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# Group Management Report

(Combined Management Report of the Volkswagen Group and Volkswagen AG)

GROUP MANAGEMENT REPORT

# Goals and Strategies

With the enhanced TOGETHER 2025+ strategy, we aim to step up the pace, sharpen the focus of our strategic projects and follow through on implementation even more systematically. In so doing, we aim to make the future of mobility even more sustainable – for present and future generations.

With the future-oriented program TOGETHER – Strategy 2025 announced in 2016, we are seeking to make the Volkswagen Group more focused, efficient, innovative, customer-oriented and sustainable, and systematically geared toward generating profitable growth.

We at the Volkswagen Group have set ourselves the goal of continuing to excite our customers in future and meeting their diverse needs with an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions. Every day, we actively assume and exercise responsibility in relation to the environment, safety and society, and we aim to be a role model in these areas. Integrity, reliability, quality and passion thus form the basis for our work. Using this approach, we aim for technological leadership in the industry and competitive profitability while also striving to be an excellent employer.

In summer 2019, we further enhanced our program for the future with TOGETHER 2025+. We are increasing the momentum for achieving our strategic targets and sharpening our focus. To this end, the strategic vision of the Volkswagen Group was also revised. By “Shaping mobility – for generations to come”, we aim to more actively shape the future of mobility while safeguarding it sustainably – for present and future generations.

With electric drives, digital connectivity and autonomous driving, we want to make the automobile cleaner, quieter, more intelligent and safer. At the same time, our core product will become more emotive and offer a completely new driving experience. In this way, the car can continue to be a cornerstone of sustainable, individual and affordable mobility in the future. In addition, we are committed to the Paris Agreement on climate protection and are one of the first companies in our industry to commit ourselves to the zero-emissions target by 2050 at the latest.

The automotive industry is being shaped particularly by the transformation to e-mobility and digitalization. We have positioned ourselves to successfully tackle this radical change: the strategies of our brands and regions as well as those of our functional areas are consistently aligned with the TOGETHER 2025+ Group strategy.

Under the umbrella of the TOGETHER 2025+ Group strategy, we have defined five central modules that incorporate many of our existing Group initiatives. With this change, we are putting the focus on corporate governance, improved performance, increased brand values, software and excellence in employee management.

Our Code of Collaboration, along with our integrity and compliance program Together4Integrity (T4I), is a central pillar of the Group strategy. This Code describes how collaboration is to take place within the Group and between individuals in their day-to-day work. Its core values are encapsulated in the terms “genuine”, “straightforward”, “open-minded”, “as equals” and “united”. T4I brings together all activities relating to integrity, culture, compliance, risk management and human resources, creating a common path toward a new corporate culture.

## FIVE MODULES OF THE TOGETHER 2025+ STRATEGY

Our enhanced TOGETHER 2025+ Group strategy comprises consistent strategic decisions and specific modules aimed at safeguarding the long-term future of the Group and generating profitable growth.

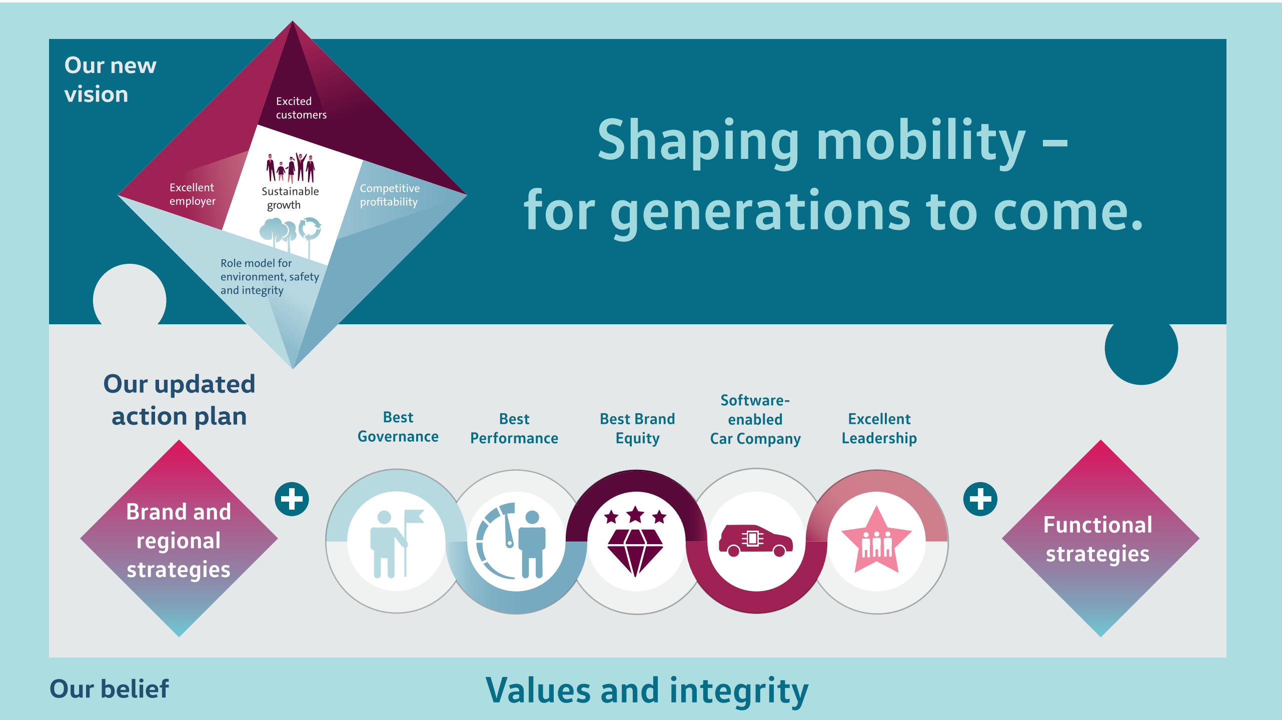
These modules are namely Best Governance, Best Performance, Best Brand Equity, Software-enabled Car Company and Excellent Leadership. We continuously review the status and progress of these initiatives in order to analyze the target achievement, importance and suitability of the measures defined. This enables us to tailor these modules to the transformation underway within our company. In the Best Governance module, we are working to create a focused, streamlined corporate structure to manage the brands, continually leverage synergies and accelerate decision-making processes. We want the Group to be perceived as efficiently managed, trustworthy, sustainable and transparent. To this end, we are intensifying the dialog with our key stakeholders and systematically reviewing whether we are still the best owner for our various brands and companies. We also want our $CO_2$ targets to be measurable and our progress toward $CO_2$ neutrality in 2050 to be transparent.

The aim of the Best Performance module is to achieve a sustainable increase in our enterprise value by increasing efficiency, productivity and profitability. As a global company, our size enables us to make even more efficient use of economies of scale. We remain firmly committed to our ambitious targets, work consistently on achieving them and strive to exceed them. This will lay the foundations for extensive investment in our Company, in our employees and in mobility for present and future generations.

In the Best Brand Equity module, the focus is on realigning and refining the brand portfolio, making a significant increase in the value of our Group brands possible by 2025. The profile and mission of each brand are being optimized and overlaps in market positioning reduced. Based on these optimizations, we will decide on the future design, product portfolio and services of each Group brand – using the needs of our customers as a starting point.

In the Software-enabled Car Company module, we are working to make software development one of the Volkswagen Group's core competencies. To achieve this, we are pooling existing expertise, substantially strengthening our resources and establishing a dedicated organizational unit. By 2025, all new vehicle models across the Group will be based on our own cross-brand software platform. This approach will enable us to leverage synergies between the individual brands and vehicle projects. The aim is that the Volkswagen Group and its brands will stand not only for the best vehicles but in equal measure for exciting digital products and services.

The Excellent Leadership module will accelerate the transformation to a more open, more partnership-based and more value-based leadership. We will completely restructure management development and training and take an even more systematic approach to succession planning so that, at our Group, the right talent is always in the right position at the right time. We are also defining clear expectations for the



Group's managers. These involve greater customer focus, more corporate responsibility, greater effectiveness and focus on results as well as a culture of constructive dissent and a positive approach in dealing with mistakes. Volkswagen also wants to increase diversity at all levels of the company and is pursuing clear, measurable targets for raising the proportion of female and international managers.

## GOALS AND KEY PERFORMANCE INDICATORS OF THE GROUP'S STRATEGY

The five strategic modules describe how we want to achieve our vision of sustainable mobility for present and future generations. We are managing our project using four target dimensions, which are also reflected in the Volkswagen strategy rhombus. The four target dimensions are as follows: excited customers, excellent employer, role model for environment, safety and integrity, and competitive profitability. We want to grow sustainably by consistently pursuing these objectives.

The target dimensions apply throughout the whole Group. The strategic KPIs that we use to measure how well we have implemented our Group strategy are dependent on the respective business model. After all, the business model for our passenger car-producing brands is different from the business model for trucks and buses and also differs from the business model for our Power Engineering Business Area and our services business.

The strategic KPIs of the competitive profitability target dimension have been defined and standardized. As the Group strategy is currently being revised and specified in detail, the content of some strategic KPIs in the other target dimensions is still being determined. The relevance of the KPIs is reviewed at Group level and their focus is continuously monitored and adjusted as necessary. We report on the defined non-financial strategic KPIs in the "Corporate Governance Report" and "Sustainable Value Enhancement" sections.

### Target dimension: excited customers

This target dimension focuses on the diverse needs of our customers and on tailor-made mobility solutions. We aspire to exceed our customers' expectations, thus generating maximum customer benefit. This requires not only the best products, the most efficient solutions and the best service, but also flawless quality and an outstanding image. We want to excite our existing customers, win over new ones and retain their loyalty in the long term – because only loyal and faithful customers will recommend us to others.

The strategic KPIs consist of the conquest rate and KPIs pertaining to loyalty, customer satisfaction and quality.

### Target dimension: excellent employer

To achieve sustainable success, we need skilled and dedicated employees. We aim to foster their satisfaction and motivation by means of equal opportunities, an attractive and modern working environment, and a forward-looking organization of work. An exemplary leadership and corporate culture forms the basis for this, allowing us to retain our core workforce and attract new talents.

The strategic KPIs of this target dimension cover internal employer attractiveness determined by means of the opinion survey, external employer attractiveness, an external employer ranking as well as the diversity index.

### Target dimension: role model for environment, safety and integrity

Every day, we at the Volkswagen Group assume and exercise responsibility in issues relating to the environment, safety and society. This is reflected both in our thoughts and actions and in all our decisions. We pay particular attention to the use of resources and the emissions of our product portfolio as well as those of our sites and plants, with the goal of continuously improving our carbon footprint and lowering pollutant emissions. Through innovations and outstanding quality, we aim for maximum product safety.

Our primary objectives in this process include complying with laws and regulations, establishing secure processes and dealing openly with mistakes so that they can be avoided or rectified in the future. In terms of integrity, Volkswagen aims to become a role model for a modern, transparent and successful enterprise.

The strategic KPIs of this target dimension consist of the decarbonization index and fleet $CO_2$ emissions figures, compliance, a culture of dealing openly with mistakes, and integrity.

**Target dimension: competitive profitability**

Investors judge us by whether we are able to meet our obligations as regards interest payments and debt repayments. As equity holders, they expect appropriate dividends and a long-term increase in the value of their shares.

We make investments with a view to achieving profitable growth and strengthening our competitiveness, thus keeping the Volkswagen Group on a firm footing in the future and ensuring it remains an attractive investment option.

The goals we have set ourselves are operational excellence in all business processes and becoming the benchmark for the entire industry.

The strategic KPIs are operationalized for internal management purposes: target and actual data are derived from Volkswagen Group figures.

**STRATEGIC KPIS: COMPETITIVE PROFITABILITY**

| | 2015 | 2025 |
|---|---|---|
| Operating return on sales[1] | 6.0% | 7 to 8% |
| Research and development ratio (R&D ratio) in the Automotive Division | 7.4% | ~6% |
| Capex/sales revenue in the Automotive Division | 6.9% | ~6% |
| Net cash flow in the Automotive Division | €8,887 million | >€10 billion |
| Payout ratio | negative | ≥30% |
| Net liquidity in the Automotive Division | €24,522 million, 11.5% | ~10% of consolidated sales revenue |
| Return on investment (ROI) in the Automotive Division | –0.2% | >14%[2] |

1 2015 before special items.
2 Taking into account the new IFRS 16.

# Internal Management System and Key Performance Indicators

This chapter describes how the Volkswagen Group is managed on the basis of the Group strategy and the key performance indicators used for this purpose. In addition to financial measures, our management system also contains nonfinancial key performance indicators.

The Volkswagen Group's performance and success can be measured by both financial and nonfinancial key performance indicators. With the Best Performance module of our enhanced TOGETHER 2025+ Group strategy, we want to improve these indicators across all areas and along the entire value chain. In so doing, we aim to sustainably increase the Company's value and raise our efficiency, productivity and profitability.

In the following, we first describe the internal management process and then explain the Volkswagen Group's core performance indicators.

## INTERNAL MANAGEMENT PROCESS IN THE VOLKSWAGEN GROUP

Consistent, close integration of the Group and brand strategies with the operational planning process ensures transparency at the Volkswagen Group when it comes to the financial assessment and evaluation of strategic decisions. The operational medium-term planning that is conducted once a year and generally covers a period of five years is incorporated into the strategic planning as a key management element of the Group.

Medium-term planning forms the core of our operational planning and is used to formulate and safeguard the requirements for realizing strategic projects designed to meet Group targets in both technical and economic terms – and particularly in relation to earnings, cash flow and liquidity effects. In addition, it is used to coordinate all business areas with respect to the strategic action areas concerned: functions/processes, products and markets.

When planning the Company's future, the individual planning components are determined on the basis of the timescale involved:

> the long-term unit sales plan, which sets out market and segment growth and then derives the Volkswagen Group's delivery volumes from them,
> the product program as the strategic, long-term factor determining corporate policy,
> capacity and utilization planning for the individual sites.

The coordinated results of the upstream planning processes are used as the basis for the medium-term financial planning: the Group's financial planning, including the brands and business fields, comprises the income statement, cash flow and balance sheet planning, profitability and liquidity, as well as the upfront investments needed for alternative products and the implementation of strategic options. The first year of the medium-term planning period is fixed and a budget drawn up for the individual months. This is planned in detail down to the level of the operating cost centers.

The budget is reviewed each month throughout the year to establish the target achievement level. Key internal management instruments comprise target/actual comparisons, prior-year comparisons, variance analyses and, where necessary, action plans to ensure targets are met. For the current fiscal year, detailed revolving monthly forecasts are prepared for the coming three months and the full year, taking into account the current risks and opportunities. The focus of intrayear internal management is therefore on adapting ongoing operations. At the same time, the current forecast serves as a potential, ongoing corrective to the medium-term and budget planning that follows on from it.

### CORE PERFORMANCE INDICATORS IN THE VOLKSWAGEN GROUP

The Volkswagen Group's internal management system is based on nine core performance indicators, which are derived from our strategic goals:

> Deliveries to customers
> Sales revenue
> Operating result
> Operating return on sales
> Research and development ratio (R&D ratio) in the Automotive Division
> Capex/sales revenue in the Automotive Division
> Net cash flow in the Automotive Division
> Net liquidity in the Automotive Division
> Return on investment (ROI) in the Automotive Division

Deliveries to customers are defined as handovers of new vehicles to the end customer. This figure shows the popularity of our products and is the measure we use to determine our competitive position in the various markets. Deliveries are closely related to our targets of exciting our customers, being a role model for environment, safety and integrity, and being an excellent employer. One of the most important prerequisites for the Company's long-term success is a strong brand portfolio that – on the basis of outstanding quality – offers tailor-made mobility solutions with safe, resource-efficient vehicles, thus meeting the diverse needs of customers. Demand for our products guarantees not only unit sales and production, but also full utilization of our sites and the jobs of our employees. The goals we are striving for cannot be achieved without a skilled, dedicated workforce and a consensus on shared values.

Sales revenue, which does not include the figures for our equity-accounted Chinese joint ventures, reflects our market success in financial terms. Following adjustment for our use of resources, the operating result reflects the Company's actual business activity and documents the economic success of our core business. The operating return on sales is the ratio of the operating result to sales revenue.

The research and development ratio (R&D ratio) in the Automotive Division shows total research and development costs in relation to sales revenue. Research and development costs comprise a range of expenses, from futurology through to the development of marketable products. Particular emphasis is placed on the environmentally friendly orientation of our product portfolio, digitalization and new technologies. The R&D ratio reflects our activities undertaken to safeguard the Company's future viability.

The ratio of capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) to sales revenue in the Automotive Division reflects both our innovative power and our future competitiveness. It shows our capital expenditure – largely for modernizing, expanding, electrifying and digitalizing our product range and for environmentally friendly drivetrains, as well as for adjusting production capacities and improving production processes – in relation to the Automotive Division's sales revenue.

Net cash flow in the Automotive Division represents the excess funds from operating activities available for dividend payments, for example. It is calculated as cash flows from operating activities less cash flows from investing activities attributable to operating activities.

Net liquidity in the Automotive Division is the total of cash, cash equivalents, securities, loans and time deposits not financed by third-party borrowings. To safeguard our business activities, we have formulated the strategic target that net liquidity in the Automotive Division should amount to approximately 10% of the consolidated sales revenue.

We use the return on investment (ROI) to calculate the return on invested capital for a particular period in the Automotive Division, including the Chinese joint ventures on a proportionate basis, by calculating the ratio of the operating result after tax to average invested capital. If the return on investment (ROI) exceeds the market cost of capital, the value of the Company has increased. This is how we measure the financial success of our brands, locations and vehicle projects.

You can find information on and explanations of the sales figures and the Volkswagen Group's financial key performance indicators on pages 100 to 106 and on pages 113 to 128, respectively.

Detailed descriptions of our activities and additional nonfinancial key performance indicators in the areas of sustainability, research and development, procurement, production, sales and marketing, quality assurance, employees, information technology and the environment can be found in the chapter entitled "Sustainable Value Enhancement" beginning on page 133 of this annual report. Nonfinancial key performance indicators related to compliance are described in the "Corporate Governance Report" on page 67.

# Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2019 with respect to equity investments.

## OUTLINE OF THE LEGAL STRUCTURE OF THE GROUP

Volkswagen AG is the parent company of the Volkswagen Group. It develops vehicles and components for the Group's brands, but also produces and sells vehicles, in particular passenger cars and light commercial vehicles for the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands. In its capacity as parent company, Volkswagen AG holds direct or indirect interests in AUDI AG, SEAT S.A., ŠKODA AUTO a.s., Dr. Ing. h.c. F. Porsche AG, TRATON SE, Volkswagen Financial Services AG, Volkswagen Bank GmbH and a large number of other companies in Germany and abroad. More detailed disclosures are contained in the list of shareholdings in accordance with sections 285 and 313 of the Handelsgesetzbuch (HGB – German Commercial Code), which can be accessed at www.volkswagenag.com/en/InvestorRelations.html and is part of the annual financial statements.

Volkswagen AG is a vertically integrated energy supply company as defined by section 3 no. 38 of the Energiewirtschaftsgesetz (EnWG – German Energy Industry Act) and is therefore subject to the provisions of the EnWG. In the electricity sector, Volkswagen AG generates, sells and distributes electricity together as a Group with subsidiaries.

The Volkswagen AG Board of Management has sole responsibility for managing the Company. The Supervisory Board appoints, monitors and advises the Board of Management; it is consulted directly on decisions that are of fundamental significance for the Company.

## ORGANIZATIONAL STRUCTURE OF THE GROUP

The Volkswagen Group is one of the leading multibrand groups in the automotive industry. The Company's business activities comprise the Automotive and Financial Services divisions. All brands within the Automotive Division – with the exception of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands – are independent legal entities.

The Automotive Division comprises the Passenger Cars, Commercial Vehicles and Power Engineering business areas. The Passenger Cars Business Area essentially consolidates the Volkswagen Group's passenger car brands and the Volkswagen Commercial Vehicles brand. Activities focus on the development of vehicles and engines, the production and sale of passenger cars and light commercial vehicles, and the genuine parts business. The product portfolio ranges from compact cars to luxury vehicles and also includes motorcycles, and will gradually be supplemented by mobility solutions.

The Commercial Vehicles Business Area primarily comprises the development, production and sale of trucks and buses from the Scania and MAN brands, the corresponding genuine parts business and related services. The commercial vehicles portfolio ranges from light vans to heavy trucks and buses. The collaboration between the two commercial vehicle brands is coordinated in TRATON SE, which has been listed on the stock exchange since mid-2019.

The Power Engineering Business Area combines the large-bore diesel engines, turbomachinery, special gear units, propulsion components and testing systems businesses.

The activities of the Financial Services Division comprise dealer and customer financing, vehicle leasing, direct banking and insurance activities, as well as fleet management and mobility offerings.

With its brands, the Volkswagen Group is present in all relevant markets around the world. The key sales markets currently include Western Europe, China, the USA, Brazil, Russia, Mexico and Poland.

Volkswagen AG and the Volkswagen Group are managed by the Volkswagen AG Board of Management in accordance with the Volkswagen AG Articles of Association and the rules of procedure for Volkswagen AG's Board of Management issued by the Supervisory Board.

In addition to the Finance & IT, Human Resources and Integrity & Legal Affairs divisions, the Volkswagen Group collaborates across six operating units and the China region, these being the "Volume", "Premium", "Sport & Luxury", "Truck & Bus" brand groups, as well as the Components & Procurement and Financial Services operating units. The "Volume" brand group comprises the Volkswagen Passenger Cars, SEAT, ŠKODA and Volkswagen Commercial Vehicles brands. The Audi, Lamborghini and Ducati brands are brought together in the "Premium" brand group. "Sport & Luxury" is comprised of the Porsche, Bentley and Bugatti brands. The "Truck & Bus" brand group is the umbrella for the Scania and MAN brands. Components & Procurement will function as one unit spanning all of the brands and supporting them. The Financial Services business has been combined into a single unit. We are convinced that this management model will allow better use of existing expertise and economies of scale, boost synergy effects more systematically and accelerate decision making. In addition, it will prepare the Volkswagen Group for a management structure that is simpler, leaner and more effective, and strengthen the brands, giving them more autonomy. In line with the principle of subsidiarity, decisions will be taken at the lowest competent level, close to business operations.

At the same time, spreading the Group's management duties more broadly means that responsibility is assigned more clearly and definitively. Every member of the Board of Management has assumed additional higher-level duties for the Group. At the same time, the members of the Board of Management of Volkswagen AG have responsibility for a brand group or operating unit, improving collaboration between the brands and the Group as a whole and ensuring that management of the Group is a shared undertaking.

Each brand within the Volkswagen Group is managed by a brand board of management, which ensures the brand's independent and self-contained development and business operations. To the extent permitted by law, the board adheres to the Group targets and requirements laid down by the Board of Management of Volkswagen AG, as well as with the agreements in the brand groups. This allows Group-wide interests to be pursued, while at the same time safeguarding and reinforcing each brand's specific characteristics. Matters that are of importance to the Group as a whole are submitted to the Group Board of Management to be agreed upon, to the extent permitted by law. The rights and obligations of the statutory bodies of the relevant brand company remain unaffected.

The Volkswagen Group companies are managed solely by their respective managements. The management of each individual company takes into account not only the interest of its own company but also the interests of the Group, the relevant brand group and the individual brands in accordance with the framework laid down by law.

At Group level, committees also address key strategic issues, for example relating to product planning, investments, risks management and management issues. Some of the committees were optimized in the reporting year in order to improve the efficiency of their decision making. This has reduced complexity and reinforced governance within the Group.

The Best Governance module of our future program TOGETHER 2025+, which was enhanced over the course of the fiscal year, is fostering our Company's transformation. One of its aims is to further improve manageability of the Group and to make even better use of synergy effects.

### MATERIAL CHANGES IN EQUITY INVESTMENTS

The control and profit and loss transfer agreement between MAN SE, as the controlled company, and TRATON SE (at that time Truck & Bus GmbH), a subsidiary of Volkswagen AG, as the controlling company, came into force upon its entry in the commercial register on July 16, 2013. In summer 2018, the Higher Regional Court in Munich made a final decision in the award proceedings on an increase in the cash settlement and the compensation rights per share for the noncontrolling interest shareholders of MAN SE. This decision resulted in a significant increase in the annual compensation to be paid to noncontrolling interest shareholders of MAN SE. In the opinion of the Board of Management at TRATON SE (at that time TRATON AG), this was no longer proportionate to the profit transfer from MAN SE and other benefits stipulated in the control and profit and loss transfer agreement; TRATON SE therefore exercised its right to extraordinary termination in accordance with section 304(4) of the Aktiengesetz (AktG – German Stock Corporation Act) in August 2018 and terminated the control and profit and loss transfer agreement effective January 1, 2019. Following the announcement of the termination of the control and profit and loss transfer agreement and the recording thereof in the commercial register on January 3, 2019, the noncontrolling shareholders of MAN SE once again had the right to tender their shares to TRATON SE, pursuant to the provisions of the control and profit and loss transfer agreement, within a two-month period at a cash settlement price of €90.29. As of year-end 2019, TRATON SE held 94.68 (87.04)% of the ordinary shares and 86.85 (83.05)% of the preferred shares in MAN SE.

Since the end of June 2019, shares of TRATON SE have been traded on the regulated market of the Frankfurt Stock Exchange and the Nasdaq Stockholm exchange. These no-par value bearer shares were placed with investors from Volkswagen AG's shareholding. Volkswagen remains an involved majority shareholder and held 89.72% of the share capital in TRATON SE at the end of the reporting year. The control and profit and loss transfer agreement between Volkswagen AG and TRATON SE ended in accordance with section 307 of the German Stock Corporation Act on December 31, 2019.

#### LEGAL FACTORS INFLUENCING BUSINESS

Like other international companies, the business of Volkswagen companies is affected by numerous laws in Germany and abroad. In particular, there are legal requirements relating to development, products, production and distribution, as well as supervisory, data protection, financial, company, commercial, capital market, anti-trust and tax regulations and regulations relating to labor, banking, state aid, energy, environmental and insurance law.

VOLKSWAGEN AG SHAREHOLDINGS
www.volkswagenag.com/en/InvestorRelations.html

# Corporate Governance Report

Corporate governance is defined as responsible, transparent corporate management and supervision that aim to add long-term value. For us, good corporate governance not only forms the basis for lasting success; it is also an important prerequisite for strengthening the trust of our stakeholders in our work.

## THE GERMAN CORPORATE GOVERNANCE CODE – A BLUEPRINT FOR SUCCESSFUL CORPORATE GOVERNANCE

Corporate governance provides the regulatory framework for corporate management and supervision. This includes a company's organization and values, and the principles and guidelines for its business policy. The German Corporate Governance Code (the Code) contains recommendations and suggestions for sound, responsible corporate management and supervision. It was prepared by a dedicated government commission on the basis of the material provisions and nationally and internationally accepted standards of corporate governance. The government commission regularly reviews the Code in light of current developments and updates it as necessary. The Board of Management and the Supervisory Board of Volkswagen AG base their work on the recommendations and suggestions of the German Corporate Governance Code. We consider good corporate governance to be a key prerequisite for achieving a lasting increase in the Company's value. It helps strengthen the trust of our shareholders, customers, employees, business partners and investors in our work and enables us to meet the steadily increasing demand for information from national and international stakeholders.

## DECLARATIONS OF CONFORMITY (VALID AS OF THE DATE OF THE DECLARATION)

The Board of Management and the Supervisory Board of Volkswagen AG issued the annual declaration of conformity with the Code as required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on November 15, 2019 with the following wording:

"The Board of Management and the Supervisory Board declare the following:

The recommendations of the Government Commission of the German Corporate Governance Code in the version dated 7 February 2017 (the Code) that was published by the German Ministry of Justice in the official section of the Federal Gazette (Bundesanzeiger) on 24 April 2017 was complied with in the period from the last Declaration of Conformity dated 16 November 2018 and will continue to be complied with, with the exception of the numbers listed below and their stated reasons and periods listed below.

- a) 4.2.3(4) (severance payment cap)
  A severance payment cap will be included in new contracts concluded with members of the Board of Management, but was not stipulated in contracts concluded with Board of Management members entering their third term of office or beyond provided a cap did not form part of the initial contract. Grandfather rights were applied in this respect. This recommendation has been complied with in full since June 2019, because there are no longer any contracts containing grandfather clauses.
- b) 5.3.2(3) sentence 2 (independence of the chair of the Audit Committee)
  It is unclear from the wording of this recommendation whether the Chairman of the Audit Committee is "independent" within the meaning of number 5.3.2(3) sentence 2 of the Code. Such independence could be considered lacking in view of his seat on the Supervisory Board of Porsche Automobil Holding SE, kinship with other members of the Supervisory Board of the company and of Porsche Automobil Holding SE, his indirect minority interest in Porsche Automobil Holding SE, and business relations with other members of the Porsche and Piëch families who also have an indirect interest in Porsche Automobil Holding SE. However, it is our opinion that these relationships do not constitute a conflict of interest nor do they interfere with his duties as the Chairman of the Audit Committee. This deviation is therefore being declared purely as a precautionary measure.
- c) 5.4.1(6 to 8) (disclosure regarding election recommendations)
  With regard to the recommendation in number 5.4.1(6-8) of the Code stating that certain circumstances disclosed by the Supervisory Board when making election recommendations to the Annual General Meeting, the stipulations of the Code are vague and the definitions unclear. Purely as a precautionary measure, we therefore declare a deviation

from the Code in this respect. Notwithstanding this, the Supervisory Board will make every effort to satisfy the requirements of the recommendation.

> d) 5.4.5 sentence 2 (a maximum of three supervisory board mandates in non-group listed corporations or comparable companies)
On 28 June 2019, TRATON SE shares commenced trading on the regulated market of the Frankfurt Stock Exchange and the Nasdaq in Stockholm. The Chairman of the Supervisory Board has been on the supervisory boards of three listed companies since that date, namely VOLKSWAGEN AG, AUDI AG and TRATON SE, as well as on the Supervisory Board of Bertelsmann SE & Co. KGaA. He is also Chairman of the Executive Board of Porsche Automobil Holding SE. Porsche Automobil Holding SE is not part of the same group as AUDI AG, VOLKSWAGEN AG and TRATON SE. As it cannot be ruled out that the supervisory board mandate at Bertelsmann SE & Co. KGaA involves similar requirements to those of a supervisory mandate in a listed company, and as the precise method of counting the mandates is unclear, we declare a deviation from section 5.4.5 sentence 2 of the Code as a precautionary measure. We are, however, confident that the Chairman of the Supervisory Board of VOLKSWAGEN AG has sufficient time at his disposal to fulfill the duties related to his mandate in the VOLKSWAGEN Group."

The current declaration of conformity is also published on our website http://www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html.

With the exception of number 4.2.3(2) sentence 9 (no early disbursements of variable remuneration components) and number 5.1.2(2) sentence 1 (duration of first-time appointments to the Board of Management), the suggestions in the version of the Code as amended on February 7, 2017 have been complied with. The general compensation clauses in the contracts with members of the Board of Management may, if applied accordingly, result in early disbursement of multi-year variable remuneration components. The Supervisory Board will decide the duration of each first-time appointment to the Board of Management on an individual basis, taking the best interests of the Company into account. The suggestion made in number 2.3.2 sentence 2 (accessibility of the voting proxy during the Annual General Meeting) was implemented at the 2019 Annual General Meeting in such a manner that the shareholders were able to reach the voting proxies named by the Company to exercise their voting rights until 1:00 pm, also by electronic means. The suggestion made in number 2.3.3 (broadcast of the Annual General Meeting) was implemented at the 2019 Annual General Meeting so that the introductory remarks and the speech by the Chairman of the Supervisory Board and the speech of the Chairman of the Board of Management were broadcast.

Our listed subsidiaries AUDI AG, TRATON SE, MAN SE and RENK AG have also each issued declarations of conformity with the German Corporate Governance Code. The declarations of conformity by our listed subsidiaries can be accessed on the websites shown on this page.

#### COOPERATION BETWEEN THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

The Supervisory Board advises and monitors the Board of Management with regard to the management of the Company and is directly involved in decisions of fundamental importance to the Company. The Board of Management and the Supervisory Board of Volkswagen AG consult closely on the strategic orientation of the Volkswagen Group. The two bodies jointly assess, at regular intervals, the progress made in implementing the corporate strategy. The Board of Management reports to the Supervisory Board regularly, promptly and comprehensively in both written and oral form on all issues of relevance for the Company with regard to strategy, planning and the situation of the Company, the development of the business, the risk situation, risk management and compliance.

More information on the cooperation between the Board of Management and the Supervisory Board of Volkswagen AG and on the work and structure of the committees of the Supervisory Board can be found in the Report of the Supervisory Board on pages 12 to 17 of this annual report.

Information on the members of the Board of Management and Supervisory Board, as well as on the Supervisory Board committees, can be found on pages 88 to 91.

**DECLARATION OF CONFORMITY OF VOLKSWAGEN AG**
www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html

**DECLARATION OF CONFORMITY OF AUDI AG**
www.audi.com/cgk-declaration

**DECLARATION OF CONFORMITY OF TRATON SE**
https://ir.traton.com/websites/traton/English/5000/corporate-governance.html

**DECLARATION OF CONFORMITY OF MAN SE**
https://www.corporate.man.eu/en/investor-relations/corporate-governance/corporate-governance-at-man/Corporate-Governance-at-MAN.html

**DECLARATION OF CONFORMITY OF RENK AG**
https://www.renk-ag.com/en/investor-relations/financial-reports/

### OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT AS WELL AS THE SENIOR EXECUTIVE POSITIONS

In view of the Company’s specific situation, its purpose, its size and the extent of its international activities, the Supervisory Board of Volkswagen AG strives to achieve a composition that takes the Company's ownership structure and the following aspects into account:

> At least three members of the Supervisory Board should be persons who embody the criterion of internationality to a particularly high degree.
> At least four members of the Supervisory Board should be shareholder representatives with no potential conflicts of interest, particularly conflicts of interest that could arise from an advisory or board position at customers, suppliers, lenders, or other third parties.
> In addition, at least four of the shareholder representatives on the Supervisory Board must be persons who are independent as defined in number 5.4.2 of the Code.
> At least three of the seats on the Supervisory Board should be held by people who make a special contribution to the diversity of the Board.
> Furthermore, proposals for elections should not normally include persons who will have reached the age of 75 on the date of the election or who will have been members of the Supervisory Board for more than 15 years on the date of the election.

The above criteria have been met. After thorough deliberation, the Supervisory Board decided to propose Mr. Hans Michel Piëch to the 2019 Annual General Meeting for re-election to the Supervisory Board, despite him exceeding the regular age limit of 75 (in accordance with the Supervisory Board rules of procedure) at the time of election. Mr. Hans Michel Piëch is indirectly the largest individual shareholder in Volkswagen AG and – thanks in part to his many years of work for numerous other companies in the Volkswagen Group – has a particular wealth of experience and expertise in the Company’s business areas. The Supervisory Board is confident that he will continue to contribute this in the Company’s best interests in the future. The independent members of the Supervisory Board within the meaning of number 5.4.2 of the Code are, at the present time in any case, Ms. Hessa Sultan Al-Jaber and Ms. Louise Kiesling, Mr. Hussain Ali Al-Abdulla, Mr. Bernd Althusmann and Mr. Stephan Weil.

In addition, the Supervisory Board has decided on the following profile of skills and expertise for the full Board:

The Supervisory Board as a whole must collectively have the knowledge, skills and professional expertise required to properly perform its supervisory function and assess and monitor the business conducted by the company. For this, the members of the Supervisory Board must collectively be familiar with the sector in which the Company operates. The key skills and requirements of the Supervisory Board as a whole include, in particular:

> Knowledge of or experience in the manufacture and sale of all types of vehicles and engines or other technical products,
> Knowledge of the automotive industry, the business model and the market, as well as product expertise,
> Knowledge in the field of research and development, particularly of technologies with relevance for the Company,
> Experience in corporate leadership positions or in the supervisory bodies of large companies,
> Knowledge in the areas of governance, law or compliance,
> Detailed knowledge in the areas of finance, accounting, or auditing,
> Knowledge of the capital markets,
> Knowledge in the areas of controlling/risk management and the internal control system,
> Human resources expertise (particularly the search for and selection of members of the Board of Management, and the succession process) and knowledge of incentive and remuneration systems for the Board of Management,
> Detailed knowledge or experience in the areas of codetermination, employee matters and the working environment in the Company.

The current composition of the Supervisory Board is also in line with this profile of skills and expertise. The curriculum vitae of the members of the Supervisory Board are available online at www.volkswagenag.com/en/group/executive-bodies. html.

The statutory quota of at least 30% women and at least 30% men has applied to new appointments to the Supervisory Board of Volkswagen AG since January 1, 2016 as required by the Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst (Führpos-GleichberG – German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors). Shareholder and employee representatives have resolved that each side will meet this quota separately. The shareholder representatives have met the quota of at least 30% women and at least 30% men since the 56th Annual General Meeting on June 22, 2016. The employee representatives have met the quota since the end of the 57th Annual General Meeting on May 10, 2017. Both the shareholder and the employee representatives fulfilled the quota on December 31, 2019.

The Supervisory Board set a target quota of 11.1% for the period after December 31, 2016 for the proportion of female members on the Board of Management as required in accordance with the FührposGleichberG. The new deadline set for achievement of this target is December 31, 2021. The proportion of female members on the Board of Management

TOGETHER4INTEGRITY

1
Integrity and compliance are central to our business strategy

2
Integrity and compliance risks are identified, owned, managed and mitigated

3
Our leaders at all levels across our organization build and sustain a culture of integrity

4
We encourage, protect and value the reporting of concerns and suspected wrongdoing

5
We take action and hold ourselves accountable when wrongdoing occurs

**Together4Integrity**
We keep our word

of Volkswagen AG as of December 31, 2019 was 12.5%, thus meeting the target quota.

For the proportion of women in management in accordance with the FührposGleichberG, Volkswagen AG has set itself the target of 13.0% women in the first level of management and 16.9% women in the second level of management for the period up to the end of 2021. As of December 31, 2019, the proportion of women in the active workforce at the first level of management was 11.4 (10.7)% and at the second level of management it was 16.4 (15.4)%.

### REMUNERATION REPORT

Extensive explanations of the remuneration system and the individual remuneration of the members of the Board of Management and Supervisory Board can be found in the Remuneration Report starting on page 70 of the combined management report, in the notes to Volkswagen's consolidated financial statements on page 334, and on page 65 of the notes to the annual financial statements of Volkswagen AG.

The Corporate Governance Report according to number 3.10 of the Code in the version dated February 7, 2017 ends here.

### GROUP CORPORATE GOVERNANCE DECLARATION

The Group corporate governance declaration forms part of the combined management report and is permanently available at www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html. It also contains the description of the diversity concepts for the Board of Management and Supervisory Board of Volkswagen AG.

**GROUP CORPORATE GOVERNANCE DECLARATION**
**www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html**

### INTEGRITY

With the Group strategy that was enhanced in 2019 – TOGETHER 2025+ – Volkswagen has made becoming a role model in the areas of integrity and compliance one of its key objectives.

With the Board of Management position for Integrity and Legal Affairs, the Group has put in place the organizational prerequisites for centralized integrity management. This Group function is responsible for planning, preparing and implementing programs and projects aimed at raising awareness, providing information and reinforcing a shared awareness of integrity.

Integrity at Volkswagen is defined as acting out of conviction, with responsibility and steadfastness. Integrity is an inner disposition that acts as an internal moral compass for doing the right thing in gray areas, in the absence of explicit rules or in the event of conflicting objectives. This means complying with our Group principles and the ethical principles established therein and behaving correctly in accordance with the rules. It also includes the steadfastness needed to adhere to these principles – regardless of economic and social pressure.

A comprehensive integrity program has been in place since 2016 with information campaigns, opportunities for dialog and initiatives aimed at all employees. This encompasses measures such as international get-togethers for managers and so-called integrity workshops for team spokespeople in production. In addition, we have launched an ambassador program that helps multipliers to make integrity a visible and practical part of everyday working life. The reporting year also saw us launch the integrity index as a pilot project in the Volkswagen Passenger Cars and Audi brands' German locations. The index was developed in collaboration with the Technical University of Munich and is designed to give a comprehensive picture of an organization's integrity. In future, we will use it as a performance indicator to measure our progress toward our strategic goal of being a role model for integrity. With the integrity index, we are setting a benchmark for measuring integrity at an international level. The index can be used across industries and is geared toward global use. It has strong scientific validity and incorporates established frameworks such as the Ethics & Compliance Initiative (ECI) and Global Reporting Initiative (GRI). Its intention is to reveal possible weaknesses in integrity and compliance matters and make visible the changing mindset and behavior of managers and employees.

#### Together4Integrity: Establishing processes and engaging with people

As a central part of achieving the goal of becoming a role model for integrity and compliance, Volkswagen has launched Together4Integrity (T4I) – one of the largest strategic programs of transformation in the Group's history.

We firmly believe that only with lasting and dependable integrity will our Company be able to gain and boost the trust of its customers, staff, shareholders, business partners and the general public. With T4I, integrity and compliance are given the same priority as other parameters such as economic targets, sales figures and product quality. T4I strengthens corporate governance in a lasting way. As a Group-wide program, it has been bringing together all integrity- and compliance-related initiatives from 15 different departments under a common umbrella since 2018. The departments involved include Research and Development, Compliance, HR and Integrity.

T4I is based on the five principles of the internationally recognized ECI, which relate to strategy, risk management, a culture of integrity, a speak-up environment and resolute accountability. They are codified as the Group's aspiration level and are implemented through T4I. The Board of Management positions for Integrity & Legal Affairs and for Human Resources are responsible for the program. The other Board of Management positions act as sponsors, thus ensuring that T4I is successfully implemented in their area of responsibility.

The program serves to implement processes and structures that create a regulatory framework for acting with integrity and in accordance with the law. Furthermore, T4I aims to engage with people, creating a corporate culture that enables them to work together as equals, opens up space for creativity, allows diversity to flourish and encourages people to act in line with their values.

The program will be rolled out to all Group companies by 2025. Since launching in 2018, it has been introduced to over 200 companies (as of year-end 2019) that were prioritized based on the level of risk. In total, these employ approximately 430,000 people or around two-thirds of the Group's total workforce. From 2020, the program will be introduced to more and more of the smaller companies in the Group.

There are over 100 packages of measures that make up the core content of T4I, and each Group company is responsible for implementing these itself. Every functional area must put comprehensive and robust systems and processes into effect to mitigate compliance and integrity risks, thereby eliminating the factors that have contributed to serious wrongdoing in the past. The packages of measures have been grouped together into eleven key initiatives; for example, product compliance, HR compliance and HR processes, the whistleblower system, and business partner due diligence. Both compliance and integrity are embedded in the processes for every key initiative.

Employees and managers are engaged in T4I through the use of emotive and interactive formats, making them players in the process of change. They become aware of the fact that successful change relies first and foremost on their hard work and that Volkswagen values their efforts. Events such as the T4I kick-off and T4I perception workshops bring together employees and managers regardless of the different hierarchies. They convey a sense of community and strengthen awareness of the role of each individual. They also provide an opportunity to openly ask critical questions and address problems. Both events take place at every Group company in which T4I is rolled out.

T4I not only has an internal impact; it is also felt outside the Group. New processes, for example, such as the implementation of the Business Partner Code of Conduct, ensure that our suppliers and sales partners are committed to the principles of integrity and compliance and are trained accordingly. In addition, our increasing focus on integrity and compliance shapes the manner in which employees interact with customers, representatives from civil society, governments and other stakeholders, particularly as a result of the requirements and examples set out in the Code of Conduct. In this way, we also convey our understanding of integrity and compliance and the subsequent necessary changes beyond the company.

Through T4I, corporate governance will be geared towards comprehensive and sustainable integrity and compliance across the entire Volkswagen Group. This will provide a stable framework within which the whole workforce can act responsibly and with purpose and entrepreneurial spirit, and will help to establish Volkswagen as a reputable company that embodies integrity.

## COMPLIANCE

Acting with integrity, compliance and honesty is an essential prerequisite for the success of the Volkswagen Group. For this reason, compliance with national and international laws and regulations, internal rules and voluntary commitments is among our Company's most important principles. We are striving to strengthen the trust of our customers, our business partners and other stakeholders in our Group by treating each other fairly. Compliant behavior is the basis for this and must be a matter of course for all Group employees. One of our Company's main tasks is to further enhance awareness of this.

### Commitment to compliance at the highest level

In September 2019, Herbert Diess, Chairman of the Board of Management of Volkswagen AG, wrote in the social network LinkedIn: "Ethics, integrity, and compliance are crucial to me and the entire Board of Management to our success. This is the foundation for our future business."

### Compliance organization

The Group Compliance Committee met regularly in the reporting year. It is a top-management level body that is chaired by the member of the Board of Management responsible for Integrity & Legal Affairs. The committee ensures that compliance and integrity standards are uniformly developed, applied and communicated across the divisions and brands.

The Group Chief Compliance Officer reports directly to the member of the Board of Management responsible for Integrity & Legal Affairs. In the reporting period, there was direct communication on compliance issues at meetings of the Board of Management, the Audit Committee of the Supervisory Board and the Works Council, particularly by the member of the Board of Management responsible for Integrity & Legal Affairs and the Group Chief Compliance Officer.

Central divisions within the Group are supported and advised by their own compliance contacts. Additional centers of competence are responsible for the overall direction of compliance work and develop compliance instruments and program components with which the companies can implement the compliance requirements themselves across the Group. During the reporting period, additional resources were set aside for these tasks.

The global compliance organization at the Volkswagen Group comprises divisional and regional compliance offices. These support and advise the compliance officers and managers of the respective Group and brand companies with an effective, risk-based, Group-wide compliance management system, helping them to conduct their business activities in accordance with the rules and to be consistent in adhering to relevant laws and internal regulations. They also help companies to identify, evaluate, manage and monitor potential compliance risks. Additional compliance resources were provided on a risk-oriented basis in the reporting year. Higher levels of the compliance organization are involved in the appointment of new compliance officers and conduct a standardized training process.

The heads of the centers of competence report to the Group Chief Compliance Officer on disciplinary and functional matters. The Divisional Compliance Officers and the Regional Compliance Officer China report generally to the Group Chief Compliance Officer on functional matters. Meetings and conferences ensure that those responsible for compliance at Group and brand level are connected and communicate regularly.

### Compliance management system

Our compliance management system is aligned with national and international laws and standards. Its objective is to encourage, reinforce and ensure compliant behavior in the Company in a lasting manner. The focus of our compliance organization is on preventing corruption, breaches of trust and money laundering and thereby on reducing the risk of unlawful actions. In the reporting year, we also conducted an analysis of fraud prevention for all relevant risks at the second line of defense in the risk management and internal control system.

Where laws and regulations have been violated, our whistleblower system is a suitable tool for taking appropriate action. Members of management are obligated to report every indication of serious rule-breaking. Failure to do so is itself a serious infringement. The accessibility of the whistleblower system has been further improved with a 24-hour hotline.

We place value on communication and training seminars to permanently anchor compliance-related content among the workforce.

Compliance work in the Volkswagen Group is based on a systematic process of risk identification and reporting in accordance with the IDW standard AsS 980. We used 2019 to conduct a Group-wide compliance risk analysis. The reporting year also saw us begin the global roll-out of our new standardized, IT-based process for selecting business partners. This will be used to regularly review the integrity of existing and new business partners through a risk-based approach and will be conducted every one to six years, depending on the degree of risk exposure. The objective is to obtain transparency at Group level of the risk exposure of all Group companies included in the compliance scope.

However, we are also aware that even the best compliance management system can never entirely prevent the criminal actions of individuals.

### Code of Conduct and guidelines

The Volkswagen Group's Code of Conduct is established throughout the Group. It is the main tool for reinforcing awareness of good conduct among the workforce, providing assistance to employees and finding suitable contacts in cases of uncertainty. The framework is available to all employees on the intranet and also to third parties on the internet and is continually communicated within the Company via digital and print media and at events.

Employees at all levels of the hierarchy receive regular training on the Code of Conduct, and the Code is also a fixed part of our operational HR processes. New employees receive a copy of it as part of the recruitment process. A reference to the Code of Conduct and the obligation to comply with it are a fixed part of employment contracts. In the reporting year, the Code of Conduct formed part of the employees' annual reviews and was thus taken into account when calculating their variable, performance-related remuneration. As of 2019, employees at senior management levels are required to undergo annual Code of Conduct certification process.

In addition to the Volkswagen Group Code of Conduct, Group Compliance prepares Group policies and guidelines on specific compliance issues, which are incorporated into the relevant rules of the brand and Group companies throughout the entire Group. In the reporting year, for example, uniform rules for dealing with gifts, avoiding corruption and conflicts of interest were set out in a Group policy for the first time. In addition, a revised version of the guidelines on whistleblowing reinforced the role of the Volkswagen whistleblower system as the central point of contact for cases of serious rule-breaking. Group policies on business partner due diligence, on prevention of money laundering and on mergers & acquisitions were also implemented.

There was a new guideline on "Governance and Integrity, Risk Management, Compliance and Legal Affairs" which describes the organization, structure and functions relating to the Compliance, Integrity, Risk Management and Legal departments. Employees have access to the compliance rules and regulations in particular via the compliance pages on the Company intranet.

**CODE OF CONDUCT OF THE VOLKSWAGEN GROUP**
https://www.volkswagenag.com/presence/konzern/documents/Verhaltensgrundsätze_Group_EN_V2019.pdf

**CODE OF CONDUCT FOR BUSINESS PARTNERS**
www. volkswagenag.com/presence/nachhaltigkeit/documents/policy-intern/2019_Code_of_Conduct_for_Business_Partners-DE-EN.pdf

The Code of Conduct for Business Partners was extensively revised in the reporting year and the new version was enacted throughout the Group. The Code of Conduct for Business Partners defines our minimum standards concerning the compliance matters described therein and is permanently available to third parties via the internet. Business partners can also take part in online training that covers the Code's content.

### Whistleblower system

The Volkswagen whistleblower system is the central point of contact for reporting potential cases of serious rule-breaking in the Volkswagen Group. It focuses on investigating serious infringements that could cause major damage to the Company's reputation or financial interests or that involve major breaches of the Volkswagen Group's ethical principles. Examples of matters generally involving serious rule-breaking include economic, corruption-related, tax and environmental offenses, breaches of human rights, infringements of antitrust and competition law, money laundering and terrorist financing, infringements of rules on product safety and approval, and serious data protection breaches.

The aim of the whistleblower system is to protect Volkswagen and its employees through the use of binding principles and a clearly governed process. The experience gained from reported violations of regulations helps us to improve compliance management and prevent similar incidents in the future. The whistleblower system is designed to provide maximum protection for whistleblowers and affected parties. An investigation is only initiated after the information received has undergone a thorough examination and the latter has identified concrete indications of rule-breaking. The presumption of innocence applies to the parties affected until rule-breaking has been proven. Strict confidentiality and secrecy apply throughout the investigation process. Reports are investigated fairly, swiftly and sensitively. Whistleblowers are also protected. Their statements are treated confidentially. If they wish, and provided the law allows, their identity is not disclosed. Discriminating against whistleblowers is a serious violation of the rules and is not tolerated. Appropriate sanctions are applied where misconduct is proven.

Information on misconduct by Volkswagen Group employees can be reported through a wide range of channels, including anonymously if preferred. Options for anonymous reporting include a specially protected online reporting channel, which allows users to communicate under an alias, and a 24-hour telephone hotline through which reports can be submitted in various languages. In addition to the staff in the Investigation Office, there are two external lawyers (ombudspersons) available for confidential discussions. The ombudspersons can receive reports and forward them to the Investigation Office.

The whistleblower system is coordinated by the Central Investigation Office in Wolfsburg. This office is also responsible for dealing with reports concerning Volkswagen AG and its subsidiaries. AUDI AG, Dr. Ing. h.c. F. Porsche AG and TRATON SE each operate their own investigation office that also covers their subsidiaries.

Group-wide, 3,174 reports (excluding China) were registered at the four Investigation Offices in 2019 (2018: 1,560). This shows that staff are familiar with the whistleblower system and the underlying processes. It is also proof that employees are motivated by a speak-up culture to take action against misconduct.

#### Communication, training and advice

We further expanded training and communication activities relating to compliance in the reporting year. Training on the Code of Conduct is mandatory for all employee groups and forms the basis for the understanding of compliance in the Group. It takes place in both face-to-face and online training sessions. The training is regularly repeated with new and expanded content and documented in employees' training history.

In addition, Volkswagen introduced a mandatory anti-corruption training in the reporting year, which is also being rolled out Group-wide. For the first time, training and raising awareness on this issue is aimed not only at specific groups within the Company, but also at business partners from sales and procurement departments based on the level of risk.

Following the risk-based approach, compliance training – some of which is mandatory – continues to take place on topics including the prevention of money laundering. Compliance content is also communicated through personal development programs, in various dialog formats and at presentations and events, for example on the topic of anti-corruption measures and the whistleblower system.

Employees can also use special e-mail addresses to solicit advice on compliance issues. They can also contact advisory services within the compliance organization, such as the compliance Infopoint at Volkswagen.

**WHISTLEBLOWER SYSTEM**
www.volkswagenag.com/en/group/compliance-and-risk-management/whistleblowersystem.html
Phone: +49 5361 9 46300
E-Mail: io@volkswagen.de

#### Compliance key performance indicator

To measure the level of target achievement, we defined a strategic indicator for the major brands that manufacture passenger cars:

> Compliance, a culture of error management and behaving with integrity. This is based on an evaluation of the answers to three questions in the opinion survey relating to compliance with regulations and processes, dealing with risks and errors and behaving with integrity. In the case of negative deviations, the affected departments develop and implement measures. In the reporting year, the key performance indicator further improved on the previous good figure.

#### Strengthening compliance in company processes

The act implementing the Fourth EU Money Laundering Directive into German law presented new requirements for Volkswagen AG as a company that is bound by the Gesetz über das Aufspüren von Gewinnen aus schweren Straftaten (GWG – Law on Tracing Profits from Serious Criminal Offences). The Group policy adopted and published in this context by the Board of Management in 2018 defines the minimum standard to be implemented by all Group companies.

In 2018, we designed and developed a new IT tool for a risk-based business partner selection process at the Volkswagen Group. We began pilot testing the tool at the end of 2018. The Group has been gradually introducing this business partner selection process since 2019. A key objective of the new process is the creation of transparency within the Volkswagen Group to prevent Group companies from entering into business relationships with business partners that other Group companies have previously classified as not acting with integrity.

New business models are constantly being considered in the Volkswagen Group as part of the enhanced Group strategy TOGETHER 2025⁺. These business models focus particularly on digitalization, automation and electrification, but also on the development of and involvement in mobility concepts. The compliance organization helps the strategic business units to implement their forward-looking projects through individual risk assessments and recommendations based on these.

In addition, compliance will become more firmly embedded in mergers & acquisitions and real estate transactions.

#### Effectiveness review

Independent reviews by Group Internal Audit in the corporate units and the regular exchange of information with external bodies help ensure continuous improvement of the compliance management system. There are no indications that our current compliance management system was ineffective in 2019.

### INDEPENDENT MONITOR

In June 2017, in connection with the diesel issue, Larry D. Thompson was appointed as the Independent Compliance Monitor at Volkswagen under the terms of the Plea Agreement with the United States Department of Justice announced on January 11, 2017 and confirmed by a US federal court on April 21, 2017. He also works as Independent Compliance Auditor under the Third Partial Consent Decree concluded separately with the US Department of Justice and the US Environmental Protection Agency (EPA) and the Third California Partial Consent Decree agreed with the US State of California and the environmental authority California Air Resources Board, CARB (for more information on these agreements, please see the Litigation section starting on page 179). Mr. Thompson will perform his duties under the Plea Agreement and Third Partial Consent Decrees for a period of three years, which also includes taking measures to further strengthen the Company's compliance and its reporting and monitoring mechanisms, as well as the implementation of an enhanced compliance and ethics program.

In his capacity as the Independent Compliance Monitor on the basis of the Plea Agreement, Mr. Thompson submitted three reports: on March 30, 2018, February 8, 2019, and November 5, 2019; in accordance with the provisions of the Plea Agreement, the reports will not be published. In addition, in his capacity as the Independent Compliance Auditor under the terms of the Third Partial Consent Decrees, Mr. Thompson prepared two annual reports, published on August 27, 2018, and September 4, 2019.

Volkswagen announced on October 17, 2019, that the US Department of Justice and the monitor had granted a 90-day extension to the monitorship to be able to demonstrate that Volkswagen had fulfilled its obligations pursuant to the Plea Agreement. Thanks to this agreement, Volkswagen has 90 more days to fully test and, where necessary, adjust the measures that the Group and its brands have put in place, including the monitor's recommendations, so that Mr. Thompson is able to submit his certification report on the Company's integrity and compliance programs.

On September 2, 2019, Volkswagen also announced that the Company had concluded a settlement agreement with the US Environmental Protection Agency, which had been the reason for commissioning a second auditor for the Volkswagen Group. This agreement was concluded by Volkswagen to prevent it from being excluded from public contracts in the United States. This second auditorship is planned to last three years.

### RISK MANAGEMENT, AUDIT

Carefully managing potential risks to the Company is a key component of our daily work. The Volkswagen Group's risk management system is oriented toward identifying, assessing, communicating and managing risks at an early stage. This system is reviewed on an ongoing basis and adjusted if and when conditions change. A detailed description of the risk management system and our accounting-related internal control system can be found in the Risk Report on pages 164 to 167 of this annual report.

The Supervisory Board has established an Audit Committee that in particular monitors the financial accounting, the financial accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, the audit of the financial statements and compliance. Furthermore, the Audit Committee makes a well-founded recommendation for the election of the auditor to the Supervisory Board, obtains a declaration of independence from the auditor, supervises the additional services provided by the auditor and prepares the audit engagement resolution. It also discusses the annual audit planning, the determination of areas of emphasis for the audit, the agreed fee and the auditor's obligation to provide information.

### COMMUNICATION AND TRANSPARENCY

The Volkswagen Group publishes a financial calendar listing all the relevant dates for its shareholders in its annual report and interim reports as well as on its website at www.volkswagenag.com/en/InvestorRelations.html. Among other things, invitations to the shareholders' meetings as well as agendas for these meetings and any motions to be added to the agenda or countermotions received are also available on this website. At the shareholders' meetings, shareholders may exercise their voting rights themselves, have this right exercised on their behalf by a third-party proxy whom they have appointed, or use a proxy designated by the Company who votes on their behalf in accordance with their voting instructions. We also give our shareholders the opportunity to watch the introductory remarks and the speeches of the Chairman of the Supervisory Board and the Chairman of the Board of Management on the internet.

In addition, news and information on the Volkswagen Group are available on this website. The press releases and other information are published in both English and German.

Immediately after their publication in accordance with legal requirements, the Company's ad-hoc releases are also published on the same website under the heading "Financial News, Ad-hoc Releases & Publications".

We publish managers' transactions pursuant to Article 19 of the Market Abuse Regulation (Marktmissbrauchsverordnung) or – for previous fiscal years – in accordance with section 15a of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) (old version) under the heading "Corporate Governance", menu item "Managers' Transactions". On the same web page – under the heading "Financial News, Ad-hoc Releases & Publications", menu item "Voting Rights" – you can also access details of the notifications filed in the reporting period in compliance with sections 33 ff. of the WpHG as well as notifications relating to other legal issues.

The supervisory body appointments held by Board of Management members and Supervisory Board members can be found on pages 88 to 91 of this annual report. The shareholder structure is presented on page 109.

**MANDATORY PUBLICATIONS OF VOLKSWAGEN AG**
www.volkswagenag.com/en/InvestorRelations/news-and-publications.html

# Remuneration Report

This chapter describes the main elements of the remuneration system for the Board of Management. In addition, the Remuneration Report details the individualized remuneration of the Board of Management and the Supervisory Board of Volkswagen AG, broken down into components, as well as individualized pension provision disclosures for the members of the Board of Management.

## PRINCIPLES OF BOARD OF MANAGEMENT REMUNERATION

Matters involving the remuneration system and the total remuneration of each individual member of the Volkswagen AG Board of Management are decided on by the Supervisory Board on the basis of the Executive Committee's recommendations. The remuneration system implements the requirements of the Aktiengesetz (AktG – German Stock Corporation Act) and the recommendations of the German Corporate Governance Code (the Code) in the version dated February 7, 2017. In particular, the remuneration structure is focused on ensuring sustainable business development in accordance with the Gesetz zur Angemessenheit der Vorstandsvergütung (VorstAG – German Act on the Appropriateness of Executive Board Remuneration) and section 87(1) of the AktG.

At the beginning of 2017, the Supervisory Board of Volkswagen AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2017. The system for remuneration of the Board of Management was approved by the Annual General Meeting on May 10, 2017 with 80.96% of the votes cast. The adjustment, in which the Supervisory Board was assisted by renowned, independent external remuneration and legal consultants, resulted in an alignment with the Group strategy.

The level of the Board of Management remuneration should be appropriate and attractive in the context of the Company's national and international peer group. Criteria include the tasks of the individual Board of Management member, their personal performance, the economic situation, and the performance of and outlook for the Company, as well as how customary the remuneration is when measured against the peer group and the remuneration structure that applies to other areas of Volkswagen. In this context, comparative studies on remuneration are conducted on a regular basis.

## COMPONENTS OF BOARD OF MANAGEMENT REMUNERATION

In this section, we provide an overview of the Board of Management's remuneration system before going into the components of the remuneration for the reporting period.

### Overview of the remuneration system

The remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term. The performance share plan is linked to business development in the next three years and is thus based on a multiyear, forward-looking assessment that reflects both positive and negative developments. The non-performance-related component creates an incentive for individual members of the Board of Management to perform their duties in the best interests of the Company and to fulfill their obligation to act with proper business prudence without needing to focus on merely short-term performance targets. The performance-related components, dependent among other criteria on the financial performance of the Company, serve to ensure the long-term impact of behavioral incentives.

If 100% of the targets agreed with each of the members of the Board of Management are achieved, the annual target remuneration for each member will amount to a total of €4,500,000 (corresponding to a fixed remuneration of €1,350,000, a target amount from the annual bonus of €1,350,000 and a target amount from the performance share plan of €1,800,000). The annual target remuneration for the

Chairman of the Board of Management amounts to a total of €9,000,000 (fixed remuneration of €2,125,000, a target amount from the annual bonus of €3,045,000, and a target amount from the performance share plan of €3,830,000).

Annual minimum remuneration of €3.5 million (sum of fixed remuneration, annual bonus, LTI and any special payments) was contractually agreed with Mr. Sommer.

#### Non-performance-related remuneration

The non-performance-related remuneration comprises fixed remuneration and fringe benefits. Since 2018, separate remuneration is no longer provided for appointments assumed at Group companies, but is covered by the fixed remuneration. The fringe benefits result from noncash benefits and include in particular the use of operating assets such as company cars and the payment of insurance premiums. Taxes due on these noncash benefits are mainly borne by Volkswagen AG.

The fixed level of remuneration is reviewed regularly and adjusted if necessary.

#### Performance-related remuneration

The performance-related/variable remuneration consists of an annual performance-related bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (long-term incentive components) and phantom preferred shares. The components of performance-related/variable remuneration reflect both positive and negative developments.

The Supervisory Board may cap the performance-related/variable remuneration components in the event of extraordinary developments.

##### Annual bonus

The annual bonus is based upon the result for the respective fiscal year. Operating profit achieved by the Volkswagen Group plus the proportionate operating profit of the Chinese joint ventures form half of the basis for the annual bonus, with operating return on sales achieved by the Volkswagen Group making up the second half. Each of the two components of the annual bonus are only payable if certain thresholds are reached or exceeded.

The calculated payment amount may be individually reduced by up to 20% (multiplier of 0.8) or increased by up to 20% (multiplier of 1.2) by the Supervisory Board, taking into account the degree of achievement of individual targets agreed between the Supervisory Board and the respective member of the Board of Management, as well as the success of the full Board of Management in transforming the Volkswagen Group by transferring employees to new areas of activity.

The payment amount for the annual bonus is capped at 180% of the target amount for the annual bonus. The cap arises from 150% of the maximum financial target achievement and a performance factor of a maximum of 1.2.

## CALCULATION OF THE PAYMENT AMOUNT FOR THE ANNUAL BONUS

**TARGET** × **TARGET ACHIEVEMENT** = **ANNUAL BONUS**

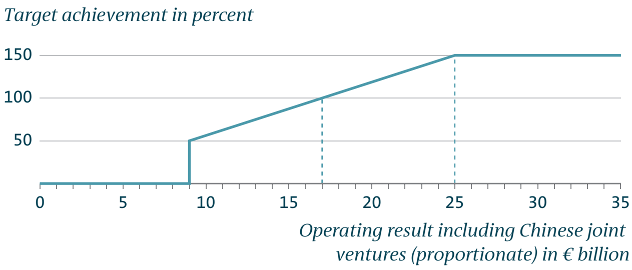
**Company bonus**
Operational KPIs
(0 – 150 % target achievement)

×

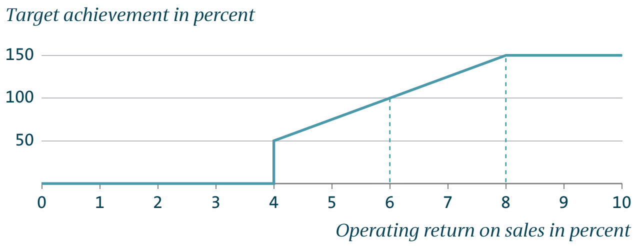
**Performance factor**
Multiplier
(0.8 – 1.2)

**Payment amount**

### 50 PERCENT COMPONENT 1




### 50 PERCENT COMPONENT 2




## COMPONENT 1: OPERATING RESULT INCLUDING CHINESE JOINT VENTURES (PROPORTIONATE)

| € billion | 2018 | 2019 |
|---|---|---|
| Maximum threshold | 25.0 | 25.0 |
| 100% level of target | 17.0 | 17.0 |
| Minimum threshold | 9.0 | 9.0 |
| Actual | 18.5 | 21.4 |
| Target achievement (in %) | 110 | 127 |

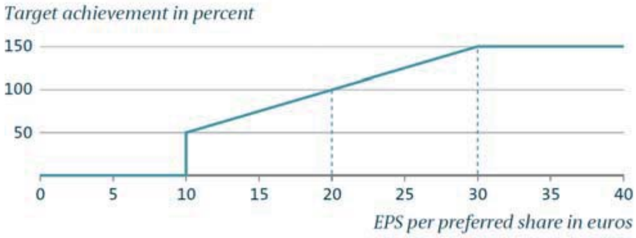
## COMPONENT 2: OPERATING RETURN ON SALES

| % | 2018 | 2019 |
|---|---|---|
| Maximum threshold | 8.0 | 8.0 |
| 100% level of target | 6.0 | 6.0 |
| Minimum threshold | 4.0 | 4.0 |
| Actual | 5.9 | 6.7 |
| Target achievement (in %) | 98 | 118 |

Performance share plan – long-term incentive (LTI)

The LTI is granted to the Board of Management annually in the form of a performance share plan. Each performance period of the performance share plan has a term of three years. At the time the LTI is granted, the annual target amount under the LTI is converted on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the respective member of the Board of Management purely for calculation purposes. The conversion is performed based on the unweighted average of the closing prices of Volkswagen's preferred shares for the last 30 trading days preceding January 1 of a given fiscal year. At the end of each year, the number of performance shares is determined definitively for one-third of the three-year performance period based on the degree of target achievement for the annual earnings per Volkswagen preferred share (EPS – earnings per share per preferred share in €). A prerequisite for this is that a threshold is reached.

EPS PERFORMANCE MEASUREMENT




PERFORMANCE PERIOD 2017–2019

| € | 2017 | 2018 | 2019 |
|---|---|---|---|
| Maximum threshold | 30.0 | 30.0 | 30.0 |
| 100% level of target | 20.0 | 20.0 | 20.0 |
| Minimum threshold | 10.0 | 10.0 | 10.0 |
| Actual | 22.69 | 23.63 | 26.66 |
| Target achievement (in %) | 113 | 118 | 133 |

PERFORMANCE PERIOD 2018–2020

| € | 2018 | 2019 |
|---|---|---|
| Maximum threshold | 30.0 | 30.0 |
| 100% level of target | 20.0 | 20.0 |
| Minimum threshold | 10.0 | 10.0 |
| Actual | 23.63 | 26.66 |
| Target achievement (in %) | 118 | 133 |

PERFORMANCE PERIOD 2019–2021

| € | 2019 |
|---|---|
| Maximum threshold | 30.0 |
| 100% level of target | 20.0 |
| Minimum threshold | 10.0 |
| Actual | 26.66 |
| Target achievement (in %) | 133 |

After the end of the three-year term of the performance share plan, a cash settlement takes place. The payment amount corresponds to the final number of determined 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 closing reference price is the unweighted average of the closing prices for Volkswagen's preferred shares for the 30 trading days preceding the last day of the three-year performance period. The dividend equivalent corresponds to the dividends distributed during the holding period on a genuine Volkswagen preferred share.

| | PERFORMANCE PERIOD | | |
|---|---|---|---|
| | 2017–2019 | 2018–2020 | 2019–2021 |
| Initial reference price | 127.84 | 169.42 | 147.08 |
| Closing reference price | 177.44 | –[1] | –[1] |
| Dividend equivalent | | | |
| 2017 | 2.06 | – | – |
| 2018 | 3.96 | 3.96 | – |
| 2019 | 4.86 | 4.86 | 4.86 |

1 Determined at the end of the performance period.

The payment amount under the performance share plan is limited to 200% of the target amount. The payment amount is reduced by 20% if the average ratio of capex to sales revenue or the R&D ratio in the Automotive Division of the last three years is smaller than 5%.

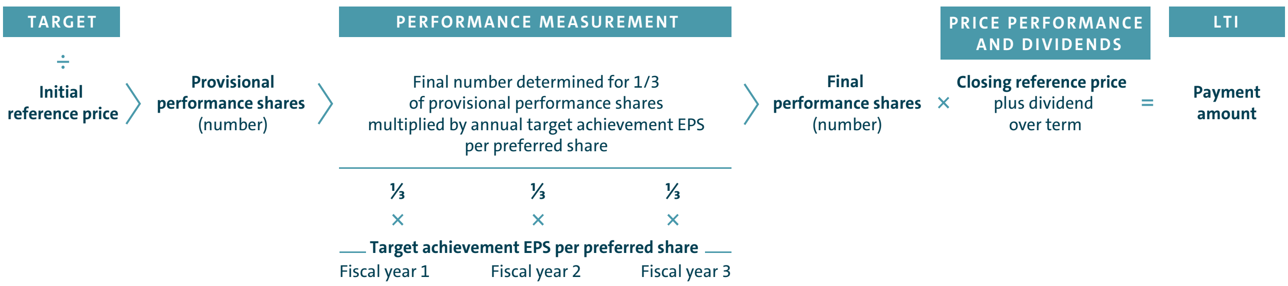
If the employment contract of a member of the Board of Management concludes prior to the end of the performance period due to extraordinary termination based on good cause, or if the member of the Board of Management starts working for a competitor (also referred to as "bad-leaver cases"), the unpaid performance shares will expire. For members of the Board of Management who held their seat as of December 31, 2016, this rule only applies in the event of a reappointment or new appointment.

In connection with the appointment of the Chairman of the Board of Management, the employment contract of Mr. Diess was terminated by mutual agreement in 2018 and a new employment contract was entered into, whereby the expiry rule described above applies from the 2018–2020 performance period onwards.

Ms. Werner was appointed as a member of the Board of Management in 2017. Mr. Blume, Mr. Kilian and Mr. Sommer were newly appointed to the Board of Management in 2018, followed by Mr. Schot in 2019.

In the introductory phase of the performance share plan (2017–2018), the members of the Board of Management who were Board members as of December 31, 2016 will generally receive advances of 80% of their target amount. Mr. Blume will receive corresponding advances for the performance periods 2018–2020 (proportionate) and 2019–2021. The two advances will each be paid after the first year of the performance period. Final settlement is based on actual achievement of targets at the end of the relevant three-year performance period.

## CALCULATION OF THE PAYMENT AMOUNT FROM THE PERFORMANCE SHARE PLAN




## INFORMATION ON THE PERFORMANCE SHARES

| € | Performance period 2017–2019: Number of performance shares allocated at the grant date | Performance period 2017–2019: Fair value at the grant date | Performance period 2018–2020: Number of performance shares allocated at the grant date | Performance period 2018–2020: Fair value at the grant date | Performance period 2019–2021: Number of performance shares allocated at the grant date | Performance period 2019–2021: Fair value at the grant date |
|---|---|---|---|---|---|---|
| Herbert Diess | 14,080 | 2,048,640 | 19,212 | 2,840,468 | 26,040 | 3,350,046 |
| Oliver Blume (since April 13, 2018) | – | – | 7,614 | 1,349,810 | 12,238 | 1,574,419 |
| Jochem Heizmann (until January 10, 2019) | 14,080 | 2,031,040 | 10,624 | 1,799,918 | 335 | 43,098 |
| Gunnar Kilian (since April 13, 2018) | – | – | 7,614 | 1,349,810 | 12,238 | 1,574,419 |
| Andreas Renschler | 14,080 | 1,891,648 | 10,624 | 1,799,918 | 12,238 | 1,574,419 |
| Abraham Schot (since January 1, 2019) | – | – | – | – | 12,238 | 1,574,419 |
| Stefan Sommer (since September 1, 2018) | – | – | 3,541 | 488,446 | 12,238 | 1,574,419 |
| Hiltrud Dorothea Werner | 12,907 | 1,856,672 | 10,624 | 1,799,918 | 12,238 | 1,574,419 |
| Frank Witter | 14,080 | 2,025,408 | 10,624 | 1,799,918 | 12,238 | 1,574,419 |
| **Total** | **69,227** | **9,853,408** | **80,477** | **13,228,206** | **112,041** | **14,414,075** |

| € | Provision as of Dec. 31, 2019 | Intrinsic value as of Dec. 31, 2019 | Comprehensive income 2019 arising from performance shares | Provision as of Dec. 31, 2018 | Intrinsic value as of Dec. 31, 2018[1] | Comprehensive income 2018 arising from performance shares |
|---|---|---|---|---|---|---|
| Herbert Diess | 3,504,374 | 3,687,200 | 3,490,713 | 2,617,527 | 1,616,319 | 1,547,771 |
| Oliver Blume (since April 13, 2018) | 984,260 | – | 1,614,937 | 401,323 | – | 401,323 |
| Jochem Heizmann (until January 10, 2019) | 2,934,421 | 1,767,329 | 951,793 | 3,422,628 | 2,362,898 | 759,638 |
| Gunnar Kilian (since April 13, 2018) | 2,016,260 | – | 1,614,937 | 401,323 | – | 401,323 |
| Andreas Renschler | 5,572,774 | 3,879,394 | 1,713,961 | 5,298,813 | 2,362,898 | 1,991,565 |
| Abraham Schot (since January 1, 2019) | 3,925,694 | – | 3,925,694 | – | – | – |
| Stefan Sommer (since September 1, 2018) | 1,415,440 | – | 1,317,674 | 97,766 | – | 97,766 |
| Hiltrud Dorothea Werner | 5,019,403 | 2,782,969 | 2,852,956 | 2,166,448 | – | 1,542,922 |
| Frank Witter | 6,981,087 | 3,879,394 | 2,054,256 | 6,366,831 | 2,362,898 | 2,678,125 |
| **Total** | **32,353,713** | **15,996,286** | **19,536,920** | **20,772,660** | **8,705,012** | **9,420,432** |

1 Adjusted

The number of performance shares equals the provisional performance shares allocated at the grant date of the performance share plan. The fair value as at the grant date was determined using a recognized valuation technique.

To determine their amount, the performance shares expected for future performance periods were taken into account in addition to the provisional performance shares determined or allocated for the performance periods 2017–2019, 2018–2020 and 2019–2021. The amount therefore depends on the individual contract term and the relevant vesting arrangements for the performance shares. The intrinsic value was calculated in accordance with IFRS 2 and corresponds to the amount that the members of the Board of Management would have received if they had stepped down on December 31, 2019. Only the nonforfeitable (vested) performance shares at the reporting date are included in the calculation. The intrinsic value was calculated based on the unweighted average share price for the last 30 trading days (Xetra closing prices of Volkswagen's preferred shares) preceding December 31, 2019, taking the dividends paid per preferred share during the performance period into account. The net value of all amounts recognized in income for the performance shares in fiscal year 2019 is recorded in "Comprehensive income 2019 arising from performance shares" according to the IFRSs.

#### Phantom preferred shares

The phantom preferred shares for the remuneration withheld for 2015 formed part of the Board of Management remuneration until they were paid out in 2019.

### Total remuneration cap

In addition to the cap on the individual variable components of the remuneration for the members of the Board of Management, the annual benefits received according to the Code, consisting of fixed remuneration and the variable remuneration components (i.e. annual bonus and performance share plan) for one fiscal year may not exceed an amount of €10,000,000 for the Chairman of the Board of Management and €5,500,000 for each member of the Board of Management. If the total remuneration cap is exceeded, the variable components will be reduced proportionately.

### Regular review and adjustment

The Supervisory Board regularly reviews and, if necessary, adjusts the level of the total remuneration cap and the individual targets.

### Other agreements

Members of the Board of Management with contracts entered into on or after January 1, 2010 are entitled to payment of their normal remuneration for six to twelve months in the event of illness. Contracts entered into before that date grant remuneration for six months. In the event of disability, they are entitled to the retirement pension.

Surviving dependents receive a widow's pension of 66 ⅔% and orphans' benefits of 20% of the former member of the Board of Management's pension. Contracts with members of the Board of Management whose first term of office began after April 1, 2015, provide for an entitlement – in line with the principles of the works agreement that also applies to employees of Volkswagen AG covered by collective agreements – to a widow's pension of 60%, an orphan's benefit of 10% for half-orphans and an orphan's benefit of 20% for full orphans, based in each case on the former member of the Board of Management's pension.

### BENEFITS BASED ON PHANTOM PREFERRED SHARES FROM THE REMUNERATION WITHHELD FOR FISCAL YEAR 2015

At its meeting on April 22, 2016, Volkswagen AG's Supervisory Board accepted the offer made by the members of the Board of Management to withhold 30% of the variable remuneration for fiscal year 2015 for the Board of Management members active on the date of the resolution and to make its disposal subject to future share price performance.

This was effected by first converting the amount withheld based on the average share price for the 30 trading days preceding April 22, 2016 (initial reference price) into phantom preferred shares of Volkswagen AG with a three-year holding period and, at the same time, defining a target reference price corresponding to 125% of the initial reference price. During the holding period, the holders of phantom preferred shares were entitled to dividend equivalents in the amount of the dividends paid on real preferred shares.

The shares were generally reconverted and paid out when the three-year holding period had expired or – in the event that members retired from office early – at the time they did so.

To determine the payment amount, the average share price for the 30 trading days preceding the last day of the holding period, i.e. April 22, 2019, or the date on which members left the company, was calculated (closing reference price). The difference between the target reference price and the initial reference price was deducted from the closing reference price, and the dividends distributed on one real Volkswagen preferred share during the holding period (dividend equivalent) were added to the closing reference price. The figure thus calculated was multiplied by the number of phantom preferred shares so as to calculate the amount to be paid to each Board of Management member. This ensured that – excluding the dividend equivalents accrued – the amount withheld was only paid out in full if the initial reference price of the preferred share increased by at least 25%.

In January of fiscal year 2019, Mr. Heizmann retired from the Board of Management as per contract.

The number of phantom preferred shares granted on April 22, 2016 to members of the Board of Management who were in office at the time did not change in fiscal year 2019 (as of settlement in April 2019). In the year under review, the change in fair value of the phantom shares led to the recognition of an expense of €0.1 million (previous year: total income of €0.6 million).

### INFORMATION ON THE PHANTOM PREFERRED SHARES HELD IN 2019

| € | Number of phantom shares | Provision Dec. 31, 2019 | Provision Dec. 31, 2018 | Intrinsic value Dec. 31, 2019 | Intrinsic value Dec. 31, 2018 | Comprehensive income 2019 arising from phantom preferred shares | Comprehensive income 2018 arising from phantom preferred shares |
|---|---|---|---|---|---|---|---|
| Herbert Diess | 4,317 | – | 512,740 | – | 540,704 | 27,705 | −83,688 |
| Jochem Heizmann (until January 10, 2019) | 8,633 | – | 1,025,361 | – | 1,081,283 | 43,232 | −167,356 |
| Andreas Renschler | 7,914 | – | 939,964 | – | 991,229 | 50,791 | −153,418 |
| Frank Witter | 1,990 | – | 236,357 | – | 249,248 | 12,771 | −38,577 |
| **Total** | **22,854** | **–** | **2,714,422** | **–** | **2,862,464** | **134,499** | **−443,040** |

## REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE

| € | 2019 Non-performance-related component | 2019 Performance-related component | 2019 Long-term incentive component | 2019 Total remuneration | 2018 Total remuneration |
|---|---|---|---|---|---|
| Herbert Diess | 2,212,694 | 4,288,002 | 3,350,046 | 9,850,742 | 7,877,832 |
| Oliver Blume (since April 13, 2018) | 1,418,936 | 1,901,085 | 1,574,419 | 4,894,440 | 3,515,815 |
| Jochem Heizmann (until January 10, 2019) | 71,391 | 52,085 | 43,098 | 166,574 | 5,013,141 |
| Gunnar Kilian (since April 13, 2018) | 1,462,701 | 1,901,085 | 1,574,419 | 4,938,205 | 3,529,523 |
| Andreas Renschler | 1,609,755 | 1,901,085 | 1,574,419 | 5,085,259 | 5,004,370 |
| Abraham Schot (since January 1, 2019) | 1,810,079 | 1,901,085 | 1,574,419 | 5,285,583 | – |
| Stefan Sommer (since September 1, 2018) | 1,869,019 | 1,901,085 | 1,574,419 | 5,344,523 | 1,603,515 |
| Hiltrud Dorothea Werner | 1,465,159 | 1,901,085 | 1,574,419 | 4,940,663 | 4,930,160 |
| Frank Witter | 1,412,781 | 1,901,085 | 1,574,419 | 4,888,285 | 4,821,428 |
| Members of the Board of Management who left in the previous year | – | – | – | – | 14,040,526 |
| **Total** | **13,332,515** | **17,647,682** | **14,414,075** | **45,394,271** | **50,336,310** |

### REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The amounts shown as benefits received in the Board of Management remuneration tables in accordance with the Code correspond, in principle, to the amounts paid out for the fiscal year in question.

In the introductory phase of the performance share plan (2017 to 2018), members of the Board of Management who were Board members as of December 31, 2016 generally received advances on the target amount, which in accordance with the Code are reported in the tables as benefits received for the fiscal year in which the performance shares under the plan were allocated. Mr. Blume will receive corresponding advances for the performance period 2018–2020 (proportionate) and 2019–2021.

The amounts shown as “Benefits granted” in the Board of Management remuneration tables in accordance with the Code are based on 100% of the targets for the annual bonus and on the fair value at the grant date for the performance share plan.

## REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

**HERBERT DIESS**

Chairman of the Board of Management of Volkswagen AG,
Chairman of the Brand Board of Management of Volkswagen Passenger Cars,
Volume brand group,
China

| € | Benefits received | | Benefits granted | | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2018 | 2019 | 2019 (minimum) | 2019 (maximum) |
| Fixed remuneration | 2,125,000 | 1,905,414 | 1,905,414 | 2,125,000 | 2,125,000 | 2,125,000 |
| Fringe benefits | 87,694 | 76,768 | 76,768 | 87,694 | 87,694 | 87,694 |
| **Total** | **2,212,694** | **1,982,182** | **1,982,182** | **2,212,694** | **2,212,694** | **2,212,694** |
| One-year performance-related remuneration | 4,288,002 | 3,055,182 | 2,564,750 | 3,045,000 | – | 5,481,000 |
| Multiyear performance-related remuneration | 540,445 | 2,603,867 | 2,840,468 | 3,350,046 | – | 7,660,000 |
| LTI (performance share plan 2017–2019) | – | – | – | – | – | – |
| LTI (performance share plan 2018–2020) | – | 2,603,867 | 2,840,468 | – | – | – |
| LTI (performance share plan 2019–2021) | – | – | – | 3,350,046 | – | 7,660,000 |
| Phanton shares | 540,445 | – | – | – | – | – |
| **Total**[1] | **7,041,141** | **7,641,230** | **7,387,400** | **8,607,740** | **2,212,694** | **15,353,694** |
| Pension expense | 1,354,053 | 850,620 | 850,620 | 1,354,053 | 1,354,053 | 1,354,053 |
| **Total remuneration** | **8,395,194** | **8,491,850** | **8,238,020** | **9,961,793** | **3,566,747** | **16,707,747** |

1 The fixed remuneration agreed with Mr. Diess for fiscal year 2018 is €1,905,414 (prorated for the term of office as a full member of the Board of Management up until April 12, 2018 and for the term of office as Chairman of the Board of Management starting April 13, 2018).

**OLIVER BLUME**

Chairman of the Board of Management of Dr. Ing. h.c. F. Porsche AG,
Sport & Luxury brand group

Joined: April 13, 2018

| € | Benefits received | | Benefits granted | | | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2018 | 2019 | 2019 (minimum) | 2019 (maximum) |
| Fixed remuneration | 1,350,000 | 967,500 | 967,500 | 1,350,000 | 1,350,000 | 1,350,000 |
| Fringe benefits | 68,936 | 45,999 | 45,999 | 68,936 | 68,936 | 68,936 |
| **Total** | **1,418,936** | **1,013,499** | **1,013,499** | **1,418,936** | **1,418,936** | **1,418,936** |
| One-year performance-related remuneration | 1,901,085 | 1,152,506 | 967,500 | 1,500,000[1] | – | 2,580,000 |
| Multiyear performance-related remuneration | 1,440,000 | 1,032,000 | 1,349,810 | 1,574,419 | – | 3,600,000 |
| LTI (performance share plan 2018–2020) | – | 1,032,000 | 1,349,810 | – | – | – |
| LTI (performance share plan 2019–2021) | 1,440,000 | – | – | 1,574,419 | – | 3,600,000 |
| **Total** | **4,760,021** | **3,198,005** | **3,330,809** | **4,493,355** | **1,418,936** | **7,598,936** |
| Pension expense | 808,544 | 588,354 | 588,354 | 808,544 | 808,544 | 808,544 |
| **Total remuneration** | **5,568,565** | **3,786,359** | **3,919,163** | **5,301,899** | **2,227,480** | **8,407,480** |

1 In 2019, Mr. Blume was granted a maximum performance-related bonus payment by Porsche AG in the amount of €150,000 which is not taken into consideration in the remuneration from Volkswagen AG.

## REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

| | JOCHEM HEIZMANN | | | | | |
|---|---|---|---|---|---|---|
| | China | | | | | |
| | Left: January 10, 2019 | | | | | |
| | Benefits received | | Benefits granted | | | |
| € | 2019 | 2018 | 2018 | 2019 | 2019 (minimum) | 2019 (maximum) |
| Fixed remuneration | 36,986 | 1,350,000 | 1,350,000 | 36,986 | 36,986 | 36,986 |
| Fringe benefits | 34,405 | 255,076 | 255,076 | 34,405 | 34,405 | 34,405 |
| **Total** | **71,391** | **1,605,076** | **1,605,076** | **71,391** | **71,391** | **71,391** |
| One-year performance-related remuneration | 52,085 | 1,608,147 | 1,350,000 | 36,986 | – | 66,575 |
| Multiyear performance-related remuneration | 1,068,593 | 1,440,000 | 1,799,918 | 43,098 | – | 98,630 |
| LTI (performance share plan 2017–2019) | – | – | – | – | – | – |
| LTI (performance share plan 2018–2020) | – | 1,440,000 | 1,799,918 | – | – | – |
| LTI (performance share plan 2019–2021) | – | – | – | 43,098 | – | 98,630 |
| Phantom shares | 1,068,593 | – | – | – | – | – |
| **Total** | **1,192,069** | **4,653,223** | **4,754,994** | **151,475** | **71,391** | **236,597** |
| Pension expense | – | – | – | – | – | – |
| **Total remuneration** | **1,192,069** | **4,653,223** | **4,754,994** | **151,475** | **71,391** | **236,597** |

| | GUNNAR KILIAN | | | | | |
|---|---|---|---|---|---|---|
| | Human Resources | | | | | |
| | Joined: April 13, 2018 | | | | | |
| | Benefits received | | Benefits granted | | | |
| € | 2019 | 2018 | 2018 | 2019 | 2019 (minimum) | 2019 (maximum) |
| Fixed remuneration | 1,350,000 | 967,500 | 967,500 | 1,350,000 | 1,350,000 | 1,350,000 |
| Fringe benefits | 112,701 | 59,707 | 59,707 | 112,701 | 112,701 | 112,701 |
| **Total** | **1,462,701** | **1,027,207** | **1,027,207** | **1,462,701** | **1,462,701** | **1,462,701** |
| One-year performance-related remuneration | 1,901,085 | 1,152,506 | 967,500 | 1,350,000 | – | 2,430,000 |
| Multiyear performance-related remuneration | – | – | 1,349,810 | 1,574,419 | – | 3,600,000 |
| LTI (performance share plan 2018–2020) | – | – | 1,349,810 | – | – | – |
| LTI (performance share plan 2019–2021) | – | – | – | 1,574,419 | – | 3,600,000 |
| **Total** | **3,363,786** | **2,179,713** | **3,344,517** | **4,387,120** | **1,462,701** | **7,492,701** |
| Pension expense | 886,559 | 703,228 | 703,228 | 886,559 | 886,559 | 886,559 |
| **Total remuneration** | **4,250,345** | **2,882,941** | **4,047,745** | **5,273,679** | **2,349,260** | **8,379,260** |

## REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

| | ANDREAS RENSCHLER | | | | | |
|---|---|---|---|---|---|---|
| | Chairman of the Board of Management of TRATON SE, Truck & Bus brand group | | | | | |
| | Benefits received | | Benefits granted | | | |
| € | 2019 | 2018 | 2018 | 2019 | 2019 (minimum) | 2019 (maximum) |
| Fixed remuneration | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 |
| Fringe benefits | 259,755 | 246,305 | 246,305 | 259,755 | 259,755 | 259,755 |
| **Total** | **1,609,755** | **1,596,305** | **1,596,305** | **1,609,755** | **1,609,755** | **1,609,755** |
| One-year performance-related remuneration | 1,901,085 | 1,608,147 | 1,350,000 | 1,350,000 | – | 2,430,000 |
| Multiyear performance-related remuneration | 990,754 | 1,440,000 | 1,799,918 | 1,574,419 | – | 3,600,000 |
| LTI (performance share plan 2017–2019) | – | – | – | – | – | – |
| LTI (performance share plan 2018–2020) | – | 1,440,000 | 1,799,918 | – | – | – |
| LTI (performance share plan 2019–2021) | – | – | – | 1,574,419 | – | 3,600,000 |
| Phanton shares | 990,754 | – | – | – | – | – |
| **Total** | **4,501,594** | **4,644,452** | **4,746,223** | **4,534,174** | **1,609,755** | **7,639,755** |
| Pension expense | 5,025,570 | 5,249,526 | 5,249,526 | 5,025,570 | 5,025,570 | 5,025,570 |
| **Total remuneration** | **9,527,164** | **9,893,978** | **9,995,749** | **9,559,744** | **6,635,325** | **12,665,325** |

| | ABRAHAM SCHOT | | | | | |
|---|---|---|---|---|---|---|
| | Chairman of the Board of Management of AUDI AG, Premium brand group | | | | | |
| | Joined: January 1, 2019 | | | | | |
| | Benefits received | | Benefits granted | | | |
| € | 2019 | 2018 | 2018 | 2019 | 2019 (minimum) | 2019 (maximum) |
| Fixed remuneration | 1,350,000 | – | – | 1,350,000 | 1,350,000 | 1,350,000 |
| Fringe benefits | 460,079 | – | – | 460,079 | 460,079 | 460,079 |
| **Total** | **1,810,079** | **–** | **–** | **1,810,079** | **1,810,079** | **1,810,079** |
| One-year performance-related remuneration | 1,901,085 | – | – | 1,350,000 | – | 2,430,000 |
| Multiyear performance-related remuneration | – | – | – | 1,574,419 | – | 3,600,000 |
| LTI (performance share plan 2019–2021) | – | – | – | 1,574,419 | – | 3,600,000 |
| **Total** | **3,711,164** | **–** | **–** | **4,734,498** | **1,810,079** | **7,840,079** |
| Pension expense | 2,222,572 | – | – | 2,222,572 | 2,222,572 | 2,222,572 |
| **Total remuneration** | **5,933,736** | **–** | **–** | **6,957,070** | **4,032,651** | **10,062,651** |

## REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

| | STEFAN SOMMER | | | | | |
|---|---|---|---|---|---|---|
| | Components & Procurement | | | | | |
| | Joined: September 1, 2018 | | | | | |
| | Benefits received | | Benefits granted | | | |
| € | 2019 | 2018 | 2018 | 2019 | 2019 (minimum) | 2019 (maximum) |
| Fixed remuneration | 1,350,000 | 450,000 | 450,000 | 1,350,000 | 1,350,000 | 1,350,000 |
| Fringe benefits | 519,019 | 129,020 | 129,020 | 519,019 | 519,019 | 519,019 |
| **Total** | **1,869,019** | **579,020** | **579,020** | **1,869,019** | **1,869,019** | **1,869,019** |
| One-year performance-related remuneration | 1,901,085 | 536,049 | 450,000 | 1,350,000 | – | 2,430,000 |
| Multiyear performance-related remuneration | – | – | 488,446 | 1,574,419 | – | 3,600,000 |
| LTI (performance share plan 2018–2020) | – | – | 488,446 | – | – | – |
| LTI (performance share plan 2019–2021) | – | – | – | 1,574,419 | – | 3,600,000 |
| **Total[1]** | **4,019,019** | **1,295,687** | **1,517,466** | **4,793,438** | **4,019,019** | **7,899,019** |
| Pension expense | 761,437 | 270,997 | 270,997 | 761,437 | 761,437 | 761,437 |
| **Total remuneration** | **4,780,456** | **1,566,684** | **1,788,463** | **5,554,875** | **4,780,456** | **8,660,456** |

1 Benefits received and the minimum amount for 2019 and benefits received for 2018 (prorated) include a top-up amount on the minimum remuneration of €3.5 million.

| | HILTRUD DOROTHEA WERNER | | | | | |
|---|---|---|---|---|---|---|
| | Integrity & Legal Affairs | | | | | |
| | Benefits received | | Benefits granted | | | |
| € | 2019 | 2018 | 2018 | 2019 | 2019 (minimum) | 2019 (maximum) |
| Fixed remuneration | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 |
| Fringe benefits | 115,159 | 172,095 | 172,095 | 115,159 | 115,159 | 115,159 |
| **Total** | **1,465,159** | **1,522,095** | **1,522,095** | **1,465,159** | **1,465,159** | **1,465,159** |
| One-year performance-related remuneration | 1,901,085 | 1,608,147 | 1,350,000 | 1,350,000 | – | 2,430,000 |
| Multiyear performance-related remuneration | – | – | 1,799,918 | 1,574,419 | – | 3,600,000 |
| LTI (performance share plan 2017–2019) | – | – | – | – | – | – |
| LTI (performance share plan 2018–2020) | – | – | 1,799,918 | – | – | – |
| LTI (performance share plan 2019–2021) | – | – | – | 1,574,419 | – | 3,600,000 |
| **Total** | **3,366,244** | **3,130,242** | **4,672,013** | **4,389,578** | **1,465,159** | **7,495,159** |
| Pension expense | 956,364 | 953,404 | 953,404 | 956,364 | 956,364 | 956,364 |
| **Total remuneration** | **4,322,608** | **4,083,646** | **5,625,417** | **5,345,942** | **2,421,523** | **8,451,523** |

## REMUNERATION OF THE MEMBERS OF THE BOARD OF MANAGEMENT (BENEFITS RECEIVED AND BENEFITS GRANTED) IN ACCORDANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

| | FRANK WITTER | | | | | |
|---|---|---|---|---|---|---|
| | Finance & IT | | | | | |
| | Benefits received | | Benefits granted | | | |
| € | 2019 | 2018 | 2018 | 2019 | 2019 (minimum) | 2019 (maximum) |
| Fixed remuneration | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 |
| Fringe benefits | 62,781 | 63,363 | 63,363 | 62,781 | 62,781 | 62,781 |
| **Total** | **1,412,781** | **1,413,363** | **1,413,363** | **1,412,781** | **1,412,781** | **1,412,781** |
| One-year performance-related remuneration | 1,901,085 | 1,608,147 | 1,350,000 | 1,350,000 | – | 2,430,000 |
| Multiyear performance-related remuneration | 249,128 | 1,440,000 | 1,799,918 | 1,574,419 | – | 3,600,000 |
| LTI (performance share plan 2017–2019) | – | – | – | – | – | – |
| LTI (performance share plan 2018–2020) | – | 1,440,000 | 1,799,918 | – | – | – |
| LTI (performance share plan 2019–2021) | – | – | – | 1,574,419 | – | 3,600,000 |
| Phanton shares | 249,128 | – | – | – | – | – |
| **Total** | **3,562,994** | **4,461,510** | **4,563,281** | **4,337,200** | **1,412,781** | **7,442,781** |
| Pension expense | 886,120 | 849,556 | 849,556 | 886,120 | 886,120 | 886,120 |
| **Total remuneration** | **4,449,114** | **5,311,066** | **5,412,837** | **5,223,320** | **2,298,901** | **8,328,901** |

#### POST-EMPLOYMENT BENEFITS

In the event of regular termination of their service on the Board of Management, the members of the Board of Management are entitled to a pension, including a surviving dependents' pension, as well as the use of company cars for the period in which they receive their pension. The agreed benefits are paid or made available when the Board of Management member reaches the age of 63. As a departure from this principle, Mr. Renschler is able to start drawing his pension when he reaches the age of 62.

The retirement provision for members of the Board of Management with a pension commitment based on final remuneration is calculated as a percentage of the fixed remuneration, starting from 50%. For Mr. Heizmann and Mr. Renschler the individual percentages rise by two percentage points for every year of service. In specific cases, credit is given for previous employment periods and retirement pensions earned. In a departure from this rule, a retirement pension entitlement of 62% of the fixed level of remuneration was set for Mr. Renschler on his appointment. The Supervisory Board has capped the percentage at 70%. These benefits are not broken down any further into performance-related components and long-term incentive components. Mr. Renschler reached a retirement pension entitlement of 70% of his fixed level of remuneration at the end of 2019. The increase in the fixed remuneration as a consequence of the remuneration system in place from fiscal year 2017 is therefore not taken into account for Mr. Heizmann and Mr. Renschler because their final salary pension commitment is based on a previous pension scheme. Current pensions are index-linked in accordance with the index-linking of the highest collectively agreed salary insofar as the application of section 16 of the Gesetz zur Verbesserung der betrieblichen Altersversorgung (BetrAVG – German Company Pension Act) does not lead to a larger increase.

For the members of the Board of Management of Volkswagen AG appointed before February 24, 2017 with a defined contribution pension scheme, a contribution rate of 50% of the fixed remuneration applies. For the members of the Board of Management of Volkswagen AG appointed after February 24, 2017 with a defined contribution pension scheme, a contribution rate of 40% of the fixed remuneration applies. The resulting amount will be credited to the pension account.

Ms. Werner, Mr. Blume, Mr. Diess, Mr. Kilian, Mr. Schot, Mr. Sommer and Mr. Witter received a defined contribution plan, which is based in principle on a works agreement that also applies to the employees of Volkswagen AG covered by collective agreements and includes retirement, invalidity and surviving dependents' benefits. A pension contribution in the amount of 50% of the fixed level of remuneration for Ms. Werner, Mr. Diess and Mr. Witter and in the amount of 40% of the fixed level of remuneration for Mr. Blume, Mr. Kilian, Mr. Schott and Mr. Sommer is paid to Volkswagen Pension Trust e.V. at the end of the calendar year for each year they are appointed to the Board of Management. The annual pension contributions result in modules of what is, in principle, a lifelong pension in line with the arrangements that also apply to employees covered by collective agreements. The individual pension modules vest immediately upon payment to Volkswagen Pension Trust e.V. Instead of a lifelong pension, benefits can optionally be paid out as a lump sum or in installments when the beneficiary reaches retirement age – currently 63 at the earliest. Volkswagen AG has assumed responsibility for pension entitlements due to Mr. Witter from the time before his service with the Company, although these cannot be claimed before he reaches the age of 60.

On December 31, 2019, the pension obligations for members of the Board of Management in accordance with IAS 19 amounted to €60.5 (55.8) million. €13.7 (11.9) million was added to the provision in the reporting period in accordance with IAS 19. Other benefits such as surviving dependents' pensions and the use of company cars are also factored into the measurement of pension provisions. The pension obligations measured in accordance with German GAAP amounted to €44.8 (45.9) million. Measured in accordance with German GAAP, €14.5 (9.5) million was added to the provision in the reporting period.

Retired members of the Board of Management and their surviving dependents received €32.7 (44.0) million, or €32.7 (44.0) million measured in accordance with German GAAP, in the past year. Obligations for pensions for this group of persons measured in accordance with IAS 19 amounted to €373.7 (324.0) million, or €300.5 (276.2) million measured in accordance with German GAAP.

The following general rule applies to contracts for the first term of office of members of the Board of Management entered into after August 5, 2009: the retirement pension to be granted after a member of the Board of Management leaves the Company is payable when the member reaches the age of 63.

#### EARLY TERMINATION BENEFITS

If the appointment to the Board of Management is terminated for cause through no fault of the Board of Management member, the claims under Board of Management contracts entered into since November 20, 2009 are limited to a maximum of two years' remuneration, in accordance with the recommendation in section 4.2.3(4) of the Code (severance payment cap).

No severance payment is made if the appointment to the Board of Management is terminated for good reason for which the Board of Management member is responsible. The members of the Board of Management are also entitled to a pension and to a surviving dependents' pension as well as the use of company cars for the period in which they receive their pension in the event of early termination of their service on the Board of Management.

Please refer to notes 43 and 46 to the consolidated financial statements and the notes to the annual financial statements of Volkswagen AG for more detailed individual disclosures relating to members of the Board of Management who left the Company in fiscal year 2019.

#### PENSIONS OF THE MEMBERS OF THE BOARD OF MANAGEMENT IN 2019 (PRIOR-YEAR FIGURES IN BRACKETS)

| € | Pension expense | Present values as of December 31[1] |
|---|---|---|
| Herbert Diess | 1,354,053<br>(850,620) | 5,592,969<br>(3,410,933) |
| Oliver Blume (since April 13, 2018) | 808,544<br>(588,354) | 1,743,034<br>(588,354) |
| Jochem Heizmann (until January 10, 2019) | –<br>– | –<br>(18,098,438) |
| Gunnar Kilian (since April 13, 2018) | 886,559<br>(703,228) | 2,102,717<br>(703,228) |
| Andreas Renschler | 5,025,570<br>(5,249,526) | 29,609,167<br>(20,109,236) |
| Abraham Schot (since January 1, 2019) | 2,222,572<br>– | 2,222,572<br>– |
| Stefan Sommer (since September 1, 2018) | 761,437<br>(270,997) | 1,228,940<br>(270,997) |
| Hiltrud Dorothea Werner | 956,364<br>(953,404) | 3,482,194<br>(1,872,035) |
| Frank Witter | 886,120<br>(849,556) | 14,474,204<br>(10,765,942) |
| Members of the Board of Management who left in the previous year | –<br>(1,053,684) | –<br>– |
| **Total** | **12,901,219**<br>**(10,519,369)** | **60,455,797**<br>**(55,819,163)** |

1 The amount is reported in the total amount for defined benefit plans recognized in the balance sheet (see note 29 to the consolidated financial statements).

### SUPERVISORY BOARD REMUNERATION

Following its regular review of Supervisory Board remuneration, the Supervisory Board proposed a reorganization of the system of Supervisory Board remuneration to the 2017 Annual General Meeting, which was approved on May 10, 2017 with 99.98% of the votes cast. The remuneration of the members of the Supervisory Board of Volkswagen AG is comprised entirely of non-performance-related remuneration components. Remuneration for supervisory board work at subsidiaries continues in part to comprise a mix of non-performance-related and performance- related components.

The following applies to members of the Supervisory Board of Volkswagen AG with effect from January 1, 2017:

> Members of the Supervisory Board receive fixed remuneration of €100,000 per fiscal year.
> The Chairman of the Supervisory Board receives fixed remuneration of €300,000, while the Deputy Chairman receives remuneration of €200,000.
> For their work in the Supervisory Board committees, the members of the Supervisory Board also receive additional fixed remuneration of €50,000 per committee per fiscal year provided the committee met at least once per year for the performance of its duties. Memberships of the Nomination and Mediation Committees established in accordance with section 27(3) of the Mitbestimmungsgesetz (MitbestG – German Codetermination Act) are not taken into account.
> Committee chairpersons receive double this amount, while deputy chairpersons receive one-and-a-half times the committee remuneration listed previously.
> Membership of no more than two committees is taken into account, whereby the two functions with the highest remuneration are counted if this maximum number is exceeded.
> Supervisory Board members who belonged to the Supervisory Board or one of its committees for only part of the fiscal year receive proportionate remuneration.
> Supervisory Board members receive an attendance fee of €1,000 for attending a meeting of the Supervisory Board or one of its committees; if several meetings are held on one day, the attendance fee is paid only once.
> The remuneration and attendance fees are each payable after the end of the fiscal year.

In fiscal year 2019, the members of the Supervisory Board received €5,327,155 (4,538,986). Of this figure, €2,290,833 related to the work of the Supervisory Board and €944,444 related to the work in the committees.

## REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

| € | FIXED REMUNERATION | WORK IN THE COMMITTEES | OTHER[1] | TOTAL 2019 | TOTAL 2018 |
|---|---|---|---|---|---|
| Hans Dieter Pötsch | 300,000 | 100,000 | 525,500 | 925,500 | 584,500 |
| Jörg Hofmann[2] | 200,000 | 75,000 | 14,000 | 289,000 | 294,000 |
| Hussain Ali Al Abdulla | 100,000 | – | 5,000 | 105,000 | 108,000 |
| Hessa Sultan Al Jaber | 100,000 | – | 7,000 | 107,000 | 111,000 |
| Bernd Althusmann[3] | 100,000 | 50,000 | 7,000 | 157,000 | 155,194 |
| Birgit Dietze[2] (until May 31, 2019) | 41,667 | 20,833 | 5,000 | 67,500 | 167,000 |
| Hans-Peter Fischer[2] | 100,000 | – | 7,000 | 107,000 | 114,000 |
| Marianne Heiß (since February 14, 2018) | 100,000 | 50,000 | 100,500 | 250,500 | 198,300 |
| Uwe Hück[2] (until February 8, 2019) | 10,278 | – | 4,596 | 14,874 | 184,500 |
| Johan Järvklo[2] | 100,000 | – | 7,000 | 107,000 | 114,000 |
| Ulrike Jakob[2] | 100,000 | – | 6,000 | 106,000 | 112,000 |
| Louise Kiesling | 100,000 | – | 7,000 | 107,000 | 111,000 |
| Peter Mosch[2] | 100,000 | 100,000 | 190,500 | 390,500 | 346,589 |
| Bertina Murkovic[2] | 100,000 | 50,000 | 7,000 | 157,000 | 164,000 |
| Bernd Osterloh[2] | 100,000 | 125,000 | 162,000 | 387,000 | 264,233 |
| Hans Michel Piëch | 100,000 | – | 189,000 | 289,000 | 272,000 |
| Ferdinand Oliver Porsche | 100,000 | 150,000 | 185,000 | 435,000 | 412,500 |
| Wolfgang Porsche | 100,000 | 150,000 | 183,500 | 433,500 | 422,500 |
| Conny Schönhardt[2] (since June 21, 2019) | 52,778 | 23,611 | 5,000 | 81,389 | – |
| Athanasios Stimoniaris[2] | 100,000 | – | 382,040 | 482,040 | 230,225 |
| Stephan Weil[3] | 100,000 | 50,000 | 13,000 | 163,000 | 164,000 |
| Werner Weresch[2] (since February 21, 2019) | 86,111 | – | 79,241 | 165,352 | – |
| Members of the Supervisory Board who left in the previous year | 9,444 | – | – | – | 9,444 |
| **Total** | **2,290,833** | **944,444** | **2,091,877** | **5,327,155** | **4,538,985** |

1 Attendance fees, membership of other Group bodies (non-performance-related: €790,810; performance-related: €779,967).
2 These employee representatives have stated that they will transfer their Supervisory Board remuneration to the Hans Böckler Foundation in accordance with the guidelines issued by the German Confederation of Trade Unions (DGB).
3 Under section 5(3) of the Niedersächsisches Ministergesetz (German Act Governing Ministers of the State of Lower Saxony), these members of the Supervisory Board are obliged to transfer their Supervisory Board remuneration to the State of Lower Saxony as soon as and in so far as it exceeds €6,200 per annum. Remuneration is defined for this purpose as Supervisory Board remuneration and attendance fees exceeding the amount of €200.

# Executive Bodies

## Members of the Board of Management and their appointments

Appointments: as of December 31, 2019 or the leaving date from the Board of Management of Volkswagen AG

**DR.-ING. HERBERT DIESS (*1958)**
Chairman (since April 13, 2018),
Chairman of the Brand Board of Management
of Volkswagen Passenger Cars,
Volume brand group,
China (since January 11, 2019)
July 1, 2015[1], appointed until 2023
Nationality: Austrian
**Appointments:**
○ FC Bayern München AG, Munich
○ Infineon Technologies AG, Neubiberg

**OLIVER BLUME (*1968)**
Chairman of the Executive Board of
Dr. Ing. h.c. F. Porsche AG,
Sport & Luxury brand group
April 13, 2018[1], appointed until 2023
Nationality: German

**PROF. DR. RER. POL. DR.-ING. E.H.**
**JOCHEM HEIZMANN (*1952)**
China
January 11, 2007 – January 10, 2019[1]
Nationality: German
**Appointments (as of January 10, 2019):**
○ Lufthansa Technik AG, Hamburg
⦿ OBO Bettermann Holding GmbH Co. KG, Menden

**GUNNAR KILIAN (*1975)**
Human Resources
April 13, 2018[1], appointed until 2023
Nationality: German
**APPOINTMENTS:**
○ Wolfsburg AG, Wolfsburg

**ANDREAS RENSCHLER (*1958)**
Chairman of the Board of Management of
TRATON SE, Truck & Bus brand group
February 1, 2015[1], appointed until 2024
Nationality: German
**Appointments:**
○ Deutsche Messe AG, Hanover

**ABRAHAM SCHOT (*1961)**
Chairman of the Board of Management of AUDI AG,
Premium brand group
January 1, 2019[1], appointed until 2020
Nationality: Dutch

**DR.-ING. STEFAN SOMMER (*1963)**
Components & Procurement
Nationality: German
September 1, 2018[1], appointed until 2021

**HILTRUD DOROTHEA WERNER (*1966)**
Integrity & Legal Affairs
February 1, 2017[1], appointed until 2022
Nationality: German

**FRANK WITTER (*1959)**
Finance & IT
October 7, 2015[1], appointed until 2021
Nationality: German

As part of their duty to manage and supervise the Group's business, the members of the Board of Management hold other offices on the supervisory boards of consolidated Group companies and other significant investees.

○ Membership of statutory supervisory boards in Germany.
⦿ Comparable appointments in Germany and abroad.

1 Beginning or period of membership of the Board of Management.

## Members of the Supervisory Board and their appointments

Appointments: as of December 31, 2019 or the leaving date from the Supervisory Board of Volkswagen AG

**HANS DIETER PÖTSCH (*1951)**
Chairman (since October 7, 2015),
Chairman of the Executive Board and
Chief Financial Officer of Porsche Automobil
Holding SE
October 7, 2015[1], elected until 2021
Nationality: Austrian
**Appointments:**
○ AUDI AG, Ingolstadt
○ Autostadt GmbH, Wolfsburg
○ Bertelsmann Management SE, Gütersloh
○ Bertelsmann SE & Co. KGaA, Gütersloh
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ TRATON SE, Munich (Chairman)
○ Wolfsburg AG, Wolfsburg
⊙ Porsche Austria Gesellschaft m.b.H., Salzburg (Chairman)
⊙ Porsche Holding Gesellschaft m.b.H., Salzburg (Chairman)
⊙ Porsche Retail GmbH, Salzburg (Chairman)
⊙ VfL Wolfsburg-Fußball GmbH, Wolfsburg (Deputy Chairman)

**JÖRG HOFMANN (*1955)**
Deputy Chairman (since November 20, 2015),
First Chairman of IG Metall
November 20, 2015[1], appointed until 2022
Nationality: German
**Appointments:**
○ Robert Bosch GmbH, Stuttgart

**DR. HUSSAIN ALI AL ABDULLA (*1957)**
Minister of State, Qatar
April 22, 2010[1], elected until 2020
Nationality: Qatari
**Appointments:**
⊙ Gulf Investment Corporation, Safat/Kuwait (Board member)
⊙ Masraf Al Rayan, Doha (Chairman and Managing Director)
⊙ Qatar Investment Authority, Doha (Board member)
⊙ Qatar Supreme Council for Economic Affairs and Investment, Doha (Board member)

**DR. HESSA SULTAN AL JABER (*1959)**
Member of the Consultative Assembly
(Shura Council) of the state of Qatar, Doha
Ex-Minister of Information and Communications
Technology, Qatar
June 22, 2016[1], elected until 2024
Nationality: Qatari
**Appointments:**
⊙ Malomatia, Doha (Chairwoman)
⊙ MEEZA, Doha
⊙ Qatar Satellite Company (Es'hailSat), Doha (Chairwoman)
⊙ Trio Investment, Doha (Chairwoman)

**DR. BERND ALTHUSMANN (*1966)**
Minister of Economic Affairs, Labor, Transport and
Digitalization for the Federal State of Lower Saxony
December 14, 2017[1], delegated until 2022
Nationality: German
**Appointments:**
○ Deutsche Messe AG, Hanover (Deputy Chairman)
⊙ Container Terminal Wilhelmshaven JadeWeserPort-Marketing GmbH & Co. KG, Wilhelmshaven (Chairman)
⊙ JadeWeserPort Realisierungs GmbH & Co. KG, Wilhelmshaven (Chairman)
⊙ JadeWeserPort Realisierungs-Beteiligungs GmbH, Wilhelmshaven (Chairman)
⊙ Niedersachsen Ports GmbH & Co. KG, Oldenburg (Chairman)

**BIRGIT DIETZE (*1973)**
First authorized representative of IG Metall Berlin
June 1, 2016 – May 31, 2019[1]
Nationality: German
**Appointments (as of May 31, 2019):**
○ Volkswagen Bank GmbH, Braunschweig

**DR. JUR. HANS-PETER FISCHER (*1959)**
Chairman of the Board of Management of
Volkswagen Management Association e.V.
January 1, 2013[1], appointed until 2022
Nationality: German
**Appointments:**
⊙ Volkswagen Pension Trust e.V., Wolfsburg

○ Membership of statutory supervisory boards in Germany.
⊙ Comparable appointments in Germany and abroad.

1 Beginning or period of membership of the Supervisory Board.

**MARIANNE HEIß (*1972)**
Chief Executive Officer of BBDO Group Germany GmbH, Düsseldorf
February 14, 2018[1], elected until 2023
Nationality: Austrian
**Appointments:**
○ AUDI AG, Ingolstadt
○ Porsche Automobil Holding SE, Stuttgart

**UWE HÜCK (*1962)**
Chairman of the General and Group Works Councils of Dr. Ing. h.c. F. Porsche AG
July 1, 2015 – February 8, 2019[1]
Nationality: German
**Appointments (as of February 8, 2019):**
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart (Deputy Chairman)

**JOHAN JÄRVKLO (*1973)**
Secretary-General of the European and Global Group Works Council of Volkswagen AG
November 22, 2015[1], appointed until 2022
Nationality: Swedish

**ULRIKE JAKOB (*1960)**
Deputy Chairwoman of the Works Council of Volkswagen AG, Kassel plant
May 10, 2017[1], appointed until 2022
Nationality: German

**DR. LOUISE KIESLING (*1957)**
Businesswoman
April 30, 2015[1], elected until 2021
Nationality: Austrian

**PETER MOSCH (*1972)**
Chairman of the General Works Council of AUDI AG
January 18, 2006[1], appointed until 2022
Nationality: German
**Appointments:**
○ AUDI AG, Ingolstadt (Deputy Chairman)
○ Audi Pensionskasse – Altersversorgung der AUTO UNION GmbH, VVaG, Ingolstadt
⊙ Audi Stiftung für Umwelt GmbH, Ingolstadt

**BERTINA MURKOVIC (*1957)**
Chairwoman of the Works Council of Volkswagen Commercial Vehicles
May 10, 2017[1], appointed until 2022
Nationality: German
**Appointments:**
⊙ MOIA GmbH, Berlin

**BERND OSTERLOH (*1956)**
Chairman of the General and Group Works Councils of Volkswagen AG
January 1, 2005[1], appointed until 2022
Nationality: German
**Appointments:**
○ Autostadt GmbH, Wolfsburg
○ TRATON SE, Munich
○ Wolfsburg AG, Wolfsburg
⊙ Allianz für die Region GmbH, Braunschweig
⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
⊙ SEAT, S.A., Martorell
⊙ ŠKODA Auto a.s., Mladá Boleslav
⊙ VfL Wolfsburg-Fußball GmbH, Wolfsburg
⊙ Volkswagen Immobilien GmbH, Wolfsburg

**DR. JUR. HANS MICHEL PIËCH (*1942)**
Lawyer in private practice
August 7, 2009[1], elected until 2024
Nationality: Austrian
**Appointments:**
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ Porsche Automobil Holding SE, Stuttgart (Deputy Chairman)
⊙ Porsche Cars Great Britain Ltd., Reading
⊙ Porsche Cars North America Inc., Atlanta
⊙ Porsche Greater China, consisting of:
Porsche (China) Motors Limited, Shanghai
Porsche Hong Kong Limited, Hong Kong
⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
⊙ Schmittenhöhebahn AG, Zell am See
⊙ Volksoper Wien GmbH, Vienna

**DR. JUR. FERDINAND OLIVER PORSCHE (*1961)**
Member of the Board of Management of Familie Porsche AG Beteiligungsgesellschaft
August 7, 2009[1], elected until 2024
Nationality: Austrian
**Appointments:**
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart
○ Porsche Automobil Holding SE, Stuttgart
⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
⊙ Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg

**DR. RER. COMM. WOLFGANG PORSCHE (*1943)**
Chairman of the Supervisory Board of Porsche Automobil Holding SE;
Chairman of the Supervisory Board of Dr. Ing. h.c. F. Porsche AG
April 24, 2008[1], elected until 2023
Nationality: Austrian
**Appointments:**
○ AUDI AG, Ingolstadt
○ Dr. Ing. h.c. F. Porsche AG, Stuttgart (Chairman)
○ Porsche Automobil Holding SE, Stuttgart (Chairman)
⊙ Familie Porsche AG Beteiligungsgesellschaft, Salzburg (Chairman)
⊙ Porsche Cars Great Britain Ltd., Reading
⊙ Porsche Cars North America Inc., Atlanta
⊙ Porsche Greater China, consisting of:
Porsche (China) Motors Limited, Shanghai
Porsche Hong Kong Limited, Hong Kong
⊙ Porsche Holding Gesellschaft m.b.H., Salzburg
⊙ Schmittenhöhebahn AG, Zell am See

○ Membership of statutory supervisory boards in Germany.
⊙ Comparable appointments in Germany and abroad.

1 Beginning or period of membership of the Supervisory Board.

**CONNY SCHÖNHARDT (*1978)**
Union Secretary to the board of IG Metall
June 21, 2019[1], appointed until 2022
Nationality: German

**ATHANASIOS STIMONIARIS (*1971)**
Chairman of the Group Works Council of MAN SE and of the SE Works Council
May 10, 2017[1], appointed until 2022
Nationality: German
**Appointments:**
- ○ MAN SE, Munich
- ○ MAN Truck & Bus SE, Munich
- ○ Rheinmetall MAN Military Vehicles GmbH, Munich
- ○ TRATON SE, Munich (Deputy Chairman)

**STEPHAN WEIL (*1958)**
Minister-President of the Federal State of Lower Saxony
February 19, 2013[1], delegated until 2022
Nationality: German

**WERNER WERESCH (*1961)**
Chairman of the General and Group Works Councils of Dr. Ing. h.c. F. Porsche AG
February 21, 2019[1], appointed until 2022
Nationality: German
**Appointments:**
- ○ Dr. Ing. h.c. F. Porsche AG, Stuttgart

## COMMITTEES OF THE SUPERVISORY BOARD AS OF DECEMBER 31, 2019

**Members of the Executive Committee**
Hans Dieter Pötsch (Chairman)
Jörg Hofmann (Deputy Chairman)
Peter Mosch
Bernd Osterloh
Dr. Wolfgang Porsche
Stephan Weil

**Members of the Mediation Committee established in accordance with section 27(3) of the Mitbestimmungsgesetz (German Codetermination Act)**
Hans Dieter Pötsch (Chairman)
Jörg Hofmann (Deputy Chairman)
Bernd Osterloh
Stephan Weil

**Members of the Audit Committee**
Dr. Ferdinand Oliver Porsche (Chairman)
Bernd Osterloh (Deputy Chairman)
Marianne Heiß
Conny Schönhardt

**Members of the Nomination Committee**
Hans Dieter Pötsch (Chairman)
Dr. Wolfgang Porsche
Stephan Weil

**Special Committee on Diesel Engines**
Dr. Wolfgang Porsche (Chairman)
Dr. Bernd Althusmann
Peter Mosch
Bertina Murkovic
Bernd Osterloh
Dr. Ferdinand Oliver Porsche

○ Membership of statutory supervisory boards in Germany.
⊙ Comparable appointments in Germany and abroad.

1 Beginning or period of membership of the Supervisory Board.

# Disclosures Required Under Takeover Law

This section contains the Volkswagen Group's disclosures relating to takeover law required by sections 289a(1) and 315a(1) of the HGB.

## CAPITAL STRUCTURE

Volkswagen AG's share capital amounted to €1,283,315,873.28 (€1,283,315,873.28) on December 31, 2019. It was composed of 295,089,818 ordinary shares and 206,205,445 preferred shares. Each share conveys a notional interest of €2.56 in the share capital.

## SHAREHOLDER RIGHTS AND OBLIGATIONS

The shares convey pecuniary and administrative rights. The pecuniary rights include in particular the shareholders' right to participate in profits (section 58(4) of the Aktiengesetz (AktG – German Stock Corporation Act)), the right to participate in liquidation proceeds (section 271 of the AktG) and preemptive rights to shares in the event of capital increases (section 186 of the AktG) that can be disapplied by the Annual General Meeting with the approval of the Special Meeting of Preferred Shareholders, where appropriate. Administrative rights include the right to attend the Annual General Meeting to speak there, to ask questions, to propose motions and to exercise voting rights. Shareholders can enforce these rights in particular through actions seeking disclosure and actions for avoidance.

Each ordinary share grants the holder one vote at the Annual General Meeting. The Annual General Meeting elects shareholder representatives to the Supervisory Board and elects the auditors; in particular, it resolves on the appropriation of net profit, formally approves the actions of the Board of Management and the Supervisory Board, and resolves on amendments to the Articles of Association of Volkswagen AG, capitalization measures and authorizations to purchase treasury shares; if required, it also resolves on the performance of a special audit, the removal before the end of their term of office of Supervisory Board members elected at the Annual General Meeting and the winding-up of the Company.

Preferred shareholders generally have no voting rights. However, in the exceptional case that they are granted voting rights by law (for example, when preferred share dividends were not paid in one year and not compensated for in full in the following year), each preferred share also grants the holder one vote at the Annual General Meeting. Furthermore, preferred shares entitle the holder to a €0.06 higher dividend than ordinary shares (further details on this right to preferred and additional dividends are specified in Article 27(2) of the Articles of Association of Volkswagen AG).

The Gesetz über die Überführung der Anteilsrechte an der Volkswagenwerk Gesellschaft mit beschränkter Haftung in private Hand (VW-Gesetz – Act on the Privatization of Shares of Volkswagenwerk Gesellschaft mit beschränkter Haftung) of July 21, 1960, as amended on July 30, 2009, includes various provisions in derogation of the German Stock Corporation Act, for example on the exercise of voting rights by proxy (section 3 of the VW-Gesetz) and on majority voting requirements at the Annual General Meeting (section 4(3) of the VW-Gesetz).

In accordance with the Volkswagen AG Articles of Association (Article 11(1)), the State of Lower Saxony is entitled to appoint two members of the Supervisory Board of Volkswagen AG for as long as it directly or indirectly holds at least 15% of Volkswagen AG's ordinary shares. In addition, resolutions by the Annual General Meeting that are required by law to be adopted by a qualified majority require a majority of more than four-fifths of the share capital of the Company represented when the resolution is adopted (Article 25(2)), regardless of the provisions of the VW-Gesetz.

## SHAREHOLDINGS EXCEEDING 10% OF VOTING RIGHTS

Shareholdings in Volkswagen AG that exceed 10% of voting rights are shown in the notes to the annual financial statements of Volkswagen AG, which are available online at https://www.volkswagenag.com/en/InvestorRelations.html. The current notifications regarding changes in voting rights in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) are also published on this website.

## COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board consists of 20 members, half of whom are shareholder representatives. In accordance with Article 11(1) of the Articles of Association of Volkswagen AG, the State of Lower Saxony is entitled to appoint two of these shareholder representatives for as long as it directly or indirectly holds at least 15% of the Company's ordinary shares. The remaining shareholder representatives on the Supervisory Board are elected by the Annual General Meeting.

The other half of the Supervisory Board consists of employee representatives elected by the employees in accordance with the Mitbestimmungsgesetz (MitbestG – German Codetermination Act). A total of seven of these employee representatives are Company employees elected by the workforce; the other three employee representatives are trade union representatives elected by the workforce.

The Chairman of the Supervisory Board is generally a shareholder representative elected by the other members of the Supervisory Board. In the event that a Supervisory Board vote is tied, the Chairman of the Supervisory Board has a casting vote in accordance with the MitbestG.

The goals for the composition of the Supervisory Board are described on page 62 of the Corporate Governance Report. Information about the composition of the Supervisory Board at the end of the reporting period can be found on pages 89 to 91 of this annual report.

### STATUTORY REQUIREMENTS AND REQUIREMENTS OF THE ARTICLES OF ASSOCIATION WITH REGARD TO THE APPOINTMENT AND REMOVAL OF BOARD OF MANAGEMENT MEMBERS AND TO AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and removal of members of the Board of Management are governed by sections 84 and 85 of the AktG, which specify that members of the Board of Management are appointed by the Supervisory Board for a maximum of five years. Board of Management members may be reappointed or have their term of office extended for a maximum of five years in each case. In addition, Article 6 of the Articles of Association of Volkswagen AG states that the number of Board of Management members is stipulated by the Supervisory Board and that the Board of Management must consist of at least three persons.

The Annual General Meeting resolves amendments to the Articles of Association (section 119(1) of the AktG). In accordance with section 4(3) of the VW-Gesetz as amended on July 30, 2009 and Article 25(2) of the Articles of Association of Volkswagen AG, Annual General Meeting resolutions to amend the Articles of Association require a majority of more than four-fifths of the share capital represented.

### POWERS OF THE BOARD OF MANAGEMENT, IN PARTICULAR CONCERNING THE ISSUE OF NEW SHARES AND THE REPURCHASE OF TREASURY SHARES

According to German stock corporation law, the Annual General Meeting can authorize the Board of Management, for a maximum period of five years, to issue new shares. It can also authorize the Board of Management, for a maximum period of five years, to issue bonds on the basis of which new shares are to be issued. The Annual General Meeting also decides the extent to which shareholders have preemptive rights to the new shares or bonds. The maximum amount of authorized share capital or contingent capital available for these purposes is determined by Article 4 of the Articles of Association of Volkswagen AG, as amended.

At the Annual General Meeting on May 14, 2019, a resolution was passed authorizing the Board of Management, with the consent of the Supervisory Board, to increase the Company's share capital by a total of up to €179.2 million (corresponding to 70 million shares) on one or more occasions up to May 13, 2024 by issuing new nonvoting preferred shares against cash contributions. This replaced the authorization dating from 2015.

Further details of the authorization to issue new shares and their permitted uses may be found in the notes to the consolidated financial statements on page 259.

### MATERIAL AGREEMENTS OF THE PARENT COMPANY IN THE EVENT OF A CHANGE OF CONTROL FOLLOWING A TAKEOVER BID

At the end of fiscal year 2019, a banking syndicate granted Volkswagen AG a syndicated line of credit amounting to €10.0 billion that initially runs until December 2024. It replaces the previous line of credit amounting to €5.0 billion that would have expired in April 2020. With the new line of credit the syndicate members were granted the right to call their portion of the syndicated line of credit in two cases. A call right exists if one individual or several individuals acting jointly who as of the date of this agreement exercise control over the Company have legal or economic ownership of shares that together make up more than 90% of the voting rights of the Company. However, a call right also exists if one individual or several individuals acting jointly who as of the date of this agreement do not exercise control over the Company obtain control over the Company. Such a call right does not exist, however, if one shareholder or several shareholders of Porsche Automobil Holding SE or one or several legal entities from the Porsche or Piëch family directly or indirectly obtains control over the Company.

The Volkswagen AG and Ford Motor Company entered into a Master Collaboration Agreement on January 14, 2019. This agreement sets out a framework of obligations, which are to apply to each and every co-operation agreement to be entered into between the Volkswagen AG and Ford Motor Company, including the Development Agreement entered into in January 2019 for the development of the next generation Amarok. The Master Collaboration Agreement provides for a right of termination with immediate effect in the event of a Change of Control. A Change of Control has been defined to mean a change affecting more than 50% of the voting rights of one of the companies or a change in the ability to directly or indirectly control the management of one company through its decision making bodies. The right of termination must be exercised within 90 days of the company becoming aware of a Change of Control.

# Business Development

The robust growth of the global economy continued in fiscal year 2019 with a decrease in momentum. Global demand for vehicles was lower than in the previous year. Amid persistently challenging market conditions, the Volkswagen Group delivered 10.97 million vehicles to customers.

## DEVELOPMENTS IN THE GLOBAL ECONOMY

The global economy sustained its robust growth in 2019 with a decrease in momentum: global gross domestic product (GDP) rose by 2.6 (3.2)%. Economic momentum weakened compared with the previous year, both in advanced economies and emerging markets. With interest rates remaining comparatively low and prices for energy and other commodities falling year-on-year on the whole, consumer prices also declined worldwide. Growing upheaval in trade policy at international level and continuing geopolitical tensions led to much greater economic uncertainty and resulted in a wane in the international trade of goods.

### Europe/Other Markets

GDP growth in Western Europe slowed to 1.2 (1.8)% as the year went on. The rate of change in nearly all countries in northern and southern Europe declined compared with the previous year. The uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) continued to generate uncertainty, as did the related question of what form this relationship would take in the future. The unemployment rate in the eurozone continued to decrease, falling to an average of 7.5 (8.1)%, though rates remained considerably higher – albeit declining – in Greece and Spain.

At 2.3 (3.3)%, the Central and Eastern Europe region also recorded a slower growth rate in the reporting period than in the previous year. In Central Europe, GDP growth tapered off at a relatively high level. Economic growth in Eastern Europe was also weaker. Lower prices for energy and other commodities led to a deterioration in the economic situation of the individual countries from this region that export raw materials. At 1.1 (2.2)%, the growth of the Russian economy, the region's largest economy, halved compared with the previous year.

The Turkish economy showed a slightly positive rate of change of 0.5 (2.9)%. Increased tariffs along with the depreciation of the Turkish lira, which was accompanied by very high inflation, led to a decline in purchasing power. South Africa's GDP rose by just 0.2 (0.8)% in the reporting period, down further on the already low figure for the prior period. Ongoing structural deficits, social unrest and political challenges weighed on the economy.

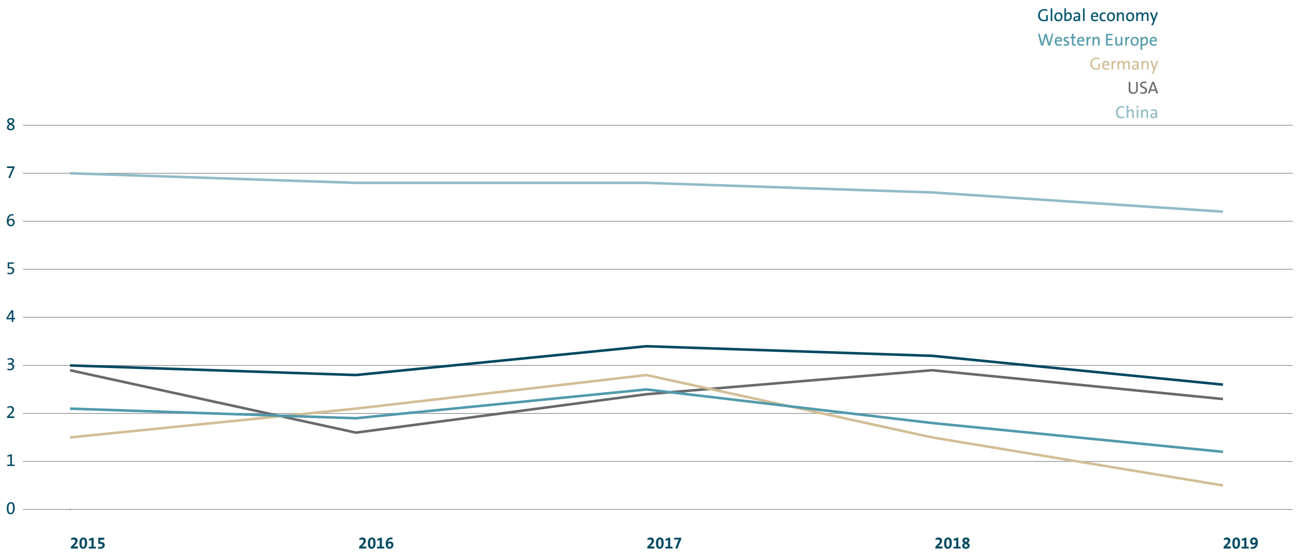
### Germany

Germany's GDP continued to grow in 2019 on the back of the strong labor market, though momentum diminished markedly year-on-year to 0.5 (1.5)%. Both business and consumer sentiment darkened further as the year progressed.

### North America

Economic growth in the USA declined in the reporting period, reaching 2.3 (2.9)%. The economy was supported mainly by domestic consumer demand. The unemployment rate in the United States was at 3.7 (3.9)%. Given the global uncertainty, the US Federal Reserve lowered its key rate amid relatively steady inflation, thus reversing the tightening of monetary policy it had initiated in the meantime. The US dollar gained strength against the euro in the course of the year. Growth in Canada decreased to 1.6 (2.0)%, while the Mexican economy stagnated at a rate of 0.1 (2.1)%.

**ECONOMIC GROWTH**
*Percentage change in GDP*




### South America

Brazil's economy once again recorded only slight growth, at 1.1 (1.3)%. The situation in South America's largest economy remained tense due to political uncertainty, among other factors. The economic situation in Argentina deteriorated further as the year went on. Amid continuing high inflation and at the same time considerable devaluation of the local currency, the country remained in recession, with GDP falling by 2.6 (–2.5)%.

### Asia-Pacific

At 6.2 (6.6)%, China's economy recorded a growth rate at a high level in 2019, but its rate of expansion was slightly lower than in the previous year. Government support provided in response to the trade policy dispute between China and the US continued in the course of 2019. The Indian economy saw growth of 4.8 (6.8)% in the reporting period. Japan's GDP grew by only 1.1 (0.3)%.

## TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2019, the global market volume of passenger cars fell below the prior-year level for the second year in a row, decreasing to 79.6 million vehicles (–4.0%). While new registrations in Western Europe and in Central and Eastern Europe exceeded the prior-year figure, the overall markets in the Middle East, North America, South America and especially Asia-Pacific recorded a dip in demand.

Global demand for light commercial vehicles in the reporting period was down moderately on the previous year.

### Sector-specific environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed considerably to the mixed trends in sales volumes in the markets last year. These measures included tax cuts or increases, incentive programs and sales incentives, as well as import duties.

In addition, non-tariff trade barriers to protect the respective domestic automotive industry made the movement of vehicles, parts and components more difficult.

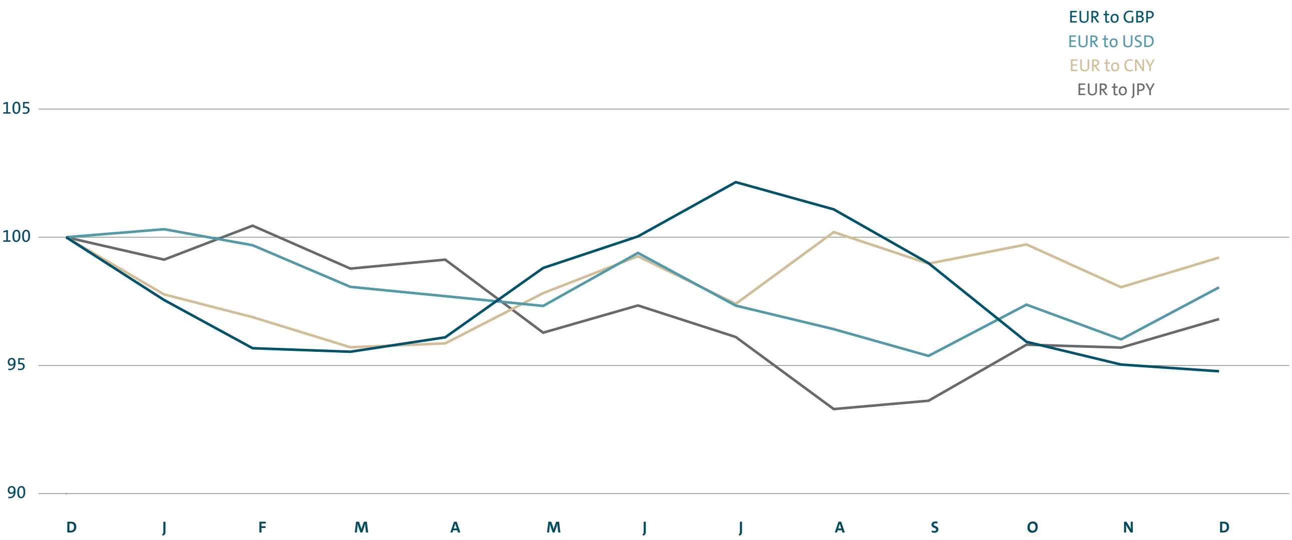
### Europe/Other Markets

In Western Europe, the number of new passenger car registrations in the reporting period was up 0.6% on the prior-year figure, at 14.4 million. New vehicle registrations were mixed in the largest single markets. France (+1.6%) slightly exceeded the previous year's figure. While Italy stagnated (+0.3%), Spain recorded a moderate (–4.7%) decline. The UK passenger car market saw a weaker continuation of the negative trend from the previous years (–2.4%). This was due, among other things, to the uncertain outcome of the Brexit negotiations with the EU. The share of diesel vehicles (passenger cars) in Western Europe slipped to 32.0 (36.4)% in the reporting year.

Despite the uncertain outcome of the Brexit negotiations between the EU and UK, new light commercial vehicle registrations in Western Europe in the reporting period slightly exceeded the prior-year level; WLTP-related pull-forward effects provided a degree of stimulus.

**EXCHANGE RATE MOVEMENTS FROM DECEMBER 2018 TO DECEMBER 2019**

*Index based on month-end prices: as of December 31, 2018 = 100*




In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2019 rose slightly by 2.7% year-on-year to 3.6 million vehicles. New passenger car registrations in the EU member states of Central Europe increased further by 5.8% to 1.5 million units. In Eastern Europe, passenger car sales matched the level of the previous year (+0.2%). Following a solid start in spite of the value-added tax increase as of January 1, 2019, the Russian passenger car market weakened as the year went on and was down on the prior-year figure at the end of the reporting period (–2.2%).

Registration volumes of light commercial vehicles in Central and Eastern Europe were at the same level as the previous year, while the number of vehicles sold in Russia in the reporting period was distinctly lower than in the prior year.

The Turkish passenger car market recorded a substantial drop in demand of 20.4%, largely due to the deteriorating macroeconomic situation. In South Africa (–2.7%), the number of new passenger car registrations in the reporting period was below the comparatively low level seen in recent years, also due to slow macroeconomic momentum.

### Germany

New passenger car registrations in Germany in the reporting period exceeded the previous year's high level, rising to 3.6 million units (+5.0%). In addition to the strong labor market and the rise in commercial demand, sales incentives, particularly in the form of an environmental bonus, underpinned the positive trend.

However, domestic production and exports once again fell short of the comparable prior-year figures in 2019: passenger car production decreased by 9.0% to 4.7 million vehicles, mainly due to the 12.8% drop in passenger car exports to 3.5 million units. This was primarily a result of the slowdown in global market growth and markedly lower exports of passenger cars fitted with diesel engines.

Demand for light commercial vehicles in Germany in the reporting period was perceptibly higher than in 2018.

### North America

At 20.2 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region in fiscal year 2019 were down slightly on the prior-year figure (–2.3%). The market volume in the USA also fell somewhat short of the level in 2018 at 17.0 million units (–1.6%). The shift in demand from traditional passenger cars (–10.1%) to light commercial vehicles such as SUVs and pickup models (+2.6%) also continued in the reporting period. In the Canadian automotive market, the downward trend that had begun in the previous year continued during the reporting period (–4.3%). In Mexico, sales of passenger cars and light commercial vehicles fell short of the prior-year figure (–8.2%) for the third year in a row.

### South America

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles decreased on the whole in 2019 to 4.3 million units (–5.0%). While in Brazil the recovery in the demand for automobiles continued, providing for a growth rate of 7.7%, new registrations, at 2.7 million, remained much lower than the record level achieved in 2012. Exports of vehicles manufactured in Brazil continued to decline, falling by 31.9% to 428 thousand units. In the Argentinian market, the deterioration in the macroeconomic situation once again had a negative impact on demand for passenger cars and light commercial vehicles, with sales figures declining drastically by 43.0%.

### Asia-Pacific

Following slight decreases in 2018, the market volume of passenger cars in the Asia-Pacific region weakened further to stand at 34.0 million units at the end of the reporting period (–6.0%). This was largely due to falling demand in China and India. The trade dispute with the United States weighed on the Chinese market, leading to a distinct reduction (–6.4%). On the Indian market, passenger car sales dropped 11.9% in total compared with the previous year. The Japanese passenger car market fell 2.4% short of the prior-year volume.

Demand for light commercial vehicles in the Asia-Pacific region declined distinctly as against the previous year. Registration volumes in China, the region's dominant market and the largest market worldwide, fell markedly year-on-year. The number of new vehicle registrations in India saw a noticeable decrease versus the prior year, while in Thailand the number was on a level with the previous year.

## TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets that are relevant for the Volkswagen Group was higher in fiscal year 2019 than in the previous year, with 609 thousand new vehicle registrations (+2.8%).

In Western Europe, the number of new truck registrations was up 3.1% on the prior-year figure at a total of 306 thousand vehicles. In Germany, Western Europe's largest market, the previous year's level was exceeded moderately. While demand in the United Kingdom rose markedly due to pull-forward effects caused by the uncertain outcome of the Brexit negotiations with the EU, demand in Italy decreased perceptibly.

The Central and Eastern Europe region saw demand recede by 6.7% to 159 thousand units owing to the deterioration in the economic climate. The Russian market contracted further as the year progressed, recording a distinct year-on-year decrease. New registrations there were down 6.9% to 73 thousand vehicles.

In fiscal year 2019, the market volume in South America rose markedly compared with the previous year, with the number of new vehicle registrations climbing 15.1% to 145 thousand units. In Brazil, the region's largest market, demand for trucks grew very sharply compared with the relatively low figure for the prior-year period as a consequence of the economic recovery. By contrast, Argentina saw new registrations fall substantially. This was due to weak economic performance with a related weakening of the peso and rising interest rates.

Demand for buses in the markets that are relevant for the Volkswagen Group was much higher than in the previous year. The markets in Brazil as well as in Western Europe contributed in particular to this growth. Demand in Central and Eastern Europe was moderately higher year-on-year.

## TRENDS IN THE MARKETS FOR POWER ENGINEERING

The markets for power engineering are subject to differing regional and economic factors. Consequently, their business growth trends are mostly independent of each other.

In 2019, the marine market contracted to a much lower level than in the previous year. Demand in merchant shipping fell, mainly due to economic uncertainty such as the trade dispute between China and the United States and to environmental requirements, for example a reduction of the sulfur content in marine fuel that became effective on January 1, 2020. Demand for cruise ships, passenger ferries, fishing vessels and dredgers remained steady. The special market for government vessels also continued on a stable trajectory. The existing overcapacity in the market curbed investment in offshore oil production and thus in new ship construction in this segment. Plans for tighter emission standards resulted in a positive trend toward gas-powered or dual-fuel-engined ships. China, South Korea and Japan remained the dominant shipbuilding countries, accounting for a global market share of 85% measured in terms of the number of ships. Because market volumes are still low, all segments in the marine market were continuing to experience significant competition and strong pricing pressure as a result.

The market for power generation continued the positive trend seen in 2018. Higher demand was registered in all areas of application, in particular for gas. This confirms the shift away from oil-fired power plants towards dual-fuel and gas-fired power plants. Demand for energy solutions remained high, with a strong trend towards greater flexibility and decentralized availability. The economies of key emerging markets developed positively. However, continued strong pressure from competition and pricing was discernible in all projects, having a negative impact on the earnings quality of orders. Furthermore, order placement was often delayed due to persistently difficult financing conditions for customers, particularly in emerging markets.

In 2019, the market for turbomachinery showed a pronounced improvement year-on-year. Demand for turbo compressors in the raw materials, oil, gas and processing industries recovered steadily over the year, buoyed by pent-up demand following several years of muted investment. The steam and gas turbine business continued to be dominated by overcapacity on the part of electricity producers and recorded only a slight improvement compared with the previous year. Pressure from competition and pricing eased somewhat year-on-year, and there were signs of a recovery as a result of improved use of market participants' engineering and manufacturing capacity.

The marine after-sales business for diesel engines performed positively and benefited from a continued increase in interest in long-term maintenance contracts and retrofitting solutions. The power plant after-sales business was negatively impacted by shifts in the energy mix and regulatory changes in key sales markets. The global after-sales market for turbomachinery registered a marked improvement year-on-year and, like new construction, benefited from pent-up demand from previous years.

### TRENDS IN THE MARKET FOR FINANCIAL SERVICES

Amid a contraction in the overall market, demand for automotive financial services was again on a high level in 2019 due, among other reasons, to the persistently low key interest rates in the main currency areas. Service products such as maintenance and servicing agreements or insurance were especially popular, as customers in more advanced automotive financial services markets are putting their focus on reducing total cost of ownership. In the fleet segment, more customers elicited the support of automotive financial service providers in order to optimize their entire mobility management beyond mere fleet operation. There was also increased demand from both private and business customers for mobility services centered on vehicle usage rather than on ownership.

Overall, a small increase in the demand for new vehicles was recorded in the European market in 2019. As a consequence, the number of new lease and financing contracts signed also increased slightly. The share of loan-financed or leased new vehicles remained stable in France and Spain, while Italy saw significant volume growth. Sales of used vehicles in Europe rose somewhat, while a minor decrease was recorded in lease and financing contracts for used vehicles. There was increased demand for after-sales products such as servicing, maintenance and spare parts agreements in 2019. The number of automotive-related insurances grew modestly.

In Germany, the share of loan-financed or leased new vehicles was lifted further in the reporting period. There was also greater demand for after-sales products and integrated mobility solutions in the business customer segment.

In South Africa, demand for financing and insurance products fell slightly.

In the markets of the USA and Mexico, demand for automotive financial services remained at a high level in 2019. In the USA, demand for leasing through captive financial services products in particular was consistently high.

In Brazil, the consumer credit business was in line with the restrained positive trend seen in 2018. However, the country-specific financial services product Consorcio, a lottery-style savings plan, saw falling sales. Nearly half of the new vehicle sales were covered by financial services products in the reporting period. In the Argentinian market, the sharp rise in interest rates resulting from the most recent economic crisis posed a challenge for sales of financing and leasing products.

Demand for automotive financial services across the Asia-Pacific region was mixed in 2019. In China, new contract growth slowed as a result of the downturn in vehicle sales. The relaxation of existing restrictions on registrations in metropolitan areas, in addition to the situation in the interior of the country and for the used vehicles market, offers great potential in terms of acquiring new customers for automotive-related financial services. Demand for financial services products was slightly weaker in India and in Japan.

The demand for financial services in the Commercial Vehicles Business Area also varied from region to region. In Europe, financial services including after-sales registered a slight increase compared to 2018. In Brazil, the truck and bus business and the related financial services market recorded strong growth.

### NEW GROUP MODELS IN 2019

We launched a large number of attractive new models in fiscal year 2019 with which we aim to excite our customers. Our extensive product portfolio covers almost all key segments and body types, with offerings from small cars to super sports cars in the passenger car segment, and from pickups to heavy trucks and buses in the commercial vehicles segment, as well as motorcycles.

The Volkswagen Passenger Cars brand continued its global product initiative in the past year, rounding out its SUV portfolio with the new T-Cross. The T-Cross wins over customers with its colorful individualization options for the vehicle's interior and exterior along with considerable versatility in the interior. The new T-Roc R stands out in particular due to its striking dynamics for its vehicle class. The Passat – a classic in the model range – was given a fresh look and many new technical features and is the first Volkswagen to be equipped with the latest generation of the infotainment system that is now permanently connected to the internet. Innovative driver assistance systems such as Travel Assist have also been included. In addition to the Passat GTE, which has also been updated, Volkswagen is pushing the electrification of its model range with the new e-up!, which now has a range of up to 260 km. The e-Golf and electric versions of the popular Bora and Lavida saloons were launched in China. The Magotan received a sweeping model update. Volkswagen met the steadily growing demand for SUV models with the Teramont X SUV coupé and a version of the T-Cross that has been adapted to meet the needs of local customers. Successor models to the Bora, Polo and Sagitar were unveiled. To tap the full potential of the Chinese market, Volkswagen Passenger Cars launched the JETTA brand there, closing a gap between the volume segment and entry-level mobility with its VA3 and VS5 models. JETTA appeals in particular to first-time buyers by offering a fresh design, a high level of safety and good value for money. In the United States, a completely updated version of the Passat was unveiled in 2019. South America saw the premiere of the T-Cross, which has been tailored to the needs of local customers.

The Audi brand brought out the versatile Q3 Sportback in 2019. In showcasing the RS Q3 and RS Q4 models, the brand is demonstrating its expertise as a manufacturer of high-performance vehicles. This was also impressively evident elsewhere: the Audi e-tron SUV with its all-electric drive system was launched in Europe, China and the United States. A high-quality interior and a plethora of technical highlights make this a compelling vehicle; for example, thin cameras and displays in the door trims take over the function of the exterior mirrors. With extensive product updates in the A4 and Q7 series, the successful models not only have a fresh look but are also made more efficient by mild hybrid versions. In China, the best-selling A6 saloon and the Q3 were modernized from the ground up in 2019.

ŠKODA rolled out the new Scala in the reporting period. The hatchback impresses with a spacious interior, the latest technology based on the Modular Transverse Toolkit and an attractive price-performance ratio. With the new Kamiq SUV, ŠKODA is meeting the high demand for compact SUVs. Both the Superb saloon and the Superb estate have been revamped and provide the latest connectivity solutions.

The SEAT brand continued its SUV product initiative in 2019 with the Tarraco. The model joins the smaller Arona and Ateca models in the offroader series and stands out with its assertive, emotional design language. SEAT launched its first model with an all-electric drive, the Mii electric.

In 2019, Porsche impressed its customers with the all-electric Taycan featuring a puristic design, an all-digital interior and dynamic performance. In addition, different versions of the reinterpreted iconic car, the 911, were rolled out; this is distinguished by many Porsche Connect functions as well as by vehicle components that can be adjusted to the driving situation, such as the chassis and transmission. The Cayenne Coupé also boasts a variety of features ranging from its carbon roof to an E-Hybrid version.

After launching the third generation of the Continental GT in the preceding year, Bentley rolled out the open-top GTC version in the reporting period. In addition, the brand expanded its successful Bentayga series by adding the powerful yet low-emission Bentayga Hybrid and the dynamic Bentayga Speed. The new Flying Spur once again claims the apex of the automotive premium class for itself with expressive lines and technical innovations.

In 2019, Lamborghini upgraded its Huracán EVO Coupé and Spyder super sports cars and brought out the Aventador SVJ Roadster.

Bugatti celebrated its 110th birthday in 2019 with a special edition of the Chiron Sport. The one-off Bugatti La Voiture Noire pays homage to the golden era of Ettore and Jean Bugatti in the 1930s.

Volkswagen Commercial Vehicles has extensively updated all versions of the T6. The T6.1 impressively offers a new instrument cluster and center console, including the latest generation of the infotainment system, as well as a completely redesigned front end.

In 2019, Scania unveiled the new generation of Citywide buses, which will be offered with a wide variety of drive concepts including an all-electric version.

MAN presented the latest generation of its Lion’s City series of city buses in fiscal year 2019; these can be ordered with a diesel, gas or electric drive.

The models Ducati launched in 2019 include the Panigale V4 R, the Monster 821 Stealth, two versions of the Multistrada and four upgraded members of the Scrambler family.

### VOLKSWAGEN GROUP DELIVERIES

The Volkswagen Group delivered 10,974,636 vehicles to customers worldwide in 2019. This exceeded the previous year's figure by 1.3% and set a new record. 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 accordingly. The chart on the next page shows how deliveries changed from month to month and compares each monthly figure to the same month of the previous year. Deliveries of passenger cars and commercial vehicles are reported separately in the following.

#### VOLKSWAGEN GROUP DELIVERIES[1]

| | 2019 | 2018 | % |
|---|---|---|---|
| Passenger Cars | 10,732,415 | 10,601,014 | +1.2 |
| Commercial Vehicles | 242,221 | 232,994 | +4.0 |
| **Total** | **10,974,636** | **10,834,008** | **+1.3** |

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure.
The figures include the Chinese joint ventures.

### GLOBAL DELIVERIES BY THE PASSENGER CARS BUSINESS AREA

With its passenger car brands, the Volkswagen Group is present in all relevant automotive markets around the world. The key sales markets currently include Western Europe, China, the USA, Brazil, Russia, Mexico and Poland. The Group recorded encouraging growth in many key markets.

During the reporting period, deliveries of passenger cars to Volkswagen Group customers worldwide rose to 10,732,415 units amid difficult conditions resulting primarily from mainly declining overall markets. Year-on-year, the number of deliveries increased by 131,401 vehicles or 1.2%. The Group's new SUV models made a particular contribution to this increase. As the passenger car market as a whole declined by 4.0% over the same period, the Volkswagen Group's share of the global market rose to 12.9 (12.2)%. The largest increases in volume in absolute terms were seen in Germany and Brazil. In Argentina and Turkey, among other countries, sales figures were down on the previous year. The Volkswagen Passenger Cars, SEAT, Porsche and Lamborghini brands each exceeded their record figures from the previous year. The brands that achieved the largest growth in absolute terms were SEAT, Volkswagen Passenger Cars and Audi; ŠKODA and Volkswagen Commercial Vehicles both fell slightly short of the previous year's high figures.

The table on page 103 gives an overview of passenger car deliveries to customers of the Volkswagen Group in the regions and the key individual markets. The trends in demand for Group models in these markets and regions are described in the following sections.

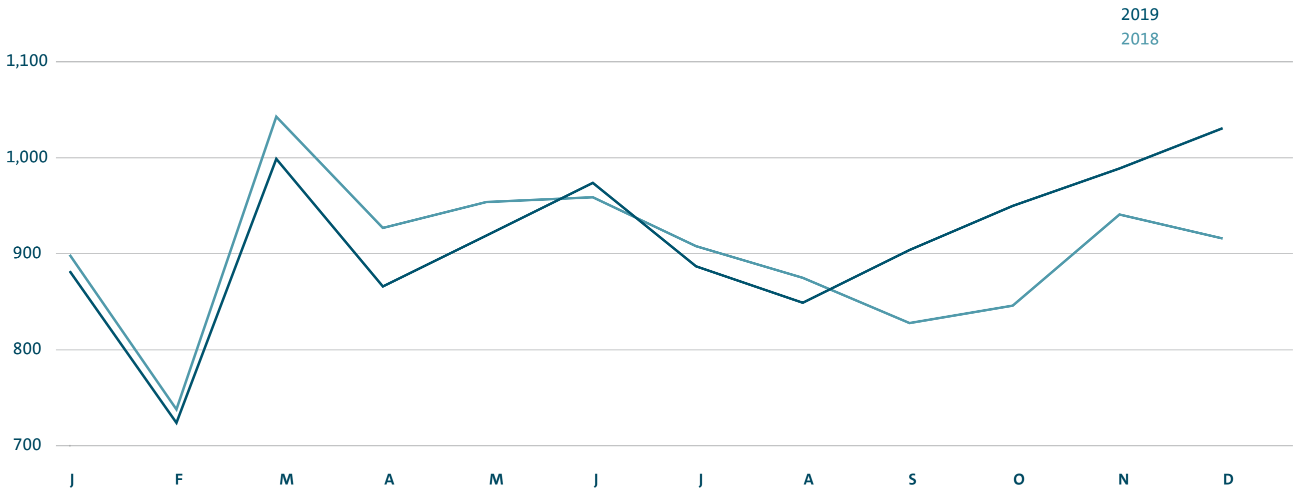
#### Deliveries in Europe/Other markets

In Western Europe, the Volkswagen Group delivered 3,627,693 passenger cars and light commercial vehicles to customers, exceeding the previous year's figure by 4.4%. Our deliveries rose in France, Italy and the United Kingdom, but registered a slight decline in Spain. As the overall market grew by 0.6% over the same period, the Group's share of the passenger car market in Western Europe increased to 22.8 (21.9)%. Negative effects arose from the public debate on driving bans for diesel vehicles and restricted capacity for petrol engines, among other things. The successful launch of new models had a positive effect. Encouraging increases in deliveries were recorded by the T-Roc and Tiguan Allspace models from Volkswagen Passenger Cars, the Karoq and Kodiaq from ŠKODA, the Arona and Ateca from the SEAT brand, the Porsche Macan, and the Crafter from Volkswagen Commercial Vehicles. Additionally, new or successor models introduced in the previous year were very popular with customers, these being the Touareg from Volkswagen Passenger Cars and Audi's A1 Sportback, Q3, A6 Avant and Q8. The T-Cross and Passat from the Volkswagen Passenger Cars brand, the e-tron (Audi's first all-electric production model), the Scala and Kamiq from the ŠKODA brand, the SEAT Tarraco and the Porsche Cayenne Coupé were successfully launched on the market as new or successor models.

In the Central and Eastern Europe region, the number of deliveries of passenger cars and light commercial vehicles to Volkswagen Group customers increased by 1.6% year-on-year during the reporting period. Demand for Group models increased in Russia and Poland, while it declined in the Czech Republic. Demand developed encouragingly for the T-Roc, Tiguan and Touareg models from the Volkswagen Passenger Cars brand, for ŠKODA's Scala, Karoq and Kodiaq models, and for the SEAT Arona and Tarraco. The Volkswagen Group's share of the passenger car market in Central and Eastern Europe was 20.3 (20.6)%.

In Turkey, the Volkswagen Group delivered 29.4% fewer vehicles than in the previous year in a substantially weaker overall market. In South Africa's declining passenger car market, demand for Volkswagen Group vehicles fell by 0.4%. The Polo from Volkswagen Passenger Cars continued to be the most frequently sold Group model there.

**VOLKSWAGEN GROUP DELIVERIES BY MONTH**
*Vehicles in thousands*




### Deliveries in Germany

In the reporting period, the German passenger car market exceeded the high prior-year level (+5.0%). The Volkswagen Group delivered 1,324,942 vehicles to customers in its home market, 6.1% more than in the previous year, which had been positively influenced by the environmental bonus among other things. Negative effects caused by the public debate on driving bans for diesel vehicles and restricted capacity for petrol engines were compensated by the successful introduction of new models, for example. The Golf continued to top the list of the most popular passenger cars in Germany in terms of registrations. The most popular Group models also included the T-Roc and Tiguan from Volkswagen Passenger Cars, the Karoq, Kodiaq and Superb from the ŠKODA brand, the Arona and Ateca from the SEAT brand and the Porsche Macan. The Touareg from Volkswagen Passenger Cars, the Audi A1 Sportback, Q3, Q3 Sportback, A6 Avant and Q8 as well as the ŠKODA Fabia, all of which had been introduced as new or successor models over the course of the previous year, were also in high demand from customers. The T-Cross and the Passat from the Volkswagen Passenger Cars brand, the e-tron (the Audi brand's first all-electric production model), the ŠKODA Scala and Kamiq, the SEAT Tarraco and the Porsche Cayenne Coupé were successfully launched on the market as new or successor models during the reporting period. Eight Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the Polo, Golf, T-Roc, Tiguan, Touran, Audi A6, Porsche 911 and Multivan/Transporter.

### Deliveries in North America

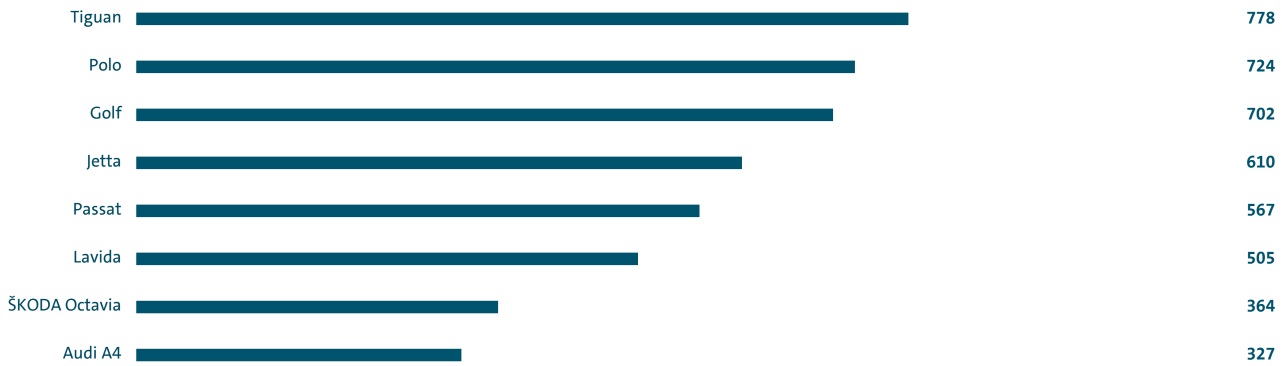
Demand for Volkswagen Group models in North America in the reporting period was 0.5% lower at 948,309 vehicles in a slightly declining overall passenger car and light commercial vehicle market. The Group's market share was 4.7 (4.6)%. The Jetta and the Tiguan Allspace from the Volkswagen Passenger Cars brand were the most in-demand Group models in North America.

In the weaker US market, demand for Volkswagen Group models rose by 2.5% year-on-year in 2019. The biggest increases of all Group models were recorded by the Jetta, Tiguan Allspace and Atlas from the Volkswagen Passenger Cars brand, the Audi A6 and Q8, and the Porsche Cayenne. The Audi e-tron and the new Porsche Macan were successfully launched on the market.

In Canada, demand for Group models in the reporting period fell by 5.3% year-on-year in a shrinking overall market. The Golf, Jetta and Audi Q5 models as well as the new Tiguan Allspace and Atlas SUVs from the Volkswagen Passenger Cars brand were particularly popular.

In the Mexican market, which was declining on the whole, the Volkswagen Group delivered 7.4% fewer vehicles to customers compared with the previous year. The Group models with the highest level of demand were the Vento, Jetta and Tiguan Allspace from the Volkswagen Passenger Cars brand.

**WORLDWIDE DELIVERIES OF THE MOST SUCCESSFUL GROUP MODEL RANGES IN 2019**
*Vehicles in thousands*




**Deliveries in South America**

The South American market for passenger cars and light commercial vehicles declined overall in the reporting year. In this region we delivered 551,734 vehicles to customers, 1.8% more than a year before. The Gol and Polo from the Volkswagen Passenger Cars brand were in the greatest demand among the Group models. The T-Cross from Volkswagen Passenger Cars was successfully introduced to the market. The Volkswagen Group's share of the passenger car market in South America rose to 12.8 (11.9)%.

The Brazilian market continued its recovery path in the reporting year. The Volkswagen Group benefited from this development and delivered 15.7% more vehicles to customers there than in the previous year. This was due primarily to the market launch of the new T-Cross from the Volkswagen Passenger Cars brand, as well as the success of the Virtus, Jetta and Tiguan Allspace which the Volkswagen Passenger Cars brand had introduced to the market in the previous year as new or successor models. Demand was also very encouraging for Volkswagen Passenger Cars' Polo and Gol models as well as for the Amarok from Volkswagen Commercial Vehicles.

In Argentina, the Group recorded a 38.9% decline in sales year-on-year amid a dramatically weaker overall market. The Gol and Polo from Volkswagen Passenger Cars and the Amarok from Volkswagen Commercial Vehicles saw the highest demand of all Group models. The T-Cross, newly introduced by the Volkswagen Passenger Cars brand, was also well received by customers.

**Deliveries in the Asia-Pacific region**

The market volume of passenger cars in the Asia-Pacific region weakened further in the reporting year. The Volkswagen Group delivered 4,517,375 units to customers in this region. This was 0.3% fewer vehicles than in the previous year. The Group's market share in the Asia-Pacific region rose to 13.2 (12.4)%.

China, the world's largest single market and the main growth driver of the Asia-Pacific region for many years, recorded a distinct downturn in the reporting period. However, the Volkswagen Group slightly increased sales here and delivered 0.6% more vehicles to customers in China than in the prior year. The T-Roc, Tayron, Tharu, Bora, Passat and Lavida models from Volkswagen Passenger Cars, the Audi Q2L e-tron and Q5L, the ŠKODA Karoq and Kamiq, as well as the Porsche Macan and Cayenne, all of which had been introduced as new or successor models over the course of the previous year, were in especially high demand. The T-Cross, Polo, Sagitar and Teramont X models from the Volkswagen Passenger Cars brand, the Audi Q3, A6L and Q8, and the ŠKODA Kodiaq GT and Porsche Cayenne Coupé were successfully launched on the market as new or successor models during the reporting period. In addition, the Volkswagen sub-brand JETTA celebrated its successful launch in China with the VS5 SUV and the VA3 saloon.

The volume of the Indian passenger car market declined in the reporting year. Demand for models from the Volkswagen Group fell by 15.9% in this period compared with the previous year. The Polo from the Volkswagen Passenger Cars brand was the Group's most sought-after model in India.

In Japan, the number of passenger cars delivered to Volkswagen Group customers in 2019 was down 8.2% year-on-year amid a declining overall market volume. The Tiguan from the Volkswagen Passenger Cars brand, the Audi Q5 and the Porsche 911 all recorded encouraging growth in demand.

### PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET[1]

| | DELIVERIES (UNITS) | | CHANGE |
|---|---|---|---|
| | 2019 | 2018 | (%) |
| **Europe/Other markets** | **4,714,997** | **4,575,023** | **+3.1** |
| **Western Europe** | **3,627,693** | **3,475,401** | **+4.4** |
| of which: Germany | 1,324,942 | 1,248,952 | +6.1 |
| United Kingdom | 544,117 | 540,817 | +0.6 |
| Italy | 310,944 | 286,980 | +8.4 |
| France | 307,847 | 280,533 | +9.7 |
| Spain | 305,494 | 309,907 | –1.4 |
| **Central and Eastern Europe** | **769,681** | **757,575** | **+1.6** |
| of which: Russia | 223,452 | 216,950 | +3.0 |
| Poland | 165,530 | 164,480 | +0.6 |
| Czech Republic | 136,377 | 138,922 | –1.8 |
| **Other markets** | **317,623** | **342,047** | **–7.1** |
| of which: South Africa | 90,969 | 91,311 | –0.4 |
| Turkey | 78,251 | 110,785 | –29.4 |
| **North America** | **948,309** | **953,188** | **–0.5** |
| of which: USA | 654,152 | 638,274 | +2.5 |
| Mexico | 181,910 | 196,431 | –7.4 |
| Canada | 112,247 | 118,483 | –5.3 |
| **South America** | **551,734** | **542,239** | **+1.8** |
| of which: Brazil | 420,880 | 363,766 | +15.7 |
| Argentina | 70,496 | 115,426 | –38.9 |
| **Asia-Pacific** | **4,517,375** | **4,530,564** | **–0.3** |
| of which: China | 4,228,840 | 4,202,398 | +0.6 |
| Japan | 79,268 | 86,356 | –8.2 |
| India | 51,541 | 61,277 | –15.9 |
| **Worldwide** | **10,732,415** | **10,601,014** | **+1.2** |
| Volkswagen Passenger Cars | 6,278,345 | 6,244,888 | +0.5 |
| Audi | 1,845,573 | 1,812,485 | +1.8 |
| ŠKODA | 1,242,767 | 1,253,741 | –0.9 |
| SEAT | 574,078 | 517,627 | +10.9 |
| Bentley | 11,006 | 10,494 | +4.9 |
| Lamborghini | 8,205 | 5,750 | +42.7 |
| Porsche | 280,800 | 256,255 | +9.6 |
| Bugatti | 82 | 76 | +7.9 |
| Volkswagen Commercial Vehicles | 491,559 | 499,698 | –1.6 |

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure. The figures include the Chinese joint ventures.

### COMMERCIAL VEHICLE DELIVERIES

Worldwide, the Volkswagen Group delivered a total of 242,221 mid-sized and heavy trucks, buses and commercial vehicles from the MAN TGE van series in 2019 (+4.0%). Trucks accounted for 205,936 units (+1.7%), buses for 21,496 units (–5.0%) and the TGE from MAN for 14,789 (7,871) deliveries.

In Western Europe, total deliveries stood at 119,284 units, up 10.3% on the previous year's figure. The growth was mainly driven by the German, French and UK markets. Of this figure, 100,362 were trucks and 6,042 buses; commercial vehicles from the MAN TGE van series amounted to 12,880 units.

In the period from January to December 2019, deliveries in the markets of the Central and Eastern Europe region fell by 8.7% to 36,130 vehicles; trucks accounted for 33,312 and buses for 1,311; light commercial vehicles from the MAN brand came to 1,507 units. In Russia, the region's largest market, sales declined year-on-year by 21.4% to 10,123 units.

In the Other markets, particularly in Turkey, deliveries of Volkswagen Group commercial vehicles decreased by 23.5% year-on-year to a total of 13,995 units; of this figure 11,280 were trucks and 2,326 were buses.

Deliveries in North America in the reporting period declined by 8.5% to 3,219 vehicles; this included 1,794 trucks and 1,425 buses. The vehicles were handed over almost exclusively to customers in Mexico.

In South America, the Volkswagen Group sold a total of 56,826 units (+19.0%); of this figure 48,350 were trucks and 8,476 were buses. In Brazil, deliveries rose by 30.5% following continued improvement in the economic climate. Of the units delivered, 43,438 were trucks and 6,113 were buses. Marked declines in deliveries were recorded in the other South American markets, especially Argentina, due to the development of the general economic environment.

In the Asia-Pacific region, the Volkswagen Group delivered 12,767 commercial vehicles to customers in the reporting period; among these 10,838 were trucks and 1,916 were buses. Overall, this was 18.9% less than in the previous year. In China, sales increased by 1.7% to 4,737 vehicles, of which 4,514 were trucks and 219 were buses.

### COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET[1]

| | DELIVERIES (UNITS) | | CHANGE |
|---|---|---|---|
| | 2019 | 2018 | (%) |
| **Europe/Other markets** | **169,409** | **165,998** | **+2.1** |
| Western Europe | 119,284 | 108,122 | +10.3 |
| Central and Eastern Europe | 36,130 | 39,590 | –8.7 |
| Other markets | 13,995 | 18,286 | –23.5 |
| **North America** | **3,219** | **3,517** | **–8.5** |
| **South America** | **56,826** | **47,734** | **+19.0** |
| of which: Brazil | 49,551 | 37,984 | +30.5 |
| **Asia-Pacific** | **12,767** | **15,745** | **–18.9** |
| of which: China | 4,737 | 4,658 | +1.7 |
| **Worldwide** | **242,221** | **232,994** | **+4.0** |
| Scania | 99,457 | 96,477 | +3.1 |
| MAN | 142,764 | 136,517 | +4.6 |

1 Prior-year deliveries have been updated or amended to reflect subsequent statistical trends and the changed reporting structure.

#### DELIVERIES IN THE POWER ENGINEERING SEGMENT

Orders in the Power Engineering segment are usually part of major investment projects. Lead times typically range from just under one year to several years, and partial deliveries as construction progresses are common. Accordingly, there is a time lag between incoming orders and sales revenue from the new construction business.

Sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated around two-thirds of overall sales revenue.

#### ORDERS RECEIVED IN THE PASSENGER CARS SEGMENT IN WESTERN EUROPE

In the reporting period orders received in Western Europe recorded a slight increase of 2.4% compared to the previous year, which had seen a decline due to the introduction of the WLTP test procedure. Developments in the key markets were mixed: while Germany, France and Italy registered increases, incoming orders fell in the United Kingdom and Spain.

#### ORDERS RECEIVED FOR COMMERCIAL VEHICLES

Orders received for mid-sized and heavy trucks and buses as well as for commercial vehicles from the MAN TGE van series decreased by 6.8% year-on-year to 227,240 vehicles in 2019. In Western Europe, our main sales market, the deteriorating economic situation, especially in Germany, and the uncertain outcome of the United Kingdom's exit from the EU led to a marked decline in orders received. Orders received in South America were up as a consequence of the economic stabilization in Brazil.

#### ORDERS RECEIVED IN THE POWER ENGINEERING SEGMENT

The long-term performance of the Power Engineering business is determined by the macroeconomic environment. Individual major orders lead to fluctuations in incoming orders during the year that do not correlate with these long-term trends.

Orders received in the Power Engineering segment in 2019 amounted to €4.3 (4.0) billion. Engines & Marine Systems and Turbomachinery generated more than two-thirds of the order volume in a persistently difficult market environment.

In the marine business, for example, hybrid drive systems each consisting of dual fuel engines, a MAN Cryo gas system including an LNG tank, a battery system and an energy management system, were commissioned for two new ferries. Orders were won in Germany for 22 gas-powered engines with an aggregate output of 270 MW in the power plant business. For turbomachinery, we received several orders for compressor trains, which will be used in the world's largest terephthalic acid (PTA) plant, as well as an engineering contract for several underwater compressor stations, which will be deployed at a depth of 1,350 meters at a gas production facility in the waters off the coast of Australia.

#### VOLKSWAGEN GROUP FINANCIAL SERVICES

The Financial Services Division includes the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania and Porsche Holding Salzburg. As of January 1, 2019, contracts signed by our international joint ventures are also included; the comparison figures have been adjusted accordingly.

The Financial Services Division's products and services remained very popular in the 2019 fiscal year. The number of new financing, leasing, service and insurance contracts signed was higher than in the previous year at 9.3 (8.8) million worldwide. In the reporting period, the ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets was 34.5 (34.2)%. As of December 31, 2019, the total number of contracts was 23.7 million, which is 5.7% higher than at the end of 2018. The number of contracts in the customer financing/leasing area climbed 4.7% to 11.8 million, while it increased by 6.7% to 11.9 million in the service/insurance area.

In the Europe/Other markets region, the number of new contracts signed between January and December 2019 increased by 8.0% to 6.9 million. The penetration rate was 48.5 (47.9)%. At the end of the reporting year, the total number of contracts was 17.5 million, thus exceeding the figure for 2018 by 6.1%. The customer financing/leasing area accounted for 7.7 million of these contracts (+6.1%), while 9.8 million (+6.2%) related to the service/insurance area.

In North America, the number of contracts on December 31, 2019 was 3.1 million, an increase of 0.8% compared to the previous year. The customer financing/leasing area accounted for 1.8 million contracts (–1.3%) and 1.2 million contracts (+4.0%) were owing to the service/insurance area. At 956 thousand contracts, the number of new contracts signed was 8.3% lower than the year before. The ratio of leased or financed vehicles to Group deliveries in North America was 59.3 (65.9)%.

The initial consolidation of Porsche Volkswagen Servicios Financieros Chile S.p.A. led to a marked boost in the number of contracts in South America. 386 (295) thousand new contracts were signed in the reporting year. The penetration rate increased to 38.4 (32.0)%. The total number of contracts as of December 31, 2019 increased by 19.4% year- on-year to

703 thousand. The contracts mainly related to the customer financing/leasing area.

In the Asia-Pacific region, the number of new contracts signed rose by 3.3% to 1.0 million in 2019. The ratio of leased or financed vehicles to Group deliveries was 15.5 (15.1)%. The total number of contracts at the end of the past financial year was 2.4 million. This was 5.7% more than on December 31, 2018. The customer financing/leasing area accounted for 1.7 million contracts (+3.7%), the number of contracts in the service/insurance area increased by 11.4% to 0.7 million contracts.

### SALES TO THE DEALER ORGANIZATION

The Volkswagen Group's sales to the dealer organization increased by 0.5% to 10,956,499 units (including the Chinese joint ventures) in the reporting year. This was primarily due to higher demand in its home market of Germany as well as continually rising demand in Brazil and an upward trend in the United States. Overall, the unit sales volumes fell by 0.6% outside Germany and unit sales rose by 9.0% in Germany. At 12.3 (11.3)%, the proportion of the Group's total sales accounted for by Germany was higher than in 2018.

The Tiguan, Polo, Golf, Jetta and Passat were our biggest sellers last year. The largest increases in sales were recorded by the T-Roc, Tharu, Tiguan and T-Cross models from the Volkswagen Passenger Cars brand, the Audi Q8, Q2 and the new e-tron, as well as the ŠKODA Karoq/Yeti and Kodiaq and the SEAT Arona and the new Tarraco. Both the Porsche Cayenne and the Crafter from the Volkswagen Commercial Vehicles brand also achieved a strong growth rate.

### PRODUCTION

The Volkswagen Group produced 10,823,378 vehicles worldwide in fiscal year 2019, 1.8% less than in the previous year. In total, our Chinese joint ventures manufactured 4.1% fewer units than in the year before. In Germany, the production declined by 8.3%, mainly due to numerous new vehicle start-ups as well as the transition to electric vehicles. The percentage of the Group's total production accounted for by Germany was lower than in 2018, at 19.5 (20.9)%.

### INVENTORIES

Global inventories at Group companies and in the dealer organization were lower at the end of the reporting period than at year-end 2018.

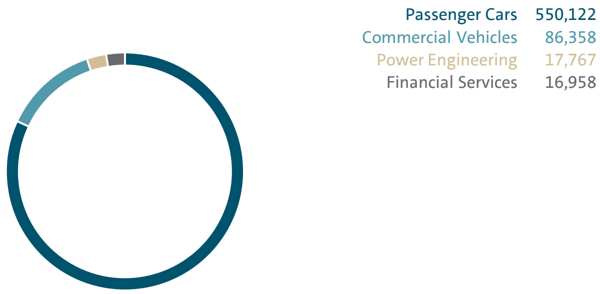
### EMPLOYEES

Including the Chinese joint ventures, the Volkswagen Group employed an average of 667,748 people in fiscal year 2019, an increase of 1.8% year-on-year. In Germany, we employed 294,779 people on average in 2019; at 44.1 (44.3)%, their share of the total headcount was slightly below the level of the previous year.

The Volkswagen Group had 641,838 active employees (+0.9%) as of December 31, 2019. In addition, 9,968 employees were in the passive phase of their partial retirement and 19,399 young people were in vocational traineeships. The Volkswagen Group's headcount was 671,205 employees (+1.0%) at the end of the reporting period. This was primarily due to recruitments in the areas of electric mobility, digitalization and new mobility offerings. A total of 297,433 people were employed in Germany (+1.6%), while 373,772 were employed abroad (+0.5%).

### EMPLOYEES BY DIVISION/BUSINESS AREA

*as of December 31, 2019*



# Shares and Bonds

Volkswagen AG's ordinary and preferred shares were trading higher than at year-end 2018 amid a volatile market environment in 2019. A strong cash flow reduced the refinancing volume.

## EQUITY MARKETS AND PERFORMANCE OF THE PRICE OF VOLKSWAGEN'S SHARES

In the period from January to December 2019, prices on the international equity markets rose overall amid volatile trading.

The DAX recorded an increase compared with the end of 2018. The more expansionary monetary policy pursued by the US Federal Reserve and the European Central Bank had a positive effect. Uncertainty regarding the economic policy of the US government, the continuing Brexit negotiations between the United Kingdom and the EU and the growth of the global economy had a negative impact on share prices.

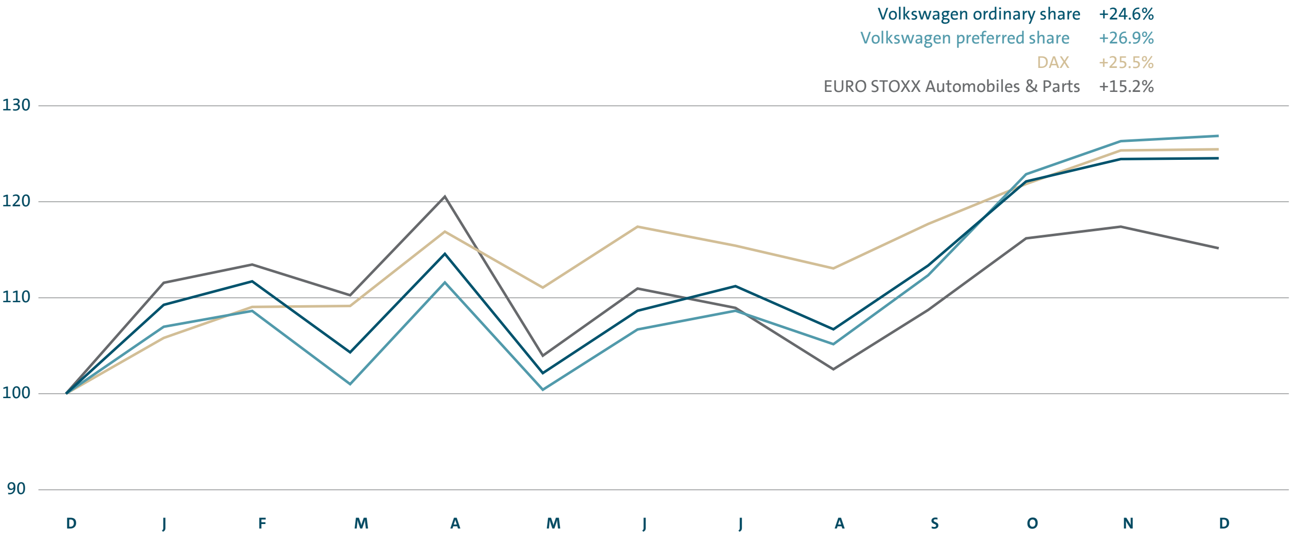
The prices of Volkswagen AG's preferred and ordinary shares also exceeded the 2018 year-end level in 2019. Healthy business figures were the main drivers of the uptrend. In particular, uncertainty regarding the future regulatory framework for diesel and electric vehicles, the US tariff policy, the continuing Brexit negotiations between the United Kingdom and the EU, the slowdown of the Chinese market and the WLTP (Worldwide Harmonized Light-Duty Vehicles Test Procedure), which is a test procedure for determining pollutant and $CO_2$ emissions and fuel consumption for passenger cars and light commercial vehicles, led to volatile share prices.

### VOLKSWAGEN KEY SHARE FIGURES AND MARKET INDICES FROM JANUARY 1 TO DECEMBER 31, 2019

| | | High | Low | Closing |
|---|---|---|---|---|
| Ordinary share | Price (€) | 182.50 | 135.60 | 173.25 |
| | Date | Nov. 7 | Jan. 3 | Dec. 30 |
| Preferred share | Price (€) | 184.24 | 134.76 | 176.24 |
| | Date | Nov. 7 | Jan. 3 | Dec. 30 |
| DAX | Points | 13,408 | 10,417 | 13,249 |
| | Date | Dec. 16 | Jan. 3 | Dec. 30 |
| ESTX Auto & Parts | Points | 527 | 412 | 486 |
| | Date | Apr. 18 | Jan. 3 | Dec. 30 |

**PRICE DEVELOPMENT FROM DECEMBER 2018 TO DECEMBER 2019**

*Index based on month-end prices: December 31, 2018 = 100*




### DIVIDEND POLICY

Our dividend policy matches our financial strategy. In the interests of all stakeholders, we aim for continuous dividend growth so that our shareholders can participate appropriately with our business success. The proposed dividend therefore reflects our financial management objectives – in particular, ensuring a solid financial foundation as part of the implementation of our strategy.

The current dividend proposal can be found in the chapter entitled "Volkswagen AG (condensed in accordance with the German Commercial Code)", on page 130 of this annual report. The Board of Management and Supervisory Board of Volkswagen AG are proposing a dividend of €6.50 per ordinary share and €6.56 per preferred share for fiscal year 2019. On this basis, the total dividend amounts to €3.3 (2.4) billion. The payout ratio is based on the Group's earnings after tax attributable to Volkswagen AG shareholders. This amounts to 24.5% for the reporting period and stood at 20.4% in the previous year. In our Group strategy, we aim to achieve a payout ratio of at least 30%.

### DIVIDEND YIELD

Based on the dividend proposal for the reporting period, the dividend yield on Volkswagen ordinary shares is 3.8 (3.5)%, measured by the closing price on the last trading day in 2019. The dividend yield on preferred shares is 3.7 (3.5)%.

### EARNINGS PER SHARE

Basic earnings per ordinary share were €26.60 (23.57) in fiscal year 2019. Basic earnings per preferred share were €26.66 (23.63). In accordance with IAS 33, the calculation is based on the weighted average number of ordinary and preferred shares outstanding in the reporting period. Since the number of basic and diluted shares is identical, basic earnings per share correspond to diluted earnings per share.

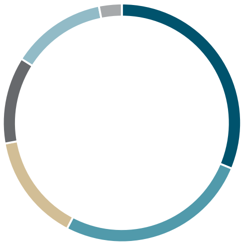
See also note 11 to the Volkswagen consolidated financial statements for the calculation of earnings per share.

**FURTHER INFORMATION ON VOLKSWAGEN SHARES**

www.volkswagenag.com/en/InvestorRelations.html

## SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2019

*as a percentage of subscribed capital*



| | |
|---|---|
| Porsche Automobil Holding SE | 31.3 |
| Foreign institutional investors | 26.4 |
| Qatar Holding LLC | 14.6 |
| State of Lower Saxony | 11.8 |
| Private shareholders/Others | 12.9 |
| German institutional investors | 3.1 |

## VOLKSWAGEN SHARE DATA

| | Ordinary shares | Preferred shares |
|---|---|---|
| ISIN | DE0007664005 | DE0007664039 |
| WKN | 766400 | 766403 |
| Deutsche Börse/Bloomberg | VOW | VOW3 |
| Reuters | VOWG.DE | VOWG_p.DE |
| Primary market indices | CDAX, Prime All Share, MSCI Euro, S&P Global 100 Index | DAX, CDAX, EURO STOXX, EURO STOXX 50, EURO STOXX Automobiles & Parts, Prime All Share, MSCI Euro |
| Exchanges | Berlin, Dusseldorf, Frankfurt, Hamburg, Hanover, Munich, Stuttgart, Xetra, SIX Swiss Exchange | |

## SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2019

At the end of the reporting period, Volkswagen AG's subscribed capital amounted to €1,283,315,873.28. The shareholder structure of Volkswagen AG as of December 31, 2019 is shown in the chart on this page.

The distribution of voting rights for the 295,089,818 ordinary shares was as follows at the reporting date: Porsche Automobil Holding SE, Stuttgart, held 53.1% of the voting rights. The second-largest shareholder was the State of Lower Saxony, which held 20.0% of the voting rights. Qatar Holding LLC was the third-largest shareholder with 17.0%. The remaining 9.9% of ordinary shares were attributable to other shareholders.

Notifications of changes in voting rights in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) are published on our website at www.volkswagenag.com/en/InvestorRelations/news-and-publications.html.

**OUR INVESTOR RELATIONS TEAM IS AVAILABLE FOR QUERIES AND COMMENTS:**

**WOLFSBURG OFFICE (VOLKSWAGEN AG)**

| | |
|---|---|
| Phone | +49 (0) 5361 9-00 |
| Fax | +49 (0) 5361 9-30411 |
| E-mail | investor.relations@volkswagen.de |
| Internet | www.volkswagenag.com/en/InvestorRelations.html |

## VOLKSWAGEN SHARE KEY FIGURES

| Dividend development | | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Number of no-par value shares at Dec. 31 | | | | | | |
| Ordinary shares | thousands | 295,090 | 295,090 | 295,090 | 295,090 | 295,090 |
| Preferred shares | thousands | 206,205 | 206,205 | 206,205 | 206,205 | 206,205 |
| Dividend[1] | | | | | | |
| per ordinary share | € | 6.50 | 4.80 | 3.90 | 2.00 | 0.11 |
| per preferred share | € | 6.56 | 4.86 | 3.96 | 2.06 | 0.17 |
| Dividend paid[1] | € million | 3,271 | 2,419 | 1,967 | 1,015 | 68 |
| on ordinary shares | € million | 1,918 | 1,416 | 1,151 | 590 | 32 |
| on preferred shares | € million | 1,353 | 1,002 | 817 | 425 | 35 |

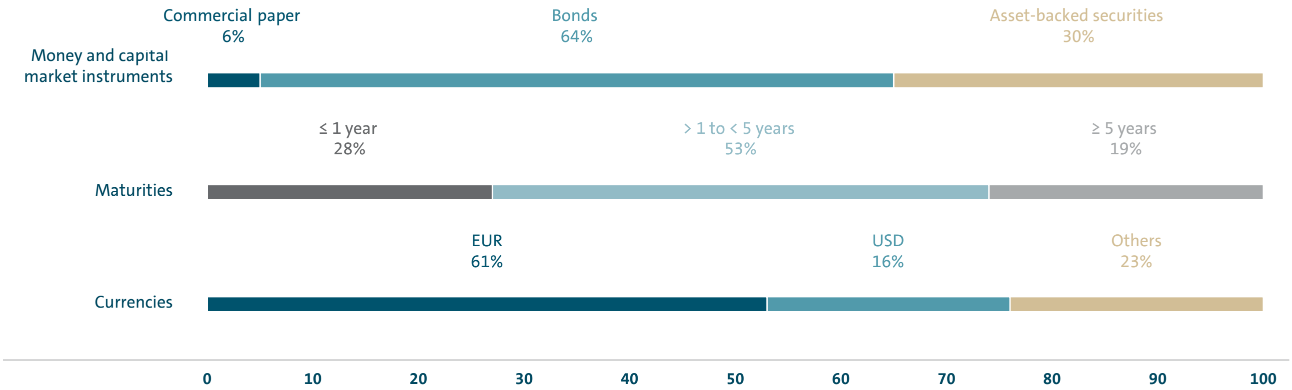
| Share price development[2] | | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Ordinary share | | | | | | |
| Closing | € | 173.25 | 139.10 | 168.70 | 136.75 | 142.30 |
| Price performance | % | + 24.6 | – 17.5 | + 23.4 | –3.9 | –21.0 |
| Annual high | € | 182.50 | 188.00 | 173.95 | 144.20 | 247.55 |
| Annual low | € | 135.60 | 131.10 | 128.70 | 108.95 | 101.15 |
| Preferred share | | | | | | |
| Closing | € | 176.24 | 138.92 | 166.45 | 133.35 | 133.75 |
| Price performance | % | + 26.9 | – 16.5 | + 24.8 | –0.3 | –27.6 |
| Annual high | € | 184.24 | 188.50 | 178.10 | 138.80 | 255.20 |
| Annual low | € | 134.76 | 133.70 | 125.35 | 94.00 | 92.36 |
| Beta factor[3] | factor | 1.17 | 1.17 | 1.12 | 1.22 | 1.28 |
| Market capitalization at Dec. 31 | € billion | 87.5 | 69.7 | 84.1 | 67.9 | 69.6 |
| Equity attributable to Volkswagen AG share-holders and hybrid capital investors at Dec. 31 | € billion | 121.8 | 117.1 | 108.8 | 92.7 | 88.1 |
| Ratio of market capitalization to equity | factor | 0.72 | 0.60 | 0.77 | 0.73 | 0.79 |

| Key figures per share | | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Earnings per ordinary share[4] | | | | | | |
| basic | € | 26.60 | 23.57 | 22.28 | 10.24 | –3.20 |
| diluted | € | 26.60 | 23.57 | 22.28 | 10.24 | –3.20 |
| Equity attributable to Volkswagen AG share-holders and hybrid capital investors at Dec. 31 | € | 242.93 | 233.63 | 217.13 | 184.90 | 175.67 |
| Price/earnings ratio[5] | | | | | | |
| Ordinary share | factor | 6.5 | 5.9 | 7.5 | 13.4 | x |
| Preferred share | factor | 6.6 | 5.9 | 7.3 | 13.0 | x |
| Dividend yield[6] | | | | | | |
| Ordinary share | % | 3.8 | 3.5 | 2.3 | 1.5 | 0.1 |
| Preferred share | % | 3.7 | 3.5 | 2.4 | 1.5 | 0.1 |

| Stock exchange turnover[7] | | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Turnover of Volkswagen ordinary shares | € billion | 3.3 | 4.3 | 3.5 | 3.3 | 6.9 |
| | million shares | 20.9 | 28.0 | 23.6 | 25.4 | 45.4 |
| Turnover of Volkswagen preferred shares | € billion | 41.0 | 54.1 | 45.1 | 41.1 | 72.4 |
| | million shares | 266.0 | 346.6 | 312.3 | 347.0 | 444.4 |
| Volkswagen share of total DAX turnover | % | 4.6 | 5.4 | 5.4 | 5.0 | 7.1 |

1 Figures for the years 2015 to 2018 relate to dividends paid in the following year. For 2019, the figures relate to the proposed dividend.
2 Xetra prices.
3 See page 126 for the calculation.
4 See note 11 to the consolidated financial statements (Earnings per share) for the calculation. 2017 figure adjusted (IFRS 9).
5 Ratio of year-end-closing price to earnings per share.
6 Dividend per share based on the year-end-closing price.
7 Order book turnover on the Xetra electronic trading platform (Deutsche Börse).

**REFINANCING STRUCTURE OF THE VOLKSWAGEN GROUP**
*as of December 31, 2019*




## REFINANCING

Refinancing of the Volkswagen Group is important to ensure that the Group remains solvent at all times. Cash flows from operating activities contributed to the positive development of net liquidity in 2019. Consequently, the refinancing volume through bonds on the money and capital markets for the Automotive Division declined year-on-year.

Benchmark bonds with an aggregate volume of €7.0 billion were issued for the Financial Services Division. In addition to this, private placements were issued in various currencies. In the US capital market a bond with a total volume of USD 3.0 billion was placed with investors in five tranches. Notes with a volume of CAD 1.5 billion were issued in the Canadian refinancing market.

Alongside the placement of senior, unsecured bonds, asset-backed securities (ABS) transactions were another element of our refinancing activities. ABS transactions in the amount of €2.0 billion were placed in Europe. In addition, ABS transactions were issued in USA, China and Australia among other countries.

The Volkswagen Group was also actively involved in the commercial paper market with several issuing companies.

Furthermore, Dr. Ing. h.c. F. Porsche AG issued a green promissory note loan in the amount of €1.0 billion. The proceeds of this transaction will be used to finance the all-electric Porsche Taycan vehicle project.

The proportion of fixed-rate instruments in the past year was roughly four times as high as the proportion of floating rate instruments.

In our refinancing arrangements, we generally aim to exclude interest rate and currency risk as far as possible with the simultaneous use of derivatives.

The table below shows how our money and capital market programs were utilized as of December 31, 2019 and illustrates the financial flexibility of the Volkswagen Group:

| PROGRAMS | Authorized volume € billion | Amount utilized on Dec. 31, 2019 € billion |
|---|---|---|
| Commercial paper | 42.0 | 9.0 |
| Bonds | 162.0 | 88.5 |
| of which hybrid issues | | 12.5 |
| Asset-backed securities | 92.6 | 41.1 |

## RATINGS

| | VOLKSWAGEN AG | | | VOLKSWAGEN FINANCIAL SERVICES AG | | | VOLKSWAGEN BANK GMBH | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 | 2019 | 2018 | 2017 |
| **Standard & Poor's** | | | | | | | | | |
| short-term | A–2 | A–2 | A–2 | A–2 | A–2 | A–2 | A–2 | A–2 | A–2 |
| long-term | BBB+ | BBB+ | BBB+ | BBB+ | BBB+ | BBB+ | A– | A– | A– |
| outlook | stable | stable | stable | stable | stable | stable | negative | negative | negative |
| **Moody's Investors Service** | | | | | | | | | |
| short-term | P–2 | P–2 | P–2 | P–2 | P–2 | P–2 | P–1 | P–1 | P–1 |
| long-term | A3 | A3 | A3 | A3 | A3 | A3 | A1 | A1 | A3 |
| outlook | stable | stable | negative | stable | stable | negative | stable | stable | negative |

Volkswagen AG's syndicated credit line of €5.0 billion agreed in July 2011 was replaced in December 2019 by a new syndicated credit line of €10.0 billion. The new credit line has a term of five years, with the option to extend the term twice after obtaining approval from the respective banks, each for a period of one year, until 2026 at the latest. This credit facility was unused as of the end of 2019.

Of the syndicated credit lines worth a total of €10.1 billion at other Group companies, €1.4 billion has been drawn down. In addition, Group companies had arranged bilateral, confirmed credit lines with national and international banks in various other countries for a total of €6.9 billion, of which €2.4 billion was drawn down.

### RATINGS

In 2019, the rating agencies Standard & Poor's and Moody's Investors Service conducted the regular update of their credit ratings for Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH.

In November and December, Standard & Poor's confirmed its short-term and long-term ratings of A–2 and BBB+ for Volkswagen AG and Volkswagen Financial Services AG, and of A–2 and A– for Volkswagen Bank GmbH. The outlook for Volkswagen AG and Volkswagen Financial Services AG was left at "stable" and that for Volkswagen Bank GmbH at "negative".

In July and August, Moody's Investors Service left its short-term and long-term ratings for Volkswagen AG and Volkswagen Financial Services AG unchanged at P–2 and A3 and those for Volkswagen Bank GmbH at P–1 and A1. The outlook for each company was left at "stable".

### SUSTAINABILITY RATINGS

Analysts and investors are referring increasingly to company sustainability profiles when making their recommendations and decisions. They draw primarily on sustainability ratings to evaluate a company's environmental, social and governance performance. At the same time, sustainability ratings are instrumental in determining whether we are meeting our goal, and they provide the basis for implementing internal measures.

After the diesel issue became public knowledge, the Volkswagen Group was downgraded significantly in the MSCI, RobecoSAM, Sustainalytics, oekomISS, VigeoEiris, EcoVadis and RepRisk sustainability indices and consequently removed from sustainability indices such as the Dow Jones Sustainability Index and the FTSE4Good Index. In fiscal year 2019, Volkswagen continued to have a score of A– in the CDP and a rating of A in the Water Disclosure Project (WDP).

# Results of Operations, Financial Position and Net Assets

The Volkswagen Group's sales revenue increased in fiscal year 2019 compared with the previous year. Despite further charges and cash outflows in connection with the diesel issue, operating profit and net liquidity in the Automotive Division were above the respective prior-year figure.

The Volkswagen Group's segment reporting comprises the four reportable segments of Passenger Cars and Light Commercial Vehicles, Commercial Vehicles, Power Engineering and Financial Services, in compliance with IFRS 8 and in line with the Group's internal management and reporting structures. As a result of enhancements to the management structure of the Volkswagen Group, we allocate the Volkswagen Commercial Vehicles brand to the Passenger Cars segment as of January 1, 2019, renaming this segment the Passenger Cars and Light Commercial Vehicles segment. The Commercial Vehicles segment continues to correspond to the Commercial Vehicles Business Area, but now excludes the Volkswagen Commercial Vehicles brand. The prior-year figures have been adjusted accordingly.

At Volkswagen, segment profit or loss is measured on the basis of the operating result.

The reconciliation contains activities and other operations that do not, by definition, constitute segments. These include the unallocated Group financing activities. Consolidation adjustments between the segments (including the holding company functions) are also contained in the reconciliation. The purchase price allocations for Porsche Holding Salzburg and Porsche, Scania and MAN are allocated to their corresponding segments.

The Automotive Division comprises the Passenger Cars and Light Commercial Vehicles segment, the Commercial Vehicles segment and the Power Engineering segment, as well as the figures from the reconciliation. The Passenger Cars and Light Commercial Vehicles segment is combined with the reconciliation to form the Passenger Cars Business Area, while the Commercial Vehicles and Power Engineering segments are identical to the corresponding business areas. The reorganization of the Volkswagen Commercial Vehicles brand has not led to any changes in the Automotive Division. The Financial Services Division corresponds to the Financial Services segment.

### APPLICATION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

The new accounting standard IFRS 16, which came into effect on January 1, 2019, amends the previous lease accounting rules with the central aim of recognizing all leases in the balance sheet. Accordingly, it establishes that lessees are no longer required to classify their leases as either finance leases or operating leases. They will instead generally be required to recognize a right-of-use asset and a lease liability in the balance sheet for every lease. The right-of-use assets are recognized in the balance sheet under those items in which

### KEY FIGURES FOR 2019 BY SEGMENT

| € million | Passenger Cars and Light Commercial Vehicles | Commercial Vehicles | Power Engineering | Financial Services | Total segments | Reconciliation | Volkswagen Group |
|---|---|---|---|---|---|---|---|
| Sales revenue | 202,273 | 26,444 | 3,997 | 40,160 | 272,875 | −20,242 | 252,632 |
| Segment result (operating result) | 15,610 | 1,653 | −93 | 3,212 | 20,381 | −3,422 | 16,960 |
| as a percentage of sales revenue | 7.7 | 6.3 | −2.3 | 8.0 | | | 6.7 |
| Capex, including capitalized development costs | 17,098 | 1,460 | 197 | 223 | 18,977 | 423 | 19,401 |

the assets underlying the lease would have been reported if they were owned by the Volkswagen Group.

Using the modified retrospective method (adjustments to the opening balance sheet), right-of-use assets were recognized under noncurrent assets and lease liabilities as financial liabilities for the first time as of January 1, 2019. This led to an increase in total assets but did not affect equity.

The new approach resulted in a slight increase in operating profit in 2019, because the only items allocated to operating profit as of January 1, 2019 are depreciation charges on right-of-use assets. Interest expenses on lease liabilities in the Automotive Division are recognized in the financial result, with a corresponding negative impact.

Gross and net cash flow increased by €0.9 billion in the reporting period because of the modified presentation of leases in the statement of income as a result of the new IFRS 16 (depreciation is a non-cash expense). Repayments of the principal portion of the lease liability had a corresponding negative impact on cash flows from financing activities.

The initial recognition of lease liabilities as financial liabilities in the balance sheet led to a marked increase in third-party borrowings in the cash flow statement, which in turn resulted in a negative one-off effect of €–4.8 billion on the disclosure of the Automotive Division's net liquidity as of January 1, 2019.

The prior-year figures have not been adjusted.

### SPECIAL ITEMS

Special items consist of certain items in the financial statements whose separate disclosure the Board of Management believes can enable a better assessment of our economic performance.

In the reporting period, negative special items in connection with the diesel issue amounting to €–2.3 (–3.2) billion affected operating profit in the Passenger Cars Business Area. They are attributable to the final administrative fine of €0.5 billion imposed by the Stuttgart Public Prosecutor, which ended the ongoing regulatory offense proceeding against Dr. Ing. h.c. F. Porsche AG, as well as higher expenses for legal risks and legal defense costs (€2.1 billion). The reversal of provisions for technical measures had an offsetting effect (€0.3 billion).

### COMPENSATION PAID TO THE NONCONTROLLING INTEREST SHAREHOLDERS OF MAN SE

In August 2018, the control and profit and loss transfer agreement with MAN SE was terminated by extraordinary

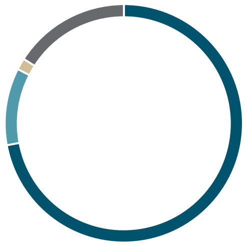
### INCOME STATEMENT BY DIVISION

| | VOLKSWAGEN GROUP | | AUTOMOTIVE[1] | | FINANCIAL SERVICES | |
|---|---|---|---|---|---|---|
| € million | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Sales revenue** | **252,632** | **235,849** | **212,473** | **201,067** | **40,160** | **34,782** |
| Cost of sales | −203,490 | −189,500 | −170,477 | −161,298 | −33,014 | −28,201 |
| **Gross profit** | **49,142** | **46,350** | **41,996** | **39,769** | **7,146** | **6,581** |
| Distribution expenses | −20,978 | −20,510 | −19,712 | −19,039 | −1,266 | −1,471 |
| Administrative expenses | −9,767 | −8,819 | −7,522 | −7,105 | −2,245 | −1,714 |
| Net other operating result | −1,437 | −3,100 | −1,014 | −2,497 | −423 | −603 |
| **Operating result** | **16,960** | **13,920** | **13,748** | **11,127** | **3,212** | **2,793** |
| **Operating return on sales (%)** | **6.7** | **5.9** | **6.5** | **5.5** | **8.0** | **8.0** |
| Share of the result of equity-accounted investments | 3,349 | 3,369 | 3,278 | 3,310 | 71 | 58 |
| Interest result and Other financial result | −1,953 | −1,646 | −1,889 | −1,576 | −64 | −70 |
| **Financial result** | **1,396** | **1,723** | **1,389** | **1,734** | **7** | **−12** |
| **Earnings before tax** | **18,356** | **15,643** | **15,137** | **12,861** | **3,219** | **2,782** |
| Income tax expense | −4,326 | −3,489 | −3,491 | −2,657 | −836 | −832 |
| **Earnings after tax** | **14,029** | **12,153** | **11,646** | **10,203** | **2,383** | **1,950** |
| Noncontrolling interests | 143 | 17 | 79 | −32 | 64 | 49 |
| Earnings attributable to Volkswagen AG hybrid capital investors | 540 | 309 | 540 | 309 | – | – |
| **Earnings attributable to Volkswagen AG shareholders** | **13,346** | **11,827** | **11,027** | **9,926** | **2,319** | **1,900** |

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

**SHARE OF SALES REVENUE BY MARKET 2019**
*in percent*


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

### 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[1]

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

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.

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[1]

| € 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.

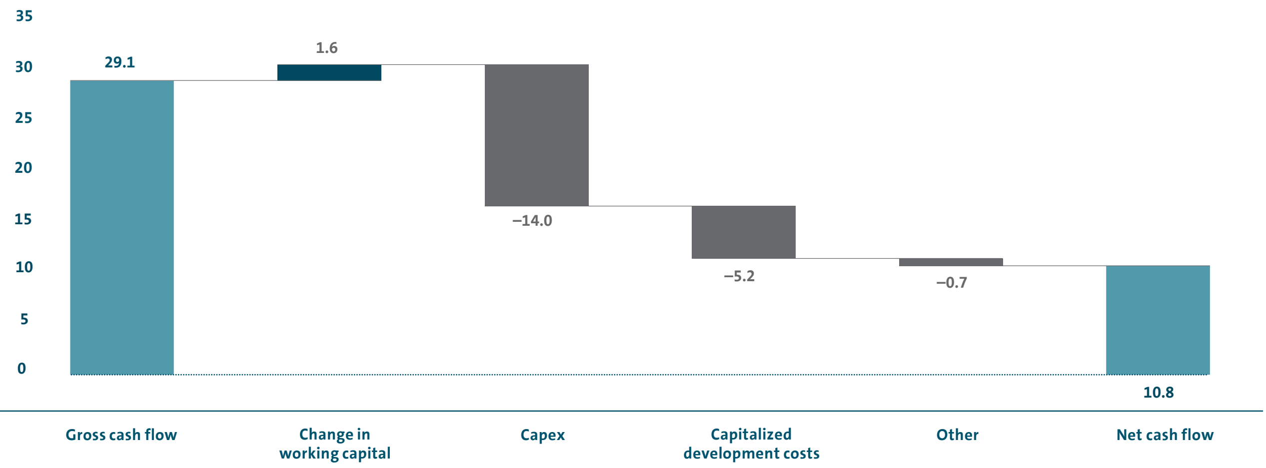
Higher volumes and exchange rate effects boosted the Financial Services Division’s operating profit to €3.2 billion, a 15.0% increase on the previous year, again representing a considerable contribution to consolidated net profit. The operating return on sales was unchanged at 8.0 (8.0)%. The return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

## CASH FLOW STATEMENT BY DIVISION

| € million | VOLKSWAGEN GROUP 2019 | 2018 | AUTOMOTIVE[1] 2019 | 2018 | FINANCIAL SERVICES 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.

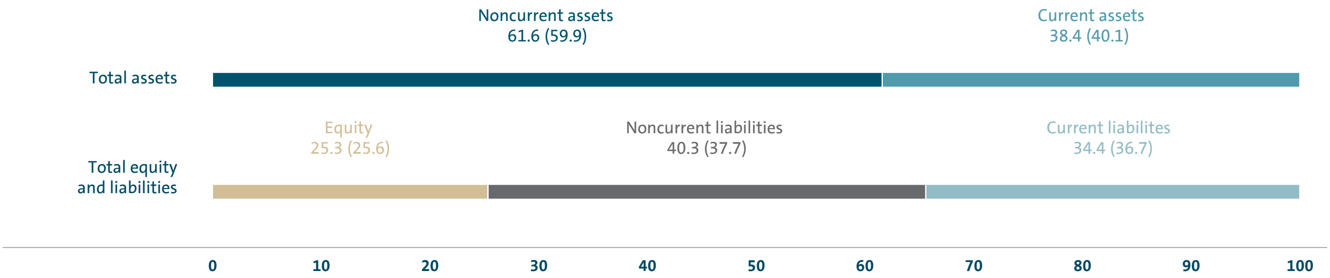
As of the end of fiscal year 2019, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €8.5 (9.3) billion, financial guarantees in the amount of €0.4 (0.3) billion and other financial obligations in the amount of €19.4 (26.6) billion. The previous year's 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.

## CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31

| | VOLKSWAGEN GROUP | | AUTOMOTIVE[1] | | FINANCIAL SERVICES | |
|---|---|---|---|---|---|---|
| € million | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Assets** | | | | | | |
| **Noncurrent assets** | **300,608** | **274,620** | **153,736** | **143,153** | **146,873** | **131,467** |
| Intangible assets | 66,214 | 64,613 | 66,010 | 64,404 | 204 | 209 |
| Property, plant and equipment | 66,152 | 57,630 | 65,043 | 54,619 | 1,110 | 3,010 |
| Lease assets | 48,938 | 43,545 | 2,084 | 5,297 | 46,853 | 38,249 |
| Financial services receivables | 86,973 | 78,692 | −390 | 9 | 87,363 | 78,684 |
| Investments, equity-accounted investments and other equity investments, other receivables and financial assets | 32,331 | 30,140 | 20,989 | 18,824 | 11,342 | 11,315 |
| **Current assets** | **187,463** | **183,536** | **93,081** | **91,371** | **94,382** | **92,165** |
| Inventories | 46,742 | 45,745 | 41,898 | 41,302 | 4,844 | 4,443 |
| Financial services receivables | 58,615 | 54,216 | −640 | −510 | 59,255 | 54,726 |
| Other receivables and financial assets | 38,620 | 37,557 | 17,803 | 13,033 | 20,817 | 24,524 |
| Marketable securities | 16,769 | 17,080 | 13,546 | 13,376 | 3,223 | 3,703 |
| Cash, cash equivalents and time deposits | 25,923 | 28,938 | 19,679 | 24,169 | 6,243 | 4,769 |
| Assets held for sale | 795 | – | 795 | – | – | – |
| **Total assets** | **488,071** | **458,156** | **246,816** | **234,524** | **241,255** | **223,632** |
| | | | | | | |
| **Equity and liabilities** | | | | | | |
| **Equity** | **123,651** | **117,342** | **92,774** | **88,850** | **30,877** | **28,492** |
| Equity attributable to Volkswagen AG shareholders | 109,117 | 104,522 | 78,872 | 76,624 | 30,246 | 27,898 |
| Equity attributable to Volkswagen AG hybrid capital investors | 12,663 | 12,596 | 12,663 | 12,596 | – | – |
| Equity attributable to Volkswagen AG shareholders and hybrid capital investors | 121,781 | 117,117 | 91,535 | 89,219 | 30,246 | 27,898 |
| Noncontrolling interests | 1,870 | 225 | 1,239 | −369 | 631 | 594 |
| **Noncurrent liabilities** | **196,497** | **172,846** | **90,822** | **77,692** | **105,675** | **95,154** |
| Financial liabilities | 113,556 | 101,126 | 17,592 | 14,187 | 95,965 | 86,939 |
| Provisions for pensions | 41,389 | 33,097 | 40,631 | 32,535 | 759 | 563 |
| Other liabilities | 41,551 | 38,623 | 32,600 | 30,970 | 8,951 | 7,652 |
| **Current liabilities** | **167,924** | **167,968** | **63,220** | **67,982** | **104,703** | **99,986** |
| Put options and compensation rights granted to noncontrolling interest shareholders | – | 1,853 | – | 1,853 | – | – |
| Financial liabilities | 87,912 | 89,757 | −7,312 | −1,504 | 95,224 | 91,261 |
| Trade payables | 22,745 | 23,607 | 19,603 | 20,962 | 3,142 | 2,645 |
| Other liabilities | 56,896 | 52,750 | 50,559 | 46,671 | 6,337 | 6,079 |
| Liabilities held for sale | 370 | – | 370 | – | – | – |
| **Total equity and liabilities** | **488,071** | **458,156** | **246,816** | **234,524** | **241,255** | **223,632** |

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions, primarily intragroup loans.

**CONSOLIDATED BALANCE SHEET STRUCTURE 2019**
*in percent*




### Automotive Division balance sheet structure

At the end of the reporting period, intangible assets were up slightly on the 2018 fiscal year. The marked increase in property, plant and equipment in the Automotive Division was attributable to the new IFRS 16. The high volume of investments was another factor driving this growth. Shares accounted for using the equity method were down on the prior-year figure: the business results of the Chinese joint ventures, which were at the prior-year level were offset by higher dividend resolutions. Noncurrent assets totaled €153.7 (143.2) billion, thus exceeding the figure at the previous balance sheet date.

Current assets rose to €93.1 (91.4) billion compared with the end of 2018. Current other receivables and financial assets increased. The Automotive Division's cash and cash equivalents were €4.5 billion lower, at €19.7 billion.

At the end of 2019, the Automotive Division's equity was €92.8 billion, 4.4% higher than on December 31, 2018. The good earnings development increased equity. Noncontrolling interests were up by €1.2 billion due to the issuance of TRATON SE shares. As a result of the termination of the control and profit and loss transfer agreement with MAN SE, the amount of €0.7 billion remaining from the put options and compensation rights in MAN SE granted to noncontrolling interest shareholders was reclassified directly to equity; €0.3 billion of this amount led to an increase in noncontrolling interests. The noncontrolling interests are now primarily held by the noncontrolling interest shareholders of TRATON, Renk and Audi. Currency translation effects additionally had a positive effect. Higher actuarial losses from the remeasurement of pension plans, the dividend paid to the shareholders of Volkswagen AG and negative effects from the measurement of derivatives recognized directly in equity had a decreasing effect on the Automotive Division's equity. The fact that total assets rose due to, among other factors, the implementation of the new IFRS 16 led to a slight decline in the equity ratio to 37.6 (37.9)%, despite an increase in equity.

At €90.8 (77.7) billion, noncurrent liabilities were markedly higher than a year earlier. The noncurrent financial liabilities included in this item rose, mainly as a result of the application of the new IFRS 16. Pension provisions were up significantly on the 2018 balance sheet date, mainly because of the actuarial remeasurement following a change in the discount rate. Noncurrent other liabilities were higher, driven by effects arising from the measurement of derivatives.

Current liabilities declined to €63.2 billion, down 7.0% compared with the end of 2018. As a result of the extraordinary termination of the control and profit and loss transfer agreement with MAN SE, the "Put options and compensation rights granted to noncontrolling interest shareholders" item was settled: the tendered MAN shares were acquired, the cash compensation was paid and the remaining amount was reclassified directly to equity. Current financial liabilities stood at €–7.3 (–1.5) billion. The figures for the Automotive Division also contain the elimination of intragroup transactions between the Automotive and Financial Services divisions. As the current financial liabilities for the primary Automotive Division were lower than the loans granted to the Financial Services Division, a negative amount was disclosed in both periods. Trade liabilities decreased. Current other liabilities were higher, primarily due to the effects from the measurement of derivatives and was attributable to higher liabilities from buyback transactions.

On December 31, 2019, the Automotive Division's total assets amounted to €246.8 billion, up 5.2% compared with the end of 2018.

### PASSENGER CARS BUSINESS AREA BALANCE SHEET STRUCTURE[1]

| € million | Dec. 31, 2019 | Dec. 31, 2018 |
|---|---|---|
| Noncurrent assets | 126,387 | 116,537 |
| Current assets | 75,459 | 70,408 |
| **Total assets** | **201,846** | **186,945** |
| Equity | 75,773 | 72,110 |
| Noncurrent liabilities | 78,679 | 66,406 |
| Current liabilities | 47,394 | 48,429 |

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.

### COMMERCIAL VEHICLES BUSINESS AREA BALANCE SHEET STRUCTURE[1]

| € million | Dec. 31, 2019 | Dec. 31, 2018 |
|---|---|---|
| Noncurrent assets | 25,143 | 24,117 |
| Current assets | 13,420 | 17,366 |
| **Total assets** | **38,563** | **41,483** |
| Equity | 14,115 | 13,788 |
| Noncurrent liabilities | 11,367 | 10,532 |
| Current liabilities | 13,081 | 17,162 |

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.

On December 31, 2019, intangible assets in the Passenger Cars Business Area were higher than at the 2018 balance sheet date. The new IFRS 16 resulted in a marked rise in property, plant and equipment. Noncurrent assets rose by a total of €9.8 billion to €126.4 billion. Current assets increased by a total of €5.1 billion to €75.5 billion. Current other receivables and financial assets were above the prior-year figure. Total cash and cash equivalents and securities declined. The “Assets held for sale” item comprises the carrying amount expected to be derecognized for the shares in Autonomous Intelligent Driving. At the end of 2019, the Passenger Cars Business Area had total assets amounting to €201.8 (186.9) billion. The Passenger Cars Business Area’s equity rose to €75.8 (72.1) billion, mainly due to earnings-related factors. At €78.7 billion, noncurrent liabilities were 18.5% higher in total than on December 31, 2018. The noncurrent financial liabilities included in this item increased, mainly as a result of the application of the new IFRS 16. Pension provisions rose significantly, mainly due to the actuarial remeasurement following a change in the discount rate. Current liabilities declined by 2.1% in total. Current financial liabilities were higher than at the end of 2018. Current other liabilities were up on the figure as of December 31, 2018, primarily due to the effects from the measurement of derivatives and as a result of higher liabilities from buyback transactions.

Property, plant and equipment in the Commercial Vehicles Business Area increased year-on-year because of the application of the new IFRS 16. Noncurrent other receivables and financial assets decreased. In total, noncurrent assets amounted to €25.1 (24.1) billion and were thus higher than at the end of 2018. Current assets declined by €3.9 billion to €13.4 billion. Current other receivables and financial assets were down markedly because of the intragroup sale of the power engineering business. Total securities were markedly up on the prior-year figure, while cash and cash equivalents were lower. Total assets stood at €38.6 (41.5) billion at the end of 2019.

At €14.1 (13.8) billion, the Commercial Vehicles Business Area’s equity was slightly up on the previous year. The 7.9% rise in noncurrent liabilities compared with the end of 2018 was mainly attributable to higher liabilities from buyback transactions and an increase in pension provisions. Current liabilities declined by 23.8% in total. As a result of the extraordinary termination of the control and profit and loss transfer agreement with MAN SE, the “Put options and compensation rights granted to noncontrolling interest shareholders” item was settled: the tendered MAN shares were acquired, the cash compensation was paid and the remaining amount was reclassified directly to equity. Current other liabilities were down compared with the previous year’s balance sheet date.

POWER ENGINEERING BUSINESS AREA BALANCE SHEET STRUCTURE

| € million | Dec. 31, 2019 | Dec. 31, 2018 |
|---|---|---|
| Noncurrent assets | 2,206 | 2,499 |
| Current assets | 4,202 | 3,597 |
| **Total assets** | **6,408** | **6,097** |
| Equity | 2,885 | 2,953 |
| Noncurrent liabilities | 777 | 754 |
| Current liabilities | 2,746 | 2,391 |

The Power Engineering Business Area's intangible assets and property, plant and equipment were lower than the respective prior-year figures. Noncurrent assets decreased in total. Current assets rose 16.8% compared with December 31, 2018. The "Assets held for sale" item included in current assets mainly comprises the asset carrying amount expected to be derecognized following the planned disposal of Renk. Total assets in the Power Engineering Business Area stood at €6.4 (6.1) billion at the end of 2019.

On December 31, 2019, the Power Engineering Business Area's equity amounted to €2.9 (3.0) billion. Noncurrent liabilities were at the prior-year level. Noncurrent financial liabilities increased, while other noncurrent liabilities declined. Overall, current liabilities were higher than a year earlier. Contributing factors were a rise in current financial liabilities and in liabilities held for sale, which include the carrying amount of the liabilities of Renk expected to be derecognized.

#### Financial Services Division balance sheet structure

At the end of 2019, the Financial Services Division had total assets of €241.3 billion, 7.9% more than on December 31, 2018.

Noncurrent assets were up by 11.7% in total. The property, plant and equipment included in this item decreased. Investment property and lease assets rose due to business growth and as a result of the application of the new IFRS 16, while other receivables and financial assets declined by a corresponding amount. Noncurrent financial services receivables rose, driven by higher volumes.

Current assets amounted to €94.4 (92.2) billion. While current financial services receivables increased, current other receivables and financial assets declined. As of December 31, 2019, cash and cash equivalents in the Financial Services Division stood at €6.2 billion, up €1.5 billion on the prior-year figure.

The Financial Services Division accounted for around 49.4 (48.8)% of the Volkswagen Group's assets at the balance sheet date.

At €30.9 billion, the Financial Services Division's equity was 8.4% higher than the figure at the previous balance sheet date, driven mainly by healthy earnings. The equity ratio was 12.8 (12.7)%.

Noncurrent liabilities were up by 11.1% at the end of 2019, mainly because of a rise in noncurrent financial liabilities to refinance the business volume. Overall, current liabilities were higher than a year earlier. Especially the current financial liabilities included in this item recorded an increase.

Deposits from the direct banking business totaled €32.5 (29.9) billion, thus exceeding the figure recorded as of December 31, 2018.

### RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION

The Volkswagen Group's financial target system centers on continuously and sustainably increasing the value of the Company. In order to ensure the efficient use of resources in the Automotive Division and to measure the success of this, we have been using a value-based management system for a number of years, with return on investment (ROI) as a relative indicator and value contribution[1], a key performance indicator linked to the cost of capital, as an absolute performance measure.

The return on investment serves as a consistent target in strategic and operational management. If the return on investment exceeds the market cost of capital, there is an increase in the value of the invested capital and a positive value contribution. The concept of value-based management allows the success of the Automotive Division and individual business units to be evaluated. It also enables the earnings power of our products, product lines and projects – such as new plants – to be measured.

#### Components of value contribution

Value contribution[1] is calculated on the basis of the operating result after tax and the opportunity cost of invested capital.

The operating result shows the economic performance of the Automotive Division and is initially a pre-tax figure. Using the various international income tax rates of the relevant companies, we assume an overall average tax rate of 30% when calculating the operating result after tax.

1 The value contribution corresponds to the Economic Value Added (EVA®). EVA® is a registered trademark of Stern Stewart & Co.

The cost of capital is multiplied by the average invested capital to give the opportunity cost of capital. Invested capital is calculated as total operating assets reported in the balance sheet (property, plant and equipment, intangible assets, lease assets, inventories and receivables) less non-interest-bearing liabilities (trade payables and payments on account received). Average invested capital is derived from the balance at the beginning and the end of the reporting period.

As the concept of value-based management only comprises our operating activities, assets relating to investments in subsidiaries and associates and the investment of cash funds are not included when calculating invested capital. Interest charged on these assets is reported in the financial result.

#### Determining the current cost of capital

The cost of capital is the weighted average of the required rates of return on equity and debt.

The cost of equity is determined using the Capital Asset Pricing Model (CAPM).

This model uses the yield on long-term risk-free Bunds, increased by the risk premium attaching to investments in the equity market. The risk premium comprises a general market risk and a specific business risk.

The general risk premium of 7.5% reflects the general risk of a capital investment in the equity market.

The specific business risk – price fluctuations in Volkswagen preferred shares – has been modeled in comparison to the MSCI World Index when calculating the beta factor. The MSCI World Index is a global capital market benchmark for investors.

The analysis period for the beta factor calculation spans five years with annual beta figures calculated on a daily basis followed by the subsequent calculation of the average. A beta factor of 1.17 (1.17) was determined for 2019.

The cost of debt is based on the average yield for long-term debt. As borrowing costs are tax-deductible, the cost of debt is adjusted to account for the tax rate of 30%.

A weighting on the basis of a fixed ratio for the fair values of equity and debt gives an effective cost of capital for the Automotive Division of 6.3 (6.2)% for 2019.

### COST OF CAPITAL AFTER TAX AUTOMOTIVE DIVISION

| % | 2019 | 2018 |
|---|---|---|
| Risk-free rate | 0.0 | 0.8 |
| Market risk premium | 7.5 | 6.5 |
| Volkswagen-specific risk premium | 1.3 | 1.1 |
| (Volkswagen beta factor) | (1.17) | (1.17) |
| **Cost of equity after tax** | **8.8** | **8.4** |
| Cost of debt | 1.9 | 2.5 |
| Tax | −0.6 | −0.8 |
| **Cost of debt after tax** | **1.3** | **1.8** |
| Proportion of equity | 66.7 | 66.7 |
| Proportion of debt | 33.3 | 33.3 |
| **Cost of capital after tax** | **6.3** | **6.2** |

### RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION IN THE REPORTING PERIOD

At €13,019 (11,438) million, the Automotive Division's operating result after tax, including the proportionate operating result of the Chinese joint ventures, was up on the prior-year figure. Improvements in the mix and increased vehicle sales, reversals of impairment losses as part of the remeasurement of development costs, product cost optimization as well as the measurement of certain derivatives and a decline in negative special items had a positive impact. In particular, higher depreciation and amortization charges due to the large volume of capital expenditure and a rise in research and development costs had an offsetting effect. Effects on earnings and assets from purchase price allocation are not taken into account as they cannot be influenced operationally by management.

In the reporting year, the invested capital rose to €116,016 (104,424) million. The increase was particularly due to the change in the accounting for leases (IFRS 16) that entered into force on January 1, 2019, as well as additions to capex and capitalized development costs.

The return on investment (ROI) is the return on invested capital for a particular period based on the operating result after tax. In spite of the additional adverse effects of the special items on earnings as well as the increase in the invested capital resulting from the new IFRS 16, the ROI improved as a result of the higher operating profit and amounted to 11.2 (11.0)%, which is above our minimum rate of return on invested capital of 9%.

At €7,328 (6,474) million, the opportunity cost of capital (invested capital multiplied by cost of capital) was up on the prior-year level due to the increase in the invested capital. After deduction of the opportunity cost of invested capital, operating result after tax – which was negatively impacted by special items – led to a positive value contribution of €5,691 (4,964) million.

More information on value-based management is contained in our publication entitled "Financial Control System of the Volkswagen Group", which can be downloaded from our Investor Relations website: www.volkswagenag.com/en/InvestorRelations/news-and-publications/More_Publications.html.

## RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION IN THE AUTOMOTIVE DIVISION[1]

| € million | 2019 | 2018 |
|---|---|---|
| **Operating result after tax** | **13,019** | **11,438** |
| Invested capital (average)[2] | 116,016 | 104,424 |
| **Return on investment (ROI) in %** | **11.2** | **11.0** |
| Cost of capital in % | 6.3 | 6.2 |
| **Cost of invested capital** | **7,328** | **6,474** |
| **Value contribution** | **5,691** | **4,964** |

1 Including proportionate inclusion of the Chinese joint ventures (including the relevant sales and component companies) and allocation of consolidation adjustments between the Automotive and Financial Services Divisions.
2 When calculating the average invested capital, the effect of the application of the new IFRS 16 for full year 2019 was taken into account.

## SUMMARY OF BUSINESS DEVELOPMENT AND ECONOMIC POSITION

The Board of Management of Volkswagen AG considers business development and the economic position to have been positive overall.

In an environment dominated by persistently difficult market conditions, fierce competition, technological change in our industry and growing environmental awareness, we achieved a new sales record with 11.0 million vehicles delivered. We saw growth in Europe and South America. The Group's sales revenue increased by 7.1%, which was slightly better than expected. This was particularly due to mix and price improvements and the healthy business performance in the Financial Services Division. Consequently, the Volkswagen Group's operating profit before special items improved to €19.3 billion. At 7.6%, the operating return on sales before special items was slightly above the forecast range of 6.5–7.5%. Including special items related to the diesel issue, the operating return on sales rose to 6.7% and was therefore within the originally forecast range.

The research and development costs reflect our activities to safeguard the Company's future viability; at 6.7%, the R&D ratio in the Automotive Division was within the expected range.

At 6.6%, the Automotive Division's ratio of capex to sales revenue was also within the expected range. At €10.8 billion, net cash flow was, as forecast, markedly higher than in the previous year due in particular to the improved profits, lower cash outflows attributable to the diesel issue and improvements in working capital. As a consequence, net liquidity was higher than in the year before, at €21.3 billion.

The return on investment (ROI) in the Automotive Division of 11.2% was slightly higher than in the previous year and exceeded the minimum required rate of return on invested capital.

## FORECAST VERSUS ACTUAL FIGURES

| | Actual 2018 | Original forecast for 2019 | Adjusted forecast for 2019 | Actual 2019 |
|---|---|---|---|---|
| Deliveries to customers (units) | 10.8 million | slight increase | at prior-year level | 11.0 million |
| Volkswagen Group | | | | |
| Sales revenue | €235.8 billion | increase of up to 5% | increase of up to 5% | €252.6 billion |
| Operating return on sales before special items | 7.3% | 6.5–7.5% | 6.5–7.5% | 7.6% |
| Operating return on sales | 5.9% | 6.5–7.5% | ~6.5% | 6.7% |
| Operating result before special items | €17.1 billion | within the forecast range | within the forecast range | €19.3 billion |
| Operating result | €13.9 billion | within the forecast range | within the forecast range | €17.0 billion |
| Passenger Cars Business Area[1] | | | | |
| Sales revenue | €172.7 billion | increase of up to 5% | increase of up to 5% | €182.0 billion |
| Operating return on sales before special items | 7.6% | 6.5–7.5% | 6.5–7.5% | 8.0% |
| Operating return on sales | 5.8% | 6.5–7.5% | ~6.5% | 6.7% |
| Operating result before special items | € 13.2 billion | within the forecast range | within the forecast range | €14.5 billion |
| Operating result | €10.0 billion | within the forecast range | within the forecast range | €12.2 billion |
| Commercial Vehicles Business Area[1] | | | | |
| Sales revenue | €24.8 billion | increase of up to 5% | increase of up to 5% | €26.4 billion |
| Operating return on sales | 4.8% | 6.0–7.0% | 6.0–7.0% | 6.3% |
| Operating result | €1.2 billion | within the forecast range | within the forecast range | €1.7 billion |
| Power Engineering Business Area | | | | |
| Sales revenue | €3.6 billion | slight increase | slight increase | €4.0 billion |
| Operating result | €–64 million | around the prior-year level | distinctly higher loss | €–93 million |
| Financial Services Division | | | | |
| Sales revenue | €34.8 billion | moderate increase | moderate increase | €40.2 billion |
| Operating result | €2.8 billion | at prior-year level | at prior-year level | €3.2 billion |
| R&D ratio in the Automotive Division | 6.8% | 6.5–7.0% | 6.5–7.0% | 6.7% |
| Capex/sales revenue in the Automotive Division | 6.6% | 6.5–7.0% | 6.5–7.0% | 6.6% |
| Net cash flow in the Automotive Division | €–0.3 billion | significant increase, positive | significant increase, positive | €10.8 billion |
| Net liquidity in the Automotive Division | €19.4 billion | considerable decline | considerable decline | €21.3 billion |
| Return on investment (ROI) in the Automotive Division | 11.0% | slight increase, >9% | slight increase, >9% | 11.2% |

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.

# Volkswagen AG

(Condensed, in accordance with the German Commercial Code)

Unit sales of Volkswagen AG were on a level with the previous year in 2019, while sales and profit increased.

### ANNUAL RESULT

Additional special items in connection with the diesel issue amounting to €1.8 billion were recognized in fiscal year 2019. This was mainly due to further provisions for legal risks. Special items had an impact of €–1.8 (–2.0) billion on other operating income.

At €80.6 billion, sales were 3.4% higher year-on-year due to positive mix effects. Sales generated abroad accounted for a share of €50.1 billion or 62.1%. Cost of sales increased by 2.8% to €74.7 billion.

Gross profit on sales rose accordingly to €5.9 (5.3) billion.

At €7.9 billion, distribution, general and administrative expenses were up €0.3 billion on the prior-year figure.

The net other operating result was €0.5 billion lower, at €–0.9 (–0.4) billion. The decrease resulted particularly from lower income from the reversal of provisions.

The €0.9 billion increase in the financial result to €9.1 billion resulted mainly from increased income from profit and loss transfer agreements. Impairments of equity investments (€1.5 billion) and a disposal loss recognized in connection with the IPO of TRATON SE (€0.8 billion) had an offsetting effect.

Including taxes on income of €–1.2 (–0.9) billion, net income for fiscal year 2019 amounted to €5.0 (4.6) billion.

### INCOME STATEMENT OF VOLKSWAGEN AG

| € million | 2019 | 2018 |
|---|---|---|
| Sales | 80,621 | 78,001 |
| Cost of sales | – 74,700 | – 72,700 |
| **Gross profit on sales** | **5,921** | **5,301** |
| Distribution, general and administrative expenses | – 7,948 | – 7,624 |
| Net other operating result | – 914 | – 415 |
| Financial result[1] | 9,115 | 8,264 |
| Taxes on income | – 1,215 | – 907 |
| **Earnings after tax** | **4,958** | **4,620** |
| **Net income for the fiscal year** | **4,958** | **4,620** |
| Retained profits brought forward | 0 | 3 |
| Appropriations to revenue reserves | – 1,685 | – 2,204 |
| **Net retained profits** | **3,273** | **2,419** |

1 Including write-downs of long-term financial assets.

### BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

| € million | 2019 | 2018 |
|---|---|---|
| Fixed assets | 120,823 | 119,713 |
| Inventories | 5,554 | 5,140 |
| Receivables[1] | 35,856 | 36,965 |
| Cash-in-hand and bank balances | 5,639 | 14,595 |
| **Total assets** | **167,872** | **176,412** |
| Equity | 35,629 | 33,090 |
| Special tax-allowable reserves | 18 | 19 |
| Long-term debt | 39,206 | 40,348 |
| Medium-term debt | 35,983 | 37,422 |
| Short-term debt | 57,036 | 65,533 |

1 Including prepaid expenses.

### NET ASSETS AND FINANCIAL POSITION

Total assets amounted to €167.9 billion on December 31, 2019, down €8.5 billion on the prior-year figure. Property, plant and equipment was up by €0.6 billion, with capital expenditure exceeding depreciation charges. Financial assets were on a level with the prior year at €112.8 (112.8) billion.

Fixed assets accounted for a share of 72.0 (67.9)% of total assets.

Current assets (including prepaid expenses) amounted to €47.0 (56.6) billion on December 31, 2019.

At the end of the reporting period, equity was at €35.6 billion; the increase was due particularly to the positive net income for the year. The equity ratio was 21.2 (18.8)%.

Other provisions increased by €1.3 billion to €21.4 (20.0) billion, due in part to the additional provisions in connection with the diesel issue. Provisions for pensions and similar obligations rose by €1.7 billion to €17.8 billion, primarily as a result of a change in measurement inputs, while provisions for taxes increased by €0.1 billion to €3.8 billion.

The €14.2 billion decrease in total liabilities (including deferred income) to €89.2 billion is attributable primarily to lower liabilities to affiliated companies.

Volkswagen AG's cash funds, comprising cash instruments with a maturity of less than three months, less bank and cash pooling liabilities repayable on demand, deteriorated year-on-year from €–0.2 billion to €–7.6 billion. The interest-bearing portion of debt amounted to €78.2 (87.9) billion. In our assessment, the economic position of Volkswagen AG is just as positive overall as that of the Volkswagen Group.

### DIVIDEND POLICY

Our dividend policy matches our financial strategy. In the interests of all stakeholders, we aim for continuous dividend growth so that our shareholders can participate in a manner which is commensurate with our business success. The proposed dividend therefore reflects our financial management objectives – in particular, ensuring a solid financial foundation as part of the implementation of our strategy.

In our Group strategy, we aim to achieve a payout ratio of at least 30%. The payout ratio is based on the Group's earnings after tax attributable to Volkswagen AG shareholders. It amounts to 24.5% for the reporting period and stood at 20.4% in the previous year.

### DIVIDEND PROPOSAL

In fiscal year 2019, net retained profits amounted to €3.3 billion. The Board of Management and Supervisory Board are proposing to pay a total dividend of €3.3 billion, i.e. €6.50 per ordinary share and €6.56 per preferred share.

### PROPOSAL ON THE APPROPRIATION OF NET PROFIT

| € | 2019 |
|---|---|
| Dividend payout on subscribed capital (€1,283 million) | 3,270,791,536.20 |
| of which on: ordinary shares | 1,918,083,817.00 |
| preferred shares | 1,352,707,719.20 |
| Balance (carried forward to new account) | 2,572,003.60 |
| **Net retained profits** | **3,273,363,539.80** |

### EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG

| € million | 2019 | % | 2018 | % |
|---|---|---|---|---|
| Direct pay including cash benefits | 8,421 | 70.7 | 8,175 | 70.6 |
| Social security contributions | 1,502 | 12.6 | 1,437 | 12.4 |
| Compensated absence | 1,310 | 11.0 | 1,350 | 11.7 |
| Retirement benefits | 682 | 5.7 | 611 | 5.3 |
| **Total expense** | **11,916** | **100.0** | **11,573** | **100.0** |

### VEHICLE SALES

Volkswagen AG sold a total of 2,580,553 (2,597,126) vehicles in fiscal year 2019. Vehicles sold abroad accounted for a share of 67.6 (71.0)%.

### PRODUCTION

Volkswagen AG produced a total of 1,069,066 vehicles at its vehicle production plants in Wolfsburg, Hanover and Emden in the reporting period (–4.0%).

### EMPLOYEES

As of December 31, 2019, a total of 119,204 (119,394) people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. Of this figure, 5,029 (5,009) were vocational trainees. 5,254 (4,785) employees were in the passive phase of their partial retirement.

Female employees accounted for 17.6 (17.3)% of the workforce. Volkswagen AG employed 6,551 (5,883) part-time workers. The percentage of foreign employees was 6.4 (6.3)%. In the reporting period, 83.2 (83.2)% of the employees in Volkswagen AG's production area were in possession of vocational or additional training. The proportion of graduates was 20.1 (19.5)% in the same period. The average age of employees in fiscal year 2019 was 44.2 (43.9) years.

### RESEARCH AND DEVELOPMENT

Volkswagen AG's research and development costs as defined in the German Commercial Code increased to €6.1 (5.6) billion in the reporting period. 13,378 (12,796) people were employed in this area at the end of the reporting period.

### EXPENDITURE ON ENVIRONMENTAL PROTECTION

When measuring expenditure on environmental protection, a distinction is made between investments and operating costs for production-related environmental protection measures. Of our total investments, only those that are spent exclusively or primarily on environmental protection are included in environmental protection investments. We distinguish here between additive and integrated investments. Additive environmental protection measures are separate measures upstream or downstream of the production process. In contrast to additive environmental protection measures, integrated measures reduce the environmental impact already during the production process. In 2019 we invested primarily in air pollution control and in soil and water pollution control.

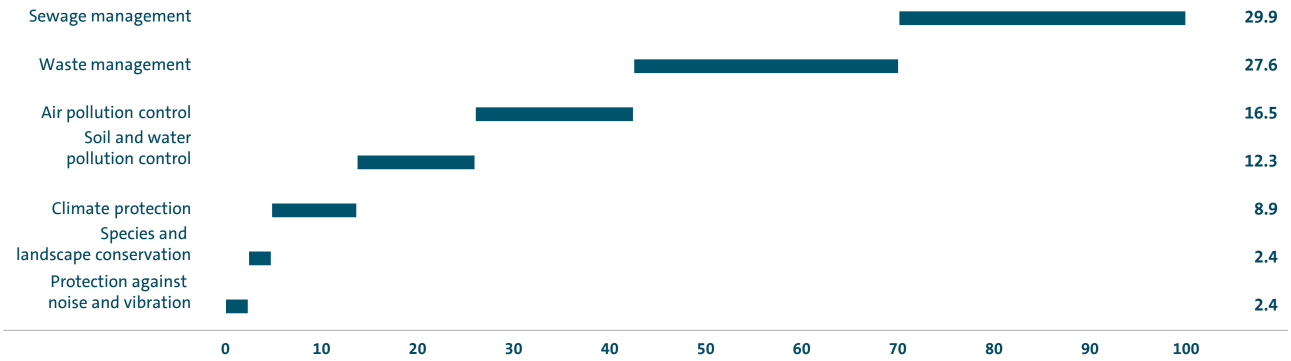
The recognized operating costs relate to measures that protect the environment against harmful factors by avoiding, reducing, or eliminating emissions by the Company. Resources are also conserved. For example, these include expenditures incurred to operate equipment that protects the environment, as well as expenditures for measures not relating to such equipment. As in previous years, the emphasis in 2019 was on sewage and waste management.

### VOLKSWAGEN AG EXPENDITURE ON ENVIRONMENTAL PROTECTION

| € million | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Investments | 9 | 13 | 17 | 11 | 21 |
| Operating costs | 233 | 230 | 227 | 223 | 244 |

**OPERATING COSTS FOR ENVIRONMENTAL PROTECTION AT VOLKSWAGEN AG 2019**

*Share of environmental protection areas in percent*




### BUSINESS DEVELOPMENT RISKS AND OPPORTUNITIES AT VOLKSWAGEN AG

The business development of Volkswagen AG is exposed to essentially the same risks and opportunities as the Volkswagen Group. These risks and opportunities are explained in the Report on Risks and Opportunities on pages 164 to 189 of this annual report.

### RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risks for Volkswagen AG arising from the use of financial instruments are generally the same as those to which the Volkswagen Group is exposed. An explanation of these risks can be found on pages 187 to 188 of this annual report.

### DEPENDENT COMPANY REPORT

The Board of Management of Volkswagen AG has submitted to the Supervisory Board the report required by section 312 of the Aktiengesetz (AktG – German Stock Corporation Act) and issued the following concluding declaration:

"We declare that, based on the circumstances known to us at the time when the transactions with affiliated companies within the meaning of section 312 of the German Stock Corporation Act (AktG) were entered into, our Company received appropriate consideration for each transaction. No transactions with third parties or measures were either undertaken or omitted on the instructions of or in the interests of Porsche or other affiliated companies in the reporting period."

The Annual Financial Statements of Volkswagen AG (in accordance with the German Commercial Code) can be accessed from the electronic company register at www.unternehmensregister.de.

# Sustainable Value Enhancement

Our goal is to run our business responsibly along the entire value chain. Everyone should benefit from this – our customers, our employees, the environment and society. Our enhanced Group strategy TOGETHER 2025+ describes this transformation in the Company. With our new vision "Shaping mobility – for generations to come" we aim to make mobility sustainable for present and future generations.

The main financial key performance indicators for the Volkswagen Group are described in the "Results of Operations, Financial Position and Net Assets" chapter. Nonfinancial key performance indicators also provide information on the efficiency of our Company's value drivers. These include the processes in the areas of research and development, procurement, production, marketing and sales, information technology and quality assurance. In all of these processes, we are aware of our responsibility towards our customers, our employees, the environment and society. In this chapter we provide examples of how we want to increase the value of our Company in a sustainable way.

## SUSTAINABILITY

For us, sustainability means simultaneously striving for economic, social and environmental goals in a way that gives them equal priority. As one of the largest industrial companies, we wish to put our creative powers to good use worldwide for the benefit of people and the environment. We have thus developed a sustainable style of company management and put in place the necessary management structures.

We have anchored our goal to sustainably shape mobility for present and future generations in our Group strategy TOGETHER 2025+. In addition, we want to be an excellent employer and a role model for the environment, safety and integrity. Sustainability is thus at the center of our corporate actions.

A particular challenge when implementing our strategic goals on all levels of the value chain is the complexity of our Company, with its twelve brands, more than 670 thousand employees and 124 production sites. At the same time, we are guiding our Group through the furthest-reaching process of change in its history. The transformation sweeping our entire industry is dominated especially by the transition to e-mobility, digitalization and new mobility services. We want to master these challenges and become a leading company for individual mobility in this electric and connected age.

Protecting the climate is currently the greatest global challenge affecting all three sustainability dimensions. We want to provide our own highly unique answer to this and have decided on an ambitious decarbonization program. With the implementation of this program we want to be a carbon-neutral company by 2050. We are assuming a pioneering role by making this voluntary commitment based on the Paris Climate Agreement. To this end, we are guided by the specifications of the Task Force on Climate-Related Financial Disclosures (TCFD); for more information, please see our Sustainability Report for fiscal year 2019.

In the field of digitalization we also want to help shape the transformation and are pressing ahead with developments in our vehicles and mobility services on the one hand and in our operating processes and management on the other. The digital transformation requires us not just to develop new technologies and be able to harness them, but also to come up with a forward-looking human resources strategy that takes our employees along this path of change and ensures that they are trained and that their jobs are secured.

### Parameters and guiding principles

Our actions are determined by the Volkswagen Group Essentials as the foundation of values and the basis for our shared corporate culture. The Volkswagen Group Essentials support managers and employees in overcoming legal and ethical challenges that arise in their daily work. At the same time, we are guided in our activities by a large number of internal guidelines on sustainability. These include the Volkswagen Social Charter, the Charter on Labor Relations, the Charter on Vocational Education and Training, and the Charter on Temporary Work.

On this basis, our objective is to ensure that the Volkswagen Group's actions are in line with international agreements and frameworks such as the Sustainable Development Goals (SDGs) of the United Nations (UN), the declarations of the International Labor Organization (ILO), the principles and conventions of the Organization for Economic Co-operation and Development (OECD) and the UN covenants on basic rights and freedoms.

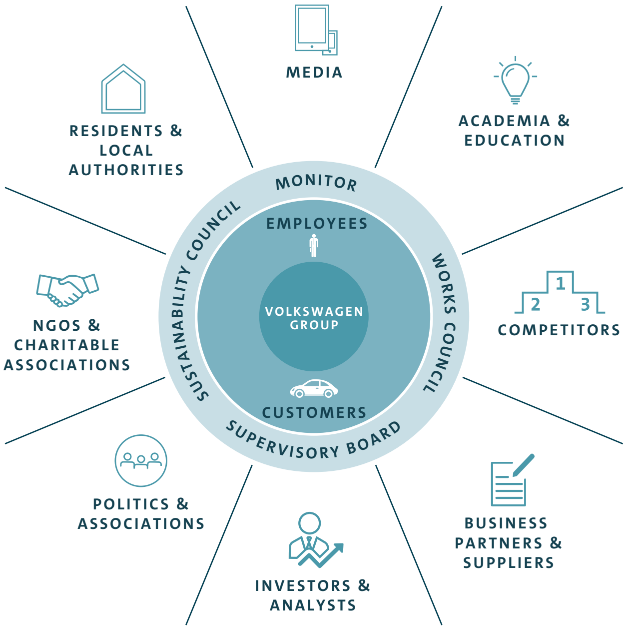
We have developed our own guiding principles for the different aspects of sustainability in conjunction with the so called mission statements. These pithy, focused statements underscore our goals, programs and measures. In this context, we created the Group's new "goTOzero" environmental mission statement in 2019 which represents our goal to achieve net carbon neutrality with a business approach that is as environmentally friendly as possible. In the implementation of its environmental mission statement, Volkswagen is primarily focusing on the four areas of climate change, resources, air quality and environmental compliance.

We take a similar approach in the area of social sustainability, where we aspire to act responsibly and fairly to all stakeholders as a good corporate citizen. Within the Company, the cornerstones of this mission statement are the characteristics of an attractive employer such as employee profit participation plans, job security, career development opportunities and equal opportunities. Externally, we seek dialog with society, initiate and support social projects and encourage our staff to take responsibility for the community.

### Management and coordination

The structure and workflows of core processes in Group-wide sustainability management were refined in the reporting period. The related specifications, structures and processes will subsequently be codified in a separate Group policy. The core elements include assumption of overall responsibility for sustainability by the Chairman of the Board of Management of Volkswagen AG, specification of the competence of the responsible Board members for specific sustainability management concepts and development of rules of procedure by the Group Sustainability Steering Committee. The members of this steering committee include managers from central Board of Management business areas and representatives of the brands and the Group Works Council. The steering committee defines concrete strategic goals and programs, establishes measures for uniform further development of sustainability management across divisions, brands and regions and decides on fundamental sustainability issues. It also handles the enhancement of Group-wide sustainability management. The offices of the Group Sustainability Steering Committee are part of the Group's Sustainability function.

THE VOLKSWAGEN GROUP'S STAKEHOLDERS



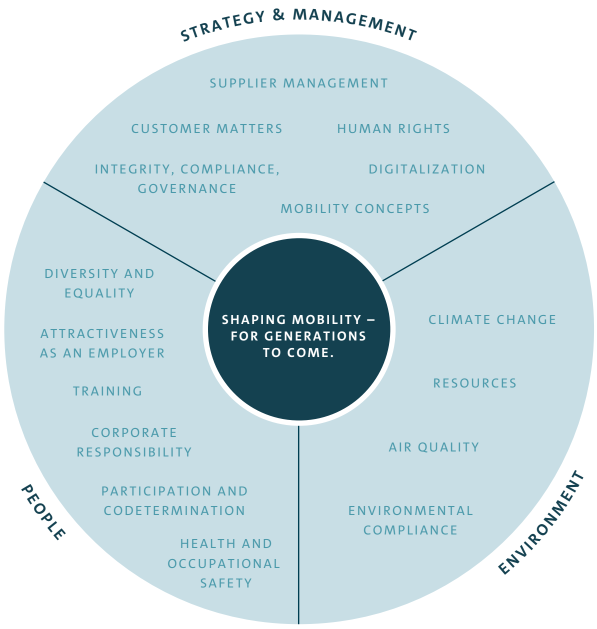

### Strategic stakeholder management

Our stakeholders are individuals, groups, or organizations who have a material influence on or are materially influenced by the course or the result of corporate decisions. Our customers and employees are at the center of our stakeholder network. Based on our annual stakeholder assessment we have identified eight more external stakeholder groups of equal value around this core. The Group's supervisory and advisory bodies such as the Supervisory Board and the Works Council, the Sustainability Council and the Monitor appointed by the US Department of Justice, act as a special interface between internal and external stakeholders.

We understand stakeholder management as systematic, continuous interaction with key stakeholder groups in line with our TOGETHER 2025+ Group strategy. Stakeholder management aims to systematically record expectations and use feedback from our stakeholders to critically reflect on strategic planning processes.

To be able to systematically incorporate our stakeholders' suggestions and recommendations, we have given our stakeholder management an organizational structure in the form of external committees. At Group level these are the Sustainability Council and the Stakeholder Panel. The Panel is comprised of 300 national and international opinion leaders. In addition, we offer our stakeholders a broad range of opportunities for interaction and feedback channels including regular discussion panels with stakeholders, stakeholder surveys and international cooperative projects.

THE VOLKSWAGEN GROUP'S KEY ACTION AREAS




### Sustainability Council

The Volkswagen Group appointed a Sustainability Council in September 2016, initially for the period until 2020, to provide assistance with sustainability issues. This is made up of internationally renowned experts from the academic world, politics and society. The Council establishes its own working methods and areas of focus independently, has far-reaching rights for the purposes of exchanging information, consultation and initiating action, and consults regularly with the Board of Management, top management and the employee representatives.

The projects initiated in 2018 started to deliver results in 2019:

> The Open Source Lab on Sustainable Mobility organized, among other things, dialog events on the use of open data in the field of mobility and drew up position papers on this topic.
> The international program for forecast-based civil protection financing implemented initial mechanisms.
> The research project on traffic policy instruments for reaching international climate targets published initial brief studies.
> Visiting professors at the open labs began their work.
> The project for the strategic focus of sustainability at Volkswagen reached its first milestones.

In addition, the Council decided on three new initiatives: a research project on distribution effects and acceptance of climate-friendly fiscal policy, a study on the effects of digitalization and e-mobility on employment, and a commitment to a sustainable cobalt supply chain. Furthermore, the Sustainability Council formulated further recommendations for how technological, political and cultural change should be organized to win back trust and lay the foundations for future success.

### Materiality analysis

The development of our new corporate vision "Shaping mobility – for generations to come" in 2019 played a key role in identifying the topics that are material for the Volkswagen Group. We seek to provide answers to the challenges of today and tomorrow with our enhanced Group strategy TOGETHER 2025⁺. Our goal is to make mobility sustainable for our own and for future generations. With electric drives, digital connectivity and autonomous driving, we want to make the automobile cleaner, quieter, more intelligent and safer.

As the starting point for our materiality analysis, we are oriented towards the SDGs formulated by the United Nations, which describe the social challenges facing companies. Based on the results of the analysis we conducted in the reporting year, we have defined 16 key action areas. Key action areas were revised, restructured and grouped together in the fiscal year. In order to identify key topics, we took into account external studies, sector and media analyses, ratings, stakeholder surveys, internal and external guidelines and codes, the TOGETHER 2025⁺ Group strategy and the individual departmental strategies.

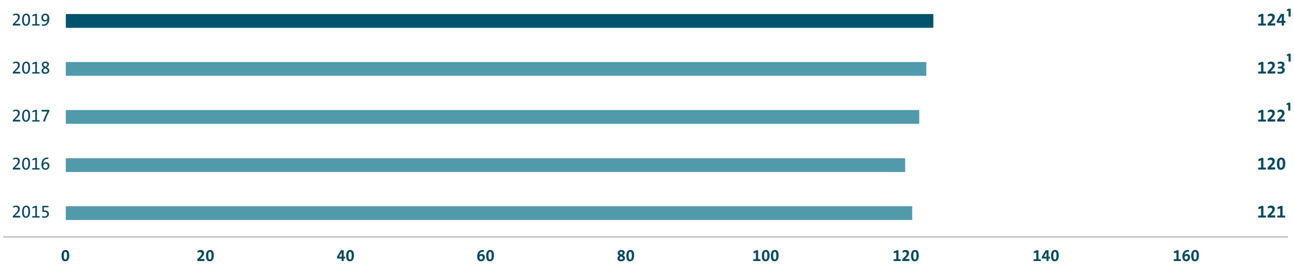
As the details of our Group strategy have not yet been finalized, we are still in the process of specifying the content of the key action areas based on values, targets and KPIs.

### Corporate citizenship

As a good corporate citizen, we aim to be a constant source of economic impetus for local structural development and equal opportunities. We have always believed in the importance of recognizing our social responsibilities toward our stakeholders. The main focus of our corporate social engagement activities is on supporting future, educational and community projects at many of our sites across the world. In 2019, the brands and companies launched or continued over 520 projects and initiatives worldwide.

i CSR PROJECTS
https://csrprojects.volkswagenag.com/csr-projects.html#all

**$CO_2$ EMISSIONS OF THE VOLKSWAGEN GROUP'S EUROPEAN (EU28) NEW PASSENGER CAR FLEET**
*in grams per kilometer*




1 Subject to official publication by the European Commission in the annual $CO_2$ fleet monitoring report.

## RESEARCH AND DEVELOPMENT

Forward-looking mobility solutions with brand-defining products and services would be unthinkable without innovations. This makes our research and development work essential for sustainably increasing the value of the Company.

Together with our Group brands, we have launched measures based on our future program TOGETHER 2025+ to link development activities across the Group. At the heart of this is an efficient, cross-brand development alliance characterized by a close network of our experts, collaboration on an equal footing, an innovative working environment and the pooling of development activities. The aim is to make use of synergy effects across the Group and act as a role model for the environment, safety and integrity. The development alliance is playing a major part in driving the Volkswagen Group's transformation and helping to make the Group fit for the future.

In view of this strategic focus, we concentrated in the reporting period on continuing to develop forward-looking mobility solutions, establishing technological expertise to strengthen our competitiveness, expanding our range of products and services and improving the functionality, quality, safety and environmental compatibility of our products and services.

We use a strategic indicator in Europe and the United States to measure the effectiveness of our measures to reduce emissions when driving:

> $CO_2$ fleet emissions. The Volkswagen Group's new passenger car fleet in the EU (excluding Lamborghini and Bentley) emitted an average of 124 g $CO_2$/km[1] in the reporting period, a value that is below the 2019 European target of 130 g $CO_2$/km. The low year-on-year increase was mainly attributable to rising demand for SUVs. As small volume manufacturers, the Lamborghini and Bentley brands each have an independent fleet for the purposes of the European $CO_2$ legislation and were both above their individual targets. In the United States, the regulation of fleet emissions is different to that in Europe, for example in terms of the underlying test process, the period of evaluation, which corresponds to the model year rather than the fiscal year, and the calculation period, which comprises three model years. In fiscal year 2019, we complied with the regulations that apply to our greenhouse gas account in the United States, subject to any notification by the authorities.

### Fuel and drivetrain strategy

With a view to the legal regulations on emissions, we are currently developing a forward-looking vehicle and drivetrain portfolio: we have set ourselves the objective of increasing drive system efficiency with each new model generation – irrespective of whether it is a combustion engine, a hybrid, a plug-in hybrid, or a purely electric drive system. The Volkswagen Group closely coordinates technology and product planning with its brands so as to avoid breaches of fleet fuel consumption limits, since these would entail severe financial penalties.

We anticipate that one in four new Volkswagen Group vehicles worldwide will already have a purely electric drive by the year 2025; depending on market development, this could be up to three million electric vehicles a year. As part of our electrification offensive, we aim to offer our customers worldwide up to 75 completely battery electric vehicles and approximately 60 hybrid models by 2029. By 2030, the Volkswagen Group aims to have electrified its entire model portfolio – from high-volume models to premium vehicles. This will mean offering at least one electric version – battery electric, hybrid or mild hybrid vehicles – of each of our passenger car models across all Group brands. To this end, in addition to the Modular Electric Drive Toolkit (MEB), we are also developing an all-electric platform for our premium and sports brands – the Premium Platform Electric (PPE).

The Volkswagen Group is committed to achieving the goals of the Paris agreement on climate change and is pursuing the objective of making its vehicle fleet completely carbon neutral by 2050.

To enable sustainable, affordable mobility in the future for as many people around the world as possible, we offer a range of drivetrains with a focus on electrification. From today's perspective, conventional combustion engines look set to continue to make up the lion's share of drive technology in the coming years. In the interest of using resources responsibly, it is therefore essential to further enhance this engine segment and systematically consolidate it for specific markets. Powertrain measures such as significantly more sophisticated exhaust gas purification or mild hybridization of our vehicles, as well as vehicle measures such as optimized aerodynamics or reduced rolling resistance will be necessary to fulfill future emissions standards. With the new Golf 8 we are placing a greater focus on efficient and sustainable mobility in the volume segment. The Golf's new petrol mild hybrid drivetrain significantly reduces fuel consumption. With its ability to shut the engine off when coasting and to give an electric boost when the car drives off, it provides attractive functions related to efficiency and driving comfort.

It is more important to us than ever to rigorously pursue our modular approach. We are reducing the number of individual modules so that we can make a large product portfolio economically viable. For example, we will reduce the number of versions of conventional combustion engines in the Group by more than a third in the long term. This will create capacity for the development and production of new hybrid and electric drives.

#### Life cycle engineering and recycling

On their own, technological innovations for reducing fuel consumption are not enough to minimize the effect of vehicles on the environment. We consider the environmental impacts we cause throughout the entire life cycle and at all stages of the value chain. These include the manufacturing process with the associated extraction of raw materials, the production of materials, the processes at our suppliers and our own production operations at our sites, the use phase with the resulting vehicle emissions and the necessary supply of fuel, and ultimately the recycling of the vehicle at the end of its life cycle. We identify the stages of the life cycle at which improvements will have the greatest effect and develop appropriate solutions. We call this life cycle engineering. Recycling, for example, is an important means of reducing environmental impact and conserving resources. We therefore already take the recyclability of the required materials into consideration when developing new vehicles, use high-quality recycled material and avoid pollutants. Under the European Directive on end-of-life vehicles, passenger cars and light commercial vehicles must be 85% recyclable and 95% recoverable. Our vehicles registered in Europe comply with these standards.

#### Leveraging synergies increases efficiency

When developing vehicles, we cooperate closely with our brands to leverage synergies. The joint strategy of our development alliance involves, for example, making the Group more competitive and viable in the long term by deploying resources more effectively and efficiently in the research and development of new mobility-related technologies, products and services. In our Group-wide development alliance, the brands therefore not only work with each other, but also for each other on key technologies, forming cross-brand networks of expertise to address topics of importance for the future. For example, we have consolidated the Group's activities in and responsibility for the development, procurement and quality assurance of all battery cells in a central Center of Excellence under the umbrella of the Volkswagen Passenger Cars brand. In the Center, a pilot line for cell production was put into operation in 2019 to build up expertise for the Group in the area of cell design but also throughout the entire value chain.

We also manage our modules centrally to reduce costs, capital expenditure and complexity. We are seeking to reduce expenditure in the modular toolkits, while at the same time facilitating widespread electrification and a focus on autonomous systems. We want to achieve this through a considerable reduction in complexity using streamlined platforms that synergize but do not overlap. To this end, the individual Group brands draw on the modular toolkits, thus creating synergies between the various models of a product line, as well as across product lines. By streamlining the toolkits, we are giving ourselves the financial leeway needed for developments in the future trends of digitalization and autonomous driving. The high-volume passenger car brands have introduced a product line organization, thus strengthening their responsibility for the success of vehicle projects, improving project work across different cross-departmental areas, accelerating decision-making and intensifying the focus on project results.

We are also leveraging synergies by constantly sharing best practices, for instance in virtual development and testing. Last but not least, the centralized development and consolidation of our IT systems is also helping to strengthen cooperation across the brands, make development activities more comparable and reduce the Group's IT costs.

#### Sustainable mobility, connectivity and automated driving

Mobility is a basic prerequisite for economic growth. However, while the need to be mobile at all times is rising, natural resources are dwindling. This calls for comprehensive mobility concepts to minimize the environmental impact. Such solutions need to be efficient, sustainable, customer-oriented and accessible any time and anywhere.

We are researching and developing such concepts and solutions in our Group-wide alliance: when shaping the future of mobility, we are looking not only at the automobile but at all modes of transport and transport infrastructures, at people's mobility habits and at other relevant factors. Innovations such as digital connectivity and automated driving allow for new approaches to solving problems. We strive to utilize these and thus to play our part in a comprehensive mobility system for the future and to help shape our industry's transformation.

We are focusing on establishing a cross-brand business area for mobility solutions. We aim to make our mobility business MOIA a scalable and profitable business model.

In its pursuit of autonomous driving, the Volkswagen Group further improved its assistance systems and automated driving functions and introduced these in vehicles in 2019. The objective is to market highly automated driving functions for private vehicles, shared mobility systems and commercial mobility providers as a core competency of the Group. The Volkswagen Group has presented its vision of an autonomous mobility system by unveiling the Sedric family, comprising fully autonomous vehicles for short- and long-distance mobility, as well as sports cars, self-driving delivery vehicles and heavy trucks. These vehicles will enable new forms of mobility in both cities and rural areas, particularly for user groups that have so far been excluded from access to mobility.

Autonomous driving in complex urban environments places especially heavy demands on technology. We are dedicated to meeting these challenges. Our Autonomous Intelligent Driving GmbH is working on developing a Group-wide system for self-driving vehicles.

As part of the TOGETHER 2025+ strategy, we are working with the Software-enabled Car Company module to make software one of the core competencies of the Volkswagen Group. Starting on January 1, 2020, we brought together all of our interests and subsidiaries that develop software for vehicles and digital ecosystems in the Car.Software organization, an independent entity with Group responsibility. This first step involved around 3,000 employees. Up to the middle of 2020, experts from the various Group brands and regions will also work together under the umbrella of the Car.Software organization.

The Car.Software organization is developing software for five applications within the Group: a uniform vehicle operating system "vw.os" for all Group vehicles as well as its connectivity with the Volkswagen Automotive Cloud; a standardized infotainment platform; all assistance systems including highly automated driving and parking; functions for connecting the drivetrain, chassis and charging technology; and ecosystems for all the brands' mobility services and digital business models. By 2025, all new vehicle models across the Group will be based on uniform, cross-brand software solutions. In pursuing this approach, we intend to generate economies of scale in the Group in order to reduce costs for software in the vehicle for all brands.

#### Pooling strengths with strategic alliances

The aim of our future program TOGETHER 2025+ is to transform our core business and to establish a new mobility solutions business area at the same time. It is decisive to the success of this plan that we place our great innovative strength on even broader foundations.

Growth in the mobility sector is strongly defined through regional innovation activities. Volkswagen therefore concentrates its strategic venture capital activities and partnerships in the Group's international innovation ecosystem and provides central support to the brands in the identification and implementation of technologies that will safeguard our competitive position. This approach helps us to identify regional customer needs more precisely, to adjust our product range accordingly and to establish competitive cost structures. We therefore rely to a greater extent than in the past on partnerships, acquisitions and venture capital investments. We manage investment selection centrally so as to generate maximum value for the Group and its brands. It is against this backdrop that we have formed an alliance with the Ford Motor Company. This involves an intended collaboration regarding the development of vans and mid-sized pickups. In addition, we plan to invest with Ford in Argo AI, a company that is working on the development of a system for autonomous driving. This alliance allows both car companies to integrate Argo AI's self-driving system into their own models independently of each other. The system is supposed to make fully automated driving possible and to open up new opportunities, particularly for ride sharing providers and delivery services in urban areas, from the use of fully automated vehicles. In addition, Ford intends to use the Modular Electric Drive Toolkit (MEB) developed by Volkswagen for a zero-emissions volume model that should be offered in Europe starting in 2023. The aim of the cooperation is to place both Volkswagen and Ford in a position that enables them to improve their competitiveness, tailor their products to better meet the needs of customers worldwide and at the same time to leverage synergies related to cost and investment. The completion of the Argo transaction is subject to the approval of various official authorities and other conditions.

The strategic partnership with Microsoft enables us to accelerate our transformation into a mobility service provider with a fully connected vehicle fleet and our Volkswagen We digital ecosystem. Together, we will press ahead with software development for the automobile of tomorrow and new services for our customers. Our IT expertise and solutions will thereby be comprehensively strengthened and expanded.

Battery technology is to become a core competency of the Volkswagen Group. The battery accounts for 20% to 30% of the cost of materials in electric vehicles; in future, it will be one of the most important components when differentiating between products. We have already pooled our in-house expertise in battery cells in a Center of Excellence and at the same time intend to accelerate technological change and the development of expertise through intelligent partnerships. We anticipate that we will need a battery capacity of more than 150 GWh a year in the period to 2025 just to equip our own electric fleet with lithium-ion batteries. To cover this enormous demand, we have defined strategic battery cell suppliers for our most important markets and the first MEB models, and we aim to initiate further long-term strategic partnerships in China, Europe and the USA. The joint venture formed with Northvolt AB will build a 16 GWh battery cell factory in Salzgitter. Looking ahead, we are already preparing for the next generation: we intend to bring solid-state batteries to market readiness in partnership with other companies.

Our Group brands Volkswagen Passenger Cars, Audi and Porsche are involved in the pan-European High-Power Charging (HPC) joint venture IONITY, under which a comprehensive charging infrastructure is being built to safeguard long-distance mobility: after building 200 fast-charging stations in 2019 and with 65 more in construction, we plan to have around 380 of a total of 400 stations in operation along major transport arteries in Europe by the end of 2020.

We support the design of the framework conditions for the approval and introduction of our own self-driving system by our active involvement in public projects. The experience we are gathering here will benefit the Group brands and thus also our customers.

### Key R&D figures

In fiscal year 2019, we filed 7,614 (7,639) patent applications worldwide for employee inventions, the majority of them in Germany. The fact that an ever increasing share of these patents is for important cutting-edge fields underscores our Company's innovative power. These fields include driver assistance systems and automation, connectivity, alternative drive systems and lightweight construction.

The Automotive Division's total research and development costs in the reporting period amounted to €14.3 (13.6) billion and were 4.9% higher than in the previous year; their percentage of the Automotive Division's sales revenue – the R&D ratio – came to 6.7 (6.8)%. Along with new models, the focus was primarily on the electrification of our vehicle portfolio, a more efficient range of engines, digitalization and new technologies. The capitalization ratio was 36.1 (38.4)%. Research and development expenditure recognized in profit or loss in accordance with IFRSs increased to €13.2 (12.1) billion.

As of December 31, 2019, our Research and Development departments – including the equity-accounted Chinese joint ventures – employed 54,947 people (+5.8%) Group-wide, corresponding to 8.2% of the total workforce.

### RESEARCH AND DEVELOPMENT COSTS IN THE AUTOMOTIVE DIVISION

| € million | 2019 | 2018 |
|---|---|---|
| Total research and development costs | 14,306 | 13,640 |
| of which capitalized development costs | 5,171 | 5,234 |
| Capitalization ratio in % | 36.1 | 38.4 |
| Amortization of capitalized development costs | 4,064 | 3,710 |
| Research and development costs recognized in profit or loss | 13,199 | 12,116 |
| | | |
| Sales revenue | 212,473 | 201,067 |
| Total research and development costs | 14,306 | 13,640 |
| **R&D ratio** | **6.7** | **6.8** |

## PROCUREMENT

In fiscal year 2019, the main task for Procurement was once again to safeguard supplies, and to help create competitive, innovative products and optimize cost structures. In addition, we continued to drive digitalized procurement processes forward.

### Procurement strategy

The enhanced Group strategy TOGETHER 2025+ stands for more speed, focus and stringency, also within the Procurement division, and is driving faster change. The focus in 2019 was on implementing the concepts developed in the procurement strategy. Procurement's key performance indicators were revised as part of a combined system of targets for Group Components and Procurement. Alongside the targets for material and investment costs and the timely award of contracts, the system of targets now gives greater weight to sustainability aspects and the achievement of carbon neutrality in the supply chain.

Target-costing strategies are becoming increasingly important in Procurement. They allow costs to be made transparent and concepts to be influenced in the early stage of product development by focusing on calculatory potentials. They also provide approaches for worldwide benchmarking and the exchange of best practices.

A cross-divisional strategic value chain management has been implemented to support profitable growth and safeguard the availability of hard- and software that is strategically relevant and/or crucial for ensuring supplies. Going forward, the newly formed committee for “Strategic Value Chain Management” will be responsible for taking strategically important “make”, “buy” or “partner” decisions.

The growing volume of software and the new partners and suppliers this entails necessitate adjustments to the process chain and Procurement's award criteria. In future, the newly formed “Corporate Sourcing Committee Digital Car” will be in charge of the optimal award of contracts for vehicle and vehicle-related software. It will thereby create a key interface to the board-level management function with responsibility for Digital Car & Services, which was established at the Volkswagen Passenger Cars brand in 2019.

### Volkswagen FAST – Supplier network as the basis for success

With the FAST (Future Automotive Supply Tracks) initiative, Group Procurement is instrumental in advancing the Volkswagen Group and its supply network with a view to partnerships and future-viability.

Thanks to the program, which was launched in 2015, Volkswagen was able to expand its portfolio of strategically important partners again in the reporting period. With the partners Microsoft, Infineon, Cree/Wolfspeed and AVL List, the priority in 2019 was above all on strengthening partnerships in the area of zero-emission and autonomous mobility.

FAST facilitates the regular exchange of information so that both sides are strongly positioned to cope with the future challenges facing the automotive industry. Based on a set of criteria, a comprehensive assessment of the previous year is disclosed to the suppliers so that improvements can be made together. Alongside the existing supply relationships, strategic agreements on globalization and innovation are still core issues of this exchange.

FAST partners are prioritized in the cross-divisional innovation process in that they are given the opportunity to present innovations to representatives from the Procurement and Technical development divisions at upper management level in strategy meetings. FAST partners are invited to attend relevant innovation events at which they can contribute their expertise. At the annual FAST Summit, talks were given on the strategic direction of e-mobility and a zero-emission future. The program will continue to be updated and refined in order to take full advantage of the potential from the FAST initiative.

### E-mobility

A key task for Procurement is to safeguard supplies for the rapidly growing requirements of the e-mobility offensive through 2025 with a view to sustainability and optimizing cost structures in the process.

The adjustments to our organizational structures in Group Procurement are designed to let us focus on high-voltage batteries and e-resources. Through benchmarking and requirements-based training, we are increasing the purchasing expertise of our procurement organization in the area of the e-mobility offensive.

When awarding contracts to our e-mobility partners, we provide clear requirements in relation to sustainable supply sources, transparent, traceable supply streams, and energy- and carbon-optimized supply chains. We pool global demand from the European, American and Asian markets and award Group contracts with the goal of cost leadership for e-mobility solutions. To this end, we take steps to ensure diversification and localization of the supplier portfolio in an effort to reduce economic and geopolitical risks.

### Digitalization of supply

We are working systematically to implement a completely digitalized supply chain. This is intended to help us to ensure supply and leverage synergies throughout the Group in order to take a leading position in terms of cost and innovation. We are therefore creating a shared database and using innovative technologies to enable efficient, networked collaboration in real time – both within the Group and with our partners. The objective of our functional area strategy for Procurement is to standardize transactions with our suppliers in the future and automate them where possible. This will not only reduce transaction costs but will also accelerate business processes. Potential supply risks can be reported automatically in order to identify measures and alternatives faster together. The cornerstone for the future of Procurement was laid in 2018 in the form of Group Procurement's digitalization strategy. This strategy aims not only to eliminate the weaknesses of Procurement's IT system environment but also to increase the organization's effectiveness, efficiency and future viability.

#### Structure of key procurement markets

Our procurement process is organized at global level, with a presence in the key markets around the world. This ensures that production materials, investments in property, plant and equipment, and services can be procured worldwide to the quality required on the best possible terms. Networking of the brands' procurement organizations enables us to leverage synergies across the Group in the various procurement markets.

In addition to the brands' procurement units, the Volkswagen Group operates eight regional offices. In growth markets, we identify and train local suppliers to generate cost advantages for all Group production sites. We are also putting a focus on start-ups and software suppliers. In familiar and established markets, the regional offices support access to the latest technologies and innovations.

#### Supply situation for purchase parts and upstream materials

Systematic safeguarding of the supply of purchase parts is one of Procurement's goals. Adverse effects on production in the Group caused by unforeseeable events such as natural disasters were minimized to the best of our ability.

#### Management of purchased parts and suppliers

Today's market environment is characterized by persistent segmentation, diversification and globalization. We face these challenges with our purchased parts and supplier management, which supports and supervises the supplier processes. From development to series production, we focus on safeguarding the industrialization processes of the purchased parts at the individual supplier locations. The complexity of the components requires regular monitoring of manufacturing capacity. It is vital that we identify any disruptions at an early stage and take rapid action to remedy these. Close cooperation with the quality assurance units at the production sites is crucial for our vehicle projects by ensuring a stable supply of purchased parts to start-up and series production.

#### Sustainability in supplier relationships

Successful relationships with our business partners are based on observance of human rights, compliance with occupational health and safety standards, active environmental protection and combating corruption. These sustainability standards are defined in the contractually binding Volkswagen Group requirements for sustainability in relations with business partners (Code of Conduct for Business Partners). At the same time, the documents signed contain the expectation that any subsuppliers will be subject to the same obligation. We use the management system to review compliance with the requirements, which since 2019 has been an explicit condition for award of contract.

In our recently introduced sustainability rating we determine suppliers' sustainability performance by means of self-disclosures and on-site audits. By the end of 2019, we had received 12,646 self-disclosures and the findings of 1,331 audits. As a rule, contracts are not awarded to suppliers who fail to comply with regulations or do not implement these adequately. Tying award decisions to sustainability criteria is one of the strongest levers for enforcing these. We address existing sustainability risks and violations of sustainability principles by systematically implementing measures; this also includes the upstream supply chain. Depending on the severity, these may entail the inclusion of stipulations and measures in performance specifications for suppliers. In connection with the introduction of the sustainability rating, we have once again stepped up our focus on advanced training for suppliers: in fiscal year 2019, around 1,100 suppliers in seven countries took advantage of the training programs.

Due to the Group's transformation into a provider of sustainable mobility solutions, decarbonization and responsible raw material sourcing were two particularly important topics in 2019. Here we significantly expanded our activities in order to meet our own and external requirements. We systematically anchored the use of renewable energy in the specifications for battery suppliers and agreed measures to reduce $CO_2$ emissions in a series of workshops with strategic suppliers. Our commitment to sustainability in connection with raw materials was equally emphatic. By focusing on battery raw materials and their potential adverse effects on people and the environment in the upstream chain, we significantly expanded our activities beyond our direct contractual partners. Key activities included the performance of audits, work with certified smelters and development of a sustainability standard for mines.

The basis for most of these measures is supply chain transparency. To increase this, we implemented a series of pilot projects in 2019 including blockchain projects for tracking individual supply chains and auditing critical subsuppliers at neuralgic points of high-risk supply chains. Worthy of note is the Responsible Sourcing Blockchain Network (RSBN), in which we, along with other large corporations, aim to track the cobalt supply chain and make it more sustainable.

## COMPONENTS BUSINESS

A realignment of the Group-wide components business was decided on as part of the enhanced Group strategy TOGETHER 2025+ and implemented as of January 1, 2019. The aim is further improvement of future viability and competitiveness through cross-brand management of component activities and a value creation strategy coordinated throughout the Group. Synergies will be leveraged across both traditional technologies and topics of the future to advance the progressive transition to e-mobility.

The components business manages some 75 thousand people worldwide. The focus of their expertise is the development and manufacture of vehicle components. In order to realign these competencies in a future-oriented way, it was decided as part of the Group strategy to combine components activities around the world into an independent entity, Volkswagen Group Components, under the umbrella of Volkswagen AG.

The entity has been re-organized into new business areas: Engine and Foundry, Transmissions and Electric Drive Systems, Chassis, Seats and Battery Cells. In each of the business areas, innovative power and competitiveness will be increased through an economical product portfolio that is viable for the future with a continuously optimized product range and economies of scale exploited across all business areas. Group Components in the Volkswagen Group will be responsible for the development and production of battery systems and electric drives for new electric vehicles as well as for the development and pilot production of battery cells and the management of production partners. There are also plans to reuse the battery cells in innovative reutilization concepts such as the flexible fast charging station and then recycle them in a climate-friendly manner. Moreover, further strategic initiatives will be implemented in Group Components' central strategy program "ONE MISSION 2025". Using innovative digitalization strategies such as robot-controlled process optimization, the transition process to new topics of future relevance will be accelerated.

## PRODUCTION

Our global, cross-brand production network safeguards the processes from the supplier to the factory and assembly line, and from the factory to dealers and customers. Enduring efficiency is a prerequisite for our competitiveness. We meet challenges of the future with holistic optimizations, forward-looking innovations, flexible supply streams and structures, and an agile team. In fiscal year 2019, the global vehicle production volume was slightly under the previous year's level, reaching 10.8 million units. Productivity increased by around 4.0% year-on-year, despite the continuing difficult conditions in many markets.

### "Intelligently networked" production strategy

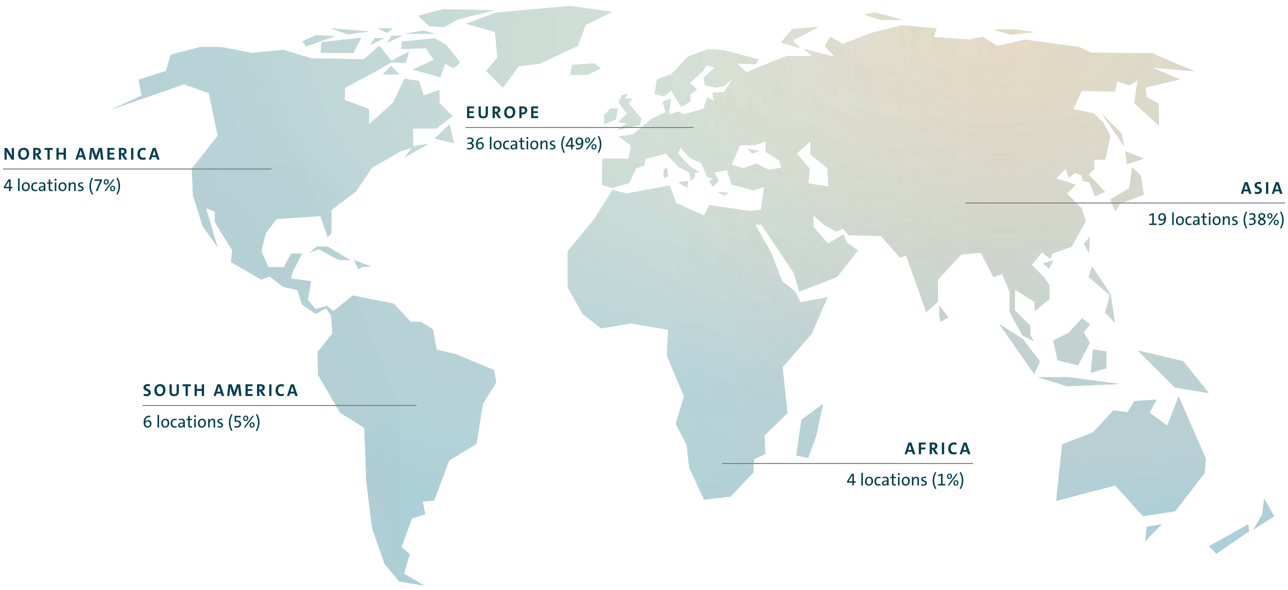
Production is supporting the enhanced Group strategy TOGETHER 2025+ with its functional area strategy, "Intelligently Networked". By intelligently connecting people, brands and machines, we aim to pool the strengths and potential of our global production and logistics and take advantage of the resulting synergy effects. We are guided in this by four strategic goals:

> Versatile production network
> Efficient production
> Intelligent production processes
> Future-ready production

With division-specific initiatives we have created content clusters in which expert teams work on the strategic topics relevant for production in the Group. Examples include the competitive design of our global production network, the reduction and offsetting of environmental impact throughout the production process, and digitalization with its implications for production and working processes and for collaboration. The overarching aim is to increase productivity and profitability.

With the production strategy, we have laid the foundations for the successful and sustainable enhancement of our production. We use regular reviews to ensure that we constantly align our activities to the current challenges.

**VEHICLE PRODUCTION LOCATIONS OF THE VOLKSWAGEN GROUP**
*Share of total production 2019 in percent*




### Global production network

With twelve brands and 124 production locations, aspects such as consistent standards for product concepts, plants, operating equipment and production processes are key to forward-looking production. These standards enable us to achieve synergy effects, respond flexibly to market challenges, make optimal use of a flexible production network and realize multibrand locations. Currently, almost half of the 45 passenger car locations are already multibrand locations. The Bratislava site continues to serve as a prime example in the Group, producing vehicles for the Volkswagen Passenger Cars, Audi, Porsche, SEAT and ŠKODA brands.

The Volkswagen Group has set itself the goal of becoming a world-leading provider of battery electric vehicles by 2025. The basis for this is the introduction of the Modular Electric Drive Toolkit (MEB), which we are using to complement our range with additional battery-electric vehicles. We have been manufacturing battery-electric vehicles based on the MEB in Zwickau, the Volkswagen Group's first electric car factory, since 2019.

In order to design multibrand projects and electric mobility to be cost-effective in conjunction with existing concepts, it is important to make production highly flexible and efficient. Making maximum use of potential synergy effects is also a decisive factor for the success of future vehicle projects. Using common parts and concepts as well as identical production processes enables reduced capital expenditure and provides the opportunity to better utilize existing capacities. The future will also see electric vehicle projects at multibrand locations such as Zwickau, Germany and Anting, China.

We are constantly enhancing our production concepts and aligning them with new technologies. The targeting process anchored in our strategy serves to realize ambitious targets in individual projects.

### Production locations

The Volkswagen Group's production network is comprised of 124 locations in which passenger cars, commercial vehicles and motorcycles, as well as powertrains and components are manufactured.

With 72 locations, Europe remains our most important production region for vehicles and components. There are 28 sites in Germany alone. The Asia-Pacific region has 33 locations. We have six locations in North America and nine in South America. The Group operates four locations in Africa.

2019 saw 89 production start-ups: 29 for new products and successor products, and 60 for product upgrades and derivatives.

Capacity utilization of the locations in the Volkswagen Group's production network is further enhanced by supplying the locations with complete knock-down (CKD) kits for local assembly.

#### The Group’s production system

The aim of the Group’s production system is to continuously and sustainably improve production workflows at all the Group brand and regional sites. The Group´s production system is the key component for achieving excellence in processes in production and production-related environments; we are strengthening this on a continuous basis and increasing the extent to which it is used.

Leadership and individual responsibility are indispensable factors; they are made visible by treating each other with respect and are part of our culture.

Having our factories working at optimal capacity enables us to manufacture high-quality products that give customers maximum benefits at competitive prices. This is made possible by the standardization of production processes and operating equipment early on in the line, based on the principle of concept consistency. This ensures that common design principles, joining techniques and joining sequences, but also installation and connection concepts are applied in the development and production areas at the brands. The principle of concept consistency establishes a foundation for creating efficient logistics and manufacturing processes.

#### New technologies and digitalization roadmap

3D printing is still one of the key technologies for Industry 4.0 and digitalizing the automotive value chain. It is successfully used in select sites of the Volkswagen Group in the manufacture of components and also operating equipment. The process opens up wholly new opportunities in the areas of development, design and production. Due to the digital nature of the technology, which requires no tools whatsoever, components and operating equipment can be flexibly implemented directly from digital drawings, and completely new designs and component geometries can be created.

Developments for large-scale automotive production applications point to considerable potential for the future. To this end, Volkswagen leverages the diversity of the Group, achieved through close collaboration between its brands, and cooperates with leading technology providers and research institutions. Alongside new technologies, moving the IT architecture over to a cloud-based platform solution will be the main task in the coming years on the road to digitalized manufacturing. This will bring the Volkswagen Group closer to the project for the future Industry 4.0. The cloud-based platform with its simplified data exchange is a vital prerequisite for making innovations available rapidly across all sites. Examples include intelligent robotics and data analysis functions for analyzing and comparing cross-plant processes. The cloud-based platform can be used to scale new applications directly to all sites so that specific services and functions can be put into operation in the area of production and logistics at the Volkswagen Group. The entire project will take several years to be implemented. Volkswagen is creating its industrial cloud as an open platform with the goal of incorporating companies from the entire value chain. In the long term, the Volkswagen Group aims to integrate its global supply chain with over 30,000 sites of more than 1,500 suppliers and partner companies into the cloud, creating a constantly growing, worldwide ecosystem.

#### Environmentally efficient production

We are planning the production of tomorrow with our functional area strategy, “Intelligently Networked”. Emissions levels and the use of resources at Volkswagen Group locations require particular attention. The goTOzero Impact Factory program is developing specific steps for more sustainable production, with a vision of a factory that has no adverse environmental impact. Decarbonization, biodiversity and zero plastic waste in production are key elements of this program.

We are encouraging networking and communication between the brands worldwide in order to leverage synergies. Our environmental experts meet regularly in working groups. In addition, we provide training to our employees in environmental protection.

We record and catalog environmental measures in an IT system and make these available for a Group-wide exchange of best practices. In the reporting period, around 1,240 implemented measures in the area of environment and energy were documented in this system. They serve to improve infrastructure and production processes for passenger cars and light commercial vehicles. These activities are beneficial from an environmental and economic perspective. With a series of effective, innovative measures, we were once again able in the reporting period to reduce environmental indicator levels, such as those incorporated in the decarbonization index (DCI), while at the same time improving production processes.

#### GoTOzero Impact Logistics

To help achieve the goals of the Group’s goTOzero environmental mission statement in the area of logistics, Group Logistics is collaborating with colleagues from the brands in the goTOzero Impact Logistics initiative. This builds on the preceding Green Logistics initiative. Emissions are reduced by continuously optimizing the production and transport network. The use of new low-emissions technologies for transporting production materials and vehicles will also be analyzed and accelerated.

The measures the Volkswagen Group is taking to achieve carbon-neutral logistics include moving shipments from road to rail and $CO_2$ exemption of rail transport in collaboration with Deutsche Bahn AG. In addition, Group Logistics is putting the world's first liquefied natural gas (LNG) powered roll-on/roll-off (RoRo) charter ships into service for transporting vehicles across the North Atlantic and is promoting the use of LNG trucks by freight forwarders working for Volkswagen.

## SALES AND MARKETING

We regard ourselves as an innovative and sustainable mobility provider for all commercial and private customers worldwide – with a unique product portfolio encompassing twelve successful brands and innovative financial services.

Together with their sales partners and importers, our passenger car brands agreed on a procedure for integrating innovative products and services into the sales network. The priority thereby is the safe handling of customer data and the way in which this is processed for digital products and services or in connection with the vehicle purchase. The legal requirements for handling customer data have been tightened in many countries. At the same time, new Group vehicles that are permanently connected to the internet are about to be launched. We are increasingly investing in distribution systems and processes with the goal of further digitalizing and improving the individual customer experience in all distribution channels.

The Volkswagen Group's financial strength and profitability is attributable to an extensive portfolio of strong brands. The objective of our Best Brand Equity strategic module is to continuously sharpen the brand profiles and demarcate the respective vehicle segments – that are served by the brands – as clearly as possible. Our aim in this endeavor is to achieve high market saturation with maximum efficiency and a low level of cannibalization of the brands in question. Market positioning is an important element for increasing brand values. To this end, we are establishing automobile-specific customer segmentation to steer the positioning of our brands. It will be continuously applied in the strategy and product process.

### Customer satisfaction and customer loyalty

The Volkswagen Group aims its sales activities at exciting its customers. This is our top priority, as satisfied customers remain loyal to our brands and recommend our products and services to others. In addition to satisfaction with our products and services, we value our customers' emotional connection to our brands. It is important for us to retain customers and win new ones. To measure our success in this area, we compile and analyze two strategic indicators for the passenger car-producing brands:

> Loyalty rate. Proportion of customers of our passenger car brands who have bought another Group model. The loyalty of Volkswagen Passenger Cars, Audi, Porsche and ŠKODA customers has kept these brands in the upper rankings in the core European markets in comparison with competitors for a number of years thanks to their faithful customers, even though these Group brands have seen a slight decrease in the loyalty rate. Compared to other manufacturer groups, the Volkswagen Group continues to hold a top spot in the core European markets in terms of loyalty, with a considerable margin over the competition.

> Conquest rate. Newly acquired passenger car customers as a proportion of all potential new customers. Here, too, the Volkswagen Group has a top ranking in comparison with competitors, primarily thanks to the good scores achieved by the Volkswagen Passenger Cars brand.

In the core European markets, the figures of the Volkswagen Passenger Cars brand relating to brand image and confidence in the brand stabilized further in 2019. Porsche remains in top position in the image ranking.

In the financial services business, we use two strategic indicators:

> Customer satisfaction. Satisfaction of our customers results from a customer-oriented product range and the service focus of our staff. In the annual assessment, these two aspects serve as suitable indicators for the critical evaluation as to whether we will achieve our customer satisfaction target of 90% in 2025. In 2019, we were within the expected range with a satisfaction rate of 83 (82)%. Our goal is to satisfy our customers completely. To do so, we are developing suitable measures at country level.

> Customer loyalty. Trust in and loyalty to our services rely on customer satisfaction with our product range and service. The re-entering contract rates (defined as financing and leasing agreements for repurchases of new Volkswagen Group vehicles) that have been surveyed up to now based on product sales to our customers are being revised in the context of changing customer needs and the development of the product offering at our financial services companies.

### E-mobility and digitalization in Group Sales

As part of our electrification campaign, we aim to offer our customers worldwide up to 75 completely battery-electric vehicles and approximately 60 hybrid models by 2029. This campaign will be complemented by vehicle-related, customer-focused offerings, such as customized charging infrastructure solutions and mobile online services. The Volkswagen Group is thus transforming from an automotive manufacturer into a mobility service provider, posing completely new challenges for sales.

We are making highly targeted use of the opportunities of digitalization in sales, which include an improved customer approach. Our actions are guided by a clearly defined strategy that requires extensive cooperation between the brands to achieve the greatest possible synergies. Our aim here is to create a completely new product experience for the customers of our brand – one which impresses with a seamless communication process, from the initial interest in purchasing a vehicle, to servicing and ultimately to the sale of the used car. In doing so, we are opening up new business models relating to every aspect of the connected vehicle – in particular with regard to mobility and other services. Vehicles are becoming an integral part of the customer's digital world of experience.

We also align our internal processes and structures to the methods and new forms of working created by digital innovation. The result is project teams operating across different business areas, new forms of cooperation, a more intensive relationship with the international start-up scene, a consolidation of venture capital expertise – as a form of supporting innovative ideas and business models – and new lean systems and cloud-based IT solutions.

#### Fleet customer business

Business relationships with fleet customers are often long-term partnerships. In a volatile environment, this customer group guarantees more stable vehicle sales than the private customer segment.

The Volkswagen Group has an established base of business fleet customers, especially in Germany and the rest of Europe. Our extensive product range enables us to satisfy their individual mobility needs from a single source.

In the German passenger car market, which expanded as a whole by 5.0% in 2019, the share of fleet customers in total registrations was 14.8 (13.6)%. The Volkswagen Group's share of this customer segment increased to 44.1 (44.0)%. Outside Germany, the Group's share of registrations by fleet customers in Europe was up slightly at 25.6 (25.2)%. The upward trend shows that fleet customers' confidence in the Group remains on a high level.

#### After Sales and Service

In addition to individual service, the timely provision of genuine parts is essential to ensure passenger car customer satisfaction in After Sales. The genuine parts supplied by our passenger car brands and the expertise of the service centers stand for quality and ensure the safety and value retention of our customers' vehicles. With our global after sales network including more than 130 of our own warehouses, we ensure that almost all our authorized service facilities around the world can be supplied within 24 hours. We regard ourselves as a complete provider of all products and services relevant to customers in the after sales business. Together with our partners, we ensure the worldwide mobility of our customers. The partner businesses offer the entire portfolio of services in all vehicle classes. We are continuously expanding our range of tailored services in order to improve convenience for our customers and increase customer satisfaction.

In the Digital After Sales project, we are modernizing processes and IT systems in After Sales. By adopting an approach that focuses product and service development on the specific needs of both dealers and customers, we aim to reduce the time needed for administrative tasks at the dealers through automated, interrelated services and also stabilize existing IT systems and boost efficiency. Innovative digital after-sales services will additionally improve the customer experience.

Around the world, our commercial vehicles business also prides itself on products of quality and on customer focus. Our range of trucks, buses and engines is complemented by services that guarantee fuel efficiency, reliability and wide vehicle availability. The workshop service and service contracts offer customers a high degree of certainty, in addition to a high level of quality. We are reducing servicing times and costs with a view to the vehicles' total operating costs and helping to retain their value.

In the Power Engineering segment, we help our customers ensure the availability of machinery with MAN PrimeServ. The global network of more than 100 PrimeServ locations guarantees excellent customer focus and offers, among other things, replacement parts of genuine-parts quality, qualified technical service and long-term maintenance contracts.

### QUALITY

The quality of our products and services plays a key role in maintaining customer satisfaction. Customers are particularly satisfied and loyal when their expectations of a product or service are met or even exceeded. Appeal, reliability and service determine quality as it is perceived by the customer throughout the entire product experience. Our objective is to positively surprise our customers and inspire enthusiasm in all areas, and thus to win them over with our outstanding quality.

In the reporting period, we transferred operational tasks such as damage analysis from the Group to individual brands and rearranged strategic topics at Group level. This will underpin the principle "The Group manages the brands, the brands manage the regions and the regions manage the factories" and strengthen networks across the brands at the same time.

#### Strategy of Group Quality

When enhancing our future program, we also reviewed our functional area strategy in depth and coordinated it with the brands. We continue to embody outstanding quality and ensure reliable mobility for our customers worldwide. This is the strategic goal that guides our actions. Group Quality and the brands' quality organizations play an active role at all stages of product emergence and testing, making an important contribution to successful product launches, high customer satisfaction and low warranty and goodwill costs.

Advancing digitalization continues to be a major challenge for us: software is increasingly becoming a priority for the Group as the importance of smart functions in our products and services grows. In the reporting year, we sharpened the focus of our activities on the "Automotive SPICE" process assessment model that we use to improve our processes, in order to ensure future viability in the field of software-based system development. In doing so, we are staying abreast of the progressive regulation, for example of autonomous driving functions.

Furthermore, we are developing Group-wide standards on cybersecurity so as to protect the users of our vehicles against possible attacks. The UNECE (United Nations Economic Commission for Europe) provides for corresponding certification and homologation in the future to ensure that companies can guarantee that these aspects are dealt with properly. This gives rise to the need for Volkswagen to review its organizational structures and processes and adjust these as required. In this context, we have begun to implement an Automotive Cyber Security Management System (ACSMS) that will be incorporated into the quality management system.

The strategy of Group Quality developed in this context comprises the following four goals:

> We will excite our customers with our outstanding quality by understanding what exactly they perceive as quality and implementing this in our products.

> We will contribute to competitive products with optimal quality costs by ensuring robust processes, thereby reducing the expense involved in testing each vehicle.

> In critical business processes, we will reinforce the principle of multiple-party verification and monitor achievement of milestones even more closely.

> We will become an excellent employer by promoting the personal development of every single employee even more intensively.

To achieve our goals, we are working on a variety of quality initiatives. All are focused on the topics that are decisive to the success of the quality organizations in the Volkswagen Group.

#### Contributing to the Group's strategic indicators

We use a strategic indicator to measure the contribution of Group Quality in the major passenger car-producing brands at the top level of consideration.

> Tow-in 12 MIS. This indicator shows the number of vehicles that need to be towed to a dealer per 1,000 vehicles after 12 months in service (MIS). It includes all Group vehicles categorized as tow-ins by dealers in the German market. It also includes vehicles which, after being taken to a repair workshop, are unable to continue driving without restriction. The number of Volkswagen Group tow-ins in the German market has fallen fairly steadily in the last five years. All six brands featured saw their performance improve year-on-year. The brands' ratios for the 2018 production year are within or slightly above the target corridor in each case. Quality is the Volkswagen Group's top priority. All of the Group brands are therefore striving to continuously reduce the number of vehicles that need to be towed to a dealer.

#### Legal and regulatory compliance

The legal and regulatory compliance of our products is paramount in our work. In our processes we employ the principle of multiple-party verification, which involves mutual support and control between the divisions. Software development is accompanied by quality milestones at all brands, whereby all systems, components and parts that directly influence a vehicle's safety, type approval and functioning and therefore require particular vigilance are safeguarded through multiple-party verification. At the series production stage, we are also ensuring even more stringently than before that the conformity checks on our products are carried out and assessed with the participation of all business units involved. This applies particularly to emissions and fuel consumption.

We are also dedicating even more attention to our quality management system than before, reinforcing the process-driven approach Group-wide across all business areas. The quality management system in the Volkswagen Group is based on the standard ISO 9001. This standard must be complied with for us to obtain type approval for the manufacture and sale of our vehicles. We conducted numerous system audits in the reporting period to verify that our locations and brands comply with the requirements of the standard. Particular focus was placed on assessing the risk of non-compliance with defined processes. Our quality management consultants pay attention to ensuring that these and other new requirements, as well as official regulations, are implemented and complied with; they are supported in this endeavor by a central office in Group Quality.

With these and other measures, the quality organizations are helping to ensure that we as a manufacturer and our products meet the legal and official requirements.

### Observing regional requirements

Our customers in the different regions of the world have very diverse needs as far as new vehicle models are concerned. Another important task is therefore to identify and prioritize these regional factors so that they can be reflected in the development of new products and the production of established vehicle models – together with other important criteria such as the quality of locally available fuel, road conditions, traffic density, country-specific usage patterns and, last but not least, local legislation. We mainly use market studies and customer surveys to determine region-specific customer requirements.

To ensure that the perceived quality of our vehicles is at a level commensurate with that of our competitors, we take regional customer needs into account in our vehicle audits. Every brand works together with the individual regions to decide how its product is to be positioned there. This enables us to strengthen the responsibility of the brands and invest less in features that do not resonate with customers. To ensure that the audit returns comparable results, consistent quality benchmarks apply across all brands and regions. We are continually adapting these to changing requirements. For more than 40 years now, we have been deploying auditors around the world to assess, from the customer's perspective, those vehicles that are ready for delivery and to ensure that these vehicles comply with the benchmarks defined.

## EMPLOYEES

The Volkswagen Group is one of the world's largest employers in the private sector. On December 31, 2019, we employed a total of 671,205 people, which includes the Chinese joint ventures. This figure represents a 1.0% increase compared with the end of 2018. The ratio of Group employees in Germany to those abroad remained largely stable over the past year; at the end of 2019, 44.3 (44.1)% of the workforce worked in Germany.

**EMPLOYEES BY MARKET**
*in percent, as of December 31, 2019*


### Human resources strategy and principles of the human resources policy

With the functional area strategy for Human Resources – "Empower to transform" – the Group is continuing with key and successful approaches in its human resources policy. These include the pronounced stakeholder focus on corporate governance, comprehensive participation rights for employees, outstanding training opportunities, the principle of long-term service through systematic employee retention and the aspiration to appropriately balance performance and remuneration. At the same time, the new human resources strategy is setting innovative trends. Hierarchies are being dismantled, and modern forms of working such as agile working – an approach whereby most of the responsibility for the work organization is transferred to the teams – are set to be expanded.

In the Human Resources division, we are guided within the framework of our strategy by five overarching objectives:

> The Volkswagen Group, including all of its brands and companies, aims to be an excellent employer worldwide.
> Highly competent and dedicated employees strive for excellence in terms of innovation, added value and customer focus.
> A forward-looking work organization ensures optimal working conditions in factories and offices.
> An exemplary corporate culture creates an open work environment that is characterized by mutual trust and collaboration.
> The Company's human resources work is highly employee-oriented, strives for operational excellence, and yields strategic value-added contributions.

During the implementation of our enhanced future program TOGETHER 2025+, we paid particular attention in the reporting period to the level of achievement regarding the goals set by the applicable strategic KPIs. For the passenger car-producing brands, we compile and analyze the following information:

> Internal employer attractiveness. This indicator is determined by asking respondents, as part of the opinion survey, whether they perceive the respective company as an attractive employer. The target for 2025 is 89.1 out of a possible total of 100 index points. A score of 85.6 index points was achieved in the reporting period, contrasted with 84.2 points in the previous year. The scope of this survey extends beyond the brands that manufacture passenger cars.
> External employer attractiveness. The ability to recruit top talent is of decisive importance, particularly in view of the Company's transformation into one of the world's leading providers of sustainable mobility solutions and the associated development of new business fields. We use this strategic indicator to check the positioning of the major passenger car-producing brands on the labor markets once a year with regard to graduates and young professionals. Rankings in surveys conducted by renowned institutions, in which we aim to achieve top scores for the Group brands featured, serve as the basis for this. In fiscal year 2019, the Audi, Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands recorded slight improvements year-on-year, and partly achieved the targets set, while Porsche, ŠKODA and SEAT fully reached and even exceeded them in some cases.
> Diversity index. Given the cultural diversity in our global markets and the growing economic momentum, success in a highly competitive marketplace requires an ever-wider range of experience, world views, problem-solving solutions and product ideas. The diversity of our workforce provides potential for innovation in this area, which we aim to make better use of in future. As we establish diversity management across the Group, this strategic indicator is used as a percentage of the active workforce worldwide to report the development of the proportion of women in management and the internationalization of top management. In particular, it underpins the objective of the human resources strategy, which is aimed at contributing to an exemplary leadership and corporate culture. The proportion of women in management amounted to 14.3% in 2019, up on the prior-year level; we aim to raise this figure to 20.2% by 2025. We aim to increase the level of internationalization in top management, the uppermost of our three management tiers, to 25.0% in 2025; in the past fiscal year this was 18.4 (19.2)%.

One strategic indicator has been defined for the financial services business:

> External employer ranking. This involves taking part in external benchmarking, in general once every two years. The aim is to position ourselves as an attractive employer and derive appropriate measures to achieve a ranking among the top-20 employers by 2025, not just in Europe, but globally. Volkswagen Financial Services AG was represented in various national and international best-employer rankings the last time it participated in 2019. Coming in 11th place, it was among the top European employers in the "Great Place to Work" employer competition.

The implementation of our enhanced Group strategy TOGETHER 2025+ has been accompanied by a work package that we defined with the Excellent Leadership module under the slogan "versatility, integrity, strong leadership" to drive the change toward a cooperative management culture that places even more focus on integrity. Management development and training will undergo fundamental change and an even more systematic approach to succession planning will be taken to ensure that the Group has the right people available for the right positions at the right time.

We continued to implement our new system for staff development across the Group in 2019. Going forward, the development paths that lead to management will be characterized by greater individual responsibility, transparency and practical relevance, and will include employees from different levels of the hierarchy in the evaluation of candidates.

To address the challenges of the transformation with success, the Group and the employee representatives have signed agreements for the future that will position the Group's individual brands more efficiently and also structure employee career prospects. The Volkswagen Passenger Cars brand's roadmap for digital transformation is one example, as is the Audi brand's Audi.Zukunft agreement, both of which were announced in fiscal year 2019.

We are also driving large-scale cultural change to achieve greater openness and transparency in line with our corporate strategy. The seven Volkswagen Group Essentials define the shared underlying values and the foundation for cultural change across all of the brands and companies:

> We take on responsibility for the environment and society.
> We are honest and speak up when something is wrong.
> We break new ground.
> We live diversity.
> We are proud of the work we do.
> We not me.
> We keep our word.

Group-wide activities such as team dialog and the role model program encourage employees to analyze the Group Essentials and incorporate them into all work processes. In the role model program, managers from all brands improve the corporate culture together with their staff.

#### Training and professional development

At Volkswagen, our capacity for innovation and our competitive position largely depends on the commitment and knowledge of our employees, particularly during the transformation.

Staff training at Volkswagen is organized systematically and according to vocational groups. These comprise all employees whose tasks are based on similar technical skills and who require related expertise in order to perform their jobs. A skills profile lays down the specialist and interdisciplinary skills for each job and serves as a guide for training measures.

Volkswagen Group employees have access to a wide range of training measures – from further training in general Company-related issues to specific training or personal development programs. Thanks to these opportunities, Volkswagen employees are able to further develop and steadily deepen their knowledge throughout their working lives. In this process, they are also able to learn from more experienced colleagues, who pass on their knowledge as experts in the vocational group academies. Training measures are based on the dual training principle, which combines theoretical content with practical experience on the job by means of specific tasks.

The range of learning opportunities is being expanded continuously. In 2019, the Volkswagen Group Academy commenced initial partnerships with renowned external training portals to expand online learning, for example on IT topics. The Company will set aside additional funds for the personnel skills transformation brought on by digitalization. This will be used for special training for the groups of employees and departments affected by the transformation. In addition, Volkswagen is striking out in new directions with the Faculty 73 program and is training the software developers who are needed for the digital transformation internally. The first academic year started in 2019 with about 100 participants. The program is designed for employees and also external applicants with IT affinity and an interest in software development.

As part of the Volkswagen Group Academy, the AutoUni conveys knowledge to the Group that is relevant for the future on the key issues of digitalization and IT by engaging external and in-house senior experts in addition to universities.

#### Vocational training and cooperative education

The core component of training at Volkswagen is vocational training or, for young people eligible to enter university, cooperative education (dual study programs combining university studies with on-the-job training). As of the end of 2019, the Volkswagen Group trained 19,399 young people. We have introduced the principle of dual vocational training at many of the Group's international locations over the past few years and are continuously working on improvements. Once a year, Volkswagen honors its highest-achieving vocational trainees in the Group with the Best Apprentice Award.

Even after their vocational training has been completed, young people at the start of their careers are encouraged to continue their professional development in our Company. This is why we promote particularly talented young specialists in talent groups. These two-year development and training programs accept the highest-achieving 10% of fully qualified vocational trainees at Volkswagen AG each year. In addition, fully qualified vocational trainees have the option of working at a Group company outside Germany for twelve months as part of the "Wanderjahre" (Year Abroad) program. In the reporting period, 33 Volkswagen Group locations in 16 countries took part in this program.

Last but not least, we developed the AGEBI+ program, which promotes fully qualified vocational trainees who are eligible for university and wish to combine a degree program in subjects that are crucial for Volkswagen's future with closely related practical experience.

#### Development of university graduates

Volkswagen offers two structured entry and development programs for university graduates and young professionals. In the StartUp Direct trainee program, graduate trainees gain an overview of the Company over two years while working in their own department and take part in supplementary training measures. University graduates interested in working internationally can participate in the 18-month StartUp Cross program. The aim here is to get to know the Company in all its diversity and to build up a broad network. During their participation in the program, young professionals become familiarized with several locations in Germany and other countries by working in various departments. Both programs also include several weeks' experience working in production. In 2019, Volkswagen AG hired a total of 246 graduate trainees as part of these programs, 31.7% of whom were women.

Young people can also take part in graduate trainee programs at the other Group companies as well as at the Group's international locations, such as ŠKODA in the Czech Republic, SEAT in Spain or Scania in Sweden.

**PROPORTION OF WOMEN**
*as of December 31*

| % | 2019 | 2018 |
|---|---|---|
| Employees | 16.8 | 16.5 |
| Vocational trainees[1] | 24.1 | 25.6 |
| Graduate recruits[2] | 31.7 | 28.7 |
| Total management[3] | 12.1 | 11.5 |
| Management[3] | 13.7 | 13.1 |
| Senior management[3] | 9.7 | 9.1 |
| Top management[3] | 7.4 | 6.1 |

1 Germany, excluding Scania.
2 Volkswagen AG
3 Germany

**AGE STRUCTURE IN YEARS OF VOLKSWAGEN GROUP EMPLOYEES**
*as of December 31, 2019; in percent*


### Increasing attractiveness as an employer and development programs for specific target groups

A family-friendly human resources policy is a major component of Volkswagen's attractiveness as an employer; in particular, it contributes to greater gender equality. We are working continuously to develop family-friendly models for working time models and to increase the number of women in management positions. In line with German law on the equal participation of women and men in leadership positions (Führpos-GleichberG – German Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors), Volkswagen AG is aiming to have a 13.0% share of women at the first management level and 16.9% at the second management level by the end of 2021. As of December 31, 2019, the proportion of women in the active workforce at the first level of management was 11.4 (10.7)% and at the second level of management it was 16.4 (15.4)%.

We have set targets for every board-level division at Volkswagen AG regarding the development of the proportion of women in management to encourage women with high potential to advance within the Company. This approach is supported by many different measures ranging from cross-brand mentoring programs to a quota system for the management selection procedure and targets for the share of women among external hires.

In recent years, a large number of company regulations have also come into effect in the Group to make it easier for employees to balance the demands of work and home life and allow staff to arrange their own individual working model. These include flexible working hours, variable part-time work and shift models, leave of absence programs enabling employees to care for family members, childcare services that are associated with the company or are company-owned, and mobile working.

At Volkswagen AG, which entered into its works agreement for mobile working already back in 2016, more than 23 thousand employees were making use of a more flexible working arrangement as of the end of the 2019 fiscal year.

### Preventive healthcare and occupational safety

Preventive healthcare and occupational safety are key human resources policy topics in the Volkswagen Group. In fiscal year 2019, we underpinned these with a corresponding Group policy. This defines basic requirements and objectives relating to occupational health and safety, laying down rules for the organization thereof as well as the responsibilities of the Group, brands and companies.

In addition to fulfilling statutory requirements, Volkswagen's Health department places strong emphasis on preventive approaches with regard to health, fitness and performance. Employees are given the opportunity to have regular check-ups followed by a talk in which they receive offers that draw on recent scientific findings for improving their individual health. Another task of the Health department is to advise the Group on any potential impact on employee health resulting from new production technologies introduced throughout the production chain and in all work processes. One example of this is a pilot project conducted in 2019 by Audi BKK and the Hanover Medical School (MHH) to reduce the risk factors associated with metabolic syndrome, such as high levels of body fat, blood lipids and blood pressure. Telemonitoring of these levels, exercise programs, nutritional consultations and individual support, combined with modern technology such as wearables (electronic aids worn on the body), have led to significant improvements, particularly among shift workers.

### Employee participation

Codetermination and employee participation are important pillars of our human resources strategy. Volkswagen aims to promote high levels of expertise and a strong sense of team spirit. This includes employees' opinions, assessments and criticisms being heard.

We brief our employees extensively on upcoming changes so as to involve them in strategic decision-making as early as possible. In forming cooperative labor relations characterized by social peace, we are guided by universal human rights and the standards of the International Labour Organization (ILO). Building on these principles, we have agreed various charters and declarations with the European and the World Works Councils which set out the principles of labor policy in the Volkswagen Group as well as individual employee rights.

With the opinion survey, a poll of 180 companies of the Group, the Company not only regularly gathers information regarding employee satisfaction, but also inquires about the shape of our corporate culture and the manner in which, for example, compliance requirements are implemented. Based on the results, follow-up processes are implemented in which measures are developed and executed. Over 620,000 employees in 50 countries were invited to take part in the survey. The participation rate was 81%. The average result from all of the answers provided for the questions in the opinion survey – the sentiment rating – is an important parameter of the survey; in 2019 it stood at 80.0 out of a possible total of 100 index points. The score achieved in 2019 was thus higher than the previous year's figure, which amounted to 78.9 points.

In addition, we also encourage our employees' involvement by means of Idea Management. Employees have the opportunity to put their creativity and knowledge to use in the form of ideas for improvements, thus contributing to streamlining workflows, further enhancing ergonomics in the workplace, reducing costs and continuously increasing efficiency. Through Idea Management employees can actively participate in the planning and design of their work. The system also provides monetary incentives by offering set rewards.

## INFORMATION TECHNOLOGY (IT)

Volkswagen is working hard on strengthening its digital competencies with a view to shaping and safeguarding the Company's future viability. To this end we are continuously upgrading our IT systems so that they are sustainable in the long term and are progressively moving our systems and applications over to new cloud platforms. Our primary concern is further increasing the efficiency of the IT systems used throughout the Company and standardizing these as far as possible. We are also concentrating on building up our expertise and specialist IT knowledge, especially in key digital technologies such as artificial intelligence and the use of new IT technologies in products, services and business processes.

To safeguard the development of core competencies in our Company in the fields of technology, digitalization and autonomous driving, we are building up IT resources that will help shape and push the Company's digital transformation.

The Group IT Steering Committee was formed in fiscal year 2019 for this purpose. In addition to managing the Group's IT portfolio, this steering committee will enable synergies to be leveraged more efficiently and promote communication with departments on IT projects. Group-wide planning and management of portfolios will ensure coordinated use of budgets and resources in the development, implementation and use of IT solutions within the Group.

Volkswagen is embracing digitalization in the Company at its in-house IT labs, for example. The labs act as centers of innovation and expertise that conduct research and experiment with new technologies. Here, Group IT, research institutions, technology partners and policy-makers are working closely together on future trends in information technology. At the same time, the labs function as liaison offices for start-ups. This allows the experience and strategic expertise of a large company like Volkswagen to be combined with the pragmatism and speed of young start-ups. Highly specialized experts at the IT labs in San Francisco and Munich, for example, are working on exploiting the potential of quantum computers for areas that have a commercial application. The focus here is on optimization of flows of traffic and simulation of materials and alloys. Initial experimental projects are also investigating opportunities for combining the potential of quantum computers with self-learning systems (quantum machine learning).

In addition to topics such as data analytics (process for the systematic analysis of data in electronic form) and decentralized databases, which allow network participants to jointly process and store data (distributed ledger technologies), the IT labs are used to realize knowledge transfer throughout the entire Company, and to make new technologies usable for the Company. For instance, numerous "bot" projects are being implemented to automate business processes (robotic process automation). Self-learning systems will intelligently analyze data to assist staff in recurring administrative work steps by preparing these activities independently and giving them to staff for a decision.

The further convergence of different business areas with IT is also opening up opportunities.

In production, for example, big data processes help us to analyze faulty machinery and take action at an early stage. Big data refers to data volumes that are too vast and too complex to be analyzed and evaluated using manual or conventional methods. Production processes are also safeguarded by artificial intelligence and camera systems (computer vision). The systems and equipment in the factory are combined into an integrated overall system. This will allow efficiency to be increased and digital pilot projects to be integrated into the existing architecture much more easily than before. Applied research in the field of intelligent human-robot collaboration and IT systems to control mobile assistive robotics are also important elements of the digitalization of production at the Volkswagen Group.

Group IT is likewise contributing its expertise in the field of research and development in conjunction with the different departments. For instance, digitalized work tools such as the “virtual concept vehicle” make the product development process faster and more efficient.

Value creation in sales is being increased with the help of advanced analytics (a process for systematic analysis of future events and behavior), for example on distribution parking lots for vehicles and in sales planning.

The “IT for everyone” initiative aims to give all employees at Volkswagen AG access to digital media and work tools. The objective is to further improve communication and collaboration among production and administrative employees. An important issue in this connection is the growing volume of official work being performed on mobile devices. The Company’s internal network Group Connect promotes knowledge transfer and networking among all employees. The platform puts experts in touch with one another across brands and internationally. In software development centers we develop cross-brand software for digital ecosystems and for new business processes in the Group. We thereby maintain in-house expertise in the rapid, demand-oriented development of software and IT solutions. This capability will become increasingly important as the Company’s digital transformation evolves.

At the new software development center established in Lisbon in 2019, software architects, designers and developers are working together on IT projects in the areas of sales and marketing and on the connected car, among other things. The project work is flanked by a lean, agile development process based on the simultaneous work of teams of two (pair programming).

Cutting-edge technologies for the industrial internet of Things are being developed at the new software development center in Dresden. In collaboration with a leading cloud provider, Amazon Web Services, we are working on a digital production platform that will enable Volkswagen to significantly reduce its production costs in the future.

Safeguarding data and systems at the Volkswagen Group is another focus of our IT. In order to also protect our customers against cyberattacks and ensure that our solutions are in conformity with national and international legislation, we are continuing to implement an integrated, cross-brand, cross-regional Information Security Management System (ISMS) as part of the Protected Customer program. The Group offers documents, templates and tools to all Group companies and brands in the form of an ISMS toolbox to help them implement their own ISMS. Key central information security processes have been audited and certified within the international ISO 27001 framework. This is the most important standard for information security and extends beyond IT to also cover issues such as human resource security, compliance, physical security and legal requirements. One of the aims of the program, which is set to run until 2021, is also to safeguard the complete life cycle of our vehicles and the digital mobility services.

In fiscal year 2019, another focus of IT was on continuing the systematic implementation of the European General Data Protection Regulation (GDPR), which was combined in a Group program and rolled out in all corporate functions. In the course of the sustainable implementation of the GDPR, the data protection processes and procedures in place in the brands will be consolidated and standardized further. When new IT solutions are being developed, the requirements will be enforced from the outset. Transparency in the processing and minimization of data is a key goal on which we will continue to work. To ensure sustainable observance of the GDPR, we will systematically press ahead with the establishment of the Company-wide data protection management system begun in this reporting period as well as with the data protection organization.

In 2015, Volkswagen AG co-founded Deutsche Cyber-Sicherheitsorganisation GmbH (DCSO). DCSO is accumulating specialist knowledge on cybersecurity and aims to become the preferred service provider to European businesses in this field. DCSO is a competence center and a managed security service provider for protecting companies against criminal hackers, industrial espionage, government attacks and sabotage.

### ENVIRONMENTAL STRATEGY

As one of the largest automobile manufacturers, Volkswagen takes responsibility for the environmental impact of its activities. Based on the TOGETHER 2025+ Group strategy, we have set ourselves ambitious environmental targets with our environmental mission statement. With goTOzero, we aspire to minimize environmental impacts along the entire life cycle – from raw material extraction until end-of-life – for all our products and mobility solutions in order to keep ecosystems intact and to ensure that we have a positive impact on society. Compliance with environmental regulations, standards and voluntary commitments is a basic prerequisite of our actions.

Our focus is on four prioritized action areas:

> Climate change. We are committed to the 2°C target of the Paris Climate Agreement. By 2025, we plan to reduce the greenhouse gas emissions of our passenger cars and light commercial vehicles by 30% over the total life cycle compared with 2015. We use the decarbonization index to document our progress. We intend to become a carbon-neutral company by 2050.

> Resources. We intend to reduce production-related environmental impact, maximize our resource efficiency and promote circular economy approaches in the areas of materials, energy and water.

> Air quality. We are driving e-mobility forward to improve the local air quality. By 2025, the share of battery electric vehicles in our model portfolio shall be between 20% and 25%. The share of electric vehicles in our new vehicle fleet in Europe and China is set to rise to at least 40% by 2030.

> Environmental compliance. Where integrity is concerned, we aim to become a role model for a modern, transparent and successful enterprise by implementing and monitoring effective management systems that cover the environmental impacts of our mobility solutions over all life cycle stages.

With our future program TOGETHER 2025+, we have defined a strategic indicator for the major brands that manufacture passenger cars for the EU28, China and USA regions:

> Decarbonization index (DCI). This measures the average emissions of $CO_2$ and $CO_2$ equivalents (together $CO_2e$) over the entire life cycle of the portfolio of passenger cars and light commercial vehicles and is stated in tonnes per vehicle. The DCI encompasses both direct and indirect $CO_2e$ emissions at the individual production sites (Scope 1 and 2) as well as all further upstream and downstream $CO_2e$ emissions over the life cycle of the vehicles sold – from the extraction of raw materials to the use of the vehicle and final disposal of old vehicles (Scope 3). As a strategic indicator, the DCI enables transparent, comprehensive tracking of progress toward climate-friendly mobility. The average value was 43.0 t $CO_2e$/vehicle in the reporting period; by 2025 the decarbonization index shall be reduced by around 30%.

### Organization of environmental protection

Volkswagen has created an environmental policy that sets out guidelines for environmental decision-making, for the management of projects and for the Group's environmental stewardship. Thus, parameters are set for the conduct and working methods of management and staff in five areas: management behavior, compliance, environmental protection, collaboration with stakeholders and continuous improvement.

The Board of Management of Volkswagen AG is the highest internal decision-making level for environmental issues. The Volkswagen AG's and brand's boards of management take business, social and environmental criteria into account when making key company decisions. The Group-wide management of environmental protection is the responsibility of the Group Steering Committee for the Environment and Energy. Other bodies take responsibility for steering key individual aspects in relation to products such as $CO_2$ emissions and exhaust gas emissions. These include the Group $CO_2$ Steering Committee, the Group Steering Committee for Fleet Compliance and Exhaust Gas, and the Group Sustainability Steering Committee.

The Volkswagen Group coordinates the activities of the brands, which in turn steer the measures in the regions. The brands and companies are responsible for their own environmental organization. They base their own environmental protection activities on the targets, guidelines and principles that apply throughout the Group.

We are dedicated to comply with legal and regulatory requirements. Furthermore, we are guided by company standards and targets. Our environmental compliance management systems shall ensure that environmental aspects and obligations are taken into account in our business operations. Disregard for the rules, fraud and misconduct are treated as severe compliance violations. Compliance with our Environmental Policy Statement and with other Group environmental requirements is evaluated annually and reported to the Board of Management of Volkswagen AG, the respective boards of management of the brands or the managing directors of the companies.

## SEPARATE NON-FINANCIAL GROUP REPORT

The combined separate nonfinancial report of Volkswagen AG and the Volkswagen Group in accordance with sections 289b and 315b Handelsgesetzbuch (HGB – German Commercial Code) for fiscal year 2019 will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nichtfinanzieller_Bericht_2019_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2019/Nonfinancial_Report_2019_e.pdf in English by no later than April 30, 2020.

## REPORT ON POST-BALANCE SHEET DATE EVENTS

For more information on the offer for the acquisition of all outstanding ordinary shares of Navistar International Corporation by TRATON SE placed on January 30, 2020, please refer to the details provided in the "Events after the balance sheet date" section on page 328 of the notes to the consolidated financial statements.

# Report on Expected Developments

Global economic growth in 2020 is expected to continue at the prior-year level. Global demand for passenger cars will probably vary from region to region and remain at the 2019 level on the whole. With our brand diversity, broad product range, technologies and services, we are well prepared for the future challenges in the mobility business.

In the following, we describe the expected development of the Volkswagen Group and the general framework for its business activities. Risks and opportunities that could represent a departure from the forecast trends are presented in the Report on Risks and Opportunities.

Our assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

## DEVELOPMENTS IN THE GLOBAL ECONOMY

Our forecasts are based on the assumption that global economic growth in 2020 will be at the same level as in the preceding year. We still believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts as well as epidemics spanning countries and regions, such as the current spread of the coronavirus. We anticipate that momentum in both the advanced economies and the emerging markets will be similar to that seen in 2019. We expect to see the strongest rates of expansion in Asia's emerging economies.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2021 to 2024.

### Europe/Other Markets

In Western Europe, economic growth in 2020 is likely to decline slightly compared to the reporting year. Resolving structural problems continues to pose a major challenge, as does the uncertain impact of the United Kingdom's exit from the EU.

In Central Europe, we estimate that growth rates in 2020 will remain approximately level with those for the past fiscal year. The economic situation in Eastern Europe should stabilize, providing the conflict between Russia and Ukraine does not worsen. The Russian economy is expected to see only muted growth.

For Turkey, we anticipate a rising growth rate amid higher inflation. The South African economy will probably be dominated by political uncertainty and social tensions again in 2020 resulting, in particular, from high unemployment. Growth should therefore increase only slightly.

### Germany

We expect that gross domestic product (GDP) in Germany will increase only at a low rate in 2020. The situation in the labor market will probably remain stable and bolster consumer spending.

### North America

We assume that the economic situation in the USA will continue to be stable in 2020. GDP growth should be lower than in the reporting period, however. The US Federal Reserve could further reduce the key interest rate during 2020. Economic growth is likely to remain more or less stable in Canada. In Mexico, we expect it to increase slightly following stagnation in the previous year.

### South America

The Brazilian economy will most likely stabilize in 2020 and record somewhat more dynamic growth than in the reporting period. Amid sustained high inflation, the economic situation in Argentina is expected to stay very tense.

### Asia-Pacific

In 2020, the Chinese economy is expected to continue growing at a relatively high level, but will lose some of its momentum compared with prior years. The agreement on trade matters with the United States and fiscal policy by the government are likely to have a stabilizing impact, whereas a further spread of the coronavirus may have a dampening effect on the economic development. For India, we anticipate an expansion rate on a similar scale to the previous years. In Japan, growth is forecast to remain weak.

### TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

We expect trends in the markets for passenger cars in the individual regions to be mixed in 2020. Overall, the volume of global demand for new vehicles will probably match the 2019 level. We are forecasting growing demand for passenger cars worldwide in the period from 2021 to 2024.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, we anticipate a slight dip in demand in 2020. We expect a return to the growth trajectory for the years 2021 to 2024.

The Volkswagen Group is well prepared for the future challenges pertaining to the automotive mobility business and the mixed developments in regional automotive markets. Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. With electric drives, digital connectivity and autonomous driving, we want to make the automobile cleaner, quieter, more intelligent and safer. We have set ourselves the goal of continuing to excite our customers in future and meeting their diverse needs with an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions.

#### Europe/Other Markets

For 2020, we anticipate that the volume of new passenger car registrations in Western Europe will be distinctly below that recorded in the reporting period. The uncertain impact of the United Kingdom's exit from the EU is likely to further exacerbate the ongoing uncertainty among consumers, continuing to dampen demand. We expect a moderate decline on the British and Italian markets in 2020. In France and Spain, the markets are likely to fall perceptibly short of the level seen in the reporting year.

For light commercial vehicles, we expect demand in Western Europe in 2020 to be distinctly lower than the prior-year level, owing to the uncertain impact of the United Kingdom's exit from the EU and the pull-forward effect on sales of the WLTP in 2019. In France, the United Kingdom, Italy and Spain we are forecasting a marked drop in some cases.

Sales of passenger cars in 2020 are expected to slightly fall short of the prior-year figures in markets in Central and Eastern Europe. In Russia, we anticipate a market volume that is slightly higher than in the previous year. The number of new registrations should recede in most of the other markets in this region.

Registrations of light commercial vehicles in the Central and Eastern European markets in 2020 will probably be noticeably lower than in the previous year. We expect a distinct decline in market volume for Russia.

The Turkish passenger car market is projected to record a sharp increase in 2020 in contrast to the weak preceding year. The volume of new registrations in South Africa in 2020 is likely to match the figure for the previous year.

#### Germany

After a positive performance overall in recent years, we assume that demand in the German passenger car market will fall noticeably year-on-year in 2020.

We anticipate that registrations of light commercial vehicles will be up slightly on the previous year's level.

#### North America

The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole and in the USA in 2020 is likely to fall slightly short of the previous year. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is also projected to be slightly lower than the previous year's level. For Mexico, we expect a moderate fall in demand compared with the reporting year.

#### South America

Owing to their dependence on demand for raw materials worldwide, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. We expect to see an overall moderate increase in new registrations in the South American markets in 2020 compared with the previous year. In Brazil, demand volume is expected to rise perceptibly again in 2020 following the increase in the reporting period. However, we anticipate that demand in Argentina will be slightly lower year-on-year.

#### Asia-Pacific

In 2020, the passenger car markets in the Asia-Pacific region are expected to be at the prior-year level. We expect, subject to a further spread of the coronavirus, demand in China to be slightly up on the previous year's level. Attractively priced entry-level models in the SUV segment in particular should still see strong demand. For as long as there is no resolution in sight, the trade dispute between China and the United States will continue to weigh on business and consumer confidence. We anticipate a slight decrease in the Indian market compared with the previous year. By contrast, Japan's market volume is forecast to record a distinct decrease in 2020.

The market volume for light commercial vehicles in 2020 will probably fall moderately short of the previous year's figure. We are expecting demand in the Chinese market to be distinctly below that of the prior year. For India, we are forecasting a moderately higher volume in 2020 than in the reporting period. In the Japanese market, demand is likely to be markedly lower than the previous year's level.

#### TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Starting in fiscal year 2020, we are redefining the relevant markets of the Volkswagen Group for trucks and buses based on our core countries. Our relevant truck markets are the 27 EU member states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), as well as Brazil, Russia, Turkey and South Africa. The bus markets relevant for the Volkswagen Group are the EU27+3, Brazil and Mexico.

For 2020, we expect new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes to be distinctly lower than the 2019 level in markets that are relevant for the Volkswagen Group. We regard the declining incoming orders seen in 2019 and the anticipated drop in transport volumes as a sign of a downturn in the European truck market. For the EU27+3 countries, we expect a 10 to 20% downturn in the market in 2020. Russia will probably witness a distinct rebound in demand. In Turkey, we are forecasting a very sharp recovery of demand after a very low level in the prior year. For South Africa, we are forecasting a moderate decrease. We estimate that demand in Brazil will be much higher than in the previous year.

On average, we anticipate solid growth rates in the relevant truck markets for the years 2021 to 2024.

A slight year-on-year increase in overall demand for 2020 is likely in the bus markets relevant for the Volkswagen Group. We anticipate a moderate decline in the market in the EU27+3 countries, a moderate increase in Mexico and new registrations in Brazil will probably be much higher than the prior-year level.

Overall, we expect a noticeable decrease in the demand for buses on the relevant markets for the period from 2021 to 2024.

#### TRENDS IN THE MARKETS FOR POWER ENGINEERING

We expect the market environment in power engineering to remain difficult in 2020, with continuation of the general tendencies seen in 2019.

In 2020, the market volume for two-stroke engines used in merchant shipping is likely to reach a higher level than in the reporting period. Calls for high energy efficiency and low pollutant emissions will continue to have a significant influence on ship designs in the future. We expect sustained stable demand in the market for four-stroke engines used in ferries, cruise ships, dredgers and government vessels. In the offshore sector, new order volumes of special applications look set to be on the low side due to existing overcapacity. Overall, we expect the marine market to be at a slightly higher level than that seen in the reporting period. The competitive pressure will continue unabated.

Demand for energy correlates strongly with macroeconomic and demographic trends, especially in emerging markets. The global trend toward decentralized power stations and gas-based applications shows no sign of losing momentum. For 2020, we expect demand to rise slightly for the gas sector in particular but to remain at a low level overall. On the whole, this low level of demand poses a major challenge for the new market with carbon-neutral technologies.

In turbomachinery, we expect to see continued strong demand in 2020, attributable to an investment backlog and also to stable commodity prices. High capacity utilization of production equipment by market participants can be expected, which is likely to bring about a further easing of competition. Energy generation is still marked by overcapacity on the part of electricity producers in industrialized countries, but due to the increase in investments for power generation using biomass and the use of natural gas as a transition source of energy, we expect a slight increase in demand for steam and gas turbines. Renewable energy sources in particular are expected to generate growth because their irregular electricity production will necessitate greater storage capacity. This is the reason the construction of pilot plants for thermal storage is being pushed, which in turn has led a build out of the market for turbocompressors and turboexpanders.

We anticipate a stable trend in the marine and power plant after-sales business for diesel engines in 2020. In turbomachinery, we expect a slight upward trend for the coming year. Particularly in the oil and gas sector we are seeing a positive trend resulting from the clearing of the investment backlog from recent years.

For the period 2021 to 2024, we expect to see growing demand in the power engineering markets. However, the extent and timing of this growth will vary in the individual business fields.

#### TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We believe that automotive financial services will also be very important for vehicle sales worldwide in 2020. We expect demand to continue rising in emerging markets where market penetration has so far been low. Regions with established automotive financial services markets will see a continuation of the trend towards enabling mobility at the lowest possible total cost. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, will become increasingly important for this. Additionally, we expect demand to increase for new forms of mobility, such as rental services, and for integrated mobility services, for example parking, refueling and charging. We estimate that this trend will continue in the years 2021 to 2024.

In the mid-sized and heavy commercial vehicles category, we anticipate rising demand for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In the developed markets, we expect to see increased demand for telematics services and services aimed at reducing total cost of ownership in 2020. This trend is also expected to continue in the period 2021 to 2024.

#### EXCHANGE RATE TRENDS

In 2019, the euro lost ground against the US dollar on an annual average. The euro/sterling exchange rate remained stable overall, despite some volatility amid continued high uncertainty about the outcome of the Brexit negotiations with the EU and the related question of what form this relationship would take in the future. The currencies of Asian emerging markets , the Russian ruble and the Mexican peso also posted gains against the euro in the reporting period, in contrast to the Argentine peso, the Brazilian real and the South African rand which posted losses. For 2020, we are forecasting that the euro will strengthen against the US dollar, sterling and the Chinese renminbi. The expectation is that the Brazilian real and Indian rupee will remain relatively weak. The Russian ruble will probably be unable to maintain the recent positive gains. For 2021 to 2024, we expect that the euro will be stable against the key currencies, but that the comparative weakness of the currencies in the above-mentioned emerging markets will probably continue. However, there is still a general event risk – defined as the risk arising from unforeseen market developments.

#### INTEREST RATE TRENDS

Interest rates remained comparatively low with a few exceptions in fiscal year 2019 due to the continuation of expansionary monetary policies worldwide and the challenging overall economic environment. In the major Western industrialized nations, key interest rates persisted at a low level on the whole. The US Federal Reserve changed course in the summer in an effort to shore up the economy, cutting its key interest rate after several years of successive increases. The European Central Bank continued its expansionary monetary policy. In the light of further expansionary monetary policy measures, we currently therefore do not expect interest rates in the USA and the eurozone to rise in 2020. For the years 2021 to 2024, however, we anticipate a rise in interest rates, though the pace will vary from region to region.

#### COMMODITY PRICE TRENDS

Geopolitical and economic uncertainty in different forms caused the prices for many raw and input materials to vary in 2019. For example, average prices for raw materials such as crude oil, aluminum, lead, copper and coking coal fell, while prices for iron ore, rare earths, natural rubber and the precious metals palladium and rhodium, among others, rose. Prices for the raw materials that are relevant for e-mobility also developed unevenly: average prices for lithium and cobalt fell, while nickel prices were up on the prior-year level. Based on analyses of factors of influence and trends in the commodity markets, we expect the prices of most commodities to rise in 2020. For the years 2021 to 2024, we continue to expect volatility in the commodity markets with prices trending upwards. We preventively analyze and limit these risks using system-based procurement methods. Long-term, stable supply agreements ensure that the Group's needs are satisfied and guarantee a high degree of supply reliability.

#### NEW MODELS IN 2020

The Volkswagen Passenger Cars brand will launch the eighth generation of its best-selling Golf model in 2020 and it will again claim a leading position in the compact class with a sharper design, numerous technical highlights and an all-digital cockpit. The all-electric ID.3, the first vehicle to be based on the Modular Electric Drive Toolkit, aims to excite its customers with a range suited to everyday usability, a forward-looking design and equipment such as the augmented reality head-up display. In 2020, the T-Roc will be available as a convertible. The Arteon will receive a product upgrade and the Arteon Shooting Brake will also be presented. The up! and the Tiguan will likewise receive a model update. In the Chinese market, Volkswagen will continue its electric car offensive with the electric Tharu and the Tayron as a plug-in hybrid. Alongside these, a multi-purpose vehicle, the coupé versions of the Tayron and Tiguan L and the updated Phideon will be launched. Volkswagen will strengthen its presence in the United States with the upgrated Atlas, the new Atlas Cross Sport and an electric SUV. South America will see the launch of the sporty versions of the Polo and Virtus and the New Urban Coupé Nivus.

In 2020, Audi will launch more versions of the e-tron and the likewise all-electric e-tron Sportback. With successor models to the A3 and A3 Sportback, Audi is also looking to defend its lead in the premium segment of the compact class. The A3 Sportback, the A6 saloon and the Avant will all be available as plug-in hybrids in 2020. The A5, Q2 and Q5 model series will be updated.

ŠKODA will market two vehicles with all-electric drives from 2020 – the Citigo[e] IV and the new Enyaq SUV. Production of the successor models to the successful Octavia and Octavia Combi will also start. In addition, a plug-in hybrid will be available in the Octavia and Superb series. The Chinese, Indian and Russian markets will see the launch of the Rapid model tailored to the requirements of local customers.

In 2020, SEAT will offer the el-Born, an all-electric vehicle with a sporty emotive design. The new Leon is waiting in the wings. CUPRA will also present a particularly powerful version of the Leon and expand its product range with the addition of its first standalone model, the CUPRA Formentor.

Following the launch of the Taycan in the United States at the end of 2019, Porsche will gradually introduce the all-electric sports car to further markets in 2020.

Bentley will present the luxurious spearhead of the model series with the Continental GT Mulliner Convertible.

Lamborghini will bring out an upgrade of its Huracán RWD.

Volkswagen Commercial Vehicles will present the successor model of the Caddy, popular with families and tradespeople alike.

Scania and MAN will also work steadily on introducing new products and services in 2020.

Ducati will launch the Streetfighter V4 and the Streetfighter V4 S in addition to three new models from the Panigale family, among others. The Icon Dark model will also expand the Scrambler family.

#### FUTURE ORGANIZATIONAL STRUCTURE OF THE GROUP

Our plans are based on the Volkswagen Group's current structures.

They do not include a possible sale of RENK AG or the possible acquisition of all outstanding ordinary shares of Navistar International Corporation.

The effects of such transactions on the results of operations, financial position and net assets are not taken into account in the forecast of the Volkswagen Group.

#### INVESTMENT AND FINANCIAL PLANNING

To ensure the Volkswagen Group's future viability, we will continue to mobilize our pronounced strengths in innovation and technology and push the Volkswagen Group's transformation while leveraging our economies of scale and achieving the greatest possible synergies.

In our current planning for 2020, the majority of capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) will be spent on new products and the continued rollout and further development of the modular toolkit. The focus on hybridization, electrification and digitalization of our vehicles has been stepped up again, particularly through the development of the Modular Electric Drive Toolkit (MEB) and the Premium Platform Electric (PPE), the all-electric platform for our premium and sports brands. We are also investing in the modification of selected locations for the production of electric vehicles. The Automotive Division's ratio of capex to sales revenue will fluctuate around a level of 6.0–6.5%.

Besides capex, investing activities will also include additions to capitalized development costs. Among other things, these reflect upfront expenditures in connection with the electrification and updating of our model range.

With the investments in our facilities and models, as well as in the development of electric drives and modular toolkits, we are laying the foundations for profitable, sustainable growth at Volkswagen. These investments also include commitments arising from decisions taken in previous fiscal years.

We aim to finance the investments in our Automotive Division from our own capital resources and expect cash flows from operating activities to exceed the Automotive Division's investment requirements. For 2020, we expect further cash outflows resulting from the diesel issue and significantly higher outflows from mergers & acquisitions. We estimate that net cash flow in 2020 will subsequently be clearly positive albeit perceptibly below the prior-year figure.

Nevertheless, net liquidity in the Automotive Division will probably be distinctly higher than in the reporting period.

These plans are based on the Volkswagen Group's current structures. A possible sale of RENK AG and related cash inflows are not taken into account. Our planning also does not include cash outflows for a possible acquisition of all outstanding ordinary shares of Navistar International Corporation.

Our joint ventures in China are accounted for using the equity method and are therefore not included in the figures above. For 2020, the joint ventures plan to invest in e-mobility, further enhancement of the model portfolio, the development of new mobility solutions and smart city concepts. Their capex will exceed the 2019 level and be financed from the companies' own funds.

In the Financial Services Division, we are planning higher investments in 2020 than in the previous year. We expect the growth in lease assets and in receivables from leasing, customer and dealer financing to lead to funds tied up in working capital, of which around half will be financed from the gross cash flow. As is common in the sector, the remaining funds needed will be met primarily through unsecured bonds on the money and capital markets, the issuing of asset-backed securities, customer deposits from the direct banking business, and through the use of international credit lines.

### TARGETS FOR VALUE-BASED MANAGEMENT

Based on long-term interest rates derived from the capital market and the target capital structure (fair value of equity to debt = 2:1), the minimum required rate of return on invested capital defined for the Automotive Division remains unchanged at 9%.

In spite of the change in the accounting for leases (IFRS 16), which entered into force in January 2019 and increased invested capital in fiscal year 2019, as well as other adverse effects of the special items on earnings, we exceeded both the prior-year figure and our minimum rate of return on invested capital in the reporting period with a return on investment (ROI) of 11.2 (11.0)% (see also page 125). Invested capital will continue to increase further in 2020 as a result of investments in new models, in the development of alternative drives and modular toolkits and in future technologies. The return on investment (ROI) in the Automotive Division will probably exceed our minimum required rate of return on invested capital and be slightly higher than in the previous year.

### SUMMARY OF EXPECTED DEVELOPMENTS

The Volkswagen Group's Board of Management expects the global economy to continue growing in 2020 at the level of the previous year. We still believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts as well as epidemics spanning countries and regions, such as the current spread of the coronavirus. We anticipate that momentum in both the advanced economies and the emerging markets will be similar to that seen in 2019. We expect to see the strongest rates of expansion in Asia's emerging economies.

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further.

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2020. Overall, the volume of global demand for new vehicles will probably match that of 2019. For 2020, we anticipate that the volume of new passenger car registrations in Western Europe will be distinctly below that recorded in the reporting period. After a positive performance overall in recent years, we expect demand in the German passenger car market to fall noticeably year-on-year in 2020. Sales of passenger cars are expected to fall slightly short of the prior-year figures in markets in Central and Eastern Europe in 2020. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America in 2020 is likely to be slightly lower than in the prior year. We expect to see an overall moderate increase in new registrations for passenger cars and light commercial vehicles in the South American markets in 2020 compared with the previous year. The passenger car markets in the Asia-Pacific region are expected to be at the prior-year level in 2020.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, we anticipate a slight dip in demand.

We expect a distinct year-on-year fall in 2020 of new registrations of mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets relevant for the Commercial Vehicles Business Area. In the bus markets that are relevant for the Volkswagen Group, we expect to see a slight increase in overall demand in 2020 compared with the previous year.

We believe that automotive financial services will again be very important for vehicle sales worldwide in 2020.

The Volkswagen Group is well prepared for the future challenges pertaining to automobility business activities and for the mixed development of the regional automotive markets. Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. As part of the transformation of our core business, we are positioning our Group brands with an even stronger focus on their individual characteristics and are optimizing the vehicle and drive portfolio. The focus is primarily on our vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, we are working to leverage the advantages of our multibrand Group even more effectively with the ongoing development of new technologies and the enhancement of our toolkits. With electric drives, digital connectivity and autonomous driving, we want to make the automobile cleaner, quieter, more intelligent and safer. We have set ourselves the goal of continuing to excite our customers in future and meeting their diverse needs with an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions.

We expect deliveries to customers of the Volkswagen Group in 2020 to be in line with the previous year amid market conditions that continue to be demanding.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, volatile commodity and foreign exchange markets and more stringent emissions-related requirements.

We expect the sales revenue of the Volkswagen Group to grow by up to 4% in 2020 and the sales revenue of the Passenger Cars Business Area to be moderately higher than in the prior-year. In terms of operating profit for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2020. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of 4.0–5.0% amid a moderate decrease in sales revenue. In the Power Engineering Business Area we expect that sales revenue will match that of the previous year and that the operating loss will become smaller. For the Financial Services Division we forecast that sales revenue and the operating result will be in line with the previous year.

In the Automotive Division, the R&D ratio and the ratio of capex to sales revenue will probably fluctuate in the range of 6.0–6.5% in 2020. We anticipate further cash outflows resulting from the diesel issue and significantly higher outflows from mergers & acquisitions in 2020. Consequently, we estimate that the net cash flow will be clearly positive albeit perceptibly below the prior-year figure. Net liquidity in the Automotive Division will probably distinctly exceed the prior-year level. We expect a slight increase in return on investment (ROI) compared with the previous year. Our unchanged stated goal is to continue our solid liquidity policy.

To achieve sustainable success, we need skilled and dedicated employees. We aim to increase their satisfaction and motivation by means of equal opportunities, an attractive and modern working environment, and a forward-looking organization of work. Every day, we at the Volkswagen Group assume and exercise responsibility in issues relating to the environment, safety and society. In terms of integrity, Volkswagen aims to become a role model for a modern, transparent and successful enterprise. We are also aiming for operational excellence in all business processes.

# Report on Risks and Opportunities

(CONTAINS THE REPORT IN ACCORDANCE WITH SECTION 289(4) OF THE HGB)

Promptly identifying the risks and opportunities arising from our operating activities and taking a forward-looking approach to managing them is crucial to our Company's long-term success. A comprehensive risk management and an internal control system help the Volkswagen Group deal with risks in a responsible manner.

In this section, we first explain the objective and structure of the Volkswagen Group's risk management system (RMS) and internal control system (ICS) and describe these systems with regard to the financial reporting process. We then outline the main risks and opportunities arising in our business activities.

#### THE THREE LINES OF DEFENSE MODEL


#### OBJECTIVE OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM AT VOLKSWAGEN

Only by promptly identifying, accurately assessing and effectively and efficiently managing the risks and opportunities arising from our business activities can we ensure the Volkswagen Group's long-term success. The aim of the RMS/ICS is to identify potential risks at an early stage so that suitable countermeasures can be taken to avert the threat of loss to the Company, and any risks that might jeopardize its continued existence can be ruled out.

Assessing the likelihood of occurrence and extent of future events and developments is, by its nature, subject to uncertainty. We are therefore aware that even the best RMS cannot foresee all potential risks and even the best ICS can never completely prevent irregular acts.

#### STRUCTURE OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM AT VOLKSWAGEN

The organizational design of the Volkswagen Group's RMS/ICS is based on the internationally recognized COSO framework for enterprise risk management (COSO: Committee of Sponsoring Organizations of the Treadway Commission). Structuring the RMS/ICS in accordance with the COSO framework for enterprise risk management ensures that potential risk areas are covered in full. Uniform Group principles are used as the basis for managing risks in a standardized manner. Opportunities are not recorded.

Another key element of the RMS/ICS at Volkswagen is the three lines of defense model, a basic element required by the European Confederation of Institutes of Internal Auditing (ECIIA), among other bodies. In line with this model, the Volkswagen Group's RMS/ICS has three lines of defense that are designed to protect the Company from significant risks occurring.

The minimum requirements for the RMS/ICS, including the concept of the three lines of defense, are set out in guidelines for the entire Group.

The RMS/ICS was further developed in the past fiscal year. A new risk management IT system, Risk Radar, was introduced in almost all brands. In this way, we have increased process and data security and reduced our manual workload through automated workflows and end-to-end system support for the analysis of data. At the same time, risk awareness in the Company is further intensified, risk transparency is improved and risks can be analyzed with end-to-end system support. The ICS has been standardized for risky business processes in significant companies. We will continue to develop our RMS/ICS in the future.

### First line of defense: operational risk management

The primary line of defense comprises the operational risk management and internal control systems at the individual Group companies and business units. The RMS/ICS is an integral part of the Volkswagen Group's structure and workflows. Events that may give rise to risk are identified and assessed locally in the divisions and at the investees. Countermeasures are introduced immediately, the remaining potential impacts assessed, and the information incorporated into the planning in a timely manner. Material risks are reported to the relevant committees on an ad hoc basis. The results of the operational risk management process are incorporated into budget planning and financial control on an ongoing basis. The targets agreed in the budget planning rounds are continually reviewed in revolving planning updates. At the same time, the results of risk mitigation measures are incorporated in a timely manner into the monthly forecasts regarding further business development. This means that the Board of Management also has access to an overall picture of the current risk situation via the documented reporting channels during the year.

The risk management and internal control system in operation also includes compliance with the so called Golden Rules in the areas of control unit software development, emission classification and escalation management. These rules are the minimum requirements in the organization, processes and tools & systems categories.

### Second line of defense: identifying and reporting systemic and acute risks using Group-wide processes

In addition to the ongoing operational risk management, the Group Risk Management department sends standardized surveys each year on the risk situation and the effectiveness of the RMS/ICS to the significant Group companies and units worldwide (regular Governance, Risk & Compliance (GRC) process).

As part of this process, each systemic risk inherent to the process or inherent to the business that is reported is recorded and assessed in our RICORS IT system. The risk assessment is made by multiplying the criterion of likelihood of occurrence (Prop) with the potential extent of the damage. The extent of the damage is calculated from the criteria of

**CALCULATION OF RISK SCORE**


financial loss (Mat) and reputational damage (Rep) and criminal relevance (Penal). A score between 0 and 10 is assigned to each of these criteria. The measures taken to manage and control risk are taken into account in the risk assessment (net perspective). The result is a risk score that expresses the risk.

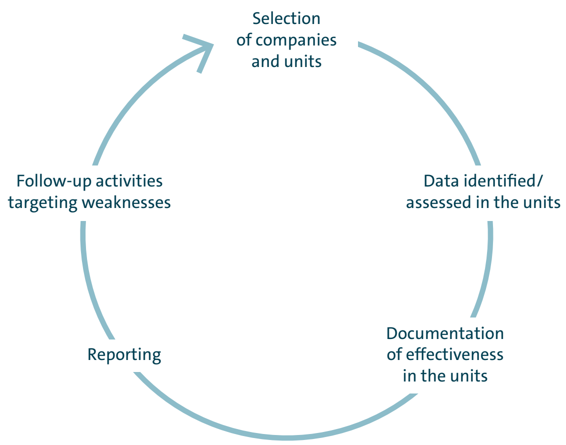
The score for a likelihood of occurrence of more than 50% in the analysis period is classified as high; for a medium classification the likelihood of occurrence is at least 25%. For the criterion of financial loss, the score rises with an increasing scale; the highest score of 10 is reached upwards of €1 billion. The criterion of reputational damage can have characteristics ranging from local erosion of confidence and loss of trust at local level to loss of reputation at regional or international level. Criminal relevance is classified based on the influence on the local company, the brand or the Group.

In addition to strategic, operational and reporting risks, risks arising from potential compliance violations are also integrated into this process. Moreover, the effectiveness of key risk management and control measures is tested and any weaknesses identified in the process are reported and rectified.

All Group companies and units selected from among the entities in the consolidated Group on the basis of materiality and risk criteria were subject to the regular GRC process in fiscal year 2019.

Quarterly risk reports are produced in addition to the annual risk assessment. These depict the Volkswagen Group's acute – short to medium-term – risk situation. The assessment of risks from this quarterly risk process (QRP) is conducted in the Risk Radar IT system similarly to that of the annual regular GRC process. All Group brands as well as

ANNUAL STANDARD GOVERNANCE, RISK AND COMPLIANCE PROCESS




Porsche Holding Salzburg, Volkswagen Financial Services AG and Volkswagen Bank GmbH are included in the QRP.

In addition, significant changes to the risk situation that can arise in the short term, for instance from unexpected external events – such as the current spread of the coronavirus – are reported to the Board of Management as required. This is necessary if, among other things, the risk may lead to damages of over €1 billion.

Based on the feedback from the annual standard GRC process and quarterly risk surveys, the overall picture of the potential risk situation is updated and the system's effectiveness assessed.

A separate Group Board of Management Committee for Risk Management examines the key aspects of the RMS/ICS every quarter. Its tasks are as follows:

> to further increase transparency in relation to significant risks to the Group and their management,
> to explain specific issues where these constitute a significant risk to the Group,
> to make recommendations on the further development of the RMS/ICS,
> to support the open approach to dealing with risks and promote an open risk culture.

Risk reporting to the committees of Volkswagen AG depends on materiality thresholds. Systemic risks from a risk score of 20 and acute risks from a risk score of 40 or potential financial damages of €1 billion or more are regularly presented to the Board of Management and the Audit Committee of the Supervisory Board of Volkswagen AG.

### Third line of defense: Review by Group Internal Audit

Group Internal Audit helps the Board of Management to monitor the various divisions and corporate units within the Group. It regularly checks the risk early warning system and the structure and implementation of the RMS/ICS and the compliance management system (CMS) as part of its independent audit procedures.

## RISK EARLY WARNING SYSTEM IN LINE WITH THE KONTRAG

The Company's risk situation is ascertained, assessed and documented in accordance with the requirements of the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG – German Act on Control and Transparency in Business). The requirements for a risk early warning system are met by means of the RMS/ICS elements described above (first and second lines of defense). Independently of this, the external auditors check both the processes and procedures implemented in this respect and the adequacy of the documentation on an annual basis. The plausibility and adequacy of the risk reports are examined on a random basis in detailed interviews with the divisions and companies concerned together with the external auditors. The latter assessed our risk early warning system based on this volume of data and ascertained that the risks identified were presented and communicated accurately. The risk early warning system meets the requirements of the KonTraG.

In addition, scheduled examinations as part of the audit of the annual financial statements are conducted at companies in the Financial Services Division. As a credit institution, Volkswagen Bank GmbH, including its subsidiaries, is subject to supervision by the European Central Bank, while Volkswagen Leasing GmbH as a financial services institution and Volkswagen Versicherung AG as an insurance company are subject to supervision by the relevant division of the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – the German Federal Financial Supervisory Authority). As part of the scheduled supervisory process and unscheduled audits, the competent supervisory authority assesses whether the requirements, strategies, processes and mechanisms ensure solid risk management and solid risk cover. Furthermore, the Prüfungsverband deutscher Banken (Auditing Association of German Banks) audits Volkswagen Bank GmbH from time to time.

Volkswagen Financial Services AG operates a risk early warning and management system. This system ensures that the locally applicable regulatory requirements are adhered to and at the same time enables appropriate and effective risk management at Group level. Important components of it are regularly reviewed as part of the audit of the annual financial statements.

#### Monitoring the effectiveness of the risk management system and the internal control system

To ensure the effectiveness of the RMS/ICS, we regularly optimize it as part of our continuous monitoring and improvement processes. In the process, we give equal consideration to both internal and external requirements. On a case-by-case basis, external experts assist in the continuous enhancement of our RMS/ICS. The results culminate in both regular and event-driven reporting to the Board of Management and Supervisory Board of Volkswagen AG.

### THE RISK MANAGEMENT AND INTEGRATED INTERNAL CONTROL SYSTEM IN THE CONTEXT OF THE FINANCIAL REPORTING PROCESS

The accounting-related part of the RMS/ICS that is relevant for the financial statements of Volkswagen AG and the Volkswagen Group as well as its subsidiaries comprises measures intended to ensure that the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the combined management report of the Volkswagen Group and Volkswagen AG is complete, accurate and transmitted in a timely manner. These measures are designed to minimize the risk of material misstatement in the accounts and in the external reporting.

#### Main features of the risk management and integrated internal control system in the context of the financial reporting process

The Volkswagen Group's accounting is essentially organized along decentralized lines. For the most part, accounting duties are performed by the consolidated companies themselves or entrusted to the Group's shared service centers. In principle, the audited financial statements of Volkswagen AG and its subsidiaries prepared in accordance with IFRSs and the Volkswagen IFRS Accounting Manual are transmitted to the Group in encrypted form. A standard market product is used for encryption.

The Volkswagen IFRS Accounting Manual, which has been prepared in line with external expert opinions in certain cases, ensures the application and assessment of uniform accounting policies based on the requirements applicable to the parent. In particular, it includes more detailed guidance on the application of legal requirements and industry-specific issues. Components of the reporting packages that are required to be prepared by the Group companies are also set out in detail there, and requirements have been established for the presentation and settlement of intragroup transactions and the balance reconciliation process that builds on this.

Control activities at Group level include analyzing and, if necessary, adjusting the data reported in the financial statements presented by the subsidiaries, taking into account the reports submitted by the auditors and the outcome of the meetings on the financial statements with representatives of the individual companies. These discussions address both the plausibility of the single-entity financial statements and specific significant issues at the subsidiaries. Alongside plausibility checks, other control mechanisms applied during the preparation of the single-entity and consolidated financial statements of Volkswagen AG include the clear delineation of areas of responsibility and the application of the dual control principle.

The combined management report of the Volkswagen Group and Volkswagen AG is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of and in consultation with the Group units and companies.

In addition, the accounting-related internal control system is independently reviewed by Group Internal Audit in Germany and abroad.

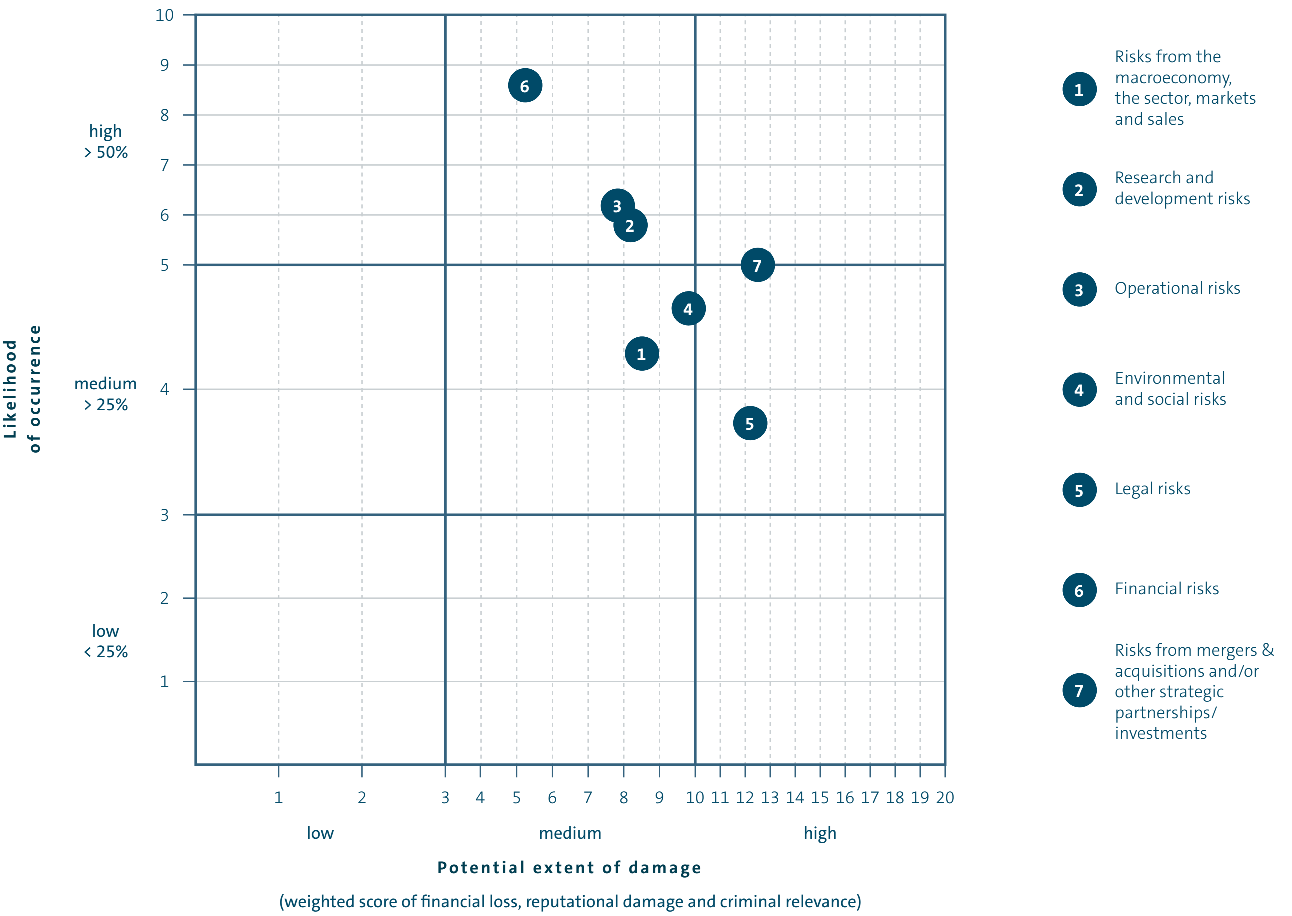
#### Integrated consolidation and planning system

The Volkswagen consolidation and corporate management system (VoKUs) enables the Volkswagen Group to consolidate and analyze both Financial Reporting's backward-looking data and Controlling's budget data. VoKUs offers centralized master data management, uniform reporting, an authorization concept and maximum flexibility with regard to changes to the legal environment, providing a future-proof technical platform that benefits Group Financial Reporting and Group Controlling in equal measure. To verify data consistency, VoKUs has a multi-level validation system that primarily checks content plausibility between the balance sheet, the income statement and the notes.

### RISKS AND OPPORTUNITIES

In this section, we outline the main risks and opportunities arising in our business activities. In order to provide a better overview, we have grouped the risks and opportunities into categories. At the beginning of each risk category, we state the most significant risks in order of their importance as identified using the risk score from the regular GRC process and the quarterly risk process (QRP). We then describe the individual risks in no particular order. Unless explicitly mentioned, there were no material changes to the specific risks and opportunities compared with the previous year even though the weighting of individual risks has increased with the transformation of the industry.

## AVERAGE SCORES OF THE RISK CATEGORIES




The risks from the regular GRC process and the QRP reported to the Board of Management and the Audit Committee are incorporated into the assessment of the Volkswagen Group's risk categories. The risk categories are plotted based on the average scores.

We use analyses of the competition and the competitive environment in addition to market studies to identify not only risks but also opportunities that have a positive impact on the design of our products, the efficiency with which they are produced, their success in the market and our cost structure. Where they can be assessed, risks and opportunities that we expect to occur are already reflected in our medium-term planning and our forecast. The following therefore reports on internal and external developments as risks and opportunities that, based on existing information, may result in a negative or positive deviation from our forecast or targets.

**Risks and opportunities from the macroeconomy, the sector, markets and sales**

The most significant risks from the regular GRC process and the QRP lie in restrictions on trade and increasingly protectionist tendencies resulting in a negative trend in markets and unit sales.

### Macroeconomic risks and opportunities

We believe that risks to continued global economic growth arise primarily from turbulence in the financial and commodity markets, increasingly protectionist tendencies, and structural deficits, which pose a threat to the performance of individual advanced economies and emerging markets. In addition, there are increasing environmental challenges that affect individual countries and regions to varying degrees. The possible worldwide transition from an expansionary monetary policy to a more restrictive one also presents risks for the macroeconomic environment. Persistently high private- and public-sector debt in many places is clouding the outlook for growth and may likewise cause markets to respond negatively. Declines in growth in key countries and regions often have an immediate impact on the state of the global economy and therefore pose a central risk. In particular, the Volkswagen Group would be adversely affected by a disorderly Brexit and by other trade policy measures such as tariffs or non-tariff trade barriers.

The economic development of some emerging economies is being hampered primarily by dependence on energy and commodity prices and capital inflows, but also by socio-political tensions. Corruption, inadequate government structures and a lack of legal certainty also pose risks.

Geopolitical tensions and conflicts, along with signs of fragmentation in the global economy, are a further major risk factor to the performance of individual countries and regions. In light of the existing, strong global interdependence, local developments could have adverse effects on the world economy. Any escalation of the conflicts in Eastern Europe, the Middle East, or Africa, for example, could cause upheaval on the global energy and commodity markets and exacerbate migration trends. An aggravation of the situation in East Asia could put further strain on the global economy. The same applies to violent conflicts, terrorist activities, cyber attacks and the spread of infectious diseases, which may prompt unexpected, short-term responses from the markets.

On the whole, we do not anticipate a global recession for the year 2020. However, due to the risk factors mentioned, as well as cyclical and structural aspects, a decline in global economic growth or a period of below-average growth rates is possible.

The macroeconomic environment may also give rise to opportunities for the Volkswagen Group if actual developments differ in a positive way from expected developments.

### Sector-specific risks and market opportunities/potential

Western Europe, especially Germany, and China are our main sales markets. A drop in demand in these regions due to the economic climate would have a particularly strong impact on the Company's earnings including financial services. We counter this risk with a clear, customer-oriented and innovative product and pricing policy.

Outside Western Europe and China, delivery volumes are spread widely across the key regions: Central and Eastern Europe, North America and South America. In addition, we either already have a strong presence in numerous existing and developing markets or are working systematically towards this goal. Particularly in smaller markets with growth potential, we are increasing our presence with the help of strategic partnerships in order to cater to local requirements.

Price pressure in established automotive markets for new and used vehicles as a result of high market saturation is a particular challenge for the Volkswagen Group as a supplier of volume and premium models. Competitive pressures are likely to remain high in the future. Individual manufacturers may respond by offering incentives in order to meet their sales targets, putting the entire sector under additional pressure.

Excess capacity in global automotive production may lead to a rise in inventories and therefore an increase in the amount of capital tied up. With a decline in demand for vehicles and genuine parts, automotive manufacturers may adjust their capacities or intensify measures to promote sales. This would lead to additional costs and greater price pressure.

The growth markets of Central and Eastern Europe, South America and Asia are particularly important to the Volkswagen Group. These markets harbor considerable potential; however, the underlying conditions in some countries in these regions make it difficult to increase unit sales figures there. Some have high customs barriers or minimum local content requirements for production, for example. At the same time, wherever the economic and regulatory situation permits, there are opportunities above and beyond current projections. These arise from faster growth in the emerging markets where vehicle densities are currently still low.

In Europe, there is a risk that further municipalities and cities will impose a driving ban on diesel vehicles in order to comply with emission limits. In China, restrictions on vehicle registrations could enter into force in further metropolitan areas in the future. Furthermore, China imposed a so-called "new energy vehicle quota" in 2019, which means that battery-electric vehicles, plug-in hybrids and fuel cell vehicles will have to account for a certain proportion of a manufacturer's new passenger car fleet. To ensure compliance with emissions standards, we continuously tailor our range of vehicle models and engines to the conditions in the relevant markets. These requirements may lead to higher costs and consequently to price increases and declines in volumes.

The demand that built up in individual established markets in times of crisis could result in a more marked recovery if the economic environment eases more quickly than expected.

Economic performance varied in individual regions in fiscal year 2019. The resulting challenges for our trading and sales companies, such as efficient inventory management and a profitable dealer network, are considerable and are being met by appropriate measures on their part. However, financing business activities through bank loans remains difficult. Our financial services companies offer dealers financing on attractive terms with the aim of strengthening their business models and reducing operational risk. We have installed a comprehensive liquidity risk management system so that we can promptly counteract any liquidity bottlenecks at the dealers' end that could hinder smooth business operations.

We continue to approve loans for vehicle finance on the basis of the same cautious principles applied in the past, for example by taking into account the regulatory requirements of section 25a(1) of the Kreditwesengesetz (KWG – German Banking Act).

Volkswagen may be exposed to increased competition in aftermarkets for regulatory reasons. This is due to the provisions of the block exemption regulations, which have applied to after-sales services since June 2010, and also to the amendments included in EU Regulation 566/2011 of June 8, 2011 and EU Regulation 858/2018 applicable from September 1, 2020, regarding access by independent market participants to technical information.

In Germany, legislation is currently being prepared to restrict or abolish design protection for repair parts through the introduction of a repair clause. In addition, the European Commission is evaluating the market with regard to existing design protection. A possible restriction or abolition of design protection for visible replacement parts could adversely affect the Volkswagen Group's genuine parts business.

The automotive industry faces a process of transformation with far-reaching changes. Electric drives, connected vehicles and autonomous driving are associated with both opportunities and risks for our sales. In particular, more rapidly evolving customer requirements, swift implementation of legislative initiatives and the market entry of new competitors from outside the industry will require changed products, a faster pace of innovation and adjustments to business models. There is uncertainty regarding the widespread use of electric vehicles and the availability of the necessary charging infrastructure.

Furthermore, we cannot entirely rule out the possibility of freight deliveries worldwide being shifted from trucks to other means of transport, and demand for the Group's commercial vehicles falling as a result.

Below, we outline the regions and markets with the greatest growth potential for the Volkswagen Group.

#### China

In China, the largest market in the Asia-Pacific region, there was a noticeable year-on-year decline in the passenger car market in the reporting year. Demand for vehicles is expected to increase in the coming years due to the need for individual mobility. However, the current trade dispute with the USA will slow the pace of this growth. It is also expected that demand will shift from the coastal metropolises to the interior. In order to leverage the considerable opportunities offered by this market – also with regard to e-mobility – and to defend our strong market position in China over the long term, we are continuously expanding our product range to include models that have been specially developed for this market. We are further extending our production capacity in this growing market through additional production facilities.

#### India

Despite political stability, India's economic momentum slowed in 2019. The passenger car market was unable to continue its growth path and declined considerably. We expect the market to fall slightly short of the prior-year level in 2020 but to return to growth in subsequent years. Against this backdrop, the Group is currently consolidating its activities, as India remains an important strategic future market for the Group.

#### USA

The volume of the US vehicle market in 2019 was slightly down on the previous year. In 2020, the market volume is again expected to be slightly down on the reporting period. In the USA, Volkswagen Group of America is consistently pursuing the strategy of becoming a full-fledged volume supplier. The expansion of local production capacity – including a production facility for electric vehicles in the future – will allow the Group to better serve the market in the North America region. We are also working intensively on offering additional products specifically tailored to the US market.

#### Brazil

The economic environment eased somewhat in the reporting year, while Brazil's political path has been uncertain since the presidential elections. The volume of demand in the vehicle market continued to recover markedly compared with the weak prior years. We anticipate a continued upturn in demand in 2020. The growing number of automobile manufacturers with local production has resulted in a sharp increase in price pressure and competition. The Brazilian market plays a key role for the Volkswagen Group. To strengthen our competitive position here, we offer vehicles that have been specially developed for this market and are locally produced, such as the Gol and the Virtus.

#### Russia

The volume of the Russian vehicle market in 2019 was slightly down on the previous year and we are forecasting that the passenger car market will slightly exceed the reporting year in 2020. However, the heavy reliance on oil and gas income, rising taxes, currency volatility resulting at present in high vehicle prices, the political crisis and the related sanctions imposed by the EU and the USA continue to impact the development of demand negatively. The market remains strategically important to the Volkswagen Group, which is why we have a strong focus on market cultivation there.

#### The Middle East

Political and economic uncertainty is weighing on the region's main sales markets, particularly Turkey. Here, the continued weakness of the Turkish lira and the resulting high inflation, among other things, led to a decline in purchasing power and therefore weaker demand in 2019. Despite the instability, however, the Middle East region offers short-term and long-term growth potential. We aim to leverage the potential for growth with a range of vehicles that has been specifically tailored to this market, without as yet having our own production facilities there.

#### Power Engineering

Trends in the global economy, such as increasing interest in technologies to reduce emissions and a greater international division of labor, are set to continue, despite increased geopolitical and macroeconomic risks compared with the previous year. This also applies to the resulting transport routes and volumes and to the demand for touristic offers such as cruises. Growing global energy needs call for innovation in industry and a growing willingness on the part of governments to invest in line with the global climate policy.

We are working systematically to leverage market opportunities across the world, for example by positioning ourselves as a solution provider for reduced-carbon drive system and energy generation technologies as well as for storage technologies. Moreover, significant potential can be leveraged in the medium term by enhancing our after-sales business through the introduction of new products and the expansion of our service network. The requirements for occupational safety, which will continue to increase in the future, the availability of the plants that are already in operation, the increase in environmental compatibility, and efficient operation, together with the large number of engines and plants, will provide the basis for growth.

As part of the capital goods industry, the Power Engineering business is affected by fluctuations in the investment climate. Even minor changes in growth rates or growth forecasts, resulting from geopolitical uncertainties or volatile commodities and foreign exchange markets, for example, can lead to significant changes in demand or the cancellation of already existing orders. The measures we use to counter the considerable economic risks include flexible production concepts and cost flexibility by means of temporary employment, working time accounts and short-time work, and – if necessary – structural adjustments.

### Sales risks

As a result of the diesel issue, the Volkswagen Group may experience decreases in demand, possibly exacerbated by media reports or insufficient communication. Other potential consequences include lower margins in the new and used car businesses and a temporary increase in funds tied up in working capital. The Volkswagen Group has recognized provisions arising from the diesel issue, in particular for the service measures, recalls and customer-related measures. Further significant financial liabilities may emerge due to existing estimation risks particularly from technical solutions, repurchase obligations, customer-related measures and possible official or statutory requirements for diesel vehicles.

The Volkswagen Group's multibrand strategy may weaken individual Group brands if there are overlaps in customer segments or the product portfolio. This effect may be reinforced by the Volkswagen Group's common-parts strategy, as this strategy means that, in some cases, the differences in product substance between the brands are small. This could result in internal cannibalization between the Group brands, higher marketing costs, or repositioning expenses. By sharpening the brand identities as part of our Best Brand Equity strategic module, we are working to minimize these risks.

Viewed over an extended period, the fleet customer business is more stable than the business with retail customers; in 2019, it continued to be characterized by increasing concentration and internationalization.

The Volkswagen Group is well positioned with its broad portfolio of products and drive systems, as well as its target-group-focused customer care. There is no concentration of default risks at individual fleet customers or markets. The consistently high market share in Europe shows that fleet customers still have confidence in the Group.

Consumer demand is shaped not only by real factors such as disposable income, but also by psychological factors that cannot be planned for. Unexpected buyer reluctance could stem from households' worries about the future economic situation, for example. This is particularly the case in saturated automotive markets such as Western Europe, where demand could drop as a result of owners holding on to their vehicles for longer. We are countering reluctance to buy with our attractive range of models and our strict policy of customer orientation.

A combination of buyer reluctance in some markets as a result of the crisis, and increases in some vehicle taxes based on $CO_2$ emissions – which have already been observed in many European countries – may shift demand towards smaller segments and engines. We counter the risk that such a shift will negatively impact the Volkswagen Group's financial situation by constantly developing new, fuel-efficient vehicles and alternative drive technologies, based on our drivetrain and fuel strategy.

Automotive markets around the world are exposed to risks from government intervention such as tax increases, which curb private consumption, restrictions on trade, and protectionist tendencies. Sales incentives may lead to shifts in the timing of demand.

Commercial vehicles are capital goods: even minor changes in growth rates or growth forecasts may significantly affect transport requirements and thus demand. The production fluctuations occurring as a result require a high degree of flexibility from manufacturers. Although production volumes are significantly lower, the complexity of the trucks and buses range does in fact significantly exceed the already very high complexity of the passenger cars range. Key factors for commercial vehicle customers are total cost of ownership, vehicle reliability and the service provided. Furthermore, customers are increasingly interested in additional services such as freight optimization and fleet utilization, which we offer in the commercial vehicle segment through the digital brand RIO, for example.

Power Engineering's two-stroke engines are produced exclusively by licensees, particularly in South Korea, China and Japan. On account of volatile demand in new ship construction, there is excess capacity in the market for marine engines, which may result in a decline in license revenues and bad debt losses. Due to changes in the competitive environment, especially in China, there is also the risk of losing market share. We address these risks by constantly monitoring the markets, working closely with all licensees and introducing new and improved technologies.

### Other factors

Going beyond the risks outlined in the individual risk categories, there are other factors that cannot be predicted and whose repercussions are therefore difficult to control. Should these transpire, they could have an adverse effect on the further development of the Volkswagen Group. In particular, such occurrences include natural disasters, epidemics – such as the current spread of the coronavirus –, violent conflicts and terrorist attacks.

The spread of the coronavirus could give rise to risks for global economic growth and subsequently risks for the Volkswagen Group particularly with regard to procurement, production and sales.

### Research and development risks

The most significant risks from the regular GRC process and QRP result from the failure to develop products in line with demand and regulations, especially in view of e-mobility and digitalization.

#### Research and development risks

The automotive industry is undergoing a radical transformation process. Multinational corporations like Volkswagen are facing major challenges in the areas of customer/market, technological advances and legislation. Key aspects are the implementation of increasingly stringent emission and fuel consumption regulations, taking new test procedures and test cycles (e.g. WLTP) into account, as well as compliance with approval processes (homologation), which are becoming increasingly more complex and time-consuming and may vary by country. On a national and international level there are numerous legal requirements regarding the use, handling and storage of substances and mixtures (including restrictions concerning chemicals, heavy metals, biocides, persistent organic pollutants), which apply to both the manufacturing of automobiles and the automobile itself.

The economic success and competitiveness of the Volkswagen Group depend on how successful we are in promptly tailoring our portfolio of products and services to changing conditions. Given the intensity of competition and the speed of technological development, for example in the fields of digitalization and automated driving, it is crucial to identify relevant trends at an early stage and respond accordingly.

Among other things, we therefore conduct trend analyses and customer surveys and examine the relevance of the results for our customers. We counter the risk that it may not be possible to develop modules, vehicles, or services – especially in relation to e-mobility and digitalization – within the specified timeframe, to the required quality standards, or in line with cost specifications, by continuously and systematically monitoring the progress of all projects. To avoid patent infringements, we intensively analyze third-party industrial property rights, increasingly in relation to communication technologies. We regularly compare the results of all the analyses with the respective project's targets; in the event of variances, we introduce appropriate countermeasures in good time. Our end-to-end project organization supports cooperation among all areas involved in the process, ensuring that specific requirements are incorporated into the development process as early as possible and that their implementation is planned in good time.

#### Risks and opportunities from the modular toolkit strategy

We are continuously expanding our modular toolkits, focusing on future customer requirements, legal requirements and infrastructural requirements.

Higher volumes will, however, increase the risk that quality problems will affect an increasing number of vehicles.

The Modular Transverse Toolkit (MQB) has created an extremely flexible vehicle architecture that permits dimensions determined by the concept – such as the wheelbase, track width, wheel size and seat position – to be harmonized throughout the Group and utilized flexibly. Other dimensions, for example the distance between the pedals and the middle of the front wheels, are always the same, ensuring a uniform system in the front of the car. Based on the synergy effects thereby achieved, we are able to cut both development costs and the necessary one-time expenses as well as manufacturing times. The toolkits also allow us to produce different models from different brands in various quantities, using the same equipment in a single plant. This means that our capacities can be used with greater flexibility throughout the entire Group, enabling us to achieve efficiency gains.

We transferred this principle of standardization with maximum flexibility to the Modular Electric Drive Toolkit (MEB), a concept developed for all-electric drives. The synergy effects and efficiency gains achieved from the modular toolkit strategy will give us the opportunity to bring e-mobility into mass production worldwide with the introduction of the first MEB-based vehicle.

### Operational risks and opportunities

The most significant risks from the regular GRC process and QRP lie particularly in the area of cyber security and new regulatory requirements for IT, in quality problems as well as in volatile commodity markets.

#### Procurement risks and opportunities

Current trends in the automotive industry such as e-mobility and automated driving are resulting in an increased need for financing among suppliers. The Volkswagen Group's procurement risk management system assesses suppliers before they are commissioned to carry out projects. Among other things, Procurement takes into consideration the risk of insufficient competition if it concentrates on a few financially strong suppliers when awarding contracts.

Weakening growth in the global economy, the ongoing trade disputes and shifts in customer demand – especially the technological shift toward e-mobility – along with the resulting changes in call-offs from suppliers are posing challenges for us.

The changed circumstances have restricted suppliers' financing opportunities and increased general uncertainty, particularly in areas where existing technologies are becoming obsolete and alternative technologies are gaining in importance. The number of crises and insolvencies among suppliers worldwide increased in 2019. Specialists in restructuring and supply reliability in procurement continuously monitor the financial situation of our suppliers all over the world and take targeted measures to avoid supply bottlenecks. Potential resource shortages, possible speculations on the market as well as current trends in the automotive industry, such as the growing share of electrified vehicles, may also affect the availability and prices of certain raw materials. The raw material and demand trend was continuously analyzed and assessed on an interdisciplinary basis over the reporting year to enable steps to be taken at an early stage in the event of potential bottlenecks.

Quality problems may necessitate technical intervention involving a considerable financial outlay where costs cannot be passed on to the supplier or can only be passed on to a limited extent. It is not possible at present to rule out the possibility of a further increase in recalls of various models produced by different manufacturers in which certain airbags manufactured by Takata were installed. This could also affect Volkswagen Group models.

In addition to financial difficulties, supply risks may arise, for example, as a result of fires or accidents at suppliers. Epidemics such as the current spread of the coronavirus may also cause bottlenecks. Supply risks are identified without delay in procurement through early warning systems and mitigated immediately by applying derived measures. Additional measures were taken to safeguard supply and avert future assembly line stoppages caused by suspensions of deliveries.

Specialists in procurement systematically investigate risks resulting from antitrust violations by suppliers and file claims for any damages that arise.

#### Production risks

Volatile developments in the global automotive markets, accidents at suppliers and disruption in the supply chain caused production volumes of some vehicle models to fluctuate at some plants. In specific markets, we also continued to record a trend away from orders for diesel vehicles and toward increased orders for vehicles with petrol engines. We address such fluctuations using tried-and-tested tools, such as flexible working time models. The design of the production network enables us to respond dynamically to varying changes in demand at the sites. “Turntable concepts” even out capacity utilization between production facilities. At multibrand sites, volatile demand can also be smoothed across brands.

Legal changes, for instance in the context of the changeover to the WLTP test procedure, may impact production. For one thing, a temporary reduction in the range causes demand to focus on the available variants. Moreover, gaps in production can occur if model variants have not been approved. These fluctuations necessitate measures to stabilize production, such as the temporary storage of vehicles until official approval.

Short-term changes in customer demand for specific equipment features in our products, and the decreasing predictability of demand, may lead to supply bottlenecks. We minimize this risk, for example, by continuously comparing our available resources against future demand scenarios. If bottlenecks in the supply of materials are indicated, we can introduce countermeasures far enough in advance.

Production capacity is planned several years in advance for each vehicle project on the basis of expected sales trends. These are subject to market changes and generally entail a degree of uncertainty. If forecasts are too optimistic, there is a risk that capacity will not be fully utilized. However, forecasts that are too pessimistic pose a risk of undercapacity, as a result of which, it may not be possible to meet customer demand. Volkswagen or its major suppliers may be unable to sufficiently adjust production capacity in the event of increased fluctuation in demand that goes beyond the available technical flexibility.

The range of our models is growing, particularly with the upcoming electrification offensive, while at the same time, product life cycles are becoming shorter; the number of new vehicle start-ups at our sites worldwide is therefore increasing. The processes and technical systems we use for this are complex and there is thus a risk that vehicle deliveries may be delayed. We address this risk by drawing on experience of past start-ups and identifying weaknesses at an early stage so as to ensure – to the highest degree possible – that production volumes and quality standards are met during our new vehicle start-ups throughout the Group.

In order to prevent downtime, lost output, rejects and reworking in general, we use the TPM (Total Productive Maintenance) method at our production facilities. TPM is a continuous process that involves the entire workforce. Round-the-clock maintenance of the technical facilities means that they are always operational and guaranteed to function reliably.

Particular events beyond our control such as natural disasters, epidemics – currently the spread of the coronavirus – or other events such as fires, explosions, or the leakage of substances hazardous to health and/or the environment, may adversely affect production to a significant extent. As a consequence, bottlenecks or even outages may occur, thus preventing the planned volume of production from being achieved. We address such risks with, among other things, fire protection measures and hazardous goods management, and, where financially viable, ensure that they are covered by insurance policies.

### Risks arising from long-term production

In the case of large projects within the Power Engineering Business Area, risks may arise that are often only identified over the course of the project. They may result in particular from contract drafting errors, inaccurate or incomplete information used in costing, post-contract changes in economic and technical conditions, weaknesses in project management, or poor performance by subcontractors. Most notably, omissions or errors made at the start of a project are usually difficult to compensate for or correct, and often entail substantial additional expenses.

We endeavor to identify these risks at an even earlier stage and to take appropriate measures to eliminate or minimize them before they occur by constantly optimizing the project control process across all project phases and by using a lessons-learned process and regular project reviews. We can thus further reduce risk, particularly during the bidding and planning phase, for large upcoming projects.

### Quality risks

Right from the product development stage, we aim to identify and rectify quality problems at the earliest point, so as to avoid delays to the start of production. As we are using an increasing number of modular components as part of our modular toolkit strategy, it is particularly important when malfunctions do occur to identify the cause quickly and eliminate the malfunctions. Nonconformity of internally or externally sourced parts or components may necessitate time-consuming and cost-intensive measures and lead to recalls and therefore to damage to the Volkswagen Group's image. In addition, the resulting financial impacts may exceed provisions. To meet our customers' expectations and minimize warranty and ex gratia repair costs, we continuously optimize the processes at our brands with which we can prevent these defects.

Increasing technical complexity and the use of the toolkit system in the Group mean that the need for high-grade supplier components and software of impeccable quality is rising. For the future management of cyber security, which is becoming an increasingly important area, we are establishing an Automotive Cyber Security Management System (ACSMS) in all brands and integrating it into the existing quality management system. This will allow us to fulfill the legal requirements that will apply from 2021.

Assuring quality is of fundamental importance especially in the US, Brazilian, Russian, Indian and Chinese markets, for which we develop vehicles specific to the countries and where local manufacturers and suppliers have been established, particularly as it may be very difficult to predict the impact of regulations or official measures. We continuously analyze the conditions specific to each market and adapt quality requirements to their individual needs. We counter the local risks we identify by continuously developing measures and implementing them locally, thereby effectively preventing quality defects from arising.

Vehicle registration and operation criteria are defined and monitored by national and, in some cases, international authorities. Furthermore, several countries have special – and in some cases new – rules aimed at protecting customers in their dealings with vehicle manufacturers. We have established quality processes to ensure that the Volkswagen Group brands and their products fulfill all respective applicable requirements and that local authorities receive timely notification of all issues requiring reporting. By doing so, we reduce the risk of customer complaints or other negative consequences.

### IT risks

At Volkswagen, a global company geared towards further growth, the information technology (IT) used in all divisions Group-wide is assuming an increasingly important role. IT risks exist in relation to the three protection goals of confidentiality, integrity and availability, and comprise in particular unauthorized access to, modification of and extraction of sensitive electronic corporate or customer data as well as limited systems availability as a consequence of downtime and disasters. Handling data with integrity ensures that data is correct and uncorrupted, and that systems function without error.

The high standards we set for the quality of our products also apply to the way in which we handle our customers' and employees' data. In particular, the digital technology used for our mobility services must be protected against cyber attacks. New legal regulations including the future UNECE (United Nations Economic Commission for Europe) cyber security regulation (WP.29) are creating new requirements for our vehicle and software development. These have an equally large impact on our IT systems. We therefore work on an interdisciplinary basis to protect our connected vehicles and mobility services. Our guiding principles are data security, transparency and informational self-determination.

We address the risk of unauthorized access to, modification of, or extraction of corporate and customer data with the use of IT security technologies (e.g. firewall and intrusion prevention systems) and a multiple-authentication procedure. Additionally, we increase protection by restricting the allocation of access rights to systems and information and by keeping backup copies of critical data resources. Redundant IT infrastructures protect us against risks that occur in the event of a systems failure or natural or other disasters.

We use commercially available technologies to protect our IT landscape, adhering to standards applicable throughout the Company. We future-proof our IT through continual standardization and updates. Continuously increasing automation enhances process reliability and the quality of processing.

The further development and Group-wide use of IT governance processes, particularly the further standardization of the IT risk management process, also help to identify weaknesses at an early stage and to reduce or avoid risks effectively.

Another focus is the continuous enhancement of Group-wide security measures with modern technologies and tools, such as the further expansion of the IT security command center for the early detection of and defense against cyber attacks.

Volkswagen complements these technical measures by systematically raising awareness and providing training for employees.

### Risks from media impact

The image of the Volkswagen Group and its brands is one of the most important assets and forms the basis for long-term business success. Our policy and strategic orientation on issues such as integrity, ethics and sustainability is in the public focus. One of the basic principles of running our business is therefore to pay particular attention to compliance with legal requirements and ethical principles. However, we are aware that misconduct or criminal acts by individuals and the resulting reputational damage can never be fully prevented. In addition, media reactions can have a negative effect on the image of the Volkswagen Group and its brands. This impact could be amplified through insufficient crisis communication.

### Environmental and social risks

The most significant risks from the regular GRC process and QRP arise from not meeting $CO_2$-related regulations.

#### Personnel risks

We counter economic risks as well as changes in the market and the competitive situation with a range of instruments that help the Volkswagen Group to remain flexible in terms of staff deployment when faced with a fluctuating order situation – whether orders are in decline, or there is an increase in demand for our products. These instruments include time accounts to which hours are added when overtime is necessary and from which hours are deducted in quiet periods, enabling our factories to adjust their capacity to production volume with measures such as extra shifts, closure days and flexible shift models. The use of temporary workers also allows us to be more flexible in our planning. All of these measures help the Volkswagen Group to generally maintain a stable permanent workforce, even when orders fluctuate.

The technical expertise and individual commitment of employees are indispensable prerequisites for the success of the Volkswagen Group. We counter the risk of not being able to develop sufficient expertise in the Company's different vocational groups with our strategically oriented and holistic human resource development, which gives all employees attractive training and development opportunities. By boosting our training programs, particularly at our international locations, we are able to adequately address the challenges of technological change.

To counter the potential risk of a shortage of skilled specialists – especially in the areas of digitalization and IT – we continuously expand our recruitment tools. Our systematic talent relationship management, for example, enables us to make contact with talented candidates from strategically relevant target groups at an early stage and to build a long-term relationship between them and the Group. In addition to the standard dual vocational training, programs such as our StIP integrated degree and traineeship scheme and our Faculty 73 ensure a pipeline of highly qualified and motivated employees. By systematically increasing our attractiveness as an employer, we are able to gain talented people in the areas of IT, design and social media, which are crucial for the future. With tools such as these, we want to ensure that our demand for qualified new staff is covered, even amid a shortage of skilled labor.

We counter the risks associated with employee fluctuation and loss of knowledge as a result of retirement with intensive, department-specific succession planning and training. We have also established a base of senior experts in the Group. With this instrument, we use the valuable knowledge of our experienced specialists who have retired from Volkswagen.

The advancing digitalization of our human resources processes entails risks arising from the processing of personal data. Volkswagen is aware of its responsibility in the processing of this data. We address these risks as part of our data protection management system by implementing a wide range of measures.

One challenge posed by our collaboration with the Monitor lies in the tension that sometimes arises from the conflict between the Monitor's requests for information on the one hand, and both German and international data protection requirements on the other. This is true particularly in view of the fact that these data protection requirements are open to a certain degree of interpretation and assessment. In the interest of precluding infringements of the law as far as possible, despite a partially unclear legal situation, Volkswagen is advised by external law firms on these issues.

#### Environmental protection regulations

The specific emission limits for all new passenger car and light commercial vehicle fleets for brands and groups in the EU for the period up to 2019 are set out in Regulation (EC) No 443/2009 on $CO_2$ emissions from passenger cars and Regulation (EU) No 510/2011 on light commercial vehicles of up to 3.5 tonnes, which came into effect in April 2009 and June 2011, respectively. These regulations are important components of the European climate protection policy and therefore form the key regulatory framework for product design and marketing by all vehicle manufacturers selling in the European market.

The average $CO_2$ emissions of the new European passenger car fleet have not been allowed to exceed 130 g $CO_2$/km since 2012. Compliance with this requirement was introduced in phases; since 2015 the entire fleet has had to meet this limit.

The EU's $CO_2$ regulation for light commercial vehicles sets limits to be met from 2014 onwards, with targets having been phased in over the period to 2017. Under this regulation, the average $CO_2$ emissions from newly registered vehicles in Europe must not exceed 175 g $CO_2$/km.

On April 17, 2019, the EU adopted new rules for the $CO_2$ regime from 2020 onward. It published these in EU Regulation 2019/631 for passenger cars and light commercial vehicles on April 25, 2019. This regulation states that, from 2021 onward, the average emissions from the European passenger car fleet must be no higher than 95 g $CO_2$/km; in 2020, this emissions limit will already apply to 95% of the fleet. Up to and including 2020, European fleet legislation will be complied with on the basis of the New European Driving Cycle (NEDC). After 2021, the NEDC target value will be replaced by a WLTP target value through a process defined by lawmakers; this change shall not lead to additional tightening of the target value. A similar approach will apply to light commercial vehicles, where a target of 147 g $CO_2$/km will apply to the entire fleet in 2020.

The targets will be further tightened as from 2025: for new European passenger car fleets, a reduction of 15% will be required from 2025 and a reduction of 37.5% from 2030. For new light commercial vehicle fleets, the required reductions will be 15% from 2025 and 31% from 2030. In each case, the starting point is the fleet value in 2021. These targets can only be achieved through a high proportion of electric vehicles. Non-fulfillment of the fleet-wide targets will incur penalties of €95 per exceeded gram of $CO_2$ per vehicle sold.

At the same time, regulations governing fleet fuel consumption are also being developed or introduced outside the EU28, for example in Brazil, Canada, China, India, Japan, Mexico, Saudi Arabia, South Korea, Switzerland, Taiwan and the USA. Brazil has introduced a fleet efficiency target as part of a voluntary program which grants tax advantages. To receive a 30% tax advantage, manufacturers must, among other things, achieve a specified fleet efficiency. The fuel consumption regulations in China, which set an average fleet target of 6.9 liters/100 km for the period 2012–2015, were continued into the period 2016–2020 with a target of 5.0 liters/100 km. Preparations for legislation up to 2025 have begun. In addition to this legislation on fleet fuel consumption, a so-called “new energy vehicle quota” applies in China. This requires every manufacturer to increase the share of electric vehicles – which are included with different weightings – in its total sales. The quota for 2020 is 12%, to be fulfilled through battery-electric vehicles, plug-in hybrids, or fuel cell vehicles. Due to the extension of greenhouse gas legislation in the USA (the law was signed in 2012), uniform fuel consumption and greenhouse gas standards apply in all US states in the period from 2017 to 2025. Here, too, lawmakers are debating amending the rules from 2021 onward.

The increased regulation of fleet-based $CO_2$ emissions and fuel consumption makes it necessary to use the latest mobility technologies in all key markets worldwide. At the same time, electrified and also purely electric drives will become increasingly common. The Volkswagen Group closely coordinates technology and product planning with its brands so as to avoid breaches of fleet fuel consumption limits, since these would entail severe financial penalties. Volkswagen continues to regard diesel technology as an important element in the fulfillment of $CO_2$ emissions targets.

EU legislation allows excess emissions and emission shortfalls to be offset between vehicle models within a fleet of new vehicles. Furthermore, the EU permits some flexibility in fulfilling the emissions targets, for example:

> Emission pools may be formed,
> Relief opportunities may be provided for additional innovative technologies in the vehicle that apply outside the test cycle (eco-innovations),
> Special rules are in place for small-series producers and niche manufacturers,
> Particularly efficient vehicles qualify for super-credits.

Whether the Group meets its fleet targets depends crucially on its technological and financial capabilities, which are reflected in, for example, our drivetrain and fuel strategy.

In the EU, a new, more time-consuming test procedure has applied to all new vehicles with WLTP since September 2018. Other challenges arise in connection with stricter processes and requirements regarding WLTP, such as from test criteria and from homologation (achievement of approval).

The Real Driving Emissions (RDE) regulation for passenger cars and light commercial vehicles is also one of the main European regulations. New, uniform limits for nitrogen oxide and particulate emissions in real road traffic have applied to new vehicle types across the EU since September 2017. This makes the RDE test procedure fundamentally different from the Euro 6 standard still in force, which stipulates that the limits on the chassis dynamometer are authoritative. The RDE regulation is intended primarily to improve air quality in urban areas and areas close to traffic, leading to stricter requirements for exhaust gas aftertreatment in passenger cars and light commercial vehicles. Stricter RDE processes and requirements have resulted in certain challenges, for example relating to test criteria and homologation.

The other main EU regulations affecting the automotive industry include:

> EU Directive 2007/46/EC establishing a framework for the type approval of motor vehicles,
> EU Directive 2009/33/EC on the promotion of clean and energy-efficient road transport vehicles (Green Procurement Directive),
> EU Directive 2006/40/EC relating to emissions from air-conditioning systems in motor vehicles,
> The Car Labeling Directive 1999/94/EC,

- The Fuel Quality Directive (FQD) 2009/30/EC updating the fuel quality specifications and introducing energy efficiency specifications for fuel production,
- The Renewable Energy Directive (RED) (2009/28/EC) introducing sustainability criteria; the follow-up regulation (RED2) contains higher quotas for advanced biofuels,
- The revised Energy Taxation Directive 2003/96/EC updating the minimum tax rates for all energy products and power.

The implementation of the above-mentioned directives by the EU member states serves to support the $CO_2$ regulations in Europe. These are aimed not only at vehicle manufacturers, but also at other sectors such as the mineral oil industry. Vehicle taxes based on $CO_2$ emissions are having a similar steering effect; many EU member states have already incorporated $CO_2$ elements into their rules on vehicle taxation.

There is particular momentum in the debate on driving bans for diesel vehicles in Germany. This was triggered by the failure of some municipalities and cities to comply with the limits for nitrogen dioxide ($NO_2$) immissions. In many places, lawsuits have been filed and judgments issued. It is argued that only driving bans for diesel vehicles can bring about the necessary short-term reduction in $NO_2$ immissions. The discussion may result in sales volumes of diesel vehicles declining further and financial liabilities arising from customer-related measures and potential official or statutory requirements.

Local driving bans are already in place in a number of countries, though these mainly affect older vehicles. Regulations in Belgium that successively bar older vehicles from larger cities are one example. With a view to the future, large urban areas such as Paris and London are discussing banning vehicles with combustion engines.

Commercial vehicles are increasingly subject to ever stricter environmental regulations all around the world, particularly to regulations relating to climate change and vehicle emissions. With Regulation (EU) 2019/1242 of June 20, 2019, which specifies $CO_2$ emission standards for new heavy trucks with a permitted gross weight of over 16 tonnes, the EU has set heavy commercial vehicle manufacturers very ambitious targets for reducing $CO_2$ emissions within the next decade. The $CO_2$ emissions from such vehicles must be reduced by 15% by 2025 and 30% by 2030 compared to a reference value for a monitoring period from July 2019 to June 2020. If they fail to meet these targets, vehicle manufacturers will be liable to substantial penalties for the excess emissions, amounting to €4,250 per excess gram of $CO_2$/tonne-kilometer (tkm) per vehicle for the period from 2025 to 2029 and €6,800 per excess gram of $CO_2$/tkm per vehicle for the period from 2030 onward.

Compliance with regulations relating to climate change and vehicle emissions requires considerable investment in new technologies, including alternative drive systems and vehicles powered by alternative fuels. Increasing connectivity within transport networks can help to reduce inefficiencies such as unused transport capacity, empty runs and inefficient routes in existing transport networks. In conjunction with connected traffic management systems, this can result in optimized goods transport and therefore a reduction in $CO_2$ emissions.

In the Power Engineering segment, the International Maritime Organization (IMO) has introduced the International Convention for the Prevention of Pollution from Ships (MARine POLlution – MARPOL), with which limits on emissions from marine engines will be lowered in phases. A reduction of the sulfur content in marine fuel has been confirmed with effect from January 1, 2020. In addition, the IMO has decided on a number of emission control areas in Europe and the USA/Canada that will be subject to special environmental regulations. Expansion to further regions such as the Mediterranean or Japan is already being planned; other regions such as the Black Sea, Alaska, Australia or South Korea are also in discussion. Moreover, emission limits are in force under Regulation (EU) 2016/1628 and in accordance with the regulations of the US Environmental Protection Agency (EPA), for example. We are pushing for a maritime energy transition in specialist bodies and also promote this to the general public. In a first step, we are supporting the switch to liquefied natural gas (LNG) as a fuel for maritime applications and also offer dual fuel and gas-powered engines for new and retrofitted vessels. For the long-term and climate-neutral operation of seagoing vessels, we advocate power-to-X technology, in which excess sustainably generated electricity is converted into carbon-neutral gas or liquid fuel.

As regards stationary equipment, there are a number of national rules in place worldwide that limit permitted emissions. On December 18, 2008, the World Bank Group set limits for gas and diesel engines in its “Environmental, Health, and Safety Guidelines for Thermal Power Plants”, which are required to be applied in countries that have adopted no national requirements of their own, or requirements that are less strict than those of the World Bank Group. These guidelines are currently being revised. In addition, the United Nations adopted the Convention on Long-range Transboundary Air Pollution back in 1979, setting limits on total emissions as well as nitrogen oxide for the signatory states (including all EU states, other countries in Eastern Europe, the USA and Canada). Enhancements to the product portfolio in the Power Engineering segment focus on improving the efficiency of equipment and systems.

The allocation method for emissions certificates changed fundamentally when the third emissions trading period

(2013–2020) began. As a general rule, all emission allowances for power generators have been sold at auction since 2013. For the manufacturing industry and certain power generation installations (e.g. combined heat and power installations), a portion of the certificates is allocated free of charge on the basis of benchmarks applicable throughout the EU. This portion of free certificates will gradually decrease as the trading period progresses; the remaining quantities required will have to be bought at auction. Furthermore, installation operators can partly fulfill their obligation to hold emission allowances using certificates from climate change projects (Joint Implementation and Clean Development Mechanism projects). In certain (sub-)sectors of industry, there is a risk that production will be transferred to countries outside Europe due to the amended provisions governing emissions trading, a phenomenon referred to as carbon leakage. A consistent quantity of certificates will be allocated to these sectors free of charge for the period from 2013 to 2020 on the basis of the pan-EU benchmarks. The automotive industry was included in the carbon leakage list that came into effect in 2015. As a result, individual facilities at Volkswagen Group locations in Europe will receive additional certificates free of charge up to the end of the third trading period. Already back in 2013 the European Commission decided to initially withhold a portion of the certificates to be auctioned and not to release them for auction until a later date during the third trading period (backloading). The certificates will be directed into a market stability reserve that was established in 2018. The reserve will serve to offset any imbalance between the supply of and demand for certificates in emissions trading in the fourth trading period. Furthermore, the European Commission is planning further modifications in emissions trading when the fourth trading period begins (from 2021) that may lead to a tightening of the system and thus to price increases for the certificates.

In addition to the EU member states, other countries in which the Volkswagen Group has production sites are also considering introducing an emissions trading system. In China, for example, seven corresponding pilot projects are underway. These do not affect the Volkswagen Group. The Chinese government officially implemented a national emissions trading system at the end of 2017. Initially, this affects only the power generation sector; a gradual expansion is being planned.

## LEGAL RISKS

The most significant risks from the regular GRC process and QRP are associated with the diesel issue.

### Litigation

Volkswagen AG and the companies in which it is directly or indirectly invested are involved in a substantial number of legal disputes and governmental proceedings in Germany and abroad. Such legal disputes and other proceedings occur, among other things, in relation to or in connection with employees, public authorities, services, dealers, investors, customers, suppliers, products, or other contracting parties. For the companies in question, these disputes and proceedings may result in payments such as fines or in other obligations or consequences. In particular, substantial compensatory or punitive damages may have to be paid and cost-intensive measures may have to be implemented. In this context, specific estimation of the objectively likely consequences is often possible only to a very limited extent, if at all.

Risks may also emerge in connection with the adherence to regulatory requirements. This particularly applies in the case of regulatory gray areas where Volkswagen and the authorities responsible for the respective regulations may interpret the regulations differently. In addition, legal risks can arise from the criminal activities of individual persons, which even the best compliance management system can never completely prevent.

Where transparent and economically viable, adequate insurance coverage was taken out for these risks. For the identifiable and measurable risks, provisions considered appropriate based on existing information were recognized and information about contingent liabilities disclosed. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of material loss or damage not covered by the insured amounts and provisions cannot be ruled out. This applies particularly to legal risk assessment regarding the diesel issue.

### Diesel issue

On September 18, 2015, the US 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 Volkswagen Group vehicles with type 2.0 l diesel engines in the USA. In this context, Volkswagen AG announced that noticeable discrepancies between the figures achieved in testing and in actual road use had been identified in around eleven million vehicles worldwide with type EA 189 diesel engines. On November 2, 2015, the EPA issued a “Notice of Violation” alleging that irregularities had also been discovered in the software installed in US vehicles with type V6 3.0 l diesel engines.

Numerous court and governmental proceedings were subsequently initiated in various countries. We have since succeeded in making substantial progress and ending many of these proceedings.

In the USA, Volkswagen AG and certain affiliates reached settlement agreements with various government authorities and private plaintiffs, the latter represented by a Plaintiffs' Steering Committee in a multidistrict litigation in the US state of California. These agreements resolved certain civil claims as well as criminal charges under US federal law and the laws of certain US states in connection with the diesel issue. As part of the agreements entered into with the US Department of Justice and the State of California (Plea Agreement and Third Partial Consent Decrees), a Compliance Monitor and Compliance Auditor was appointed for Volkswagen in 2017 for a term of three years. Although Volkswagen AG and its subsidiaries and affiliates are firmly committed to fulfilling the obligations arising from these agreements, a breach of these obligations cannot be completely ruled out. In the event of a violation, significant penalties could be imposed as stipulated in the agreements, in addition to the possibility of further monetary fines, criminal sanctions and injunctive relief.

The diesel issue is rooted in a modification of parts of the software of the relevant engine control units – which, according to Volkswagen AG's legal position, is only unlawful under US law – for the type EA 189 diesel engines that Volkswagen AG was developing at that time. The decision to develop and install this software function was taken in late 2006 below Board of Management level. None of the members of the Board of Management had, at that time and for several years to follow, knowledge of the development and implementation of this software function.

In the months following publication of a study by the International Council on Clean Transportation in May 2014, Volkswagen AG's Powertrain Development department checked the test set-ups on which the study was based for plausibility, confirming the unusually high $NO_x$ emissions from certain US vehicles with type EA 189 2.0 l diesel engines. The California Air Resources Board (CARB) – a part of the environmental authority of California – was informed of this result, and, at the same time, an offer was made to recalibrate the engine control unit software of type EA 189 diesel engines in the USA as part of a service measure that was already planned in the USA. This measure was evaluated and adopted by the Ausschuss für Produktsicherheit (APS – Product Safety Committee), which initiates necessary and appropriate measures to ensure the safety and conformity of Volkswagen AG products that have been placed in the market. There are no findings that an unlawful "defeat device" under US law was disclosed to the APS as the cause of the discrepancies or to the persons responsible for preparing the 2014 annual and consolidated financial statements. Instead, at the time the 2014 annual and consolidated financial statements were being prepared, the persons responsible for preparing the 2014 annual and consolidated financial statements remained under the impression that the issue could be solved with comparatively little effort.

In the course of the summer of 2015, however, it became successively apparent to individual members of Volkswagen AG's Board of Management that the cause of the discrepancies in the USA was a modification of parts of the software of the engine control unit, which was later identified as an unlawful "defeat device" as defined by US law. This culminated in the disclosure of a "defeat device" to EPA and CARB on September 3, 2015. According to the assessment at that time of the responsible persons dealing with the matter, the scope of the costs expected by the Volkswagen Group (recall costs, retrofitting costs and financial penalties) was not fundamentally dissimilar to that in previous cases involving other vehicle manufacturers, and, therefore, appeared to be controllable overall with a view to the business activities of the Volkswagen Group. This assessment by the Volkswagen Group was based, among other things, on the advice of a law firm engaged in the USA for approval issues, according to which similar cases in the past were resolved amicably with the US authorities. The EPA's publication of the "Notice of Violation" on September 18, 2015, which the Board of Management had not expected, especially at that time, then presented the situation in an entirely different light.

The AUDI AG Board of Management members in office at the time in question have likewise stated that they had no knowledge of the use of "defeat device" software that was prohibited by US law in the type V6 3.0 l TDI engines until the EPA issued its November 2015 "Notice of Violation."

Within the Volkswagen Group, Volkswagen AG has development responsibility for the four-cylinder diesel engines such as the type EA 189, and AUDI AG has development responsibility for the six- and eight-cylinder diesel engines such as the type V6 3.0 l and V8 4.2 l diesel engines.

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 Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) 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 output, maximum torque, and noise emissions.

Following the studies carried out by AUDI AG to check all relevant diesel concepts for possible irregularities and retrofit potentials, measures proposed by AUDI AG have been adopted and mandated by the KBA in various recall orders pertaining to 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. AUDI AG has in the meantime developed software updates for many of the affected powertrains and, after approval by the KBA, already installed these in the vehicles of a large number of affected customers. The approvals that are still outstanding are expected in the course of 2020.

In connection with the diesel issue, potential consequences for Volkswagen's results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Criminal and administrative proceedings worldwide (excluding the USA/Canada)

Criminal investigations, regulatory offense proceedings, and/or administrative proceedings have been opened in some countries (in Germany for example by the Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin – Federal Financial Supervisory Authority). The public prosecutor's offices in Braunschweig and Munich are investigating the core issues of the criminal investigations.

In April 2019, the Braunschweig Office of the Public Prosecutor issued indictments, including one against a former Chairman of the Board of Management of Volkswagen AG, charging, among other things, fraud relating to Type EA 189 engines in connection with the diesel issue.

In September 2019, the Braunschweig Office of the Public Prosecutor furthermore indicted the current and a former Chairman of the Board of Management of Volkswagen AG as well as a former member of its Board of Management (currently Chairman of the Supervisory Board) on charges of market manipulation relating to capital market disclosure obligations in connection with the diesel issue. The Public Prosecutor's Office also requested that the court name Volkswagen AG as a collateral participant in the proceedings.

In July 2019, the Munich II Office of the Public Prosecutor issued indictments, including one against the former Chairman of the Board of Management of AUDI AG, charging, among other things, fraud relating to 3.0 TDI engines in connection with the diesel issue.

Based on the information available at the present time, no change in the risk situation of the Volkswagen Group results from these indictments.

The Stuttgart Office of the Public Prosecutor is conducting a criminal investigation relating to the diesel issue on suspicion of fraud and illegal advertising that also involves a member of the Board of Management of Dr. Ing. h.c. F. Porsche AG. The respective Group companies appointed renowned law firms to clarify the matters underlying the public prosecutor's accusations. The Board of Management and Supervisory Board receive regular updates on the current status.

In an administrative fine order issued on May 7, 2019, the Stuttgart Office of the Public Prosecutor terminated the regulatory offense proceeding conducted against Dr. Ing. h.c. F. Porsche AG in connection with the diesel issue by finding a negligent breach of the obligation to supervise occurring in the organizational unit "Prüffeld Entwicklung Gesamtfahrzeug/Qualität" (Overall Vehicle Development/ Quality - Testing Facility). The administrative order imposes a total fine of €535 million, consisting of a penalty payment of €4 million and the forfeiture of economic benefits in the amount of €531 million. After thorough examination, Dr. Ing. h.c. F. Porsche AG has accepted the fine and paid it in full, rendering the administrative fine order legally final. Further sanctions against or forfeitures by Dr. Ing. h.c. F. Porsche AG are therefore not to be expected in Europe in connection with the unitary factual situation underlying the administrative fine order.

As the type approval authority of proper jurisdiction, the KBA moreover continuously tests Audi, VW, and Porsche brand vehicles for problematic functions. If certain functions are deemed impermissible by the KBA, the affected vehicles are recalled pursuant to a recall order or they are brought back into compliance by means of a voluntary service measure.

Furthermore, additional administrative actions relating to the diesel issue are ongoing in other jurisdictions.

The companies of the Volkswagen Group continue to cooperate with the government authorities.

Whether the criminal and administrative proceedings will ultimately result in fines or other consequences for the Company, and if so what amounts these may entail, is currently subject to estimation risks. According to Volkswagen's estimates, the likelihood that a sanction will be imposed is 50% or less in the majority of these proceedings. Contingent liabilities have therefore been disclosed where the amount of such liabilities could be measured and the likelihood of a sanction being imposed was assessed at not lower than 10%. Provisions were recognized to a small extent.

2. Product-related lawsuits worldwide (excluding the USA/ Canada)

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. 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.

Customer class action lawsuits and actions brought by consumer and/or environmental organizations are pending against Volkswagen AG and other Volkswagen Group companies in a number of countries including Australia, Belgium, Brazil, Germany, Italy, the Netherlands, Portugal, South Africa, and the United Kingdom. Alleged rights to damages and other relief are asserted in these actions. The pending actions include in particular the following:

In Australia, various class action lawsuits with opt-out provisions are currently pending against Volkswagen AG and other Volkswagen Group companies, including the Australian subsidiaries. Given the opt-out rule, the class actions have the potential to automatically cover all vehicles with type EA 189 engines unless the right to opt out is actively exercised. In all, approximately 100 thousand vehicles in the Australian market with type EA 189 engines are affected. In December 2019 Volkswagen AG reached agreements with the Australian class action plaintiffs that would terminate the litigation. The court must still approve the settlement. Depending on the number of claims filed under the class action settlement, Volkswagen AG anticipates payment of an amount of up to AUD 127.1 million plus litigation costs to settle the class action lawsuits. Two civil suits filed against Volkswagen AG and other Group companies by the Australian Competition and Consumer Commission (ACCC) were settled in the second half of 2019. The settlement is not yet legally final, however, as an appellate court has yet to rule on the amount of the fine. Depending on the appellate court decision, Volkswagen AG anticipates payment of a fine of up to AUD 125 million plus litigation costs.

In Belgium, the Belgian consumer organization Test Aankoop VZW has filed a class action to which an opt-out mechanism has been held to apply. The class action pertains to vehicles purchased by consumers on the Belgian market after September 1, 2014. The asserted claims are based on purported violations of unfair competition and consumer protection law as well as on alleged breach of contract.

In Brazil two class actions are pending. One of these pertains to approximately 17 thousand vehicles. In this litigation, an appeals judgment was rendered in May 2019 that only partially upheld the lower court's decision. This judgment initially reduced the damage liability of Volkswagen do Brasil considerably to around BRL 172 million plus interest. This amount can increase as a result of the adjudicated inflation rate and the assertion of individual claims alleging declines in the value of affected Amarok vehicles. The judgment remains non-final. In the second class action, compensation claims are made based on purported breaches of environmental regulations.

In Germany, the Verbraucherzentrale Bundesverband e.V. (Federation of Consumer Organizations) filed an action in November 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 would have to be established afterwards in subsequent separate proceedings. Oral argument in the consumer action for model declaratory judgment began in September 2019. Volkswagen AG intends to offer individual settlements to consumers who registered claims under the action for model declaratory judgment and meet the settlement criteria. The volume of such settlements amounts to approximately €830 million.

In addition, various actions have been brought against companies of the Volkswagen Group in several German regional courts by financialright GmbH, which is asserting rights assigned to it by a total of approximately 45 thousand customers in Germany, Slovenia, and Switzerland.

In England and Wales, suits filed in court by various law firms have been joined in a single collective action (group litigation). Because of the opt-in mechanism, not all vehicles with type EA 189 engines are automatically covered by the group litigation; potential claimants must instead take action in order to join. To date, some 90 thousand plaintiffs have registered claims under the group litigation. The group litigation opt-in period has expired.

In Italy, a class action lawsuit filed by the consumer association Altroconsumo on behalf of Italian customers is pending before the Venice Regional Court. This litigation involves damage claims based on alleged breach of contract as well as claims based on purported violations of Italian consumer protection law. Some 82 thousand customers have registered for the class action, whereby the validity of roughly half of the registrations is still unclear. In Italy, the court decision dismissing the class action filed by the consumer association Codacons as inadmissible also became legally final in the reporting year.

In the Netherlands, Stichting Volkswagen Car Claim has brought an opt-out class action seeking declaratory rulings. Any individual claims would then have to be established afterwards in separate proceedings. In November 2019, the Regional Court in Amsterdam held the requests for relief to be inadmissible in part. Oral argument on the merits of the class action will take place in 2020.

A Portuguese consumer organization has filed a class action with opt-out mechanism in Portugal. There are potentially up to approximately 139 thousand vehicles affected in the Portuguese market. The complaint seeks vehicle return and alleges damages as well.

In South Africa, an opt-out class action seeking damages is pending that pertains to some 8 thousand vehicles with V6 and V8 TDI engines in addition to approximately 72 thousand vehicles with type EA 189 engines.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in various countries, most of which are seeking damages or rescission of the purchase contract. In Germany, there are over 70 thousand such individual lawsuits.

Volkswagen estimates the likelihood that the plaintiffs will prevail to be 50% or less in the great majority of customer class actions, complaints filed by consumer and/or environmental organizations, and individual lawsuits. Contingent liabilities are disclosed for these proceedings where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not implausible. Since most of these proceedings are still in an early stage, it is in many cases not yet possible to quantify the realistic risk exposure. In addition, provisions were recognized to the extent necessary based on the current assessment.

At this time it cannot be estimated how many customers will choose to file lawsuits in the future in addition to those already pending, given the consumer action for model declaratory judgment in Germany, among other things, and what their prospect of success will be.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)

Investors from Germany and abroad have filed claims for damages against Volkswagen AG – in some cases along with Porsche Automobil Holding SE (Porsche SE) as joint and several debtors – based on purported losses due to alleged misconduct in capital market communications in connection with the diesel issue.

The vast majority of these investor lawsuits are currently pending at the Regional Court in Braunschweig. In August 2016, the Regional Court in Braunschweig ordered that common questions of law and fact relevant to the lawsuits pending at the Regional Court in Braunschweig be referred to the Higher Regional Court in Braunschweig for binding declaratory rulings pursuant to the Kapitalanleger-Musterverfahrensgesetz (KapMuG – German Act on Model Case Proceedings in Disputes Regarding Capital Market Information). In this proceeding, common questions of law and fact relevant to these actions are to be adjudicated in a consolidated manner by the Higher Regional Court in Braunschweig (model case proceedings). All lawsuits at the Regional Court in Braunschweig will be stayed pending resolution of the common issues, unless the cases can be dismissed for reasons independent of the common issues that are to be adjudicated in the model case proceedings. The resolution in the model case proceedings of the common questions of law and fact will be binding for all pending cases that have been stayed in the described manner. Oral argument in the model case proceedings before the Braunschweig Higher Regional Court began in September 2018 and will be continued at subsequent hearings.

At the Regional Court in Stuttgart, further investor lawsuits have been filed against Volkswagen AG, in some cases along with Porsche SE as joint and several debtor.

Holding that the factual situation at issue is by and large already covered by the model case proceedings being heard by the Braunschweig Higher Regional Court and that these proceedings, being paramount in this regard, preclude further such actions, the Stuttgart Higher Regional Court in March 2019 refused to proceed with further capital investor model case proceedings (which include Porsche SE) that had been referred to it by the Stuttgart Regional Court. The plaintiff side has appealed one of these decisions to the Federal Court of Justice.

Further investor lawsuits have been filed at various courts in Germany and the Netherlands. Worldwide (excluding USA and Canada), investor lawsuits, judicial applications for dunning procedures and conciliation proceedings, and claims under the KapMuG are currently pending against Volkswagen AG in connection with the diesel issue, with the claims totaling roughly €9.6 billion. Volkswagen AG remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Insofar as the chance of success was estimated at not lower than 10%, contingent liabilities have been disclosed.

4. Proceedings in the USA/Canada

In the USA and Canada, the matters described in the EPA's "Notices of Violation" are the subject of various types of lawsuits and requests for information that have been filed in particular by customers, investors, salespersons, and various government agencies in Canada and the United States, including the attorneys general of several US states, against Volkswagen AG and other Volkswagen Group companies.

In the fiscal year, Volkswagen AG and certain affiliates settled the consumer protection claims asserted by the Attorney General of the US state of New Mexico, the last remaining state asserting consumer protection claims.

The attorneys general of five US states (Illinois, Montana, New Hampshire, Ohio, and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc. and certain affiliates, alleging violations of environmental laws. In the fiscal year, the environmental claims of two US states – Alabama and Tennessee – were dismissed in full by trial or appellate courts as preempted by federal law with no possibility of further appeal, and the New Mexico Attorney General voluntarily dismissed its environmental claims. The claims asserted by Illinois, Hillsborough County (Florida), and Salt Lake County (Utah) have been dismissed in full, but the dismissals have been appealed. Certain claims asserted by Ohio, Texas, and two Texas counties have also been dismissed, but these suits are currently proceeding as to other claims.

In March 2019, the US Securities and Exchange Commission filed a lawsuit against Volkswagen AG, Volkswagen Group of America Finance, LLC, VW Credit, Inc. and a former Chairman of the Board of Management of Volkswagen AG, asserting claims under US federal securities law based among other things on alleged misstatements and omissions in connection with the offer and sale of certain bonds and asset-backed securities.

Furthermore, in December 2019, the Canadian federal environmental regulator filed charges against Volkswagen AG in respect of 2.0 l and 3.0 l Volkswagen and Audi diesel vehicles at the conclusion of its criminal enforcement-related investigation into the diesel emissions issue. Volkswagen AG cooperated with the investigation and agreed to a plea resolution addressing all of the charges. In January 2020, Volkswagen AG pleaded guilty to the charges and agreed to pay a penalty of CAD 196.5 million, which was approved by the court. Following this approval, the Ontario provincial environmental regulator withdrew its action against Volkswagen AG as to a quasi-criminal enforcement-related offense with respect to certain Volkswagen and Audi 2.0 l diesel vehicles. Additionally, a certified environmental class action is pending on behalf of residents in Quebec. This action was authorized on the sole issue of whether punitive damages could be recovered. The appeals filed by Volkswagen were denied. The case remains in the early stages.

To the extent a matter is not separately described above, an assessment is not yet possible at the current stage of the proceedings or has, in accordance with IAS 37.92, not been presented so as not to compromise the results of the proceedings and the interests of the Company.

5. Additional proceedings

With its ruling of November 8, 2017, the Higher Regional Court of Celle ordered, upon the request of three US funds, the appointment of a special auditor for Volkswagen AG. The special auditor is to examine whether there was a breach of duties on the part of the members of the Board of Management and Supervisory Board of Volkswagen AG in connection with the diesel issue on or after June 22, 2006 and, if so, whether this resulted in damages for Volkswagen AG. The ruling by the Higher Regional Court of Celle is formally unappealable. However, Volkswagen AG has filed a constitutional complaint with the German Federal Constitutional Court alleging infringement of its constitutionally guaranteed rights. It is currently unclear when the Federal Constitutional Court will reach a decision on this matter. Following the formally unappealable ruling from the Higher Regional Court of Celle, the special auditor appointed by the court indicated that he was not available to conduct the special audit on grounds of age. In June 2019, the Hanover Regional Court denied the motion filed by the US funds to replace the special auditor. The opposing side has appealed this denial to the Celle Higher Regional Court; this appeal is still pending.

In addition, a second motion seeking appointment of a special auditor for Volkswagen AG to examine matters relating to the diesel issue has been filed with the Regional Court of Hanover. This proceeding has been stayed pending a decision by the Federal Constitutional Court in the initial special auditor litigation.

6. Risk assessment regarding the diesel issue

An amount of around €2.9 (2.4) billion has been included in the provisions for litigation and legal risks as of December 31, 2019 to protect against the currently known legal risks related to the diesel issue based on existing information and current assessments. Insofar as these can be adequately measured at this stage, contingent liabilities relating to the diesel issue were disclosed in the notes in an aggregate amount of €3.7 (5.4) billion, whereby €3.4 (3.4) billion of this amount results from lawsuits filed by investors in Germany. The provisions recognized and the contingent liabilities disclosed as well as the other latent legal risks in the context of the diesel issue are in part subject to substantial estimation risks given that the fact-finding efforts have not yet been concluded, the complexity of the individual relevant factors and the ongoing coordination with the authorities. Should these legal or estimation risks materialize, this could result in further substantial financial charges. In particular, the possibility cannot be ruled out that the provisions recognized may have to be adjusted in light of knowledge acquired or future events.

Based on the information as it exists and has been established, there continue to be no conclusive findings or assessments available to the Board of Management of Volkswagen AG regarding the described facts that would suggest that a different assessment of the associated risks should have been made.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to the diesel issue. This is so as to not compromise the results of the proceedings or the interests of the Company.

#### Additional important legal cases

In 2011, ARFB Anlegerschutz UG (haftungsbeschränkt) brought an action against Volkswagen AG and Porsche SE for claims for damages for allegedly violating disclosure requirements under capital market law in connection with the acquisition of ordinary shares in Volkswagen AG by Porsche SE in 2008. The damages currently being sought based on allegedly assigned rights amounted to approximately €2.26 billion plus interest. In April 2016, the Regional Court in Hanover had formulated numerous objects of declaratory judgment that the cartel senate of the Higher Regional Court in Celle will decide on in model case proceedings under the KapMuG. In the first hearing in October 2017, the court already indicated that it currently does not see claims against Volkswagen AG as justified, both for want of sufficiently specific pleadings and for reasons of law. Volkswagen AG sees the statements of the court's senate as confirmation that the claims made against the Company have absolutely no basis.

At the time in question (2010/2011), other investors had also asserted claims – including claims against Volkswagen AG – arising out of the same circumstances in an approximate total amount of €4.6 billion and initiated conciliation proceedings. Volkswagen AG always refused to participate in these conciliation proceedings; since then, these claims have not been pursued further.

In Brazil, the Brazilian tax authorities commenced tax proceedings against MAN Latin America; at issue in these proceedings are the tax consequences of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, a second instance judgment that was negative for MAN Latin America was rendered in administrative court proceedings. MAN Latin America initiated proceedings against this judgment before the regular court in 2018. Due to the difference in the penalties plus interest which could potentially apply under Brazilian law, the estimated size of the risk in the event that the tax authorities are able to prevail overall with their view is laden with uncertainty. However, a positive outcome continues to be expected for MAN Latin America. Should the opposite occur, this could result in a risk of about €0.7 billion for the contested period from 2009 onwards, which has been stated within the contingent liabilities in the notes.

In 2011, the European Commission conducted searches at European truck manufacturers on suspicion of an unlawful exchange of information during the period 1997–2011 and issued a statement of objections to MAN, Scania and the other truck manufacturers concerned in November 2014. With its settlement decision in July 2016, the European Commission fined five European truck manufacturers. MAN's fine was waived in full as the company had informed the European Commission about the irregularities as a key witness.

In September 2017, the European Commission fined Scania €0.88 billion. Scania has appealed to the European Court of Justice in Luxembourg and will use all means at its disposal to defend itself. Scania had already recognized a provision of €0.4 billion in 2016.

Furthermore, antitrust lawsuits for damages were received from customers. As is the case in any antitrust proceedings, this may result in further lawsuits for damages. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In April 2019 the European Commission issued a statement of objections to Volkswagen AG, AUDI AG, and Dr. Ing. h.c. F. Porsche AG in connection with the Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity to comment. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of SCR systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. After receiving access to the investigation files starting in July 2019, Volkswagen in December 2019 filed its reply to the European Commission's statement of objections. In the same matter, the Chinese Competition Authority has also issued information requests to Volkswagen AG, AUDI AG, and Dr. Ing. h.c. F. Porsche AG, and commenced an administrative action.

In the proceedings against a number of captive automobile finance companies regarding potential competition law infringements (alleged exchange of competitively sensitive information), the Italian Competition Authority assessed a fine of €163 million against Volkswagen AG and Volkswagen Bank GmbH in January 2019. Provisions were recognized by Volkswagen Bank GmbH. Volkswagen AG and Volkswagen Bank GmbH filed an appeal against this decision in March 2019. In the same context, an antitrust class action lawsuit has furthermore been filed by customers in Italy against Volkswagen Bank GmbH, among others.

In June 2019, the US District Court for the Northern District of California dismissed two putative class action complaints brought by purchasers of German luxury vehicles alleging that, since the 1990s, several automobile manufacturers, including Volkswagen AG and other Group companies, conspired to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support the alleged anticompetitive agreements. Plaintiffs filed amended complaints, which Volkswagen moved to dismiss. Plaintiffs in Canada filed claims with similar allegations on behalf of putative classes of purchasers of German luxury vehicles against several automobile manufacturers, including Volkswagen Group Canada Inc., Audi Canada Inc., and other Group companies. Neither provisions nor contingent liabilities were stated because the early stage of proceedings makes an assessment currently impossible.

In addition, a few national and international authorities have initiated antitrust investigations. Volkswagen is cooperating closely with the responsible authorities in these investigations. An assessment of the underlying situation is not possible at this early stage.

Volkswagen has been responding to information requests from the US Environmental Protection Agency (EPA) and CARB related to automatic transmissions in certain vehicles with gasoline engines. In August 2019, Volkswagen agreed with the EPA to forfeit approximately 220 thousand Greenhouse Gas Emission Credits in response to the EPA's inquiry. Also in August 2019, Volkswagen and the Plaintiffs' Steering Committee announced the settlement of civil claims relating to approximately 98 thousand Volkswagen, Audi, Porsche and Bentley vehicles. Volkswagen's testing of these vehicles in connection with the information requests resulted in a 1 mile per gallon change, when rounded according to EPA rules, in the fuel economy disclosed on the "Monroney label" required by US regulations. In October 2019, the Court granted preliminary approval of the settlement.

Provisions were recognized by Volkswagen Bank GmbH and Volkswagen Leasing GmbH for possible claims in connection with financial services provided to consumers.

In February 2020, Volkswagen AG and another defendant were served with a lawsuit filed by GT Gettaxi Ltd. The lawsuit in particular alleges large damage claims. Volkswagen will evaluate the alleged claims and defend itself against them.

In addition, various proceedings are pending worldwide, particularly in the USA, in which customers are asserting purported claims either individually or in class actions. These claims are as a rule based on alleged vehicle defects, including defects alleged in vehicle parts supplied to the Volkswagen Group (for instance, in the Takata case).

Risks may also result from actions for infringement of intellectual property, including infringement of patents, trademarks or other third-party rights, particularly in Germany and the USA. These actions pertain among other things to patents for semiconductor technology used in vehicles, but may also extend to control, regulation or power-units, and communications technology as well. If Volkswagen is alleged or determined to have violated third-party intellectual property rights, it may have to pay damages, modify manufacturing processes, or redesign products and may be barred from selling certain products. Volkswagen could also face costly litigation. These risks could lead to delivery and production restrictions or interruptions.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to additional important legal cases. This is so as to not compromise the results of the proceedings or the interests of the Company.

### Tax risks

Volkswagen AG and its subsidiaries have operations worldwide and are audited by local tax authorities on an ongoing basis. Amendments to tax laws as well as changes in their application by the courts and their interpretation by the tax authorities in the respective countries may lead to tax payments that differ from the estimates made in the financial statements.

Risks arise particularly from tax assessment of the cross-border supply of intragroup goods and services. Through organizational measures, such as the implementation of an advance pricing agreement as well as the monitoring of transfer prices, Volkswagen is constantly monitoring the development of tax risks as well as the impact thereof on the consolidated financial statements.

Tax provisions were recognized for potential future retrospective tax payments, while other provisions were recognized for ancillary tax payments arising in this connection.

### Financial risks

The most significant risks from the regular GRC process and QRP result from volatile foreign exchange markets.

#### Strategies for hedging financial risks

In the course of our business activities, financial risks may arise from changes in interest rates, exchange rates, raw material prices, or share and fund prices. Management of these financial and liquidity risks is the central responsibility of the Group Treasury department, which reduces these risks using nonderivative and derivative financial instruments. The Board of Management is informed of the current risk situation at regular intervals.

We hedge interest rate risk – where appropriate in combination with currency risk – and risks arising from fluctuations in the value of financial instruments by means of interest rate swaps, cross-currency interest rate swaps and other interest rate contracts with generally matching amounts and maturities. This also applies to financing arrangements within the Volkswagen Group.

Foreign currency risk is reduced in particular through natural hedging, i.e. by flexibly adapting our production capacity at our locations around the world, establishing new production facilities in the most important currency regions and also procuring a large percentage of components locally. We hedge the residual foreign currency risk using hedging instruments. These mainly comprise currency forwards and currency options. We use these transactions to limit the currency risk associated with forecasted cash flows from operating activities, intragroup financing and liquidity positions in currencies other than the respective functional currency, for example as a result of restrictions on capital movements. The currency forwards and currency options can have a term of up to ten years. We thus hedge our principal foreign currency risks, mostly against the euro and primarily in Australian dollars, Brazilian real, British pound sterling, Canadian dollars, Chinese renminbi, Czech koruna, Hong Kong dollars, Hungarian forints, Indian rupees, Japanese yen, Mexican pesos, Norwegian kroner, Polish zloty, Russian rubles, Singapore dollars, South African rand, South Korean won, Swedish kronor, Swiss francs, Taiwan dollars and US dollars.

The hedging of commodity prices entails risks relating to the availability of raw materials and price trends. We continuously analyze potential risks arising from changes in commodity and energy prices in the market so that immediate action can be taken whenever these arise. We limit these risks mainly by entering into forward transactions and swaps. We have used appropriate contracts to hedge some of our requirements for commodities such as aluminum, lead, coal and copper over a period of up to six years, in the case of nickel for up to nine years. The precious metals platinum, palladium and rhodium have shorter hedging periods, generally amounting to a maximum of up to three years. We have entered into similar transactions in order to supplement and improve allocations of $CO_2$ emission certificates.

Pages 293 to 314 of the notes to the consolidated financial statements explain our hedging policy, the hedging rules and the default and liquidity risks, and quantify the hedging transactions mentioned. Additionally, we disclose information on market risk within the meaning of IFRS 7.

#### Risks arising from financial instruments

Channeling excess liquidity into investments and entering into derivatives contracts gives rise to counterparty risk. Partial or complete failure by a counterparty to perform its obligation to pay interest and repay principal, for example, would have a negative impact on the Volkswagen Group's earnings and liquidity. We counter this risk through our counterparty risk management, which we describe in more detail in the section entitled "Principles and Goals of Financial Management" starting on page 117. The financial instruments held for hedging purposes give rise to both counterparty risks and balance sheet risks, which we limit using hedge accounting.

By diversifying when selecting business partners, we ensure that the impact of a default is limited and the Volkswagen Group remains solvent at all times, even in the event of a default by individual counterparties.

Risks arising from trade receivables and from financial services are explained in more detail in the notes to the consolidated financial statements, starting on page 293.

### Liquidity risk

Volkswagen is reliant on its ability to ensure that there is adequate coverage for its financing needs. A liquidity risk consists of potentially being unable to ensure existing capital requirements by raising funds or being unable to finance the Group on reasonable terms, which in turn can have substantially negative impact on Volkswagen's business position, assets, financial position and earnings.

In principle, the Automotive Division and Financial Services Division refinance themselves independently of one another. However, they are subject to very similar refinancing risks. In the Automotive Division, the company's solvency is ensured at all times mostly through retained, non-distributed earnings, by drawing down on credit lines and by issuing financial instruments on the money and capital markets. The capital requirements of the financial services business are covered mainly by raising funds in the national and international financial markets, as well as through customer deposits from the direct banking business.

Volkswagen finances projects with, for example, loans provided by national development banks such as Kreditanstalt für Wiederaufbau (KfW) or Banco Nacional de Desenvolvimento Econômico e Social (BNDES) or by supranational development banks such as the European Investment Bank (EIB).

In addition to confirmed credit lines, unconfirmed lines of credit from commercial banks supplement our broadly diversified refinancing structure.

Financing opportunities can be hindered by worsening financial and general market conditions, a worsening credit profile and outlook or a downgrade or withdrawal of the credit rating. In such cases, there may be a fall in demand from market participants for securities issued by Volkswagen, which may additionally have a detrimental effect on the interest rates payable and restrict access to the capital market.

As a result of the diesel issue, the ability to use refinancing instruments may possibly be restricted or precluded for the Volkswagen Group. A downgrade of the Company's rating could adversely affect the terms associated with the Volkswagen Group's borrowings.

Information on the ratings of Volkswagen AG, Volkswagen Financial Services AG and Volkswagen Bank GmbH can be found on page 112 of this report.

### Risks in the financial services business

In the course of our financial services activities, we are exposed primarily to residual value risks and credit risks.

A residual value risk arises when the expected fair value for the disposal of the lease or finance asset may be lower than the residual value set at contract conclusion. However, there is an opportunity that disposal of the asset will generate more income than calculated for the residual value.

Referring to the bearer of residual value risk, a distinction is made between direct and indirect residual value risks. A direct residual value risk means that our financial services companies directly bear this risk (as outlined in the contract). An indirect residual value risk occurs when, based on a residual value guarantee, the residual value risk has passed to a third party, such as a dealer. In such cases, an initial counterparty default risk associated with this third party exists (the residual value guarantor). If the guarantor defaults, the residual value risk passes to our financial services companies.

Management of the residual value risk is based on a defined control cycle, which ensures that risks are fully assessed, monitored, responded to and communicated. This process structure enables us to manage residual risks professionally and also to systematically improve and enhance the way we handle residual value risks.

In the course of our risk management, the appropriateness of the risk provision is assessed regularly, as in the residual value risk potential. In the process, we compare the contractually agreed residual values with the obtainable fair values. These are determined utilizing data from external service providers and our own marketing data. We do not take account of the possible gains on residual market values when recognizing loss allowances.

Resulting from potential of residual value risks, a variety of measures are initiated in order to limit these risks. Current market circumstances and future influencing factors must be considered when making a residual value recommendation related to new business.

Credit risk describes the risk of losses due to defaults in customer transactions, specifically by the borrower or lessee. Default occurs when the borrower or lessee is unable or unwilling to make the payments due. This includes late or partial payment of interest and principal on the part of the contracting party.

Credit checks on borrowers are the primary basis for lending decisions. Rating and scoring systems are used to provide an objective decision-making basis for granting loans and leases.

Risks are managed and monitored within the framework of corresponding processes relating to economic circumstances and collateral, adherence to limits, contractual obligations and conditions stipulated both by outside parties and the company itself. As such, commitments are managed according to the degree of risk involved (standard, intensified and problem loan management).

More information on risks in the financial services business can be found in the 2019 annual reports of Volkswagen Financial Services AG and Volkswagen Bank GmbH.

#### Opportunities and risks from mergers & acquisitions and/or other strategic partnerships/investments

The most significant risks from the regular GRC process and QRP are linked to the cooperation with other partners.

##### Opportunities and risks from partnerships

As part of our future program TOGETHER 2025+, we are stepping up our efforts to forge collaborations, both for the transformation of our core business and for the establishment of the new mobility solutions business.

In the area of battery cells, possible risks could arise from potential disagreement with our partners, possible delays in battery cell development, or delayed battery cell production.

With the marketing of the Modular Electric Drive Toolkit to third parties, as is conceivable as part of the strategic alliance with Ford, for example, damage claims could arise in the event of problems with procurement, production and quality.

By entering into partnerships at a local level, we aim to identify regional customer needs more precisely, establish competitive cost structures and thus develop and offer market-driven products. Going forward, we will concentrate to a greater extent than previously on partnerships, acquisitions and venture capital investments. This will enable us to generate maximum value for the Group and its brands and to expand our expertise, particularly in new areas of business. At the same time, there is a risk that the interests of business partners differ from our own. Volkswagen owns a large number of patents and other industrial property rights and copyrights. Partnerships can lead to patent and licensing infringements and thus to the unauthorized disclosure of company-specific expertise. Volkswagen monitors the sales markets and also protects its expertise with legal action.

##### Risks arising from the recoverability of goodwill or brand names

Volkswagen tests at least once a year on the basis of underlying cash-generating units, if the value of the goodwill or the brand names has been impaired. If there are objective indications that the recoverable amount of the asset concerned is lower than the carrying amount, then Volkswagen recognizes this as a non-cash impairment. An impairment can be caused, among other things, by an increase in interest rates or deteriorating business prospects.

##### Risks from the disposal of equity investments

An unexpected need for funding, for example in connection with the diesel issue, may lead to assets having to be sold for an amount not equivalent to their value.

### OVERALL ASSESSMENT OF THE RISK AND OPPORTUNITY POSITION

The Volkswagen Group's overall risk and opportunity position results from the specific risks and opportunities shown above. We have put in place a comprehensive risk management system to ensure that these risks are controlled. The most significant risks to the Volkswagen Group across all risk categories result from a negative trend in markets and unit sales, quality problems, and the failure to develop products in line with demand and regulations, especially in view of e-mobility and digitalization. We have added cyber security and failure to meet $CO_2$-related regulations to this list given their growing importance. The Volkswagen Group is still exposed to risks from the diesel issue. Depending on the course of events, the spread of the coronavirus could have a negative impact on 2020. Taking into account all the information known to us at present, no risks exist which could pose a threat to the continued existence of significant Group companies or the Volkswagen Group.

# Prospects for 2020

The Volkswagen Group's Board of Management expects the global economy to continue growing in 2020 at the level of the previous year. We still believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts as well as epidemics spanning countries and regions, such as the current spread of the coronavirus. We anticipate that momentum in both the advanced economies and the emerging markets will be similar to that seen in 2019. We expect to see the strongest rates of expansion in Asia's emerging economies.

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2020. Overall, the volume of global demand for new vehicles will probably match that of 2019. For 2020, we anticipate that the volume of new passenger car registrations in Western Europe will be distinctly below that recorded in the reporting period. After a positive performance overall in recent years, we expect demand in the German passenger car market to fall noticeably year-on-year in 2020. Sales of passenger cars are expected to fall slightly short of the prior-year figures in markets in Central and Eastern Europe in 2020. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America in 2020 is likely to be slightly lower than in the prior year. We expect to see an overall moderate increase in new registrations for passenger cars and light commercial vehicles in the South American markets in 2020 compared with the previous year. The passenger car markets in the Asia-Pacific region are expected to be at the prior-year level in 2020.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, we anticipate a slight dip in demand.

We expect a distinct year-on-year fall in 2020 of new registrations of mid-sized and heavy trucks with a gross weight of more than six tonnes in the markets relevant for the Commercial Vehicles Business Area. In the bus markets that are relevant for the Volkswagen Group, we expect to see a slight increase in overall demand in 2020 compared with the previous year.

We believe that automotive financial services will again be very important for vehicle sales worldwide in 2020.

The Volkswagen Group is well prepared for the future challenges pertaining to automobility business activities and for the mixed development of the regional automotive markets. Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. As part of the transformation of our core business, we are positioning our Group brands with an even stronger focus on their individual characteristics, and are optimizing the vehicle and drive portfolio. The focus is primarily on our vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, we are working to leverage the advantages of our multibrand Group even more effectively with the ongoing development of new technologies and the enhancement of our toolkits.

We expect deliveries to customers of the Volkswagen Group in 2020 to be in line with the previous year amid market conditions that continue to be demanding.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, volatile commodity and foreign exchange markets, and more stringent emissions-related requirements.

We expect the sales revenue of the Volkswagen Group to grow by up to 4% in 2020 and the sales revenue of the Passenger Cars Business Area to be moderately higher than in the prior year. In terms of operating profit for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 6.5–7.5% in 2020. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of 4.0–5.0% amid a moderate decrease in sales revenue. In the Power Engineering Business Area we expect that sales revenue will match that of the previous year and that the operating loss will become smaller. For the Financial Services Division we forecast that sales revenue and the operating result will be in line with the previous year.

Wolfsburg, February 18, 2020
The Board of Management