**159**	**77**
Other comprehensive income after tax	–398	2	–25	3
Total comprehensive income	**3,140**	**364**	**134**	**79**
Dividends received	376	–	–	–

1) For Volkswagen International Belgium S.A., the information relates to the period from January 1, 2017, to November 30, 2017.
2) The revenue of There Holding B.V. relates to the discontinued operation.

18 / DEFERRED TAX ASSETS

The temporary differences between the tax bases and the carrying amounts in the Consolidated Financial Statements are explained under “Deferred tax” in the “Recognition and measurement principles” and under Note 10, “Income tax expense.”

19 / OTHER FINANCIAL ASSETS

19.1 / NON-CURRENT OTHER FINANCIAL ASSETS

EUR million	Dec. 31, 2018	Dec. 31, 2017
Positive fair values from derivative financial instruments	427	1,172
Fixed deposits and loans extended	5,272	3,726
Receivables from finance leases	20	21
Miscellaneous financial assets	24	21
Non-current other financial assets	**5,742**	**4,940**

The non-current fixed deposits and loans extended accrue interest at rates of up to 4.5 (4.5) percent. Derivative financial instruments are measured at market value. The total position in relation to hedging instruments is presented under Note 37.5, “Methods of monitoring the effectiveness of hedging relationships.”

19.2 / *CURRENT OTHER FINANCIAL ASSETS*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Positive fair values from derivative financial instruments	411	723
Fixed deposits and loans extended	561	435
Receivables from finance leases	4	4
Miscellaneous financial assets	1,023	786
Current other financial assets	**1,999**	**1,947**

19.3 / *POSITIVE FAIR VALUE OF NON-CURRENT AND CURRENT DERIVATIVE FINANCIAL INSTRUMENTS*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Cash flow hedges against currency risks from future cash flows	732	1,618
Other derivative financial instruments	106	277
Positive fair values of derivative financial instruments	**838**	**1,895**

20 / *OTHER RECEIVABLES*

20.1 / *NON-CURRENT OTHER RECEIVABLES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Tax claims	2	2
Miscellaneous receivables	127	143
Non-current other receivables	**128**	**145**

20.2 / *CURRENT OTHER RECEIVABLES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Tax claims	456	496
Miscellaneous receivables	458	680
Non-current other receivables	**914**	**1,176**

21 / *INVENTORIES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Raw materials and supplies	909	801
Work and services in progress	942	888
Finished goods and products	6,468	5,104
Current leased assets	1,087	1,101
Inventories	**9,406**	**7,893**

Inventories amounting to EUR 46,198 (45,857) million were recorded as cost of goods sold when the corresponding revenue was realized. The impairment resulting from the measurement of inventories on the basis of sales markets amounted to EUR 381 (394) million. Impairment loss reversals amounted to EUR 14 (2) million.

Of the finished goods inventory, a portion of the company car fleet valued at EUR 306 (263) million has been pledged as collateral for commitments toward employees under the partial retirement block model.

In addition, leased vehicles with an operating lease term of up to one year were reported under inventories in the amount of EUR 1,087 (1,101) million. In the following fiscal year, payments in the amount of EUR 56 (55) million are expected from non-cancelable leases.

22 / *TRADE RECEIVABLES*

Trade receivables of EUR 5,800 (5,533) million will be realized within the next twelve months. Impairment losses on trade receivables are detailed under Note 37.2, “Credit and default risks.”

The trade receivables include receivables from construction contracts accounted for using the percentage-of-completion method. These correspond to the contractual assets from customer contracts and developed as follows:

EUR million	2018
Position as of Jan. 1	**121**
Additions and disposals	48
Changes in scope of consolidated companies	–
Changes to adjustments	0
Changes to measurements, estimates and contractual adjustments	–
Currency changes	–
Position as of Dec. 31	**169**

In the prior year, the net percentage of completion receivables from construction contracts pursuant to IAS 18 comprised the following:

EUR million	Dec. 31, 2017
Construction costs and proportionate contract profit/loss of construction contracts	280
Progress billings	–
Percentage of completion receivables, gross	**280**
Payments on account	–158
Percentage of completion receivables, net	**123**

Other advance payments for construction contracts in the 2017 fiscal year amounting to EUR 14 million, for which no construction costs have yet been incurred, are recognized under liabilities as advance payments received for orders and services.

23 / *EFFECTIVE INCOME TAX ASSETS*

Entitlements to income tax rebates, predominantly for international Group companies, are reported under this item.

24 / *SECURITIES, CASH AND CASH EQUIVALENTS*

Securities include fixed or variable-interest securities and shares in equity in the amount of EUR 5,726 (6,002) million.

Cash funds amounting to EUR 9,309 (11,273) million primarily comprise credit balances with banks and affiliated companies. The credit balances with banks amounting to EUR 783 (1,177) million are held at various banks in different currencies. Balances with affiliated companies include daily and short-term investments with only marginal risk of fluctuations in value and amount to EUR 8,484 (10,096) million.

25 / *AVAILABLE-FOR-SALE ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE*

Shares in FAW-Volkswagen Automotive Company, Ltd., Changchun (China) that were classified as held for sale in the prior year were sold on November 6, 2018, to Volkswagen AG, Wolfsburg.

In December 2017, contracts for the sale of a respective 5.9 percent of the shares in There Holding B.V., Rijswijk (Netherlands), were signed between Audi, BMW and Daimler, of the one part, and Robert Bosch Investment Nederland B.V., Boxtel (Netherlands), and Continental Automotive Holding Netherlands B.V., Maastricht (Netherlands), of the other part. The Audi Group's shareholding interest in There Holding B.V. was reduced by 3.9 percentage points as a result of the sale. An amount of EUR 86 million was reclassified in the 2017 fiscal year to available-for-sale assets based on the carrying amount of this investment determined using the equity method. The transactions were completed on February 28, 2018.

26 / *EQUITY*

Information on the composition and development of equity is provided on pages 178 f. in the Statement of Changes in Equity.

The share capital of AUDI AG is unchanged, at EUR 110,080,000. Each share represents a notional share of EUR 2.56 of the subscribed capital. This capital is divided into 43,000,000 no-par bearer shares.

The capital reserve contains additional payments from the issuance of shares in the company as well as cash injections by Volkswagen AG, Wolfsburg.

Retained earnings comprise accumulated gains and the remeasurements from pension plans.

Other reserves include changes in value recognized with no effect on profit or loss relating to hedging transactions, to interests measured at equity and to currency translation differences.

The opportunities and risks under forward exchange contracts and foreign exchange options, and those under commodity price transactions serving as hedges for future cash flows are generally deferred in the reserve for hedging transactions with no effect on profit or loss. When the underlying transaction is realized, the results from the recognition of the hedging contracts are shown in the operating profit.

Currency translation differences that do not affect profit or loss and, on a pro rata basis, cash flow hedges with no effect on profit or loss as well as the effects from the remeasurement of pension schemes of companies valued at equity are included in the reserve for investments accounted for using the equity method.

The balance of EUR 2,286 (1,103) million remaining after the transfer of profit to Volkswagen AG is transferred to the retained earnings.

Summarized information on the individual financial statements from the material companies in which Audi holds no shares is provided in the following tables:

26.1 / *NOTES TO THE BALANCE SHEET*

EUR million	Audi of America, LLC		Audi Canada Inc.	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Non-current assets	313	300	58	59
Current assets	4,587	3,936	740	501
Non-current liabilities	736	592	103	93
Current liabilities	3,656	3,264	585	363
Non-controlling interests	508	380	110	103

26.2 / *DISCLOSURES ON THE RESULT AND THE CASH FLOW STATEMENT*

EUR million	Audi of America, LLC		Audi Canada Inc.	
	2018	2017	2018	2017
Revenue	9,035	9,899	1,369	1,455
Profit after tax [1]	**66**	**–93**	**11**	**16**
Other comprehensive income after tax	21	–66	–4	–5
Total comprehensive income	**87**	**–159**	**8**	**10**
Share of total comprehensive income of non-controlling interests	87	–159	8	10
Cash flow from operating activities	–406	–278	–1	–23
Cash flow from investing activities	–431	–221	–206	91
of which change in fixed deposits and loans extended	*–430*	*–229*	*–204*	*91*
Cash flow from financing activities	–50	460	262	–96
Change in cash and cash equivalents due to changes in exchange rates	12	–230	–5	–9
Change in cash and cash equivalents	**–874**	**–269**	**50**	**–37**

1) No operations were discontinued in the period under review.

27 / *FINANCIAL LIABILITIES*

27.1 / *NON-CURRENT FINANCIAL LIABILITIES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Loans	30	35
Liabilities from finance leases	289	293
Non-current financial liabilities	**319**	**328**

27.2 / *CURRENT FINANCIAL LIABILITIES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Liabilities to factoring companies	–	50
Loans	86	248
Liabilities from finance leases	23	22
Current financial liabilities	**108**	**319**

Measurement of the non-current and current finance leases is based on market interest rates in each case.

28 / *DEFERRED TAX LIABILITIES*

The temporary differences between the tax bases and the carrying amounts in the Consolidated Financial Statements are explained under “Deferred tax” in the “Recognition and measurement principles” as well as under Note 10, “Income tax expense.”

Pursuant to IAS 1, deferred tax liabilities are reported as non-current liabilities, irrespective of their maturities.

29 / *OTHER FINANCIAL LIABILITIES*

29.1 / *NON-CURRENT OTHER FINANCIAL LIABILITIES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Negative fair values from derivative financial instruments	456	432
Miscellaneous financial liabilities	7	16
Non-current other financial liabilities	**463**	**448**

The derivative financial instruments reported under other financial liabilities, which largely refer to currency hedges, are measured at fair value. The total item of currency hedging instruments is presented under Note 37, “Management of financial risks.”

29.2 / *CURRENT OTHER FINANCIAL LIABILITIES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Negative fair values from derivative financial instruments	504	300
Liability from the transfer of profit	1,096	2,406
Miscellaneous financial liabilities	2,467	2,222
Current other financial liabilities	**4,067**	**4,928**

29.3 / *NEGATIVE FAIR VALUES OF NON-CURRENT AND CURRENT DERIVATIVE FINANCIAL INSTRUMENTS*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Cash flow hedges against currency risks from future cash flows	228	129
Other derivative financial instruments	732	603
Negative fair values of derivative financial instruments	**960**	**732**

30 / *OTHER LIABILITIES*

30.1 / *NON-CURRENT OTHER LIABILITIES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Payments on account for orders from customers and for service agreements	828	805
Payments on account from lease agreements	–	0
Liabilities from other taxes	6	3
Social security liabilities	43	38
Liabilities from payroll accounting	96	85
Miscellaneous liabilities	252	274
Non-current other liabilities	**1,224**	**1,205**

Liabilities with a time to maturity of more than five years amount to EUR 13 (11) million.

30.2 / *CURRENT OTHER LIABILITIES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Payments on account for orders from customers and for service agreements	851	742
Payments on account from lease agreements	37	36
Liabilities from other taxes	248	260
Social security liabilities	138	164
Liabilities from payroll accounting	1,177	1,227
Miscellaneous liabilities	182	79
Current other liabilities	**2,634**	**2,508**

30.3 / *CONTRACTUAL LIABILITIES*

Payments received for orders and services are contractual liabilities that developed as follows:

EUR million	2018
Position as of Jan. 1	**1,405**
Additions and disposals	244
Changes in scope of consolidated companies	–
Changes to measurements, estimates and contractual adjustments	–
Currency changes	31
Position as of Dec. 31	**1,679**

31 / *PROVISIONS FOR PENSIONS*

Provisions for pensions are created on the basis of plans to provide retirement, disability and surviving dependent benefits. The benefit amounts are generally contingent on the length of service and the remuneration of employees.

Both defined contribution and defined benefit plans exist within the Audi Group for retirement benefit arrangements. In the case of defined contribution plans, the Company pays contributions to public or private sector pension plans on the basis of statutory or contractual requirements, or on a voluntary basis. Payment of these contributions releases the Company from any other benefit obligations. Current contribution payments are reported as an expense for the year in question. In the case of the Audi Group, they totaled EUR 418 (397) million. Of this, contributions of EUR 387 (370) million were paid in Germany toward statutory pension insurance.

The retirement benefit systems are based predominantly on defined benefit plans, whereby a distinction is made between provision-based systems and externally funded systems. The provisions for pensions for defined benefit plans are calculated by independent actuaries in accordance with IAS 19 using the projected unit credit method. This measures future obligations on the basis of the pro-rata benefit entitlements acquired as of the balance sheet date. The measurement takes account of actuarial assumptions regarding discount rates, remuneration and retirement benefit trends and staff turnover rates. Actuarial gains and losses result from deviations in what has actually occurred compared with the assumptions made during the previous year and from changes in assumptions. They are reported in equity with no effect on profit or loss during the period in which they occur as part of remeasurement, taking deferred taxes into account. These remeasurements also include the interest income from plan assets.

The retirement benefit scheme within the Audi Group was developed into a Contractual Trust Arrangement (CTA) in Germany on January 1, 2001. The trust is a contribution-based retirement benefit scheme with guarantees backed by Volkswagen Pension Trust e.V., Wolfsburg. An annual cost of providing benefits, based on remuneration and status, is converted into a retirement benefits entitlement payable for life (guarantee components) using annuity conversion factors. The annuity conversion factors include a guaranteed rate of interest. When the benefits are due, the retirement benefits components acquired annually are added together. The cost of providing benefits is invested on an ongoing basis in a dedicated fund that is managed on a fiduciary basis by Volkswagen Pension Trust e.V. and invested in the capital market. If the plan assets are higher than the present value of the obligations calculated using the guaranteed interest rate, a surplus is allocated (surplus components).

The pension fund model is classed as a defined benefit plan pursuant to IAS 19. The dedicated fund administered on a fiduciary basis satisfies the requirements of IAS 19 as plan assets and has therefore been offset against the obligations.

31.1 / *AMOUNTS RECORDED IN THE BALANCE SHEET FOR DEFINED BENEFIT OBLIGATIONS*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Present value of externally funded defined benefit obligations	2,863	2,615
Fair value of plan assets	1,732	1,617
Funded status (balance)	**1,132**	**998**
Present value of defined benefit obligations not externally funded	4,062	4,137
Provisions for pensions recognized in the Balance Sheet	**5,194**	**5,134**

31.2 / *PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS*

EUR million	2018	2017
Present value as of Jan. 1	6,752	6,682
Service costs	264	253
Interest expense	125	118
Actuarial gains (–)/losses (+) following changes in demographic assumptions	+ 89	– 1
Actuarial gains (–)/losses (+) following changes in financial assumptions	– 147	– 127
Actuarial gains (–)/losses (+) following experience-based adjustments	– 42	– 63
Pension payments from company assets	– 113	– 110
Pension payments from fund assets	– 15	– 10
Income from settlements	0	–
Past service costs (incl. plan curtailment)	0	–
Effects from transfers	16	14
Currency differences	– 4	– 4
Present value as of Dec. 31	**6,925**	**6,752**

31.3 / *SENSITIVITY ANALYSES*

Present value of defined benefit pension obligation if		Dec. 31, 2018		Dec. 31, 2017	
		EUR million	*in %*	*EUR million*	*in %*
Discount rate	+ 0.5 percentage points	6,254	– 9.69%	6,090	– 9.80%
	– 0.5 percentage points	7,708	11.30%	7,524	11.44%
Remuneration trend	+ 0.5 percentage points	6,992	0.96%	6,838	1.27%
	– 0.5 percentage points	6,864	– 0.89%	6,672	– 1.18%
Retirement benefit trend	+ 0.5 percentage points	7,291	5.29%	7,122	5.49%
	– 0.5 percentage points	6,593	– 4.80%	6,416	– 4.97%
Life expectancy	+ 1 year	7,134	3.02%	6,940	2.80%

A change of half a percentage point in each case in the key actuarial assumptions used to calculate the present value of the defined benefit pension obligation would result in the effects shown in the table.

The sensitivity analyses take into account a changed assumption in each case, although the other assumptions remain unchanged compared with the original calculation, meaning that potential correlation effects between the individual assumptions are not taken into account.

To investigate the sensitivity of the present value of the defined benefit obligation to any change in the assumed life expectancy, the expected mortality rate is reduced as part of a comparative calculation on a scale that is roughly equivalent to an increase in life expectancy of one year.

31.4 / *ALLOCATION OF THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATION AMONG THE PLAN MEMBERS*

EUR million	2018	2017
Active beneficiary members	4,769	4,644
Members with vested entitlements who have left the company	199	195
Pensioners	1,957	1,912
Present value as of Dec. 31	**6,925**	**6,752**

31.5 / *MATURITY PROFILE OF DEFINED BENEFIT OBLIGATION*

EUR million	2018	2017
Due within the next fiscal year	174	158
Due within two to five years	1,146	1,034
Due after more than five years	5,606	5,560
Present value as of Dec. 31	**6,925**	**6,752**

The average weighted term during which the Audi Group's defined benefit obligation will apply, based on the current perspective, is 22 (22) years (Macaulay Duration).

31.6 / *FAIR VALUE OF PLAN ASSETS*

EUR million	2018	2017
Plan assets as of Jan. 1	1,617	1,480
Interest income from plan assets	31	27
Income/expenses from plan assets not recognized in interest income	–69	–27
Employer contributions to the fund	161	146
Employee contributions to the fund	–	0
Pension payments from the fund	–15	–10
Effects from transfers	11	3
Currency differences	–5	–2
Plan assets as of Dec. 31	**1,731**	**1,617**

Employer contributions to the fund totaling EUR 166 (122) million are expected for the following fiscal year.

31.7 / *COMPOSITION OF PLAN ASSETS*

EUR million	Dec. 31, 2018			Dec. 31, 2017		
	Market price in an active market	No market price in an active market	Total	Market price in an active market	No market price in an active market	Total
Cash and cash equivalents	130	–	130	123	–	123
Debt instruments	–	–	–	2	–	2
Equity funds	229	–	229	225	–	225
Pension funds	1,258	110	1,367	1,153	106	1,259
Real estate funds	4	–	4	7	–	7
Plan assets	**1,622**	**110**	**1,732**	**1,511**	**106**	**1,617**

As well as the general market risk, the plan assets of Volkswagen Pension Trust e.V., Wolfsburg, are mainly exposed to interest rate and share price risks. The plan assets are largely invested in investment funds composed of fixed interest securities or shares. To cushion the market risk, the benefit system provides for funds to be allocated to a fluctuation reserve prior to each surplus allocation. Additionally, the investment strategy and its implementation are monitored on an ongoing basis by the bodies of Volkswagen Pension Trust e.V., which include representatives from AUDI AG. Asset liability management studies are also carried out at regular intervals, ensuring that the investment is compatible with the obligations in question.

The present value of the obligation is subject to interest rate risk. Should the value of the plan assets fall below the present value of the guaranteed obligation, provisions should be created in the amount of the shortfall.

The benefit system provides for lifelong pension payments. In order to take the longevity risk into account, the most up-to-date generation mortality reference tables "HEUBECK-RICHTTAFELN 2018 G" are used, as these have already considered the probability of greater life expectancy in the future. As an additional measure, annual risk monitoring is carried out by an independent actuary as part of the review of the assets held by Volkswagen Pension Trust e.V. To reduce the inflation risk presented by the adjustment of current pension payments in line with the rate of inflation, a non-inflation linked indexing of pensions has been applied to pension obligations where legally permissible.

31.8 / *AMOUNTS RECOGNIZED THROUGH PROFIT OR LOSS FROM BENEFIT OBLIGATIONS*

EUR million	2018	2017
Service costs	264	253
Net interest expense (+) and income (–)	+ 94	+ 91
Past service costs (incl. plan curtailment)	0	–
Balance of amounts from defined benefit obligations recognized through profit or loss	**358**	**343**

Net interest expense/net interest income includes the interest expense from the defined benefit obligation and the expected return on plan assets (net interest approach).

31.9 / *DEVELOPMENT OF PROVISIONS FOR PENSIONS*

EUR million	2018	2017
Provisions for pensions as of Jan. 1	5,134	5,202
Service costs	264	253
Interest expense	125	118
Interest income from plan assets	– 31	– 27
Income/expenses from plan assets not recognized in interest income	69	27
Actuarial gains (–)/losses (+) following changes in demographic assumptions	+ 89	– 1
Actuarial gains (–)/losses (+) following changes in financial assumptions	– 147	– 127
Actuarial gains (–)/losses (+) following experience-based adjustments	– 42	– 63
Pension payments from company assets	– 113	– 110
Income from settlements	0	–
Employer contributions to the fund	– 161	– 146
Effects from transfers	5	11
Currency differences	0	– 2
Provisions for pensions as of Dec. 31	**5,194**	**5,134**

31.10 / *ACTUARIAL PREMISES FOR THE CALCULATION OF PENSION OBLIGATIONS*

in %	2018	2017
Discount rate	1.97	1.87
Remuneration trend	3.67	3.67
Retirement benefit trend	1.46	1.46
Employee turnover rate	1.18	1.17

The figures shown are average figures, weighted in accordance with the present values of the defined benefit obligation.

The "Reference Tables 2018 G," published by HEUBECK-RICHTTAFELN-GmbH, Cologne, served as the biometric basis for calculation of retirement benefits.

The non-recurring transition effect from the "Reference Tables 2005 G" used in the prior year is shown under the actuarial gains and losses in the changes to demographic assumptions. The discount rates are, as a general rule, determined on the basis of the yields on prime-rated corporate bonds. The remuneration trends encompass anticipated increases in wages and salaries, which also take account of pay increases linked to promotion. The retirement benefit trends either correspond to the contractually agreed guaranteed adjustments or are based on the relevant rules on pension indexing. The employee turnover rates are based on past experience and expectations for the future.

32 / *EFFECTIVE INCOME TAX OBLIGATIONS*

Effective income tax obligations consist primarily of tax liabilities to Volkswagen AG, Wolfsburg, under allocation plans.

33 / *OTHER PROVISIONS*

EUR million	Dec. 31, 2018		Dec. 31, 2017	
	Total	Of which due within one year	Total	Of which due within one year
Obligations from sales operations	8,801	3,855	8,806	4,008
Workforce-related provisions	1,161	331	1,078	266
Provisions for legal and litigation risks	836	398	956	436
Miscellaneous provisions	1,083	1,009	903	840
Other provisions	**11,881**	**5,593**	**11,743**	**5,550**

Provisions of EUR 376 (387) million were recognized in connection with the diesel issue in the fiscal year. As of the balance sheet date, there were provisions for this totaling EUR 822 (931) million. The provisions for the airbag recall totaled EUR 151 (211) million. In both cases, the year-on-year decline is largely attributable to utilization.

Obligations from sales operations primarily comprise warranty claims from the sale of vehicles, components and genuine parts. Warranty claims are determined on the basis of previous or estimated future losses. Obligations from sales operations also include sales measures such as rebates, bonuses and similar discounts. These comprise obligations that relate to revenue generated prior to the balance sheet date but arise subsequent to that date. Furthermore, provisions related to the diesel issue have been created for technical measures. Provisions for the airbag recall are also included in the obligations from sales operations.

The workforce-related provisions are recognized for such purposes as partial retirement arrangements and long-service awards.

Provisions for legal and litigation risks include a range of court proceedings and claims primarily relating to product liability and patent infringements. Furthermore, provisions for legal risks are also included as part of the overall diesel issue.

Audi Group companies in several countries are involved in litigation regarding the affected four-cylinder TDI engines. Based on the agreements in place, Volkswagen AG, Wolfsburg, is responsible for defending these cases and the ensuing consequences. As a result, no resource outflows are anticipated that would justify the creation of provisions. It is considered highly improbable that the Audi Group will be the subject of a joint liability claim with regard to the four-cylinder TDI issue described. For this reason, no contingent liabilities were recognized.

Volkswagen AG is the subject of a claim for reimbursement amounting to EUR 227 (328) million as a consequence of the four-cylinder TDI issue.

The other provisions include reserves for price risks of EUR 255 (144) million. Anticipated outflows from other provisions are 47 percent in the following year, 41 percent in the years 2020 through 2023 and 12 percent thereafter.

// CHANGE IN OTHER PROVISIONS

EUR million	Jan. 1, 2018 [1)]	Currency differences	Change in scope of consolidated companies	Utilization	Dissolution	Addition	Interest effect from measurement	Dec. 31, 2018
Obligations from sales operations	8,911	46	–	3,189	360	3,423	–30	8,801
Workforce-related provisions	1,078	0	–	215	13	317	–6	1,161
Provisions for legal and litigation risks	956	1	–	298	75	264	–12	836
Miscellaneous provisions	903	1	–	349	81	609	0	1,083
Change in other provisions	**11,848**	**47**	**–**	**4,050**	**530**	**4,614**	**–48**	**11,881**

1) The opening balance has been adjusted (see disclosures on IFRS 15).

34 / TRADE PAYABLES

Trade payables totaled EUR 8,565 (7,313) million. The customary retention of title applies to liabilities from deliveries of goods.

ADDITIONAL DISCLOSURES

35 / *CAPITAL MANAGEMENT*

The primary goal of capital management within the Audi Group is to ensure financial flexibility in order to achieve business and growth targets and to enable a continuous, steady growth in the value of the company. In particular, management is focused on achieving the minimum return demanded by the capital market on the invested assets.

To ensure that resources are deployed within the Audi Group as efficiently as possible, and to measure success, the return on investment (ROI) indicator is used.

The return on investment is the return on the average invested capital for a particular period based on the operating profit after tax. The Audi Group has set itself a minimum rate of return of 9 percent, applicable to both the segments and to the individual products and product lines.

Invested capital is calculated from the asset items on the Balance Sheet that serve the core business purpose (intangible assets, property, plant and equipment, leasing and rental assets, investment property, inventories and receivables) less non-interest-bearing liabilities (trade payables and advance payments). The average invested capital is calculated on the basis of the assets at the beginning and end of the fiscal year.

The return on investment is shown in the table below:

EUR million	2018	2017
Operating profit after tax	2,471	3,270
Invested assets (average)	24,829	22,659
Return on investment (ROI) in %	**10.0**	**14.4**

36 / *ADDITIONAL DISCLOSURES ON FINANCIAL INSTRUMENTS IN THE BALANCE SHEET*

36.1 / *CARRYING AMOUNT OF FINANCIAL INSTRUMENTS*

EUR million	Measured at amortized cost	Measured at fair value through profit or loss	Measured at fair value through other comprehensive income	Derivatives in hedging relationships	Not allocated to a category	Carrying amount as per Balance Sheet as of Dec. 31, 2018
Other participations	–	–	1	–	–	1
Other financial assets	5,296	48	–	379	20	5,742
Non-current financial assets	**5,296**	**48**	**1**	**379**	**20**	**5,743**
Trade receivables	5,630	1	–	–	169	5,800
Effective income tax assets	2	–	–	–	–	2
Other financial assets	1,418	225	–	352	4	1,999
Securities	–	5,726	–	–	–	5,726
Cash funds	9,309	–	–	–	–	9,309
Current financial assets	**16,359**	**5,953**	**–**	**352**	**173**	**22,836**
Financial assets	**21,654**	**6,000**	**1**	**732**	**193**	**28,580**
Financial liabilities	30	–	–	–	289	319
Other financial liabilities	7	399	–	57	–	463
Effective income tax obligations	786	–	–	–	–	786
Non-current financial liabilities	**823**	**399**	**–**	**57**	**289**	**1,567**
Financial liabilities	86	–	–	–	23	108
Trade payables	8,565	–	–	–	–	8,565
Other financial liabilities	3,563	333	–	171	–	4,067
Effective income tax obligations	277	–	–	–	–	277
Current financial liabilities	12,491	333	–	171	23	13,018
Financial liabilities	**13,314**	**732**	**–**	**228**	**311**	**14,585**

The information contains only financial instruments and assets or liabilities to be measured according to IFRS 9. A comparison with the Balance Sheet is therefore only possible to a limited extent.

With the first-time adoption of IFRS 9 and IFRS 15, as of the 2018 fiscal year the carrying amounts of contractual financial assets as well as the receivables and liabilities from leases are shown in the category “Not assigned to a category.”

Receivables and liabilities in connection with tax reclassification are also now classified as financial instruments.

The prior-year disclosures correspond to the rules of IAS 39. The reporting format was adjusted.

EUR million	Reconciliation of balance sheet items to classes of financial instruments			
	Carrying amount as per Balance Sheet as of Dec. 31, 2017	Measured at fair value through profit or loss	Available for sale	Loans and receivables
Other participations	1	–	1	–
Other financial assets	4,940	88	–	3,747
Non-current financial assets	**4,941**	**88**	**1**	**3,747**
Trade receivables	5,533	–	–	5,533
Other financial assets	1,947	190	–	1,221
Securities	6,002	–	6,002	–
Cash funds	11,273	–	–	11,273
Current financial assets	**24,755**	**190**	**6,002**	**18,026**
Financial assets	**29,696**	**277**	**6,003**	**21,773**
Financial liabilities	328	–	–	–
Other financial liabilities	448	397	–	–
Non-current financial liabilities	**776**	**397**	**–**	**–**
Financial liabilities	319	–	–	–
Trade payables	7,313	–	–	–
Other financial liabilities	4,928	206	–	–
Current financial liabilities	**12,560**	**206**	**–**	**–**
Financial liabilities	**13,336**	**603**	**–**	**–**

			Classification in measurement levels pursuant to IFRS 7			
Financial liabilities measured at amortized cost	No category assigned under IAS 39		Measured at fair value			Measured at amortized cost
	Derivative financial instruments with hedging relationships	Not within the scope of IAS 39	Level 1	Level 2	Level 3	
–	–	–	–	–	1	–
–	1,085	21	–	1,160	13	3,768
–	**1,085**	**21**	**–**	**1,160**	**13**	**3,768**
–	–	–	–	–	–	5,533
–	533	4	–	719	3	1,225
–	–	–	6,002	–	–	–
–	–	–	–	–	–	11,273
–	**533**	**4**	**6,002**	**719**	**3**	**18,030**
–	**1,618**	**25**	**6,002**	**1,879**	**17**	**21,798**
35	–	293	–	–	–	328
16	35	–	–	41	391	16
51	**35**	**293**	**–**	**41**	**391**	**344**
297	–	22	–	–	–	319
7,313	–	–	–	–	–	7,313
4,628	94	–	–	118	182	4,628
12,238	**94**	**22**	**–**	**118**	**182**	**12,260**
12,289	**129**	**315**	**–**	**159**	**573**	**12,604**

36.2 / *FAIR VALUE DISCLOSURES*

Measurement of financial instruments at fair value is based on a three-level hierarchy and on the proximity of the measurement factors used for an active market. An active market is one in which homogeneous products are traded, where willing buyers and sellers can be found for them at all times, and where their prices are publicly available.

Level 1 of the fair value hierarchy involves the measurement of financial instruments, such as securities, listed on active markets.

Level 2 involves the measurement of financial instruments such as derivatives, where the fair value is calculated using measurement processes based on observable market data. Particular use is made of exchange rates, interest rates and commodity prices, which can be observed on the corresponding markets and are acquired via ratings agencies.

Within the Audi Group, level 3 mainly covers residual value hedging arrangements with dealers. The input factors for measuring the future development of used car prices cannot be observed on active markets; they are forecast by various independent institutions. The residual value hedging model is explained in Note 37.4, "Market risks."

Furthermore, non-current commodity futures are also measured according to level 3, as the long-term nature of the contracts means that the key parameters for their measurement need to be extrapolated. The extrapolation for the different commodities is carried out on the basis of observable input factors, acquired via rating agencies. When measuring equity instruments, the respective company plans and the company-specific discount rates are always used.

// *FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE*

EUR million	Dec. 31, 2018			
	Carrying amount	Level 1	Level 2	Level 3
Other participations	1	–	–	1
Other financial assets	427	–	425	2
Non-current financial assets measured at fair value	**428**	**–**	**425**	**3**
Trade receivables	1	–	–	1
Other financial assets	578	–	576	1
Securities	5,726	5,726	–	–
Current financial assets measured at fair value	**6,305**	**5,726**	**576**	**3**
Financial assets measured at fair value	**6,733**	**5,726**	**1,001**	**5**
Other financial liabilities	456	–	83	372
Non-current financial liabilities measured at fair value	**456**	**–**	**83**	**372**
Other financial liabilities	504	–	251	253
Current financial liabilities measured at fair value	**504**	**–**	**251**	**253**
Financial liabilities measured at fair value	**960**	**–**	**335**	**625**

// RECONCILIATION STATEMENT FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ACCORDING TO LEVEL 3

EUR million	2018	2017
Positive fair values of level 3 financial instruments as of Jan. 1	17	16
Currency changes	0	–
Income (+) and expense (–) recognized in the operating profit	– 5	–
Income (+) and expense (–) recognized in the financial result	–	+ 17
Income (+) and expense (–) recognized in other comprehensive income	–	0
Additions	1	–
Disposals	0	–
Recognitions	– 2	– 3
Transfer from level 3 to level 2	– 6	– 14
Positive fair values of level 3 financial instruments as of Dec. 31	**5**	**17**
Income (+) and expense (–) recognized in the operating profit from level 3 financial instruments still held as of Dec. 31	– 5	–
Income (+) and expense (–) recognized in the financial result from level 3 financial instruments still held as of Dec. 31	–	+17

EUR million	2018	2017
Negative fair values of level 3 financial instruments as of Jan. 1	573	228
Income (–) and expense (+) recognized in the operating profit	+ 239	–
Income (–) and expense (+) recognized in the financial result	–	+ 449
Recognitions	– 183	– 104
Transfer from level 3 to level 2	– 4	– 1
Negative fair values of level 3 financial instruments as of Dec. 31	**625**	**573**
Income (–) and expense (+) recognized in the operating profit from level 3 financial instruments still held as of Dec. 31	+239	–
Income (–) and expense (+) recognized in the financial result from level 3 financial instruments still held as of Dec. 31	–	+ 449

The residual value hedging model is generally allocated to level 3. The transfer from level 3 to level 2 contains commodity futures for whose measurement it is no longer necessary to extrapolate the exchange rates because they can now be observed again on the active market.

The effects of changes in the market price of used cars resulting from hedging arrangements are shown in detail under Note 37.4, “Market risks.”

Opportunities and risks resulting from the fair value fluctuations in derivative financial instruments measured according to level 3 are calculated within the Audi Group by means of sensitivity analyses. In this way, the effects of changes in commodity price listings on profit after tax and equity are simulated. A 10 percent increase or decrease in commodity prices at December 31, 2018, would positively or negatively impact profit after tax by EUR 2 (4) million. As in the prior year, in the current year there were no effects on equity due to price changes.

// FAIR VALUES OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COSTS

EUR million	Dec. 31, 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Trade receivables	5,630	5,630	–	5,630	–
Effective income tax assets	2	2	–	2	–
Other financial assets	6,713	7,093	–	7,093	–
Cash funds	9,309	9,309	8,652	657	–
Fair values of financial assets measured at amortized cost	**21,654**	**22,034**	**8,652**	**13,382**	**–**
Trade payables	8,565	8,565	–	8,565	–
Financial liabilities	116	116	–	116	–
Other financial liabilities	3,570	3,570	–	3,570	–
Effective income tax obligations	1,063	1,063	–	1,063	–
Fair values of financial liabilities measured at amortized cost	**13,314**	**13,314**	**–**	**13,314**	**–**

EUR million	Dec. 31, 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Trade receivables	5,533	5,533	–	5,533	–
Other financial assets	4,992	5,050	–	5,050	–
Cash funds	11,273	11,273	11,255	18	–
Fair values of financial assets measured at amortized cost	**21,798**	**21,856**	**11,255**	**10,601**	**–**
Trade payables	7,313	7,313	–	7,313	–
Financial liabilities	647	693	–	693	–
Other financial liabilities	4,644	4,645	–	4,645	–
Fair values of financial liabilities measured at amortized cost	**12,604**	**12,651**	**–**	**12,651**	**–**

In the case of the financial instruments measured at amortized cost, the fair value levels to be quoted basically correspond to the criteria listed under Note 36.2. The fair value of these financial instruments, such as receivables and liabilities, is calculated by discounting using a market interest rate that adequately reflects the risks and is based on matched maturities. Within non-current assets and liabilities, there were generally no significant changes in the ratios between balance sheet value and fair value. For reasons of materiality, the fair value for current balance sheet items is equated with the balance sheet value.

The previous year’s financial assets available for sale of EUR 40 million as well as the financial liabilities held in this context of EUR 73 million were classified as “Loans and receivables” pursuant to IAS 39 and are valued at cost of purchase. The fair value of these assets and liabilities corresponds to the carrying amount and must be allocated to level 2 of the fair value hierarchy – except for cash and cash equivalents reported under this item (level 1).

With the first-time adoption of IFRS 9, the carrying amounts of lease receivables and liabilities from the category “Measured at amortized cost” were reclassified to the category “Not assigned to a category.” As of the balance sheet date, lease receivables had a carrying amount of EUR 23 million. The carrying amount corresponds to fair value (level 2). Lease liabilities have a carrying amount of EUR 311 million and a fair value of EUR 336 million (level 2).

37 / *MANAGEMENT OF FINANCIAL RISKS*

37.1 / *HEDGING GUIDELINES AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT*

The principles and responsibilities involved in managing and controlling risks associated with financial instruments are stipulated by the Board of Management in accordance with the Volkswagen Group guidelines and statutory parameters, and are monitored by the Supervisory Board.

Operational risk management is carried out by Group Treasury, both at AUDI AG and at Volkswagen AG, Wolfsburg. The Board of Management and Supervisory Board of AUDI AG are regularly briefed on the current risk situation. Additionally, the Volkswagen Executive Committee for Risk Management is regularly updated on the current financial risks.

Read more about financial risks in the ***Management Report*** *on page 150 f.*

37.2 / *CREDIT AND DEFAULT RISKS*

Credit and default risks from financial assets relate to a possible default by a contractual party and do not exceed the carrying amounts vis-à-vis the contractual party in question and the irrevocable credit commitments. The maximum credit and default risk is reduced by collateral held and other credit enhancements. The collateral held is for the most part for financial assets in the category “Measured at amortized cost.” The risk from non-derivative financial instruments is covered by loss allowances and value adjustments for loss of receivables. The contractual parties for cash and capital investments as well as for currency and commodity hedging instruments have impeccable credit standings. In addition to this, the risks are restricted by a limit system that is based on the credit ratings of international rating agencies and the equity base of the contractual parties.

The Group’s global business operations and the resulting diversification meant that there were no major risk concentrations during the past fiscal year.

// *LOSS ALLOWANCES*

Within the Audi Group, the expected credit loss model of IFRS 9 is applied consistently to all financial assets and other risk exposures.

Consideration of the expected credit loss model from IFRS 9 includes both the risk provisions for financial assets without objective references to impairment losses as well as the risk provision for already impaired financial assets.

The financial assets in the general approach are divided into three stages as well as into an additional stage for financial assets already affected in terms of financial soundness when they were added. Stage 1 includes financial assets that are being recorded for the first time or that show no significant increase in the default risk. At this stage, expected receivables defaults are calculated for the next 12 months. Stage 2 comprises financial assets that show a significant increase in the likelihood of a default, and stage 3 contains financial assets that already display objective signs of a default. In these stages, the expected receivables defaults are calculated for the entire period. At the Audi Group, there are no financial assets whose soundness was already in question at the time of their acquisition.

At the Audi Group, trade receivables and contractual financial assets pursuant to IFRS 15 are determined using the simplified approach with significant financing components. The same applies for receivables from operating or finance leases that are to be recognized according to IAS 17. In the simplified approach, the expected default is calculated consistently over the entire life of the asset.

The following tables show the change to the loss allowances for financial assets or financial guarantees and for irrevocable credit commitments:

/// CHANGE TO LOSS ALLOWANCES FOR FINANCIAL ASSETS MEASURED AT AMORTIZED COST

EUR million	Stage 1	Stage 2	Stage 3	Simplified approach	Total
Position as of Jan. 1, 2018	**64**	**–**	**–**	**119**	**183**
Currency translation differences	0	–	–	0	0
Changes in scope of consolidated companies	0	–	–	–	0
Additions	14	–	–	73	87
Other changes within a stage	–	–	–	–	–
Transfer in					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	0	–	80	–	80
Financial assets derecognized during the period	5	–	–	19	24
Utilization	–	–	64	2	66
Changes to models or risk parameters	–	–	–	–	–
Position as of Dec. 31, 2018	**74**	**–**	**17**	**171**	**261**

/// CHANGE TO LOSS ALLOWANCES FOR FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

EUR million	Stage 1	Stage 2	Stage 3	Total
Position as of Jan. 1, 2018	**5**	**–**	**–**	**5**
Currency translation differences	0	–	–	0
Changes in scope of consolidated companies	–	–	–	–
Additions	0	–	–	0
Other changes within a stage	–	–	–	–
Transfer in				
Stage 1	–	–	–	–
Stage 2	–	–	–	–
Stage 3	–	–	–	–
Financial assets derecognized during the period	–	–	–	–
Utilization	–	–	–	–
Changes to models or risk parameters	–	–	–	–
Position as of Dec. 31, 2018	**6**	**–**	**–**	**6**

/// CHANGE TO LOSS ALLOWANCES FOR CONTRACTUAL FINANCIAL ASSETS AND LEASE RECEIVABLES

EUR million	Simplified approach
Position as of Jan. 1, 2018	**1**
Currency translation differences	0
Changes in scope of consolidated companies	–
Additions	1
Other changes within a stage	–
Assets derecognized during the period	0
Utilization	–
Changes to models or risk parameters	–
Position as of Dec. 31, 2018	**2**

/// CHANGE TO VALUE ADJUSTMENTS UNDER IAS 39

EUR million	2017
Position as of Jan. 1	83
Changes in scope of consolidated companies	0
Addition	37
Utilization	–6
Dissolution	–5
Position as of Dec. 31	**108**

// MAXIMUM CREDIT RISK ACCORDING TO CATEGORIES

The following table shows the maximum credit risk to which the Audi Group is exposed as of the balance sheet date divided into categories to which the impairment model is applied:

EUR million	Dec. 31, 2018
Financial assets measured at amortized cost	21,654
Financial guarantees and credit commitments	392
Not allocated to a category	193
Total	**22,238**

// RATING CATEGORIES

At the Audi Group, a credit assessment is carried out for any debtor in a credit or leasing agreement. For high-volume business this is performed using scoring systems; rating systems are used for corporate customers and receivables from dealer financing. Those with receivables rated “good” are in rating category 1. Receivables from customers whose credit rating is not good, but who haven’t yet had any defaults, are put in rating category 2. Rating category 3 thus shows all fully or partially defaulted receivables.

In both of the following tables, the gross carrying amounts of financial assets as well as the default risk positions for financial guarantees and credit commitments according to rating categories are presented.

/// GROSS CARRYING AMOUNTS FOR FINANCIAL ASSETS BY RATING CATEGORIES

EUR million	Dec. 31, 2018				
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
Default risk rating category 1 (receivables not at risk of default)	16,106	–	–	5,562	21,668
Default risk rating category 2 (receivables at risk of default)	–	–	–	0	0
Default risk rating category 3 (completely or partially defaulted receivables)	–	–	17	231	247
Total	**16,106**	**–**	**17**	**5,792**	**21,915**

/// DEFAULT RISK FOR FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

EUR million	Dec. 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Default risk rating category 1 (receivables not at risk of default)	397	–	–	397
Default risk rating category 2 (receivables at risk of default)	–	–	–	–
Default risk rating category 3 (completely or partially defaulted receivables)	–	–	–	–
Total	**397**	**–**	**–**	**397**

// CREDIT QUALITY OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST FOR THE 2017 FISCAL YEAR

EUR million	Gross carrying amount Dec. 31, 2017	Neither past due nor impaired	Past due and not impaired	Impaired
Trade receivables	5,581	4,910	615	56
Other receivables	5,052	4,966	26	60
of which receivables from loans	*4,160*	*4,160*	*–*	*–*
of which miscellaneous receivables	*892*	*806*	*26*	*60*
	10,633	**9,876**	**641**	**116**

All receivables that are “Neither past due nor impaired,” amounting to EUR 9,876, are allocable to risk category 1. Risk category 1 is the highest risk category within the Volkswagen Group; it exclusively comprises “Receivables owing from customers of high creditworthiness.”

There are no past due financial instruments measured at fair value within the Audi Group. The fair values of these financial instruments are determined on their market prices. In the 2017 fiscal year, marketable securities measured at fair value with a cost of EUR 37 million were impaired.

// MATURITY ANALYSIS OF GROSS CARRYING AMOUNTS FOR THE 2017 FISCAL YEAR

EUR million	Past due and not impaired	Past due		
	Dec. 31, 2017	up to 30 days	between 30 and 90 days	more than 90 days
Trade receivables	615	61	265	288
Other receivables	26	9	12	5
Gross carrying amounts	**641**	**71**	**277**	**293**

The credit risk was low overall, as the vast majority of the past due and not impaired financial assets is determined by purchase invoices and payment processes with customers with very high creditworthiness.

// COLLATERAL

The credit and default risk is reduced by collateral held of EUR 2,198 (1,937) million. In the Audi Group, collateral is above all held in relation to trade receivables which are primarily allocated to the category of “Measured at amortized cost.” Vehicles, bank guarantees and bank sureties are the main forms of collateral provided.

37.3 / *LIQUIDITY RISKS*

Liquidity risks arise from financial liabilities if current payment obligations can no longer be met. A liquidity forecast based on a fixed planning horizon coupled with available yet unused lines of credit ensures adequate liquidity within the Audi Group at all times.

In some countries, such as China, the Audi Group can only access local currency on a cross-border basis subject to the applicable restrictions on foreign-exchange transactions. Otherwise, there are no significant restrictions affecting liquidity.

// MATURITY ANALYSIS OF UNDISCOUNTED CASH OUTFLOWS FROM FINANCIAL INSTRUMENTS

EUR million	Total	Residual contractual maturities		
	Dec. 31, 2018	up to 1 year	between 1 and 5 years	over 5 years
Financial liabilities	427	109	99	220
Trade payables	8,565	8,565	0	–
Other financial liabilities and obligations	3,570	3,563	2	5
Derivative financial instruments	27,415	15,820	11,595	–
Undiscounted cash outflows	**39,977**	**28,058**	**11,695**	**224**

EUR million	Total	Residual contractual maturities		
	Dec. 31, 2017	up to 1 year	between 1 and 5 years	over 5 years
Financial liabilities	647	319	108	220
Trade payables	7,313	7,313	0	–
Other financial liabilities and obligations	4,644	4,628	16	–
Derivative financial instruments	28,804	14,621	14,183	–
Undiscounted cash outflows	**41,408**	**26,880**	**14,308**	**220**

The derivatives include both cash outflows from derivative financial instruments with a negative fair value and cash outflows from derivatives with a positive fair value for which gross settlement has been agreed. Cash outflows from derivatives concluded as part of hedging relationships are also taken into account.

The cash outflows from derivatives for which a gross settlement has been agreed are offset by cash inflows. These cash receipts are not presented in the maturity analysis. Had the cash receipts also been taken into account, the cash used would have been significantly lower in the analysis by maturity date. This applies equally for hedging relationships which were concluded by offsetting transactions.

The Audi Group has provided various financial guarantees, mainly in the form of sureties. As of December 31, 2018, the maximum permitted use of financial guarantees amounts to EUR 237 (231) million. Financial guarantees are always accepted as due immediately.

// COLLATERAL

The Audi Group recorded financial assets as collateral for liabilities in the amount of EUR 94 (129) million. This collateral is primarily used by contractual parties as soon as credit periods for secured liabilities are exceeded.

37.4 / *MARKET RISKS*

Given the global nature of its operations, the Audi Group is exposed to various market risks, which are described below. The individual risk types and the respective risk management measures are also described. Additionally, these risks are quantified by means of sensitivity analyses.

// HEDGING POLICY AND FINANCIAL DERIVATIVES

The market risks to which the Audi Group is exposed include, in particular, currency, fund price, commodity price and interest rate risks. As part of the risk management process, these risks are limited by entering into hedging transactions. In general, all necessary hedging measures are implemented centrally by Group Treasury of Volkswagen AG, Wolfsburg, or coordinated via Group Treasury of AUDI AG. There were no risk concentrations during the past fiscal year.

The market risks associated with derivative and non-derivative financial instruments pursuant to IFRS 7 are calculated in the Audi Group using sensitivity analyses. Changes to the risk variables within the respective market risks are used to calculate the impact on equity and on profit after tax.

/// CURRENCY RISKS

The currency risks of the Audi Group result primarily from global operations and investing activities. The measures implemented to hedge against these currency risks are defined at brand level in accordance with the Volkswagen organizational guidelines, coordinated in the Volkswagen Group and implemented by Group Treasury of Volkswagen AG.

These risks are limited by concluding appropriate hedging transactions for matching amounts and maturities. The hedging transactions are performed centrally for the Audi Group by Volkswagen AG on the basis of an agency agreement. The Audi Group additionally concludes hedging transactions of its own to a limited extent, where this helps to simplify current operations.

The hedging transactions are effected by means of marketable derivative financial instruments (forward exchange contracts and foreign exchange options). Contracts are concluded exclusively with first-rate national and international banks whose creditworthiness is regularly examined by leading rating agencies and by Central Risk Management at Volkswagen AG.

For the purpose of managing currency risks, exchange rate hedging in the 2018 fiscal year primarily focused on the U.S. dollar, the British pound, and the Chinese renminbi.

Currency risks pursuant to IFRS 7 arise as a result of financial instruments that are of a monetary nature and that are denominated in a currency other than the functional currency. Exchange rate differences from the translation of financial statements into the Group currency (translation risk) are disregarded. Within the Audi Group, the principal non-derivative financial instruments (cash, receivables, securities held and debt instruments held, interest-bearing liabilities, interest-free liabilities) are either denominated directly in the functional currency or substantially transferred to the functional currency through the use of derivatives. Above all, the generally short maturity of the instruments also means that potential exchange rate movements have only a very minor impact on profit or equity.

Currency risks are measured using sensitivity analyses, during which the impact on profit after tax and equity of hypothetical changes to relevant risk variables is assessed. All non-functional currencies in which the Audi Group employs financial instruments are fundamentally treated as relevant risk variables.

The periodic effects are determined by applying the hypothetical changes in the risk variables to the inventory of financial instruments on the reporting date. It is assumed for this purpose that the inventory on the reporting date is representative of the entire year. Movements in the exchange rates of the underlying currencies for the hedged underlying transactions affect the fair value of these hedging transactions and the cash flow hedge reserve in equity.

/// FUND PRICE RISKS

The securities fund created using surplus liquidity is exposed to an equity and bond price risk that may arise from fluctuations in stock market prices and indices and market interest rates. The change in bond prices resulting from a change in market interest rates, and the measurement of currency risks and other interest rate risks from the securities funds, is quantified separately in the corresponding Notes on “Currency risks” and “Interest rate risks.”

Risks from securities funds are generally countered by maintaining a broad mix of products, issuers and regional markets when making investments, as stipulated in the investment guidelines. Where necessitated by the market situation, currency hedges are also used. Such measures are coordinated by AUDI AG in agreement with Group Treasury of Volkswagen AG and implemented at operational level by the securities funds' risk management teams.

Fund price risks are measured within the Audi Group in accordance with IFRS 7 using sensitivity analyses. Hypothetical changes to risk variables as of the balance sheet date are examined to calculate their impact on the prices of the financial instruments in the funds. Stock prices, exchange rates and interest rates are particularly relevant risk variables in the case of fund price risks.

/// COMMODITY PRICE RISKS

Commodities are subject to the risk of fluctuating prices given the volatile nature of the commodity markets. Commodity futures are used to limit these risks. The hedging measures are coordinated regularly between AUDI AG and Volkswagen AG in accordance with the existing Volkswagen organizational guidelines. The hedging transactions are performed centrally for AUDI AG by Volkswagen AG on the basis of an agency agreement. The results from hedging contracts are credited or debited to the Audi Group on maturity.

Hedging relates to significant quantities of the commodities aluminum and copper. Contracts are concluded exclusively with first-rate national and international banks whose creditworthiness is regularly examined by leading rating agencies and by Central Risk Management at Volkswagen AG.

Commodity price risks are also calculated using sensitivity analyses. Hypothetical changes in listed prices are used to quantify the impact of changes in value from hedging activities on profit after income tax.

/// INTEREST RATE RISKS

Interest rate risks stem from changes in market interest rates, above all for medium and long-term variable interest rate assets and liabilities.

The Audi Group limits interest rate risks, particularly with regard to the granting of loans and credit, by agreeing fixed interest rates and also through interest rate hedging instruments.

The risks associated with changing interest rates are presented pursuant to IFRS 7 using sensitivity analyses. These involve presenting the effects of hypothetical changes in market interest rates as of the balance sheet date on interest payments, interest income and interest expenses, and, where applicable, equity and profit after tax.

/// RESIDUAL VALUE RISKS

Residual value risks arise from hedging arrangements with dealers or partner companies according to which, in the context of buyback obligations resulting from concluded lease agreements, effects on profit caused by market-related fluctuations in residual values are partly borne by the Audi Group.

The hedging arrangements are based on residual value recommendations, as published by the residual value committee at the time of the contract being concluded, and on current dealer purchase values on the market at the time of the residual value hedging being settled. The residual value recommendations are based on the forecasts provided by various independent institutions using transaction prices.

Residual value risks are also calculated using sensitivity analyses. Hypothetical changes in the market prices of used cars as of the balance sheet date are used to quantify the impact on profit after tax.

// QUANTIFYING MARKET RISKS BY MEANS OF SENSITIVITY ANALYSES

/// CURRENCY RISKS

If the functional currencies had in each case increased or decreased in value by 10 percent compared with the other currencies as of the balance sheet date, the following major effects on the hedging provision in equity and on profit after tax would have resulted with regard to the exchange rates referred to below.

EUR million	Dec. 31, 2018		Dec. 31, 2017	
	+10 %	–10 %	+10 %	–10 %
EUR/CHF				
Hedging reserve	96	–94	79	–78
Profit after tax	0	0	–1	0
EUR/CNY				
Hedging reserve	177	–177	62	–62
Profit after tax	–8	8	–13	13
EUR/GBP				
Hedging reserve	342	–342	420	–420
Profit after tax	–40	40	–30	30
EUR/JPY				
Hedging reserve	110	–110	115	–115
Profit after tax	–1	1	–16	16
EUR/USD				
Hedging reserve	636	–617	668	–539
Profit after tax	–193	193	–151	70

/// *OTHER MARKET RISKS*

The measurement of other market risks pursuant to IFRS 7 is also carried out using sensitivity analyses within the Audi Group. Hypothetical changes to risk variables as of the balance sheet date are examined to calculate their impact on the corresponding balance sheet items and on profit after tax. Depending on the type of risk, there are various possible risk variables (primarily share prices, commodity prices, market interest rates and market prices of used cars).

The sensitivity analyses carried out enable the following other market risks to be quantified for the Audi Group:

EUR million	2018		2017	
	+10 %	–10 %	+10 %	–10 %
Fund price risks				
Effects on profit after tax with change in share prices [1]	–9	18	19	–48
Commodity price risks				
Effects on profit after tax with change in commodity prices	95	–95	42	–42
Residual value risks of used cars				
Effects on profit after tax with change in market prices	260	–260	258	–258
	+100 bps	–100 bps	+100 bps	–100 bps
Interest rate change risks				
Effects on equity with change in market interest rate	–4	4	–54	54
Effects on profit after tax with change in market interest rate	84	–11	–18	18

1) Effects on equity were simulated in the prior year.

37.5 / *METHODS OF MONITORING THE EFFECTIVENESS OF HEDGING RELATIONSHIPS*

Within the Audi Group, and with the introduction of IFRS 9, the effectiveness of hedging relationships is primarily evaluated prospectively using the critical terms match method. The retrospective evaluation of the effectiveness of hedges involves a test in the form of the dollar offset method. In the case of the dollar offset method, the changes in value of the underlying transaction, expressed in monetary units, are compared with the changes in value of the hedging transaction, expressed in monetary units. For this, a comparison is made of the cumulative changes in value for the designated spot component of the hedging and underlying transaction. If there is no critical terms match, then the same approach is used for the non-designated components.

// NOMINAL VOLUME OF DERIVATIVE FINANCIAL INSTRUMENTS

EUR million	Nominal volumes		
	Dec. 31, 2018	Remaining term of up to 1 year	Remaining term of between 1 and 5 years
Hedging of currency risk			
Forward exchange contracts	21,045	11,770	9,275
Forward exchange contracts CHF	1,286	439	848
Forward exchange contracts CNY	2,561	2,097	463
Forward exchange contracts GBP	4,913	3,012	1,901
Forward exchange contracts JPY	1,553	520	1,033
Forward exchange contracts USD	8,183	3,402	4,781
Forward exchange contracts other currencies	2,549	2,300	249
Foreign exchange options	3,425	2,541	885
Forward exchange options CHF	160	–	160
Forward exchange options USD	3,266	2,541	725
Cash flow hedges	**24,470**	**14,311**	**10,159**
Hedging of interest risk			
Interest swaps	874	874	–
Hedging of currency risk			
Forward exchange contracts	6,006	4,426	1,580
Forward exchange contracts CNY	325	325	–
Forward exchange contracts HUF	572	188	384
Forward exchange contracts MXN	1,519	1,519	–
Forward exchange contracts USD	2,607	1,465	1,142
Forward exchange contracts other currencies	982	929	54
Hedging of commodity price risk			
Commodity futures	1,524	599	926
Aluminum commodity futures	1,121	466	655
Copper commodity futures	305	104	201
Other commodity futures	99	29	70
Other derivatives	**8,404**	**5,898**	**2,505**

EUR million	Nominal volumes		
	Dec. 31, 2017	Remaining term of up to 1 year	Remaining term of between 1 and 5 years
Forward exchange contracts	21,352	10,538	10,813
Foreign exchange options	4,483	1,844	2,640
Cash flow hedges	**25,835**	**12,382**	**13,453**
Forward exchange contracts	3,712	2,782	929
Commodity futures	490	303	187
Other derivatives	**4,201**	**3,085**	**1,116**

The nominal volumes of the presented cash flow hedges for currency risks represent the total of all buying and selling prices on which the transactions are based. The derivatives concluded as part of offsetting transactions which are compensated for by the original hedging relationships are taken into account in the respective nominal volumes. The respective nominal volumes would be lower if they were not taken into account.

In addition to derivatives used for currency, interest and commodity price hedging, as of the balance sheet date there were options and other derivatives on equity instruments with a nominal volume of EUR 3,674 million as well as derivatives for hedging credit defaults with a nominal volume of EUR 10,891 million. The derivatives mentioned above have remaining terms of up to one year.

The derivative financial instruments used have a maximum hedging term of five years.

Existing cash flow hedges in the nominal volume of EUR 45 (16) million were discontinued because of a reduction in the projections. For the current fiscal year, as with the prior fiscal year, only minor amounts were taken from the reserve for cash flow hedges with an effect on the financial result.

The average hedging rates for currency hedging instruments can be seen in the following table:

	2018
Forward exchange contracts	
EUR/CHF	1.10
EUR/CNY	8.08
EUR/GBP	0.84
EUR/JPY	123.23
EUR/USD	1.19
Foreign exchange options	
EUR/CHF	1.03
EUR/USD	1.15

// DISCLOSURES ON CASH FLOW HEDGES AND THE ASSOCIATED UNDERLYING TRANSACTIONS

Hedging instruments are put in place to combat the risk of fluctuating future cash flows. The following table shows the nominal volumes, fair values and ineffectiveness of hedging instruments created in cash flow hedges.

EUR million	Dec. 31, 2018			
	Nominal volumes	Other financial assets	Other financial liabilities	Fair value change for determining ineffectiveness
Hedging of currency risk				
Forward exchange contracts	21,045	700	213	991
Foreign exchange options	3,425	32	16	3

The following table shows the fair value changes in the underlying transactions. The reserve for cash flow hedges is also shown for comparison.

EUR million	Dec. 31, 2018		
		Reserve for	
	Fair value of the underlying transaction	Active cash flow hedges	Discontinued cash flow hedges
Hedging of currency risk			
Designated components	–1,045	987	–12
Non-designated components		–296	–5
Deferred taxes		–206	5
Total		**485**	**–12**

38 / *CASH FLOW STATEMENT*

The Cash Flow Statement details the payment streams for both the 2018 fiscal year and the previous year, categorized according to cash inflows and outflows from operating activities, investing and financing activities. The effects of changes in foreign exchange rates on cash flows are presented separately.

Cash flow from operating activities includes all cash flows in connection with ordinary business activities and is presented using the indirect calculation method. Starting from the profit before profit transfer and income tax, all income and expenses with no impact on cash flow (primarily write-downs) are excluded.

Cash flow from operating activities in the 2018 fiscal year included payments for interest received amounting to EUR 121 (54) million and for interest paid amounting to EUR 54 (63) million. Dividends and profit transfers totaling EUR 712 (431) million were recognized. The “Income tax payments” item primarily comprises payments made to Volkswagen AG on the basis of the single-entity relationship for tax purposes in Germany, as well as payments to foreign tax authorities.

The item “Other non-cash income and expenses” primarily includes non-cash income and expenses from the measurement of derivative financial instruments and securities.

Cash flow from investing activities includes capitalized development costs as well as additions to property, plant and equipment, investment property, other intangible assets, long-term financial investments and non-current loans. The proceeds from the disposal of assets, the proceeds from the disposal of participations, and the change in securities and fixed deposits are similarly reported in cash flow from investing activities.

The acquisition of investments in subsidiaries, and changes in capital at non-consolidated subsidiaries resulted in a total outflow of EUR 50 (77) million. The acquisition of investments in associated companies and other participations and changes in capital resulted in an outflow of EUR 398 (15) million.

In the reporting year, EUR 328 million was used for the purchase of shares in SAIC Volkswagen Automotive Company Ltd., Shanghai (China).

The sale of shares in subsidiaries, associated companies and other participations as well as changes in capital resulted in an inflow of EUR 585 (5) million. This is primarily the result of the sale of shares in FAW-Volkswagen Automotive Company, Ltd., Changchun (China) and in There Holding B.V., Rijswijk (Netherlands).

Cash flow from financing activities includes cash used for the transfer of profit as well as changes in financial liabilities. That also includes inflows from capital contributions from non-controlling interests totaling EUR 43 million.

The changes in the balance sheet items that are presented in the Cash Flow Statement cannot be derived directly from the Balance Sheet because the effects of currency translation and of changes in the group of consolidated companies do not affect cash and are therefore not included in the Cash Flow Statement.

// *RECONCILIATION OF CASH AND CASH EQUIVALENTS*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Cash funds as per Balance Sheet	9,309	11,273
Currently due fixed deposits with an investment period > 3 months	–759	–18
Cash and cash equivalents as per Cash Flow Statement (bank assets and cash deposits with maturities of no more than three months)	**8,550**	**11,255**

Only the short-term fixed deposits whose original investment term is no more than three months are included in the cash and cash equivalents in accordance with the Cash Flow Statement. Cash and cash equivalents include EUR 7,716 (10,055) million relating to the cash pooling arrangements with the Volkswagen Group.

Some of the fixed deposits and loans extended included in gross liquidity have been entered into with related parties.

The allocation of the change in financial liabilities to cash and non-cash items is shown in the table below:

EUR million			Non-cash transactions		
	Position as of Jan. 1, 2018	Cash changes	Exchange rate movements	Remeasure-ments	Position as of Dec. 31, 2018
Lease liabilities	315	–10	5	0	311
Other credit outstanding	332	–198	25	–43	116
Credit outstanding	**647**	**–208**	**30**	**–42**	**427**
Other financial assets and liabilities	–7	6	0	–	–
Financial assets and liabilities in financing activities	**641**	**–201**	**30**	**–42**	**427**

39 / *CONTINGENT LIABILITIES*

EUR million	Dec. 31, 2018	Dec. 31, 2017
Contingent liabilities from sureties	6	6
Other contingent liabilities	69	43
Contingent liabilities	**74**	**49**

Contingent liabilities are unrecognized contingencies whose amount corresponds to the likely utilization as of the balance sheet date. Financial guarantees as defined under IFRS 7 are reported under Note 37.3, “Liquidity risks.”

Like many other car manufacturers, the Audi Group cannot sidestep the risks in connection with potentially defective airbags. It is therefore still not possible to rule out further recalls. Further information on the situation pursuant to IAS 37.86 is currently not available due to ongoing technical investigations and cooperation with the authorities.

As expanded on under Note 33, “Other provisions,” there are no contingent liabilities in connection with the four-cylinder diesel engines.

In the 2018 fiscal year, the Audi Group made substantial progress with regard to the diesel issue in terms of approvals for technical measures as well as with regard to proceedings concluded and agreements reached with various authorities and interest groups. Despite the progress in dealing with the diesel issue, there is still ongoing litigation in the form of class and individual actions as well as other proceedings.

In view of the still unfinished process of clarifying the facts as well as the complexity of the individual factors involved and the ongoing consultations with government agencies, the provisions created for the diesel issue and the further latent legal risks are to some extent subject to substantial estimation risks. Some of these cases mentioned above are still at a very early stage. In a number of instances, the basis for claims is yet to be specified by the plaintiffs and/or there is insufficient information about the number of plaintiffs or amounts claimed. It is therefore not yet possible to quantify the potential financial impact. For information regarding possible financial burden arising from the diesel issue, please refer to the disclosures under “Notes on the diesel issue” in the general information in the Notes to the Consolidated Financial Statements.

No information was provided pursuant to IAS 37.92 regarding estimates of the financial impact or regarding uncertainties related to the amount of or due date of contingent liabilities connected with the anti-trust investigations of the European Commission.

40 / *LITIGATION*

Companies included in the Audi Group become involved in legal disputes and official proceedings in the course of their operating activities. Such legal disputes and procedures are particularly likely to occur in relation to suppliers, dealers, customers or employees. They may result in payment or other obligations for the companies involved. Particularly in cases where U.S. customers assert claims relating to vehicle faults, whether individually or in the form of class actions, very expensive measures may be required and may necessitate the payment of significant amounts in compensation or penalty payments. U.S. patent infringements are also associated with similar risks. Other provisions take account of such risks to the extent that an outflow of resources is likely to occur in the future and can be reliably estimated. Legal disputes frequently involve complex legal issues. Consequently, assumptions must be made regarding the likelihood of an outflow of resources, the amount of any such outflow and the duration of the case. This means that the recognition and measurement of provisions to cover legal risks involve a degree of uncertainty.

For information regarding the legal risks arising from the diesel issue, please refer to the disclosures under "Notes on the diesel issue" in the general information in the Notes to the Consolidated Financial Statements.

There are no further ongoing or prospective legal or arbitration proceedings that could have a significant influence on the economic position.

41 / *CHANGE OF CONTROL AGREEMENTS*

Change of control clauses are contractual agreements between a company and third parties to provide for legal succession should there be a direct or indirect change in the ownership structure of any party to the contract.

With regard to their respective participations in There Holding B.V., the Audi Group, the BMW Group and Daimler AG have contractually agreed that in the event of a change of control at one of the contractual parties, that party shall be obliged to offer its shares in There Holding B.V. to the other shareholders for purchase. In the case of AUDI AG, a change of control occurs if a person acquires or loses control over AUDI AG, wherein control is defined as (i) holding or having control over more than 50 percent of the voting rights, (ii) the scope for controlling more than 50 percent of the voting rights that can be exercised at Annual General Meetings on all or virtually all matters, or (iii) the right to determine the majority of the members of the Board of Management or Supervisory Board. Furthermore, a change of control occurs if competitors of the HERE Group or certain potential competitors of the HERE Group from the technology industry acquire at least 25 percent of AUDI AG. If none of the other shareholders takes on these shares, the other shareholders have the right to resolve the dissolution of There Holding B.V.

The other significant contractual agreements between the Audi Group and third parties do not contain any change of control clauses in the event of a change in the ownership structure of AUDI AG or its subsidiaries.

42 / *OTHER FINANCIAL OBLIGATIONS*

EUR million	Due date Dec. 31, 2018				Due date Dec. 31, 2017	
	Within 1 year	1 to 5 years	Over 5 years	Total	Over 1 year	Total
Purchase orders for property, plant and equipment	1,777	619	–	2,396	693	3,015
Purchase orders for intangible assets	163	6	–	169	14	165
Purchase orders for services	400	29	28	458	48	455
Obligations from rental and lease agreements	165	279	422	866	351	503
Miscellaneous financial obligations	566	248	55	870	272	746
Other financial obligations	**3,070**	**1,182**	**506**	**4,758**	**1,379**	**4,883**

Supply contracts are in place for series production material. Binding orders are placed and contracts are activated for the material as such material is needed on the basis of the specified production and sales schedule.

Other financial obligations from rental and leasing contracts are offset by expected income from sub-leases of EUR 9 (7) million.

43 / DISCONTINUED OPERATIONS

There are no plans to discontinue or cease business operations as defined by IFRS 5.

44 / COST OF MATERIALS

EUR million	2018	2017
Expenses for raw materials and supplies, as well as purchased goods	36,985	36,387
Expenses for purchased services	4,038	3,983
Cost of materials	**41,023**	**40,370**

45 / PERSONNEL COSTS

EUR million	2018	2017
Wages and salaries	6,061	5,958
Social insurance and expenses for retirement benefits and support payments	1,275	1,261
of which relating to retirement benefit plans	*315*	*292*
of which defined contribution pension plans	*418*	*397*
Personnel costs	**7,336**	**7,219**

46 / TOTAL AVERAGE NUMBER OF EMPLOYEES FOR THE YEAR

	2018	2017
Domestic companies [1]	59,754	59,448
International companies	28,702	27,904
Employees	**88,456**	**87,352**
Apprentices	2,582	2,618
Employees of Audi Group companies	**91,038**	**89,970**
Staff employed from other Volkswagen Group companies not belonging to the Audi Group	439	432
Workforce Audi Group	**91,477**	**90,402**

1) Of these, 1,732 (1,304) employees were in the passive stage of their partial retirement.

47 / REMUNERATION BASED ON PERFORMANCE SHARES (SHARE-BASED PAYMENT)

At the end of 2018, the Supervisory Board of AUDI AG resolved to adjust the remuneration system of the Board of Management, with effect from January 1, 2019. Approval of the change to the new remuneration system is still forthcoming. The new remuneration system of the Board of Management comprises non-performance related and performance-related components. The performance-related component consists of a performance-related annual bonus with a one-year assessment period and a long-term incentive in the form of a performance share plan with a forward-looking three-year term (share-based payment). Since the end of 2018, members of top management are now also beneficiaries of the performance share plan. They will be granted performance shares for the first time in 2019 for the performance period 2019 to 2021. The way the performance shares are granted to them works identically to the performance shares granted to members of the Board of Management.

Each performance period of the performance share plan has a term of three years. At the time the long-term incentive is granted, the annual target amount under the long-term incentive is converted, on the basis of the initial reference price of Volkswagen's preferred shares, into performance shares and then allocated to the respective member of the Board of Management as a pure calculation position. After the end of the three-year term of the performance share plan, a cash settlement is made. The final number of performance shares is calculated from the number of performance shares conditionally granted at the beginning of the plan multiplied by the average earnings-per-share-goal achieved over the performance period. The payment amount corresponds to the number of issued performance shares multiplied by the closing reference price at the end of the three-year period plus a dividend equivalent for the relevant term. The payout amount under the performance share plan is limited to 200 percent of the target amount. If 100 percent of the targets agreed in each case are achieved, then the target amount is EUR 11 million for the members of the Board of Management.

The total of the target amounts for members of top management for the performance period 2019 to 2021 is EUR 12 million.

The personnel costs for members of both groups total EUR 1 million.

48 / *RELATED PARTY DISCLOSURES*

Related parties as defined in IAS 24 are:

- the parent company, Volkswagen AG, Wolfsburg, and its subsidiaries and material participations outside the Audi Group,
- other parties (individuals and companies) that could be influenced by the reporting entity or that could influence the reporting entity, such as the members of the Board of Management and Supervisory Board of AUDI AG,
- the members of the Board of Management and Supervisory Board of Volkswagen AG,
- associated companies and their subsidiaries,
- non-consolidated subsidiaries.

At 52.2 percent, Porsche Automobil Holding SE, Stuttgart, held the majority of the voting rights in Volkswagen AG as of the balance sheet date. The creation of rights of appointment for the State of Lower Saxony was resolved at the Extraordinary General Meeting of Volkswagen AG on December 3, 2009. As a result, Porsche Automobil Holding SE can no longer appoint the majority of the members of the Supervisory Board of Volkswagen AG for as long as the State of Lower Saxony holds at least 15 percent of Volkswagen AG's ordinary shares. However, Porsche Automobil Holding SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore also classified as a related party.

All business transactions with related parties have been conducted on the basis of international comparable uncontrolled price methods pursuant to IAS 24, according to the terms that customarily apply to outside third parties. The goods and services procured from related parties primarily include supplies for production and supplies of genuine parts, as well as development, transportation, financial and distribution services, and, to a lesser extent, design and other services. The volume of business transacted for related parties mainly comprises sales of new and used cars, powertrains and components, and allocation of cash and cash equivalents in the form of loans, fixed deposits and overnight deposits.

The cash funds of the Audi Group are in large part held by or invested in the Volkswagen Group. All transactions are processed under market conditions.

48.1 / *BUSINESS RELATIONS WITH VOLKSWAGEN AG AND WITH OTHER SUBSIDIARIES AND PARTICIPATIONS NOT BELONGING TO THE AUDI GROUP*

EUR million	2018	2017 [1)]
Goods and services supplied to		
Volkswagen AG	6,544	7,521
Volkswagen AG subsidiaries and other participations not belonging to the Audi Group	15,252	16,167
Goods and services received from		
Volkswagen AG	7,144	6,900
Volkswagen AG subsidiaries and other participations not belonging to the Audi Group	8,661	8,194
Receivables from		
Volkswagen AG	7,595	6,781
Volkswagen AG subsidiaries and other participations not belonging to the Audi Group	2,769	2,855
Obligations to		
Volkswagen AG	4,224	5,400
Volkswagen AG subsidiaries and participations not belonging to the Audi Group	8,789	5,842
Contingent liabilities to		
Volkswagen AG	–	–
Volkswagen AG subsidiaries and participations not belonging to the Audi Group	94	95
Collateral posted with		
Volkswagen AG	–	–
Volkswagen AG subsidiaries and participations not belonging to the Audi Group	93	123

1) The prior year has been adjusted (see disclosures on IFRS 9).

Receivables include loans of EUR 5,330 (3,489) million to Volkswagen AG, Wolfsburg, and EUR 399 (400) million to subsidiaries and participations that do not belong to the Audi Group.

As of December 31, 2018, sales of receivables to subsidiaries of Volkswagen AG that do not belong to the Audi Group amounted to EUR 2,061 (1,417) million.

Receivables from other subsidiaries and participations of Volkswagen AG not belonging to the Audi Group were impaired by the amount of EUR 1 (2) million. Trade receivables do not contain cash and cash equivalents invested within the framework of cash pooling. In addition, loss allowances for receivables from Volkswagen AG as well as from subsidiaries and participations of Volkswagen AG not belonging to the Audi Group were recognized in the amount of EUR 83 million in the year under review, based on the expected credit loss model of IFRS 9.

In the 2018 fiscal year, equity investments in associated companies of Volkswagen AG were both bought and sold. For more information, see the section “Participations in associated companies” under the Notes on the Consolidated Financial Statement.

The possibility of a claim arising from contingencies is not anticipated.

There were limited business relations with Porsche Automobil Holding SE during the past fiscal year.

48.2 / *BUSINESS RELATIONS WITH SUBSIDIARIES AND ASSOCIATED COMPANIES OF THE AUDI GROUP*

EUR million	Goods and services supplied		Goods and services received	
	2018	2017	2018	2017
Associates and joint ventures	9,484	8,175	388	452
Non-consolidated subsidiaries	69	70	190	170

EUR million	Receivables from		Obligations to	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Associates and joint ventures	998	1,022	775	766
Non-consolidated subsidiaries	136	309	154	132

As of December 31, 2018, there were sureties totaling EUR 152 (136) million in favor of associated companies, joint ventures and non-consolidated subsidiaries. The possibility of a claim arising from contingencies is not anticipated. Irrevocable credit commitments to non-consolidated subsidiaries, associated companies and joint ventures total EUR 93 (65) million.

For the 2018 fiscal year, receivables from associated companies were impaired in the amount of EUR 35 (37) million, and receivables from non-consolidated subsidiaries were derecognized in the amount of EUR 64 million (prior year none). In addition, loss allowances for receivables from the above-mentioned related parties were recognized in the amount of EUR 43 million in the year under review, based on the expected credit loss model of IFRS 9.

Obligations towards associates and joint ventures as well as non-consolidated subsidiaries include future obligations from existing contractual relationships. Trade receivables do not contain cash and cash equivalents invested within the framework of cash pooling.

48.3 / *BUSINESS RELATIONS WITH AND PAYMENTS TO MEMBERS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD*

Members of the Boards of Management or Supervisory Boards of Volkswagen AG, Wolfsburg, and AUDI AG also belong to the supervisory or management boards of other companies with which the Audi Group maintains business relations. All transactions with such companies and persons are similarly conducted according to the terms that customarily apply to outside third parties. In this connection, goods and services amounting to a total value of EUR 366 (302) thousand were provided to the German State of Lower Saxony and to companies in which the State of Lower Saxony holds a majority stake, and goods and services amounting to a total value of EUR 24 (18) thousand were received from them. As of December 31, 2018, liabilities to the State of Lower Saxony resulting from the buyback of vehicles amounted to

EUR 74 (73) thousand. No receivables were recorded for both the 2018 fiscal year and the previous year.

A list of the supervisory board mandates of members of the Board of Management and Supervisory Board of AUDI AG is presented in the 2018 Annual Financial Report of AUDI AG.

The service relationships with the members of the Boards of Management and Supervisory Boards of Volkswagen AG and AUDI AG were conducted at arm's length. As in the previous year, the volume of transactions was low. Overall, services in the amount of EUR 56 (12) thousand were rendered to this group of individuals during the fiscal year. In addition, there were only minimal receivables (prior year none) with respect to the Board of Management and the Supervisory Board of Volkswagen AG or AUDI AG. There were also no obligations in the current fiscal year or in the prior year.

The following payments were also granted for members of the Board of Management and Supervisory Board of AUDI AG in the course of their positions on executive bodies.

EUR thousand	2018	2017
Short-term benefits	19,608	24,372
Post-employment benefits	2,749	2,601
Termination benefits	6,001	24,262
Benefits, total	**28,358**	**51,235**

Obligations towards members of the Board of Management and Supervisory Board of AUDI AG in connection with short-term benefits amount to EUR 13,457 (14,774) thousand. Pension obligations also exist in the amount of EUR 40,417 (32,951) thousand. Termination benefits of EUR 5,153 (23,542) thousand were recognized as a result of the expiry of contracts of members of the Board of Management.

The employee representatives employed at AUDI AG on the Supervisory Board continue to receive their salary in accordance with their employment contract. This is based on the provisions of the German Works Constitution Act and corresponds to an appropriate remuneration for the function or activity exercised in the Company. This similarly applies to representatives of executive staff.

Share-based payment is referred to in Note 47, "Remuneration based on performance shares (share-based payment)." The remuneration system, as well as the details of the remuneration paid to the members of the Board of Management and Supervisory Board of AUDI AG, broken down by individual member and by component, and the information on the pension arrangements for members of the Board of Management, broken down by individual member, pursuant to Section 314, Para. 1, No. 6a), Sentence 5 ff. of the German Commercial Code (HGB) and the German Corporate Governance Code (DCGK) is presented in the remuneration report which forms part of the Combined Management Report of the Audi Group and AUDI AG.

Read more about the remuneration report in the ***Management Report*** *on pages 157 ff.*

49 / *AUDITOR'S FEES*

EUR thousand	2018	2017
Auditing of the financial statements	1,481	1,105
Other assurance services	103	142
Tax consultancy services	188	39
Other services	546	100
Auditor's fees	**2,318**	**1,386**

Based on the requirements of commercial law, the auditor's fees include auditing of the Consolidated Financial Statements and auditing of the annual financial statements of consolidated companies.

The auditor's fees in 2018 were attributable to the audit of the Consolidated Financial Statements and the review of the Interim Consolidated Financial Statements of AUDI AG, as well as to the audit of the annual financial statements of Group companies, and the reviews of the quarterly financial statements of AUDI AG. The extent of other assurance and tax advisory services performed by the auditor was insignificant. Other services performed by the auditor during the reporting year notably relate to consulting services in the areas of IT and process optimization as well as to the provision of training.

50 / *SEGMENT REPORTING*

The segmentation of business activities is based on the internal management and reporting of the Company pursuant to IFRS 8. The decision-making body for both segments with regard to the allocation of resources and the valuation of profitability is the full Board of Management.

Segment reporting is based on the economic activities of the Audi Group and is divided into the two segments of Automotive and Motorcycles. Whilst the Motorcycles segment does not meet the quantitative thresholds set out in IFRS 8, it is reported here as a segment in its own right for information purposes.

The activities of the Automotive segment encompass the development, production, assembly and distribution of vehicles of the Audi and Lamborghini brands, and the distribution of vehicles of other Volkswagen Group brands as well as the accompanying accessories and spare parts business.

The activities of the Motorcycles segment include the development, production, assembly and distribution of Ducati brand motorcycles, including the accessories and spare parts business.

As a general rule, segment reporting is based on the same reporting, recognition and measurement principles as applied to the Consolidated Financial Statements. Business relations between the companies of the segments in the Audi Group are generally based on the same prices as those agreed with third parties. Consolidation between the segments is carried out in the “Reconciliation” column. Investments in property, plant and equipment, investment property and intangible assets (including capitalized development costs) are reported excluding investments in the context of the finance lease. The central key performance indicators used to manage the Automotive and Motorcycles segments include the operating profit and the operating return on sales.

Internal reporting corresponds to external IFRS reporting. The full Board of Management regularly monitors, among others, the following financial and economic key figures:

50.1 / *REPORTING SEGMENTS*

EUR million	2018			
	Automotive	Motorcycles	Reconciliation	Audi Group
Revenue with third parties	58,550	699	–	59,248
Revenue with other segments	–	0	0	–
Revenue	**58,550**	**699**	**0**	**59,248**
Depreciation and amortization	–3,486	–81	–	–3,567
Impairment losses	–286	–	–	–286
Reversal of impairment losses	4	–	–	4
Segment profit (operating profit)	3,505	25	–1	3,529
Result from investments accounted for using the equity method	261	–	–	261
Net interest result and other financial result	570	0	–	570
Investments accounted for using the equity method	1,627	–	–	1,627
Investments in property, plant and equipment, investment property and intangible assets	5,018	69	–	5,087

EUR million	2017 [1]			
	Automotive	Motorcycles	Reconciliation	Audi Group
Revenue with third parties	59,055	734	–	59,789
Revenue with other segments	–	2	–2	–
Revenue	**59,055**	**736**	**–2**	**59,789**
Depreciation and amortization	–3,284	–72	–	–3,357
Impairment losses	–238	–	–	–238
Reversal of impairment losses	1	–	–	1
Segment profit (operating profit)	4,643	28	–	4,671
Result from investments accounted for using the equity method	526	–	–	526
Net interest result and other financial result	–480	0	–	–480
Investments accounted for using the equity method	1,224	–	–	1,224
Investments in property, plant and equipment, investment property and intangible assets	5,047	69	–	5,116

1) The figures have been adjusted (see disclosures on IFRS 9 and IFRS 15).

The Motorcycles segment reported an operating return on sales of 3.6 (3.8) percent, taking into account additional depreciation and amortization due to the remeasurement of assets and liabilities as part of the purchase price allocation in the amount of EUR 23 million. Adjusted to take account of these effects, the operating profit totaled EUR 49 (51) million and the operating return on sales 7.0 (7.0) percent. The Automotive segment recorded an operating return on sales of 6.0 (7.9) percent.

The operating return on sales of the Audi Group totaled 6.0 (7.8) percent.

50.2 / *RECONCILIATION STATEMENT*

EUR million	2018	2017 [1]
Segment revenue	59,249	59,791
Consolidation	0	–2
Group revenue	**59,248**	**59,789**
Segment profit (operating profit)	3,530	4,671
Consolidation	–1	–
Operating profit	3,529	4,671
Financial result	831	46
Group profit before tax	**4,361**	**4,717**

1) The prior year has been adjusted (see disclosures on IFRS 9 and IFRS 15).

50.3 / *BY REGION*

EUR million	2018							
	Germany	Rest of Europe	Asia-Pacific	North America	South America	Africa	Effects from hedging transactions	Total
Revenue	11,870	19,931	14,915	11,140	486	289	617	59,248
Property, plant and equipment, intangible assets, leasing and rental assets and investment property	15,544	5,087	159	1,429	1	–	–	22,220

EUR million	2017 [1]							
	Germany	Rest of Europe	Asia-Pacific	North America	South America	Africa	Effects from hedging transactions	Total
Revenue	12,744	20,776	13,424	11,870	620	355	–	59,789
Property, plant and equipment, intangible assets, leasing and rental assets and investment property	13,017	5,607	168	2,002	4	–	–	20,798

1) The figures have been adjusted (see disclosures on IFRS 15).

Revenue is allocated to the regions on the basis of the registered office of the external customers.

The Audi Group primarily generates revenue from the sale of cars. In addition to the Audi brand, the Automotive segment also comprises sales of vehicles of the Lamborghini brand and of other brands of the Volkswagen Group. Ducati motorcycles and accessories are sold in the Motorcycles segment.

50.4 / *REVENUE BY SEGMENT*

EUR million	2018	2017 [1]
Audi brand	37,259	40,728
Lamborghini brand	1,316	933
Other Volkswagen Group brands	4,728	3,900
Engines, powertrains and parts deliveries	8,326	7,607
Other automotive business	6,305	5,886
Effects from hedging transactions	617	–
Automotive segment	**58,550**	**59,055**
Ducati brand	595	600
Other motorcycles business	104	136
Motorcycles segment	**699**	**736**
Reconciliation	0	–2
Revenue	**59,248**	**59,789**

1) The prior year has been adjusted (see disclosures on IFRS 15).

An explanation of the different types of revenue is provided under Note 1, “Revenue.” The Automotive segment, together with Volkswagen AG, Wolfsburg, its subsidiaries that are not part of the Audi Group and two associated companies, has key accounts with which there exists a relationship of dependence.

50.5 / *REVENUE WITH KEY ACCOUNTS*

	2018		2017	
	EUR million	*in %*	*EUR million*	*in %*
Volkswagen AG	5,695	10	5,667	9
Volkswagen AG subsidiaries not belonging to the Audi Group	14,801	25	15,678	26
Two associated companies	9,000	15	7,989	13

51 / *GERMAN CORPORATE GOVERNANCE CODE*

The Board of Management and Supervisory Board of AUDI AG submitted the declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) relating to the German Corporate Governance Code on November 29, 2018, and subsequently made it permanently accessible on the Audi website at www.audi.com/cgc-declaration.

Read more online about the submitted declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) relating to the German Corporate Governance Code at ***www.audi.com/cgc-declaration****.*

EVENTS OCCURRING SUBSEQUENT TO THE BALANCE SHEET DATE

There were no events after December 31, 2018, subject to a reporting obligation in accordance with IAS 10.

MATERIAL GROUP COMPANIES

Name and registered office	Capital share in %
Fully consolidated companies	
Germany	
AUDI AG, Ingolstadt	
Audi Electronics Venture GmbH, Gaimersheim	100.0
AUDI Immobilien GmbH & Co. KG, Ingolstadt	100.0
AUDI Immobilien Verwaltung GmbH, Ingolstadt	100.0
Audi Real Estate GmbH, Ingolstadt	100.0
Audi Sport GmbH, Neckarsulm	100.0
Ducati Motor Deutschland GmbH, Cologne	100.0
PSW automotive engineering GmbH, Gaimersheim	100.0
UI-S 5-Fonds, Frankfurt am Main 1)	100.0
International	
Audi Australia Pty. Ltd., Zetland	100.0
Audi Australia Retail Operations Pty. Ltd., Zetland	100.0
Audi Brussels S.A./N.V., Brussels	100.0
Audi Brussels Property S.A./N.V., Brussels	100.0
Audi (China) Enterprise Management Co., Ltd., Beijing	100.0
Audi do Brasil Indústria e Comércio de Veiculos Ltda., São Paulo	100.0
Audi Hungaria Zrt., Győr	100.0
Audi Japan K.K., Tokyo	100.0
Audi Japan Sales K.K., Tokyo	100.0
Audi Luxemburg S.A., Strassen	100.0
Audi México S.A. de C.V., San José Chiapa	100.0
Audi Singapore Pte. Ltd., Singapore	100.0
Audi Tooling Barcelona S.L., Martorell	100.0
Audi Volkswagen Korea Ltd., Seoul	100.0
Audi Volkswagen Middle East FZE, Dubai	100.0
Audi Volkswagen Taiwan Co., Ltd., Taipei	100.0
Automobili Lamborghini S.p.A., Sant'Agata Bolognese	100.0
Ducati Motor Holding S.p.A., Bologna	100.0
Ducati do Brasil Indústria e Comércio de Motocicletas Ltda., São Paulo	100.0
Ducati Japan K.K., Tokyo	100.0
Ducati Motors de Mexico S. de R.L. de C.V., Mexico City	100.0
Ducati Motor (Thailand) Co. Ltd., Amphur Pluakdaeng	100.0
Ducati North America, Inc., Mountain View / CA	100.0
Ducati North Europe B.V., Zoeterwoude	100.0
Ducati (Schweiz) AG, Feusisberg	100.0
Ducati U.K. Ltd., Towcester	100.0
Ducati West Europe S.A.S., Colombes	100.0
Italdesign Giugiaro S.p.A., Moncalieri	100.0
Officine del Futuro S.p.A., Sant'Agata Bolognese	100.0
Volkswagen Group Italia S.p.A., Verona	100.0
Audi Canada Inc., Ajax / ON 2)	–
Audi of America, LLC, Herndon / VA 2)	–
Automobili Lamborghini America, LLC, Herndon / VA 2)	–
Companies accounted for using the equity method	
International	
Volkswagen Automatic Transmission (Tianjin) Co., Ltd., Tianjin	40.1
There Holding B.V., Rijswijk	29.6
FAW-Volkswagen Automotive Co., Ltd., Changchun	5.0
SAIC Volkswagen Automotive Co., Ltd., Shanghai	1.0

1) This is a structured entity pursuant to IFRS 10 and IFRS 12.
2) AUDI AG exercises control pursuant to IFRS 10.B38.

RESPONSIBILITY STATEMENT

“RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the net worth, financial position and financial performance of the Audi Group, and the Combined Management Report of the Audi Group and AUDI AG includes a fair review of the development and performance of the business and the position of the Audi Group and AUDI AG, together with a description of the principal opportunities and risks associated with the expected development of the Audi Group and AUDI AG.”

Ingolstadt, February 20, 2019

The Board of Management

Abraham Schot

Wendelin Göbel

Peter Kössler

Dr. Bernd Martens

Hans-Joachim Rothenpieler

Alexander Seitz

INDEPENDENT AUDITOR'S REPORT

To AUDI Aktiengesellschaft, Ingolstadt

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

// AUDIT OPINIONS

We have audited the consolidated financial statements of AUDI Aktiengesellschaft, Ingolstadt, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2018 and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of AUDI Aktiengesellschaft, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

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

// BASIS FOR THE AUDIT OPINIONS

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

// EMPHASIS OF MATTER – DIESEL ISSUE

We draw attention to the information provided and statements made in section "Notes on the diesel issue" of the notes to the consolidated financial statements and in sections "Diesel issue" and "Legal risks" of the group management report with regard to the diesel issue including information about the underlying causes, the non-involvement of members of the board of management as well as the impact on these financial statements.

Based on the results of the various measures taken to investigate the issue presented so far, which underlie the consolidated financial statements and the group management report, there is still no evidence that members of the Company's Board of Management were aware of the deliberate manipulation of engine management software until notified by the US Environmental Protection Agency (EPA) in fall 2015. Nevertheless, should as a result of the ongoing investigation new solid knowledge be obtained showing that members of the Board of Management were informed earlier about the diesel issue, this could eventually have an impact on the consolidated financial statements and on the group management report for financial year 2018 and prior years.

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

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

// *KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

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

❶ Accounting treatment of risk provisions for the diesel issue
❷ Impairment of capitalized development costs
❸ Completeness and measurement of provisions for warranty obligations arising from sales
❹ Financial instruments – hedge accounting

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

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

Hereinafter we present the key audit matters:

❶ **Accounting treatment of risk provisions for the diesel issue**

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

The Audi Group recognizes the expenses directly related to the diesel issue in its operating income. The expenses incurred in financial year 2018 amount to EUR 1.2 billion and relate to fines (EUR 0.8 billion) as well as further reserves for technical activities, legal risks and legal fees (EUR 0.4 billion).

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

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

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

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

③ The Company's disclosures on the diesel issue are contained in the sections entitled “Diesel issue” in the notes to the consolidated financial statements and in the section “Diesel issue” and “Legal risks” in the group management report.

❷ Impairment of capitalized development costs

① In the consolidated financial statements of AUDI AG capitalized development costs amounting to EUR 6,402 million are reported under the “Intangible assets” balance sheet item. In accordance with IAS 38, research costs are treated as expenses incurred, while development costs for future series products are capitalized provided that sale of these products is likely to bring an economic benefit. Until amortization begins, developments must be tested for impairment in accordance with IAS 36 at least once a year based on the cash-generating units (models) to which they are allocated. To meet this requirement, over the period from capitalization until completion of development the Company assesses whether the costs incurred are covered by future cash flows. Once amortization begins, an assessment must be carried out at each reporting date as to whether there are indications of impairment. If this is the case, an impairment test must be performed and any impairment loss recognized. For impairment losses recognized in prior periods, an annual assessment must be carried out as to whether there are indications that the reason for the impairment has ceased to apply.

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

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

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

In our view, the measurement inputs and assumptions used by the executive directors, and the measurement model, were properly derived for the purposes of conducting impairment tests.

③ The Company's disclosures on capitalized development costs and the associated impairment testing are contained in notes "Intangible assets" and "Impairment tests" to the consolidated financial statements.

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

① In the consolidated financial statements of the Audi Group EUR 8,801 million in provisions for obligations arising from sales are reported under the "Other provisions" balance sheet item. These obligations primarily relate to warranty claims arising from the sale of vehicles, motorcycles, components and genuine parts. Warranty claims are calculated on the basis of losses to date, estimated future losses and the policy on ex gratia arrangements. An estimate is also made of the discount rate. In addition, assumptions must be made about the nature and extent of future warranty and ex gratia claims. These assumptions are based on qualified estimates.

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

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

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

③ The Company's disclosures on other provisions are contained in notes "Other provisions" to the consolidated financial statements.

❹ Financial instruments – hedge accounting

① The companies of the Audi Group use a variety of derivative financial instruments to hedge in particular against currency and commodity price risks arising from their ordinary business activities. The executive directors' hedging policy is documented in corresponding internal guidelines and serves as the basis for these transactions. Currency risk arises primarily from sales and procurement transactions and financing denominated in foreign currencies. The means of limiting this risk include entering into currency forwards and currency options.

Derivatives are measured at fair value as of the balance sheet date. The positive fair values of all of the derivatives used for hedging purposes amount to EUR 838 million as of the balance sheet date, while the negative fair values amount to EUR 960 million. Insofar the financial instruments used by the Audi Group are effective hedges of future cash flows in the context of hedging pursuant to the requirements of IFRS 9, the effective portion of the changes in fair value is recognized in other comprehensive income over the duration of the hedging relationships until the maturity of the hedged cash flows (cash flows hedges). Changes in the value of derivative financial instruments caused by changes in the spot price are shown under the cash flow hedge reserve, as usual. Changes in the value of hedging instruments caused by changes in forward rates, and in the case of options caused by changes in fair value respectively, and changes in the value of the so called cross-currency basis spread are shown under the line item "costs of hedging relationships," which was newly introduced under IFRS 9. As of the balance sheet date, a cumulative EUR 976 million was recognized in equity (cash flow hedge reserve) with no effect on income before income taxes as the effective portion of fair value changes.

At the time of transitioning from hedge accounting under IAS 39 to IFRS 9 at the beginning of the financial year, the Audi Group exercised as far as possible the option of implementing the transition prospectively, without restating prior-period figures. For currency options, the transition was carried out retrospectively with restating prior-period figures, as required by the standard. Changes in the fair value of currency options recognized in the income statement in the prior period were reclassified retrospectively to the costs of hedging relationships with no effect on income. From our point of view these matters were of particular significance for our audit due to the high complexity and number of transactions as well as the extensive accounting and disclosure requirements of IFRS 9 and IFRS 7.

② As a part of our audit we assessed, with the assistance of our internal specialists, the changes to processes and systems in connection with the introduction if IFRS 9, among other things. A particular focus was placed on assessing how the effects from transition and the changes to prior-period figures in relation to the introduction of IFRS 9 were determined. Both the treasury management system and the corresponding adjustments in the consolidation system were subject to separate examinations. In addition, we assessed the contractual and financial parameters and evaluated the accounting treatment, including the effects on equity and profit or loss, of the various hedging relationships. Together with our specialists, we also evaluated the Company's internal control system with regard to derivative financial instruments, including the internal activities to monitor compliance with the hedging policy. In addition, the fair value measurement of financial instruments and the methods of calculation employed on the basis of market data were assessed. We evaluated the internal control system in order to assess completeness. With regard to the expected cash flows and the assessment of the effectiveness of hedges, we essentially conducted a retrospective assessment of past hedging levels.

In doing so, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors were substantiated and sufficiently documented.

③ The Company's disclosures on hedge accounting are contained in notes "recognition and measurement principles – financial instruments," "other financial assets," "other financial liabilities" and in the notes to the consolidated financial statements.

// OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report, which we obtained prior of the date of our auditor's report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate Governance Report" of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code (section "Corporate Governance")

The annual report and the financial report are expected to be made available to us after the date of the auditor's report.

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

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

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

// RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

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

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

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

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

// AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

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

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

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

> Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

> Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

> Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

> Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

> Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

> Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

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

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

/ OTHER LEGAL AND REGULATORY REQUIREMENTS

// FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 9 May 2018. We were engaged by the supervisory board on 9 May 2018. We have been the group auditor of the AUDI Aktiengesellschaft, Ingolstadt, without interruption since the financial year 1970.

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

/ GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Jürgen Schumann.

Munich, February 20, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Frank Hübner Wirtschaftsprüfer (German Public Auditor)	Jürgen Schumann Wirtschaftsprüfer (German Public Auditor)

10-YEAR OVERVIEW

		2009	2010	2011
Production				
Automotive segment	Cars [2]	932,260	1,150,018	1,302,981
	Engines	1,384,240	1,648,193	1,884,157
Motorcycles segment	Motorcycles	–	–	–
Deliveries to customers				
Automotive segment	Cars	1,145,360	1,293,453	1,512,014
Audi brand [5]	Cars	949,729	1,092,411	1,302,659
Lamborghini brand	Cars	1,515	1,302	1,602
Other Volkswagen Group brands	Cars	194,116	199,740	207,753
Motorcycles segment	Motorcycles	–	–	–
Ducati brand	Motorcycles	–	–	–
Workforce	Average	58,011	59,513	62,806
From the Income Statement				
Revenue	EUR million	29,840	35,441	44,096
Cost of materials	EUR million	18,512	21,802	28,594
Personnel costs	EUR million	3,519	4,274	5,076
Personnel costs per employee [6]	EUR	60,964	72,172	81,189
Depreciation and amortization	EUR million	1,775	2,170	1,793
Operating profit	EUR million	1,604	3,340	5,348
Profit before tax	EUR million	1,928	3,634	6,041
Profit after tax	EUR million	1,347	2,630	4,440
From the Balance Sheet (Dec. 31)				
Non-current assets	EUR million	9,637	10,584	12,209
Current assets	EUR million	16,913	20,188	24,811
Equity	EUR million	10,632	11,310	12,903
Liabilities	EUR million	15,918	19,462	24,117
Balance sheet total	EUR million	26,550	30,772	37,019
From the Cash Flow Statement				
Cash flow from operating activities	EUR million	4,119	5,797	6,295
Investing activities attributable to operating activities	EUR million	1,798	2,260	2,905
Net cash flow	EUR million	2,321	3,536	3,390
Net liquidity (Dec. 31)	EUR million	10,665	13,383	15,716
Financial ratios				
Operating return on sales	Percent	5.4	9.4	12.1
Return on sales before tax	Percent	6.5	10.3	13.7
Return on investment (ROI)	Percent	11.5	24.7	35.4
Ratio of capex [11]	Percent	4.2	4.1	5.1
Research and development ratio	Percent	7.0	7.1	6.4
Equity ratio (Dec. 31)	Percent	40.0	36.8	34.9
Audi share				
Share price (year-end price) [12]	EUR	501.67	635.00	549.00
Compensatory payment	EUR	1.60	2.20	3.00

1) 2012: financial figures have been adjusted to take account of the revised IAS 19; 2017: financial figures have been adjusted to reflect the first-time adoption of IFRS 9 and IFRS 15
2) Since 2011, including vehicles built in China by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China)
3) The figure has been adjusted to reflect the amended counting method.
4) Since acquisition of the Ducati Group in July 2012
5) Including delivered vehicles built locally by the associated company FAW-Volkswagen Automotive Company, Ltd., Changchun (China)
6) Calculated on the basis of employees of Audi Group companies
7) Taking into account special items, in particular in connection with the diesel issue

2012 [1]	2013	2014	2015	2016	2017 [1]	2018
1,469,205	1,608,048	1,804,624	1,828,683 [3]	1,903,259	1,879,840	1,871,386
1,916,604	1,926,724	1,974,846	2,023,618	1,927,838	1,966,434	1,955,532
15,734 [4]	45,018	45,339	55,551	56,978	56,743	53,320
1,634,312	1,751,007	1,933,517	2,024,881	2,088,187	2,105,084	2,081,418
1,455,123	1,575,480	1,741,129	1,803,246	1,867,738	1,878,105	1,812,485
2,083	2,121	2,530	3,245	3,457	3,815	5,750
177,106	173,406	189,858	218,390	216,992	223,164	263,183
16,786 [4]	44,287	45,117	54,809	55,451	55,871	53,004
16,786 [4]	44,287	45,117	54,809	55,451	55,871	53,004
67,231	71,781	77,247	82,838	87,112	90,402	91,477
48,771	49,880	53,787	58,420	59,317	59,789	59,248
30,265	32,491	36,024	37,583	40,596	40,370	41,023
5,069	5,543	6,068	6,602	6,761	7,219	7,336
75,759	77,596	78,921	80,071	77,990	80,234	80,583
1,937	2,071	2,455	2,665	3,159	3,593	3,853
5,365	5,030	5,150	4,836 [7]	3,052 [7]	4,671 [7]	3,529 [7]
5,951	5,323	5,991	5,284 [7]	3,047 [7]	4,717 [7]	4,361 [7]
4,349	4,014	4,428	4,297 [7]	2,066 [7]	3,432 [7]	3,463 [7]
18,044	19,943	22,538	25,963	28,599	29,469	32,393
22,357	25,214	28,231	30,800	32,403	33,846	33,205
15,092	18,565	19,199	21,779	25,321	28,171	29,698
25,309	26,592	31,570	34,985	35,685	35,509	35,900
40,401	45,156	50,769	56,763	61,090	63,680	65,598
6,144	6,778	7,421	7,203	7,517	6,173	7,013
6,804 [8]	3,589	4,450	5,576 [9]	5,423	1,861 [10]	4,871
–660 [8]	3,189	2,970	1,627 [9]	2,094	4,312 [10]	2,141
13,396 [8]	14,716	16,328	16,420 [9]	17,232	20,788 [10]	20,442
11.0	10.1	9.6	8.3 [7]	5.1 [7]	7.8 [7]	6.0 [7]
12.2	10.7	11.1	9.0 [7]	5.1 [7]	7.9 [7]	7.4 [7]
30.8	26.4	23.2	19.4 [7]	10.7 [7]	14.4 [7]	10.0 [7]
4.8	4.8	5.5	6.0	5.7	6.5	5.9
7.0	8.0	8.0	7.3	7.5	6.4	7.1
37.4	41.1	37.8	38.4	41.4	44.2	45.3
525.10	638.05	649.95	678.00	631.00	725.95	782.00
3.50	4.00	4.80	0.11	2.00	3.90	X [13]

8) Taking into account the acquisition of participations in Volkswagen International Belgium S.A., Brussels (Belgium), and in Ducati Motor Holding S.p.A., Bologna (Italy)
9) Taking into account the participation in There Holding B.V., Rijswijk (Netherlands), in connection with the HERE transaction
10) Taking into account the transfer of the minority interest in Volkswagen International Belgium S.A., Brussels (Belgium), to Volkswagen AG, Wolfsburg
11) Investments in property, plant and equipment, investment property and other intangible assets (without capitalized development costs) according to Cash Flow Statement in relation to revenue
12) Year-end price of the Audi share on trading venue Xetra of the Frankfurt Stock Exchange
13) In accordance with the resolution to be passed by the Annual General Meeting of Volkswagen AG, Wolfsburg, for the 2018 fiscal year on May 14, 2019

Financial events 2019

March 14, 2019

Annual Press Conference

May 3, 2019

First Quarter Report

May 23, 2019

Annual General Meeting

July 26, 2019

Interim Financial Report

October 31, 2019

Third Quarter Report

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