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## **After significant adverse factors in 2018 financial year: Audi accelerates its realignment**

- Operating profit before special items falls to €4.7 billion; Operating return on sales before special items of 7.9 percent
- Financial base confirmed: €2.1 billion net cash flow; €20.4 billion net liquidity
- Board of Management to reveal new strategy at 2019 Annual General Meeting
- CEO Bram Schot: “Making Audi efficient, agile and stress resistant again”
- CFO Alexander Seitz: “Increasing the target for the Audi Transformation Plan to about €15 billion, to generate the cash flow to finance electric mobility”
- New long-term target corridor for operating return on sales of 9 to 11 percent after deconsolidation of multi-brand import companies
- Transition year 2019 with electrification initiative and multiple challenges

Ingolstadt, March 14, 2019 – Audi restart: Against the background of the transformation of the automotive industry, the Four Rings want to make use of available potential with a new, focused strategy. Audi is thus also drawing conclusions from its unsatisfactory performance in 2018. Impacted primarily by the changeover to WLTP, operating profit before special items amounted to €4.7 billion. The corresponding return on sales was 7.9 percent and thus not within the target corridor. With the inclusion of negative special items of €1.2 billion from the diesel crisis, operating profit amounted to €3.5 billion, equivalent to a return on sales of 6.0 percent. With the successful Audi Transformation Plan, the premium manufacturer was able to offset some of the high financial burdens. In the context of deconsolidating multi-brand import companies at the beginning of 2019, the company increased its long-term strategic target corridor for operating return on sales to nine to eleven percent. The current financial year will be dominated by Audi’s electrification initiative. Due to numerous challenges, 2019 is expected to be a transition year for the company with an operating return on sales forecasted at between 7.0 and 8.5 percent, which is still below the new long-term target corridor. Deliveries of the brand with the Four Rings are expected to increase moderately. The company anticipates financial burdens above all from managing the WLTP transition, high ramp-up costs, enormous advance expenditure for electric mobility and the increasingly difficult macroeconomic environment.



“We cannot be satisfied with our performance. Audi has excellent products on the market, but in business terms, we failed the WLTP changeover as the ultimate stress test,” says Bram Schot, Chairman of the Board of Management of AUDI AG. “The Audi employees showed the right spirit in this difficult situation and obtained the best-possible result for Audi in 2018. With this spirit, we are now tackling the restart together at Audi.”

**Deliveries** of 1,812,485 cars of the Audi brand in 2018 were 3.5 percent below the prior-year number (2017: 1,878,105). Especially in Europe, restricted product availability due to the transition to the first stage of the WLTP test cycle led to significant decreases. The Audi Group’s **revenue** of €59,248 million almost reached the prior-year level (2017: €59,789 million). Positive product-mix effects resulted from the start of the Audi Q8 and significant volume and revenue growth at Lamborghini with the Urus SUV model.

The **operating return on sales before special items** of 7.9 percent (2017: 8.5 percent) did not reach the previous long-term target corridor of eight to ten percent. For 2018, Audi recognized **special items** from the diesel crisis in an amount of €1,176 million (2017: €387 million). In addition to the legally binding administrative order by the Munich II public prosecutor imposing a fine of €800 million, they also include spending for technical measures, customer measures as well as expenses and provisioning for legal risks. After these special items, the operating profit for 2018 was €3,529 million (2017: €4,671 million) and the operating return on sales was 6.0 percent (2017: 7.8 percent).

With the **Audi Transformation Plan**, the company implemented measures in an amount of €1.9 billion in 2018. Of that amount, €1.1 billion had a positive impact on operating profit as far as comparison with 2017 is concerned. Primarily as a result of cost discipline with regard to overheads, the company was thus able to partially offset WLTP distortions and expenses from the diesel crisis. The program for earnings improvement includes measures for reducing costs as well as for increasing revenue. “The Transformation Plan is making a significant contribution towards safeguarding our future. Because only in this way is it possible for us to transfer enormous resources into future areas and generate the cash flow to finance electric mobility,” says Alexander Seitz, Board Member for Finance, China, Compliance and Integrity. “In view of the required progress, we are increasing our target over the planned period to around 15 billion euros.” Audi has already decided on concrete steps for earnings effects of more than €10 billion in the period of 2018 through 2022. In a new work package of the program, Audi will optimize its capital employed with a view to the long-term increase in the company’s value.

The **financial result** increased significantly to €831 million in 2018 (2017: €46 million). In addition to the positive development of business in China, there was an impact from the first-time adoption of a new IFRS accounting standard. Financial effects from hedging transactions for business operations are now fully reported under operating profit instead of financial result, as was previously the case. **Profit before tax** of €4,361 million was 7.5 percent lower than in the previous year (2017: €4,717 million).



In recognition of their commitment in the very difficult year 2018, Audi's employees will participate in the company's earnings. The **Audi profit sharing bonus** for a skilled worker at the plants in Germany for the year 2018 is €3,630 (2017: €4,770). This amount is based on the formula laid down in the collective agreement. The company has adjusted the payment for financial year 2018 to offset the effects of the earnings-reducing fine, and has thus increased the amount. Regulations on profit sharing exist also at the Audi subsidiaries.

Against the backdrop of the challenging conditions in 2018, the Audi Group affirmed its robust financial condition. Through cost reductions and investment discipline, the company generated a significantly positive **net cash flow** of €2,141 million (2017: €4,312 million) – despite the outflows connected with the diesel crisis and high advance expenditure for the future. In 2017, a one-time effect from the sale of a minority stake in Volkswagen International Belgium S.A. had a significant positive impact on the net cash flow. At December 31, 2018, **net liquidity** amounted to a total of €20,442 million (2017: €20,788 million), which demonstrates the ongoing high self-financing strength of the Audi Group.

The Board of Management will present the strategic **realignment** of the company at the Annual General Meeting on May 23, 2019. “We are significantly accelerating the change, because we have to master a double transformation,” states Bram Schot. He says the goal is to make Audi into an efficient, agile and stress-resistant organization again. In the industry's transformation with regard to technologies and business models, the company wants to set benchmarks. “We will be much more customer-oriented and less self-centered; we will focus on what is decisive and implement what is decided upon in a very consistent and disciplined manner.”

As part of the realignment, the company is also reviewing its value-creation model and aims to achieve a significant increase in productivity. In the future, the Audi Group will reduce vertical integration and focus on its core business activities. In dialog with the employee representatives, the company is defining the future allocation of Audi models to the plants and thus the distribution of tasks and the plants' capacity development in the international development and production network. The bundling of platforms and vehicle architectures in production as well as its further flexibilization are intended to optimize expenditure and capacity utilization.

With the aim of increasing the company's long-term value, its innovative strength and its attractiveness as an employer, return on investment (ROI) will become another key indicator of success for Audi. For internal steering, the impact of vehicle projects on average CO<sub>2</sub> emissions will be financially evaluated and included in this indicator. In the successive restructuring of the Audi model portfolio, the Four Rings will utilize synergy potential within the Volkswagen Group to a much greater extent in the future, for example with the scaling of electric mobility via the PPE premium architecture developed together with Porsche, and Volkswagen's modular electric-drive kit (MEB). Schot: “Customers will change over to electric cars faster and more widely than we initially expected. This is also demonstrated by the extremely positive response to the Audi e-tron and to the Q4 e-tron concept, which we presented last week at the Geneva Motor



Show. The economies of scale of our Group are crucial advantages for us. We have already expanded our electric roadmap and will now offer about 30 electric models by 2025.”

Audi will restructure its product portfolio in line with the development of demand and will further develop it, particularly in the upper premium segments. By 2025, the product range in the upper mid-range and full-size segment will have grown to 15 models.

Based on the Audi Transformation Plan, a sustainable efficiency boost is to be established throughout the company. “Across all divisions, we are placing a clear focus on our efficiency and the necessary cost orientation – with full transparency and effective early warning systems,” says Alexander Seitz. “This also includes being open to the fact that in some areas, we can achieve our goals faster, more effectively and more efficiently through partnerships.” Audi will increase its speed and agility also by reducing organizational complexity and by streamlining processes and management structures.

With a **new reporting structure** that took effect in January 2019, the Audi Group is already focusing its organization and reducing complexity as a first step. Due to the inclusion of some multi-brand import companies, Audi’s consolidated financial statements previously included volumes and key financials from the sale of automobiles of other Group brands. They are now reported at the level of the Volkswagen Group. This has an impact on key figures of the Audi Group: For 2018, the new reporting structure would result in adjusted revenue of €53.6 billion instead of the reported €59.2 billion. Operating profit would be essentially unchanged, while operating return on sales after special items would be 0.6 percentage points higher than reported at 6.6 percent. Accordingly, the company is raising its long-term strategic target corridor for operating return on sales to nine to eleven percent.

**2019 will be a transition year with special challenges** for the Audi Group as it drives forward its strategic realignment: “In 2019, we will set an important strategic course and work hard on our cost structures. Operationally, however, we also have a year of tidying up,” says Alexander Seitz. “We are remediating the aftereffects from the exceptional year 2018 and bringing the pipeline from production to retailing back into balance. This task will initially have an adverse impact on our earnings.”

Audi deliveries are expected to increase moderately in 2019. The Audi Group forecasts revenue of slightly above the adjusted figure for the previous year. In its new reporting structure, the company expects its operating return on sales to be between 7.0 and 8.5 percent. The net cash flow is expected to be between €2.5 and 3.0 billion.

In the first months of this year, Audi is successively closing the remaining gaps in its product offering from the **changeover to WLTP** and is creating the conditions for a positive sales development. In the course of the year, inventories that had been ramped up in 2018 for supply management during the transition to WLTP will be reduced. For example, Audi had already gradually restarted the production of engine-transmission variants for which the company expected type approval in the near future, in order to ensure rapid availability for customers



following official approvals. Once the required homologations have been received, these pre-specified vehicles will gradually flow out of inventories. In addition, the company is making intensive preparations for the next, equally demanding, stage of the WLTP test cycle, which will come into force on September 1, 2019 with even stricter legal requirements for all vehicles. Audi has increased its technical test-bench capacities by around a third in order to make implementation more manageable, and has added approximately 300 employees in Technical Development for homologation and powertrain development. The company has reduced its portfolio of engine-transmission variants by about 30 percent in line with market preferences, thus noticeably reducing complexity as a first step.

This year will again feature a **tight schedule of successive market launches**. In total, Audi will once again present more than 20 new or updated models in 2019. The brand is sharpening its sporty image with nine new S models as well as four especially powerful R and RS models. The numerous new products are associated with correspondingly high ramp-up costs. Within the framework of the **electrification initiative**, the new Audi e-tron will be followed by the world premiere of the e-tron Sportback. Exclusively for Chinese customers, the Q2 L e-tron will be launched in 2019 as an electric model. In addition, six plug-in hybrid models will complement the range of new products this year. By the end of 2020, Audi will already have launched a total of twelve electrified vehicles, covering every segment. In 2019, the company will make substantial advance expenditure for the ramp-up of electric mobility and other topics of the future. Audi forecasts a ratio of research and development expenditure to revenue slightly above the target corridor, which has risen to 6.5 to 7.0 percent due to revenue-reducing effects from the deconsolidation of the multi-brand sales companies. In 2019, the ratio of capital expenditure to revenue is expected to be within its target corridor of 5.5 to 6.0 percent, which has also been adjusted upwards.

Audi will face challenges in 2019 also from negative macroeconomic developments and the currency and raw-material environment. The company will consistently take countermeasures with the systematic roll-out of the Audi Transformation Plan and other important measures. Seitz: “On the whole, the test for our industry has perhaps never been as comprehensive as it is today. Our competitors are also responding with far-reaching measures. On top of that, we at Audi have our own structural tasks to resolve. We must therefore act decisively now and reposition ourselves in many areas to ensure our long-term competitiveness.”



Selected key figures of the Audi Group

	<b>2018</b>	<b>2017</b>
<b>Cars delivered</b> Audi brand	1,812,485	1,878,105
<b>Revenue</b> Audi Group in EUR million	59,248	59,789
<b>Operating profit</b> before special items Audi Group in EUR million	4,705	5,058
<b>Operating return on sales</b> before special items Audi Group in percent	7.9	8.5
<b>Operating profit</b> Audi Group in EUR million	3,529	4,671
<b>Operating return on sales</b> Audi Group in percent	6.0	7.8
<b>Net cash flow</b> Audi Group in EUR million	2,141	4,312
<b>Net liquidity</b> Audi Group in EUR million	20,442	20,788
<b>Return on investment (ROI)</b> Audi Group in percent	10.0	14.4

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**Fuel consumption of the models named above**

(Fuel consumption and CO<sub>2</sub> emission figures given in ranges depend on the equipment selected)

**Audi e-tron:**

Combined electrical consumption in kWh/100 km: 26.2–22.6 (WLTP); 24.6–23.7 (NEDC);

Combined CO<sub>2</sub> emissions in g/km: 0

**Audi Q8:**

Combined fuel consumption in l/100 km: 9.1 – 6.4;

Combined CO<sub>2</sub>-emissions in g/km: 207 - 169

**Lamborghini Urus:**

Combined fuel consumption in l/100 km: 12.7;

Combined CO<sub>2</sub>-emissions in g/km: 325

*Further information on official fuel consumption figures and the official specific CO<sub>2</sub> emissions of new passenger cars can be found in the "Guide on the fuel economy, CO<sub>2</sub> emissions and power consumption of all new passenger car models," which is available free of charge at all sales dealerships and from DAT Deutsche Automobil Treuhand GmbH, Hellmuth-Hirth-Str. 1, 73760 Ostfildern-Scharnhausen, Germany ([www.dat.de](http://www.dat.de)).*

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The **Audi Group**, with its brands Audi, Ducati and Lamborghini, is one of the most successful manufacturers of automobiles and motorcycles in the premium segment. It is present in more than 100 markets worldwide and produces at 18 locations in 13 countries. 100 percent subsidiaries of AUDI AG include Audi Sport GmbH (Neckarsulm), Automobili Lamborghini S.p.A. (Sant'Agata Bolognese, Italy) and Ducati Motor Holding S.p.A. (Bologna, Italy).

In 2018, the Audi Group delivered to customers about 1.812 million automobiles of the Audi brand, 5,750 sports cars of the Lamborghini brand and 53,004 motorcycles of the Ducati brand. In the 2018 fiscal year, AUDI AG achieved total revenue of €59.2 billion and an operating profit before special items of €4.7 billion. At present, approximately 90,000 people work for the company all over the world, more than 60,000 of them in Germany. Audi focuses on sustainable products and technologies for the future of mobility.

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