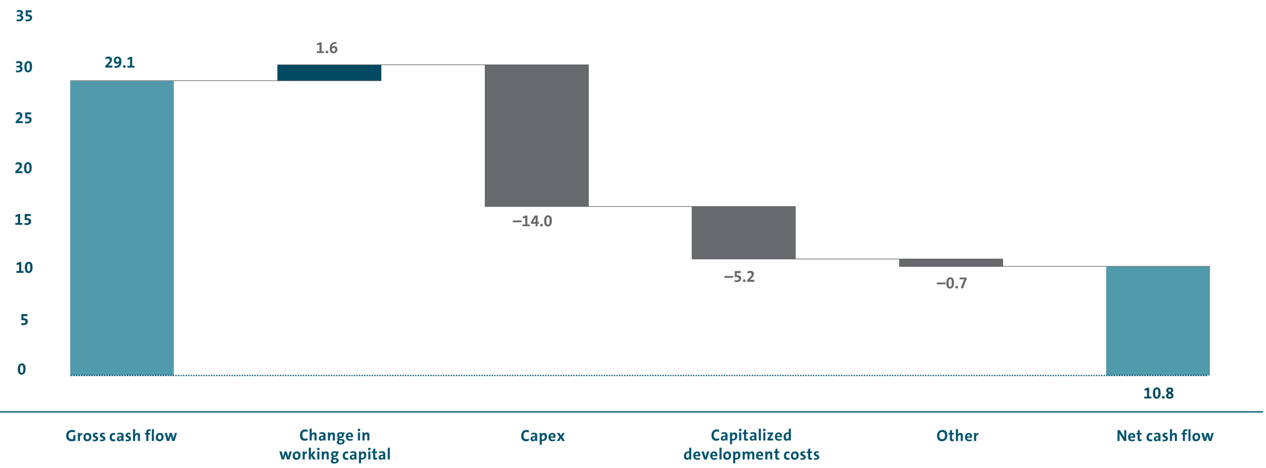
AUTOMOTIVE DIVISION NET CASH FLOW 2019
€ billion



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

CASH FLOW STATEMENT BY DIVISION

	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2019	2018	2019	2018	2019	2018
Cash and cash equivalents at beginning of period	**28,113**	**18,038**	**23,354**	**13,428**	**4,759**	**4,609**
Earnings before tax	18,356	15,643	15,137	12,861	3,219	2,782
Income taxes paid	−2,914	−3,804	−2,187	−3,786	−726	−19
Depreciation and amortization expense[2]	24,439	22,561	15,958	15,581	8,480	6,980
Change in pension provisions	342	524	320	503	23	21
Share of the result of equity-accounted investments	460	244	520	303	−59	−58
Other noncash income/expense and reclassifications[3]	−734	445	−651	502	−83	−56
Gross cash flow	**39,950**	**35,613**	**29,097**	**25,964**	**10,853**	**9,650**
Change in working capital	**−21,966**	**−28,341**	**1,636**	**−7,433**	**−23,603**	**−20,908**
Change in inventories	−674	−5,372	−345	−5,337	−329	−34
Change in receivables	−893	−6,400	−1,176	−1,800	283	−4,600
Change in liabilities	2,297	3,645	1,564	2,793	733	853
Change in other provisions	1,304	−1,286	1,400	−1,306	−96	20
Change in lease assets (excluding depreciation)	−13,204	−11,647	−110	−1,590	−13,095	−10,056
Change in financial services receivables	−10,796	−7,282	303	−191	−11,099	−7,090
Cash flows from operating activities	**17,983**	**7,272**	**30,733**	**18,531**	**−12,750**	**−11,258**
Cash flows from investing activities attributable to operating activities	**−20,076**	**−19,386**	**−19,898**	**−18,837**	**−178**	**−549**
of which: investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs	−14,230	−13,729	−14,007	−13,218	−223	−510
capitalized development costs	−5,171	−5,234	−5,171	−5,234	–	–
acquisition and disposal of equity investments	−913	−705	−716	−594	−196	−111
Net cash flow[4]	***−2,093***	***−12,113***	***10,835***	***−306***	***−12,928***	***−11,807***
Change in investments in securities, loans and time deposits	−1,069	−2,204	−5,018	6,129	3,949	−8,332
Cash flows from investing activities	**−21,146**	**−21,590**	**−24,916**	**−12,708**	**3,771**	**−8,882**
Cash flows from financing activities	**−865**	**24,566**	**−11,278**	**4,274**	**10,413**	**20,292**
of which: Capital transactions with noncontrolling interests	1,368	−28	1,368	−28	–	–
Capital contributions/capital redemptions	–	1,491	−970	1,418	970	73
MAN noncontrolling interest shareholders: compensation payments and acquisition of shares tendered	−1,109	−2,117	−1,109	−2,117	–	–
Effect of exchange rate changes on cash and cash equivalents	243	−173	205	−171	38	−2
Change of loss allowance within cash & cash equivalents	1	−1	1	−1	−0	0
Net change in cash and cash equivalents	**−3,784**	**10,075**	**−5,256**	**9,925**	**1,472**	**150**
Cash and cash equivalents at Dec. 31[5]	**24,329**	**28,113**	**18,098**	**23,354**	**6,231**	**4,759**
Securities, loans and time deposits	29,099	28,036	13,458	8,697	15,641	19,339
Gross liquidity	**53,428**	**56,148**	**31,556**	**32,051**	**21,872**	**24,098**
Total third-party borrowings	−201,468	−190,883	−10,280	−12,683	−191,189	−178,200
Net liquidity[6]	**−148,040**	**−134,735**	**21,276**	**19,368**	**−169,316**	**−154,103**

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Net of impairment reversals.
3 These relate mainly to the fair value measurement of financial instruments and the reclassification of gains/losses on disposal of noncurrent assets and equity investments to investing activities.
4 Net cash flow: cash flows from operating activities, net of cash flows from investing activities attributable to operating activities (investing activities excluding change in investments in securities, loans and time deposits).
5 Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.
6 The total of cash, cash equivalents, securities, loans to affiliates and joint ventures as well as time deposits net of third-party borrowings (noncurrent and current financial liabilities).

a €0.1 billion increase in the “Acquisition and disposal of equity investments” item to €0.7 billion.

Compared with the low prior-year figure, the Automotive Division’s net cash flow improved markedly by €11.1 billion to €10.8 billion. The main reasons were the increase in profit, a decline in cash outflows attributable to the diesel issue and a smaller increase in inventories.

The cash outflow from financing activities amounted to €–11.3 billion in fiscal year 2019; in the previous year, there had been a cash inflow of €4.3 billion. The dividend paid to the shareholders of Volkswagen AG in May 2019 amounted to €2.4 billion, a rise of €0.5 billion compared with the previous year. The “Capital transactions with noncontrolling interests” item includes the cash inflow of €1.4 billion resulting from the IPO of TRATON. As a result of the termination of the control and profit and loss transfer agreement with MAN SE, financing activities also include the acquisition of MAN shares tendered, and most particularly, the issuance and redemption of bonds and changes in other financial liabilities. As from January 1, 2019, payments of the principal portion of the lease liability are also reported in this item, as required following the application of the new IFRS 16.

As a result of the recognition of lease liabilities as financial liabilities required under IFRS 16, third-party borrowings in the Automotive Division were €5.4 billion higher at the end of the reporting period than at the end of the previous fiscal year. Despite this non-cash effect, the Automotive Division’s net liquidity was €21.3 billion on December 31, 2019, €1.9 billion above the level at the end of fiscal year 2018. The Automotive Division’s net liquidity accounted for 8.4 (8.2)% of consolidated sales revenue in the reporting period.

FINANCIAL POSITION IN THE PASSENGER CARS BUSINESS AREA[1]

€ million	2019	2018
Gross cash flow	25,474	22,910
Change in working capital	3,053	–5,916
Cash flows from operating activities	28,528	16,995
Cash flows from investing activities attributable to operating activities	–20,254	–17,303
Net cash flow	8,273	–308

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

In fiscal year 2019, the Passenger Cars Business Area’s gross cash flow was €25.5 billion, up €2.6 billion on the previous year due to earnings-related factors, lower tax payments and positive effects of the application of the new IFRS 16. The change in working capital amounted to €3.1 (–5.9) billion. The smaller increase in inventories than in the previous year and lower cash outflows attributable to the diesel issue had a positive effect. Consequently, cash flows from operating activities went up by €11.5 billion to €28.5 billion. Investing activities attributable to operating activities in the Passenger Cars Business Area increased to €20.3 (17.3) billion. Capex was higher, while capitalized development costs declined slightly. The intragroup sale of the power engineering business by the Commercial Vehicles Business Area to the Passenger Cars Business Area and strategic investments in a number of companies led to a marked year-on-year increase in the “Acquisition and disposal of equity investments” item. Compared with the low prior-year figure, the Passenger Cars Business Area’s net cash flow improved by €8.6 billion to €8.3 billion.

FINANCIAL POSITION IN THE COMMERCIAL VEHICLES BUSINESS AREA[1]

€ million	2019	2018
Gross cash flow	3,357	2,745
Change in working capital	–1,249	–1,257
Cash flows from operating activities	2,108	1,488
Cash flows from investing activities attributable to operating activities	603	–1,372
Net cash flow	2,711	116

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

In the reporting period, the Commercial Vehicles Business Area’s gross cash flow improved by €0.6 billion to €3.4 billion. The slight year-on-year increase was driven particularly by higher profits. The change in working capital amounted to €–1.2 (–1.3) billion. Cash flows from operating activities were up by €0.6 billion to €2.1 billion. The intragroup sale of the power engineering business led to a cash inflow from investing activities attributable to operating activities. Net cash flow increased to €2.7 (0.1) billion.

FINANCIAL POSITION IN THE POWER ENGINEERING BUSINESS AREA

€ million	2019	2018
Gross cash flow	265	309
Change in working capital	−168	−260
Cash flows from operating activities	98	49
Cash flows from investing activities attributable to operating activities	−247	−162
Net cash flow	−150	−113

In fiscal year 2019, the Power Engineering Business Area recorded gross cash flow of €0.3 (0.3) billion. Due to a decrease in funds tied up in working capital, the change in working capital amounted to €−0.2 (−0.3) billion. Cash flows from operating activities were higher than in the previous year. Investing activities attributable to operating activities increased by €0.1 billion to €0.2 billion. At €−0.1 (−0.1) billion, net cash flow was virtually on a level with the previous year.

Financial position in the Financial Services Division

In the reporting period, the Financial Services Division's gross cash flow was €10.9 (9.6) billion. The change in working capital of €−23.6 (−20.9) billion was a result of an increase in funds tied up in working capital, mainly driven by the growth in business volume. Cash flows from operating activities amounted to €−12.7 (−11.3) billion.

Investing activities attributable to operating activities declined by €0.4 billion to €0.2 billion in the reporting period, mainly due to lower capex.

In the Financial Services Division, financing activities resulted in a cash inflow of €10.4 (20.3) billion in fiscal year 2019 for refinancing the business volume. This figure primarily included the issuance and redemption of bonds and other financial liabilities.

At the end of the reporting period, the Financial Services Division's negative net liquidity, which is common in the industry, stood at €−169.3 billion; on December 31, 2018, it had amounted to €−154.1 billion.

NET ASSETS

Consolidated balance sheet structure

At the end of the reporting period, the Volkswagen Group recorded total assets of €488.1 billion, 6.5% more than on December 31, 2018. This increase was mainly the result of the higher business volume in the Financial Services Division, the application of the new IFRS 16 and currency translation effects. The structure of the consolidated balance sheet as on the reporting date is shown in the chart on page 123. The Volkswagen Group's equity amounted to €123.7 billion, €6.3 billion more than at the previous balance sheet date. The equity ratio was 25.3 (25.6)%. The “Assets held for sale” item mainly comprises the asset carrying amounts expected to be derecognized following the disposal of the interest in Renk, which was resolved in January 2020. The item also includes the carrying amount of the shares in Autonomous Intelligent Driving, which is to be used as a contribution to the equity investment in the joint venture with Ford, in addition to the provision of financial resources. The “Liabilities held for sale” item comprises the carrying amounts of the respective liabilities expected to be derecognized.

As of the end of fiscal year 2019, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €8.5 (9.3) billion, financial guarantees in the amount of €0.4 (0.3) billion and other financial obligations in the amount of €19.4 (26.6) billion. The previous year's amount of other financial obligations includes obligations from long-term leasing and rental contracts, which IFRS 16 requires to be presented in the affected balance sheet items as from January 1, 2019. Contingent liabilities relate primarily to legal risks in connection with the diesel issue as well as potential liabilities from tax risks in the Commercial Vehicles Business Area in Brazil. Other financial obligations primarily result from purchase commitments for property, plant and equipment and irrevocable credit commitments to customers. In addition, they include investments to which the Group has committed itself in the infrastructure for zero-emission vehicles and in initiatives to promote access to and awareness of this technology. These commitments were made as part of the settlement agreements in the USA in connection with the diesel issue. Other financial obligations include an amount of €1.2 billion for this purpose.