Notes to the Consolidated Financial Statements

of the Volkswagen Group as of December 31, 2020

Basis of presentation

Volkswagen AG is domiciled in Wolfsburg, Germany, and entered in the commercial register at the Braunschweig Local Court under No. HRB 100484. The fiscal year corresponds to the calendar year.

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2020 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. All the IFRSs adopted by the EU and required to be applied have been complied with.

The accounting policies applied in the previous year were generally retained. The only changes required resulted from new or amended standards.

Moreover, all the provisions of German commercial law that Volkswagen is additionally required to apply, as well as the German Corporate Governance Code, have been complied with in the preparation of the consolidated financial statements. For information on notices and disclosures of changes regarding the ownership of voting rights in Volkswagen AG in accordance with the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act), please refer to the annual financial statements of Volkswagen AG.

The consolidated financial statements were prepared in euros. Unless otherwise stated, all amounts are given in millions of euros (€ million).

All figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

The income statement was prepared using the internationally accepted cost of sales method.

Preparation of the consolidated financial statements in accordance with the aforementioned standards requires management to make estimates that affect the reported amounts of certain items in the consolidated balance sheet and in the consolidated income statement, as well as the related disclosure of contingent assets and liabilities. The consolidated financial statements present fairly the net assets, financial position and results of operations as well as the cash flows of the Volkswagen Group.

The Board of Management completed preparation of the consolidated financial statements on February 16, 2021. On that date, the period ended in which adjusting events after the reporting period are recognized.

Effects of new and amended IFRSs

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning in fiscal year 2020.

On January 1, 2020, an amended definition of a business in IFRS 3 (Business Combinations) entered into force. According to the new definition, a set of activities and assets is a business only if it includes, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. At the same time, the definition of an output has been narrowed by focusing on goods and services provided to customers and on generating investment income. The reference to an ability to reduce costs as a single criterion has been removed. In addition, an optional concentration test has been introduced that permits an assessment of whether an acquired set of activities and assets is not a business.

Furthermore, amendments to IFRS 16 entered into force on June 1, 2020. These amendments exempt lessees from having to consider whether a rent concession in connection with the Covid-19 pandemic in relation to lease payments that, according to the original agreement, would have been due on or before June 30, 2021 is a lease modification and allows lessees to account for such rent concessions as if they were not lease modifications. The Volkswagen Group is electing not to apply this option.

In addition, as from January 1, 2020, the application of amendments to IFRS 9, IAS 39 and IFRS 7 (Benchmark Interest Rate Reform – Phase 1) became mandatory. In the previous year, the Volkswagen Group had voluntarily opted for early application of these amendments. This affects hedges that existed at the beginning of the reporting period or have subsequently been designated as such. In application of the associated practical expedient, the Volkswagen Group regards the effectiveness of designated hedges as given and not negatively impacted by the IBOR reform so that it will consequently not be necessary to terminate any hedges.

Also as of January 1, 2020, amendments to IAS 1 and IAS 8 entered into force, which clarify and standardize the definition of "material".

The amendments referred to above do not materially affect the Volkswagen Group's net assets, financial position and results of operations.

New and amended IFRSs not applied

In its 2020 consolidated financial statements, Volkswagen AG did not apply the following accounting pronouncements that have been adopted by the IASB until December 31, 2020, but were not yet required to be applied for the fiscal year.

Standard/Interpretation		Published by the IASB	Application mandatory[1]	Adopted by the EU	Expected impact
IFRS 3	Updating a Reference to the Conceptual Framework	May 14, 2020	Jan. 1, 2022	No	No material impact
IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9	June 25, 2020	Jan. 1, 2021	Yes	None
IFRS 4; IFRS 7; IFRS 9; IFRS 16 and IAS 39	Interest Rate Benchmark Reform (Phase 2)	Aug. 27, 2020	Jan. 1, 2021	Yes	No material impact
IFRS 17	Insurance Contracts	May 18, 2017	Jan. 1, 2023[2]	No	No material impact
IFRS 17	Insurance Contracts – several amendments	June 25, 2020	Jan. 1, 2023	No	No material impact
IAS 1	Classification of liabilities as current or non-current	Jan. 23, 2020	Jan. 1, 2023	No	No material impact
IAS 16	Property, Plant and Equipment: Proceeds before intended use	May 14, 2020	Jan. 1, 2022	No	No material impact
IAS 37	Onerous contracts – cost of fulfilling a contract	May 14, 2020	Jan. 1, 2022	No	No material impact
	Annual Improvements 2018 – 2020[3]	May 14, 2020	Jan. 1, 2022	No	No material impact

1 Effective date from Volkswagen AG's perspective.
2 On June 25, 2020, the IASB published amendments to IFRS 17, that led, among other things, to the effective date being deferred to January 1, 2023.
3 Minor amendments to a number of IFRSs (IFRS 1, IFRS 9 and IAS 41).

Key events

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 2.0 l diesel engines in the USA. In this context, Volkswagen AG announced that noticeable discrepancies between the figures recorded in testing and those measured 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.

The so-called 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. No member of the Board of Management had, at that time and for many years to follow, knowledge of the development and implementation of this software function.

There are furthermore no findings that, following the publication in May 2014 of the study by the International Council on Clean Transportation, an unlawful "defeat device" under US law was disclosed either to the Ausschuss für Produktsicherheit (Product Safety Committee) or to the persons responsible for preparing the 2014 annual and consolidated financial statements as the cause of the high NO_x emissions in certain US vehicles with 2.0 l type EA 189 diesel engines. Rather, at the time the 2014 annual and consolidated financial statements were being prepared, the persons responsible for preparing these financial statements remained under the impression that the issue could be resolved with comparatively little expense.

In the course of the summer of 2015, however, it became progressively 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 that was later identified as an unlawful "defeat device" as defined by US law. This culminated in Volkswagen's disclosure of a "defeat device" to the EPA and the California Air Resources Board, a department of the Environmental Protection Agency of the State of California, on September 3, 2015. According to the assessment at the time by the responsible persons dealing with the matter, the magnitude of the costs expected to result for the Volkswagen Group (recall costs, retrofitting costs, and financial penalties) was not fundamentally dissimilar to that in previous cases involving other vehicle manufacturers. It therefore appeared to be manageable overall considering the business activities of the Volkswagen Group. This assessment by Volkswagen AG was based, among other things, on the advice of a law firm engaged in the USA for regulatory approval issues, according to which similar cases had in the past been amicably resolved 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.

In fiscal year 2020, additional expenses of €0.9 billion had to be recognized in this context, primarily related to legal risks.

Further information on the litigation in connection with the diesel issue can be found in the "Litigation" section.

Effects of the Covid-19 Pandemic

By causing a global decline in demand – driven among other factors by measures taken by governments in the form of restrictions on trade in motor vehicles – as well as temporary production stoppages, the Covid-19 pandemic had a negative impact on the Volkswagen Group's net assets, financial position and results of operations in fiscal year 2020. Since the Covid-19 pandemic still persists at the beginning of 2021, effects on the net assets, financial position and results of operations are again expected for 2021. Please also refer to our comments in the 2020 group management report, specifically in the chapters entitled Business Development, Results of Operations, Financial Position and Net Assets, Report on Expected Developments and Report on Risks and Opportunities.

During the preparation of the consolidated financial statements as of December 31, 2020, the effects of the Covid-19 pandemic had to be analyzed, in particular in the following areas:

- The impairment testing of nonfinancial assets, especially goodwill, acquired brand names, as well as some capitalized development costs and property, plant and equipment, took the planning influenced by the Covid-19 pandemic into consideration. No need to recognize significant impairment losses was identified.
- The impairment tests on lease assets identified no material impact of the Covid-19 pandemic on forecast residual values for the vehicles for the entire Group.
- Impairment tests conducted on financial assets, taking adjusted default expectations into account, did not identify any need for material additional impairment losses.
- The review of the impact of changes in the timings and amounts of hedged items caused by the Covid-19 pandemic on the effectiveness and accounting treatment of hedges did not identify any material factors with an impact on profits.
- The turbulence in the commodity and capital markets had an impact particularly on the treatment of derivatives to which hedge accounting is not applied and the measurement of receivables and liabilities denominated in foreign currencies, sometimes with offsetting consequences.

For more information on these areas, please also refer to our additional comments in the "Accounting policies" section and in the notes to the relevant income statement items.

Material Transactions

On July 12, 2019, Volkswagen announced that, together with Ford Motor Company (Ford), it would be investing in Argo AI, a company that is working on the development of a system for autonomous driving. The investment involves the provision of financial resources totaling USD 1.0 billion, spread over several years, and the contribution by Volkswagen of its consolidated subsidiary Autonomous Intelligent Driving (AID). Furthermore, Volkswagen acquired existing Argo AI shares from Ford for a purchase price of USD 500 million, payable in three equal annual installments. The transaction, including the contribution of AID, was executed as of June 1, 2020. After proportional profit elimination, the contribution of AID to Argo AI at fair value resulted in a non-cash gain of €0.8 billion, which was recognized in the other operating result. Argo AI is accounted for as a joint venture and included in the consolidated financial statements using the equity method.

As part of the planned squeeze-out at AUDI AG under the German Stock Corporation Act, Volkswagen AG announced on June 16, 2020 that the cash compensation for the transfer of the shares held by minority shareholders had been set at €1,551.53 per share. On July 31, 2020, the Annual General Meeting of AUDI AG approved the squeeze-out under stock corporation law at AUDI AG and thus the transfer of all outstanding Audi shares to Volkswagen AG. Following the resolution, the present value of the put options granted, amounting to approximately €0.2 billion, had to be recognized as a current liability not affecting net income. The noncontrolling interests in the Volkswagen Group's equity and the retained earnings attributable to the shareholders of Volkswagen AG declined accordingly. This resolution took effect upon its entry in the commercial register on November 16, 2020. In December 2020, a former shareholder of AUDI AG initiated award proceedings against Volkswagen AG at the Munich I Regional Court, asking the court to review the amount of the cash settlement offered by Volkswagen AG.

On October 6, 2020, the Volkswagen Group completed the sale of its 76% interest in Renk AG following the required regulatory approvals. The sale price was €0.5 billion. The transaction generated an operating profit of €0.1 billion, which is reported in other operating result. It also resulted in an increase in net liquidity of €0.4 billion.

In fiscal year 2020, the Volkswagen Group took part in a capital increase at QuantumScape Corporation, a US-based company that develops solid-state batteries, entering into forward purchase agreements for new shares. The capital contribution comprises two tranches of USD 100 million each. The first tranche was already executed in December 2020. Execution of the second tranche is subject to a technical milestone being reached. Since there has meanwhile been a merger with a special purpose acquisition company (SPAC), which resulted in a listing on the New York Stock Exchange, the forward purchases are measured with reference to the share price of QuantumScape Corporation until the contribution has been made and the new shares have been issued. The measurement and realization resulted in a non-cash gain of €1.4 billion in fiscal year 2020, which is reported in the other financial result under gains and losses from changes in the fair value of hedges/derivatives to which hedge accounting is not applied.

Basis of consolidation

In addition to Volkswagen AG, the consolidated financial statements comprise all significant German and non-German subsidiaries, including structured entities that are controlled directly or indirectly by Volkswagen AG. This is the case if Volkswagen AG obtains power over the potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed or has rights to positive or negative variable returns from its involvement with the subsidiaries, and is able to influence those returns. In the case of the structured entities consolidated in the Volkswagen Group, Volkswagen is able to direct the material relevant activities remaining after the change in the structure even if it is not invested in the structured entity concerned and is thus able to influence the variable returns from its involvement. The structured entities are used primarily to enter into asset-backed securities transactions to refinance the financial services business and to invest surplus liquidity in special securities funds. Consolidation of subsidiaries begins at the first date on which control exists, and ends when such control no longer exists.

Subsidiaries whose business is dormant or insignificant, both individually and in the aggregate, for the fair presentation of the net assets, financial position and results of operations as well as the cash flows of the Volkswagen Group are not consolidated. They were carried in the consolidated financial statements at cost net of any impairment losses and reversals of impairment losses required to be recognized.

Significant companies where Volkswagen AG is able, directly or indirectly, to significantly influence financial and operating policy decisions (associates), or that are directly or indirectly jointly controlled (joint ventures), are accounted for using the equity method. Joint ventures also include companies in which the Volkswagen Group holds the majority of voting rights, but whose articles of association or partnership agreements stipulate that important decisions may only be resolved unanimously. Insignificant associates and joint ventures are carried at cost net of any impairment losses and reversals of impairment losses required to be recognized.

The composition of the Volkswagen Group is shown in the following table:

	2020	2019
Volkswagen AG and consolidated subsidiaries		
Germany	145	151
Abroad	736	714
Subsidiaries carried at cost		
Germany	78	78
Abroad	284	290
Associates, joint ventures and other equity investments		
Germany	80	76
Abroad	119	107
	1,442	**1,416**

The list of all shareholdings that forms part of the annual financial statements of Volkswagen AG can be downloaded from the electronic companies register at www.unternehmensregister.de and from www.volkswagenag.com/ir.

The following consolidated German subsidiaries with the legal form of a corporation or partnership meet the criteria set out in section 264(3) or section 264b of the Handelsgesetzbuch (HGB – German Commercial Code) and have as far as possible exercised the option not to publish annual financial statements:

- AUDI AG, Ingolstadt
- Audi Berlin GmbH, Berlin
- Audi Frankfurt GmbH, Frankfurt am Main
- Audi Hamburg GmbH, Hamburg
- Audi Hannover GmbH, Hanover
- AUDI Immobilien GmbH & Co. KG, Ingolstadt
- Audi Leipzig GmbH, Leipzig
- Audi München GmbH, Munich
- Audi Sport GmbH, Neckarsulm
- Audi Stuttgart GmbH, Stuttgart
- Auto & Service PIA GmbH, Munich
- Autostadt GmbH, Wolfsburg
- Bugatti Engineering GmbH, Wolfsburg
- Dr. Ing. h.c. F. Porsche AG, Stuttgart
- GETAS Verwaltung GmbH & Co. Objekt Augsburg KG, Pullach i. Isartal
- GETAS Verwaltung GmbH & Co. Objekt Heinrich-von-Buz-Straße KG, Pullach i. Isartal
- HABAMO Verwaltung GmbH & Co. Objekt Sterkrade KG, Pullach i. Isartal
- Haberl Beteiligungs-GmbH, Munich
- MAHAG Automobilhandel und Service GmbH & Co. oHG, Munich
- MAHAG GmbH, Munich
- MAHAG Sportwagen Zentrum Albrechtstraße GmbH, Munich
- MAN Energy Solutions SE, Augsburg
- MOIA GmbH, Berlin
- MOIA Operations Germany GmbH, Hanover
- Porsche Consulting GmbH, Bietigheim-Bissingen
- Porsche Deutschland GmbH, Bietigheim-Bissingen
- Porsche Dienstleistungs GmbH, Stuttgart
- Porsche Digital GmbH, Stuttgart
- Porsche Engineering Group GmbH, Weissach
- Porsche Engineering Services GmbH, Bietigheim-Bissingen
- Porsche Erste Beteiligungsgesellschaft mbH, Stuttgart
- Porsche Financial Services GmbH & Co. KG, Bietigheim-Bissingen
- Porsche Financial Services GmbH, Bietigheim-Bissingen
- Porsche Holding Stuttgart GmbH, Stuttgart
- Porsche Immobilien GmbH & Co. KG, Stuttgart
- Porsche Investments GmbH, Stuttgart
- Porsche Leipzig GmbH, Leipzig
- Porsche Lizenz- und Handelsgesellschaft mbH & Co. KG, Ludwigsburg
- Porsche Logistik GmbH, Stuttgart
- Porsche Niederlassung Berlin GmbH, Berlin
- Porsche Niederlassung Berlin-Potsdam GmbH, Kleinmachnow
- Porsche Niederlassung Hamburg GmbH, Hamburg
- Porsche Niederlassung Leipzig GmbH, Leipzig
- Porsche Niederlassung Stuttgart GmbH, Stuttgart
- Porsche Nordamerika Holding GmbH, Ludwigsburg
- Porsche Siebte Vermögensverwaltung GmbH, Wolfsburg
- Porsche Smart Mobility GmbH, Stuttgart
- Porsche Zentrum Hoppegarten GmbH, Stuttgart
- Schwaba GmbH, Augsburg
- SEAT Deutschland Niederlassung GmbH, Frankfurt am Main
- SKODA AUTO Deutschland GmbH, Weiterstadt

- SZM Sportwagen Zentrum München GmbH, Munich
- VfL Wolfsburg-Fußball GmbH, Wolfsburg
- VGRD GmbH, Wolfsburg
- VGRHH GmbH, Hamburg
- Volkswagen AirService GmbH, Braunschweig
- Volkswagen Automobile Berlin GmbH, Berlin
- Volkswagen Automobile Chemnitz GmbH, Chemnitz
- Volkswagen Automobile Frankfurt GmbH, Frankfurt am Main
- Volkswagen Automobile Hamburg GmbH, Hamburg
- Volkswagen Automobile Hannover GmbH, Hanover
- VOLKSWAGEN Automobile Leipzig GmbH, Leipzig
- Volkswagen Automobile Region Hannover GmbH, Hanover
- Volkswagen Automobile Rhein-Neckar GmbH, Mannheim
- Volkswagen Automobile Stuttgart GmbH, Stuttgart
- Volkswagen Beteiligungsverwaltung GmbH, Wolfsburg
- Volkswagen car.SW Org Wolfsburg AG, Wolfsburg
- Volkswagen Dritte Leasingobjekt GmbH, Braunschweig
- Volkswagen Erste Leasingobjekt GmbH, Braunschweig
- Volkswagen Fünfte Leasingobjekt GmbH, Braunschweig
- Volkswagen Gebrauchtfahrzeughandels und Service GmbH, Langenhagen
- Volkswagen Group IT Services GmbH, Wolfsburg
- Volkswagen Group Real Estate GmbH & Co. KG, Wolfsburg
- Volkswagen Group Services GmbH, Wolfsburg
- Volkswagen Immobilien GmbH, Wolfsburg
- Volkswagen Konzernlogistik GmbH & Co. OHG, Wolfsburg
- Volkswagen Original Teile Logistik GmbH & Co. KG, Baunatal
- Volkswagen Osnabrück GmbH, Osnabrück
- Volkswagen Sachsen GmbH, Zwickau
- Volkswagen Sechste Leasingobjekt GmbH, Braunschweig
- Volkswagen Siebte Leasingobjekt GmbH, Braunschweig
- Volkswagen Software Asset Management GmbH, Wolfsburg
- Volkswagen Vermögensverwaltungs-GmbH, Wolfsburg
- Volkswagen Vertriebsbetreuungsgesellschaft mbH, Chemnitz
- Volkswagen Vierte Leasingobjekt GmbH, Braunschweig
- Volkswagen Zubehör GmbH, Dreieich
- Volkswagen Zweite Leasingobjekt GmbH, Braunschweig

CONSOLIDATED SUBSIDIARIES

The fiscal year's changes in the consolidated Group are shown in the following table:

Number	Germany	Abroad
Initially consolidated		
Subsidiaries previously carried at cost	4	27
Newly acquired subsidiaries	0	3
Newly formed subsidiaries	0	13
	4	**43**
Deconsolidated		
Mergers	3	3
Liquidations	4	2
Sales/other	3	16
	10	**21**

The initial consolidation or deconsolidation of these subsidiaries, either individually or collectively, did not have a significant effect on the presentation of the net assets, financial position and results of operations. The unconsolidated structured entities are immaterial from a Group perspective. In particular, they do not give rise to any significant risks to the Group.

INVESTMENTS IN ASSOCIATES

From a Group perspective, the associates Sinotruk (Hong Kong) Ltd., Hongkong, China (Sinotruk), Bertrandt AG, Ehningen, Germany (Bertrandt), There Holding B.V., Rijswijk, the Netherlands (There Holding), and Navistar International Corporation, Lisle, Illinois/USA (Navistar), were material at the reporting date.

Sinotruk

Sinotruk is one of the largest truck manufacturers in the Chinese market. There is an agreement in place between Group companies and Sinotruk regarding a long-term strategic partnership, under which the Group participates in the local market. In addition to the partnership with Sinotruk in the volume segment, exports of MAN vehicles to China are also helping to expand access to the small, but fast-growing premium truck market. Sinotruk's principal place of business is in Hongkong, China.

As of December 31, 2020, the quoted market price of the shares in Sinotruk amounted to €1,436 million (previous year: €1,312 million).

Bertrandt

Bertrandt is an engineering partner to companies in the automotive and aviation industry. Its portfolio of services ranges from developing individual components through complex modules to end-to-end solutions. Bertrandt's principal place of business is in Ehningen, Germany.

As of December 31, 2020, the quoted market price of the shares in Bertrandt amounted to €116 million (previous year: €165 million).

There Holding

Together with the BMW Group, Daimler AG and other companies, Volkswagen holds an equity investment in There Holding B.V., Rijswijk (the Netherlands), an investment company. In turn, There Holding B.V. held around 60% of the shares of HERE International B.V., Eindhoven (the Netherlands), as of the end of fiscal year 2020. HERE International B.V. is one of the world's largest producers of digital road maps for navigation systems. Since the interest held does not grant control in accordance with IFRS 10, HERE International B.V. is included in the financial statements of There Holding B.V. as an associate using the equity method.

Capital increases were implemented at There Holding B.V. in January 2020, in which Volkswagen participated. As a result, the shares in There Holding B.V., which are accounted for using the equity method, increased by €19 million.

As early as in December 2019, it was announced that additional investors would acquire shares in HERE International B.V. Following the signing in December 2019 and after all antitrust approvals had been obtained, Mitsubishi Corporation (MC), Tokyo (Japan), and Nippon Telegraph and Telephone Corporation of Japan (NTT), Tokyo (Japan), jointly acquired 30% of the shares of HERE International B.V. as of May 29, 2020. As a result, the interest held by There Holding B.V. in HERE International B.V. declined from around 85% to around 60%. In June 2020 and September 2020, capital reductions were implemented at the level of There Holding B.V. in connection with the sale of shares. In this process, an amount of €197 million was attributable to the interest held by Volkswagen.

Volkswagen's ownership interest in There Holding B.V. continues to amount to 29.7%.

Navistar

Navistar International Corporation (Navistar) is a US manufacturer of commercial vehicles; it is based in Lisle, Illinois/USA. Navistar and TRATON GROUP companies have entered into master agreements for strategic technology and supply cooperation, as well as a procurement joint venture.

Since, on the basis of contractual arrangements with Navistar, TRATON SE is entitled to two out of ten seats on the Board of Directors and in view of existing cooperation agreements, the investment in Navistar is reported under equity-accounted investments in the consolidated financial statements.

On November 7, 2020, TRATON SE and Navistar announced that they had entered into a binding merger agreement under which TRATON SE would acquire all outstanding ordinary shares of Navistar not already owned by TRATON SE at a cash price of USD 44.50 per ordinary share. At the time of the agreement, TRATON SE held 16.7% of Navistar's outstanding shares. Expected to be completed in mid-2021, the transaction is subject to approval by Navistar shareholders, customary closing conditions and regulatory approvals.

As of December 31, 2020, the quoted market price of the shares in Navistar amounted to €596 million (previous year: €429 million).

SUMMARIZED FINANCIAL INFORMATION ON MATERIAL ASSOCIATES ON A 100% BASIS

€ million	Sinotruk[1]	Bertrandt[2]	There Holding	Navistar[3]
2020				
Equity interest in %	25	29	30	17
Noncurrent assets	2,578	666	1,190	1,765
Current assets	8,755	481	24	3,921
Noncurrent liabilities	185	408	–	6,072
Current liabilities	7,180	197	0	2,888
Net assets	3,969	541	1,214	–3,274
Sales revenue	9,072	915	–	6,664
Earnings after tax from continuing operations	538	–19	206	–292
Earnings after tax from discontinued operations	–	–	–	–
Other comprehensive income	–1	–1	10	212
Total comprehensive income	537	–20	216	–80
Dividends received[4]	30	5	–	–
2019				
Equity interest in %	25	29	30	17
Noncurrent assets	2,351	575	1,131	1,762
Current assets	6,127	468	467	4,441
Noncurrent liabilities	50	313	–	6,336
Current liabilities	4,669	153	0	3,206
Net assets	3,758	578	1,597	–3,339
Sales revenue	8,047	1,058	–	10,004
Earnings after tax from continuing operations	627	16	–390	216
Earnings after tax from discontinued operations	–	–	–	–
Other comprehensive income	0	–1	1	7
Total comprehensive income	627	15	–389	223
Dividends received[4]	47	6	–	–

1 Balance sheet amounts refer to the June 30 reporting date and income statement amounts refer to the period from July 1 to June 30.
2 Balance sheet amounts refer to the September 30 reporting date and income statement amounts refer to the period from October 1 to September 30.
3 Balance sheet amounts refer to the October 31 reporting date and income statement amounts refer to the period from November 1 to October 31.
4 Proportionate dividends are shown net of withholding tax.

RECONCILIATION OF THE FINANCIAL INFORMATION TO THE CARRYING AMOUNT OF THE EQUITY-ACCOUNTED INVESTMENTS

€ million	Sinotruk	Bertrandt	There Holding	Navistar
2020				
Net assets at January 1	3,758	578	1,597	–3,339
Profit or loss	538	–19	206	–292
Other comprehensive income	–1	–1	10	212
Changes in reserves	–124	–	–599	7
Foreign exchange differences	–56	–	–	153
Dividends[1]	–146	–16	–	–15
Net assets at December 31	3,969	541	1,214	–3,274
Proportionate equity	992	157	361	–547
Consolidation/Goodwill/Others	–384	–36	–	923
Carrying amount of equity-accounted investments	608	120	361	376
2019				
Net assets at January 1	3,395	583	1,764	–3,461
Profit or loss	627	16	–390	216
Other comprehensive income	0	–1	1	7
Changes in reserves	1	–	222	–21
Foreign exchange differences	–46	–	–	–60
Dividends[1]	–218	–20	–	–20
Net assets at December 31	3,758	578	1,597	–3,339
Proportionate equity	940	167	475	–560
Consolidation/Goodwill/Others	–388	80	–	1,007
Carrying amount of equity-accounted investments	552	247	475	447

1 Dividends are shown before withholding tax.

SUMMARIZED FINANCIAL INFORMATION ON INDIVIDUALLY IMMATERIAL ASSOCIATES ON THE BASIS OF THE VOLKSWAGEN GROUP'S PROPORTIONATE INTEREST

€ million	2020	2019
Earnings after tax from continuing operations	–25	27
Earnings after tax from discontinued operations	–	–
Other comprehensive income	0	12
Total comprehensive income	–26	39
Carrying amount of equity-accounted investments	1,663	597

There were unrecognized losses of €7 million (previous year: €54 million) relating to investments in associates. Furthermore, there were no contingent liabilities or financial guarantees relating to associates.

INTERESTS IN JOINT VENTURES

From a Group perspective, the joint ventures FAW-Volkswagen Automotive Company Ltd., Changchun, China, SAIC-Volkswagen Automotive Company Ltd., Shanghai, China, and SAIC-Volkswagen Sales Company Ltd., Shanghai, China, were material at the reporting date due to their size.

FAW-Volkswagen Automotive Company

FAW-Volkswagen Automotive Company develops, produces and sells passenger cars. There is an agreement in place between Group companies and the joint venture partner China FAW Corporation Limited regarding a long-term strategic partnership. The principal place of business is in Changchun, China.

SAIC-Volkswagen Automotive Company

SAIC-Volkswagen Automotive Company develops and produces passenger cars. There is an agreement in place between Group companies and the joint venture partner Shanghai Automotive Industry Corporation regarding a long-term strategic partnership. The principal place of business is in Shanghai, China.

SAIC-Volkswagen Sales Company

SAIC-Volkswagen Sales Company sells passenger cars for SAIC-Volkswagen Automotive Company. There is an agreement in place between Group companies and the joint venture partner Shanghai Automotive Industry Corporation regarding a long-term strategic partnership. The principal place of business is in Shanghai, China.

SUMMARIZED FINANCIAL INFORMATION ON THE MATERIAL JOINT VENTURES ON A 100% BASIS

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company[1]	SAIC-Volkswagen Sales Company
2020			
Equity interest in %	40	50	30
Noncurrent assets	11,504	8,871	932
Current assets	9,844	6,509	3,889
of which cash and cash equivalents	3,525	2,711	123
Noncurrent liabilities	1,062	843	130
of which financial liabilities[2]	–	–	–
Current liabilities	12,759	10,601	4,291
of which financial liabilities[2]	–	–	–
Net assets	7,528	3,936	399
Sales revenue	46,282	20,350	23,446
Depreciation and amortization	1,785	1,776	25
Interest income	126	62	5
Interest expenses	6	38	–
Earnings before tax from continuing operations	4,937	2,187	465
Income tax expense	1,272	444	118
Earnings after tax from continuing operations	3,665	1,743	347
Earnings after tax from discontinued operations	–	–	–
Other comprehensive income	24	–9	–
Total comprehensive income	3,689	1,734	347
Dividends received[3]	1,308	1,230	149
2019			
Equity interest in %	40	50	30
Noncurrent assets	12,069	9,355	896
Current assets	11,876	8,251	4,477
of which cash and cash equivalents	5,423	6,513	210
Noncurrent liabilities	1,221	1,130	160
of which financial liabilities[2]	–	–	–
Current liabilities	15,321	11,674	4,665
of which financial liabilities[2]	29	1	–
Net assets	7,403	4,802	548
Sales revenue	44,181	26,922	32,115
Depreciation and amortization	1,825	2,190	21
Interest income	125	53	5
Interest expenses	4	2	–
Earnings before tax from continuing operations	4,775	3,594	659
Income tax expense	1,251	845	166
Earnings after tax from continuing operations	3,524	2,749	493
Earnings after tax from discontinued operations	–	–	–
Other comprehensive income	–49	3	–
Total comprehensive income	3,475	2,752	493
Dividends received[3]	1,332	1,732	153

1 SAIC-Volkswagen Sales Company sells passenger cars for SAIC-Volkswagen Automotive Company. Therefore, the sales revenue reported for SAIC-Volkswagen Automotive Company was mostly generated from its business with SAIC-Volkswagen Sales Company.
2 Excluding trade liabilities.
3 Proportionate dividends are shown net of withholding tax.

RECONCILIATION OF THE FINANCIAL INFORMATION TO THE CARRYING AMOUNT OF THE EQUITY-ACCOUNTED INVESTMENTS

€ million	FAW-Volkswagen Automotive Company	SAIC-Volkswagen Automotive Company	SAIC-Volkswagen Sales Company
2020			
Net assets at January 1	7,403	4,802	548
Profit or loss	3,665	1,743	347
Other comprehensive income	24	–9	–
Changes in share capital	–	–	–
Changes in reserves	–	–	–
Foreign exchange differences	–149	–33	0
Dividends[1]	–3,416	–2,567	–497
Net assets at December 31	7,528	3,936	399
Proportionate equity	3,011	1,968	120
Consolidation/Goodwill/Others	–792	–803	–
Carrying amount of equity-accounted investments	2,219	1,165	120
2019			
Net assets at January 1	7,358	5,538	549
Profit or loss	3,524	2,749	493
Other comprehensive income	–49	3	–
Changes in share capital	–	–	–
Changes in reserves	–	–	–
Foreign exchange differences	54	37	16
Dividends[1]	–3,483	–3,524	–509
Net assets at December 31	7,403	4,802	548
Proportionate equity	2,961	2,401	164
Consolidation/Goodwill/Others	–760	–803	–
Carrying amount of equity-accounted investments	2,201	1,599	164

1 Dividends are shown before withholding tax.

SUMMARIZED FINANCIAL INFORMATION ON INDIVIDUALLY IMMATERIAL JOINT VENTURES ON THE BASIS OF THE VOLKSWAGEN GROUP'S PROPORTIONATE INTEREST

€ million	2020	2019
Earnings after tax from continuing operations	166	434
Earnings after tax from discontinued operations	–	–
Other comprehensive income	–186	3
Total comprehensive income	–20	436
Carrying amount of equity-accounted investments	3,447	1,887

There were unrecognized losses of €26 million (previous year: €29 million) relating to investments in joint ventures. Contingent liabilities to joint ventures amounted to €248 million (previous year: €224 million), while financial guarantees stood at €70 million (previous year: €134 million). Cash funds of joint ventures amounting to €197 million (previous year: €276 million) are deposited as collateral for asset-backed securities transactions and are therefore not freely available.

IFRS 5 – NON-CURRENT ASSETS HELD FOR SALE

As of December 31, 2019, the RENK AG subgroup and the consolidated subsidiary Autonomous Intelligent Driving (AID) were classified as disposal groups held for sale in accordance with IFRS 5 and measured at their carrying amounts. Assets of €795 million and liabilities of €370 million attributable to the disposal groups were reported in a separate balance sheet item as of December 31, 2019.

The sale of RENK was completed on October 6, 2020 following the required regulatory approvals. The sale price was €0.5 billion.

The contribution of AID was effected as of June 1, 2020. After proportional profit elimination, the contribution of AID to Argo AI at fair value resulted in a non-cash gain of €0.8 billion, which was recognized in the other operating result.

Consolidation methods

The assets and liabilities of the German and foreign companies included in the consolidated financial statements are recognized in accordance with the uniform accounting policies used within the Volkswagen Group. In the case of companies accounted for using the equity method, the same accounting policies are always applied to determine the proportionate equity, based on the most recent audited annual financial statements of each company.

In the case of subsidiaries consolidated for the first time, assets and liabilities are generally measured at their fair value at the date of acquisition. Their carrying amounts are adjusted in subsequent years. Goodwill arises when the purchase price of the investment exceeds the fair value of identifiable net assets. Goodwill is tested for impairment at least once a year to determine whether its carrying amount is recoverable. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized. If this is not the case, there is no change in the carrying amount of goodwill compared with the previous year. If the purchase price of the investment is less than the identifiable net assets, the difference is recognized in the income statement in the year of acquisition. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries. Any difference that arises from the acquisition of additional shares of an already consolidated subsidiary is taken directly to equity. Unless otherwise stated, the proportionate equity directly attributable to noncontrolling interests is determined at the acquisition date as the share of the fair value of the assets (excluding goodwill) and liabilities attributable to them. Contingent consideration is measured at fair value at the acquisition date. Subsequent changes in the fair value of contingent consideration do not generally result in the adjustment of the acquisition-date measurement. Acquisition-related costs that are not equity transaction costs are not added to the purchase price; they are recognized as expenses in the period in which they are incurred.

The consolidation process involves adjusting the items in the separate financial statements of the parent and its subsidiaries and presenting them as if they were those of a single economic entity. Intragroup assets, liabilities, equity, income, expenses and cash flows are eliminated in full. Intercompany profits or losses are eliminated in Group inventories and noncurrent assets. Deferred taxes are recognized for consolidation adjustments, and deferred tax assets and liabilities are offset where taxes are levied by the same tax authority and have the same maturity.

Currency translation

Transactions in foreign currencies are translated in the single-entity financial statements of Volkswagen AG and its consolidated subsidiaries at the rates prevailing at the transaction date. Foreign currency monetary items are recorded in the balance sheet using the middle rate at the closing date. Foreign exchange gains and losses are recognized in the income statement. This does not apply to foreign exchange differences from loans receivable that represent part of a net investment in a foreign operation. The financial statements of foreign companies are translated into euros using the functional currency concept, under which asset and liability items are translated at the closing rate. With the exception of income and expenses recognized directly in equity, equity is translated at historical rates. The resulting foreign exchange differences are recognized in other comprehensive income until disposal of the subsidiary concerned, and are presented as a separate item in equity.

Income statement items are translated into euros at weighted average rates.

The rates applied are presented in the following table:

		BALANCE SHEET MIDDLE RATE ON DECEMBER 31		INCOME STATEMENT AVERAGE RATE	
	€1 =	2020	2019	2020	2019
Argentina	ARS	103.28799	67.23626	100.39080	53.78083
Australia	AUD	1.58605	1.60080	1.61589	1.61071
Brazil	BRL	6.37555	4.51350	6.27218	4.41485
Canada	CAD	1.56275	1.46205	1.55979	1.48595
Czech Republic	CZK	26.23900	25.40650	26.30420	25.66983
India	INR	89.69000	80.15450	89.57211	78.86396
Japan	JPY	126.51000	121.89500	126.26457	122.08649
Mexico	MXN	24.41145	21.24340	24.29728	21.56326
People's Republic of China	CNY	8.02895	7.81470	7.95821	7.73444
Poland	PLN	4.55615	4.25970	4.47717	4.29784
Republic of Korea	KRW	1,336.21000	1,296.35000	1,332.54652	1,304.89265
Russia	RUB	91.77540	69.84685	90.25599	72.46709
South Africa	ZAR	18.01515	15.76470	18.11555	16.17716
Sweden	SEK	10.02470	10.44505	10.17259	10.58593
United Kingdom	GBP	0.89925	0.84995	0.90553	0.87744
USA	USD	1.22760	1.12275	1.21663	1.11974