

**SHARE OF SALES REVENUE BY MARKET 2019**

in percent



notice as of January 1, 2019. Following the announcement that the termination of the control and profit and loss transfer agreement had been recorded in the commercial register, the noncontrolling shareholders of MAN SE were entitled under the provisions of the control and profit and loss transfer agreement to tender their shares to Volkswagen within a two-month period. This resulted in cash outflows of €1.1 billion in 2019 for the acquisition of shares tendered and for compensation payments. The “Put options and compensation rights granted to noncontrolling interest shareholders” item reported in the balance sheet was reduced accordingly. The put options granted to noncontrolling interest shareholders of MAN SE expired on March 4, 2019. The remaining amount of €0.7 billion was reclassified directly to equity; €0.3 billion of this amount is attributable to noncontrolling interests.

**IPO OF TRATON SE**

Since June 2019, shares of TRATON SE have been traded on the regulated market of the Frankfurt Stock Exchange and the NASDAQ Stockholm Exchange. The offer price was set at €27.00 per share. This led to an increase of €1.4 billion in the Volkswagen Group’s equity, of which €1.2 billion is reported as noncontrolling interests. The cash inflow occurred at the beginning of the third quarter of 2019.

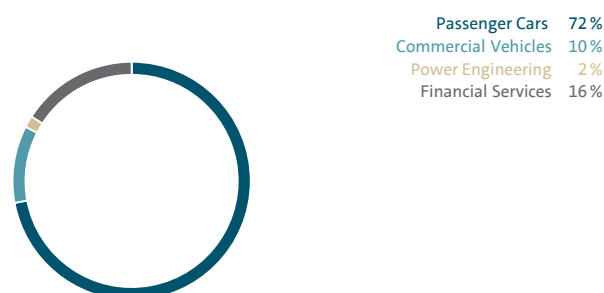
**CONTRIBUTION OF AUTONOMOUS INTELLIGENT DRIVING**

In July 2019, Volkswagen announced that, together with Ford Motor Company, it would be investing in Argo AI, a company that is working on the development of a system for autonomous driving.

Volkswagen will contribute its consolidated subsidiary Autonomous Intelligent Driving (AID) to this venture. The contribution of AID is planned for the first half of 2020, subject to the required regulatory approvals and other conditions precedent.

**SHARE OF SALES REVENUE BY DIVISION/BUSINESS AREA 2019**

in percent

**SALE OF INTEREST IN RENK AG**

In January 2020, the Board of Management and Supervisory Board of Volkswagen AG resolved to sell the Volkswagen Group’s 76% interest in RENK AG. The sale is expected to be completed in the second half of 2020, subject to regulatory approval.

**RESULTS OF OPERATIONS****Results of operations of the Group**

Between January and December 2019, the Volkswagen Group generated sales revenue of €252.6 billion, exceeding the prior-year figure by 7.1%. Particularly mix improvements, higher sales volumes and the healthy business performance of the Financial Services Division had a positive impact; whereas the negative exchange rate trend had an offsetting effect. At 80.6 (81.4)%, most of the sales revenue was generated abroad.

Gross profit rose by €2.8 billion to €49.1 billion. The gross margin stood at 19.5 (19.7)%. Adjusted for special items recognized here in both periods (positive in the reporting period due to the reversal of provisions for technical measures in connection with the diesel issue), gross profit amounted to €48.8 (46.6) billion. Excluding special items, the gross margin was 19.3 (19.8)% in fiscal year 2019.

The Volkswagen Group’s operating profit before special items improved by €2.2 billion to €19.3 billion in the reporting period. The operating return on sales before special items amounted to 7.6 (7.3)%. The increase was mainly attributable to positive mix effects, higher volumes, the reversal of impairment losses following the remeasurement of development costs, product cost optimizations, and the fair value measurement of certain derivatives. A rise in fixed costs had a negative impact. Special items in connection with the diesel issue weighed on operating profit, reducing this item by €–2.3 (–3.2) billion. The Volkswagen Group’s operating profit increased to €17.0 (13.9) billion, while the operating return on sales rose to 6.7 (5.9)%.

The financial result was down by €0.3 billion to €1.4 billion. The interest expenses included in this item rose markedly, driven by the rise in the refinancing volume, the interest expense on provisions and application of the new IFRS 16. The share of the result of equity-accounted investments was at the same level as in 2018. Measurement effects on the reporting date, especially resulting from net income from securities and funds, were positive compared with the prior-year period. The previous year's figure had also been negatively impacted by the remeasurement of put options and compensation rights in connection with the control and profit and loss transfer agreement with MAN SE.

The Volkswagen Group's profit before tax improved by 17.3% to €18.4 billion in fiscal year 2019. The return on sales before tax rose to 7.3 (6.6)%. Income taxes resulted in an expense of €4.3 (3.5) billion, which in turn led to a tax rate of 23.6 (22.3)%. Profit after tax increased by €1.9 billion to €14.0 billion.

#### Results of operations in the Automotive Division

The Automotive Division's sales revenue amounted to €212.5 billion in the reporting period, 5.7% more than in the previous year. Primarily, improvements in the mix and higher vehicle sales offset negative exchange rate effects. As our Chinese joint ventures are accounted for using the equity method, the Group's business performance in the Chinese passenger car market is reflected in consolidated sales revenue primarily by deliveries of vehicles and vehicle parts.

Cost of sales was up, driven primarily by higher volumes and a rise in depreciation and amortization charges due to the large capex volume, as well as by a year-on-year increase in research and development costs recognized in profit or loss. The reversal of provisions for items related to the diesel issue led here to positive special items in the fiscal year. The ratio of cost of sales to sales revenue rose somewhat compared with the prior-year period. Total research and development costs, expressed as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio), stood at 6.7 (6.8)% in fiscal year 2019. In addition to new models, our activities focused above all on the electrification of our vehicle portfolio, a more efficient range of engines, digitalization and new technologies.

Distribution and administrative expenses were both higher in the reporting period. The ratio of distribution expenses to sales revenue was down on the prior-year period, while the ratio of administrative expenses was virtually unchanged year-on-year. The other operating result amounted to €-1.0 (-2.5) billion. The year-on-year improvement resulted from the reversal of impairment losses following the remeasurement of development costs, positive exchange rate effects and lower expenses arising from the fair value measurement of derivatives to which hedge accounting is not applied, as well as from a decline in special items related to the diesel issue.

At €13.7 billion, the Automotive Division's operating profit was €2.6 billion higher than the prior year. The main contributing factors were improvements in the mix as well as higher vehicle sales, the reversal of impairment losses following the remeasurement of development costs, product cost optimization, the measurement of certain derivatives and a decline in negative special items. Higher depreciation and amortization charges and a rise in research and development costs had an offsetting effect. The operating return on sales increased to 6.5 (5.5)%. The negative special items included in operating profit totaled €-2.3 (-3.2) billion. Excluding the special items, the Automotive Division's operating profit rose to €16.1 (14.3) billion. The operating return on sales before special items improved to 7.6 (7.1)%. Our operating profit largely benefits from the business performance of our Chinese joint ventures only through deliveries of vehicles and vehicle parts and of license income, as the joint ventures are accounted for using the equity method and therefore included in the financial result.

#### RESULTS OF OPERATIONS IN THE PASSENGER CARS BUSINESS AREA<sup>1</sup>

€ million	2019	2018
Sales revenue	182,031	172,678
Operating result	12,188	10,000
Operating return on sales (%)	6.7	5.8

<sup>1</sup> The Volkswagen Commercial Vehicles brand has been reported in the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

The Passenger Cars Business Area recorded sales revenue of €182.0 billion in the period from January to December 2019, 5.4% more than in the prior-year period. The growth was mainly attributable to positive mix effects and the higher sales volume. This was set against a negative exchange rate trend. The operating profit of the Passenger Cars Business Area totaled €12.2 billion, up €2.2 billion on the prior year. The rise in profit was primarily due to mix and volume improvements, the reversal of impairment losses following the remeasurement of development costs as well as positive effects stemming from product costs and the measurement of certain derivatives and a decline in negative special items to €-2.3 (-3.2) billion in connection with the diesel issue. Higher depreciation and amortization charges and a rise in research and development costs were among the main factors reducing profit. The operating return on sales increased to 6.7 (5.8)%.

### RESULTS OF OPERATIONS IN THE COMMERCIAL VEHICLES BUSINESS AREA<sup>1</sup>

€ million	2019	2018
Sales revenue	26,444	24,781
Operating result	1,653	1,191
Operating return on sales (%)	6.3	4.8

1. The Volkswagen Commercial Vehicles brand has been reported in the Passenger Cars Business Area since January 1, 2019. The prior-year figures have been adjusted.

At €26.4 billion, sales revenue in the Commercial Vehicles Business Area exceeded the prior-year figure by 6.7% in fiscal year 2019. The operating profit of the Commercial Vehicles Business Area improved by €0.5 billion to €1.7 billion; the operating return on sales stood at 6.3 (4.8)%. Positive effects arising from higher volumes, mix and price improvements more than offset cost increases.

### RESULTS OF OPERATIONS IN THE POWER ENGINEERING BUSINESS AREA

€ million	2019	2018
Sales revenue	3,997	3,608
Operating result	-93	-64
Operating return on sales (%)	-2.3	-1.8

The Power Engineering Business Area recorded sales revenue of €4.0 billion in fiscal year 2019, 10.8% more than in the prior year. The operating loss amounted to €-0.1 (-0.1) billion. Volumes improved while fixed costs rose. The operating return on sales amounted to -2.3 (-1.8)%.

#### Results of operations in the Financial Services Division

In fiscal year 2019, the Financial Services Division generated sales revenue of €40.2 billion; the 15.5% rise year-on-year was due mainly to the higher business volume.

The cost of sales expanded by 17.1% to €33.0 billion, growing slightly faster than sales revenue. Distribution expenses and the other operating result declined, while administrative expenses rose. Costs increased on the whole due to volume-related factors. Overall, the ratio of costs to sales revenue was down slightly.

Higher volumes and exchange rate effects boosted the Financial Services Division's operating profit to €3.2 billion, a 15.0% increase on the previous year, again representing a considerable contribution to consolidated net profit. The operating return on sales was unchanged at 8.0 (8.0)%. The return on equity before tax rose to 10.8 (9.9)%.

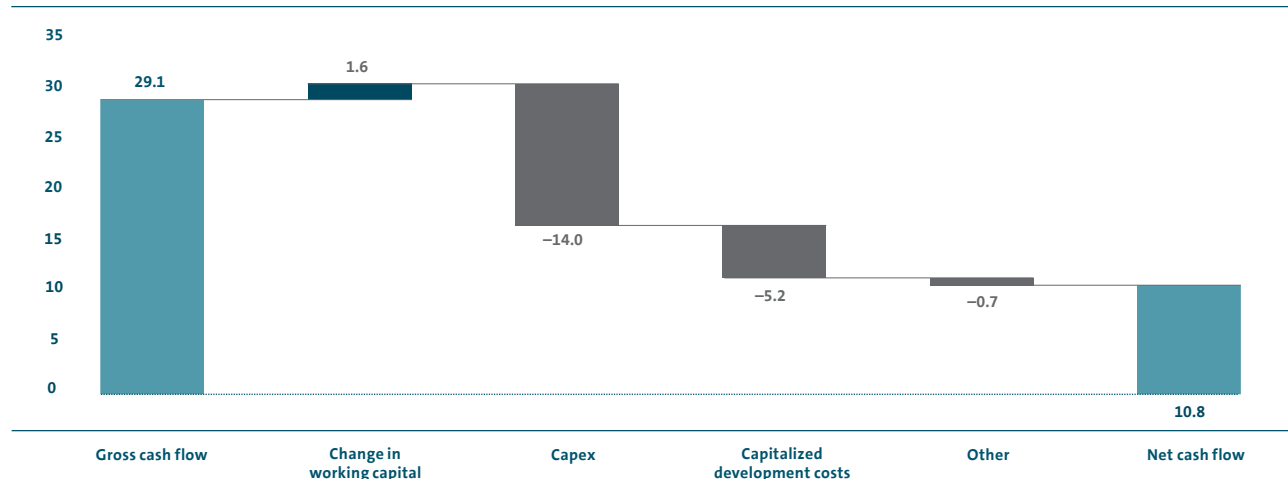
#### Principles and goals of financial management

Financial management in the Volkswagen Group covers liquidity management, the management of currency, interest rate and commodity price risks, as well as credit and country risk management. It is performed centrally for all Group companies by Group Treasury, based on internal guidelines and risk parameters. Some functions of the Scania, MAN and Porsche Holding Salzburg subgroups are integrated into the financial management. Additionally, these subgroups have their own financial management structures.

The goal of financial management is to ensure that the Volkswagen Group remains solvent at all times and at the same time to generate an adequate return from the investment of surplus funds. We use cash pooling to optimize the use of existing liquidity between the significant companies. In this system, the balances, either positive or negative, accumulating in the cash pooling accounts are swept daily to a regional target account and thus pooled. The aim of currency, interest rate and commodity risk management is to hedge the prices on which investment, production and sales plans are based using derivative financial instruments and commodity forwards, and to mitigate interest rate risks incurred in financing transactions. In the management of credit and country risk, diversification is used to limit the Volkswagen Group's exposure to counterparty risk. To achieve this, counterparty risk management imposes internal limits on the volume of business allowed per counterparty when financial transactions are entered into. Various credit rating criteria are applied in this process. These focus primarily on the capital resources of potential counterparties, as well as the ratings awarded by independent agencies. The relevant risk limits and the authorized financial instruments, hedging methods and hedging horizons are approved by the Group Board of Management Committee for Risk Management. For additional information on the principles and goals of financial management, please refer to page 187 and to the notes to the 2019 consolidated financial statements on pages 293 to 314.

**AUTOMOTIVE DIVISION NET CASH FLOW 2019**

€ billion

**FINANCIAL POSITION****Financial position of the Group**

In the period from January to December 2019, the Volkswagen Group generated gross cash flow of €39.9 (35.6) billion. The change in working capital amounted to €-22.0 (-28.3) billion. The administrative fine imposed after regulatory offense proceedings, which was recognized in the reporting period as a special item in connection with the diesel issue, led to an immediate cash outflow. Cash flows from operating activities were up by €10.7 billion to €18.0 billion.

At €20.1 billion, investing activities attributable to operating activities were 3.6% higher in the reporting period than in the previous year.

Cash outflow from financing activities amounted to €-0.9 billion, compared with cash inflow of €24.6 billion in the previous year. Financing activities include the dividend paid to the shareholders of Volkswagen AG, the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement, the cash inflow resulting from the IPO of TRATON and, most particularly, the issuance and redemption of bonds and changes in other financial liabilities. Following the application of the new IFRS 16, payments for the principal portion of the lease liability have to be recognized under financing activities since January 1, 2019.

The Volkswagen Group's cash and cash equivalents as reported in the cash flow statement were lower than in the prior-year period, at €24.3 (28.1) billion.

At the end of the reporting period, the Volkswagen Group's net liquidity was €-148.0 billion, compared with €-134.7 billion at the end of 2018.

**Financial position of the Automotive Division**

The Automotive Division's gross cash flow was €29.1 billion in fiscal year 2019, an increase of €3.1 billion compared with the prior-year figure. This was driven particularly by healthy earnings growth, lower tax payments than in the previous year, and positive effects from the application of the new IFRS 16. The change in working capital amounted to €+1.6 (-7.4) billion. Year-on-year, above all a significantly smaller increase in inventories and markedly lower cash outflows attributable to the diesel issue had a positive effect. As a result, cash flows from operating activities rose by €12.2 billion to €30.7 billion.

Investing activities attributable to operating activities amounted to €19.9 billion, €1.1 billion up on the prior-year period. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) included in this figure stood at €14.0 billion, an increase of 6.0% compared with 2018. The ratio of capex to sales revenue was unchanged at 6.6 (6.6)%. Capex was primarily allocated to our production facilities and to models that we launched in the reporting period or are planning to launch next year. These are primarily vehicles in the Golf, Atlas, ID.3, ID.4, Audi A3, Audi e-tron, Audi Q3, Audi A6/A7 family and Porsche Taycan model series as well as the Bentley Continental series. Other investment priorities included the ecological focus of our model range, product electrification and digitalization, and our modular toolkits. Additions to capitalized development costs amounting to €5.2 (5.2) billion were on a level with the 2018 figure. Strategic investments in a number of companies led to