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

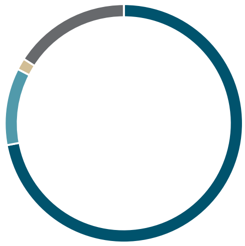
INCOME STATEMENT BY DIVISION

€ million	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
	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.

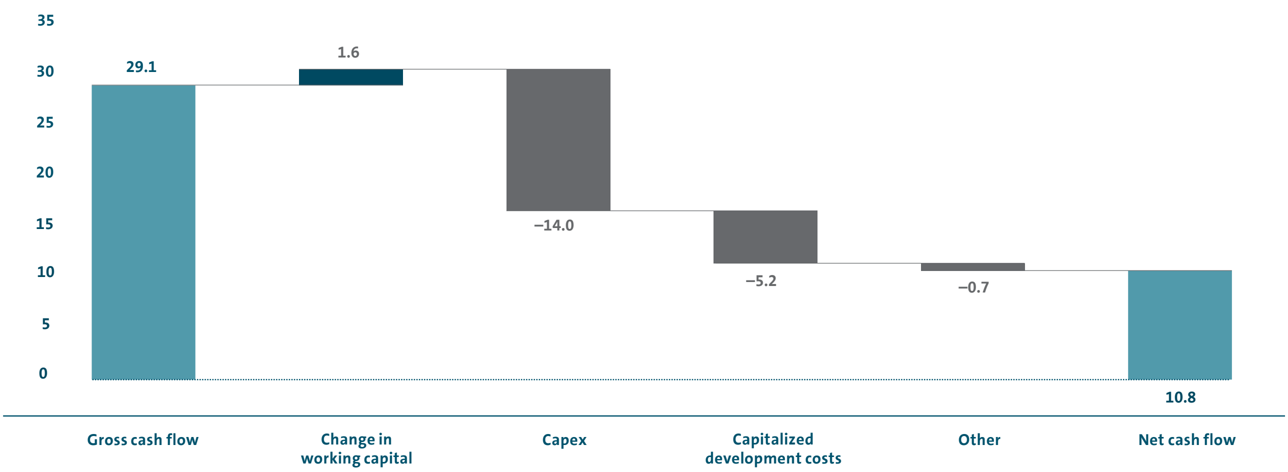
Higher volumes and exchange rate effects boosted the Financial Services Division's operating profit to €3.2 billion, a 15.0% increase on the previous year, again representing a considerable contribution to consolidated net profit. The operating return on sales was unchanged at 8.0 (8.0)%. The return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

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

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

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

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

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

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

FINANCIAL POSITION IN THE PASSENGER CARS BUSINESS AREA[1]

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

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

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

FINANCIAL POSITION IN THE COMMERCIAL VEHICLES BUSINESS AREA[1]

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

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

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

FINANCIAL POSITION IN THE POWER ENGINEERING BUSINESS AREA

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

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

Financial position in the Financial Services Division

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

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

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

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

NET ASSETS

Consolidated balance sheet structure

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

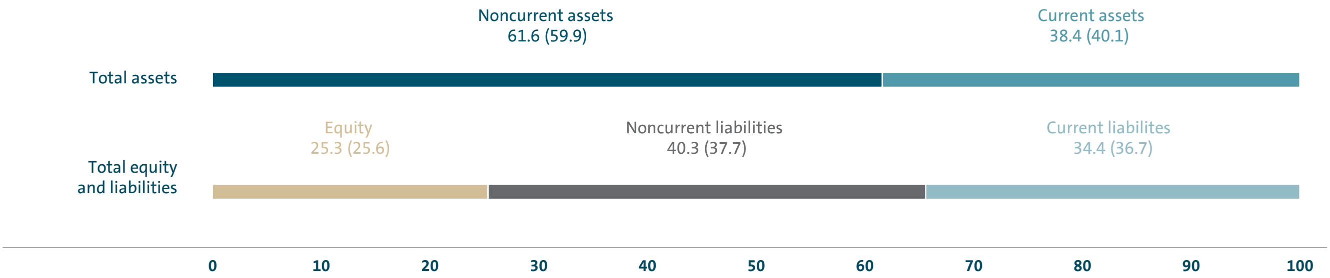
As of the end of fiscal year 2019, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €8.5 (9.3) billion, financial guarantees in the amount of €0.4 (0.3) billion and other financial obligations in the amount of €19.4 (26.6) billion. The previous year's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

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.

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/Investor-Relations/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.