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.

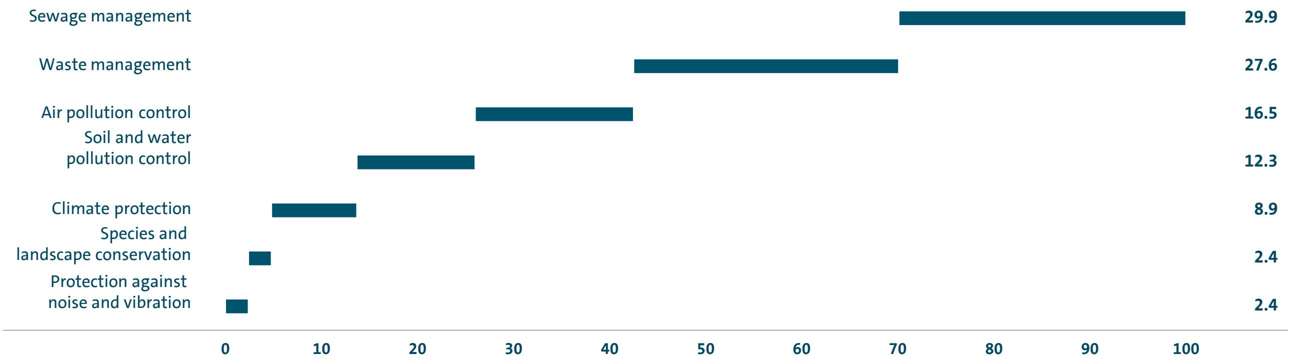
The recognized operating costs relate to measures that protect the environment against harmful factors by avoiding, reducing, or eliminating emissions by the Company. Resources are also conserved. For example, these include expenditures incurred to operate equipment that protects the environment, as 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.