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.

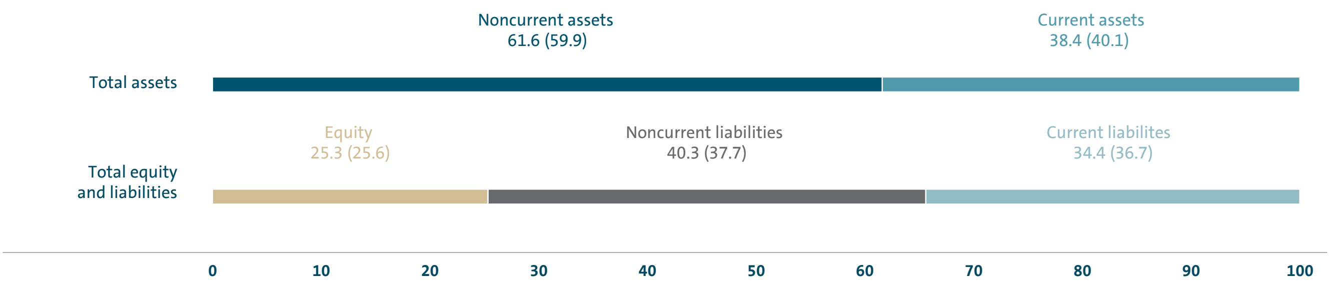
As of the end of fiscal year 2019, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €8.5 (9.3) billion, financial guarantees in the amount of €0.4 (0.3) billion and other financial obligations in the amount of €19.4 (26.6) billion. The previous year's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

€ million	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
	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.