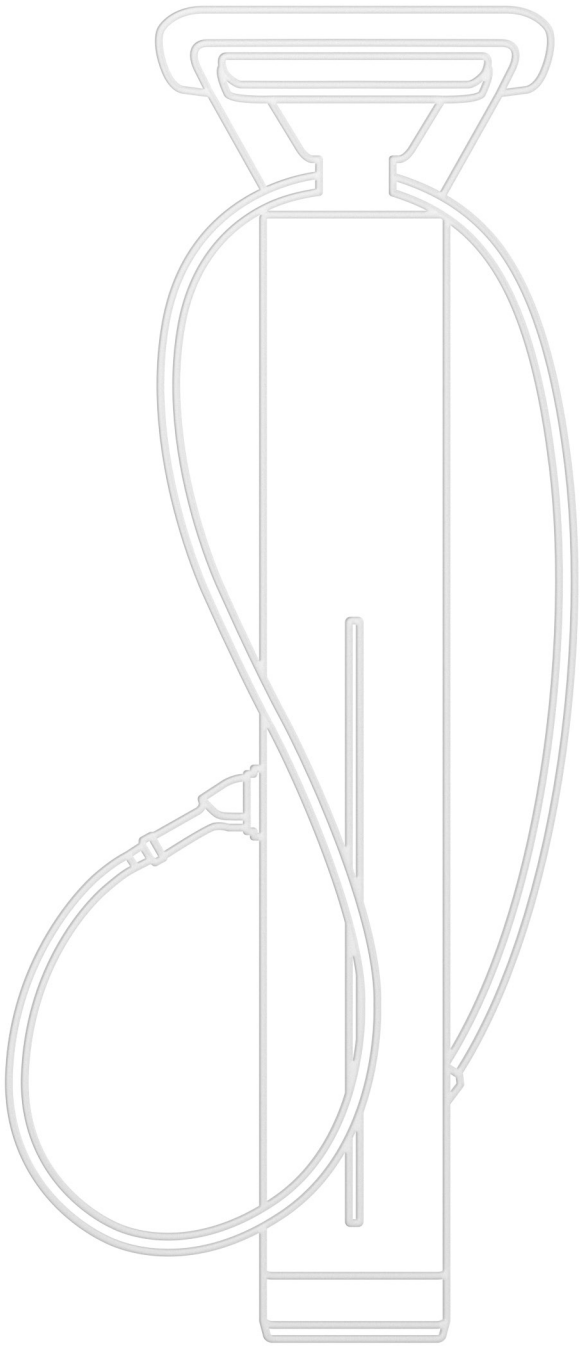


4

Group Management Report

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

GROUP MANAGEMENT REPORT

Goals and Strategies

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

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

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

With the TOGETHER 2025+ Group strategy that we enhanced in 2019, we are increasing the momentum for achieving our strategic targets and sharpening our focus. To this end, the strategic vision of the Volkswagen Group was also revised. By "Shaping mobility – for generations to come", we aim to more actively shape the future of mobility while safeguarding it sustainably – for present and future generations.

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

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

Under the umbrella of the TOGETHER 2025+ Group strategy, we have defined five central modules with which we put the focus on corporate governance, improved performance, increased brand values, software and excellence in employee management.

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

FIVE MODULES OF THE TOGETHER 2025+ STRATEGY

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

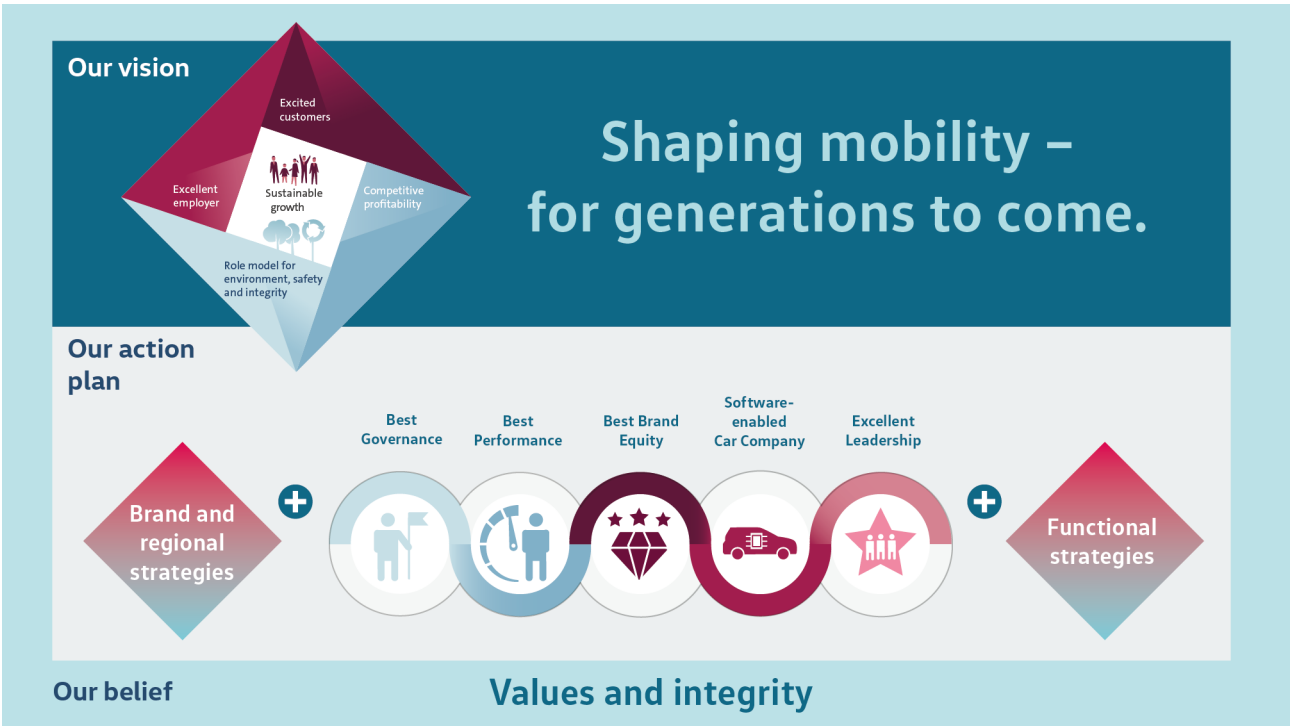
These modules are namely Best Governance, Best Performance, Best Brand Equity, Software-enabled Car Company and Excellent Leadership. We continuously review the status and progress of these initiatives in order to analyze the target achievement, importance and suitability of the measures defined. This enables us to tailor these modules to the transformation underway within our Company.

In the Best Governance module, we are working to create a focused, streamlined corporate structure to manage the brands, continually leverage synergies and accelerate decision-making processes. We want the Group to be perceived as efficiently managed, trustworthy, sustainable and transparent. To this end, we are intensifying the dialog with our key stakeholders and systematically reviewing whether we are still the best owner for our various brands and companies. We also want our CO_2 targets to be measurable and our progress toward CO_2 neutrality in 2050 to be transparent. We will strive to establish a leading position in our industry in international ESG rankings – specifically in the fields of environment, social issues and governance – in the future.

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

In the Best Brand Equity module, the focus is on realigning and refining the brand portfolio to enable a significant increase in the value of our Group brands. We are defining the profiles, brand missions and core competitors of the Volkswagen Group brands in a more nuanced and distinctive way. This will enable the Group to better serve the market as a whole. Based on these optimizations, we will decide on the future design, product portfolio and services of each Group brand – using the needs of our customers as a starting point.

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



The Excellent Leadership module is based on three main areas: communication, human resources development and collaboration. To remain competitive and fit for the future, we will accelerate the transformation to a more open, more partnership-based and more value-based leadership culture. We are developing digital and dialogue-based communication formats to enable a more timely flow of information and integrate all brands and regions even more strongly. We are completely restructuring management development and training and taking an even more systematic approach to succession planning so that, at our Group, the right talent is always in the right position at the right time. We are also defining clear expectations for the Group's managers. These involve greater customer focus, more corporate responsibility, greater effectiveness and focus on results as well as a culture of constructive dissent and a positive approach in dealing with mistakes. Volkswagen also wants to increase diversity at all levels of the company and is pursuing clear, measurable targets for raising the proportion of female and international managers.

GOALS AND KEY PERFORMANCE INDICATORS OF THE GROUP'S STRATEGY

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

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

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

Target dimension: excited customers

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

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

Target dimension: excellent employer

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

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

Target dimension: role model for environment, safety and integrity

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

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

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

Target dimension: competitive profitability

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

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

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

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

STRATEGIC KPIS: COMPETITIVE PROFITABILITY

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

1 2015 before special items.

Internal Management System and Key Performance Indicators

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

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

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

INTERNAL MANAGEMENT PROCESS IN THE VOLKSWAGEN GROUP

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

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

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

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

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

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

CORE PERFORMANCE INDICATORS IN THE VOLKSWAGEN GROUP

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

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

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

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

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

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

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

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

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

Structure and Business Activities

This chapter describes the legal and organizational structure of the Volkswagen Group and explains the material changes in 2020 with respect to equity investments.

OUTLINE OF THE LEGAL STRUCTURE OF THE GROUP

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

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

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

ORGANIZATIONAL STRUCTURE OF THE GROUP

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

The Automotive Division comprises the Passenger Cars, Commercial Vehicles and Power Engineering business areas.

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

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

The Power Engineering Business Area combines the large-bore diesel engines, turbomachinery, special gear units, and propulsion components businesses. Until October 2020, it also included the business of Renk.

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

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

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

Accordingly, responsibilities were divided between eight Board of Management positions until December 31, 2020. In addition to the Chairman of the Board of Management, which also includes the Volume brand group, the other Board positions were: Components and Procurement, Finance and IT, Human Resources and Truck & Bus, Integrity and Legal Affairs, Premium, Sport & Luxury as well as China. As of December 31, 2020, the board member for Finance and IT was also responsible for Components and Procurement on a temporary basis, and the Chairman of the Board of Management was also responsible for China.

In December 2020, the Supervisory Board decided to split up the responsibility for Components and Procurement from January 1, 2021, replacing it with two new Board positions: Purchasing and Technology. The new Technology Board position will be responsible for all Group Components activities worldwide, the marketing of the Volkswagen platforms to third parties, the development and manufacturing of battery cells as well as the associated procurement, the areas of charging and charging systems and the corresponding joint ventures worldwide.

The Volume brand group comprises the Volkswagen Passenger Cars, SEAT, ŠKODA and Volkswagen Commercial Vehicles brands. The Audi, Lamborghini and Ducati brands are brought together in the Premium brand group. Sport & Luxury is comprised of the Porsche, Bentley and Bugatti brands. Bentley will be allocated to the Premium brand group as of March 1, 2021. The Truck & Bus brand group is the umbrella for the Scania and MAN brands.

We are convinced that this management model will allow better use of existing expertise and economies of scale, boost synergy effects more systematically and accelerate decision making. In addition, it will prepare the Volkswagen Group for a management structure that is simpler, leaner and more effective, and strengthen the brands, giving them more autonomy. In line with the principle of subsidiarity, decisions will be taken at the lowest competent level, close to business operations, improving collaboration between the brands and the Group as a whole, leveraging synergies and ensuring that management of the Group is a shared undertaking.

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

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

In addition, at Group level, Board of Management committees address key strategic issues relating to products, technologies, investments, digital transformation, integrity and compliance, risk management, human resources and management issues. We constantly revise and optimize the committees in order to review their relevance and further increase the efficiency of their decision making. This reduces complexity and reinforces governance within the Group.

The Best Governance module of our future program TOGETHER 2025+ is fostering our Company's transformation. One of its aims is to further improve manageability of the Group and to make even better use of synergy effects. The establishment of the Car.Software Organisation was just one way of further enhancing management of the Group in the reporting year.

MATERIAL CHANGES IN EQUITY INVESTMENTS

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 settlement for the transfer of 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. 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.

LEGAL FACTORS INFLUENCING BUSINESS

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

GROUP CORPORATE GOVERNANCE DECLARATION

The Group Corporate Governance Declaration can be found in this annual report and is permanently available on our website at www.volkswagenag.com/en/InvestorRelations/corporate-governance/declaration-of-conformity.html.

i VOLKSWAGEN AG SHAREHOLDINGS
www.volkswagenag.com/en/InvestorRelations/news-and-publications/Financial_Statements.html

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

Disclosures Required Under Takeover Law

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

CAPITAL STRUCTURE

Volkswagen AG's share capital amounted to €1,283,315,873.28 (€1,283,315,873.28) on December 31, 2020. It was composed of 295,089,818 ordinary shares and 206,205,445 preferred shares. Each share conveys a notional interest of €2.56 in the share capital.

SHAREHOLDER RIGHTS AND OBLIGATIONS

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

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

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

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

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

SHAREHOLDINGS EXCEEDING 10% OF VOTING RIGHTS

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

COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board consists of 20 members, half of whom are shareholder representatives. In accordance with Article 11(1) of the Articles of Association of Volkswagen AG, the

State of Lower Saxony is entitled to appoint two of these shareholder representatives for as long as it directly or indirectly holds at least 15% of the Company's ordinary shares. The remaining shareholder representatives on the Supervisory Board are elected by the Annual General Meeting.

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

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

The goals for the composition of the Supervisory Board and information about its composition are described in the Group Corporate Governance Declaration.

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

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

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

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

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

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

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

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

At the end of fiscal year 2019, a banking syndicate granted Volkswagen AG a syndicated line of credit amounting to €10.0 billion that currently runs until December 2025. With the new line of credit, the syndicate members were granted the right to call their portion of the syndicated line of credit in two cases. A call right exists if one individual or several individuals acting jointly who as of the date of this agreement exercise control over the Company have legal or economic ownership of shares that together make up more than 90% of the voting rights of the Company. However, a call right also exists if one individual or several individuals acting jointly who as of the date of this agreement do not exercise control over the Company obtain control over the Company. Such a call right does not exist, however, if one shareholder or several shareholders of Porsche Automobil Holding SE or one or several legal entities from the Porsche or Piëch family directly or indirectly obtains control over the Company.

Volkswagen AG and the Ford Motor Company entered into a Master Collaboration Agreement in January 2019. This agreement sets out a framework of obligations, which are to apply to the further co-operation agreements entered into between the parties, including those entered into in fiscal year 2020. It also covers the Development Agreement concluded in January 2019 for the development of the next-generation Amarok. The Master Collaboration Agreement provides for a right of termination with immediate effect in the event of a Change of Control. A Change of Control has been defined to mean a change affecting more than 50% of the voting rights of one of the companies or a change in the ability to directly or indirectly control the management of one company through its decision making bodies. The right of termination must be exercised within 90 days of the company becoming aware of a Change of Control.

Business Development

The global economy recorded negative growth in fiscal year 2020 due to the impact of the Covid-19 pandemic. Global demand for vehicles was lower than in the previous year. Amid these challenging market conditions, the Volkswagen Group delivered 9.3 million vehicles to customers.

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

At the end of 2019, initial cases of a potentially fatal respiratory disease became known in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also appeared outside China from mid-January 2020. In Europe, the number of people infected rose continuously in the course of February, and especially in March and April 2020. While many European countries recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central and South America, Africa and parts of Asia. In the second quarter, many of the measures taken to contain the Covid-19 pandemic were gradually eased, especially in Europe. This included partially lifting border controls and travel restrictions and easing lockdowns as well as the reopening of businesses and public facilities. In addition, the European Commission and numerous European governments approved aid packages to support the economy. In other regions, too, governments introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the Covid-19 pandemic. During the third quarter, and particularly during the fourth quarter of 2020, many regions outside China and around the world saw a renewed – and in some cases very rapid – increase in new infections, which led to the easing of restrictions being reversed in certain situations.

Throughout the whole of 2020, the global spread of the SARS-CoV-2 virus brought enormous disruption to all areas of everyday life and the economy.

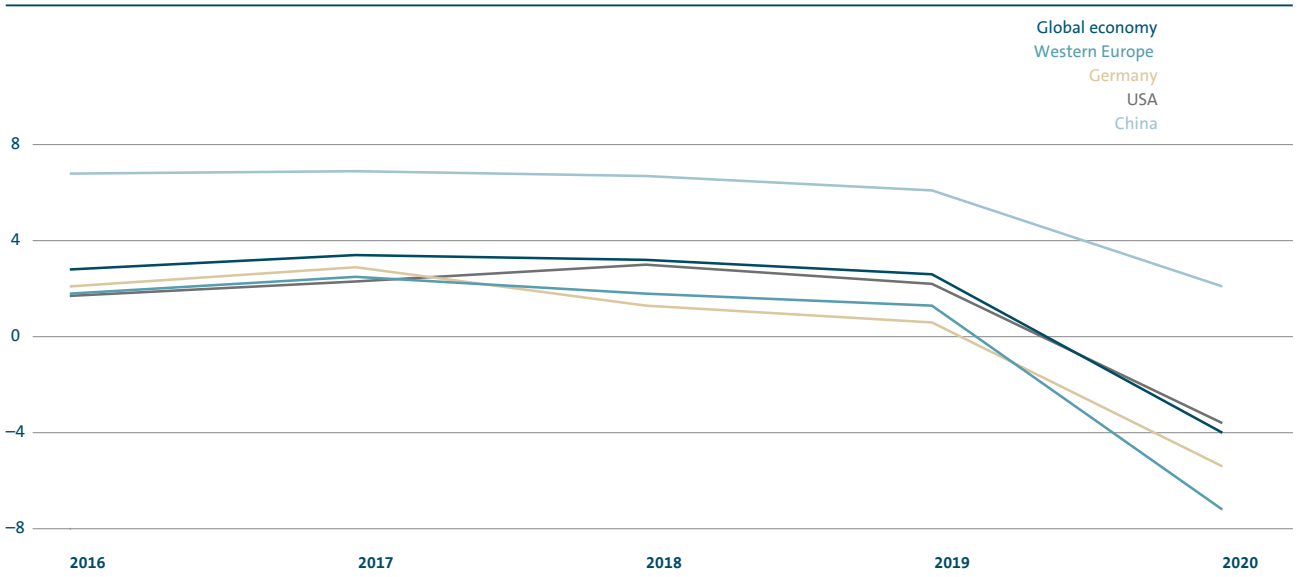
DEVELOPMENTS IN THE GLOBAL ECONOMY

The global spread of the SARS-CoV-2 virus, the associated restrictions, and the resulting downturn in demand and supply meant that growth in the world economy was negative in 2020, at –4.0 (2.6)%. The average rate of expansion of gross domestic product (GDP) was far below the previous year's level in both the advanced economies and the emerging markets. At country level, performance in the reporting period depended on the extent to which the negative impact of the Covid-19 pandemic was already materializing. The governments and central banks of numerous countries responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a significant drop in prices for energy resources, while other commodity prices increased slightly year-on-year on average. On a global average, consumer prices rose at a slower pace than in 2019, and global trade in goods declined in the reporting period.

Europe/Other Markets

At –7.2 (1.3)%, the economies of Western Europe as a whole, recorded a sharp fall in growth in 2020. This trend was seen in nearly all countries in Northern and Southern Europe. The impact of national measures to contain the pandemic, including border closures and physical distancing, caused deep cuts. In some states, the measures severely restricted everyday life and also had grave economic consequences. Governments of many countries in this region subsequently started to lift some of the restrictions imposed, spawning a gradual economic recovery.

ECONOMIC GROWTH
Percentage change in GDP



Due to the renewed increase in case numbers in many countries as the year went on, several of these measures were tightened again, or at least left in place. In addition, the uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) generated uncertainty in fiscal year 2020, as did the related question of what form this relationship would take in the future.

The economies in Central and Eastern Europe reported a marked decline in the real absolute GDP in 2020 at –3.7 (2.5)%, with economic output falling by –3.4 (2.9)% in Central Europe and by –4.0 (2.0)% in Eastern Europe. The same trend was observed in Russia; economic output in Eastern Europe's largest economy contracted by –4.1 (1.3)%.

Turkey was unable to sustain the recovery seen in the first quarter, with GDP growth declining to 0.2 (1.0)% for 2020 as a whole but remaining in positive territory. South Africa's GDP trend declined sharply in the reporting period to –7.3 (0.2)% amid persistent structural deficits and political challenges.

Germany

Germany's economic output showed a significantly negative trend in the reporting year at –5.3 (0.6)%. The labor market was in a favorable situation at the start of the year, but the pandemic led many companies to introduce short-time working (Kurzarbeit) throughout the course of the year. The temporary easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy led to improved confidence among consumers and companies as the year progressed. However, it only occasionally matched the previous years' levels.

North America

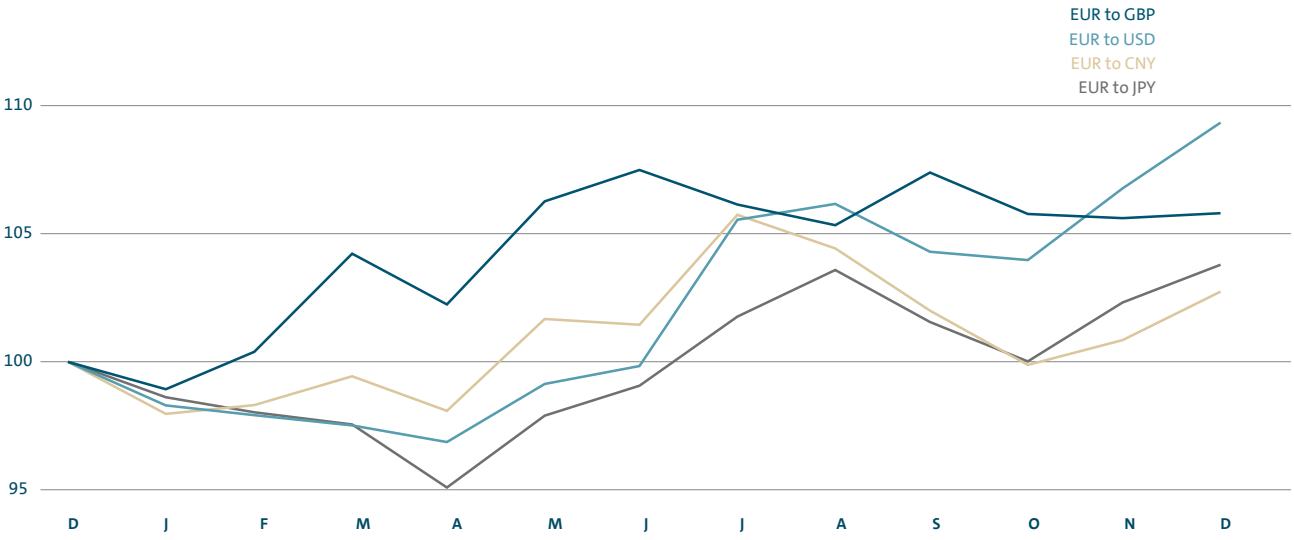
US economic output declined by –3.6 (2.2)% in the reporting year as rates of infection soared. To strengthen the economy in light of the disruption caused by the Covid-19 pandemic, the US government passed comprehensive stimulus packages. The US Federal Reserve cut interest rates twice, alongside other measures to support the economy. The weekly number of people filing new claims for unemployment benefits rose by several million before declining but still remaining at a relatively high level. This was reflected accordingly in the unemployment rate, which more than doubled year-on-year to 8.1 (3.7)% in the reporting period. GDP fell by –5.7 (1.9)% in neighboring Canada and by –9.0 (0.0)% in Mexico.

South America

Brazil's economy recorded a decline of –4.6 (1.4)% in 2020, resulting from the dynamic rate of infection caused by the Covid-19 pandemic. At –11.1 (–2.1)%, the economic downturn in Argentina intensified amid continued high inflation and substantial depreciation of the local currency compared with the previous year.

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2019 TO DECEMBER 2020

Index based on month-end prices: as of December 31, 2019 = 100



Asia-Pacific

The Chinese economy, which had been exposed to the negative effects of the Covid-19 pandemic earlier than other economies and benefited from a relatively small number of new infections as the year progressed, recorded positive growth rates from the second quarter onwards, expanding by 2.1 (6.1)% overall. Growth in India fell sharply to –8.9 (4.2)% amid relatively high infection rates. Japan also recorded negative growth of –5.4 (0.3)% compared with the same period of the previous year owing to the negative impact of the Covid-19 pandemic.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2020, the global market volume of passenger cars fell significantly below the prior-year level due to the Covid-19 pandemic, decreasing to 67.7 million vehicles (–15.2%). This marked a decline for the third year in a row. All regions were affected by this slump. The overall markets of Western Europe, South America and Africa recorded above-average losses, while the decline in Asia-Pacific and the Middle East was smaller in percentage terms.

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

Sector-specific environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed considerably to the mixed trends in sales volumes in the markets in 2020. These measures included tax cuts or increases, incentive programs and sales incentives, as well as import duties.

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

Europe/Other Markets

In Western Europe, the number of new passenger car registrations in the reporting period was down substantially by as much as –24.5% on the prior-year figure, at 10.9 million vehicles. The negative impact from the spread of the SARS-CoV-2 virus was noticeable in all countries in the region as early as March. After the drastic decline at the beginning of the second quarter, recovery started in the months that followed, and by the end of the third quarter, figures even matched those of the prior year. The fourth quarter of 2020 witnessed a lateral movement in the market, keeping volumes noticeably below the previous year's level. New registrations saw declines on a similar scale in all major individual markets and were in negative territory at year-end: France (–25.4%), Italy (–27.9%), the UK (–29.4%) and Spain (–32.1%).

The volume of new registrations of light commercial vehicles in Western Europe fell significantly below the prior-year figure, essentially due to the pandemic.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2020 was down 15.9% on the prior-year level at 2.8 million vehicles. Following the

slump in the second quarter and the recovery in the third quarter, the volume of new vehicle registrations flatlined in the fourth quarter and was moderately short of the previous year's figure. The development of demand in the reporting period differed from market to market. In Central Europe, the number of new registrations dropped substantially by 23.3% to 1.1 million units. By contrast, the decline in sales of passenger cars in Eastern Europe (–10.1%) was weaker, due in particular to demand in Russia slowing less sharply (–8.8%).

Registration volumes for light commercial vehicles in Central and Eastern Europe were down significantly year-on-year. In Russia, the number of vehicles sold in the reporting period was also significantly lower than in the previous year.

At 0.6 million units, the volume of the passenger car market in Turkey in the reporting period was up by over 50% on the very low prior-year level. The increase in demand was boosted in particular by the strong growth in the third quarter of 2020. In South Africa, the pandemic meant that the number of new passenger car registrations was down sharply on the comparatively poor results of the previous year (–30.4%).

Germany

New passenger car registrations in Germany in fiscal year 2020 fell significantly short of the previous year's high level, declining to 2.9 million units (–19.1%). Exacerbated by the Covid-19 pandemic and its fallout, demand for passenger cars fell to its lowest level since the German reunification despite a temporary reduction in value-added tax and higher purchase premiums for electric vehicles.

Owing to the mandated temporary shutdowns driven by the pandemic and weak demand in important foreign markets, domestic production and exports in the reporting period again fell short of the comparable prior-year figures: passenger car production decreased by –24.6% to 3.5 million vehicles, largely due to the –24.1% drop in passenger car exports to 2.6 million units.

Demand for light commercial vehicles in Germany in the reporting period was significantly lower than in 2019.

North America

At 17.1 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America in fiscal year 2020 were down significantly on the prior-year figure (–15.9%). The negative effects of the Covid-19 pandemic were also very noticeable in this region. After a drastic decline in demand at the beginning of the second quarter and a steady recovery in the months that followed, until the prior-year level was reached in September, the region witnessed volatile market performance in the last quarter of 2020. In December, a new recovery set in and the previous year's figure was exceeded. The market volume in the USA remained markedly lower than the 2019 level, falling to 14.6 million units (–14.5%). The decline affected both the passenger car segment (–28.3%) and light commercial vehicles (–11.9%) such as SUVs and pickup models. In the Canadian automotive market, the Covid-19 pandemic significantly accelerated the downward trend that began in 2018 (–19.7%). In Mexico, sales of passenger cars and light commercial vehicles declined sharply (–28.0%), falling short of the prior-year figure for the fourth year in a row.

South America

In the markets of the South America region, the volume of new registrations for passenger cars and light commercial vehicles in 2020 was much lower (–28.1%) at 3.1 million units following the drastic decline in the second quarter, a strong recovery in the third quarter and a lateral movement in the fourth quarter, though falling short of the levels recorded in the previous year. The South America region saw the most severe negative impact of the Covid-19 pandemic on the automotive markets in terms of percentage. In Brazil, the recovery in vehicle demand that began in 2017 was interrupted in the reporting year; at 2.0 million vehicles (–26.7%), the number of new registrations was sharply lower than in the prior-year period. Exports of vehicles manufactured in Brazil continued to decline, falling by –24.3% to 324 thousand. In the Argentinian market, too, the spread of the SARS-CoV-2 virus negatively impacted the demand for passenger cars and light commercial vehicles. In 2020, there was a sharp –26.6% fall in sales to 0.3 million units.

Asia-Pacific

In the Asia-Pacific region, too, the reporting period was adversely impacted by the spread of the SARS-CoV-2 virus. After the very sharp decline in the first three months, the rapid rebound in the second quarter and a return to prior-year levels in the third quarter, demand in the last quarter of 2020 was moderately up on the previous year. The market volume of passenger cars was noticeably lower than the prior-year level at 30.9 million units (–9.6%). This was also partly due to developments in the Chinese passenger car market, where the volume of demand fell distinctly short of the previous year to 19.9 million units (–6.5%) as a result of the Covid-19 pandemic. Following the severe losses in the first three months of 2020, there were clear signs of a recovery in the overall market there as the year went on. In India, sales of passenger cars dwindled significantly year-on-year, falling by –17.3% to 2.3 million units. In the Japanese passenger car market, vehicle demand in the reporting period

of 3.8 million units (–11.2%) was down markedly on the previous year due not only to the Covid-19 pandemic, but also to the increase in VAT as of October 1, 2019.

There was a significant year-on-year decline in demand for light commercial vehicles in the Asia-Pacific region. Registration volumes in China, the region's dominant market and the largest market worldwide, fell distinctly year-on-year. The number of new vehicle registrations was significantly below the previous year's level in Japan and drastically lower in India.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was down substantially year-on-year in fiscal year 2020 due to the spread of the SARS-CoV-2 virus: 460 thousand new vehicles were registered (–20.1%). Despite the ongoing uncertainty generated by the Covid-19 pandemic, a recovery could be seen in almost all of the markets that are relevant for the Volkswagen Group in the second half of 2020 compared with the first six months.

In the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was sharply down on the prior-year figure, dropping –27.4% to a total of 273 thousand vehicles. Registrations in Germany, the largest market in this region, fell substantially year-on-year. The previously anticipated downturn in the market for 2020 was amplified by the Covid-19 pandemic, especially in the second quarter of the year. The Russian market also deteriorated noticeably as a consequence of the Covid-19 pandemic and the related economic fallout. Turkey saw new registrations more than double compared to an admittedly very low prior-year figure. By contrast, the South African market declined considerably. In Brazil, the largest market in the South America region, demand for trucks was significantly below the level seen in the previous year as a result of the pandemic.

Demand for buses in the markets that are relevant for the Volkswagen Group was much lower than in the previous year as a consequence of the pandemic. All key markets within the EU27+3 contributed to this trend, with the market for coaches in particular virtually grinding to a halt. Demand was very much lower in Brazil and was less than half the prior-year level in Mexico.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

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

In 2020, the marine market contracted to a significantly lower level than in the previous year. Demand was curbed predominantly by the global impact of the Covid-19 pandemic and uncertainty about future emissions regulations, and in merchant shipping by the negative impact of the ongoing trade disputes between the USA and China. Demand for cruise ships virtually ceased entirely due to the difficult liquidity situation, resulting from the Covid-19 pandemic. The passenger ferry segment – similarly affected by a loss of revenue resulting in part from project postponements – was also impacted by a decline in demand. The special market for government vessels, which is driven by state investment, continued on a stable trajectory. In the offshore sector, the existing overcapacity and low oil prices virtually stifled investment in offshore oil production. China, South Korea and Japan remained the dominant shipbuilding countries, accounting for a global market share of around 85% measured in terms of the number of ships. Since market volumes are still low, all sectors in the marine market were continuing to experience significant competition and strong pricing pressure as a result.

The market for power generation was unable to continue its growth trend in 2020 due to the Covid-19 pandemic and declined significantly overall. Most projects were postponed as a result of the spread of the SARS-CoV-2 virus and the pandemic-related uncertainty, with some being canceled altogether. Due to the collapse in oil prices and low equipment prices, there was a short-term rise in demand for stock engines run on HFO (heavy fuel oil) in developing countries, though the trend away from oil-fired power plants towards dual-fuel and gas-fired power plants continued. Demand for new energy solutions such as hydrogen, battery or solar technologies remained high, with a strong trend towards greater flexibility and decentralized availability. Due to the negative consequences of the SARS-CoV-2 virus, inventories in the reporting period increased, intensifying continued pressure from competition and pricing.

In 2020, the market for turbo machinery showed a significant deterioration year-on-year. The Covid-19 pandemic had a delayed negative impact on demand for turbo compressors in the raw materials, oil, gas and processing industry and varied in severity depending on market segment and region. Investments in oil production facilities remained at the prior-year level despite substantial, short-term price fluctuations. Demand for turbo compressors for industrial gases also remained slightly below the previous year's level. By contrast, demand in the raw materials and processing industry dropped substantially. As a consequence of the Covid-19 pandemic, nearly all regions except for China recorded a severe downturn in demand compared with the previous year. The steam and gas turbine business continued to be dominated by overcapacity on the part of electricity producers. In addition, the pandemic-induced uncertainty and the con-

tinued pressure from competition and pricing compared with the prior-year period brought about a substantial dip in demand.

The after-sales business for diesel engines performed positively on the whole in 2020 compared with the previous year, benefiting from a continued increase in interest in long-term maintenance contracts and retrofitting solutions. The Covid-19 pandemic reduced demand for standard products, however, and decisions about capital-intensive modifications were delayed owing to cash-flow difficulties on the part of the customers. After undergoing a marked recovery in the previous year, the after-sales market for turbo machinery collapsed sharply in 2020 due to the Covid-19 pandemic. Here, too, capital-intensive modifications were postponed or canceled due to financial difficulties.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services was at a high level in 2020, particularly in the first three months, due in part to the persistently low key interest rates in the main currency areas. Nevertheless, the Covid-19 pandemic put pressure on the demand for financial services in almost all regions during the reporting period. The effects of the Covid-19 pandemic were noticeable worldwide, especially in the second quarter of 2020. Markets for automotive financial services staged a partial recovery in the third and fourth quarters.

The European passenger car market was affected by the Covid-19 pandemic especially in the second quarter of 2020, which led to a significant decline in demand in the automotive business over the reporting period as a whole. Amid this challenging market environment, the share of lease and financing contracts to vehicle sales was expanded further in the European markets although the absolute number of contracts declined year-on-year. Demand increased for integrated mobility services such as parking, refueling and charging. The business with after-sales products such as servicing, maintenance and spare parts agreements, as well as automotive-related insurance was maintained at the prior-year level in the current market environment.

Germany saw a year-on-year drop in the number of loan-financed and leased new vehicles in 2020 due to the challenges of the Covid-19 pandemic. In the leasing business with individual customers, the shift from financing to lease contracts that began in 2019 continued.

In South Africa, demand for financing and insurance products stabilized in the second half of 2020 after declining in the first half, but was down year-on-year in the reporting period. Lower interest rates led to an increase in cash purchases. Non-vehicle loans were also used to buy vehicles.

A drop in demand for new vehicles has been seen across the entire North American region as a consequence of the Covid-19 pandemic. In the United States, however, demand for financial services rose slightly and increased as a proportion of vehicle sales. A shift from lease to financing contracts was observed here along with an increase in sales of used vehicles. The proportion of lease and financing contracts in Canada in 2020 was also up on the prior-year level. Absolute numbers of contracts decreased, however, due to the decline in deliveries. A downward trend was observed in Mexico, both for the absolute number of financing contracts and for the percentage share, which was attributable in part to the currently limited fleet business.

In South America, demand for vehicles and automotive financial services in the reporting year was down on the previous year. It recovered at the end of 2020 after dipping in the second and third quarters as a consequence of the pandemic. In Brazil, the trend toward fleet business and long-term leases continued to strengthen, with the number of long-term lease contracts exceeding the prior-year level. In a difficult macroeconomic environment, customers in Argentina purchased their vehicles mostly in cash; demand for automotive financial services decreased year-on-year.

China's passenger car market started to recover from the Covid-19 pandemic from the second quarter of 2020 onwards. The easing of restrictions continuously led to increasing numbers of new contracts being signed for automotive-related financial services, which were up slightly overall on the prior-year level. In Japan, the effects of the Covid-19 pandemic were perceptible in the form of weaker new car sales, with a related fall in demand for financing and leasing products. In India, demand for financial services was below the previous year but rose again in the course of the year as lending rates in the new and used vehicle segments stabilized.

The Covid-19 pandemic also led to substantial declines in demand for new and used vehicles in the commercial vehicles business area in 2020. As a result, there was an equal fall in the number of lease and financing contracts in Europe; however, there was a rise in the penetration rate of these financial products in Brazil.

NEW GROUP MODELS IN 2020

Thanks to a broad portfolio of products – from small cars to super sports cars in the passenger car segment, and from

pickups to heavy trucks and buses in the commercial vehicles segment, as well as motorcycles – covering almost all key segments and body types, Volkswagen Group customers are able to choose the vehicle tailored to their needs. In fiscal year 2020, we added further attractive vehicles to this range, whereby one focus was on electric vehicles.

In 2020, the Volkswagen Passenger Cars brand brought out the compact ID.3, the first vehicle based on the Modular Electric Drive Toolkit (MEB). It also expanded its range of electric vehicles by adding the new ID.4, an all-electric SUV designed for urban use. The first vehicles from the ID. family have suitable ranges and come fitted with forward-looking equipment such as the augmented reality head-up display. 2020 also saw the launch of the eighth generation of the new Golf including its derivatives, the Golf GTI, Golf R and Golf Estate. The up!, the Tiguan and the Arteon all received product upgrades. The T-Roc Cabriolet and the Arteon Shooting Brake were also rolled out, the latter combining exclusivity and practicability at a high level. In addition, the first Tiguan R model was launched. The Volkswagen Passenger Cars brand continued rolling out its plug-in hybrid offensive with derivatives of the Golf and Touareg. In the USA, the successful Atlas received an update and the Atlas Cross Sport was launched. In the South American market, the Nivus SUV coupé developed in Brazil was rolled out along with sporty versions of the Polo and Virtus models. In the Chinese market, the new Tiguan X and Tayron X crossover models cater to the growing demand for lifestyle vehicles. The Viloran seven-seater van, designed to meet the needs of regional markets and customers, and the Tacqua compact SUV were also launched. The CC and the Phideon were upgraded. The electrification offensive was continued with the electric Tharu, and the Tayron as a plug-in hybrid. JETTA brought out the VS7 SUV.

The Audi brand also added further all-electric vehicles to its product range in fiscal year 2020. The Audi e-tron Sportback, for example, celebrated its market launch with a new interpretation of the coupé design. The range of plug-in hybrid vehicles was also expanded. Audi also introduced S models of the Q7 and Q8 in 2020 and, for the first time, also of the electric vehicles e-tron and e-tron Sportback. In addition, successors to models from the A3 series that is especially popular with customers were brought out. The A5, Q2 and Q5 model series were updated.

Launched in early 2020, the all-electric Citigo^{e} iV kicked off the electrification of the ŠKODA portfolio. In addition, the successor models from the popular Octavia series celebrated their market launch. The Octavia and the Superb are also available as plug-in hybrids, both as a saloon and as an estate. Along with these, the Rapid received an update in China and Russia.

The SEAT brand launched the successors to the Leon and the Leon Sportstourer in 2020. Moreover, both the SEAT brand and CUPRA expanded their product ranges through the addition of two plug-in hybrid versions of the Leon in each case. The Ateca received a comprehensive product upgrade at both SEAT and CUPRA. CUPRA enhanced its model range by adding its first completely standalone model, the Formentor SUV coupé.

Following the unveiling of the all-electric Taycan in the preceding fiscal year, Porsche launched new Taycan derivatives in 2020 including the top-of-the range Turbo S. The updated Panamera was also released. The Cayenne GTS Coupé rounds off the Cayenne family.

In the growing SUV segment, Bentley launched the extensively upgraded Bentayga in fiscal year 2020. Presented in 2019, the successor to the Flying Spur luxury saloon is now also available with a V8 engine. The luxurious spearhead of the model series became available at the end of 2020 with the Continental GT Mulliner.

Since 2020, Lamborghini's Huracán RWD with rear-wheel drive has been on the market as the upgraded EVO model.

Bugatti presented the DIVO hyper sports car in 2020, limited to only 40 vehicles. The new Chiron Pur Sport also celebrated its market premiere.

The Volkswagen Commercial Vehicles brand completely redesigned the Caddy, which now boasts technologies from the Modular Transverse Toolkit (MQB).

Scania reached a milestone in the electrification of the brand in 2020: a plug-in hybrid drive is now also available for the L and P series, a purely electric drive system was presented for these models.

MAN brought out the visually and technically revamped TGX, which received the International Truck of the Year 2021 award for its reliability and efficiency.

Ducati introduced the new Streetfighter V4 in 2020 as well as updated models of the Panigale V2 and V4, the Multistrada 1260S Grand Tour and the Diavel 1260S. The Icon Dark expanded the Scrambler family.

VOLKSWAGEN GROUP DELIVERIES

The Volkswagen Group delivered 9,305,372 vehicles to customers worldwide in fiscal year 2020. The decrease of 15.2% or 1,669,925 units year-on-year was due almost exclusively to the Covid-19 pandemic and the measures taken worldwide to contain its spread. Sales figures for both the Passenger Cars Business Area and the Commercial Vehicles Business Area declined as a result of the fall in demand. The chart on the page after next illustrates the trend in deliveries from month to month, comparing each monthly figure to the same month of the previous year. Deliveries of passenger cars and commercial vehicles are reported separately in the following.

VOLKSWAGEN GROUP DELIVERIES[1]

	2020	2019	%
Passenger Cars	9,115,185	10,733,077	–15.1
Commercial Vehicles	190,187	242,220	–21.5
Total	**9,305,372**	**10,975,297**	**–15.2**

1 Prior-year deliveries have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

GLOBAL DELIVERIES BY THE PASSENGER CARS BUSINESS AREA

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

Global demand for Volkswagen Group passenger cars and light commercial vehicles fell in the reporting year by 15.1% year-on-year to 9,115,185 units as a consequence of the debilitating market conditions arising from the uncertainty and the measures taken worldwide to tackle the Covid-19 pandemic. In connection with the pandemic, our deliveries to customers were affected by differing temporal and geographical effects. Following in some cases drastic losses at the end of the first quarter and the start of the second quarter, demand for Group models recovered as the reporting year went on, with declines becoming weaker. We registered declining demand year-on-year in nearly all regions. The sole exception was the Middle East region, largely driven by the positive trend in sales figures in Turkey. Bentley was the only Volkswagen Group brand that did not fall short of its prior-year figures.

Our e-mobility offensive had a positive impact on Group sales: we delivered 231,624 fully electric vehicles to customers globally – more than three times as many as in 2019. Our plug-in hybrid models were also very popular with customers; sales amounted to 190,644 vehicles. The Group's most successful all-electric vehicles included the ID.3, the e-Golf and the e-up! from Volkswagen Passenger Cars as well as the Audi e-tron and Porsche Taycan. The Passat and the Golf from Volkswagen Passenger Cars, the Audi Q5, the ŠKODA Superb and the Porsche Cayenne were among the most popular plug-in hybrid models.

In a significantly declining overall global market, our passenger car market share increased slightly to 13.0 (12.9)%.

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

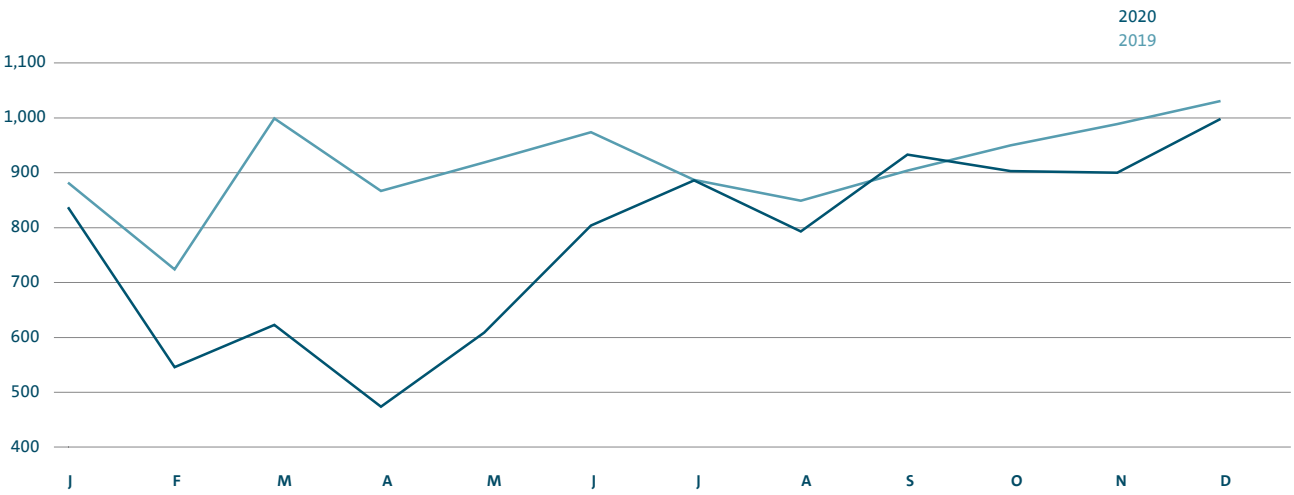
Deliveries in Europe/Other Markets

In Western Europe, the Volkswagen Group delivered 2,848,861 passenger cars and light commercial vehicles to customers in fiscal year 2020 in a substantially contracting overall market. This was 21.5% fewer than in the previous year. The increasing spread of the SARS-CoV-2 virus and the measures taken to contain it sent demand for Group vehicles into a tailspin during the first quarter and at the beginning of the second quarter. All of the major individual markets demonstrated very similar declines in demand for Group vehicles. By the end of the first half of the year, the declines had tapered off. In the second half of the year, demand for Group vehicles in individual markets was once again up on a monthly basis compared with the relevant prior-year figure. The Group models with the highest volume of demand were the Golf, Polo, T-Roc and Tiguan from the Volkswagen Passenger Cars brand. In addition, the T-Cross from Volkswagen Passenger Cars, the Q3 Sportback, Q7 and e-tron from Audi, the Scala and Kamiq from ŠKODA, the Mii electric from SEAT, and the Porsche Cayenne Coupé and Porsche Taycan, all of which had been introduced as new or successor models over the course of the previous year, were very popular with customers. Some of the models successfully launched on the market during the reporting year as new or successor models were the up!, T-Roc Cabriolet, Golf, Tiguan and Arteon Shooting Brake and the first all-electric production models, the ID.3 and ID.4, from Volkswagen Passenger Cars, the A3 saloon, A3 Sportback, A5 and e-tron Sportback from Audi, the Citigo^{e} iV, Superb iV and Octavia from ŠKODA, the Leon, Leon Sportstourer and Ateca from SEAT and the Caddy from Volkswagen Commercial Vehicles. The Volkswagen Group's share of the passenger car market in Western Europe rose to 23.7 (22.8) %.

With a decline of 14.9%, the number of vehicles handed over to customers in the reporting year in the Central and Eastern Europe region fell less sharply than the global average. This was largely attributable to the trend in deliveries in Russia, which almost reached the prior-year level. Demand developed encouragingly for the T-Cross from Volkswagen Passenger Cars, for the Audi Q3 Sportback, for ŠKODA's Scala, Kamiq and Karoq models and for the Porsche Cayenne Coupé. The Volkswagen Group's share of the passenger car market in the Central and Eastern Europe region increased to 22.0 (21.5) %.

In Turkey, the Volkswagen Group continued to benefit from the catch-up effects in the overall market, raising the number of vehicles handed over to customers in 2020 by 54.8% compared with the previous year. The Passat saloon was the most sought-after Group model from the Volkswagen Passenger Cars brand. In the sharply contracting South African market, the number of Group models sold fell by

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



28.9%. The Polo from Volkswagen Passenger Cars continued to be the most frequently sold Group model there.

Deliveries in Germany

In Germany, demand for vehicles from the Volkswagen Group was down 19.6% year-on-year at 1,065,811 units in 2020 in an overall market that was suffering a significant decline. As with the overall market in Western Europe, the decrease was attributable to the negative impact of the spread of the SARS-CoV-2 virus. The Group models with the highest volume of demand were the Golf and Passat Estate from the Volkswagen Passenger Cars brand. Also in high demand from customers were the T-Cross from Volkswagen Passenger Cars, the Q3 Sportback, Q7 and e-tron from Audi, the Scala and Kamiq from ŠKODA, the Mii electric from SEAT, and the Porsche Cayenne Coupé and Porsche Taycan, all of which had been introduced as new or successor models over the course of the previous year. Seven Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the Golf, T-Roc, Tiguan, Touran, Passat, Porsche 911 and Caddy. In addition, the Golf continued to top the list of the most popular passenger cars in Germany in terms of registrations.

Deliveries in North America

In North America, demand for Volkswagen Group models fell by 17.3% year-on-year to 784,299 units in the reporting year, a decrease largely mirroring the trend in the market as a whole. The impact of the Covid-19 pandemic became apparent in this region somewhat later, intensifying at the beginning of the second quarter. The month-on-month declines diminished again as the year went on. The Group's market share was 4.6 (4.7)%. The Tiguan Allspace and Jetta from Volkswagen Passenger Cars were the most sought-after Group models in North America.

In the considerably weaker US market, the Volkswagen Group delivered 12.1% fewer vehicles to customers in fiscal year 2020 than in the prior-year period. The Group models to record the greatest increases included the Passat and Arteon from Volkswagen Passenger Cars, the Audi Q3 and e-tron, and the Porsche 911 Cabriolet. The Atlas and the Atlas Cross Sport from the Volkswagen Passenger Cars brand, Audi's A4, A5, Q7 and e-tron Sportback models, and the Porsche Taycan and Cayenne Coupé were successfully launched on the market as new or successor models during the reporting period.

In Canada, the number of deliveries to Volkswagen Group customers fell by 25.6% year-on-year in 2020. The market as a whole experienced a lesser decline during this period. The Audi Q3 in particular recorded encouraging growth in demand.

In the Mexican market, which was diminishing sharply overall, the Volkswagen Group delivered 30.8% fewer vehicles to customers in the reporting year than in the previous year. The Group models with the highest volume of demand were the Vento and Jetta from the Volkswagen Passenger Cars brand.

WORLDWIDE DELIVERIES OF THE MOST SUCCESSFUL GROUP MODEL RANGES IN 2020
Vehicles in thousands

Deliveries in South America

In the South American passenger car and light commercial vehicles market, which recorded a strong contraction overall, the number of Group models delivered to customers in fiscal year 2020 was down by 20.2% year-on-year to 440,326 units. The effects of the Covid-19 pandemic became apparent in this region somewhat later, intensifying at the beginning of the second quarter before weakening again on a monthly basis over the rest of the year. The new T-Cross that was launched in the previous year and the Gol from Volkswagen Passenger Cars were the Group models in highest demand. The Nivus SUV coupé was successfully launched on the market in the reporting year. The Volkswagen Group's share of the passenger car market in South America rose to 14.1 (12.7)%.

The recovery of the Brazilian market was interrupted by the outbreak of the Covid-19 pandemic. The Volkswagen Group delivered 20.0% fewer vehicles to customers there than in the previous year. Along with the Gol and the Polo, the new T-Cross from Volkswagen Passenger Cars was in especially high demand.

In Argentina, the number of vehicles delivered to Volkswagen Group customers in 2020 was 18.4% down on the prior-year figure in a sharply declining overall market. The Gol and T-Cross from Volkswagen Passenger Cars and the Amarok from Volkswagen Commercial Vehicles saw the highest demand of all Group models.

Deliveries in the Asia-Pacific region

In fiscal year 2020, the Volkswagen Group saw demand taper off in the overall market of the Asia-Pacific region, which witnessed a noticeable decline due primarily to the Covid-19 pandemic, and handed over 4,110,782 vehicles to customers, 9.1% fewer than in the year before. The Group's market share in the Asia-Pacific region amounted to 13.2 (13.1)%.

China, the world's largest single market and the main growth driver of the Asia-Pacific region for many years, was distinctly weaker in the past fiscal year, mainly due to the spread of the SARS-CoV-2 virus. The Volkswagen Group delivered 9.1% fewer vehicles to customers there than in the preceding year. Following very high declines in volumes in the first quarter, we recorded a slight increase in most of the following months compared with the respective prior-year figure. The T-Cross and Teramont X from the Volkswagen Passenger Cars brand, the VA3 and VS5 from the JETTA brand, the Audi A6L and Audi Q8, the ŠKODA Kamiq GT and the Porsche Cayenne Coupé, all of which had been introduced as new or successor models over the course of the previous year, were in especially high demand. In addition, the Tayron and the Tharu from Volkswagen Passenger Cars, the Audi Q2L, Q2L e-tron and Q5, and the Porsche Panamera saloon saw encouraging growth in demand. The Tacqua, Golf, Tayron X, Tiguan X, CC, Viloran and Phideon models from Volkswagen Passenger Cars, the VS7 from the JETTA brand, the Audi Q7 and Audi e-tron and the ŠKODA Rapid were successfully launched on the market as new or successor models in the reporting year.

In the Indian passenger car market, which registered a significant decline, the Volkswagen Group saw 44.9% less demand in the reporting year than in the preceding year. The Polo from the Volkswagen Passenger Cars brand and the Rapid from ŠKODA were the most sought-after Group models there.

In a significantly weaker overall market in Japan, the number of Group models handed over to customers in fiscal year 2020 decreased by 15.6% year-on-year. The Group model to record the highest demand was the Volkswagen T-Cross.

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET[1]

	DELIVERIES (UNITS)		CHANGE
	2020	2019	(%)
Europe/Other Markets	**3,779,778**	**4,712,746**	**– 19.8**
Western Europe	**2,848,861**	**3,628,314**	**– 21.5**
of which: Germany	1,065,811	1,324,942	– 19.6
France	222,522	307,847	– 27.7
United Kingdom	409,064	544,117	– 24.8
Italy	239,167	310,944	– 23.1
Spain	213,700	305,494	– 30.0
Central and Eastern Europe	**652,813**	**766,810**	**– 14.9**
of which: Czech Republic	112,589	136,377	– 17.4
Russia	221,811	223,454	– 0.7
Poland	126,883	165,530	– 23.3
Other Markets	**278,104**	**317,622**	**– 12.4**
of which: Turkey	121,129	78,251	+ 54.8
South Africa	64,693	90,968	– 28.9
North America	**784,299**	**948,275**	**– 17.3**
of which: USA	574,822	654,118	– 12.1
Canada	83,531	112,247	– 25.6
Mexico	125,946	181,910	– 30.8
South America	**440,326**	**551,734**	**– 20.2**
of which: Brazil	336,773	420,880	– 20.0
Argentina	57,555	70,496	– 18.4
Asia-Pacific	**4,110,782**	**4,520,322**	**– 9.1**
of which: China	3,844,679	4,228,841	– 9.1
India	28,423	51,541	– 44.9
Japan	66,935	79,268	– 15.6
Worldwide	**9,115,185**	**10,733,077**	**– 15.1**
Volkswagen Passenger Cars	5,328,029	6,279,007	– 15.1
Audi	1,692,773	1,845,573	– 8.3
ŠKODA	1,004,816	1,242,767	– 19.1
SEAT	427,035	574,078	– 25.6
Bentley	11,206	11,006	+ 1.8
Lamborghini	7,430	8,205	– 9.4
Porsche	272,162	280,800	– 3.1
Bugatti	77	82	– 6.1
Volkswagen Commercial Vehicles	371,657	491,559	– 24.4

1 Prior-year deliveries have been updated to reflect subsequent statistical trends. The figures include the Chinese joint ventures.

COMMERCIAL VEHICLE DELIVERIES

In the period from January to December 2020, the Volkswagen Group handed over 21.5% fewer commercial vehicles to customers worldwide than in the previous year. We delivered a total of 190,187 commercial vehicles to customers. Trucks accounted for 156,378 units (–24.1%) and buses for 16,174 units (–24.8%). A total of 17,635 (14,788) vehicles from the MAN TGE van series were delivered. The decline in the truck and bus business was due to a slump in our core markets, which was exacerbated by the ongoing uncertainty generated by the Covid-19 pandemic.

In the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), sales were down by 26.0% on the same period of the previous year to a total of 105,131 units, of which 81,727 were trucks and 6,098 were buses. Here, the MAN brand delivered 17,306 light commercial vehicles.

In Russia, sales fell by 16.2% year-on-year to 8,486 units, comprising 8,267 trucks and 219 buses.

Deliveries in Turkey increased to 2,681 (707) vehicles in fiscal year 2020. Trucks accounted for 2,457 units and buses for 99 units, while 125 vehicles from the MAN TGE van series were sold. In South Africa, deliveries of Volkswagen Group commercial vehicles decreased by 30.2% year-on-year to a total of 3,111 units; of this figure 2,789 were trucks and 322 were buses.

Sales in North America declined in fiscal year 2020 to 1,502 vehicles (–53.3%), which were delivered almost exclusively to customers in Mexico; of this figure 1,110 units were trucks and 392 were buses.

Deliveries in South America fell to a total of 49,372 vehicles (–13.1%), of which 42,283 were trucks and 7,089 were buses. Sales in Brazil decreased by 17.5% in fiscal year 2020. Of the units delivered, 35,738 were trucks and 5,117 were buses.

In the Asia-Pacific region, the Volkswagen Group sold 11,420 vehicles to customers in the reporting period; among these, 10,331 were trucks and 1,075 were buses. Overall, this was 14.4% less than in the previous year.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET[1]

	DELIVERIES (UNITS)		CHANGE
	2020	2019	(%)
Europe/Other Markets	**127,893**	**168,831**	**– 24.2**
of which: EU27+3	105,131	142,058	– 26.0
of which: Germany	31,859	39,059	– 18.4
Russia	8,486	10,123	– 16.2
Turkey	2,681	707	x
South Africa	3,111	4,455	– 30.2
North America	**1,502**	**3,219**	**– 53.3**
of which: Mexico	1,498	3,218	– 53.4
South America	**49,372**	**56,826**	**– 13.1**
of which: Brazil	40,855	49,551	– 17.5
Asia-Pacific	**11,420**	**13,344**	**– 14.4**
Worldwide	**190,187**	**242,220**	**– 21.5**
Scania	72,085	99,457	– 27.5
MAN	118,102	142,763	– 17.3

1 Prior-year deliveries have been updated to reflect subsequent statistical trends.

DELIVERIES IN THE POWER ENGINEERING SEGMENT

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

Sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated more than two-thirds of overall sales revenue. Until October 2020, this included the business of Renk.

ORDERS RECEIVED IN THE PASSENGER CARS SEGMENT IN WESTERN EUROPE

In the reporting year, orders received in Western Europe fell by 17.8% compared with the previous year as a result of the pandemic. All key markets fell short of the previous year's level. The scale of decline varied from country to country: while Germany was markedly down on the previous year, the United Kingdom, France, Italy and Spain were significantly or sharply below the equivalent prior-year figure.

ORDERS RECEIVED FOR COMMERCIAL VEHICLES

Orders received for mid-sized and heavy trucks, for buses and for commercial vehicles from the MAN TGE van series decreased by 4.8% year-on-year to 216,251 vehicles in 2020. The decline was attributable to both the truck and bus markets. The overall market downturn expected for 2020 was amplified by the uncertainty arising from the Covid-19 pandemic, especially in the second quarter of the year. However, there was a noticeable recovery in the second half of 2020.

ORDERS RECEIVED IN THE POWER ENGINEERING SEGMENT

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

Orders received in the Power Engineering segment in 2020 amounted to €3.4 (4.3) billion. Engines & Marine Systems and Turbomachinery generated more than two-thirds of the order volume in a persistently difficult market environment. Until October 2020, this included the business of Renk.

In the marine business, for example, orders for 30 dual fuel engines were placed in 2020 in a project for five ice-breaking LNG tankers. In the power plant business, orders were won for 35 engines of different types with an aggregate output of 350 MW. For turbomachinery, we received several orders for compressor trains and floating production and storage units, as well as two engineering orders for carbon capture and storage in the North Sea.

VOLKSWAGEN GROUP FINANCIAL SERVICES

The Financial Services Division covers the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania and Porsche Holding Salzburg. It also includes the contracts concluded by our international joint ventures in its figures.

The Financial Services Division's products and services were popular in fiscal year 2020, although the Covid-19 pandemic weighed on demand. At 8.6 (9.3) million, the number of new financing, leasing, service and insurance contracts worldwide was below the previous year's level. The ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets increased to 35.5 (34.5)% as the Group's deliveries fell at a higher rate than the number of contracts signed. As of December 31, 2020, the total number of contracts was 24.1 million, up 1.8% from year-end 2019. The number of contracts in the customer financing/leasing area climbed 1.2% to 11.9 million, while it increased by 2.4% to 12.2 million in the service/insurance area.

In Europe/Other Markets, the financial services business was impacted by the Covid-19 pandemic, particularly in the second quarter. The number of new contracts signed here in 2020 fell by 9.4% to 6.3 million. The penetration rate was 50.1 (48.5)%. At 17.6 million, the total number of contracts at the end of the reporting year slightly exceeded the 2019 figure of 17.5 million. The customer financing/leasing area accounted for 7.6 million of these contracts (–1.3%), while 10.0 million (+2.3%) related to the service/insurance area.

At 936 thousand, the number of new contracts signed in North America was 2.1% down on the previous year. The ratio of leased or financed vehicles to Group deliveries in North America was 67.0 (59.3)%. The number of contracts here on December 31, 2020 was 3.1 million, an increase of 2.2% compared with the previous year. The customer financing/leasing area accounted for 1.9 million contracts (+4.7%) and 1.2 million contracts (–1.7%) were owing to the service/insurance area.

The South America region was impacted by the Covid-19 pandemic in the second and third quarter in particular. The number of new contracts signed here in the reporting year fell to 318 (386) thousand. The penetration rate declined to 32.7 (38.4)%. The total number of contracts as of December 31, 2020 increased by 2.6% year-on-year to 721 thousand. The contracts mainly related to the customer financing/leasing area.

In Asia-Pacific, where the SARS-CoV-2 virus spread first, the number of new contracts signed in the past fiscal year rose by 5.3% to 1.1 million. The ratio of leased or financed vehicles to Group deliveries was 17.7 (15.5)%. The total number of contracts amounted to 2.6 million at the end of the reporting year, 9.1% more than at year-end 2019. The customer financing/leasing area grew by 9.6% to 1.9 million contracts, and the service/insurance area by 7.8% to 0.7 million contracts.

SALES TO THE DEALER ORGANIZATION

The Volkswagen Group's unit sales to the dealer organization decreased by 16.4% to 9,156,612 units (including the Chinese joint ventures) in the reporting year. This decline was essentially due to the negative effects of the Covid-19 pandemic. Ongoing uncertainty in connection with this and national measures introduced to contain the pandemic, such as mobility restrictions and store closures, were accompanied by a fall in customer demand. Above-average decreases in demand were recorded especially in Europe and in North and South America. Overall, the unit sales volumes fell by 16.2% outside Germany and unit sales decreased by 17.8% in Germany. At 12.1 (12.3)%, the proportion of the Group's total unit sales accounted for by Germany was lower than in 2019.

The Tiguan, Polo, Passat, Golf, Jetta, T-Cross and T-Roc from the Volkswagen Passenger Cars brand were our biggest sellers last year. The largest increases in unit sales were recorded by the e-up, T-Cross and Tharu from the Volkswagen Passenger Cars brand, the e-tron, A6 saloon and Q3 Sportback from Audi, the ŠKODA Rapid and the Bentley Flying Spur. The Porsche Taycan and Boxster also achieved a strong growth rate.

PRODUCTION

In fiscal year 2020, the Volkswagen Group's global production declined by 17.8% to a total of 8,900,154 vehicles due to the measures taken to contain the spread of the SARS-CoV-2 virus. The impact of national measures to contain the pandemic led to a disruption of supply chains and consequently to production stoppages within the Volkswagen Group. The production figures for the locations in China have seen a year-on-year recovery since the second quarter of 2020; in total, our Chinese joint ventures manufactured 9.5% fewer units than in the year before. By contrast, the delayed impact of the Covid-19 pandemic at the other locations worldwide caused declines in production in the first three quarters of 2020.

In Germany, production contracted by 22.7% to a total of 1,633,239 vehicles. The percentage of the Group's total production accounted for by Germany fell to 18.4 (19.5)%.

INVENTORIES

Global inventories at Group companies and in the dealer organization were significantly lower at the end of the reporting period than at year-end 2019.

EMPLOYEES

Including the Chinese joint ventures, the Volkswagen Group employed an average of 665,445 people in fiscal year 2020, a decrease of –0.3% year-on-year. In Germany, we employed 295,133 people on average; at 44.4 (44.1)%, their share of the total headcount was slightly above the level of the previous year.

The number of active employees in the Volkswagen Group fell by 1.3% to 633,364 as of December 31, 2020. In addition, 11,272 employees were in the passive phase of their partial retirement and 17,939 young people were in vocational traineeships. At the end of the reporting period, the Volkswagen Group had a total of 662,575 employees worldwide. Due to market conditions and employees leaving the Group not being replaced, this was slightly below the year- end 2019 figure. A total of 294,510 people were employed in Germany (–1.0%) and 368,065 outside Germany (–1.5%).

EMPLOYEES BY DIVISION/BUSINESS AREA

as of December 31, 2020

Shares and Bonds

Following the sharp fall in share prices triggered by the Covid-19 pandemic, trading in Volkswagen AG's ordinary and preferred shares recovered as the year went on, but fell short of the year-end 2019 figure. To refinance projects connected with e-mobility, green bonds were successfully placed on the market for the first time.

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

Following the sharp fall in share prices in the first quarter of 2020, which was triggered by the Covid-19 pandemic and its severe negative economic implications, international stock markets started to recover during the second quarter, with some even reporting a strong upward trend. At the end of 2020, many equity markets even recorded closing levels above the prior-year levels.

The DAX recorded an increase of 3.5% compared with the end of 2019. After an initially good start to the new financial year with a record high in February, share prices collapsed with the increasing spread of the SARS-CoV-2 virus. Starting from the low reached in March, the leading German stock index then again gained in value and recouped its losses in the fourth quarter. This development was fueled considerably by economic stimulus measures from central banks and governments throughout the world and the resulting hopes of a more rapid global economic recovery. The upward trend lost momentum in the second half of the year, with the impact of the second wave of infections weighing on share price performance, although hopes of a vaccine had a positive effect.

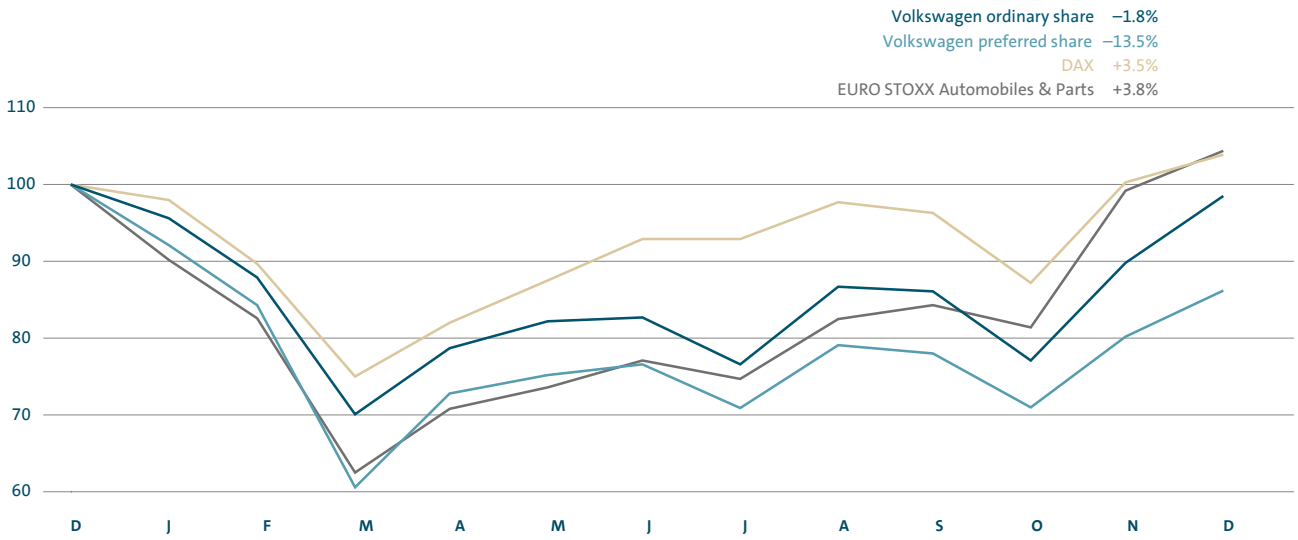
After the losses incurred in the first quarter of 2020, the prices of Volkswagen AG's preferred and ordinary shares also regained ground in the months that followed, but still fell short of the year-end 2019 figures by 14% and 2% respectively. Uncertainties surrounding the development of the global demand for automobiles caused by the Covid-19 pandemic placed shares under pressure. In addition, negative effects arose from the automotive industry's current period of transition that requires large-scale investment. Moreover, the impending US punitive tariffs on European vehicles, the uncertain outcome of the negotiations on the United Kingdom's exit from the EU Single Market including the form the future relationship takes, and the appreciation of the euro against the US dollar since May 2020 all had a negative impact. Positive momentum came from the incipient recovery of the Chinese automotive market and investors' hopes of improved economic activity in the wake of eased restrictions worldwide, government assistance measures, and hopes that the Covid-19 pandemic would subside.

VOLKSWAGEN SHARE KEY FIGURES AND MARKET INDICES FROM JANUARY 1 TO DECEMBER 31, 2020

		High	Low	Closing
Ordinary share	Price (€)	183.10	101.50	170.10
	Date	Jan. 10	Mar. 18	Dec. 30
Preferred share	Price (€)	185.52	87.20	152.42
	Date	Jan. 10	Mar. 18	Dec. 30
DAX	Price	13,790	8,442	13,719
	Date	Dec. 28	Mar. 18	Dec. 30
ESTX Auto & Parts	Price	509	255	505
	Date	Dec. 28	Mar. 18	Dec. 30

PRICE DEVELOPMENT FROM DECEMBER 2019 TO DECEMBER 2020

Index based on month-end prices: December 31, 2019 = 100



DIVIDEND POLICY

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

The current dividend proposal can be found in the chapter entitled "Volkswagen AG (condensed, in accordance with the German Commercial Code)" of this annual report. The Board of Management and Supervisory Board of Volkswagen AG are proposing a dividend of €4.80 per ordinary share and €4.86 per preferred share for fiscal year 2020. On this basis, the total dividend amounts to €2.4 (2.4) billion. The payout ratio is based on the Group's earnings after tax attributable to Volkswagen AG shareholders. This amounts to 29.0% for the reporting period and stood at 18.1% in the previous year. In our Group strategy, we have set ourselves the goal of achieving a payout ratio of at least 30%.

DIVIDEND YIELD

Based on the dividend proposal for the reporting period, the dividend yield on Volkswagen ordinary shares is 2.8 (2.8)%, measured by the closing price on the last trading day in 2020. The dividend yield on preferred shares is 3.2 (2.8)%.

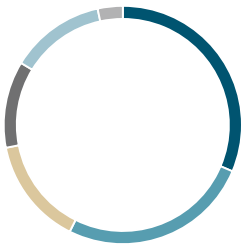
EARNINGS PER SHARE

Basic earnings per ordinary share were €16.60 (26.60) in fiscal year 2020. Basic earnings per preferred share were €16.66 (26.66). In accordance with IAS 33, the calculation is based on the weighted average number of ordinary and preferred shares outstanding in the reporting period. Since the number of basic and diluted shares is identical, basic earnings per share correspond to diluted earnings per share.

See also "Earnings per share" in the notes to the consolidated financial statements for the calculation of earnings per share.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2020

as a percentage of subscribed capital



Porsche Automobil Holding SE	31.4
Foreign institutional investors	26.0
Qatar Holding LLC	14.6
State of Lower Saxony	11.8
Private shareholders/Others	12.9
German institutional investors	3.4

VOLKSWAGEN SHARE DATA

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

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2020

At the end of the reporting period, Volkswagen AG's subscribed capital amounted to €1,283,315,873.28. The shareholder structure of Volkswagen AG as of December 31, 2020 is shown in the chart on this page.

The distribution of voting rights for the 295,089,818 ordinary shares was as follows at the reporting date: Porsche Automobil Holding SE, Stuttgart, held 53.3% of the voting rights. The second-largest shareholder was the State of Lower Saxony, which held 20.0% of the voting rights. Qatar Holding LLC was the third-largest shareholder with 17.0%. The remaining 9.7% of ordinary shares were attributable to other shareholders.

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

VOLKSWAGEN SHARE KEY FIGURES

Dividend development		2020	2019	2018	2017	2016
Number of no-par value shares at Dec. 31						
Ordinary shares	thousands	295,090	295,090	295,090	295,090	295,090
Preferred shares	thousands	206,205	206,205	206,205	206,205	206,205
Dividend[1]						
per ordinary share	€	4.80	4.80	4.80	3.90	2.00
per preferred share	€	4.86	4.86	4.86	3.96	2.06
Dividend paid[1]	€ million	2,419	2,419	2,419	1,967	1,015
on ordinary shares	€ million	1,416	1,416	1,416	1,151	590
on preferred shares	€ million	1,002	1,002	1,002	817	425

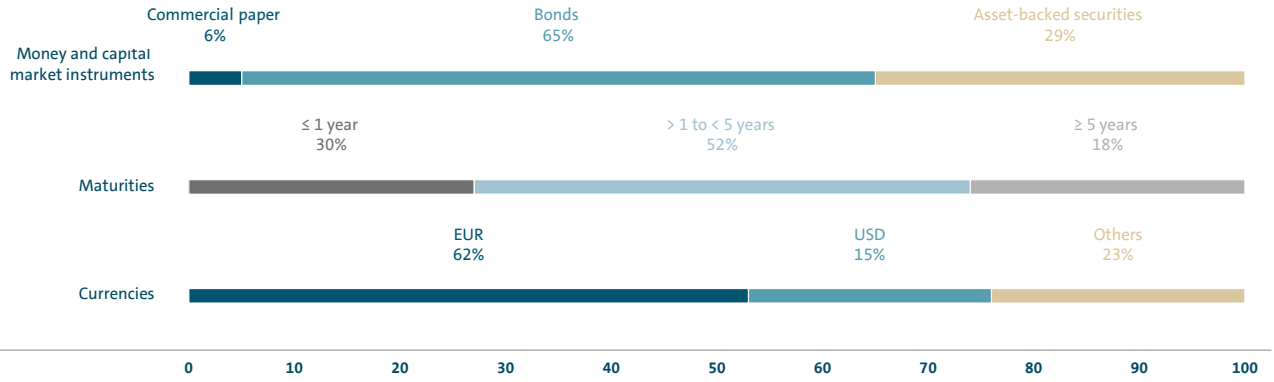
Share price development[2]		2020	2019	2018	2017	2016
Ordinary share						
Closing	€	170.10	173.25	139.10	168.70	136.75
Price performance	%	– 1.8	+ 24.6	– 17.5	+ 23.4	– 3.9
Annual high	€	183.10	182.50	188.00	173.95	144.20
Annual low	€	101.50	135.60	131.10	128.70	108.95
Preferred share						
Closing	€	152.42	176.24	138.92	166.45	133.35
Price performance	%	– 13.5	+ 26.9	– 16.5	+ 24.8	– 0.3
Annual high	€	185.52	184.24	188.50	178.10	138.80
Annual low	€	87.20	134.76	133.70	125.35	94.00
Beta factor[3]	factor	1.26	1.17	1.17	1.12	1.22
Market capitalization at Dec. 31	€ billion	81.6	87.5	69.7	84.1	67.9
Equity attributable to Volkswagen AG shareholders and hybrid capital investors at Dec. 31	€ billion	127.0	121.8	117.1	108.8	92.7
Ratio of market capitalization to equity	factor	0.64	0.72	0.60	0.77	0.73

Key figures per share		2020	2019	2018	2017	2016
Earnings per ordinary share[4]						
basic	€	16.60	26.60	23.57	22.28	10.24
diluted	€	16.60	26.60	23.57	22.28	10.24
Equity attributable to Volkswagen AG shareholders and hybrid capital investors at Dec. 31	€	253.44	242.93	233.63	217.13	184.90
Price/earnings ratio[5]						
Ordinary share	factor	10.2	6.5	5.9	7.5	13.4
Preferred share	factor	9.1	6.6	5.9	7.3	13.0
Dividend yield[6]						
Ordinary share	%	2.8	2.8	3.5	2.3	1.5
Preferred share	%	3.2	2.8	3.5	2.4	1.5

Stock exchange turnover[7]		2020	2019	2018	2017	2016
Turnover of Volkswagen ordinary shares	€ billion	3.1	3.3	4.3	3.5	3.3
	million shares	21.6	20.9	28.0	23.6	25.4
Turnover of Volkswagen preferred shares	€ billion	49.8	41.0	54.1	45.1	41.1
	million shares	361.2	266.0	346.6	312.3	347.0
Volkswagen share of total DAX turnover	%	4.7	4.6	5.4	5.4	5.0

1 Figures for the years 2016 to 2019 relate to dividends paid in the following year. For 2020, the figures relate to the proposed dividend.
2 Xetra prices.
3 For the calculation see chapter "Results of Operations, Financial Position and Net Assets" of this annual report.
4 For the calculation see "Earnings per share" in the notes to the consolidated financial statements. 2017 figure adjusted (IFRS 9).
5 Ratio of year-end-closing price to earnings per share.
6 Dividend per share based on the year-end-closing price.
7 Order book turnover on the Xetra electronic trading platform (Deutsche Börse).

REFINANCING STRUCTURE OF THE VOLKSWAGEN GROUP
as of December 31, 2020



REFINANCING

The Volkswagen Group used a variety of instruments and markets for its refinancing activities in 2020.

In September 2020, the Automotive Division of the Volkswagen Group successfully placed its first green bonds on the market, with a principal amount of €2.0 billion and terms of eight and twelve years. The green bonds are based on the Green Finance Framework presented in March 2020 for sustainability-oriented financial instruments. The resources will be allocated specifically to refinancing the Modular Electric Drive Toolkit (MEB) and the new completely battery-electric vehicles, the ID.3 and ID.4.

We strengthened net liquidity through the placement of unsecured subordinated hybrid notes with an aggregate principal amount of €3.0 billion. The notes are perpetual. One note with a principal amount of €1.5 billion can only be canceled by the issuer after five years, while the other with a principal amount of €1.5 billion cannot be canceled until nine years have elapsed. The transactions will be partly used to refinance the hybrid note with a principal amount of €1.25 billion that was issued in 2014 and canceled as of March 24, 2021.

In the US capital market, bonds with an aggregate principal amount of USD 4.0 billion each were placed with investors in May and November 2020. Notes with a volume of CAD 1.0 billion were issued in the Canadian refinancing market. In addition, private placements were placed under the automotive issuance program for the first time since 2015.

Official euro benchmark bonds with an aggregate volume of €2.15 billion were issued for the Financial Services Division. In addition to this, private placements were issued in various currencies and regions.

Alongside the placement of senior, unsecured bonds, asset-backed securities (ABS) transactions were another element of our refinancing activities. ABS transactions in the amount of approximately €3.2 billion were publicly placed in Europe. In addition, ABS transactions were issued in the USA, China and Japan.

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

The proportion of fixed-rate instruments in the past year was more than twice as high as the proportion of floating-rate instruments.

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

The table below shows how our money and capital market programs were utilized as of December 31, 2020 and illustrates the financial flexibility of the Volkswagen Group:

Programs	Authorized volume € billion	Amount utilized on Dec. 31, 2020 € billion
Commercial paper	43.8	8.2
Bonds	164.3	94.7
of which hybrid issues		15.5
Asset-backed securities	92.0	41.1

RATINGS

	VOLKSWAGEN AG			VOLKSWAGEN FINANCIAL SERVICES AG			VOLKSWAGEN BANK GMBH		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Standard & Poor's									
short-term	A–2	A–2	A–2	A–2	A–2	A–2	A–2	A–2	A–2
long-term	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	A–	A–	A–
outlook	negative	stable	stable	negative	stable	stable	negative	negative	negative
Moody's Investors Service									
short-term	P–2	P–2	P–2	P–2	P–2	P–2	P–1	P–1	P–1
long-term	A3	A3	A3	A3	A3	A3	A1	A1	A1
outlook	negative	stable	stable	negative	stable	stable	negative	stable	stable

Volkswagen AG's syndicated credit line of €10.0 billion agreed in December 2019 was drawn down during 2020. Furthermore, the syndicated credit line was extended by one year by making use of the first extension option. There is an option to extend the term by a further year until 2026 at the latest, subject to the banks' approval. This credit facility was unused as of the end of 2020.

Of the syndicated credit lines with a total of €12.7 billion at other Group companies, €1.3 billion has been drawn down. In addition, Group companies had arranged bilateral, confirmed credit lines with national and international banks in various other countries for a total of €4.8 billion, of which €0.6 billion was drawn down.

RATINGS

In March 2020, rating agency Standard & Poor's confirmed its short-term and long-term ratings of A–2 and BBB+ for Volkswagen AG and Volkswagen Financial Services AG, and of A–2 and A– for Volkswagen Bank GmbH. Due to risks associated with the duration of the Covid-19 pandemic and their effects on the global automotive industry, the outlook for Volkswagen AG and Volkswagen Financial Services AG was downgraded from "stable" to "negative". The outlook for Volkswagen Bank GmbH was left at "negative".

In March, Moody's Investors Service had announced that the ratings would be reviewed due to possible effects of the Covid-19 pandemic, but in June subsequently left the short-term and long-term ratings for Volkswagen AG and Volkswagen Financial Services AG unchanged at P–2 and A3 and those for Volkswagen Bank GmbH at P–1 and A1. The outlook for each company was downgraded from "stable" to "negative".

SUSTAINABILITY RATINGS

Analysts and investors are referring increasingly to company sustainability profiles when making their recommendations and decisions. They draw primarily on sustainability ratings to evaluate a company's environmental, social and governance performance. At the same time, sustainability ratings are instrumental in determining whether we are meeting our goal in relation to the Group strategy TOGETHER 2025+, and they provide the basis for implementing internal measures.

After the diesel issue became public knowledge, the Volkswagen Group was downgraded significantly in the MSCI, RobecoSAM, Sustainalytics, oekomISS, VigeoEiris, EcoVadis and RepRisk sustainability indices and consequently removed from sustainability indices such as the Dow Jones Sustainability Index and the FTSE4Good Index. In fiscal year 2020, Volkswagen continued to have a score of A– in the CDP and a rating of A in the Water Disclosure Project (WDP).

Results of Operations, Financial Position and Net Assets

The Covid-19 pandemic had a strong negative impact on business at the Volkswagen Group in the reporting year, and this led to lower sales revenue and operating profit. Despite further charges and cash outflows in connection with the diesel issue, net liquidity in the Automotive Division was above the 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.

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 Financial Services Division corresponds to the Financial Services segment.

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 fiscal year 2020, negative special items in connection with the diesel issue amounting to €–0.9 (–2.3) billion affected operating profit in the Passenger Cars Business Area. These items resulted mainly from legal risks.

CONTRIBUTION OF AUTONOMOUS INTELLIGENT DRIVING

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).

KEY FIGURES FOR 2020 BY SEGMENT

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue	175,984	22,156	3,640	40,778	242,557	–19,673	222,884
Segment profit or loss (operating result)	8,381	–79	–482	3,012	10,832	–1,157	9,675
as a percentage of sales revenue	4.8	–0.4	–13.2	7.4			4.3
Capex, including capitalized development costs	15,677	1,309	147	208	17,340	405	17,745

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 noncash income of €0.8 billion, which was recognized in the other operating result. Argo AI will be accounted for as a joint venture and included in the consolidated financial statements using the equity method.

SQUEEZE-OUT UNDER THE GERMAN STOCK CORPORATION ACT AGREED AT AUDI AG

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. This resolution took effect upon its entry in the commercial register on November 16, 2020. The resulting cash outflow of €0.2 billion is presented in the "capital transactions with noncontrolling interests" item.

SALE OF INTEREST IN RENK 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 operating income of €0.1 billion, which is reported in other operating income. It also resulted in an increase in net liquidity of €0.4 billion.

ACQUISITION OF ALL SHARES IN NAVISTAR

In November 2020, TRATON SE and Navistar International Corporation (Navistar), a leading US truck manufacturer, announced the signing of a binding merger agreement. Under this agreement, TRATON will acquire all outstanding shares in Navistar not already owned by TRATON in return for cash payment at a price of USD 44.50 per share (total: approximately USD 3.7 billion). As of December 31, 2020, TRATON already held a 16.7% interest in Navistar. The completion of the transaction, through which TRATON will become Navistar's sole owner, is intended for mid-2021. Since the merger agreement contains conditions precedent, the payment of the purchase price cannot be recorded as a liability in the balance sheet at present and is instead reported under other financial obligations.

CAPITAL INCREASE AT QUANTUMSCAPE CORPORATION

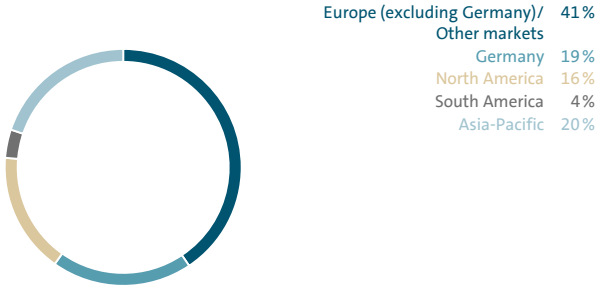
In fiscal year 2020, the Volkswagen Group took part in a capital increase at QuantumScape Corporation, a US-based company that develops solid-state batteries, entering into forward purchase agreements for new shares. The capital contribution comprises two tranches of USD 100 million each. The first tranche was already paid in December 2020.

INCOME STATEMENT BY DIVISION

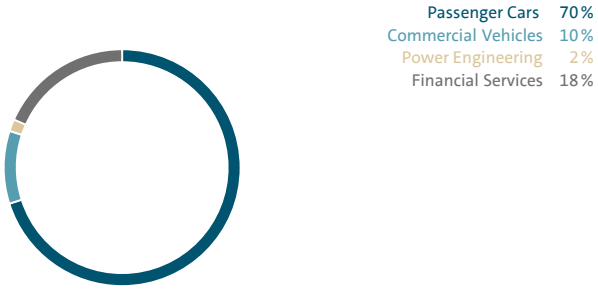
	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2020	2019	2020	2019	2020	2019
Sales revenue	**222,884**	**252,632**	**182,106**	**212,473**	**40,778**	**40,160**
Cost of sales	−183,937	−203,490	−150,507	−170,477	−33,430	−33,014
Gross profit	**38,947**	**49,142**	**31,599**	**41,996**	**7,348**	**7,146**
Distribution expenses	−18,407	−20,978	−17,267	−19,712	−1,140	−1,266
Administrative expenses	−9,399	−9,767	−7,147	−7,522	−2,252	−2,245
Net other operating result	−1,466	−1,437	−522	−1,014	−944	−423
Operating result	**9,675**	**16,960**	**6,664**	**13,748**	**3,012**	**3,212**
Operating return on sales (%)	**4.3**	**6.7**	**3.7**	**6.5**	**7.4**	**8.0**
Share of profits and losses of equity-accounted investments	2,756	3,349	2,697	3,278	60	71
Interest result and Other financial result	−765	−1,953	−469	−1,889	−296	−64
Financial result	**1,991**	**1,396**	**2,227**	**1,389**	**−236**	**7**
Earnings before tax	**11,667**	**18,356**	**8,891**	**15,137**	**2,776**	**3,219**
Income tax expense	−2,843	−4,326	−2,228	−3,491	−615	−836
Earnings after tax	**8,824**	**14,029**	**6,663**	**11,646**	**2,161**	**2,383**
Noncontrolling interests	−43	143	−98	79	55	64
Earnings attributable to Volkswagen AG hybrid capital investors	533	540	533	540	–	–
Earnings attributable to Volkswagen AG shareholders	**8,334**	**13,346**	**6,227**	**11,027**	**2,106**	**2,319**

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

SHARE OF SALES REVENUE BY MARKET 2020
in percent



SHARE OF SALES REVENUE BY DIVISION/BUSINESS AREA 2020
in percent



Payment 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. This measurement and realization resulted in noncash income of €1.4 billion in fiscal year 2020, which are reported in the other financial result.

RESULTS OF OPERATIONS

Results of operations of the Group

In fiscal year 2020, the Volkswagen Group generated sales revenue of €222.9 billion. The year-on-year decrease of 11.8% was mainly attributable to falling volumes as a result of the Covid-19 pandemic, as well as the negative effects of changes in exchange rates. Improvements in the mix and in price positioning had a positive impact. 80.8 (80.6)% of the Volkswagen Group's sales revenue originated abroad.

Gross profit amounted to €38.9 billion, €10.2 billion lower than in 2019. This figure also included risk provisions for any non-compliance with legal emissions limits. Positive special items amounting to €0.1 (0.3) billion recognized here in both periods due to the reversal of provisions for technical measures in connection with the diesel issue had an offsetting effect. The gross margin stood at 17.5 (19.5)%; excluding special items, it amounted to 17.4 (19.3)%.

The persistent negative impact of the spread of the SARS-CoV-2 virus was the main factor driving the €8.7 billion decline in the Volkswagen Group's operating profit before special items to €10.6 billion in the reporting year. The operating return on sales before special items fell to 4.8 (7.6)%. In addition to lower unit sales due to the pandemic-related decline in customer demand, turbulence in the capital markets meant that the measurement of receivables and liabilities denominated in foreign currencies had a negative effect. One-off expenses for restructuring measures of €0.5 billion also contributed to the reduction in profit. Positive factors were lower costs. The contribution of the consolidated subsidiary Autonomous Intelligent Driving (AID) to Argo AI, a company that is working on the development of a system for autonomous driving, led to income of €0.8 billion. This figure also includes the income from the sale of Renk. Special items in connection with the diesel issue weighed on operating profit, reducing this item by €–0.9 (–2.3) billion. The Volkswagen Group's operating profit was €9.7 (17.0) billion, while the operating return on sales fell to 4.3 (6.7)%.

The financial result increased by €0.6 billion year-on-year to €2.0 billion. The interest expenses included in the financial result were down, mainly for measurement-related reasons caused by a change in discount rates applied in the measurement of liabilities, while changes in share prices, also as a response to the Covid-19 pandemic, weighed on net income from securities and funds. The share of the result of equity-accounted investments was lower than in the previous year. The decline was primarily due to lower profit generated by the Chinese joint ventures, which were affected by the spread of the SARS-CoV-2 virus especially in the first quarter of 2020. The other financial result includes the measurement and realization of forward purchase agreements for new shares in QuantumScape Corporation, which led to noncash income of €1.4 billion in fiscal year 2020.

The Volkswagen Group's profit before tax amounted to €11.7 (18.4) billion. The return on sales before tax decreased to 5.2 (7.3)%. Income taxes resulted in an expense of

€2.8 (4.3) billion in fiscal year 2020, which in turn led to a tax rate of 24.4 (23.6)%. Profit after tax decreased by €5.2 billion to €8.8 billion.

Results of operations in the Automotive Division

In the period from January to December 2020, the Automotive Division recorded sales revenue of €182.1 billion, down 14.3% on the prior-year period. Profit was weighed down especially by the decline in volumes resulting from the Covid-19 pandemic, while changes in exchange rates also had a negative effect. In contrast, mix effects and improved price positioning made a positive contribution. Since our Chinese joint ventures are accounted for using the equity method, the Group's business performance in the Chinese passenger car market is primarily reflected in the Group's sales revenue only through deliveries of vehicles and vehicle parts.

Lower volumes led to a decrease in cost of sales, although its ratio to sales revenue rose year-on-year. Positive special items recognized here in both periods due to the reversal of provisions for technical measures in connection with the diesel issue had a favorable effect. Higher depreciation and amortization charges due to the large capex volume of previous years and provisions for any non-compliance with legal emissions limits were set against lower research and development costs recognized in profit or loss. Despite the reduction in their absolute amount, total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) increased to 7.6 (6.7)% in fiscal year 2020 compared to the prior-year period, due to the decline in sales revenue. 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.

Factors such as exchange rate effects led to a year-on-year decline in both distribution and administrative expenses in the reporting period, although their ratio to sales revenue rose. The other operating result amounted to €−0.5 (−1.0) billion. The main items to be recognized here were negative special items in connection with the diesel issue in an amount of €−1.0 (−2.6) billion. Other adverse factors were the negative effects of the measurement of receivables and liabilities denominated in foreign currencies and one-off expenses for restructuring measures. The income from the contribution of AID to the Argo AI joint venture and from the sale of the shares in Renk was also included in this item. In the prior-year period, the reversal of impairment losses following the remeasurement of development costs had a positive effect.

The Automotive Division's operating profit was €6.7 (13.7) billion in 2020. Its operating return on sales fell to 3.7 (6.5)%. Compared with the previous year, lower unit sales caused by the Covid-19 pandemic had a negative impact, as did the measurement of receivables and liabilities denominated in foreign currencies. One-off expenses for restructuring measures of €0.5 billion also contributed to the reduction in profit. Positive factors were lower costs as well as the income from the contribution of AID and from the sale of Renk; negative special items declined compared with the previous year, in which the reversal of impairment losses following the remeasurement of development costs had a positive impact. The operating profit before special items decreased by €8.5 billion to €7.6 billion, while the operating return on sales before special items went down to 4.2 (7.6)%.

Our operating profit largely benefits from the business performance of our Chinese joint ventures only through deliveries of vehicles and vehicle parts and through 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

€ million	2020	2019
Sales revenue	156,311	182,031
Operating result	7,224	12,188
Operating return on sales (%)	4.6	6.7

The Passenger Cars Business Area reported sales revenue of €156.3 billion in fiscal year 2020, 14.1% less than in the previous year. The year-on-year decrease was mainly attributable to falling volumes as a result of the Covid-19 pandemic. Moreover, changes in exchange rates had a negative effect, while the contribution of mix effects and better price positioning was positive. The Passenger Cars Business Area's operating profit was down €5.0 billion to €7.2 billion. The spread of the SARS-CoV-2 virus led to a drop in vehicle sales and caused the measurement of receivables and liabilities denominated in foreign currencies to have a negative effect. One-off expenses for restructuring measures also weighed on operating profit. Lower costs and the income from the contribution of AID led to higher profit. Special items recognized in connection with the diesel issue in an amount of €−0.9 (−2.3) billion were lower than in fiscal year 2019. The prior-year figure had also included the reversal of impairment losses following the remeasurement of development costs. The operating return on sales decreased to 4.6 (6.7)%.

RESULTS OF OPERATIONS IN THE COMMERCIAL VEHICLES BUSINESS AREA

€ million	2020	2019
Sales revenue	22,156	26,444
Operating result	−79	1,653
Operating return on sales (%)	−0.4	6.3

In the period from January to December 2020, the Commercial Vehicles Business Area recorded sales revenue of €22.2 billion; this was a significant year-on-year drop of 16.2%, due primarily to falling volumes as a result of the Covid-19 pandemic. Again due mainly to the pandemic-related decline in customer demand, as well as exchange rate-related factors, the Commercial Vehicles Business Area's operating result decreased by €1.7 billion to €−0.1 billion year-on-year. Improvements in the mix, in price positioning and in fixed costs had a beneficial impact. The operating return on sales fell to −0.4 (6.3)%.

RESULTS OF OPERATIONS IN THE POWER ENGINEERING BUSINESS AREA

€ million	2020	2019
Sales revenue	3,640	3,997
Operating result	−482	−93
Operating return on sales (%)	−13.2	−2.3

Following the sale of Renk as of October 6, 2020, the Power Engineering Business Area now comprises MAN Energy Solutions and the purchase price allocation made to the segment. The result of Renk's operating activities for 2020 is therefore included in the Power Engineering Business Area only for the first nine months.

The Power Engineering Business Area generated sales revenue of €3.6 (4.0) billion in the reporting year. The operating loss amounted to €−0.5 (−0.1) billion. The main reasons were falling volumes and in particular one-off expenses for restructuring measures of €0.4 billion. Cost reductions and improvements in the mix had a positive effect. The operating return on sales was at −13.2 (−2.3)%.

Results of operations in the Financial Services Division

The Financial Services Division reported sales revenue of €40.8 billion in fiscal year 2020, 1.5% more than in the previous year. Due to the Financial Services Division's business model, the negative effect of the Covid-19 pandemic on sales revenue is less severe here than in the Automotive Division.

Cost of sales increased by 1.3% to €33.4 billion. When taken together, distribution expenses, administrative expenses and the other operating result were up; their ratio to sales revenue also increased overall. The other operating result was weighed down particularly by higher risk costs.

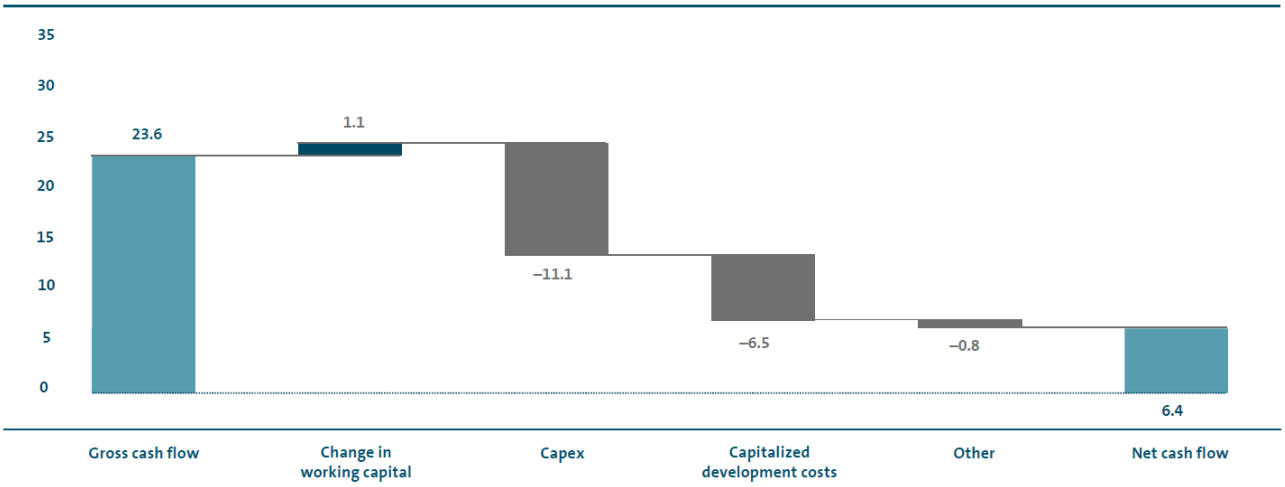
The Financial Services Division's operating profit was 6.2% lower, at €3.0 billion, primarily for pandemic-related reasons. The operating return on sales amounted to 7.4 (8.0)%. The return on equity before tax of 8.8 (10.8)% was down on the prior-year figure.

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 MAN Energy Solutions, Porsche Holding Salzburg and TRATON 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 overriding aim of currency, interest rate and commodity risk management is to hedge, using derivative financial instruments and commodity forwards, the prices on which investment, production and sales plans are based when making planning assumptions 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 the so-called 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

AUTOMOTIVE DIVISION NET CASH FLOW 2020
€ billion



of financial management, please refer to the chapter on "Financial risk management and financial instruments" in the notes to the consolidated financial statements.

FINANCIAL POSITION

Financial position of the Group

The Volkswagen Group's gross cash flow decreased to €35.0 (39.9) billion in the reporting year, mainly due to the pandemic-related decline in profit. The change in working capital amounted to €–10.1 (–22.0) billion. The effects of the Covid-19 pandemic included a reduction in receivables, including in the financial services business, lower inventories because of downscaled production, a decline in other provisions and a smaller rise in liabilities. Cash outflows attributable to the diesel issue were higher than in fiscal year 2019. Cash flows from operating activities improved significantly year-on-year, to €24.9 (18.0) billion.

The Volkswagen Group's investing activities attributable to operating activities amounted to €18.4 (20.1) billion in fiscal year 2020; this was down on the previous year, mainly due to lower capex.

Financing activities accounted for total cash inflows of €7.6 billion in the reporting year, primarily to boost gross liquidity; a cash outflow of €–0.9 billion had been recorded in the previous year. Financing activities primarily include the issuance and redemption of bonds and changes in other financial liabilities. In June 2020, hybrid notes totaling €3.0 billion were placed successfully. In September 2020, Volkswagen issued green bonds in an amount of €2.0 billion. The dividend payment to the shareholders of Volkswagen AG led to a cash outflow in October 2020 in the same amount as in the previous year. The figure for fiscal year 2019 had included the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement, and the cash inflow resulting from the IPO of TRATON.

At the end of the reporting period, the Volkswagen Group's cash and cash equivalents reported in the cash flow statement amounted to €33.4 (24.3) billion.

On December 31, 2020, the Volkswagen Group's net liquidity stood at €–137.4 billion, compared with €–148.0 billion at the end of 2019.

Financial position of the Automotive Division

In the period from January to December 2020, the Automotive Division's gross cash flow was €23.6 billion, down €5.5 billion on the previous year due to earnings-related factors. Working capital, which underwent very different changes in the individual quarters, amounted to €1.1 (1.6) billion. The effects of the Covid-19 pandemic included lower inventories because of downscaled production, a reduction in receivables as well as lower liabilities and a decline in other provisions. Cash outflows attributable to the diesel issue were higher than a year earlier. Consequently, cash flows from operating activities were down €6.0 billion to €24.7 billion.

Investing activities attributable to operating activities decreased by €18.4 billion to €1.5 billion. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) included in this figure declined by €2.9 billion to €11.1 billion. Despite a drop in sales revenue as a result of the pandemic, the ratio of capex to sales revenue was 6.1 (6.6)% down on the prior-year figure due to a significant fall in

CASH FLOW STATEMENT BY DIVISION

€ million	VOLKSWAGEN GROUP 2020	VOLKSWAGEN GROUP 2019	AUTOMOTIVE[1] 2020	AUTOMOTIVE[1] 2019	FINANCIAL SERVICES 2020	FINANCIAL SERVICES 2019
Cash and cash equivalents at beginning of period	**24,329**	**28,113**	**18,098**	**23,354**	**6,231**	**4,759**
Earnings before tax	11,667	18,356	8,891	15,137	2,776	3,219
Income taxes paid	−2,646	−2,914	−2,009	−2,187	−637	−726
Depreciation and amortization expense[2]	27,069	24,439	17,798	15,958	9,272	8,480
Change in pension provisions	806	342	767	320	39	23
Share of the result of equity-accounted investments	536	460	584	520	−48	−59
Other noncash income/expense and reclassifications[3]	−2,461	−734	−2,388	−651	−73	−83
Gross cash flow	**34,971**	**39,950**	**23,642**	**29,097**	**11,329**	**10,853**
Change in working capital	**−10,070**	**−21,966**	**1,079**	**1,636**	**−11,148**	**−23,603**
Change in inventories	1,334	−674	1,406	−345	−72	−329
Change in receivables	712	−893	45	−1,176	668	283
Change in liabilities	540	2,297	−138	1,564	678	733
Change in other provisions	−2	1,304	−214	1,400	211	−96
Change in lease assets (excluding depreciation)	−12,914	−13,204	52	−110	−12,966	−13,095
Change in financial services receivables	260	−10,796	−72	303	332	−11,099
Cash flows from operating activities	**24,901**	**17,983**	**24,721**	**30,733**	**180**	**−12,750**
Cash flows from investing activities attributable to operating activities	**−18,372**	**−20,076**	**−18,364**	**−19,898**	**−8**	**−178**
of which: investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs	−11,273	−14,230	−11,065	−14,007	−208	−223
capitalized development costs	−6,473	−5,171	−6,473	−5,171	–	–
acquisition and disposal of equity investments	−1,037	−913	−1,188	−716	151	−196
Net cash flow[4]	***6,529***	***−2,093***	***6,357***	***10,835***	***172***	***−12,928***
Change in investments in securities, loans and time deposits	−4,319	−1,069	−3,015	−5,018	−1,304	3,949
Cash flows from investing activities	**−22,690**	**−21,146**	**−21,379**	**−24,916**	**−1,312**	**3,771**
Cash flows from financing activities	**7,637**	**−865**	**2,938**	**−11,278**	**4,699**	**10,413**
of which: capital transactions with noncontrolling interests	−238	1,368	−238	1,368	–	–
capital contributions/capital redemptions	2,984	–	2,952	−970	33	970
MAN noncontrolling interest shareholders: compensation payments and acquisition of shares tendered	2	−1,109	2	−1,109	–	–
Effect of exchange rate changes on cash and cash equivalents	−745	243	−619	205	−125	38
Change of loss allowance within cash & cash equivalents	−0	1	−0	1	0	−0
Net change in cash and cash equivalents	**9,103**	**−3,784**	**5,660**	**−5,256**	**3,443**	**1,472**
Cash and cash equivalents at Dec. 31[5]	**33,432**	**24,329**	**23,758**	**18,098**	**9,674**	**6,231**
Securities, loans and time deposits	32,645	29,099	15,868	13,458	16,777	15,641
Gross liquidity	**66,078**	**53,428**	**39,626**	**31,556**	**26,451**	**21,872**
Total third-party borrowings	−203,457	−201,468	−12,830	−10,280	−190,627	−191,189
Net liquidity[6]	**−137,380**	**−148,040**	**26,796**	**21,276**	**−164,176**	**−169,316**

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).

capex. Capex was primarily allocated to our production facilities and to models that we launched in 2020 or are planning to launch in 2021, or for which production is set to start. These are primarily vehicles in the ID. family and in the Golf, Audi Q4 e-tron, Audi Q6 e-tron, Audi e-tron GT, ŠKODA Enyaq model series, the new generation of the ŠKODA Fabia, the SEAT Leon family, as well as the CUPRA Formentor, the Porsche Taycan, the Porsche Macan and Bentley's Bentayga. Other investment priorities included the ecological focus of our model range, product electrification and digitalization, and our modular toolkits. The increase in capitalized development costs to €6.5 (5.2) billion is primarily due to product impairment tests, which have had to be performed at brand level since the end of 2019. The "acquisition and disposal of equity investments" item went up by €0.5 billion to €1.2 billion as a result of strategic investments in a number of companies, in particular the Argo AI joint venture; this was offset by the cash provided by the sale of Renk.

The Automotive Division's net cash flow fell by €4.5 billion to €6.4 billion in the reporting period.

Financing activities relate to the issuance and redemption of bonds and changes in other financial liabilities; the total cash inflow in this item was €2.9 billion in fiscal year 2020. This helped boost gross liquidity and resulted in higher liabilities to banks. The hybrid notes with a principal amount of €3.0 billion, which were successfully issued via Volkswagen International Finance N.V. in June 2020, led to cash inflows. The first one is a €1.5 billion note that has a coupon of 3.5% and can first be called after five years, and the other is a €1.5 billion note that has a coupon of 3.875% and can first be called after nine years. Both notes have perpetual maturities and increase equity, net of transaction and other costs. An amount of €3.0 billion of the hybrid notes was eligible to be classified as a capital contribution and led to a rise in net liquidity. In addition, the green bonds of €2.0 billion issued in September 2020 are included in financing activities. A dividend of €2.4 (2.4) billion was distributed to the shareholders of Volkswagen AG in October 2020. The "capital transactions with noncontrolling interests" item includes the cash outflow of €0.2 billion for the transfer of all outstanding Audi shares to Volkswagen AG. In the previous year, financing activities accounted for cash outflows of €11.3 billion. This figure also included the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement with MAN SE, which was set against the cash inflow resulting from the IPO of TRATON.

At the end of the reporting year, the Automotive Division's net liquidity was up €5.5 billion, at €26.8 billion. Driven by the increase in net liquidity and the decrease in sales revenue, the Automotive Division's net liquidity accounted for 12.0 (8.4)% of consolidated sales revenue in the reporting period.

FINANCIAL POSITION IN THE PASSENGER CARS BUSINESS AREA

€ million	2020	2019
Gross cash flow	21,823	25,474
Change in working capital	331	3,053
Cash flows from operating activities	22,154	28,528
Cash flows from investing activities attributable to operating activities	−16,762	−20,254
Net cash flow	5,392	8,273

Due to the pandemic-related decline in profit, the gross cash flow generated by the Passenger Cars Business Area was €21.8 billion in fiscal year 2020, having experienced a decline of €3.7 billion compared with the previous year. The change in working capital amounted to €0.3 (3.1) billion. The effects of the Covid-19 pandemic included lower inventories, a reduction in receivables, lower liabilities and a decline in other provisions. The cash outflows attributable to the diesel issue were higher in the reporting period than a year earlier. Cash flows from operating activities were down by €6.4 billion to €22.2 billion. Investing activities attributable to operating activities in the Passenger Cars Business Area decreased to €16.8 (20.3) billion. Capex was lower, while capitalized development costs increased. The "acquisition and disposal of equity investments" item went up due to strategic investments in a number of companies, in particular the joint venture Argo AI. The Passenger Cars Business Area's net cash flow declined by €2.9 billion to €5.4 billion.

FINANCIAL POSITION IN THE COMMERCIAL VEHICLES BUSINESS AREA

€ million	2020	2019
Gross cash flow	1,845	3,357
Change in working capital	159	–1,249
Cash flows from operating activities	2,004	2,108
Cash flows from investing activities attributable to operating activities	–1,328	603
Net cash flow	676	2,711

In the period from January to December 2020, the Commercial Vehicles Business Area's gross cash flow went down by €1.5 billion to €1.8 billion due to earnings-related factors driven by the Covid-19 pandemic. The change in working capital amounted to €0.2 (–1.2) billion. Cash flows from operating activities declined by €0.1 billion to €2.0 billion. Investing activities attributable to operating activities were up on the previous year, in which the intragroup sale of the power engineering business had led to a cash inflow. Net cash flow dropped to €0.7 (2.7) billion.

FINANCIAL POSITION IN THE POWER ENGINEERING BUSINESS AREA

€ million	2020	2019
Gross cash flow	–25	265
Change in working capital	588	–168
Cash flows from operating activities	562	98
Cash flows from investing activities attributable to operating activities	–274	–247
Net cash flow	289	–150

In the reporting year, gross cash flow in the Power Engineering Business Area declined to €0.0 (0.3) billion year-on-year, primarily as a result of a deterioration in profit. Due to a reduction in receivables and restructuring expenses that have not yet led to cash outflows, the change in working capital amounted to €0.6 (–0.2) billion. Cash flows from operating activities rose by €0.5 billion year-on-year, to €0.6 billion. Investing activities attributable to operating activities increased by 10.6% to €0.3 billion. Net cash flow improved by €0.4 billion to €0.3 billion.

Financial position in the Financial Services Division

In the period from January to December 2020, the Financial Services Division generated gross cash flow of €11.3 (10.9) billion. Given a decrease in funds tied up in working capital caused by the lower business volume in response to the decline in demand following the spread of the SARS-CoV-2 virus, the change in working capital amounted to €–11.1 (–23.6) billion. Cash flows from operating activities improved by €12.9 billion to €0.2 billion.

At €0.0 (0.2) billion, investing activities attributable to operating activities were below the prior-year figure.

The Financial Services Division's financing activities relate primarily to the issuance and redemption of bonds and other financial liabilities; there was a total cash inflow of €4.7 billion to refinance the business volume in the reporting period, compared with €10.4 billion in the previous year.

At the end of the reporting period, the Financial Services Division's negative net liquidity, which is common in the industry, stood at €–164.2 billion, compared with €–169.3 billion on December 31, 2019.

NET ASSETS

Consolidated balance sheet structure

At the end of fiscal year 2020, the Volkswagen Group had total assets of €497.1 billion, 1.9% more than at the end of the prior year. The rise is mostly attributable to the boost in gross liquidity and the successful issue of hybrid notes in the second quarter of 2020. It was offset by exchange rate effects. A chart showing the structure of the consolidated balance sheet as of the reporting date can be found in this chapter. The Volkswagen Group's equity increased by €5.1 billion to €128.8 billion. The equity ratio was 25.9 (25.3)%.

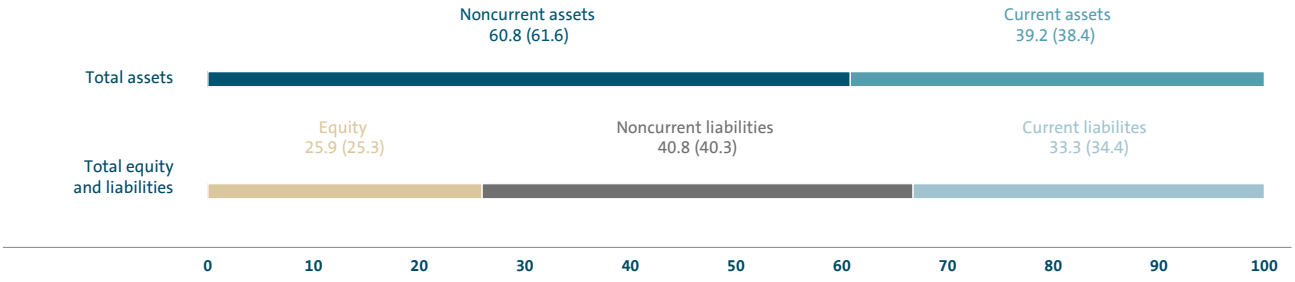
As of the end of fiscal year 2020, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €8.6 (8.5) billion and in the form of financial guarantees in the amount of €0.4 (0.4) billion. In addition, there were other financial obligations of €22.0 billion, which exceeded the prior-year figure of €20.0 billion. The contingent liabilities relate primarily to legal risks in connection with the diesel issue, as well as to 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. They also include commitments to invest 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. The other financial obligations include an amount of €0.9 billion for this purpose. In addition, this item reflects the payment of the purchase price for the acquisition of all of Navistar's outstanding shares totaling around USD 3.7 billion, as the merger agreement between TRATON and Navistar contains conditions precedent and the purchase price payment cannot be recorded as a liability in the balance sheet at present.

CONSOLIDATED BALANCE SHEET BY DIVISION AS OF DECEMBER 31

	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2020	2019	2020	2019	2020	2019
Assets						
Noncurrent assets	**302,170**	**300,608**	**156,861**	**153,736**	**145,309**	**146,873**
Intangible assets	67,968	66,214	67,781	66,010	187	204
Property, plant and equipment	63,884	66,152	62,807	65,043	1,077	1,110
Lease assets	50,686	48,938	1,512	2,084	49,174	46,853
Financial services receivables	82,565	86,973	−377	−390	82,942	87,363
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	37,067	32,331	25,137	20,989	11,930	11,342
Current assets	**194,944**	**187,463**	**97,236**	**93,081**	**97,708**	**94,382**
Inventories	43,823	46,742	39,055	41,898	4,768	4,844
Financial services receivables	58,006	58,615	−557	−640	58,562	59,255
Other receivables and financial assets	38,044	38,620	17,012	17,803	21,033	20,817
Marketable securities	21,162	16,769	17,503	13,546	3,658	3,223
Cash, cash equivalents and time deposits	33,909	25,923	24,222	19,679	9,687	6,243
Assets held for sale	–	795	–	795	–	–
Total assets	**497,114**	**488,071**	**254,097**	**246,816**	**243,017**	**241,255**
Equity and liabilities						
Equity	**128,783**	**123,651**	**96,733**	**92,774**	**32,050**	**30,877**
Equity attributable to Volkswagen AG shareholders	111,336	109,117	79,913	78,872	31,423	30,246
Equity attributable to Volkswagen AG hybrid capital investors	15,713	12,663	15,713	12,663	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	127,049	121,781	95,626	91,535	31,423	30,246
Noncontrolling interests	1,734	1,870	1,107	1,239	627	631
Noncurrent liabilities	**202,921**	**196,497**	**93,523**	**90,822**	**109,398**	**105,675**
Financial liabilities	114,809	113,556	15,637	17,592	99,173	95,965
Provisions for pensions	45,081	41,389	44,207	40,631	874	759
Other liabilities	43,031	41,551	33,680	32,600	9,352	8,951
Current liabilities	**165,410**	**167,924**	**63,840**	**63,220**	**101,569**	**104,703**
Financial liabilities	88,648	87,912	−2,806	−7,312	91,454	95,224
Trade payables	22,677	22,745	19,539	19,603	3,137	3,142
Other liabilities	54,085	56,896	47,107	50,559	6,978	6,337
Liabilities associated with assets held for sale	–	370	–	370	–	–
Total equity and liabilities	**497,114**	**488,071**	**254,097**	**246,816**	**243,017**	**241,255**

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

CONSOLIDATED BALANCE SHEET STRUCTURE 2020
in percent



Automotive Division balance sheet structure

As of December 31, 2020, the Automotive Division's intangible assets increased slightly compared with fiscal year 2019, driven among other factors by a rise in capitalized development costs. Property, plant and equipment declined due to exchange rate factors and depreciation in excess of additions. Equity-accounted investments were up as the year-on-year decline in the business results of the Chinese joint ventures was offset by resolutions to pay lower dividends and by additions to the interests held in entities such as Argo AI, QuantumScape, Anhui Jianghuai Automobile Group Holdings and Northvolt. Noncurrent other receivables and financial assets increased. Total noncurrent assets were up €3.1 billion to €156.9 billion.

Current assets were higher than at the end of 2019, amounting to €97.2 (93.1) billion. As a result of downscaled production in response to the pandemic and due to exchange rate effects, the inventories included in this item were lower. The Automotive Division's securities and cash and cash equivalents rose by €8.5 billion to €41.7 billion.

In the previous year, the "Assets held for sale" item included the carrying amounts of assets to be derecognized as a result of the contribution of AID to the Argo AI joint venture and those relating to the sale of Renk.

At the end of the reporting year, the Automotive Division's equity amounted to €96.7 billion, 4.3% more than a year earlier. The increase was mainly attributable to the profit generated, the hybrid notes issued in June 2020, and the positive effects from the measurement of derivatives recognized directly in equity. Currency translation, the dividend payment to the shareholders of Volkswagen AG resolved by the Annual General Meeting, and higher actuarial losses from the remeasurement of pension plans reduced equity. Noncontrolling interests are primarily held by the noncontrolling interest shareholders of TRATON. The equity ratio was 38.1 (37.6)%.

Noncurrent liabilities increased by €2.7 billion to €93.5 billion. The decrease in noncurrent financial liabilities included in this item was driven primarily by reclassifications from noncurrent to current liabilities to reflect shorter remaining maturities and by exchange rate effects; the issuance of green bonds in September 2020 had an offsetting impact on this item. Pension provisions were significantly higher than the comparative 2019 figure, due mainly to the actuarial remeasurement following a change in the discount rate.

At €63.8 (63.2) billion, current liabilities were on a level with the previous year. Current financial liabilities amounted to €–2.8 (–7.3) billion due primarily to reclassifications from noncurrent to current liabilities. 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. Current other liabilities were down, primarily due to the effects of the measurement of derivatives and to lower liabilities from buyback transactions. Other provisions decreased, due mainly to utilizations in connection with the diesel issue.

At the end of fiscal year 2020, the Automotive Division's total assets amounted to €254.1 billion, up 2.9% compared with the figure on December 31, 2019.

PASSENGER CARS BUSINESS AREA
BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2020	Dec. 31, 2019
Noncurrent assets	130,237	126,387
Current assets	83,180	75,459
Total assets	**213,417**	**201,846**
Equity	81,423	75,773
Noncurrent liabilities	82,263	78,679
Current liabilities	49,731	47,394

COMMERCIAL VEHICLES BUSINESS AREA
BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2020	Dec. 31, 2019
Noncurrent assets	24,777	25,143
Current assets	11,256	13,420
Total assets	**36,033**	**38,563**
Equity	13,389	14,115
Noncurrent liabilities	10,592	11,367
Current liabilities	12,052	13,081

At the end of 2020, intangible assets in the Passenger Cars Business Area were higher than at the 2019 balance sheet date. This was attributable among other factors to an increase in capitalized development costs. Exchange rate factors and depreciation in excess of additions led to a decrease in property, plant and equipment. Equity-accounted investments rose compared with December 31, 2019: the year-on-year decline in the business results of the Chinese joint ventures was set against resolutions to pay lower dividends in the Chinese joint ventures, as well as additions to the interests held in entities such as Argo AI, QuantumScape, Anhui Jianghuai Automobile Group Holdings and Northvolt. Overall, noncurrent assets increased by 3.0% compared with the end of 2019. Current assets rose by 10.2%. The inventories included in this item were lower as a result of downscaled production in response to the pandemic and due to exchange rate effects. Total securities and cash and cash equivalents in the Passenger Cars Business Area significantly exceeded the figure recorded at the end of 2019. On December 31, 2020, the Passenger Cars Business Area had total assets amounting to €213.4 (201.8) billion.

At €81.4 (75.8) billion, the Passenger Cars Business Area's equity was up on the figure for December 31, 2019, mainly for earnings-related reasons. Total noncurrent liabilities were 4.6% higher than at the end of 2019. The noncurrent financial liabilities included in this item increased, and pension provisions rose, mainly due to the actuarial remeasurement following a change in the discount rate. A rise in current financial liabilities was the main factor driving the 4.9% increase in current liabilities compared with the end of 2019. This was offset in particular by lower other provisions, whose decline was driven by factors such as utilizations in connection with the diesel issue.

At the end of the reporting period, property, plant and equipment in the Commercial Vehicles Business Area was up slightly, while lease assets were down. In total, noncurrent assets were slightly lower than at the last balance sheet date in 2019, amounting to €24.8 (25.1) billion. Current assets declined by 16.1%. The inventories included in this item were lower as a result of downscaled production in response to the pandemic. Total securities and cash and cash equivalents decreased in the reporting year. At €36.0 billion, total assets were again €2.5 billion lower than in the previous year.

The Commercial Vehicles Business Area's equity was down on the previous year, amounting to €13.4 (14.1) billion. Noncurrent liabilities were 6.8% lower overall than on December 31, 2019. There was a decline in other noncurrent liabilities. Current liabilities dropped by a total of 7.9%. The current other liabilities included in this item were lower than on the previous year's balance sheet date.

POWER ENGINEERING BUSINESS AREA BALANCE SHEET STRUCTURE

€ million	Dec. 31, 2020	Dec. 31, 2019
Noncurrent assets	1,847	2,206
Current assets	2,800	4,202
Total assets	**4,647**	**6,408**
Equity	1,922	2,885
Noncurrent liabilities	668	777
Current liabilities	2,057	2,746

The Power Engineering Business Area's intangible assets and property, plant and equipment were lower on December 31, 2020 than on the prior-year balance sheet date. Noncurrent assets dropped by a total of 16.3%. Current assets decreased by 33.4%, with a significant reduction in the cash and cash equivalents included in this item. In the previous year, the "Assets held for sale" item had included the carrying amounts of assets derecognized as a result of the sale of Renk completed in October 2020. As a result, total assets in the Power Engineering Business Area went down to €4.6 (6.4) billion at the end of fiscal year 2020.

At the end of 2020, the Power Engineering Business Area's equity amounted to €1.9 (2.9) billion. Overall, noncurrent liabilities were lower than a year earlier. Current liabilities also declined compared with the end of 2019. The financial liabilities included here fell significantly, while other provisions went up because of provisions recognized for restructuring measures. Current liabilities as of the end of 2019 had also included the carrying amounts of the liabilities of Renk, which were derecognized as a result of the sale of Renk in 2020.

Financial Services Division balance sheet structure

On December 31, 2020, the Financial Services Division had total assets of €243.0 (241.3) billion, slightly more than at the balance sheet date in 2019.

Noncurrent assets declined by 1.1% to €145.3 billion compared with the end of the prior year; the property, plant and equipment included in this item was virtually unchanged. Lease assets increased, while non-current financial services receivables were down because volumes and exchange rates were affected by the Covid-19 pandemic.

Current assets expanded to €97.7 (94.4) billion. Current financial services receivables were lower than at the end of 2019, primarily for pandemic-related reasons. At €13.3 billion, total securities and cash and cash equivalents in the Financial Services Division exceeded the figure recorded at the end of 2019 by €3.9 billion.

On December 31, 2020, the Financial Services Division accounted for around 48.9 (49.4)% of the Volkswagen Group's assets.

At the end of the reporting year, the Financial Services Division's equity stood at €32.0 billion, 3.8% more than a year earlier. Negative exchange rate effects were offset by positive earnings. The equity ratio was 13.2 (12.8)%.

Noncurrent liabilities increased by 3.5% overall, mainly due to a rise in noncurrent financial liabilities and higher other provisions. A reduction in current financial liabilities, offset by higher other current liabilities, led to a net decrease in total current liabilities.

Deposits from the direct banking business amounted to €28.9 (32.5) billion, and were therefore below the figure recorded at the end of 2019.

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. Based on our companies' income tax rates, which vary from country to country, 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 – is 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 weekly basis followed by the subsequent calculation of the average. A beta factor of 1.26 (1.17) was determined for 2020.

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 6.5 (6.3)% for 2020.

COST OF CAPITAL AFTER TAX IN THE AUTOMOTIVE DIVISION

%	2020	2019
Risk-free rate	−0.2	0.0
Market risk premium	7.5	7.5
Volkswagen-specific risk premium	2.0	1.3
(Volkswagen beta factor)	(1.26)	(1.17)
Cost of equity after tax	**9.3**	**8.8**
Cost of debt	1.4	1.9
Tax	−0.4	−0.6
Cost of debt after tax	**1.0**	**1.3**
Proportion of equity	66.7	66.7
Proportion of debt	33.3	33.3
Cost of capital after tax	**6.5**	**6.3**

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

At €7,450 (13,019) million, the Automotive Division's operating profit after tax, including the proportionate operating profit of the Chinese joint ventures, was down on the prior-year figure in fiscal year 2020, mainly due to the persistently negative impact of the spread of the SARS-CoV-2 virus. In addition particularly to the decline in revenue resulting from the pandemic-related fall in customer demand, turbulence in the capital markets led to negative effects from the measurement of receivables and liabilities denominated in foreign currencies. One-off expenses for restructuring measures also reduced earnings. A positive impact was made by lower costs. In addition, income was generated from the contribution of AID to the Argo AI joint venture and from the sale of Renk. Negative special items weighed on the operating profit, but to a lesser extent than in the previous year. The effect of purchase price allocation on earnings and assets is not taken into account as this cannot be influenced by management in the course of business operations.

In the reporting year, the invested capital fell to €114,907 (116,016) million, partly due to exchange rates. The decrease was due primarily to lower inventory levels and lower property, plant and equipment, offset by higher 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. Due to earnings-related factors as a result of the Covid-19 pandemic, ROI declined year-on-year; at 6.5 (11.2)% it was below our defined minimum required rate of return on invested capital of 9%.

At €7,504 (7,328) million, the opportunity cost of capital (invested capital multiplied by cost of capital) slightly exceeded the prior-year figure. After deduction of the opportunity cost of invested capital, the operating result after tax – which was negatively impacted by the pandemic – led to a negative value contribution of €–54 (5,691) million.

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

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

€ million	2020	2019
Operating result after tax	**7,450**	**13,019**
Invested capital (average)	114,907	116,016
Return on investment (ROI) in %	**6.5**	**11.2**
Cost of capital in %	6.5	6.3
Opportunity cost of invested capital	**7,504**	**7,328**
Value contribution	**–54**	**5,691**

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.

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 given the context created by the extensively and persistently negative impact of the spread of the SARS-CoV-2 virus.

Throughout the entire reporting period, the Covid-19 pandemic had a strong impact on business at the Volkswagen Group and led to lower figures in terms of deliveries, sales revenue and profit, as well as to deviations from the original forecast. In this environment, which was also dominated by fierce competition, technological change in our industry and growing environmental awareness, we delivered 9.3 million vehicles to customers. The Group's sales revenue also fell significantly by 11.8% as a result of lower volumes and exchange rate effects. This reduced operating profit before special items to €10.6 billion. At 4.8%, the operating return on sales before special items fell short of the originally forecast range of 6.5 to 7.5%. The operating return on sales, including special items related to the diesel issue, amounted to 4.3%.

The research and development costs reflect our activities to safeguard the Company's future viability; despite the countermeasures taken, the R&D ratio in the Automotive Division came to 7.6% and, as ultimately expected, was therefore higher than in the previous year owing to the decline in sales revenue caused by the pandemic.

Due to a significant fall in capex, the Automotive Division's ratio of capex to sales revenue declined to 6.1% and was within the originally expected range. At €6.4 billion, the net cash flow came in clearly positive despite the Covid-19 pandemic, the year-on-year decline was driven particularly by the lower profits and by higher cash outflows attributable to the diesel issue. Net liquidity improved beyond the forecast to €26.8 billion, partly due to the successful placement of hybrid notes.

The return on investment (ROI) in the Automotive Division decreased to 6.5% as a consequence of the pandemic and fell short of the minimum required rate of return on invested capital.

FORECAST VERSUS ACTUAL FIGURES

	Actual 2019	Original forecast for 2020	Adjusted forecast for 2020	Actual 2020
Deliveries to customers (units)	11.0 million	around the prior-year level	considerable decline	9.3 million
Volkswagen Group				
Sales revenue	€252.6 billion	increase of up to 4%	considerable decline	€222.9 billion
Operating return on sales before special items	7.6%	6.5–7.5%	positive, <6.5%	4.8%
Operating return on sales	6.7%	6.5–7.5%	positive, <6.5%	4.3%
Operating result before special items	€19.3 billion	in forecast range	severe decline, positive	€10.6 billion
Operating result	€17.0 billion	in forecast range	severe decline, positive	€9.7 billion
Passenger Cars Business Area				
Sales revenue	€182.0 billion	moderate increase	considerable decline	€156.3 billion
Operating return on sales before special items	8.0%	6.5–7.5%	in forecast range, <6.5%	5.2%
Operating return on sales	6.7%	6.5–7.5%	in forecast range, <6.5%	4.6%
Operating result before special items	€14.5 billion	in forecast range	severe decline	€8.2 billion
Operating result	€12.2 billion	in forecast range	severe decline	€7.2 billion
Commercial Vehicles Business Area				
Sales revenue	€26.4 billion	moderate decline	considerable decline	€22.2 billion
Operating return on sales	6.3%	4.0–5.0%	in forecast range, <4.0%	–0.4%
Operating result	€1.7 billion	in forecast range	severe decline	€–79 million
Power Engineering Business Area				
Sales revenue	€4.0 billion	at prior-year level	considerable decline	€3.6 billion
Operating result	€–93 million	smaller loss	considerably higher loss	€–482 million
Financial Services Division				
Sales revenue	€40.2 billion	around the prior-year level	at prior-year level	€40.8 billion
Operating result	€3.2 billion	around the prior-year level	considerable decline	€3.0 billion
R&D ratio in the Automotive Division	6.7%	6.0–6.5%	increase, >6.5%	7.6%
Capex/sales revenue in the Automotive Division	6.6%	6.0–6.5%	at prior-year level	6.1%
Net cash flow in the Automotive Division	€10.8 billion	noticeable decline, clearly positive	considerable decline, positive	€6.4 billion
Net liquidity in the Automotive Division	€21.3 billion	distinct increase	around the prior-year level	€26.8 billion
Return on investment (ROI) in the Automotive Division	11.2%	slight increase, >9%	decline, positive, <9%	6.5%

Volkswagen AG

(Condensed, in accordance with the German Commercial Code)

Unit sales of Volkswagen AG in 2020 were down on the previous year due to the negative impact of the Covid-19 pandemic, while profit increased.

ANNUAL RESULT

Additional special items in connection with the diesel issue amounting to €0.8 billion were recognized in fiscal year 2020. This was mainly due to further provisions for legal risks. Special items had an impact of €–0.8 (–1.8) billion on net other operating result.

At €67.5 billion, sales in the reporting period were down 16.2% year-on-year largely due to the pandemic and the measures taken to contain the spread of the SARS-CoV-2 virus. Sales generated abroad accounted for a share of €40.7 billion or 60.3%. Cost of sales decreased by 15.1% to €63.4 billion. Gross profit on sales fell accordingly to €4.1 (5.9) billion.

At €7.3 billion, distribution, general and administrative expenses were down €0.7 billion on the prior-year figure.

The net other operating result was €1.3 billion higher, at €0.4 billion. The rise was due particularly to lower expenses for legal and litigation risks.

The €0.7 billion increase in the financial result to €9.8 billion resulted mainly from lower write-downs of long-term financial assets.

Taxes on income declined to €–0.7 (–1.2) billion, particularly due to lower current tax expense and tax refunds for prior years, taking net income for fiscal year 2020 to €6.3 (5.0) billion.

INCOME STATEMENT OF VOLKSWAGEN AG

€ million	2020	2019
Sales	67,535	80,621
Cost of sales	−63,418	−74,700
Gross profit on sales	**4,117**	**5,921**
Distribution, general and administrative expenses	−7,269	−7,948
Net other operating result	398	−914
Financial result[1]	9,787	9,115
Taxes on income	−693	−1,215
Earnings after tax	**6,338**	**4,958**
Net income for the fiscal year	**6,338**	**4,958**
Retained profits brought forward	855	0
Appropriations to revenue reserves	−3,165	−1,685
Net retained profits	**4,028**	**3,273**

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

BALANCE SHEET OF VOLKSWAGEN AG AS OF DECEMBER 31

€ million	2020	2019
Fixed assets	130,377	120,823
Inventories	6,542	5,554
Receivables[1]	38,766	35,856
Cash-in-hand and bank balances	8,803	5,639
Total assets	**184,488**	**167,872**
Equity	39,549	35,629
Special tax-allowable reserves	18	18
Long-term debt	43,086	39,206
Medium-term debt	36,348	35,983
Short-term debt	65,487	57,036

1 Including prepaid expenses.

NET ASSETS AND FINANCIAL POSITION

Total assets amounted to €184.5 billion on December 31, 2020, up €16.6 billion on the prior-year figure. Property, plant and equipment was up by €0.6 billion, with capital expenditure exceeding depreciation charges. The rise in financial assets to €121.6 (112.8) billion was mainly the result of an increase in shares held in affiliated companies.

Fixed assets accounted for a share of 70.7 (72.0)% of total assets.

Current assets (including prepaid expenses) amounted to €54.1 (47.0) billion on December 31, 2020. Inventories went up due primarily to the addition of precious metals. Receivables were higher, mainly because of financing provided to subsidiaries. Cash instruments increased, driven mostly by raising restricted short-term time deposits.

At the end of the reporting period, equity was at €39.5 billion; the increase was due particularly to the positive net income for the year. The equity ratio was 21.4 (21.2)%.

Other provisions decreased by €1.5 billion to €19.9 (21.4) billion due mainly to the utilization of provisions in connection with the diesel issue. Provisions for pensions and similar obligations rose by €1.2 billion to €19.0 billion, primarily as a result of a change in measurement inputs, while provisions for taxes increased by €0.5 billion to €4.3 billion.

The €12.5 billion increase in total liabilities (including deferred income) to €101.7 billion is attributable primarily to higher liabilities to affiliated companies.

Volkswagen AG's cash funds, comprising cash instruments with a maturity of less than three months, less bank liabilities repayable on demand and cash pooling liabilities, improved year-on-year from €–7.6 billion to €–5.1 billion. The interest-bearing portion of debt amounted to €89.8 (78.2) billion. In our assessment, given the context created by the extensive and persistent negative impact of the spread of the SARS-CoV-2 virus, 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 that allows our shareholders to benefit appropriately from 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 have set ourselves the goal of achieving a payout ratio of at least 30%. The payout ratio is based on the Group's earnings after tax attributable to Volkswagen AG shareholders. This amounts to 29.0% for the reporting period and stood at 18.1% in the previous year.

DIVIDEND PROPOSAL

In fiscal year 2020, net retained profits amounted to €4.0 billion. The Board of Management and Supervisory Board are proposing to pay a total dividend of €2.4 billion, i.e. €4.80 per ordinary share and €4.86 per preferred share.

PROPOSAL ON THE APPROPRIATION OF NET PROFIT

€	2020
Dividend payout on subscribed capital (€1,283 million)	2,418,589,589.10
of which on: ordinary shares	1,416,431,126.40
preferred shares	1,002,158,462.70
Balance (carried forward to new account)	1,609,493,827.80
Net retained profits	**4,028,083,416.90**

EMPLOYEE PAY AND BENEFITS AT VOLKSWAGEN AG

€ million	2020	%	2019	%
Direct pay including cash benefits	7,477	70.6	8,421	70.7
Social security contributions	1,379	13.0	1,502	12.6
Compensated absence	1,099	10.4	1,310	11.0
Retirement benefits	634	6.0	682	5.7
Total expense	**10,588**	**100.0**	**11,916**	**100.0**

VEHICLE SALES

Volkswagen AG sold a total of 1,941,821 (2,580,553) vehicles in fiscal year 2020. This decrease is essentially due to the negative impact of the Covid-19 pandemic. Vehicles sold abroad accounted for a share of 64.9 (67.6)%.

PRODUCTION

Volkswagen AG produced a total of 792,393 vehicles at its vehicle production plants in Wolfsburg, Hanover and Emden in the reporting period (–25.9%).

EMPLOYEES

As of December 31, 2020, a total of 118,673 (119,204) people were employed at the sites of Volkswagen AG, excluding staff employed at subsidiaries. Of this figure, 4,848 (5,029) were vocational trainees. 6,210 (5,254) employees were in the passive phase of their partial retirement.

Female employees accounted for 17.8 (17.6)% of the workforce. Volkswagen AG employed 7,002 (6,551) part-time workers. The percentage of foreign employees was 6.4 (6.4)%. In the reporting period, 83.1 (83.2)% of the employees in Volkswagen AG's production area were in possession of vocational or additional training. The proportion of graduates was 20.7 (20.1)% in the same period. The average age of employees in fiscal year 2020 was 44.5 (44.2) years.

RESEARCH AND DEVELOPMENT

Volkswagen AG's research and development costs as defined in the German Commercial Code amounted to €5.9 (6.1) billion in the reporting period. 13,547 (13,378) 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 already reduce the environmental impact during the production process. In 2020 we invested primarily in climate protection and in soil and water pollution control.

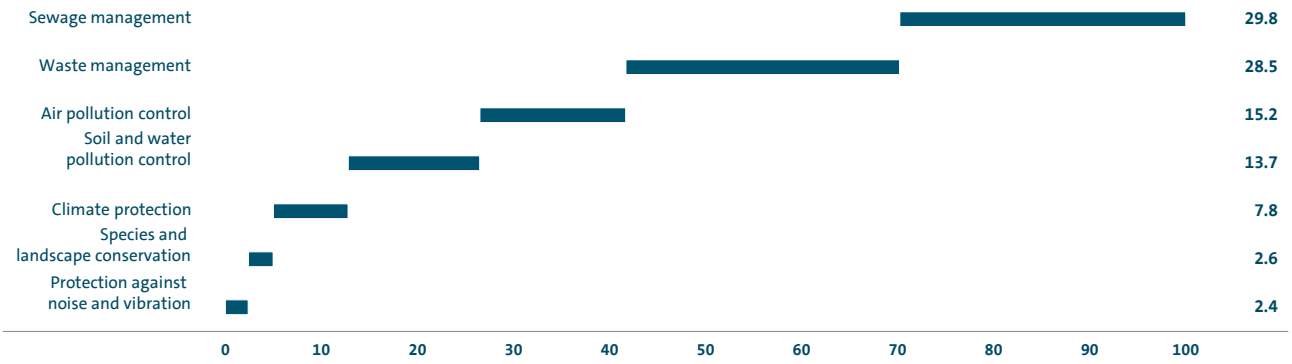
The recognized operating costs relate to measures that protect the environment against harmful factors by avoiding, reducing, or eliminating emissions by the Company. Resources are also conserved. For example, these include expenditures incurred to operate equipment that protects the environment, as well as expenditures for measures not relating to such equipment. As in previous years, the emphasis in 2020 was on sewage and waste management.

VOLKSWAGEN AG EXPENDITURE ON ENVIRONMENTAL PROTECTION

€ million	2020	2019	2018	2017	2016
Investments	4	9	13	17	11
Operating costs	225	233	230	227	223

OPERATING COSTS FOR ENVIRONMENTAL PROTECTION AT VOLKSWAGEN AG 2020

Share of environmental protection areas in percent



BUSINESS DEVELOPMENT OF VOLKSWAGEN AG

As the parent of the Volkswagen Group, Volkswagen AG is fundamentally subject to the same expected developments and risks and opportunities. The forecast is explained in the chapter entitled "Report on Expected Developments" and the risks and opportunities in the chapter entitled "Report on Risks and Opportunities" 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 in the chapter "Report on Risks and Opportunities" of this annual report.

DEPENDENT COMPANY REPORT

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

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

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

Sustainable Value Enhancement

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

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

SUSTAINABILITY

Sustainability means maintaining intact environmental, social and economic systems with long-term viability at a global, regional and local level. The Volkswagen Group can influence these systems in various ways and actively takes responsibility to make a contribution to their sustainability. We have thus developed a sustainable style of company management and put in place the necessary management structures.

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

A particular challenge when implementing our strategic goals on all levels of the value chain is the complexity of our Company, with its twelve brands, more than 660 thousand employees and 118 production sites. At the same time, we are guiding our Group through the furthest-reaching process of change in its history. The transformation sweeping our entire industry is dominated especially by the transition to e-mobility, digitalization and new mobility services. We want to master these challenges and become a leading company for individual mobility in this electric and connected age.

Protecting the climate is currently the greatest global challenge affecting all three sustainability dimensions. We want to provide our own highly unique answer to this and have decided on an ambitious decarbonization program. With the implementation of this program, we want to be a net-carbon-neutral company by 2050. We are assuming a pioneering role by making this voluntary commitment based on the Paris Climate Agreement. We are guided in this by the specifications of the Task Force on Climate-Related Financial Disclosures (TCFD) For more information, please see our Sustainability Report for fiscal year 2020.

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

Parameters and guiding principles

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

On this basis, our objective is to attain that the Volkswagen Group's actions are in line with international agreements and frameworks such as the Sustainable Development Goals (SDGs) of the United Nations (UN), the declarations of the International Labour Organization (ILO), the principles

and conventions of the Organization for Economic Co-operation and Development (OECD) and the UN covenants on basic rights and freedoms.

Management and coordination

The structure and workflows of Group-wide sustainability management were expanded in the reporting period. The related structures, processes and responsibilities are codified in a separate Group policy. We view sustainability management as a continuous improvement process. The core elements include assumption of overall responsibility for sustainability by the Chairman of the Board of Management of Volkswagen AG, specification of the competence of the responsible Board members for specific sustainability management concepts and implementation of the Group Sustainability Steering Committee as a top management committee. The members of this steering committee include managers from central Board of Management positions and representatives of the brands and the Group Works Council. The steering committee defines concrete strategic goals and programs, establishes measures for uniform further development of sustainability management across divisions, brands and regions and decides on fundamental sustainability issues. It also handles the enhancement of Group-wide sustainability management. The offices of the Group Sustainability Steering Committee are the responsibility of the Group's Sustainability function.

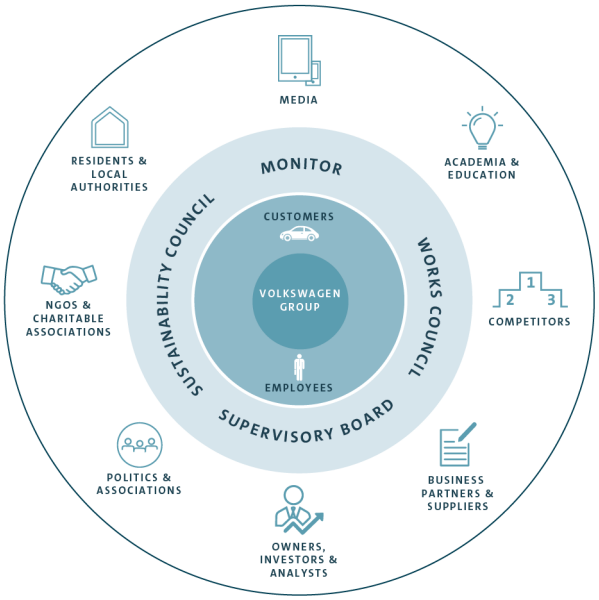
Strategic stakeholder management

Our stakeholders are individuals, groups, or organizations who have an influence on or are influenced by the course or the result of corporate decisions. Our customers and employees are at the center of our stakeholder network. Based on our annual stakeholder assessment, we have identified eight more stakeholder groups of equal value around this core. The Group's supervisory and advisory bodies such as the Supervisory Board, the Works Council and the Sustainability Council act as a special interface between internal and external stakeholders. The Monitor appointed by the US Department of Justice until the termination of his duties in September 2020 was a stakeholder of the Volkswagen Group as well.

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

To be able to systematically incorporate our stakeholders' suggestions and recommendations, we have given our stakeholder management an organizational structure in the form of external committees. At Group level, these are the Sustainability Council and the Stakeholder Panel. The latter took a break in 2020 due to the pandemic. In addition, we offer our stakeholders a broad range of opportunities for interaction and feedback channels including regular discussion panels with stakeholders, stakeholder surveys and international cooperative projects.

THE VOLKSWAGEN GROUP'S STAKEHOLDERS



Sustainability Council

The Sustainability Council set up in 2016 provides assistance to the Volkswagen Group with important, strategic sustainability issues and is made up of internationally renowned experts from the academic world, politics and society. The Council establishes its own working methods and areas of focus independently, has far-reaching rights for the purposes of exchanging information, consultation and initiating action, and consults regularly with the Board of Management, top management and the employee representatives. In the reporting year, the Volkswagen Group extended its collaboration with the Sustainability Council by two more years.

In 2020, the agenda for the intensified dialogue between Volkswagen and the Sustainability Council included the CEO Alliance for Europe's Recovery, Reform and Resilience, jointly initiated by the Chairman of the Board of Management of Volkswagen AG and the Council in support of the EU Green Deal, aspects of corporate governance and integrity, decarbonization, employment in times of advancing digitalization and e-mobility, and sustainable action in international markets.

The Council also launched two new projects: a research project on the distribution effects of climate-related fiscal and transport policies with the Mercator Research Institute on Global Commons and Climate Change, building on the preceding project on climate-conscious transport policies, and a study with the Fraunhofer Institut für Arbeitswirtschaft und Organisation (IAO – Fraunhofer Institute for Industrial Engineering) to examine the effects of digitalization and e-mobility on employment. The Open Source Lab on Sustainable Mobility concluded its work in 2020 with the publication of the project results.

Materiality analysis

In 2020, we forged ahead with the overhaul of our materiality analysis begun in the previous year and established a new binding sustainability strategy with the development of a sustainability narrative for the Volkswagen Group. Some 60 stakeholders were involved in this process, including decision-makers from various business areas and brands as well as representatives of the Sustainability Council.

The materiality process is used to identify and evaluate the most important sustainability issues for the Group. The decisive factors here are the impact on the environment and society, stakeholder expectations, the business model of Volkswagen AG and adherence to legal provisions and internationally established reporting standards.

The sustainability strategy developed based on the materiality analysis focuses on the key sustainability issues within the Group strategy TOGETHER 2025+, which is supported by the vision "Shaping Mobility – for generations to come" and the seven Group principles. The sustainability narrative clearly illustrates how the Volkswagen Group intends to achieve its overarching strategic objective of sustainable growth. Not only will it lay the foundation for performance management and improvement in environmental, social and governance performance, but it will also boost confidence among stakeholders and in the financial markets.

To implement the transformation with a holistic approach and run our business responsibly along the value chain, we prioritized four focus areas that are essential for our core business.

- Decarbonization
- Circular economy
- Responsibility in supply chains and in business
- Workforce transformation

The focus areas are each underpinned by forward-looking ambition and are developed and implemented within the framework of programs and initiatives.

Corporate citizenship

As a good corporate citizen, we aim to be a constant source of economic impetus for local structural development and equal opportunities. We have always believed in the importance of recognizing our social responsibilities toward our stakeholders. The main focus of our corporate social engagement activities is on supporting future, educational and community projects at many of our sites across the world. In 2020, the brands and companies launched or continued around 700 projects and initiatives worldwide.

CSR-PROJECTS
https://www.volkswagenag.com/en/sustainability/reporting/cc-projects.html

TOGETHER4INTEGRITY

HOLISTIC INTEGRITY AND COMPLIANCE MANAGEMENT SYSTEM

Integrity and compliance are major priorities in the Volkswagen Group. Marking the end of the Monitorship, the Chairman of the Volkswagen AG Board of Management Herbert Diess said: "The end of the Monitorship is not the end of our journey. I am committed to the continuous improvement of our organization and its culture, and so are all my Board of Management colleagues. This mindset is essential to our ambition of making safer and more intelligent zero-emission vehicles for today's customers and for generations to come."

We firmly believe that acting with integrity and in compliance with the rules is vitally important for our Company's future success. It is for this reason that we have embedded integrity and compliance in our Group strategy TOGETHER 2025+. Our objective is to act as a role model for integrity and compliance and thus deepen the trust of our employees, customers, shareholders and partners – both existing and future – in our Company.

To achieve this aim, we have been building a comprehensive and holistic integrity and compliance management system (ICMS) since 2018. This is being rolled out as part of the Together4Integrity (T4I) program and is based on the five principles of the internationally recognized ECI, which relate to strategy, risk management, a culture of integrity, a speak-up environment and resolute accountability. In this context we are also implementing the measures that we defined based on the recommendations made by the Independent Compliance Monitor Larry D. Thompson.

T4I aims to establish robust, consistent process standards that are anchored in the Group's corporate policies or organizational guidelines. The purpose is to give integrity and compliance an equally important strategic and operational priority in our Company as, for example, sales revenue, profit, product quality or employer attractiveness. T4I is thus one of the most extensive change programs in the history of the Group. In 2020, the Group Board of Management resolved to form the Group Board of Management Integrity and Compliance Committee (K-VAC), which, among other things, takes over the tasks of the Group Compliance Committee established during the Monitorship. The main tasks of the K-VAC include continuing to develop the ICMS and the corporate culture as well as managing the uniform implementation of the initiatives combined in T4I across all divisions and brands.

Through T4I we aim to implement the ICMS by 2025 in around 850 Group companies in which we hold a majority stake. By the end of 2020, 639 companies had already begun the implementation. This will strengthen Group-wide corporate governance and reduce the corresponding risks. The ICMS is therefore also a substantial contribution to the sustainability of the Volkswagen Group. We also want to live up to our responsibilities in terms of our influence on companies not controlled by Volkswagen.

Integrity encourages ethical decision-making

An essential role of the ICMS is to introduce integrity as a strategic key to success in all the Group's brands and companies. This includes integrating integrity into decision-making processes. For example, every resolution proposal submitted to the Board of Management must highlight the extent to which the intended decision is in line with the Group's integrity and compliance, what risks arise from it and how the risks can be reduced. Similar requirements apply to Group brands and companies and to Group bodies to which the Board of Management has delegated decision-making powers.

Compliance means adherence to rules

We firmly believe that long-term commercial success can only be achieved if each and every individual complies with laws, regulations and commitments. Compliant behavior must be a matter of course for all Group employees. The compliance organization provides worldwide support in the form of programs, guidelines, processes and practical advice. The compliance Infopoint is a core element of this. This is available to all employees.

Our compliance organization focuses on preventing corruption, fraudulent breaches of trust and money laundering. Compliance in mergers & acquisitions, noncontrolled shareholdings and safeguarding business and human rights are other key areas. In addition, we expedited the integration of the topic of business and human rights into the ICMS and accorded the topic vital strategic importance. Here, we follow the UN's requirements and principles on business and human rights due diligence. An investigation of all companies in the Group within the scope of compliance was conducted in 2020 with the aim of identifying risks in respect of human rights. Based on the findings, these companies were given a set of binding measures that they must implement by December 31, 2021.

T4I brings together activities from eleven key initiatives

The ICMS defines standards for integrity and compliance. T4I is rolling out and implementing these standards uniformly throughout the Group in the form of more than 100 packages of measures. The packages of measures are divided into eleven key initiatives:

1. HR Compliance Policies and Procedures

The focus is on standard HR processes such as recruitment, training, promotion and remuneration (bonus payments). For example, integrity and compliance matters have been included as criteria for the recruitment process and staff development measures for managers since 2019. Employment contracts contain integrity and compliance clauses. Integrity and compliance have also been covered by annual employee appraisals since 2020. Performance-related remuneration from senior executive positions is now also partly determined by integrity and compliance standards.

2. Code of Conduct

The Volkswagen Group's Code of Conduct is the key instrument for strengthening employees' awareness of responsible action and decisions, giving employees support and guidance, and finding the right contact persons in cases of doubt. The framework is available online to employees and also to external third parties.

Every employment contract refers to the Code of Conduct and commits the employee to comply with it. Regular training is intended to increase its efficacy. The Code of Conduct is also taken into account when calculating their variable, performance-related remuneration, which is set as part of the employee appraisals. Members of the higher levels of management are annually certified on the Code of Conduct. They confirm that they will comply with the Code of Conduct and undertake to report any serious regulatory violations.

3. Integrity Program

The integrity program is designed to reinforce the culture of integrity. The most important instruments in this program include dialogue-oriented communication measures and event formats. These communicate to employees the importance of integrity and motivate employees to behave with integrity even in the face of external pressure. Associated actions include encouraging a culture of handling mistakes constructively, more transparency in taking decisions and a greater willingness to discuss mistakes and risks openly.

4. Risk Management and Internal Controls

This initiative involves operating an effective risk management system. Uniform, defined structures should ensure transparent handling of risks from our business activities and enable them to be managed. This refers to the annual regular governance, risk and compliance (GRC) process focused on systemic risks, the quarterly risk process (QRP) focused on acute risks, the standard ICS (internal control system) aimed at safeguarding processes, and root cause analysis. The initiative to support the QRP also includes the introduction of the "Riskradar" IT system and training of risk managers.

5. ICRA and Compliance Organization

This key initiative describes the organization and processes of the Compliance department at Group level and in the individual Group companies. It shapes the Company's compliance strategy, sets Group-wide standards for the internal compliance risk assessment (ICRA) and contains measures for managing and mitigating the compliance risks. The ICRA has been carried out since 2018, with the Group companies being assigned to different risk categories on the basis of a comprehensive questionnaire. To reduce potential risks, we rolled out standardized compliance measures in the relevant business units, the scope of which varies depending on the business units' individual risk exposure. The degree to which measures have been implemented is reported on a regular basis, but at least once per year. Business units with a high risk are regularly monitored by the Divisional Compliance Officer or Regional Compliance Officer and starting in 2021, audited by an external auditor.

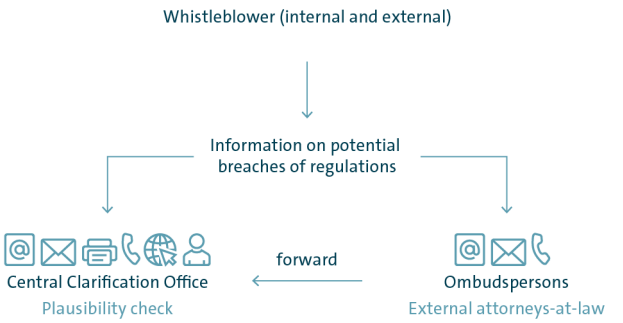
6. Whistleblower system and incident response

This initiative brings together all measures for the establishment and operation of the whistleblower system. The whistleblower system is the central point of contact for reporting cases of serious rule-breaking in the Volkswagen Group. The aim is to avert damage to the Company and its employees through the use of binding principles and a clearly governed process. An investigation is only initiated after the information received has undergone a thorough examination and the latter has identified concrete indications of rule-breaking. The affected parties are treated fairly: the presumption of innocence applies as long as rule-breaking has not been proven. They are listened to at an early stage and vindicated if wrongly suspected. Strict confidentiality and secrecy apply throughout the investigation. Appropriate sanctions are applied where misconduct is proven. Whistleblowers are protected and their statements are treated confidentially. A wide range of channels is available for reporting information on misconduct, including anonymously if preferred.

7. M & A and NCS Compliance

In the event of planned mergers and acquisitions, the relevant companies are audited according to integrity and compliance standards. This prevents a Group company from being confronted with unidentified integrity or compliance risks when acquiring another company. This key initiative also promotes compliance in non-controlled shareholdings (NCS), i.e. companies that are not controlled by a Volkswagen Group company as a majority shareholder (excluding Chinese joint ventures). During mergers and acquisitions (M&A) and the supervision of NCSs, strategic, economic and ethical considerations are key to the sustainability of investment decisions.

REPORTING CHANNELS OF THE WHISTLEBLOWER SYSTEM



8. Business partner due diligence

Business partner due diligence entails reviewing the integrity and compliance systems of suppliers, service providers and sales partners. This review of existing and potentially new business partners is carried out as part of a risk-based, transparent, documented process that is implemented worldwide using an IT-based tool. This initiative also includes the offer to assist business partners in meeting the required standards. Companies that do not meet the standards defined in the Volkswagen Code of Conduct for Business Partners should not receive new business.

9. Product compliance

The product compliance management system (PCMS) shall ensure that our products comply with the legal and regulatory requirements of the exporting and importing country, external standards and contractually agreed customer requirements, as well as internal standards and externally communicated voluntary commitments throughout their life cycle. We have defined clear roles and responsibilities for our PCMS with regard to design, implementation and monitoring.

10. Environmental compliance

Statutory environmental regulations and voluntary commitments are binding at all locations and in all business fields. The Group's environmental policy and the environmental compliance management system stipulate the corresponding requirements and responsibilities for all strategy, planning and decision-making processes in the Group brands and companies. This also includes a system of metrics to determine progress in meeting environmental targets: in the fields of renewable energy, CO_2 emissions and resource efficiency. We make allowance for the actual and potential environmental risks and opportunities in our products' entire life cycle.

11. Anti-corruption

We advocate fairness in business dealings and have a clear zero-tolerance policy on active or passive corruption. We have therefore produced Group policies on dealing with gifts and invitations, donations and sponsorship. This initiative also includes the development and implementation of trainings for employees in divisions or companies with a high risk exposure.

Emphatically developing a culture of integrity

The holistic integrity and compliance management system being established Group-wide through T4I provides the regulatory framework for acting with integrity and in compliance with the rules and results in uniform corporate governance throughout the Group in relation to integrity and compliance. It is also advancing the culture of integrity. The aim is to inspire and motivate employees and strengthen their own drive to act with integrity in all situations. Both, uniform corporate governance and a mature culture of integrity contribute to the effectiveness of the ICMS as a major factor in the sustainability of the Volkswagen Group.

Volkswagen's corporate culture is founded on the seven Group Essentials. They define how we at Volkswagen want to work together and thus supplement the Code of Conduct. The Group Essentials also form the frame of reference for the Role Model Program, which encourages dialogue-oriented and distance-reducing collaboration.

T4I inspires and motivates employees, especially with launch events and perception workshops. Both events are held in each Group or brand company at the start of the implementation of T4I and involve both employees and managers across hierarchies as players in the change process. The perception workshops are primarily about the actual practice of integrity and compliance – measured by the perception of employees. Here, representatively selected employees and managers give their assessment of this practice and discuss opportunities for improvement. The perception workshops will be repeated annually until the key initiatives have been fully implemented. They measure the progress of the relevant company with regard to integrity and compliance and show where further action is needed.

Monitoring of implementation and effectiveness

Methods of impact monitoring and progress measurement are an integral part of our ICMS. The planning and reporting system of the T4I program provides information on the implementation status of all packages of measures at any time. It is used for reporting to the Board of Management and the boards of the Group and brand companies as well as for monitoring potential delays and initiating countermeasures.

In addition to the recurring perception workshops, our annual employee opinion survey shows the progress in our culture of integrity. This Group-wide survey asks whether it is possible for each individual to act with integrity. If the answer is no, the relevant manager must identify and clear the possible obstacles together with the team. The question was asked in the opinion survey for the first time in 2017 and since then, including in the reporting period, has been one of the three questions with the highest level of agreement, with a significant improvement in the value. The level of agreement among employees each achieved an average value in the highest category of the underlying five-level range.

Contributing to the Group's strategic indicators

To measure the level of target achievement in the area of Integrity & Legal Affairs, we defined a strategic indicator for the major brands that manufacture passenger cars:

> Compliance, a culture of error management and behaving with integrity.

  This is based on an evaluation of the answers to three questions in the opinion survey relating to compliance with regulations and processes, dealing with risks and errors and the opportunity to act with integrity. In the case of negative deviations, the affected departments develop and implement measures. The indicator continuously improved on the previous good figure until 2020. On average, the level of agreement among employees was in the highest category of the underlying five-level range.

As an additional measuring tool, we use the Integrity Index developed by independent business ethicists from the Technical University of Munich. Based on more than 100 criteria in the categories of: the compliance & infrastructure, working atmosphere & integrity culture, products & customers, society, and partners & markets; it gives a comprehensive picture of an organization's integrity. The integrity index was started in 2019 as a pilot project for Volkswagen Passenger Cars Germany and Audi (German sites). The scientists found that both of the brands examined exhibited a "good" integrity level overall.

The findings were used in the reporting year in a structured follow-up process to derive and implement improvement measures together with the respected departments.

Further information on the topics of integrity and compliance can be found in the Group Sustainability Report 2020.

Independent Compliance Monitorship successfully completed

In September 2020, the Independent Compliance Monitor, Larry D. Thompson, certified that Volkswagen has fulfilled its obligations under its Plea Agreement with the US Department of Justice (DOJ) to maintain a compliance program that will prevent, detect and punish violations of anti-fraud and environmental laws. Certification applies to Volkswagen AG and its subsidiaries and affiliates with the exception of Porsche AG and Porsche Cars North America, which were not part of the Monitorship. Over the course of the Monitorship, which began in 2017 and is now concluded, Volkswagen enhanced and improved its structures, processes and systems in many divisions of the company including technical development, governance, risk management, compliance and legal functions. Volkswagen expanded the whistleblower system, strengthened processes to prevent corruption and antitrust violations, and created a due diligence process for business partners. The Group also flattened hierarchies, decentralized decision-making and gave more responsibility to its brands and regional companies.

The completion of the Monitorship is not the end of the process; the Group remains committed to continuous further improvement of compliance and its corporate culture.

Thompson also served as Independent Compliance Auditor and issued his third and final audit report in June 2020. That report established that there had been no new violations of the relevant settlements with the Environment and Natural Resources Division of the DOJ, the California Attorney General, the US Environmental Protection Agency (EPA) and the California Air Resources Board.

On September 2, 2019, Volkswagen also announced that the Company had concluded a settlement agreement with the EPA, which had been the reason for commissioning a second auditor for the Volkswagen Group. This agreement was concluded to prevent it from being excluded from public contracts in the United States. This second auditorship is scheduled to last three years and will run until August 2022.

i WHISTLEBLOWER SYSTEM
https://www.volkswagenag.com/en/group/compliance-and-risk-management/whistleblowersystem.html
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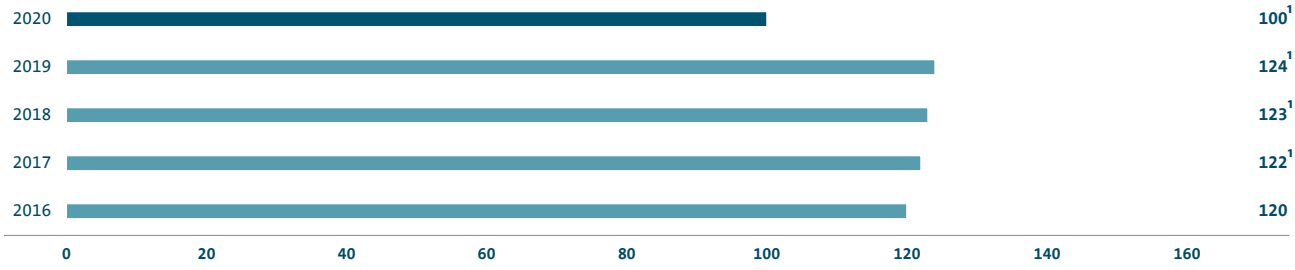
CO_2 EMISSIONS OF THE VOLKSWAGEN GROUP'S EUROPEAN (EU27+3) NEW PASSENGER CAR FLEET
in grams per kilometer (NEDC)



1 Subject to confirmation of CO_2 data within the scope of official publication by the European Commission.

RESEARCH AND DEVELOPMENT

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

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

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

We use a strategic indicator in Europe and the United States to evaluate the effectiveness of our measures to reduce CO_2 emissions when driving:

> CO_2 fleet emissions. The Volkswagen Group's new passenger car fleet in the EU (excluding Lamborghini and Bentley) emitted an average of 99.9 g CO_2/km[1] (NEDC) in the reporting period in accordance with the statutory measurement bases, thus down 20% on the prior-year figure. The CO_2 pool established together with other manufacturers fell just 0.8 g CO_2/km short of its target. Owing to delays in product launches and contrary to the original planning, it was not possible to achieve the target despite substantial improvements compared with 2019. As small volume manufacturers, the Lamborghini and Bentley brands each have an independent fleet for the purposes of European CO_2 legislation and were both above their individual targets. In the United States, the regulation of fleet emissions is different to that in Europe, for example in terms of the underlying test process, the period of evaluation, which corresponds to the model year of the vehicles rather than the calendar year, and the period for compensating for any breaches of CO_2 limits, which comprises three model years. In fiscal year 2020, we complied with the regulations that apply to our greenhouse gas account in the United States, subject to any alternative notification by the authorities.

Fuel and drivetrain strategy

With a view to the legal regulations on emissions, we are currently developing a forward-looking vehicle and drivetrain portfolio: we have set ourselves the objective of increasing drive system efficiency with each new model generation – irrespective of whether it is a combustion engine, a hybrid or a purely electric drive system. The Volkswagen Group closely coordinates technology and product planning with its brands so as to avoid breaches of fleet fuel consumption limits, since these would entail substantial excess emissions premiums. Around one in five new Volkswagen Group vehicles worldwide is to have a purely electric drive by the year 2025; depending on market development, this could be over two million electric vehicles a year. As part of our electrification

campaign, we aim to offer our customers worldwide around 70 completely battery-electric vehicles by 2030, of which production of approximately 20 models has already started. In addition, a total of around 60 hybrid models are planned by the end of the decade, just over half of which are already in production. By 2030, the Volkswagen Group aims to have electrified its entire model portfolio – from high-volume models to premium vehicles. This will mean offering at least one electric version – battery electric or hybrid vehicles – of each of our passenger car models across all Group brands. To this end, in addition to the Modular Electric Drive Toolkit (MEB), we are also developing an all-electric platform for our premium and sports brands – the Premium Platform Electric (PPE).

The Volkswagen Group is committed to achieving the goals of the Paris Agreement on climate change and intends to become a net-carbon-neutral company by 2050.

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

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

Life cycle engineering and recycling

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

Leveraging synergies increases efficiency

When developing vehicles, we cooperate closely with our brands to leverage synergies. The joint strategy of our development alliance involves, for example, making the Group more competitive and viable in the long term by deploying resources more effectively and efficiently in the research and development of new mobility-related technologies, products and services. In our Group-wide development alliance, the brands therefore not only work with each other, but also for each other on key technologies, forming cross-brand networks of expertise to address topics of importance for the future. Against this background, responsibilities in Technical Development were reorganized in 2020 in order to coordinate module development even more efficiently and leverage synergies in module variance, components, parts and processes. We consolidated the Group's activities in and responsibility for the development, procurement and quality assurance of all battery cells in a central Center of Excellence under the umbrella of the Volkswagen Passenger Cars brand. In the Center, a pilot line for cell production was put into operation in 2019 to build up expertise for the Group in the area of cell design but also throughout the entire value chain.

We also manage our modules centrally to reduce costs, capital expenditure and complexity. We are seeking to reduce expenditure in the modular toolkits, while at the same time facilitating widespread electrification and a focus on autonomous systems. We want to achieve this through a considerable reduction in complexity using streamlined platforms that synergize but do not overlap. To this end, the individual Group brands draw on the modular toolkits, thus creating synergies between the various models of a product line, as well as across the product lines. By streamlining the toolkits, we are giving ourselves the financial leeway needed for

developments in the future trends of digitalization and autonomous driving. The high-volume passenger car brands have introduced the model-line organization, thus strengthening their responsibility for the success of vehicle projects, improving project work across different cross-departmental areas, accelerating decision-making and intensifying the focus on project results.

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

Sustainable mobility, connectivity and automated driving

Mobility of people and goods is a basic prerequisite for economic growth and social development, especially in times of the Covid-19 pandemic. At the same time, natural resources are dwindling and climate change is advancing. This calls for comprehensive mobility concepts to minimize the environmental impact. Such solutions need to be efficient, sustainable, crisis-proof, customer-oriented and accessible anytime and anywhere.

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

In its pursuit of autonomous driving, the Volkswagen Group further improved its assistance systems and automated driving functions and introduced these in vehicles in 2020. The objective is to market highly automated driving functions for private vehicles, shared mobility systems and commercial mobility providers as a core competency of the Group. The Volkswagen Group has presented its vision of an autonomous mobility system by unveiling the Sedric family, comprising fully autonomous vehicles for short- and long-distance mobility, as well as sports cars, self-driving delivery vehicles and heavy trucks. These vehicles will enable new forms of mobility in both cities and rural areas, particularly for user groups that have so far been excluded from access to mobility.

As part of the TOGETHER 2025$^+$ strategy, we are working with the Software-enabled Car Company module to make software development one of the core competencies of the Volkswagen Group. Starting on January 1, 2020, we have brought together all of our interests and subsidiaries that develop software for vehicles and digital ecosystems in the Car.Software Organisation, an independent entity with Group responsibility. This first step involved more than 3,500 employees. Since mid-2020, experts who used to work in the various Group brands and regions have been working together under the umbrella of the Car.Software Organisation.

The Car.Software Organisation is developing software for five applications within the Group:

- a uniform vehicle operating system "vw.os" for all Group vehicles as well as their connectivity with the Volkswagen Automotive Cloud;
- a standardized infotainment platform;
- all assistance systems including highly automated driving and parking;
- functions for connecting the drivetrain, chassis and charging technology; and
- ecosystems for all the brands' mobility services and digital business models.

From the middle of this decade onwards, all new vehicle models throughout the Group are to be based on a uniform, cross-brand software platform, including the "vw.os" operating system and Volkswagen Automotive Cloud, as well as a uniform architecture. At the end of 2024, this architecture will be used for the first time in an Audi model as part of the Artemis project. It is then to be deployed in high-volume vehicles to generate economies of scale and thus reduce the cost of in-vehicle software for all brands.

Pooling strengths with strategic alliances

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

Within the Volkswagen Group, we combine technological innovation activities in the Volkswagen Group Innovation unit. At seven locations worldwide in the USA, Europe and Asia, employees are working on sustainable solutions for urban and interurban mobility systems in line with our strategic vision "Shaping mobility – for generations to come". Technologies and activities from Volkswagen Group Innovation that are ready for pre-development are regularly transferred to our Group brands. This means that the areas of digitalization, sustainability and e-mobility receive continuous support through innovative projects. In this way, we are creating an agile innovation structure that allows us to initiate new milestone projects with innovative international partners, even at short notice.

Growth in the mobility sector is strongly defined through regional innovation activities. Volkswagen therefore concen-

trates its strategic venture-capital activities and partnerships in the Group's international innovation ecosystem. This helps us to identify the regional needs of customers more precisely, to adjust our product range correspondingly and to establish competitive cost structures. In doing so, we rely to a greater extent than in the past on partnerships, acquisitions and venture-capital investments and manage investment selection centrally so as to generate maximum value for the Group and its brands. It is against this backdrop that we have formed an alliance with Ford Motor Company with the intention of working together on the development of vans and mid-sized pickups. At the beginning of June 2020, Ford Motor Company and Volkswagen AG signed additional contracts within their existing global alliance for light commercial vehicles, electrification and autonomous driving. The contracts serve as the foundation for a total of three vehicle projects. In addition to the existing collaboration on the mid-sized pickup, projects are underway for a city van and a one-tonne cargo van. In total, the three alliance projects amount to a volume of approximately 8 million vehicles over the entire model cycle. In addition, we are investing with Ford in Argo AI, a company that is working on the development of a system for autonomous driving. This alliance allows both car companies to integrate Argo AI's self-driving system into their own models independently of each other. The system is to make fully automated driving possible, and thus to open up new opportunities, particularly for ride-sharing providers and delivery services in urban areas through the use of fully automated vehicles. At the start of June 2020, a transaction was completed with Argo AI and Ford on cooperation to develop autonomous driving. Subsequently, the Volkswagen Group company AID was incorporated into Argo AI. In addition, Ford intends to use the Modular Electric Drive Toolkit (MEB) developed by Volkswagen for a zero-emissions volume model that should be offered in Europe from 2023. The aim of the cooperation is to place both Volkswagen and Ford in a position that enables them to improve their competitiveness, tailor their products to better meet the needs of customers worldwide and at the same time to leverage synergies related to cost and investment.

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

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

Our Group brands Volkswagen Passenger Cars, Audi and Porsche are involved in the pan-European High-Power Charging (HPC) joint venture IONITY, under which a comprehensive charging infrastructure is being built to safeguard long-distance mobility: by the end of the reporting year, 325 charging stations were already in operation. By the end of 2021, we plan to have 400 charging stations in place.

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

Key R&D figures

In fiscal year 2020, we filed 6,795 (7,614) patent applications worldwide for employee inventions, the majority of them in Germany. The fact that an ever-increasing share of these patents is for important cutting-edge fields underscores our Company's innovative power. These fields include driver assistance systems, automation and connectivity as well as alternative drive systems.

The Automotive Division's total research and development costs in the reporting period amounted to €13.9 (14.3) billion and were 2.9% lower than in the previous year; their percentage of the Automotive Division's sales revenue – the R&D ratio – came to 7.6 (6.7)% due to the fall in sales revenue as a result of the Covid-19 pandemic. Along with new models, the focus was primarily on the electrification of our vehicle portfolio, a more efficient range of engines, digitalization and new technologies. The capitalization ratio was 46.6 (36.1)%. Research and development expenditure recognized in profit or loss in accordance with IFRSs decreased to €12.1 (13.2) billion.

As of December 31, 2020, our Research and Development departments – including the equity-accounted Chinese joint ventures – employed 53,268 people (–3.1%) Group-wide, corresponding to 8.0% of the total workforce.

RESEARCH AND DEVELOPMENT COSTS IN THE AUTOMOTIVE DIVISION

€ million	2020	2019
Total research and development costs	13,885	14,306
of which capitalized development costs	6,473	5,171
Capitalization ratio in %	46.6	36.1
Amortization of capitalized development costs	4,644	4,064
Research and development costs recognized in profit or loss	12,056	13,199
Sales revenue	182,106	212,473
Total research and development costs	13,885	14,306
R&D ratio	**7.6**	**6.7**

PROCUREMENT

In fiscal year 2020, the main task for Procurement was once again to safeguard supplies, and to help create competitive, innovative products and optimize cost structures. In addition, we continued to drive digitalized procurement processes forward.

Procurement strategy

The Group strategy TOGETHER 2025+ stands for more speed, focus and stringency, within the Procurement division as well, accelerating change even more. The focus in 2020 was on implementing the concepts developed in the procurement strategy. Procurement's key performance indicators were defined as part of a combined system of targets for Group Components and Procurement. This system of targets now gives greater weight to sustainability aspects in the supply chain, alongside the targets for material and investment costs and the timely award of contracts.

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

A cross-divisional strategic value chain management has been implemented to support profitable growth and safeguard the availability of hardware and software that is strategically relevant and/or crucial for ensuring supplies. The Strategic Value Chain Management committee that has been set up takes strategically important "make, buy or partner" decisions on a regular basis.

The growing volume of software and the new partners and suppliers this entails necessitate adjustments to the process chain and Procurement's award criteria. The Corporate Sourcing Committee Digital Car is in charge of awarding contracts for vehicle and vehicle-related software optimally and on a weekly basis.

Volkswagen FAST – Supplier network as the basis for success

The FAST (Future Automotive Supply Tracks) initiative from Group Procurement is instrumental in advancing the Volkswagen Group and its supply network in terms of partnerships and future viability.

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

FAST partners are prioritized in the cross-divisional innovation process in that they are given the opportunity to present innovations to representatives from the Procurement and Technical development divisions at upper management level in strategy meetings. FAST partners are invited to attend relevant innovation events at which they can contribute their expertise. Where possible, digital communication media were used for the annual meeting in the reporting year due to the spread of the SARS-CoV-2 virus. The program is updated and refined on an ongoing basis in order to take full advantage of the potential from the FAST initiative in the future as well.

E-mobility

A key task for Procurement is to safeguard supplies for the continually growing requirements of the e-mobility offensive over the next five to ten years in a sustainable way, and while optimizing cost structures.

Group Procurement puts a particular focus on high-voltage batteries and e-resources. By means of benchmarking and requirements-based training, we are increasing our purchasing expertise in this context.

When awarding contracts to our electric mobility partners, we have laid down requirements as regards sustainable supplier sources, transparent, traceable supply streams, and energy- and carbon-optimized supply chains. We pool global demand from the European, American and Asian markets and award Group contracts with the aim of achieving cost leadership for electric mobility solutions. To this end, we consider diversification in conjunction with dual-supplier strategies as well as localization of the supplier portfolio for all core components of the electric vehicle fleet in an effort to reduce economic and geopolitical risks.

Digitalization of supply

We are working systematically to implement a completely digitalized supply chain. This is intended to help us to safeguard supply and leverage synergies throughout the Group in order to take a leading position in terms of cost and innovation. We are therefore creating a shared database and using innovative technologies to enable efficient, networked collaboration in real time – both within the Group and with our partners. The objective of our functional area strategy for Procurement is to standardize transactions with our suppliers in the future and automate them where possible. This will not only reduce transaction costs but will also accelerate business processes. Potential supply risks can be reported in an automated way in order to identify measures

and alternatives faster together. The cornerstone for the future of Procurement was laid in 2018 in the form of Group Procurement's digitalization strategy. This strategy aims not only to eliminate the weaknesses of Procurement's IT system environment but also to increase the organization's effectiveness, efficiency and future viability.

Structure of key procurement markets

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

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

Management of purchased parts and suppliers

Today's supplier portfolio is characterized by global distribution, segmentation and diversification. We address the challenges this presents by supporting and monitoring the industrialization of suppliers with our procurement supplier management. This starts with auditing and assessing suppliers in preparation for the nomination process and continues with monitoring the maturity of the industrialization of purchased parts, to the complete acceptance and confirmation of the required production capacity at the individual supplier locations. The complexity of the components requires regular monitoring of production processes in order to identify any disruptive factors at an early stage and take action to remedy these. Close cooperation with the quality assurance units at the production sites is crucial for a stable supply of purchased parts for our start-up and series production vehicle projects. The global supplier management network worked reliably, particulary in the face of the challenges posed by the Covid-19 pandemic, and supplies to vehicle and component plants were largely safeguarded throughout the reporting year. Bottlenecks and supply disruption occurred globally due to the restrictions on mobility and border closures, resulting from the pandemic.

Sustainability in supplier relationships

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

In our sustainability rating – introduced in 2019 and expanded in 2020 – we determine suppliers' sustainability performance by means of self-disclosures and on-site audits. By the end of the reporting year, we had obtained 13,041 ratings for suppliers, covering 76% of the total order volume. Both the validation of the self-assessment questionnaire and the on-site audits are carried out by selected service providers. As a rule, contracts are not awarded to suppliers who fail to comply with regulations or do not implement these adequately. Tying award decisions to sustainability criteria is one of the strongest levers for enforcing these. We address existing sustainability risks and violations of sustainability principles by systematically implementing measures; this also includes the upstream supply chain. Depending on the severity, these may entail the inclusion of stipulations and measures in performance specifications for suppliers. Despite the adversities caused by the Covid-19 pandemic, we once again stepped up our focus on advanced and continuing training for suppliers; in fiscal year 2020, more than 12 thousand suppliers took advantage of the training programs.

The focus of our activities in 2020 was on decarbonization, respecting human rights and responsible raw material sourcing.

With regard to decarbonization, the Volkswagen Group is striving to continuously reduce greenhouse gas emissions or avoid them altogether over the entire life cycle of a vehicle. The Group's transformation into a provider of sustainable mobility solutions and in particular the trend towards electric mobility are shifting the action required from the service life of the vehicle to supply chains and the manufacture of vehicles and components. We are aware of our social responsibility and are committed to the 2°C target of the Paris Climate Agreement. We have therefore incorporated the use of renewable energy into the specifications for battery suppliers.

In respecting human rights in our supply chains, we are guided by international agreements and frameworks as required by the UN Guiding Principles on Business and Human Rights and the principles and conventions of the OECD. To comply with these requirements, we launched a human rights due diligence management system in 2020 to make human rights risks in our supply chain transparent and to mitigate these risks. An additional management system has been set up to effectively manage the sometimes extensive risks in the raw material supply chains. This sets out in detail the prioritization and processing of the raw material supply chains that we classify as particularly high risk. Our current focus is on 16 raw materials. The inclusion of additional transparency requirements for our battery suppliers in 2020 represented a milestone for responsible raw material procurement. These requirements include the disclosure of the entire upstream supply chain by our battery suppliers and is effective for new contracts awarded from fiscal year 2020 onwards.

COMPONENTS BUSINESS

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

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

The entity has been organized into business areas: Engine and Foundry, Transmissions and Electric Drive, Chassis and Battery System, Battery Cell and Seats. In each of the business areas, innovative power and competitiveness is to be increased by means of an economical product portfolio that is viable for the future, a continuously optimized product range and economies of scale exploited across all business areas. Group Components in the Volkswagen Group is to be responsible for the development and production of battery systems and electric drives for new electric vehicles as well as for the development and pilot production of battery cells and the management of production partners. There are also plans to reuse the battery cells in innovative reutilization concepts such as the flexible fast charging station and then to recycle them in a climate-friendly manner.

PRODUCTION

The international, cross-brand production network enables the process from the supplier to the factory and assembly line, and from the factory to dealers and customers. Enduring efficiency is a prerequisite for our competitiveness. To be able to meet the challenges of the future, we rely on holistic optimizations, forward-looking innovations, flexible supply streams and structures, and an agile team. In fiscal year 2020, the global vehicle production volume was 17.8% below the previous year's level, reaching 8.9 million units. This was primarily attributable to the global spread of the SARS-CoV-2 virus and the measures taken to contain the pandemic, such as temporary closures of factories or reduced factory output, particularly in the first half of 2020, due to interruption to supply chains and logistics and closures of dealerships. Despite the continuing difficult conditions in many markets, production in the second half of 2020 stabilized at close to the previous year's level. To maintain production processes amid the pandemic conditions and protect our employees, we developed and agreed behaviors and measures as part of our Safe Production Initiative to prevent possible chains of infection between the people working in the network. These mainly include the obligation to wear face masks, adherence to behavioural rules, particularly regarding social distancing, hygiene requirements and ensuring regular ventilation, and the reorganization of shift models and breaks. We constantly review the measures taken to contain the Covid-19 pandemic and adjust them if necessary.

Productivity increased by 0.8% year-on-year.

VEHICLE PRODUCTION LOCATIONS OF THE VOLKSWAGEN GROUP
Share of total production 2020 in percent

"Intelligently networked" production strategy

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

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

With cross-brand initiatives we have created content clusters in which expert teams work on the strategic topics relevant for production in the Group. Examples include the competitive design of our global production network, the reduction and offsetting of environmental impact throughout the production process, and digitalization with its implications for production and working processes and for collaboration. A scenario-based strategy process has been developed in the course of the transformation phase in production and is geared to an observation period running until 2040. The overarching aim is to increase productivity and profitability. We want to ensure that our locations remain competitive by having our factories work at optimal capacity, enabling us to manufacture high-quality products that give customers maximum benefits at competitive prices.

Global production network

The Group's production network encompasses twelve brands and 118 production locations, including our Chinese joint ventures. Standardizing production with uniform product concepts, plants, operating equipment and production processes is a key factor in our forward-looking production. We are constantly enhancing our production concepts and aligning them with new technologies to achieve ambitious targets in the individual projects.

The flexible production capacity provided by our platforms allows us to leverage synergies, respond to market challenges, make requirements-based use of the production network and realize multibrand locations. Currently, almost half of the 47 passenger car locations are already multibrand locations. The Bratislava site continues to serve as a prime example in the Group, producing vehicles for the Volkswagen Passenger Cars, Audi, Porsche, SEAT and ŠKODA brands.

The Volkswagen Group has set itself the goal of becoming a world-leading provider of battery electric vehicles by 2025. The basis for this is the introduction of the Modular Electric Drive Toolkit (MEB), which we are using to complement our range with additional battery-electric vehicles. We have been manufacturing battery-electric vehicles based on the MEB in Zwickau, the Volkswagen Group's first electric car factory, since 2019. One example is the ID.3 from the Volkswagen Passenger Cars brand. In 2020, the portfolio of the MEB

platform was expanded in Zwickau to include the ID.4 from Volkswagen Passenger Cars as well as at the Mlada Boleslav location with the addition of the Enyaq iV from ŠKODA.

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

Production locations

Following the sale of Renk, the Volkswagen Group's production network, including our Chinese joint ventures, is now comprised of 118 locations in which passenger cars, commercial vehicles and motorcycles, as well as powertrains and components are manufactured.

With 66 locations, Europe remains our most important production region for vehicles and components. There are 24 sites in Germany alone. The Group has 34 locations in the Asia-Pacific region, five in North America, nine in South America and four in Africa.

Despite difficult conditions due to the effects of the Covid-19 pandemic, we carried out 81 production start-ups in the reporting year: 33 for new products and successor products and 48 for product upgrades and derivatives.

The Group's production system

The Group's production system provides methods and tools designed to bring about continuous, sustainable workflow improvements at all Group brand and regional sites in production and production-related environments. When refining the methods, we incorporate new topics and ongoing trends, focusing, for example, on digitalization and the switch to electric mobility. Digitalization in particular is opening up new areas of application, for instance through the use of digital data and models. Furthermore, digitalization also provides the opportunity to transpose existing methods into digital formats and create new, IT-based tools. In this way, we are taking advantage of the opportunities presented by digitalization and are making increased use of digital formats and digital tools in training courses and workshops.

The people in the Group play a pivotal role in anchoring the production system. We promote a culture of appreciative cooperation, in which leadership and individual responsibility are indispensable.

New technologies and digitalization

3D printing is still one of the key technologies for Industry 4.0 and digitalizing the automotive value chain. These technologies, also dubbed additive manufacturing, are being used successfully at nearly all Volkswagen Group sites in the manufacture of components and also operating equipment. They open up wholly new opportunities in the areas of development, design, production and after sales. Due to the digital nature of 3D printing, which requires no tools whatsoever, components and operating equipment can be flexibly implemented directly from digital drawings, and completely new designs and component geometries can be created. Developments for large-scale automotive production applications point to considerable potential for the future. To this end, Volkswagen leverages the diversity of the Group, achieved through close collaboration between its brands, and cooperates with leading technology providers and research institutions.

Augmented reality links the virtual world with the physical one and, as a mature technology, likewise plays a key part in the digitalization of the value chain – not least in view of ongoing restrictions on contact and travel caused by the Covid-19 pandemic. In this regard, there is potential to increase efficiency and innovative capability in areas such as remote support, employee training, quality assurance and the development process. Along with the implementation of new solutions that use data glasses, tablets or projectors as an output medium, existing augmented reality applications are continuously being rolled out to other Group sites.

The basis for the digitalization of the production system is often the harnessing of production data. One focus is the use of artificial intelligence on image data, the so-called "industrial computer vision". Here, the Volkswagen Group developed its own platform for the implementation of specific projects and is rolling out applications across its brands and locations. Examples include checking that vehicle license plates are correct or detecting cracks in the press shop.

Alongside new technologies, moving the IT architecture over to a cloud-based platform solution will be the main task in the coming years on the road to digitalized manufacturing. For this, the Volkswagen Group is developing, among other things, the Industrial Cloud in collaboration with Amazon Web Services and the integration partner Siemens. The cloud-based platform with its simplified data exchange is a vital prerequisite for making innovations available rapidly across all sites. Examples include intelligent robotics, related inline measuring systems, continuous quality control loops, predictive maintenance applications or data analysis functions for analyzing and comparing cross-plant processes. The cloud-

based platform can be used to scale new applications directly to all sites and operate them centrally. The entire project will take several years to be implemented. Moreover, Volkswagen is creating its Industrial Cloud as an open platform with the goal of incorporating companies from the entire value chain in addition to its own locations. In the long term, the Volkswagen Group aims to integrate its global supply chain with over 30,000 sites of suppliers and partner companies into the cloud, creating a constantly growing, worldwide ecosystem.

In order to identify future innovations and new business models along the entire value chain, our open innovation approach enables an influx of innovative ideas and technologies from external start-ups, thus driving forward-looking innovations for our products, services and processes within the Volkswagen Group.

GoTOzero Impact Factory

We are planning the production of tomorrow with our functional area strategy, "Intelligently Networked". Emissions levels and the use of resources at Volkswagen Group locations require particular attention. The goTOzero Impact Factory program is developing specific steps for more sustainable production, with a vision toward creating a factory that has no adverse environmental impact.

We have developed a checklist to help the sites determine their status on the way to becoming a "Zero-Impact Factory". This currently comprises 140 environmental criteria and thus provides the basis for continuous reduction of energy consumption and CO_2 emissions, for example.

To implement such programs, a new management system will be introduced at all production sites worldwide, linking the main compliance issues with environmental management. This environmental compliance management system provides a solid foundation for compliance with all external and internal rules relating to the environment for instance in the course of production processes.

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

We record and catalog environmental measures in an IT system and make these available for a Group-wide exchange of best practices. In the reporting period, around 1,520 implemented measures in the area of environment and energy were documented in this system. They serve to improve infrastructure and production processes for passenger cars and light commercial vehicles and are incorporated into the decarbonization index (DCI), for example. These activities are beneficial from an environmental and often also from an economic perspective as well as having a positive effect on the Group's environmental indicators.

GoTOzero Impact Logistics

In the joint "goTOzero Impact Logistics" initiative, Group and brand logistics departments work together to help achieve the goals of the goTOzero environmental mission statement. Continuous optimization of the transport network and logistics processes reduces emissions – this includes the use of digitalization tools. The use of new low-emission technologies for transporting production materials and vehicles will also be continuously analyzed and accelerated.

The measures the Volkswagen Group is taking to achieve future carbon-neutral logistics include, for example, moving shipments from road to rail and almost complete avoidance of CO_2 through the use of green electricity in rail transport in Germany in collaboration with Deutsche Bahn AG.

Other examples of the use of the railways as a low-emission mode of transport are the delivery of battery modules to Braunschweig from the supplier in Wrocław, Poland, and the transport of battery systems from the component site in Braunschweig to the Zwickau plant in order to produce completely battery-electric vehicles.

In addition, Group Logistics is using the world's first two roll-on/roll-off (RoRo) charter ships powered by low-pollution liquefied natural gas (LNG) for transporting vehicles across the North Atlantic.

SALES AND MARKETING

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

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

The Volkswagen Group's financial strength and profitability is attributable to an extensive portfolio of strong brands. The objective of our strategic Best Brand Equity module is to continuously sharpen the brand profiles, demarcate the respective vehicle segments that are served by the brands as

clearly as possible and add to them in a targeted way as required. Our aim is to achieve high market saturation with great efficiency and a low level of brand cannibalization. Market positioning is an important element for increasing brand values. To this end, we have established automobile-specific customer segmentation to steer the positioning of our brands which we consistently apply throughout the strategy and product process.

Customer satisfaction and customer loyalty

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

- Loyalty rate. Proportion of customers of our passenger car brands who have bought another Group model. Thanks to their faithful customers, the Volkswagen Passenger Cars, Audi, ŠKODA and Porsche brands have remained in the upper loyalty rankings of the core European markets in comparison with their competitors for a number of years. Following a decrease in the loyalty rates between 2016 and 2018, these figures stabilized for the Volkswagen Passenger Cars, Audi and Porsche brands and have since risen for ŠKODA and SEAT. Compared to other manufacturer groups, the Volkswagen Group continues to hold a top spot in the core European markets in terms of loyalty.
- Conquest rate. Newly acquired passenger car customers as a proportion of all potential new customers. Here, too, the Volkswagen Group has a top ranking in comparison with competitors, primarily thanks to the good scores achieved by the Volkswagen Passenger Cars brand.

In the core European markets, the figures of the Volkswagen Passenger Cars brand relating to brand image and confidence in the brand stabilized in 2020 above the level for the market as a whole. Porsche remains in top position in the image ranking.

In the financial services business, we use two strategic indicators. The two indicators are currently being revised in light of changes in customer needs and in the product range, the short- and long-term impact of the Covid-19 pandemic and the strategic alignment of financial services in the Volkswagen Group:

- Customer satisfaction. A high level of customer satisfaction is one of the key objectives of our financial services activities. Our goal is to satisfy customers completely. This is the reason why we have measured both external and internal customer satisfaction in our markets in recent years.
- Customer loyalty. Trust in and loyalty to our services rely on customer satisfaction with our product range and service. For this reason we ascertained the re-entering contract rates in our markets in past years based on product sales to customers, for financing and lease agreements for repurchases of new Volkswagen Group vehicles.

E-mobility and digitalization in Group Sales

As part of our electrification campaign, we aim to offer our customers worldwide around 70 completely battery-electric vehicles and approximately 60 hybrid models by 2030. This campaign will be complemented by vehicle-related, customer-focused offerings, such as customized charging infrastructure solutions and mobile online services. The Volkswagen Group is thus transforming from an automotive manufacturer into a mobility service provider. This poses new challenges for sales.

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

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

Fleet customer business

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

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

In an overall passenger car market in Germany that declined by 19.1% in the reporting year, business fleet customers accounted for 16.2 (14.8)% of total registrations. The Volkswagen Group's share of this customer segment slipped to 42.1 (44.1)%. Outside Germany, the Group's share of registrations by fleet customers in Europe was up slightly at 26.5 (25.7)%. This trend shows that fleet customers' confidence in the Group remains at a high level. We were able to consolidate our strong market position in the fleet customer business in Europe.

After Sales and Service

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

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

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

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

QUALITY

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

Digitalization was once again the beating heart of our work in the reporting year: we are sharpening our focus on software-based system development, which is a critical factor for success in respect of customer satisfaction. Consistent application of the "Automotive SPICE" process assessment model that we use to improve our processes is particularly important in our activities. It is a key building block for meeting the requirements of our customers, as well as those of the regulatory and legislative bodies.

Volkswagen has been implementing cybersecurity measures in the Group for some time now. For example, we have an independent cybersecurity network in place across all regions and Group brands and monitor potential cyber risks. This enables us to act fast when potential threats arise. The UNECE (United Nations Economic Commission for Europe) has provided for corresponding certification and homologation in the future to ensure that companies can guarantee that these aspects are dealt with properly so as to protect the users of our vehicles from potential attacks. Our Group pursues the goal of implementing standards in the areas of both accident prevention and security. We are refining the established processes within the framework of an Automotive Cyber Security Management System in keeping with the requirements of the UNECE regulation. In this context, Volkswagen is implementing comprehensive measures across departments in the Group. One of these is a Group-wide communications campaign launched for the Volkswagen Passenger Cars brand to underline the importance of this issue.

Strategy of Group Quality

We review our functional area strategy periodically and coordinate it with the brands. We align our activities with our goal expressed in the motto: "We embody outstanding quality and ensure reliable mobility for our customers

worldwide." Group Quality and the brands' quality organizations play an active role at all stages of product emergence and testing, making an important contribution to successful product launches, high customer satisfaction and low warranty and ex gratia repair costs.

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

- We excite our customers with our outstanding quality by understanding what exactly they perceive as quality and implementing this in our products.
- We contribute to competitive products with optimal quality costs by ensuring robust processes, thereby reducing the expense involved in testing each vehicle.
- We make our contribution to sustainability, security and integrity by embodying and designing high standards of quality in products and processes.
- We are becoming an excellent employer by promoting the personal development of every single employee even more intensively.

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

Contributing to the Group's strategic indicators

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

- Warranty and ex gratia repair payments per vehicle after 12 months in service. This indicator shows all warranty and ex gratia repair payments for the vehicles produced worldwide in each production year, expressed in euros per vehicle. All vehicles from the Volkswagen Passenger Cars, Audi, Porsche, ŠKODA, SEAT and Volkswagen Commercial Vehicles brands are included in this figure. Extraordinary items resulting from initiatives such as recalls or in connection with the diesel issue are not taken into account. While the figures for the 2017 and 2018 production years remained at a constant level, it was possible to reduce the allowances for vehicles manufactured in 2019 which are within the targeted corridor. Particularly noteworthy is the Volkswagen Commercial Vehicles brand, the figures for which improved by more than 10% year-on-year in the 2019 production year.

In 2020, the Board of Management decided to replace the "Tow-in 12 MIS" strategic indicator with this new indicator, as evaluation of global warranty and ex gratia repair payments is a more comprehensive instrument for the economic management of customer perceptions of product quality.

Legal and regulatory compliance

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

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

Observing regional requirements

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

In order to be able to ensure that the perceived quality of our vehicles is at a level commensurate with that of our competitors, we take the needs of our regional customers into account in our vehicle audits. Every brand works together with the individual regions to decide how its product is to be positioned there. In this way, we strengthen

the brands' responsibility. So that the vehicle audit returns comparable results, consistent quality benchmarks apply across all brands and regions. We are continually adapting these to changing requirements. For more than 40 years now, we have been deploying auditors around the world to assess, from the customer's perspective, the vehicles that are ready for delivery and to ensure that these vehicles comply with the benchmarks defined.

EMPLOYEES

The Volkswagen Group is one of the world's largest employers in the private sector. On December 31, 2020, we employed a total of 662,575 people, which includes the Chinese joint ventures. This figure represents a 1.3% decrease compared with the end of 2019. The ratio of Group employees in Germany to those abroad remained largely stable over the past year; at the end of 2020, 44.4 (44.3)% of the workforce worked in Germany.

Human resources strategy and principles of the human resources policy

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

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

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

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

EMPLOYEES BY MARKET

in percent, as of December 31, 2020

- Internal employer attractiveness. This indicator is determined by asking respondents, as part of the opinion survey, whether they perceive the respective company as an attractive employer. The target for 2025 is 89.1 out of a possible total of 100 index points. A score of 88.2 index points was achieved in the reporting period, contrasting with 85.6 points in the previous year. The scope of this survey extends beyond the brands that manufacture passenger cars.
- External employer attractiveness. The ability to recruit top talent is of decisive importance, particularly in view of the Company's transformation into one of the world's leading providers of sustainable mobility solutions and the associated development of new business fields. We use this strategic indicator once a year to check the positioning of the major passenger car-producing brands on the labor markets for graduates. Rankings in surveys conducted by renowned institutions, in which we aim to achieve top scores for the Group brands featured, serve as the basis for this. The Porsche and ŠKODA brands fully met and partly exceeded their targets in fiscal year 2020, while Volkswagen Passenger Cars, Volkswagen Commercial Vehicles, SEAT and Audi missed or only partially achieved them.
- Diversity index. Given the cultural diversity in our global markets and the growing economic momentum, success in a highly competitive marketplace requires an ever-wider range of experience, world views, solutions to problems and product ideas. The diversity of our workforce provides potential for innovation in this area, which we aim to make even better use of in future. As we establish diversity management across the Group, this strategic indicator expresses the development of the proportion of women in management and the internationalization of top management as a percentage of the active workforce worldwide. In particular, it underpins the objective of the human resources strategy, which is aimed at contributing to an

exemplary leadership and corporate culture. The proportion of women in management amounted to 15.3% in 2020 and was one percentage point up on the prior-year level. We aim to raise this figure to 20.2% by 2025. Our goal is to increase the level of internationalization in top management, the uppermost of our three management tiers, to 25.0% in 2025; in the past fiscal year this was 18.7 (18.4)%.

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

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

The implementation of our Group strategy TOGETHER 2025+ has been accompanied by a work package that we defined with the Excellent Leadership module under the slogan "Accelerate the transformation" to drive the change towards an open, cooperative, diverse management culture that places emphasis on acting with integrity. Communication and collaboration will be improved across the brands and regions, open, partnership-based and value-based leadership will be intensified, management development and training will undergo fundamental change, and an even more systematic approach to succession planning will be taken so that the Group has the right people available for the right positions. In 2020, we overhauled our staff development system in line with our business requirements and introduced scouting day management, a new selection procedure that will enable us to identify suitable talent for selected functions in specialist or executive management objectively, accurately and promptly. Individual responsibility, transparency and greater practical relevance already characterize the career paths leading to management; the evaluation of talented candidates addresses employees from different levels of the hierarchy.

To master the challenges of the transformation, the Group and the employee representatives have signed agreements for the future that will position the Group's individual brands more efficiently and also structure employee career prospects. The Volkswagen Passenger Cars brand's roadmap for digital transformation is one example, as is the Audi brand's Audi.Zukunft agreement, both of which were refined in fiscal year 2020.

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

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

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

Training and professional development

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

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

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

The range of learning opportunities is being expanded continuously. Since 2019, the Volkswagen Group Academy has forged partnerships with renowned external training portals to expand online learning, for example on IT topics. The Company has set aside additional funds for the transformation of personnel skills made necessary by digitalization. These resources are used for special training for the groups of employees and departments affected by the transformation. In addition, Volkswagen is striking out in new directions with the Faculty 73 program and is providing in-house training for the software developers who are needed

for the digital transformation. The academic year started in 2020 with 100 participants. The program is designed for employees and also external applicants with IT affinity and an interest in software development.

Vocational training and cooperative education

The core component of training at Volkswagen is vocational training or, for young people eligible to enter university, cooperative education (dual study programs combining university studies with on-the-job training). As of the end of 2020, the Volkswagen Group trained 17,939 young people. We have introduced the principle of dual vocational training at many of the Group's international locations over the past few years and are continuously working on improvements. Once a year, Volkswagen honors its highest-achieving vocational trainees in the Group with the Best Apprentice Award.

Even after their vocational training has been completed, young people at the start of their careers are encouraged to continue their professional development in our Company. At Volkswagen AG, for example, we developed the AGEBI+ program, which promotes fully qualified vocational trainees who are eligible for university and wish to combine a degree program in subjects that are relevant to Volkswagen's future – such as electrical engineering, chemistry or computer science – with closely related practical experience.

Development of university graduates

Volkswagen offers two structured entry and development programs for university graduates and young professionals. In the StartUp Direct trainee program, graduate trainees gain an overview of the Company over two years while working in their own department and also take part in supplementary training measures. University graduates interested in working internationally can participate in the 18-month StartUp Cross program. The aim here is to get to know the Company in all its diversity and to build up a broad network. During their participation in the program, young professionals become familiarized with several locations in Germany and other countries by working in various departments. Both programs also include several weeks' experience working in production. In 2020, Volkswagen AG hired a total of 151 graduate trainees as part of these programs, 32.5% of whom were women.

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

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

A human resources policy that promotes a work-life balance is a major component of Volkswagen's attractiveness as an employer; in particular, it contributes to greater gender equality. We are working continuously to develop family-friendly working time models and to increase the number of women in management positions. In line with the Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern in Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst (German Act on the Equal Participation of Women and Men in Leadership Positions in Private and Public Sectors), Volkswagen AG is aiming to have a 13.0% share of women at the first management level and 16.9% at the second management level by the end of 2021. As of December 31, 2020, the proportion of women in the active workforce at the first level of management was 10.9 (11.4)% and at the second level of management it was 16.7 (16.4)%.

In order to encourage women with great potential to advance within the Company, we have set targets relating to the development of the proportion of women in management for every Board of Management business area at Volkswagen AG. This approach is supported by many different measures ranging from cross-brand mentoring programs to a quota system for the management selection procedure and targets for the share of women among external hires.

In recent years, a large number of company regulations have also come into effect in the Group to make it easier for employees to balance the demands of work and home life and allow staff to arrange their own individual working model. These include flexible working hours, variable part-time work and shift models, leave of absence programs enabling employees to care for family members, the possibility to convert salary components into paid leave, childcare services that are associated with the company or are company-owned, and remote working.

At Volkswagen AG, which first entered into its works agreement for remote working back in 2016, around 40 thousand employees were making use of a more flexible working arrangement as of the end of the 2020 fiscal year.

PROPORTION OF WOMEN
as of December 31

%	2020	2019
Employees	17.0	16.8
Vocational trainees[1]	20.5	21.4
Graduate recruits[2]	32.5	31.7
Total management	15.1	14.2
Management	17.3	16.2
Senior management	11.6	10.8
Top management	7.0	6.8

1 Excluding Scania.
2 Volkswagen AG

AGE STRUCTURE IN YEARS OF VOLKSWAGEN GROUP EMPLOYEES
as of December 31, 2020; in percent

The Covid-19 pandemic brought fundamental changes to the way we work and collaborate with one another. As in other companies, at Volkswagen the pandemic acted primarily as a catalyst for the breakthrough of digitalization in knowledge work: virtual communication and collaboration, and new formats of knowledge transfer and training, for example through podcasts or online tutorials, were set up and expanded at short notice. In addition, digital tools enabled us to remain operational throughout the measures introduced to contain the pandemic, such as business closures.

Preventive healthcare and occupational safety

Preventive healthcare and occupational safety are key elements of human resources policy in the Volkswagen Group. In fiscal year 2019, we underpinned this by drawing up a corresponding Group Policy. This defines basic requirements and objectives relating to occupational health and safety, laying down rules for the organization thereof as well as the responsibilities of the Group, brands and companies.

In addition to fulfilling statutory requirements, Volkswagen's Health department places strong emphasis on preventive approaches with regard to health, fitness and performance. Employees are given the opportunity to have regular check-ups followed by a talk in which they receive offers that draw on recent scientific findings for improving their individual health. In fiscal year 2020, our Health department faced unique challenges due to the spread of the Covid-19 pandemic and the measures that needed to be put in place. Our top priority was to safeguard production in the Group without putting the protection and health of our employees in jeopardy. To this end, we developed and implemented a variety of actions such as hygiene measures, setting up dedicated test centers at Volkswagen locations and providing input and guidance from the Health department on the Safe Production Initiative, which supports safe and healthy manufacturing under pandemic conditions.

Employee participation

Codetermination and employee participation are important pillars of our human resources strategy. Volkswagen aims to promote high levels of expertise and a strong sense of team spirit. This includes employees' opinions, assessments and criticism being heard.

We brief our employees extensively on upcoming changes so as to involve them in strategic decision-making as early as possible. When shaping labor relations to embody cooperation and social peace, we are guided by universal human rights and the standards of the International Labour Organization (ILO). Building on these principles, we have agreed various charters and declarations with the European and the Global Works Councils which set out the principles of labor policy in the Volkswagen Group as well as employee rights.

By means of the opinion survey, an employee poll conducted at 172 companies belonging to the Group, the Company not only regularly gathers information regarding employee satisfaction, but also inquires about the manifestation of our corporate culture and the manner in which, for example, compliance requirements are implemented. Based on the results, follow-up processes are implemented in which measures are developed and executed. Over 540 thousand employees in 38 countries were invited to take part in the 2020 survey. The participation rate was 81%. The average result from all of the answers provided for the questions in the opinion survey – the sentiment rating – is an important parameter of the survey; in 2020 it stood at 82.2 out of a possible total of 100 index points. The score achieved in 2020 was thus higher than the previous year's figure, which amounted to 80.0 points.

In addition, we also encourage employee involvement by means of Idea Management. Employees have the opportunity to put their creativity and knowledge to use in the form of ideas for improvements, thus contributing to streamlining workflows, further enhancing ergonomics in the workplace, reducing costs and continuously increasing efficiency. The system also provides monetary incentives by offering set rewards.

Employee participation in the Company's success through the issuance of treasury shares in the form of an employee share program is not currently offered.

INFORMATION TECHNOLOGY (IT)

Volkswagen is working hard on strengthening its digital competencies with a view to shaping and safeguarding the Company's future viability. To this end we are continuously upgrading our IT systems so that they are sustainable in the long term and are progressively moving our systems and applications over to new cloud platforms. Our primary concern is further increasing the efficiency of the IT systems used throughout the Company and standardizing these as far

as possible. We are also concentrating on building up our expertise and specialist IT knowledge, especially in key digital technologies such as artificial intelligence and the use of new IT technologies in products, services and business processes.

To safeguard the development of core competencies in our Company in the fields of technology, digitalization and autonomous driving, we are building up IT resources that will help shape and push the Company's digital transformation.

Due to the global spread of the Covid-19 pandemic, we have taken measures to protect the workforce, such as an increased use of remote working. In this context, safeguarding access to the IT infrastructure in all brands and companies was a major priority in fiscal year 2020. Usage figures for VPN (virtual private network) access and digital collaboration applications soared compared with the previous year. IT system availability improved once again year-on-year.

The Group IT Steering Committee was formed in 2019 to leverage synergies, to manage the Group's IT project portfolio and promote communication with departments on IT projects. Planning and managing the IT project portfolio at Group level make sure that budgets and resources are employed in a coordinated fashion in the development, implementation and use of IT solutions. In fiscal year 2020, the Group IT Steering Committee prioritized the IT project portfolio with all brands so as to take account of the Group's situation during the Covid-19 pandemic.

Volkswagen embraces digitalization in the Company; its in-house IT labs are just one example of this. The labs act as centers of innovation and expertise that conduct research, experiment with new technologies and make these available for productive use in applications for the organization. Here, Group IT, research institutes, technology partners and policymakers work closely together on future trends in information technology. At the same time, the labs function as liaison offices for start-ups. This allows the experience and strategic expertise of a large company like Volkswagen to be combined with the pragmatism and speed of young start-ups. Highly specialized experts at the IT labs in Munich, and increasingly also in Wolfsburg, are working, for example, on exploiting the potential of quantum computers for areas that have a commercial application. The focus here is on the optimization of traffic flows and the simulation of materials and alloys. Initial experimental projects are also investigating opportunities for combining the potential of quantum computers with self-learning systems (quantum machine learning). In addition, the IT labs are used to transfer knowledge throughout the entire Company on topics such as data analytics (process for the systematic analysis of data in electronic form) and decentralized databases, that allow network participants to jointly process and store data (distributed ledger technologies), and to make new technologies usable for the Company. For instance, numerous bot projects are being implemented to automate business processes (robotic process automation), and self-learning systems will be used to intelligently analyze data to assist staff in recurring administrative work by preparing such activities independently and passing them on to staff for decision-making.

The further convergence of different business areas with IT is also opening up potential. In production, for example, big data processes help us to analyze faulty machinery and take action at an early stage. Big data refers to data volumes that are too vast and too complex to be analyzed and evaluated using manual or conventional methods. Production processes are also safeguarded by artificial intelligence and camera systems (computer vision). The systems and equipment in the factories are linked together in an integrated overall system, enabling efficiency to be increased and digital pilot projects to be integrated into the existing architecture much more easily than before. In conjunction with the different departments, Group IT is also contributing its expertise to the field of research and development. For instance, digitalized work tools such as the "virtual concept vehicle" make the product development process faster and more efficient. Value creation in sales is being increased with the help of advanced analytics (a process for systematic analysis of future events and behavior), for example in optimizing the use of parking lots and vehicle collection processes.

The IT department engages in extensive activities to give Volkswagen's employees access to digital media and work tools. The provision of state-of-the-art IT applications for digital collaboration and the expansion of options for conducting business on mobile devices are designed to improve productivity in the long term. The Company's internal network, Group Connect, promotes knowledge transfer and networking among all employees. The platform puts experts in touch with one another across the brands and the world.

In software development centers we develop cross-brand software for digital ecosystems and for new business

processes in the Group. We thereby maintain in-house expertise in the rapid, demand-oriented development of software and IT solutions. This capability will become increasingly important as the Company's digital transformation evolves.

Cutting-edge technologies for the industrial Internet of Things are being developed at the software development center in Dresden. In collaboration with a leading cloud provider, Amazon Web Services, we are working on a digital production platform that will enable Volkswagen to significantly reduce its production costs in the future.

Safeguarding data and information throughout the Volkswagen Group worldwide is one of the main tasks of IT and is being continued with the Group Information Security Program launched in fiscal year 2020. The objective of the program is to create uniform processes and solutions across the Group to further enhance information security in the areas of cloud security and secure software development. The main focus is on topics that could one day pose information security risks for the Group. The program's content and orientation will be reviewed annually and updated if necessary.

CAR2X technology offers our customers protection by warning them, for example, about traffic hazards. CAR2X technology enables direct wireless communication among the vehicles themselves and with the transport infrastructure. This TÜV IT-certified technology, implemented in accordance with European standards, represents a technical milestone in our CAR2X program.

We are one of the first vehicle manufacturers to require our suppliers to have passed TISAX (Trusted Information Security Assessment Exchange) certification. This sends out a strong signal about cross-company information and data security. TISAX certification is an assessment method developed by the German Association of the Automotive Industry and is based on the new international industry standard and the requirements of the automotive world. The aim is for sensitive data and information to be dealt with securely by our suppliers.

The tasks of automotive cybersecurity are to avert cyber attacks on our vehicles throughout the entire product life cycle and in the supply chains and to protect our customers' personal data in our vehicles. The first Group policies in the Volkswagen Group based on the legal requirements of the UNECE regulation have been implemented. Cross-brand organizational guidelines are being specified and implemented on this basis, taking the organizational circumstances into account.

Our "Protected Customer" program addresses the requirements of the UNECE regulation. To enable us to protect our customers against cyber attacks, and to implement our solutions in conformity with national and international legislation, we are establishing integrated, cross-brand, cross-regional security management systems for information and cybersecurity. One of the aims of this program, which is set to run until 2021, is to safeguard the complete life cycle of our vehicles and the digital mobility services.

Key central information security processes have been audited within the international ISO 27001 framework and were recertified in 2020. This is the most important standard for information security and extends beyond IT to also cover issues such as human resource security, compliance, physical security and legal requirements.

In fiscal year 2020, we continued the activities of our Group program for systematic implementation of the European General Data Protection Regulation (GDPR) and developed Group-wide standards for GDPR compliance. This gave rise to uniform processes, procedures and systemic solutions, as well as a Group-wide GDPR dialogue. In addition, knowledge relating to data protection was continuously built up through extensive training and qualification measures. Whenever new IT solutions are developed, requirements based on the Privacy by Design principle are taken into account from the outset. The basic requirements of the GDPR, transparency in processing and the minimization of personal data, remain essential goals in all existing and future processes. To facilitate long-term compliance with the GDPR, the development of the data protection management organization that began in 2019 was steadily continued and implemented in regular operations.

ENVIRONMENTAL STRATEGY

As one of the largest automobile manufacturers, Volkswagen takes responsibility for the environmental impact of its activities. Based on the TOGETHER 2025+ Group strategy, we have set ourselves ambitious environmental targets. With the environmental mission statement goTOzero, we aspire to minimize environmental impact along the entire life cycle – from raw material extraction until end-of-life – for all our products and mobility solutions in order to keep ecosystems intact and to exert a positive influence on society. Compliance with environmental regulations, standards and voluntary commitments is a basic prerequisite of our actions. Our focus is on four prioritized action areas:

> Climate change. We are committed to the 2°C target of the Paris Climate Agreement. By 2025, we plan to reduce the greenhouse gas emissions of our passenger cars and light commercial vehicles by 30% over the total life cycle compared with 2015. We use the decarbonization index to document our progress. We intend to become a net-carbon-neutral company by 2050.

- Resources. We intend to reduce production-related environmental impact, maximize our resource efficiency and promote circular economy approaches in the areas of materials, energy and water.
- Air quality. We are driving e-mobility forward with the intention of improving the local air quality. Our target is a share of battery electric vehicles in our model portfolio of around 20% by 2025.
- Environmental compliance. Where integrity is concerned, we aim to become a role model for a modern, transparent and successful enterprise by covering the environmental impact of our mobility solutions over all life cycle stages. To this end, we use effective management systems, the effectiveness of which is monitored regularly.

With our future program TOGETHER 2025+, we have defined a strategic indicator:

- Decarbonization index (DKI). The DKI measures the emissions of CO_2 and CO_2 equivalents (jointly referred to as CO_2e) by the major passenger car- and light commercial vehicle-producing brands in the regions of Europe (EU27, United Kingdom, Norway and Iceland), China and the USA over the entire life cycle. In this index, the use phase is calculated over 200,000 km and with reference to region-specific fleet values without statutory flexibilities. The CO_2e intensity of the charging current of the electric vehicles is also calculated based on region-specific electricity mixes. Our vehicle life cycle assessments, which are used as the data basis for calculating supply chain and recycling emissions, have been verified externally and independently in accordance with ISO 14040. In the DKI, we have a meaningful measuring instrument that makes our progress and interim results public and verifiable. The DKI calculation methodology is adapted according to internal and external requirements such as new test cycles for fleet emissions. Published DKI values can therefore also be adjusted to the new methodology and thus changed to facilitate the presentation of a time series that is methodologically consistent. By 2025, the DKI is to be reduced by 30% compared with the base year 2015. In the reporting year, the DKI value averaged 43.0 t CO_2e/vehicle. Compared with the value calculated for 2019, this represents an increase of 0.2 t CO_2e/vehicle.

We once again markedly enhanced and expanded our climate protection targets in the reporting year. The Volkswagen Group aims to reduce the CO_2 emissions of its vehicles by 30% in the production and use phase between 2018 and 2030. The independent Science Based Targets Initiative confirmed to the Volkswagen Group that due to its climate targets, the Company fulfills the conditions for limiting global warming to "significantly below 2 degrees Celsius."

Organization of environmental protection

Volkswagen has created an environmental policy that sets out guidelines for environmental decision-making, for the management of projects and for the Group's environmental stewardship. Thus, parameters are set for the conduct and working methods of management and staff in five areas: management behavior, compliance, environmental protection, collaboration with stakeholders and continuous improvement.

The Board of Management of Volkswagen AG is the highest internal decision-making body for environmental issues. Both it and the brands' boards of management take business, social and environmental criteria into account when making key company decisions. The Group-wide management of environmental protection is the responsibility of the Group Steering Committee for the Environment and Energy. Other bodies take responsibility for steering key individual aspects. They include the Group CO_2 Steering Committee, the Group Steering Committee for Fleet Compliance and Exhaust Gas, and the Group Sustainability Steering Committee.

The Volkswagen Group coordinates the activities of the brands, which in turn steer the measures in the regions. The brands and companies are responsible for their own environmental organization. They base their own environmental protection activities on the targets, guidelines and principles that apply throughout the Group.

Our declared aim is to comply with legal and regulatory requirements. Furthermore, we are guided by company standards and targets. The intention of our environmental compliance management systems is to ensure that environmental aspects and obligations are taken into account in our business operations. Disregard for the rules is treated as a severe compliance violation, as are fraud and misconduct. Compliance with our Environmental Policy Statement and with other Group environmental requirements is evaluated annually and reported to the Board of Management of Volkswagen AG, the respective boards of management of the brands or the managing directors of the companies.

SEPARATE NONFINANCIAL GROUP REPORT

The combined separate nonfinancial report of Volkswagen AG and the Volkswagen Group in accordance with sections 289b and 315b Handelsgesetzbuch (HGB – German Commercial Code) for fiscal year 2020 will be available on the website https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nichtfinanzieller_ Bericht_2020_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial_Report_2020_e.pdf in English by no later than April 30, 2021.

REPORT ON POST-BALANCE SHEET DATE EVENTS

For more information on the agreement covering the key points of a comprehensive realignment of MAN Truck & Bus SE, please refer to the details provided in “Events after the balance sheet date” of the notes to the consolidated financial statements.

Report on Expected Developments

Growth in the global economy is expected to recover overall in 2021. Global demand for passenger cars will probably vary from region to region and increase noticeably year-on-year. With our brand diversity, broad product range, technologies and services, we believe we are well prepared for the future challenges in the mobility business.

In the following, we describe the expected development of the Volkswagen Group and the general framework for its business activities. Risks and opportunities that could represent a departure from the forecast trends are presented in the Report on Risks and Opportunities.

Our assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

DEVELOPMENTS IN THE GLOBAL ECONOMY

Our planning is based on the assumption that global economic output will recover overall in 2021, provided lasting containment of the Covid-19 pandemic is achieved. This growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. We anticipate that both the advanced economies and the emerging markets will experience positive momentum.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2022 to 2025.

Europe/Other Markets

In Western Europe, we expect moderate economic growth in 2021 after the downturn in the last fiscal year. The impact of the Covid-19 pandemic and the uncertain consequences of the United Kingdom's withdrawal from the EU will fundamentally pose major challenges.

We also anticipate moderate growth rates in Central Europe in 2021. The economic situation in Eastern Europe is expected to recover as well, albeit at a somewhat slower pace given that only slight growth is anticipated for the Russian economy.

For Turkey, we expect an increasing economic growth rate combined with high inflation and a weak domestic currency. The South African economy will probably be dominated by political uncertainty and social tensions again in 2021 resulting from high unemployment, among other factors. Despite the sharp slump in the past fiscal year, we therefore expect only moderate growth.

Germany

We expect gross domestic product (GDP) in Germany to grow at a relatively robust pace in 2021 but to remain short of its pre-pandemic level. The labor market situation is likely to deteriorate somewhat depending, among other things, on a delayed increase in corporate insolvencies following the suspension of the obligation to file for insolvency during the pandemic.

North America

We anticipate a distinct improvement in the economic situation in the USA in 2021, despite a declining but still relatively high unemployment rate. The US Federal Reserve will probably leave key interest rates close to zero. Economic growth is also likely to increase distinctly in neighboring Canada and Mexico, although growth in Mexico is not expected to match the pace of the relatively sharp decline in the reporting year.

South America

In all probability, the Brazilian economy will recover in 2021 and record a moderate rate of growth. After three years of negative GDP growth rates, we anticipate only little improve-

ment in the economic situation in Argentina. Inflation is likely to remain very high and the local currency to depreciate.

Asia-Pacific

The Chinese economy will probably continue growing at a relatively high level in 2021 after being one of the few economies not to experience a recession in 2020. After a sharp contraction in the reporting year, we also expect a relatively high rate of expansion for the Indian economy in 2021, outpacing the average growth seen in the years before the Covid-19 pandemic. In Japan, we anticipate a solid rise in GDP growth.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2021. Overall, the volume of demand worldwide for new vehicles is expected to be noticeably up on the reporting year, but will not reach the pre-pandemic level, provided successful containment of the Covid-19 pandemic is achieved. We are forecasting growing demand for passenger cars worldwide in the period from 2022 to 2025.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2021; on the whole, we anticipate a moderate rise in demand for 2021, assuming a successful containment of the Covid-19 pandemic. For the years 2022 to 2025, we expect demand for light commercial vehicles to increase globally.

We believe we are well prepared overall for the future challenges pertaining to automobility business activities and for the mixed development of the regional automotive markets. Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. With electric drives, digital connectivity and autonomous driving, we want to make the automobile cleaner, quieter, more intelligent and safer. With an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions we have set ourselves the goal of continuing to excite our customers and to meet their diverse needs.

Europe/Other Markets

For 2021, we anticipate that the volume of new passenger car registrations in Western Europe will be significantly above that recorded in the reporting year. At the same time, however, possible consequences of the pandemic and the uncertain impact of the United Kingdom's exit from the EU may result in ongoing uncertainty among consumers and dampen demand. Despite this, we expect a strong increase in the United Kingdom in 2021. In Italy, Spain and France, the markets are likely to significantly exceed the level seen in the reporting year.

For light commercial vehicles, we anticipate demand in Western Europe in 2021 to be noticeably up on the previous year's level despite the possible consequences of the pandemic and the uncertain impact of the United Kingdom's exit from the EU. We predict a moderate to large increase in Italy, France, Spain and the United Kingdom.

Sales of passenger cars in 2021 are expected to distinctly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, we anticipate a moderate year-on-year increase in market volume. In the region's other markets, a slight to strong rise in the number of new registrations is expected.

Registrations of light commercial vehicles in the Central and Eastern European markets in 2021 will probably be distinctly higher than in the previous year. We predict a moderate increase in market volume for Russia.

The volume of the passenger car market in Turkey in 2021 is expected to remain at the previous year's level. The volume of new registrations in South Africa in 2021 is likely to be substantially higher year-on-year.

Germany

In the German passenger car market, we expect a moderate year-on-year increase in demand in 2021.

We also anticipate that registrations of light commercial vehicles will be noticeably up on the previous year.

North America

The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole and in the USA in 2021 is likely to be distinctly higher than the previous year's level. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is also projected to be significantly higher than the previous year's level. For Mexico, we expect demand to rise slightly compared with the reporting year.

South America

Owing to their dependence on demand for raw materials worldwide, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. We anticipate an overall large increase in new registrations in the South American markets in 2021 compared with the previous year. In Brazil, the volume of demand is expected to increase substantially compared with 2020. We anticipate that demand in Argentina will be significantly higher year-on-year.

Asia-Pacific

The passenger car markets in the Asia-Pacific region are expected to be noticeably up on the prior-year level in 2021. We predict demand in China to also be noticeably higher than the comparative figure for 2020. Attractively priced entry-level models in the SUV segment in particular should still see strong demand. As long as there is no resolution in sight, the trade dispute between China and the United States is likely to continue to weigh on business and consumer confidence. We anticipate an appreciable increase in the Indian market compared with the previous year. Japan should see slight growth in market volume in 2021.

The market volume for light commercial vehicles in 2021 will probably be slightly higher than the previous year's figure. We are expecting demand in the Chinese market to be distinctly lower than in the previous year. For India, we are forecasting a substantially higher volume in 2021 than in the reporting year. In the Japanese market, we expect demand to be comparable with the previous year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

For 2021, we expect a significantly positive development in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year, with variations from region to region, in the markets that are relevant for the Volkswagen Group.

Significant market growth is expected for the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3). Russia will probably witness a noticeable rebound in demand. We are forecasting a slight increase in Turkey and a significant increase in demand in South Africa. We estimate that demand in Brazil will be considerably higher than in the previous year.

On average, we anticipate moderate growth rates in the relevant truck markets for the years 2022 to 2025.

A moderate increase in overall demand with regional variations for 2021 is likely in the bus markets relevant for the Volkswagen Group. We anticipate a slight year-on-year decline in the market in the EU27+3 countries. In Mexico, we expect to see very strong market growth. New registrations in Brazil will probably be distinctly higher than the prior-year figure.

Overall, we expect a noticeable increase in the demand for buses on the relevant markets for the period from 2022 to 2025.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

In the Power Engineering segment, we expect the market environment to remain difficult in 2021. The further course of the Covid-19 pandemic and its consequences bring additional uncertainty.

In 2021, the market volume for two-stroke engines used in merchant shipping is likely to reach a higher level than in the reporting period. An expected higher volume of sea trade, combined with calls for high energy efficiency and low pollutant emissions, will continue to have a significant influence on drive systems in the future. The market for four-stroke engines for cruise ships is likely to remain at a very low level due to the continuing very difficult liquidity situation. Demand in the passenger ferry segment – similarly affected by a loss of revenue – is also expected at a low level. We also expect demand to remain stable for government vessels and dredgers. In the offshore sector, new order volumes of special applications look set to be on the low side due to continued overcapacity. Overall, we expect the marine market to be at a slightly higher level than that seen in the reporting year with competitive pressure continuing unabated.

The Covid-19 pandemic has led to great uncertainty concerning likely energy demand in 2021. Initial signs point to a further slight decline in market volume. The global spread of the SARS-CoV-2 virus and the measures taken to contain it have reduced demand for energy and made it harder to raise capital for investment in energy generation plants. Despite this impact on the markets, we expect the trend towards decentralized power stations and gas-based applications to further intensify. In addition, demand for new and carbon-neutral technologies should continue to increase in future.

Potential projects in turbomachinery suggest that demand will stabilize in 2021 at the previous year's level. However, the course of the Covid-19 pandemic brings substantial uncertainty to the decision-making process for capital expenditure. Favorable conditions in the capital markets and targeted state support facilitate such capital-intensive decisions. Lower capacity utilization of production facilities by market participants is expected. With the pandemic's increasing duration, this may lead to more intense competition. In energy generation, we expect increasing growth in renewable energy sources, bolstered by state support. Fluctuations in the amount of electricity generated by these will necessitate an increase in storage capacity. We are therefore pushing the construction of pilot plants for thermal storage. This could lead to an expansion of the market for turbocompressors and turboexpanders.

We anticipate a slight recovery in 2021 both in the marine and power plant after-sales business for diesel engines and in the after-sales market for turbomachinery. There may be a temporary catch-up effect in order intake following the postponement of projects over the past year.

For the period 2022 to 2025, we expect to see growing demand in the power engineering markets. However, the extent and timing of this growth will vary in the individual business fields. It remains to be seen for how long the pandemic will continue to affect the market.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We anticipate that automotive financial services will prove highly important to global vehicle sales in 2021, particularly in the context of the ongoing challenges posed by the Covid-19 pandemic. We expect demand to rise in emerging markets where market penetration has so far been low. Regions with already established automotive financial services markets will see a continuation of the trend towards enabling mobility at the lowest possible total cost. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, will become increasingly important for this. Additionally, we expect that demand will increase for new forms of mobility, such as rental services, and for integrated mobility services, for example parking, refueling and charging, and that the shift in the European leasing business initiated with individual customers from financing to lease contracts will continue. We estimate that this trend will continue in the years 2022 to 2025.

In the mid-sized and heavy commercial vehicles category, we anticipate rising demand for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In the developed markets, we expect to see increased demand for telematics services and services aimed at reducing total cost of ownership in 2021. This trend is also expected to persist in the period 2022 to 2025.

EXCHANGE RATE TRENDS

In 2020, the euro appreciated slightly against the US dollar on an annual average. It also rose against sterling. The euro/sterling exchange rate in 2020 was affected by high uncertainty about the outcome of the negotiations on the United Kingdom's exit from the EU and the shape of future relationships. Against the currencies of some emerging markets, the euro appreciated considerably in some cases. In particular, the Argentinian peso, Brazilian real, South African rand, Russian ruble and Mexican peso lost value against the European single currency. The currencies of Asian emerging markets also weakened overall against the euro on an annual average. For 2021, we are forecasting that the euro will strengthen against the US dollar, sterling and the Chinese renminbi. The Argentinian peso, Brazilian real, Mexican peso, South African rand and Russian ruble will most likely continue to depreciate. For 2022 to 2025, we expect that the euro will be stable against the key currencies, but that the comparative weakness of the currencies in the aforementioned emerging markets will probably continue. However, there is still a general event risk – defined as the risk arising from unforeseen market developments.

INTEREST RATE TRENDS

The challenging macroeconomic conditions, including as a result of the Covid-19 pandemic, resulted in globally falling interest rates in fiscal year 2020. National central banks both in the major Western industrialized nations and in emerging markets cut key interest rates, in some cases on multiple occasions, and also introduced additional expansionary monetary policy measures to support their economies. In March 2020, the US Federal Reserve cut the key interest rate to almost 0% in the space of just a few days, while the European Central Bank also left its key interest rate at zero. We expect these policies to generally continue in 2021 and therefore consider it currently unlikely that interest rates will rise in the USA or Europe. In the period from 2022 to 2025, we expect no more than a slight increase in interest rates.

COMMODITY PRICE TRENDS

The global spread of the coronavirus (SARS-CoV-2) has also affected commodity markets. The associated restrictions and the resulting downturn in demand and supply, reduced the prices of many raw and input materials in the first half of 2020. However, the prices recovered markedly in some cases over the course of the year. Compared with the previous year, there was a fall in the average prices for raw materials such as crude oil, coking coal, lead, aluminum and natural rubber, while prices for iron ore, rare earths and the precious metals rhodium and palladium rose and copper and platinum prices were more or less unchanged. Prices for the raw materials that are relevant for e-mobility also developed unevenly: average prices over the year for lithium and cobalt fell, while nickel prices were more or less on the prior-year level. Based

on analyses of factors of influence and trends in the commodity markets, we expect the prices of most commodities to rise in 2021. For the years 2022 to 2025, we continue to expect volatility in the commodity markets with prices trending both upwards and downwards.

NEW MODELS IN 2021

The Volkswagen Passenger Cars brand will expand the ID. family in 2021 with the all-electric ID.5, a new crossover derivative based on the MEB. The Tiguan will be electrified as a plug-in hybrid. The brand will also launch a compact SUV coupé and the updated Polo. New entry-level SUVs in the compact category will also be debuted in the respective markets, with the Tarek being launched in Russia and the Taos in North and South America. In China, several all-electric vehicles will be introduced to the market, including the ID.4 Crozz and ID.4 X. In India, the locally produced Taigun compact SUV will be available.

Audi will also continue its electric car offensive in 2021, expanding the e-tron family with the new e-tron GT. The all-electric Q4 e-tron will also be available. In the Q5 series, Audi will offer a dynamic Sportback model and a version with plug-in hybrid drive.

The ŠKODA brand will power ahead with the electrification of its portfolio by introducing the new Enyaq iV. The new generation of the Fabia and the facelifted Kodiaq will also become available in the course of the year. In India, the Kushaq, a new small SUV, tailored to local needs, will arrive on the market.

SEAT will expand its range in 2021 with a plug-in hybrid Tarraco, among other models. The popular, compact Ibiza will receive an update. CUPRA will bring its Formentor e-Hybrid with powerful plug-in hybrid drive to the market. The el-Born will mark the brand's debut in the world of pure electric cars.

Porsche will expand its Taycan model range in 2021 with an all-electric Cross Turismo version. Sporty all-round models will be added to the 911 model range. The Macan will receive a product upgrade.

The Bentley brand will offer a plug-in hybrid version of the new Bentayga in 2021. The introduction of a further model with plug-in hybrid drive is also planned.

Lamborghini will launch its Huracán STO high-performance super sports car.

A new derivative of the Chiron will be available from Bugatti.

Volkswagen Commercial Vehicles will completely revamp the Multivan/Transporter in 2021, and in doing so pen a new chapter in this model's success story.

Scania and MAN will present innovative new models in 2021, including a truck and a bus with all-electric drives and other solutions for urban transport.

Ducati will introduce its new Monster, among other motorcycles, in 2021. The fourth generation of the Multistrada V4 will be available and the XDiavel and Scrambler families will be upgraded. The SuperSport 950, new Panigale V4 SP and updated Panigale 4 sports bikes are also waiting in the wings.

FUTURE ORGANIZATIONAL STRUCTURE OF THE GROUP

In November 2020, TRATON SE and Navistar International Corporation (Navistar), a leading US truck manufacturer, announced the signing of a binding merger agreement. Under this agreement, TRATON will acquire all outstanding shares in Navistar not already owned by TRATON in return for cash payment at a price of USD 44.50 per share (total: approximately USD 3.7 billion). As of December 31, 2020, TRATON already holds a 16.7% stake in Navistar. The aim of the transaction is to enhance the ability to meet challenges from new regulations and fast-developing technologies in connectivity, propulsion and autonomous driving and to benefit from Navistar's presence on the North American market. The completion of the transaction, through which TRATON will become Navistar's sole owner, is intended for mid-2021 and is subject to the approval of Navistar's shareholders, to the usual closing conditions and regulatory approvals. The main shareholders Icahn Capital LP and MHR Fund Management LC have already agreed to vote their stake in favor of the transaction.

Our plans are based on the Volkswagen Group's current structures. They do not include the conclusion of the merger agreement. The effects of this transaction on the financial performance, cash flows and financial position are not taken into account in the forecast of the Volkswagen Group.

INVESTMENT AND FINANCIAL PLANNING

To meet people's needs for individual, sustainable, fully connected mobility and thus increase the Volkswagen Group's future viability, we will continue to mobilize our pronounced strengths in innovation and technology and push the Volkswagen Group's transformation into a digital mobility group while leveraging our economies of scale and maximizing synergies.

In our current planning for 2021, most of the capex (investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs) will be spent on new products and the continued rollout and further development of the modular toolkit. Forthis, we will invest in the electrification and hybridization of our model portfolio and continue to advance the development of the Modular Electric Drive Toolkit (MEB) and the Premium Platform Electric (PPE), the all-electric platform for our premium and sports brands. We will also focus on the growing digitalization of our vehicles and locations and

increase our capital expenditure on these. We are also investing in the modification of selected locations for the production of electric vehicles. The Automotive Division's ratio of capex to sales revenue is expected to fluctuate around a level of 6.0% to 6.5%.

Besides capex, investing activities will also cover additions to capitalized development costs. Among other things, these reflect upfront expenditures in connection with the electrification, digitalization and updating of our model range. Also included are the services of the Car.Software Organisation, which is developing a standardized operating system for Group brand vehicles, along with other projects.

With the investments in our facilities and models, as well as in the development of electric drives and modular toolkits and in digitalization, we are laying the foundations for profitable, sustainable growth at Volkswagen. These investments also include commitments arising from decisions taken in previous fiscal years.

We aim to finance the investments in our Automotive Division from our own capital resources and expect cash flows from operating activities to exceed the Automotive Division's investment requirements. For 2021, we estimate cash outflows resulting from the diesel issue to remain more or less the same and effects from mergers & acquisitions to be significantly higher. Consequently, we anticipate that the net cash flow will be in line with the previous year.

Net liquidity in the Automotive Division will probably see a moderate increase in 2021.

These plans are based on the Volkswagen Group's current structures. They do not include the intended acquisition of all outstanding ordinary shares of Navistar International Corporation and the related cash outflows.

Our joint ventures in China are accounted for using the equity method and are therefore not included in the figures above. For 2021, the joint ventures plan to invest in e-mobility, further enhancement of the model portfolio, the development of new mobility solutions and smart city concepts. Their capex will probably exceed the 2020 level and be financed from the companies' own funds.

In the Financial Services Division, we are planning higher investments in 2021 than in the previous year. We expect the development of lease assets and of receivables from leasing, customer and dealer financing to lead to funds tied up in working capital, of which around half will be financed from the gross cash flow. As is common in the sector, the remaining funds needed will be met primarily through unsecured bonds on the money and capital markets, the issuing of asset-backed securities, customer deposits from the direct banking business, and through the use of international credit lines.

TARGETS FOR VALUE-BASED MANAGEMENT

Based on long-term interest rates derived from the capital market and the target capital structure (fair value of equity to debt = 2:1), the minimum required rate of return on invested capital defined for the Automotive Division remains unchanged at 9%.

Business at the Volkswagen Group was affected by the consequences of the Covid-19 pandemic throughout the whole of 2020. As a result, ROI decreased in the reporting period due to earnings-related factors and, at 6.5% (11.2%), was below both the prior-year figure and our minimum required rate of return (for further information, please see the headline "Return on investment (ROI) and value contribution in the reporting period" in the chapter entitled "Results of Operations, Financial Position and Net Assets"). In the Automotive Division, we expect the return on investment (ROI) to be noticeably above our minimum required rate of return on the invested capital.

SUMMARY OF EXPECTED DEVELOPMENTS

Our planning is based on the assumption that global economic output will recover overall in 2021, provided lasting containment of the Covid-19 pandemic is achieved. This growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. We anticipate that both the advanced economies and the emerging markets will experience positive momentum.

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further.

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2021. Overall, the volume of demand worldwide for new vehicles is expected to

be noticeably up on the reporting year, provided successful containment of the Covid-19 pandemic is achieved; however, it will not recover to its pre-pandemic level. For 2021, we anticipate that the volume of new passenger car registrations in Western Europe will be significantly above that recorded in the reporting year. In the German passenger car market, we expect a moderate year-on-year increase in demand in 2021. Sales of passenger cars in 2021 are expected to distinctly exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole in 2021 is also likely to be distinctly higher than the previous year's level. We expect to see a large increase overall in new registrations in the South American markets in 2021 compared with the previous year. The passenger car markets in the Asia-Pacific region are expected to be noticeably up on the prior-year level in 2021.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2021; on the whole, we anticipate a moderate rise in demand for 2021, assuming that containment of the Covid-19 pandemic is successful.

For 2021, we expect a significantly positive development in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year in the markets that are relevant for the Volkswagen Group. A moderate increase in overall demand for 2021 is likely in the bus markets relevant for the Volkswagen Group.

We anticipate that automotive financial services will be of great significance to global vehicle sales in 2021, particularly in the context of the ongoing challenges posed by the Covid-19 pandemic.

We believe we are well prepared overall for the future challenges pertaining to automotive business activities and for the mixed development of the regional automotive markets. Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. As part of the transformation of our core business, we are positioning our Group brands with an even stronger focus on their individual characteristics, and are optimizing our vehicle and drive portfolio. The focus is primarily on our vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, we are working to leverage the advantages of our multibrand Group even more effectively with the ongoing development of new technologies and the enhancement of our toolkits. With electric drives, digital connectivity and autonomous driving, we want to make the automobile cleaner, quieter, more intelligent and safer. We have set ourselves the goal of continuing to excite our customers in the future and meeting their diverse needs with an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions.

We anticipate that deliveries to Volkswagen Group customers will be significantly up on the previous year in 2021 – assuming successful containment of the Covid-19 pandemic – amid continued challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, volatile commodity and foreign exchange markets, securing supply chains, and more stringent emissions-related requirements.

We expect the sales revenues of the Volkswagen Group and Passenger Cars Business Area in 2021 to be significantly higher than the prior-year figure. In terms of operating profit for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 5.0% to 6.5% in 2021. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of 4.0% to 5.5% before restructuring measures amid a significant year-on-year increase in sales revenue. We expect the Power Engineering Business Area to reach the break-even point amid a noticeable decline in sales revenue compared with the previous year. For the Financial Services Division, we forecast that sales revenue will be noticeably higher than the prior-year figure and that the operating result will be in line with the previous year.

In the Automotive Division, we expect the R&D ratio to come in at around 7% and the ratio of capex to sales revenue at around 6% in 2021. For 2021, we expect cash outflows resulting from the diesel issue to remain more or less the same and effects from mergers & acquisitions to be significantly higher. Consequently, we anticipate that the net cash flow will be in line with the previous year. Net liquidity in the Automotive Division will probably see a moderate increase in 2021. We expect the return on investment (ROI) to be noticeably above our minimum required rate of return. Our unchanged stated goal is to continue our solid liquidity policy.

To achieve sustainable success, we need skilled and dedicated employees. We aim to increase their satisfaction and motivation by means of equal opportunities, an attractive and modern working environment, and a forward-looking approach to organizing work. Every day, we at the Volkswagen Group assume and exercise responsibility in issues relating to the environment, safety and society. In terms of integrity, Volkswagen aspires to become a role model for a modern, transparent and successful enterprise. We also aim for operational excellence in all business processes.

Report on Risks and Opportunities

(CONTAINS THE REPORT IN ACCORDANCE WITH SECTION 289(4) OF THE HGB)

Promptly identifying the risks and opportunities arising from our operating activities and taking a forward-looking approach to managing them is crucial to our Company's long-term success. A comprehensive risk management and an internal control system help the Volkswagen Group deal with risks in a responsible manner.

In this section, we first explain the objective and structure of the Volkswagen Group's risk management system (RMS) and internal control system (ICS) and describe these systems with regard to the financial reporting process. We then outline the main risks and opportunities arising in our business activities.

OBJECTIVE OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM AT VOLKSWAGEN

Only by promptly identifying, accurately assessing and effectively and efficiently managing the risks and opportunities arising from our business activities can we ensure the Volkswagen Group's long-term success. The aim of the RMS/ICS is to identify potential risks at an early stage so that suitable countermeasures can be taken to avert the threat of loss to the Company, and any risks that might jeopardize its continued existence can be ruled out.

Assessing the likelihood of occurrence and extent of future events and developments is, by its nature, subject to uncertainty. We are therefore aware that even the best RMS cannot foresee all potential risks and even the best ICS can never completely prevent irregular acts.

STRUCTURE OF THE RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL SYSTEM AT VOLKSWAGEN

The organizational design of the Volkswagen Group's RMS/ICS is based on the internationally recognized COSO framework for enterprise risk management (COSO: Committee of Sponsoring Organizations of the Treadway Commission). Structuring the RMS/ICS in accordance with the COSO framework for enterprise risk management ensures that potential risk areas are covered in full. Uniform Group principles are used as the basis for managing risks in a standardized manner. Opportunities are not recorded.

THE VOLKSWAGEN THREE LINES MODEL

Another key element of the RMS/ICS at Volkswagen is the Three Lines Model, a basic element required by, among other bodies, the European Confederation of Institutes of Internal Auditing (ECIIA). In line with this model, the Volkswagen Group's RMS/ICS has three lines designed to protect the Company from significant risks occurring.

The minimum requirements for the RMS/ICS, including the Three Lines Model, are set out in guidelines for the entire Group.

The RMS/ICS was further developed in the past fiscal year. The IT risk management system called "Riskradar" was introduced at all brands and significant Group companies in 2020. In this way, we have increased process and data security and reduced our manual workload through automated workflows and end-to-end system support for the analysis of data. At the same time, risk awareness at the Company is further intensified, risk transparency is improved and risks can be analyzed with end-to-end system support. The ICS has been standardized for high-risk business processes at significant companies. We will continue to develop our RMS/ICS in the future.

First line: Operational risk management

The first line comprises the operational risk management and internal control systems at the individual Group companies and business units. The RMS/ICS is an integral part of the Volkswagen Group's structure and workflows. Events that may give rise to risk are identified and assessed locally in the divisions and at the investees. Countermeasures are introduced immediately, the remaining potential impact is assessed, and the information incorporated into the planning in a timely manner. Material risks are reported to the relevant committees on an ad hoc basis. The results of the operational risk management process are incorporated into budget planning and financial control on an ongoing basis. The targets agreed in the budget planning rounds are continually reviewed in revolving planning updates. At the same time, the results of risk mitigation measures are promptly incorporated into the monthly forecasts regarding further business development. This means that the Board of Management also has access to an overall picture of the current risk situation via the documented reporting channels during the year.

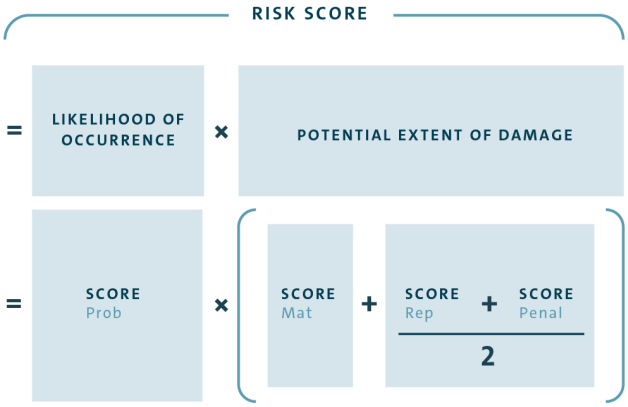
The operational risk management and internal control system also includes compliance with the so called Golden Rules in the areas of control unit software development, emission classification and escalation management. These rules are the minimum requirements in the organization, processes and tools & systems categories.

Second line: Identifying and reporting systemic and acute risks using Group-wide processes

In addition to the ongoing operational risk management, the Group Risk Management department sends standardized surveys regarding the risk situation and the effectiveness of the RMS/ICS to the significant Group companies and units worldwide (regular Governance, Risk & Compliance (GRC) process) each year.

As part of this process, each systemic risk inherent to the process or inherent to the business that is reported is

CALCULATION OF RISK SCORE



recorded and assessed in our RICORS IT system. The risk assessment is made by multiplying the criterion of likelihood of occurrence (Prob) by the potential extent of the damage. The extent of the damage is calculated from the criteria of financial loss (Mat) and reputational damage (Rep) and criminal relevance (Penal). A score between 0 and 10 is assigned to each of these criteria. The measures taken to manage and control risk are taken into account in the risk assessment (net perspective). The result is a risk score that expresses the risk.

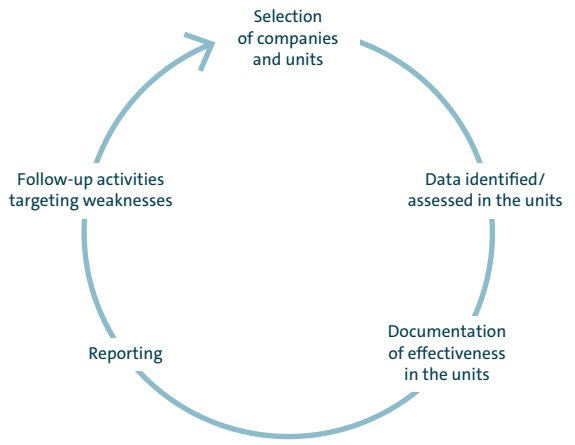
The score for a likelihood of occurrence of more than 50% in the analysis period is classified as high; for a medium classification, the likelihood of occurrence is at least 25%. For the criterion of financial loss, the score rises in line with the loss; the highest score of 10 is reached when the potential loss is upwards of €1 billion. The criterion of reputational damage can have characteristics ranging from local erosion of confidence and loss of trust at local level to loss of reputation at regional or international level. Criminal relevance is classified based on the influence on the local company, the brand or the Group.

In addition to strategic, operational and reporting risks, risks arising from potential compliance violations are also integrated into this process. Moreover, the effectiveness of key risk management and control measures is tested and any weaknesses identified in the process are reported and rectified.

All Group companies and units selected from among the entities in the consolidated Group on the basis of materiality and risk criteria were subject to the regular GRC process in fiscal year 2020.

Quarterly risk reports are produced in addition to the annual risk assessment. These depict the Volkswagen Group's

ANNUAL STANDARD GOVERNANCE, RISK AND COMPLIANCE PROCESS



acute – short to medium-term – risk situation. The assessment of risks from this quarterly risk process (QRP) is conducted in the "Riskradar" IT system similarly to that of the annual regular GRC process. All Group brands as well as Porsche Holding Salzburg, Volkswagen Financial Services AG and Volkswagen Bank GmbH are included in the QRP.

In addition, significant changes to the risk situation that can arise in the short term, for instance from unexpected external events, are reported to the Board of Management as required. This is necessary if, among other things, the risk may lead to potential financial loss of over €1 billion.

Based on the feedback from the annual regular GRC process and quarterly risk surveys, the overall picture of the potential risk situation is updated and the system's effectiveness assessed.

A separate Group Board of Management Committee for Risk Management examines the key aspects of the RMS/ICS every quarter. Its tasks are as follows:

- to further increase transparency in relation to significant risks to the Group and their management,
- to explain specific issues where these constitute a significant risk to the Group,
- to make recommendations on the further development of the RMS/ICS,
- to support the open approach to dealing with risks and promote an open risk culture.

Risk reporting to the committees of Volkswagen AG depends on materiality thresholds. Systemic risks from a risk score of 20 and acute risks from a risk score of 40 or potential financial loss of €1 billion or more are regularly presented to the Board of Management and the Audit Committee of the Supervisory Board of Volkswagen AG.

Third line: Review by Group Internal Audit

Group Internal Audit helps the Board of Management to monitor the various divisions and corporate units within the Group. It regularly checks the risk early warning system and the structure and implementation of the RMS/ICS and the compliance management system (CMS) as part of its independent audit procedures.

RISK EARLY WARNING SYSTEM IN LINE WITH THE KONTRAG

The Company's risk situation is ascertained, assessed and documented in accordance with the requirements of the Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (KonTraG – German Act on Control and Transparency in Business). The requirements for a risk early warning system are met by means of the RMS/ICS elements described above (first and second line). Independently of this, the external auditors check both the processes and procedures implemented in this respect and the adequacy of the documentation on an annual basis. The plausibility and adequacy of the risk reports are examined via spot checks in detailed interviews with the divisions and companies concerned together with the external auditors. The auditor examines the risk early warning system integrated in the risk management system with respect to its fundamental suitability of being able to identify risks that might jeopardize the continued existence and assesses the functionality of the risk early warning and monitoring systems in accordance with section 317(4) of the HGB.

In addition, scheduled examinations as part of the audit of the annual financial statements are conducted at companies in the Financial Services Division. As a credit institution, Volkswagen Bank GmbH, including its subsidiaries, is subject to supervision by the European Central Bank, while Volkswagen Leasing GmbH as a financial services institution and Volkswagen Versicherung AG as an insurance company are subject to supervision by the relevant division of the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – the German Federal Financial Supervisory Authority). As part of the scheduled supervisory process and unscheduled audits, the competent supervisory authority assesses whether the requirements, strategies, processes and mechanisms ensure solid risk management and solid risk cover. Furthermore, the Prüfungsverband deutscher Banken (Auditing Association of German Banks) audits Volkswagen Bank GmbH from time to time.

Volkswagen Financial Services AG operates a risk early warning and management system. Its aim is to ensure that the locally applicable regulatory requirements are adhered to and at the same time to enable appropriate and effective risk management at Group level. Important components of it are regularly reviewed as part of the audit of the annual financial statements.

Monitoring the effectiveness of the risk management system and the internal control system

To ensure the effectiveness of the RMS/ICS, we regularly optimize it as part of our continuous monitoring and improvement processes. In the process, we give equal consideration to both internal and external requirements. External experts assist in the continuous enhancement of our RMS/ICS on a case-by-case basis. The results culminate in both regular and event-driven reporting to the Board of Management and Supervisory Board of Volkswagen AG.

THE RISK MANAGEMENT AND INTEGRATED INTERNAL CONTROL SYSTEM IN THE CONTEXT OF THE FINANCIAL REPORTING PROCESS

The accounting-related part of the RMS/ICS that is relevant for the financial statements of Volkswagen AG and the Volkswagen Group as well as its subsidiaries comprises measures intended to ensure that the information required for the preparation of the financial statements of Volkswagen AG, the consolidated financial statements and the combined management report of the Volkswagen Group and Volkswagen AG is complete, accurate and transmitted in a timely manner. These measures are designed to minimize the risk of material misstatement in the accounts and in external reporting.

Main features of the risk management and integrated internal control system in the context of the financial reporting process

The Volkswagen Group's accounting is essentially organized along decentralized lines. For the most part, accounting duties are performed by the consolidated companies themselves or entrusted to the Group's shared service centers. In principle, the audited financial statements of Volkswagen AG and its subsidiaries prepared in accordance with IFRSs and the Volkswagen IFRS Accounting Manual are transmitted to the Group in encrypted form. A standard market product is used for encryption.

The Volkswagen IFRS Accounting Manual, which has been prepared in line with external expert opinions in certain cases, is intended to ensure the application and assessment of uniform accounting policies based on the requirements applicable to the parent. In particular, it includes more detailed guidance on the application of legal requirements and industry-specific issues. Components of the reporting packages that are required to be prepared by the Group companies are also set out in detail there, and requirements have been established for the presentation and settlement of intragroup transactions and the balance reconciliation process that is based on these.

Control activities at Group level include analyzing and, if necessary, adjusting the data reported in the financial statements presented by the subsidiaries, taking into account the reports submitted by the auditors and the outcome of the meetings on the financial statements with representatives of the individual companies. These discussions address both the plausibility of the single-entity financial statements and specific significant issues at the subsidiaries. Alongside plausibility checks, other control mechanisms applied during the preparation of the single-entity and consolidated financial statements of Volkswagen AG include the clear delineation of areas of responsibility and the application of the "four eyes" principle.

The combined management report of the Volkswagen Group and Volkswagen AG is prepared – in accordance with the applicable requirements and regulations – centrally but with the involvement of and in consultation with the Group units and companies.

In addition, the accounting-related internal control system is independently reviewed by Group Internal Audit in Germany and abroad.

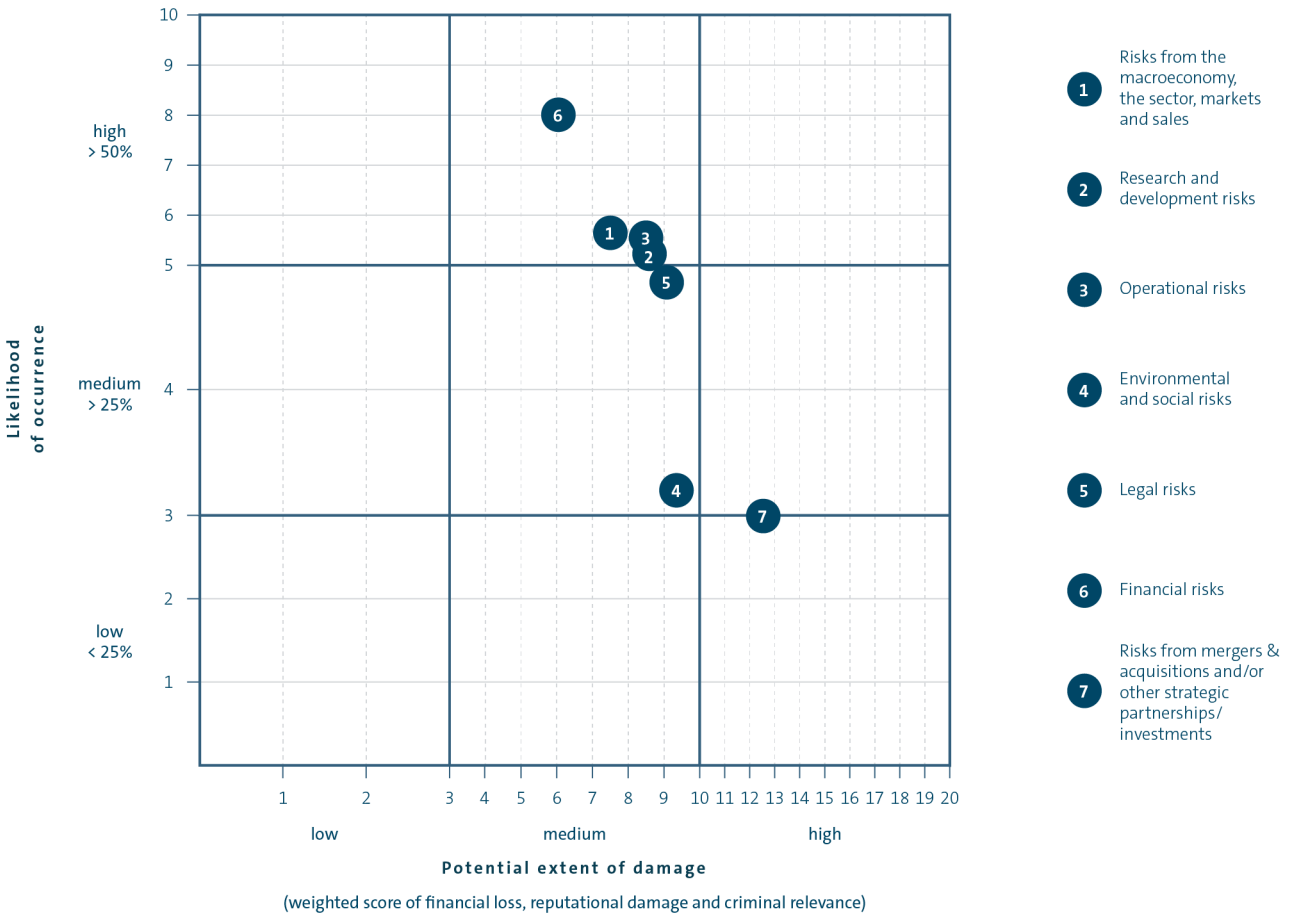
Integrated consolidation and planning system

The Volkswagen consolidation and corporate management system (VoKUs) enables the Volkswagen Group to consolidate and analyze both Financial Reporting's backward-looking data and Controlling's budget data. VoKUs offers centralized master data management, uniform reporting, an authorization concept and the required flexibility with regard to changes to the legal environment, providing a future-proof technical platform that benefits Group Financial Reporting and Group Controlling in equal measure. To verify data consistency, VoKUs has a multi-level validation system that primarily checks content plausibility between the balance sheet, the income statement and the notes.

RISKS AND OPPORTUNITIES

In this section, we outline the main risks and opportunities arising in our business activities. In order to provide a better overview, we have grouped the risks and opportunities into categories. At the beginning of each risk category, we state the most significant risks in order of their importance as identified using the risk score from the regular GRC process and the quarterly risk process (QRP). We then describe the individual risks in no particular order. Unless explicitly mentioned, there were no material changes to the specific risks and opportunities compared with the previous year even though the weighting of individual risks has changed.

AVERAGE SCORES OF THE RISK CATEGORIES



The risks from the regular GRC process and the QRP reported to the Board of Management and the Audit Committee are incorporated into the assessment of the Volkswagen Group's risk categories. The risk categories are plotted based on the average scores.

We use analyses of the competition and the competitive environment in addition to market studies to identify not only risks but also opportunities that have a positive impact on the design of our products, the efficiency with which they are produced, their success in the market and our cost structure. Where they can be assessed, risks and opportunities that we expect to occur are already reflected in our medium-term planning and our forecast. The following therefore reports on internal and external developments as risks and opportunities that, based on existing information, may result in a negative or positive deviation from our forecast or targets.

Risks and opportunities from the macroeconomy, the sector, markets and sales

For this risk category, the likelihood of occurrence is classified as high (previous year: medium) and the potential extent of damage is classified as medium (previous year: medium).

The most significant risks from the regular GRC process and the QRP lie in restrictions on trade and increasingly protectionist tendencies resulting in a negative trend in markets and unit sales.

Macroeconomic risks and opportunities

We believe that risks to positive growth in global economic output will arise primarily if efforts to contain the Covid-19 pandemic are not successful in the long term, as well as from turbulence in the financial and commodity markets, increasingly protectionist tendencies and structural deficits, which pose a threat to the performance of individual advanced

economies and emerging markets. In addition, there are increasing environmental challenges that affect individual countries and regions to varying degrees. The possible worldwide transition from an expansionary monetary policy to a more restrictive one also presents risks for the macroeconomic environment. High private- and public-sector debt in many places is clouding the outlook for growth and may likewise cause markets to respond negatively. Declines in growth in key countries and regions often have an immediate impact on the state of the global economy and therefore pose a central risk. There are also risks from the uncertain consequences of the United Kingdom's exit from the EU.

The economic development of some emerging economies is being hampered primarily by dependence on energy and commodity prices and capital inflows, but also by sociopolitical tensions. Corruption, inadequate government structures and a lack of legal certainty can also pose risks.

Geopolitical tensions and conflicts, along with signs of fragmentation in the global economy, are a further major risk factor to the performance of individual countries and regions. In light of the existing, strong global interdependence, local developments could also have adverse effects on the world economy. Any escalation of the conflicts in Eastern Europe, the Middle East, or Africa, for example, could cause upheaval on the global energy and commodity markets and exacerbate migration trends. An aggravation of the situation in East Asia could also put a strain on the global economy. The same applies to violent conflicts, terrorist activities, cyber attacks and the spread of infectious diseases, which may quickly result in unexpected market reactions.

Overall, we anticipate a recovery in the global economy in 2021. However, due to the risk factors mentioned, as well as cyclical and structural aspects, a further negative trend in the global economy or a period of below-average growth rates is possible.

The macroeconomic environment may also give rise to opportunities for the Volkswagen Group if actual developments differ from expected developments in a positive way.

Sector-specific risks and market opportunities/potential

Western Europe, especially Germany, and China are our main sales markets. A drop in demand in these regions due to the economic climate would have a particularly strong impact on the Company's earnings including financial services. We counter this risk with a clear, customer-oriented and innovative product and pricing policy.

Outside Western Europe and China, delivery volumes are spread widely across the key regions: Central and Eastern Europe, North America and South America. In addition, we either already have a strong presence in numerous existing and developing markets or are working systematically towards this goal. Particularly in smaller markets with growth potential, we are increasing our presence with the help of strategic partnerships in order to cater to local requirements.

The growth markets of Central and Eastern Europe, South America and Asia are particularly important to the Volkswagen Group. These markets harbor considerable potential; however, the underlying conditions in some countries in these regions make it difficult to increase unit sales figures there. Examples of these are customs regulations or minimum local content requirements for production. At the same time, wherever the economic and regulatory situation permits, there are opportunities above and beyond current projections. These arise from faster growth in the emerging markets where vehicle densities are currently still low.

Price pressure in established automotive markets for new and used vehicles as a result of high market saturation is a further risk for the Volkswagen Group as a supplier of volume and premium models. Competitive pressures are likely to remain high in the future. Individual manufacturers may respond by offering incentives in order to meet their sales targets, putting the entire sector under additional pressure.

There is a risk that excess capacity in global automotive production may lead to a rise in inventories and therefore an increase in tied-up capital. With a decline in demand for vehicles and genuine parts, automotive manufacturers may adjust their capacities or intensify measures to promote sales. This would lead to additional costs and greater price pressure.

The demand that built up in individual established markets in times of crisis could result in a marked recovery if the economic environment eases more quickly than expected.

In Europe, there is a risk that further municipalities and cities will impose a driving ban on vehicles with combustion engines in order to comply with emission limits. China imposed a so-called "new energy vehicle quota" in 2019, which means that battery-electric vehicles, plug-in hybrids and fuel cell vehicles will have to account for a certain proportion of a manufacturer's new passenger car fleet. To ensure compliance with emissions standards, we continuously tailor our range of vehicle models and engines to the conditions in the relevant markets. These requirements may lead to higher costs and consequently to price increases and declines in volumes.

Economic performance varied in individual regions in fiscal year 2020. The resulting risks for our trading and sales companies, such as in relation to efficient inventory management and a profitable dealer network, are substantial and are

being responded to with appropriate measures on their part. However, financing business activities through bank loans remains difficult. Our financial services companies offer dealers financing on attractive terms with the aim of strengthening their business models and reducing operational risk. We have installed a comprehensive liquidity risk management system so that we can promptly counteract any liquidity bottlenecks at the dealership end that could hinder smooth business operations.

We continue to approve loans for vehicle financing on the basis of the same cautious principles applied in the past, for example by taking into account the regulatory requirements of section 25a(1) of the Kreditwesengesetz (KWG – German Banking Act).

Volkswagen may be exposed to increased competition in aftermarkets for regulatory reasons. This is due to the provisions of the block exemption regulations, which have applied to after-sales services since June 2010, and also to the amendments included in EU Regulation 566/2011 dated June 8, 2011 and EU Regulation 858/2018 applicable from September 1, 2020, regarding independent market participants' access to technical information.

In Germany, legislation entered into force on December 2, 2020 to restrict or abolish design protection for repair parts through the introduction of a repair clause. In addition, the European Commission is evaluating the market with regard to existing design protection. A possible restriction or abolition of design protection for visible replacement parts could adversely affect the Volkswagen Group's genuine parts business.

The automotive industry is facing a process of transformation with far-reaching changes. Electric drives, connected vehicles and autonomous driving are associated with both opportunities and risks for our sales. In particular, more rapidly evolving customer requirements, swift implementation of legislative initiatives and the market entry of new competitors from outside the industry will require changed products at a faster pace of innovation and adjustments to business models. There is uncertainty regarding the widespread use of electric vehicles and the availability of the necessary charging infrastructure.

There is also a risk of freight deliveries worldwide being shifted from trucks to other means of transport, and of demand for the Group's commercial vehicles falling as a result.

Below, we outline the regions and markets with the greatest growth potential for the Volkswagen Group.

- China
  Demand for vehicles is expected to increase in the coming years due to the need for individual mobility. It is also expected that demand will shift from the coastal metropolises to the country's interior. In order to leverage the considerable opportunities offered by this market – also with regard to e-mobility – and to defend our strong market position in China over the long term, we are continuously expanding our product range to include models that have been specially developed for this market. We are further extending our production capacity in this growing market.
- India
  The Volkswagen Group has consolidated its activities in this strategically important future market and has launched a model initiative with the new ŠKODA Kushaq tailored to the needs of customers.
- USA
  In the USA, Volkswagen Group of America is steadfast in its pursuit to become a full-fledged volume supplier. The expansion of local production capacity – including production for electric vehicles in the future – will allow the Group to better serve the market in the North America region. We are also working intensively on offering additional products specifically tailored to the US market.
- Brazil
  The growing number of automobile manufacturers with local production has resulted in a sharp increase in price pressure and competition. The Brazilian market plays a key role for the Volkswagen Group. To strengthen our competitive position here, we offer vehicles tailored specially for this market that are locally produced, such as the Gol and the Nivus.
- Russia
  The heavy reliance on oil and gas income, currency volatility and the resulting volatility of vehicle prices, the political crisis and the related sanctions imposed by the EU and the USA continue to negatively impact the development of demand. The market remains strategically important to the Volkswagen Group, which is why we have a strong focus on market cultivation there.
- Middle East
  Political and economic uncertainty in the region weigh on the passenger car markets. In spite of this instability, the Middle East region offers short-term and long-term growth potential. We aim to leverage the potential for growth with a range of vehicles that has been specifically tailored to this market, without having our own production facilities there.

Power Engineering

Global economic trends are likely to continue, such as digitalization and the increasing interest in emissions-reducing technologies associated with decarbonization. Growing global energy needs call for innovation in the industry and a growing willingness on the part of governments to invest in line with the global climate policy.

The situation for the marine market has deteriorated due to the global pandemic. There is a risk that investments will be postponed and there will be a distinct slowdown in project business. Some market segments have been disproportionately affected. These include the cruise industry, which has been hit by the collapse in demand for tourist travel, or the offshore market, which is suffering from the sustained reduction in oil prices.

In turbomachinery, there is the risk that planned projects and orders will be scaled back or postponed due to negative developments in sales markets or individual applications.

We address these risks by constantly monitoring the markets, focusing on less strongly affected market segments, working closely with all business partners such as customers and licensees, and introducing new and improved technologies.

We are working systematically to leverage market opportunities at a global level, for example by positioning ourselves as a solution provider for reduced-carbon drive and energy-generation technologies as well as for storage technology. Moreover, significant potential can be leveraged in the medium term by enhancing our after-sales business through the introduction of new digital products and the expansion of our service network. The requirements for occupational safety, which will continue to increase in the future, the availability of the plants that are already in operation, the increase in environmental compatibility, and efficient operation, together with the large number of engines and plants, will provide the basis for growth. Digital service solutions, for instance for remote surveillance of plants, offer growth potential despite the pandemic.

As part of the capital goods industry, the Power Engineering business is affected by fluctuations in the investment climate. Even minor changes in growth rates or growth forecasts, resulting from geopolitical uncertainties or volatile commodities and foreign exchange markets, for example, carry the risk of significant changes in demand or the cancellation of already existing orders.

The measures we use to counter the substantial economic and extraordinary risks include flexible production concepts and cost flexibility by means of temporary external personnel, working time accounts and short-time working (Kurzarbeit), and the necessary structural adjustments.

Sales risks

There is a risk that the Volkswagen Group could experience decreases in demand, possibly exacerbated by media reports or insufficient communication, for example as a result of the diesel issue. Other potential consequences include lower margins in the new and used car businesses and a temporary increase in funds tied up in working capital. The Volkswagen Group has recognized provisions arising from the diesel issue, in particular for the service measures, recalls and customer-related measures. Further substantial financial liabilities may emerge due to existing estimation risks particularly from technical solutions, repurchase obligations, customer-related measures and possible official or statutory requirements for diesel vehicles.

The Volkswagen Group's multibrand strategy may weaken individual Group brands if there are overlaps in customer segments or the product portfolio. This effect may be reinforced by the Volkswagen Group's common-parts strategy, as this strategy means that, in some cases, the differences in product substance between the brands are small. As a result, there could be a risk of internal cannibalization between the Group brands, higher marketing costs, or repositioning expenses. By sharpening the brand identities as part of our Best Brand Equity strategic module, we are working to minimize these risks.

The fleet customer business continues to be characterized by increasing concentration and internationalization, accompanied by the risk that the loss of individual fleet customers may result in relatively high volume losses. Viewed over an extended period, the fleet customer business is more stable than the business with retail customers. The Volkswagen Group is well positioned with its broad portfolio of products and drive systems, as well as its target-group-focused customer care, and counteracts a concentration of default risks at individual fleet customers or markets. The consistently high market share in Europe shows that fleet customers still have confidence in the Group.

Consumer demand is shaped not only by real factors such as disposable income, but also by psychological factors that cannot be planned for. A current example is that of the Covid-19 pandemic. Households' worries about the future economic situation, for example, may lead to unexpected buyer reluctance. This is particularly the case in saturated automotive markets such as Western Europe, where demand could drop as a result of owners holding on to their existing

vehicles for longer. We are countering the risk of buyer reluctance with our attractive range of models and our strict policy of customer orientation.

A combination of buyer reluctance in some markets as a result of the crisis, and increases in some vehicle taxes based on CO_2 emissions – which have already been observed in many European countries – may shift demand towards smaller segments and engines. We counter the risk that such a shift will negatively impact the Volkswagen Group's financial situation by constantly developing new, fuel-efficient vehicles and alternative drive technologies, based on our drivetrain and fuel strategy.

Automotive markets around the world are exposed to risks from government intervention such as tax increases, which curb private consumption, and from restrictions on trade and protectionist tendencies. Sales incentives may lead to shifts in the timing of demand.

Commercial vehicles are capital goods: even minor changes in growth rates or growth forecasts may significantly affect transport requirements and thus demand. The resulting risk of production fluctuations calls for a high degree of flexibility from the manufacturers. Although production volumes are significantly lower, the complexity of the trucks and buses range does in fact significantly exceed the already very high complexity of the passenger cars range. Key factors for commercial vehicle customers are total cost of ownership, vehicle reliability and the service provided. Furthermore, customers are increasingly interested in additional services such as freight optimization and fleet utilization, which we offer in the commercial vehicle segment through the digital brand RIO, for example.

Power Engineering's two-stroke engines are produced exclusively by licensees, particularly in South Korea, China and Japan. On account of volatile demand in new ship construction, there is excess capacity in the market for marine engines, which poses a risk of declining license revenues. Due to changes in the competitive environment, especially in China, there is also the risk of losing market share.

Other factors

In addition to the risks outlined in the individual risk categories, there are other factors that cannot be predicted and whose repercussions are therefore difficult to control. Should these transpire, they could have an adverse effect on the further development of the Volkswagen Group. In particular, such occurrences include natural disasters, pandemics – such as the current spread of the SARS-CoV-2 virus –, violent conflicts and terrorist attacks.

There is a risk that the Covid-19 pandemic could intensify, due to reasons such as changes in the virus. All areas of the Volkswagen Group are affected by the pandemic, especially sales due to a fall in customer demand, production and supply chains. There are risks arising in particular from a sustained fall in demand and an increasing intensity of competition. These risks could be mitigated by government economic programs. Furthermore, we envisage challenges, especially in production with regard to stable supply chains and protecting the health of our staff. We have put in place increased hygiene and protective measures to ensure plants can operate.

Research and development risks

For this risk category, the likelihood of occurrence is classified as high (previous year: high) and the potential extent of damage is classified as medium (previous year: medium).

The most significant risks from the regular GRC process and QRP result from the inability to develop products in line with demand and requirements, especially with regard to e-mobility and digitalization.

Risks arising from research and development

The automotive industry is undergoing a fundamental transformation process. For multinational corporations like Volkswagen, this means risks in the areas of customer/market, technological advances and legislation. One risk is posed by the implementation of increasingly stringent emission and fuel consumption regulations, taking new test procedures and test cycles (e.g. Worldwide Harmonized Light-Duty Vehicles Test Procedure, WLTP) into account, as well as compliance with approval processes (homologation), which are becoming increasingly more complex and time-consuming and may vary by country.

On a national and international level, there are numerous legal requirements regarding the use, handling and storage of substances and mixtures (including restrictions concerning chemicals, heavy metals, biocides, persistent organic pollutants). There is therefore a risk of non-conformity in the manufacture, procurement and introduction of products such as automobiles or replacement parts.

The economic success and competitiveness of the Volkswagen Group depend on how successful we are in promptly tailoring our portfolio of products and services to changing conditions. Given the intensity of competition and speed of technological development, for example in the fields of digitalization and automated driving, there is a risk of failing to identify relevant trends early enough to respond accordingly.

The latest from the world of physics and other scientific findings are used to plot our course. In addition, we conduct trend analyses and customer surveys and examine the

relevance of the results for our customers. We counter the risk that it may not be possible to develop modules, vehicles, or services – especially in relation to e-mobility and digitalization – within the specified time frame, to the required quality standards, or in line with cost specifications, by continuously and systematically monitoring the progress of all projects; at present also amidst the Covid-19 pandemic.

To reduce the risk of patent infringements, we intensively analyze third-party industrial property rights, increasingly in relation to communication technologies.

We regularly compare the results of all the analyses with the respective project's targets; in the event of variances, we introduce appropriate countermeasures in good time. Our end-to-end project organization supports cooperation among all departments involved in the process, ensuring that specific requirements are incorporated into the development process as early as possible and that their implementation is planned in good time.

Risks and opportunities from the modular toolkit strategy

We are continuously expanding our modular toolkits, focusing on future customer requirements, legal requirements and infrastructural requirements.

As volumes rise, however, so does the risk that disruption in the supply chain – for example, as a consequence of the pandemic – or quality problems will affect an increasing number of vehicles.

The Modular Transverse Toolkit (MQB) is an extremely flexible vehicle architecture that was created to allow conceptual dimensions – such as the wheelbase, track width, wheel size and seat position – to be harmonized throughout the Group and utilized flexibly. Other dimensions, for example the distance between the pedals and the middle of the front wheels, are always the same, ensuring a uniform system in the front of the car. Thanks to the resulting synergy effects, we are able to cut both development costs and the necessary one-time expenses as well as manufacturing times. The toolkits also allow us to produce different models from different brands in varying quantities, using the same equipment in a single plant. This means that our capacities can be used with greater flexibility throughout the entire Group, enabling us to achieve efficiency gains.

We have also transferred this principle of standardization with maximum flexibility to the Modular Electric Drive Toolkit (MEB) and Premium Platform Electric (PPE), concepts developed for all-electric drives. The synergy effects and efficiency gains offered by the modular toolkit strategy will give us the opportunity to bring e-mobility into mass production worldwide with the introduction of the first MEB- and PPE-based vehicles.

Operational risks and opportunities

For this risk category, the likelihood of occurrence is classified as high (previous year: high) and the potential extent of damage is classified as medium (previous year: medium).

The most significant risks from the regular GRC process and QRP lie particularly in cyber security and new regulatory requirements for IT, in quality problems, and in volatile procurement markets.

Risks from particular events in the Volkswagen Group's procurement and production network

Particular events beyond our control such as natural disasters, pandemics – currently the spread of the SARS-CoV-2 virus – or other events such as fires, explosions, or the leakage of substances hazardous to health and/or the environment, may result in supply risks in procurement and significantly impair production. As a consequence, bottlenecks or even outages in production may occur, thus preventing the planned volume of production from being achieved.

Supply risks are identified in Procurement through early warning systems and mitigated by applying corresponding measures to safeguard supply and avert future assembly line stoppages caused by suspensions of deliveries. Further methods of counteracting such risks include hygiene concepts, fire protection measures and hazardous goods management, and, where financially viable, ensuring that they are covered by insurance policies.

Due to the uncertainty arising from the further development of the Covid-19 pandemic, there is a risk that looming supply breakdowns may not be recognized early enough and that countermeasures may not be initiated in time to maintain production. Countermeasures to stabilize global production include, for example, observing the spread of infection and the measures taken to contain the pandemic, analyzing the impact on suppliers and supply and transport chains, finding alternatives where suppliers are unavailable and organizing special processes. Vehicle programs and production processes can be adjusted dynamically. As part of the Safe Production Initiative, we have defined hygiene measures to prevent possible chains of infection at essential points of contact between the people working in the network. These measures will be adjusted if necessary and include physical distancing, wearing of protective masks, cleaning and disinfecting, and reorganizing shift models and staggering break times.

Risks and opportunities from Procurement and Components

Concentrating on only a few financially strong suppliers gives rise to the risk of insufficient competition. Current trends in the automotive industry such as e-mobility and automated

driving are resulting in an increased need for financing among suppliers, presenting them with considerable challenges. The Volkswagen Group's procurement risk management system assesses suppliers before they are commissioned to carry out projects and takes risk management into account when awarding contracts.

There is a risk of bottlenecks or disruption in supply, as is currently being seen in the case of semiconductor components. Here, the rapid recovery in demand starting in the fourth quarter of 2020, following the pandemic-induced drop in production and sales volumes in the first half of 2020, and the insufficient market capacity of the semiconductor industry combined with high demand from the consumer, IT and telecommunications industries have led to bottlenecks in supply. We intend to safeguard supplies for our production plants by implementing short-term measures and intensifying relationship management and monitoring across the entire supply chain.

A global economic slowdown exacerbated by trade disputes and especially the consequences of the Covid-19 pandemic is impacting the financial situation of many suppliers. This is also giving rise to risks of bottlenecks or disruption in supply.

Government support measures have stabilized the position of suppliers experiencing financial difficulties as a result of the pandemic. In Germany, for example, new rules on short-time working (Kurzarbeit) and loan support schemes, but also the suspension of the obligation to file for insolvency, have prevented companies from becoming insolvent. Despite the government support measures, the number of suppliers around the world experiencing crises and insolvencies rose significantly in 2020. Specialists in Procurement for restructuring and supply reliability monitor the financial situation of our suppliers continuously and globally, taking targeted measures to counter the risk of possible supply disruptions.

Risks in battery cell production arise particularly from the rising demand for battery cells and the resulting reliance on suppliers, from technological change and from the service life of battery cells. To counter these risks, the Group maintains multiple strategic supplier relationships in order to ensure its supply of batteries in every region.

Demand for resources, possible speculations on the market and current trends in the automotive industry, such as the growing share of electrified vehicles, may affect the availability and prices of certain raw materials. Trends in raw materials and demand are continuously analyzed and assessed on an interdisciplinary basis to enable steps to be taken at an early stage in the event of potential bottlenecks.

Quality problems may necessitate technical intervention involving a substantial financial outlay where costs cannot be passed on to the supplier or can only be passed on to a limited extent. Assuring quality is of fundamental importance especially in the US, Brazilian, Russian, Indian and Chinese markets, for which we develop vehicles specific to the countries and where local manufacturers and suppliers have been established, particularly as it may be very difficult to predict the impact of regulations or official measures. We continuously analyze the conditions specific to each market and adapt quality requirements to their individual needs. We counter the local risks we identify by continuously developing measures and implementing them locally, thereby preventing quality defects in the supply chain from arising.

It is not possible at present to rule out the possibility of a further increase in recalls of various models produced by a variety of manufacturers in which certain airbags manufactured by Takata were installed. This could also affect Volkswagen Group models.

Specialists in Procurement systematically investigate risks resulting from antitrust violations by suppliers and file claims for any losses that may arise.

Production risks

Volatile developments in the global automotive markets, accidents at suppliers and disruptions in the supply chain may cause fluctuations in production volumes affecting both vehicle models and plants. In specific markets we are seeing a trend away from orders for conventional vehicles with combustion engines and towards increased orders for electric vehicles. We use established tools, such as flexible working time models, to address possible risks in terms of fluctuations in the mix of vehicle types. The international production network enables us to respond flexibly at the sites. "Turntable concepts" adjust capacity utilization between production facilities. At multibrand sites, volatility can also be balanced across brands.

Quick changes in customer demand for specific equipment features in our products, and the decreasing predictability of demand, may lead to supply bottlenecks. We minimize this risk, for example, by continuously comparing our available resources against future demand scenarios. If bottlenecks in the supply of materials are indicated, we can introduce countermeasures far enough in advance.

Production capacity is planned several years in advance based on long-term sales planning for all vehicle projects. This involves a degree of risk as it is subject to market momentum and changes in demand. If forecasts are too optimistic, there is a risk that capacity will not be fully utilized. However, forecasts that are too pessimistic pose a risk of undercapacity, as a result of which, it may not be possible to meet customer demand. In the event of short-notice fluctuations in demand beyond the technical capacity that has been installed, Volks-

wagen or its suppliers may be unable to meet demand that goes beyond the available technical flexibility. We counter such risks by matching demand and capacity at rapid intervals and issuing program scheduling guidelines where necessary.

The diversity of our models is growing, particularly with the current electrification campaign. The growing model diversity and reduction in product life cycles are leading to an increasing number of new vehicle start-ups at our sites worldwide. These involve the use of complex processes and technical systems, meaning there is a risk that a vehicle start-up may be delayed. We address this risk by drawing on experience of past start-ups and identifying weaknesses at an early stage so as to ensure – to the highest degree possible – that production volumes and quality standards are met during our new vehicle start-ups throughout the Group.

In order to generally prevent risks such as disruption to plant operation, downtime, lost output, rejects and reworking, we use the TPM (Total Productive Maintenance) method at our production facilities. TPM is a continuous process that involves the entire workforce. Round-the-clock maintenance of the technical facilities means that they are always operational and guaranteed to function reliably.

Legal changes, for instance in the context of the changeover to the WLTP test procedure, may impact production. For one thing, a temporary reduction in the range causes demand to focus on the available variants. Moreover, gaps in production can occur if model variants have not been approved. These fluctuations necessitate measures to stabilize production, such as the temporary storage of vehicles until official approval.

Risks arising from long-term production

In the case of large projects within the Power Engineering Business Area, risks may arise that are often only identified over the course of the project. They may result in particular from contract drafting errors, inaccurate or incomplete information used in costing, post-contract changes in economic and technical conditions, weaknesses in project management, quality defects and unnoticed product malfunctions in product creation, or poor performance by subcontractors. Most notably, omissions at the start of a project, overshooting of the development budget or timeframe, and legislative changes are usually difficult to correct or compensate for and often entail substantial additional expenses.

We endeavor to identify these risks at an early stage and to take appropriate measures to eliminate or minimize them by constantly optimizing the project control process across all project phases and by using a lessons-learned process and regular project reviews. We can thus reduce risk, particularly during the bidding and planning phase, for large upcoming projects.

Quality risks

Right from the product development stage, we aim to identify and rectify quality problems at the earliest point, so as to avoid delays to the start of production. As we are using an increasing number of modular components as part of our modular toolkit strategy, it is particularly important when malfunctions do occur to identify the cause quickly and eliminate the faults. Nonconformity of internally or externally sourced parts or components may necessitate time-consuming and cost-intensive measures and lead to recalls and therefore to damage to the Volkswagen Group's image. In addition, the resulting financial impacts may exceed provisions. To meet our customers' expectations and minimize warranty and ex gratia repair costs, we continuously optimize the processes at our brands with which we can prevent these defects. If quality management is ineffective, there is a risk of losing ISO 9001 and KBA certification. This would lead directly to a loss of type approval from one or more authorities. We counter this risk by continuously training the Group's system auditors and subjecting our quality management system and process quality to internal audits.

We also check the conformity of series products (conformity of production – CoP) in vehicle production plants as part of system audits with a CoP component. Further risks are associated with discrepancies identified in conformity of production (CoP) measurements and in-service-conformity (ISC) measurements. We have established an effective system for monitoring the conformity of CoP and ISC measurements for manufactured vehicles. To ensure that the results of the CoP and ISC measurements are analyzed systematically, we have defined an IT system throughout the Group as the basis for reporting and implemented it across the organization. This is used for status reporting and documenting the results of the series of measurements.

Vehicle registration and operation criteria are defined and monitored by national and, in some cases, international authorities. Furthermore, several countries have special – and

in some cases new – rules aimed at protecting customers in their dealings with vehicle manufacturers. We have established quality processes so that the Volkswagen Group brands and their products fulfill all respective applicable requirements and local authorities receive timely notification of all issues requiring reporting. By doing so, we reduce the risk of customer complaints or other negative consequences.

With increasing technical complexity and the use of the toolkit system in the Group, the demand for high-grade, impeccable-quality supplier components and software is growing. This is lending increasing importance to cyber security. To better monitor and manage the risk of cyber attacks on our vehicles in the future, we are establishing an Automotive Cyber Security Management System in all Group brands and integrating it into the existing quality management system. This will allow us to fulfill the legal requirements of the UNECE regulation that apply from 2021.

The Ausschuss für Produktsicherheit (APS – Product Safety Committee) has been established to mitigate product safety risks. In the event of safety defects, doubts about compliance with legal requirements, or issues relating to the brand or corporate image, the APS examines the matter concerned and decides on how to respond. In this context, the APS is also responsible for managing related inquiries from authorities. The cross-divisional Car Security Board (CSB) provides support in relation to cyber security issues. We also created central units responsible for recording and managing incoming information on APS- and CSB-related topics. These now have an established position within the organization. All incoming reports on APS-related issues are also transferred from the APS mailbox to a central database. Risks may arise in this context from a lack of timely, complete and correct preliminary analysis, reporting and follow-up or from a lack of timely, complete and correct decisions and measures by the APS or CSB.

IT risks

At Volkswagen, a global company geared towards further growth, the information technology (IT) used in all divisions Group-wide is assuming an increasingly important role. IT risks exist in relation to the three protection goals of confidentiality, integrity and availability, and comprise in particular unauthorized access to, modification of and extraction of sensitive electronic corporate or customer data as well as limited systems availability as a consequence of downtime and disasters. Handling data with integrity is a key factor for the correctness and soundness of data , and for the functionality of error-free systems.

There is a risk of cyber attacks, particularly on our digital technology used for our mobility services. The high standards we set for the quality of our products also apply to the way in which we handle our customers' and employees' data. Legal regulations including the UNECE (United Nations Economic Commission for Europe) cyber security regulation (R155) are creating requirements for our vehicle and software development. These also have a large impact on our IT systems. We therefore work on an interdisciplinary basis to protect our connected vehicles and mobility services. Our guiding principles are data security, transparency and informational self-determination.

We address the risk of unauthorized access to, modification of, or extraction of corporate and customer data with the use of IT security technologies such as firewall and intrusion prevention systems and a multiple-authentication procedure. Additionally, we increase protection by restricting the allocation of access rights to systems and information and by keeping backup copies of critical data resources. Redundant IT infrastructures allow us to mitigate risks that occur in the event of a systems failure or of a disaster.

We use commercially available technologies to protect our IT landscape, adhering to standards applicable throughout the Company. We future-proof our IT through continual standardization and updates. Continuously increasing automation enhances process reliability and the quality of processing.

The further development and Group-wide use of IT governance processes, particularly the further standardization of the IT risk management process, also help to identify weaknesses at an early stage and to reduce or avoid risks effectively.

Another focus is the continuous enhancement of Group-wide security measures with modern technologies and tools, such as the further expansion of the IT security command center for the early detection of and defense against cyber attacks.

Volkswagen complements these technical measures by systematically raising awareness and providing training for employees.

Risks from media impact

The image of the Volkswagen Group and its brands is one of the most important assets and forms the basis for long-term business success. Our policy and strategic orientation on issues such as integrity, ethics and sustainability are in the public focus. One of the basic principles of running our business is therefore to pay particular attention to compliance with legal requirements and ethical principles. However, we are aware that misconduct or criminal acts by individuals and the resulting reputational damage can never be fully prevented. In addition, media reactions can have a

negative effect on the image of the Volkswagen Group and its brands. This impact could be amplified through insufficient communication at times of crisis.

Environmental and social risks

For this risk category, the likelihood of occurrence is classified as medium (previous year: medium) and the potential extent of damage is classified as medium (previous year: medium).

The most significant risks from the regular GRC process and QRP arise from non-fulfillment of CO_2-related requirements.

Personnel risks

We counter economic risks as well as changes in the market and the competitive situation with a range of instruments that help the Volkswagen Group to remain flexible in terms of staff deployment when faced with a fluctuating order situation – whether orders are in decline, or there is an increase in demand for our products. These instruments include time accounts to which hours are added when overtime is necessary and from which hours are deducted in quiet periods, enabling our factories to adjust their capacity to production volume with measures such as extra shifts, closure days and flexible shift models. The use of temporary workers also allows us to be more flexible in our planning. All of these measures help the Volkswagen Group to generally maintain a stable permanent workforce, even when orders fluctuate.

The technical expertise and individual commitment of employees are indispensable prerequisites for the success of the Volkswagen Group. We counter the risk of not being able to develop sufficient expertise in the Company's different vocational groups with our strategically oriented and holistic human resource development, which gives all employees attractive training and development opportunities. By boosting our training programs, particularly at our international locations, we are able to adequately address the challenges of technological change.

To counter the potential risk of a shortage of skilled specialists – especially in the areas of digitalization and IT – we continuously expand our recruitment tools. Our systematic talent relationship management, for example, enables us to make contact with talented candidates from strategically relevant target groups at an early stage and to build a long-term relationship between them and the Group. In addition to the standard dual vocational training, programs such as our StIP integrated degree and traineeship scheme and our Faculty 73 ensure a pipeline of highly qualified and motivated employees. By systematically increasing our attractiveness as an employer, we are able to gain talented people in areas that are crucial for the future, such as electrical engineering, chemistry or information technology. With tools such as these, we want to ensure that our demand for qualified new staff is covered, even amid a shortage of skilled labor.

We counter the risks associated with employee fluctuation and loss of knowledge as a result of retirement with intensive, department-specific succession planning and training. We have also established a base of senior experts in the Group. With this instrument, we use the valuable knowledge of our experienced specialists who have retired from Volkswagen.

The advancing digitalization of our human resources processes entails risks arising from the processing of personal data. Volkswagen is aware of its responsibility in the processing of this data. We address these risks as part of our data protection management system by implementing a wide range of measures.

A challenge lies in the conflict between requests for information in the context of various US agreements entered into in connection with the diesel issue on the one hand and both German and international data protection requirements on the other. This is true particularly in view of the fact that these data protection requirements are open to a certain degree of interpretation and assessment. In the interest of precluding infringements of the law as far as possible, despite a partially unclear legal situation, Volkswagen is advised by external law firms on these issues.

The spread of the SARS-CoV-2 virus had a negative impact on business development in fiscal year 2020. Any infectious diseases occurring in the future may also pose a risk of high infection rates among the workforce, resulting in process disruptions in production and non-production areas, for example production stoppages. In the event of the future spread of such diseases, emergency plans to tackle this risk for the purpose of business continuity management will be developed for critical processes, based on the experience of 2020, and incorporated into the risk management systems.

Environmental protection regulations

The specific emission targets for all new passenger car and light commercial vehicle fleets for brands and groups in the EU for 2020 and subsequent years are set out in Regulation (EU) No 2019/631. This regulation is a material component of the European climate protection policy and therefore forms the key regulatory framework for product design and marketing by all vehicle manufacturers selling in the European market.

Adopted by the EU on April 17, 2019 and published on April 25, 2019, the regulation states that, from 2021 onward,

the average emissions of European passenger car fleets must be no higher than 95 g CO_2/km; in 2020, this emissions limit already applied to 95% of the fleet. Up to and including 2020, European fleet legislation was complied with on the basis of the New European Driving Cycle (NEDC). From 2021, the NEDC target value will be replaced by a WLTP target value through a process defined by lawmakers; this change will not lead to additional tightening of the target value. A similar approach will apply to light commercial vehicles, where a target of 147 g CO_2/km applied to the entire fleet in 2020.

The targets will be tightened as from 2025: for new European passenger car fleets, a reduction of 15% will therefore be required from 2025 and a reduction of 37.5% from 2030. For new light commercial vehicle fleets, the required reductions will be 15% from 2025 and 31% from 2030. In each case, the starting point is the fleet value in 2021. These targets can only be achieved through a high proportion of electric vehicles within the fleet.

Non-fulfillment of the respective fleet-wide target will result in an excess emissions premium, amounting to €95 per excess gram of CO_2 per newly registered vehicle.

At the same time, regulations governing fleet fuel consumption are also being developed or introduced outside the EU27 (plus Norway, Iceland), for example in Brazil, Canada, China, India, Japan, Mexico, Saudi Arabia, South Korea, Switzerland, Taiwan, the United Kingdom and the USA. Brazil has introduced a fleet efficiency target as part of a voluntary program which grants tax advantages. To receive a 30% tax advantage, manufacturers must, among other things, achieve a specified fleet efficiency. The fuel consumption regulations in China, which set an average fleet target of 5.0 liters/100 km (NEDC) for the period 2016 to 2020, were continued into the period 2021 to 2025 with a target of 4.6 liters/100 km (WLTP). In addition to this legislation on fleet fuel consumption, a new energy vehicle quota applies in China. This requires every manufacturer to increase the share of electric vehicles – which are included with different weightings – in its total sales. The quota for 2020 was 12%, to be fulfilled through battery-electric vehicles, plug-in hybrids, or fuel cell vehicles. The minimum quota will increase by two percentage points annually until 2023. Targets for the period after 2023 have not yet been defined. In the USA, greenhouse gas legislation has defined the annual CO_2 fleet targets since 2012. A decision was reached in fiscal year 2020 to relax fleet targets significantly starting in 2022. The Volkswagen Group decided to participate in the framework of the California Air Resources Board (CARB). This involves a voluntary commitment to the alternative fleet targets set by the CARB which are more ambitious than the national standards. The form the fleet targets will take under the new administration is not known.

The increased regulation of fleet-based CO_2 emissions and fuel consumption makes it necessary to use the latest mobility technologies in all key markets worldwide. At the same time, electrified and also purely electric drives will become increasingly common. The Volkswagen Group closely coordinates technology and product planning with its brands so as to avoid breaches of fleet values, since these would entail severe payment obligations. Whether the Group meets its fleet targets depends crucially on its technological and financial capabilities, which are reflected in, for example, our drivetrain and fuel strategy. Volkswagen continues to regard diesel technology as an important element in the fulfillment of CO_2 emissions targets.

Alongside technical and portfolio electrification measures, it is also possible to use local statutory mechanisms such as the creation of emission pools in Europe or the trading of emission credits in the United States and China. Legislation provides further flexibility to aid target achievement, depending on the region, for example:

- Relief opportunities may be provided for additional innovative technologies in the vehicle that apply outside the test cycle (eco-innovations and off-cycle credits),
- Particularly efficient vehicles qualify for super-credits,
- Special rules are in place for small-series producers and niche manufacturers.

In the EU, a more time-consuming test procedure has applied to all new vehicles with WLTP since September 2018. Other challenges arise in connection with stricter processes and requirements regarding WLTP, such as from test criteria and homologation (achievement of vehicle type approvals).

The Real Driving Emissions (RDE) Regulation for passenger cars and light commercial vehicles is another of the main European regulations. New, uniform limits for nitrogen oxide and particulate emissions in real road traffic have applied to new vehicle types across the EU since September 2017. This makes the RDE test procedure fundamentally different from the Euro 6 standard still in force, which stipulates that the limits on the chassis dynamometer are authoritative. The RDE regulation is intended primarily to improve air quality in urban areas and areas close to traffic, leading to stricter requirements for exhaust gas aftertreatment in passenger cars and light commercial vehicles. Stricter RDE processes and requirements have resulted in certain challenges, for example relating to test criteria and homologation.

The other main EU regulations affecting the automotive industry include:

- The Car Labeling Directive 1999/94/EC,
- The Fuel Quality Directive (FQD) 2009/30/EC updating the fuel quality specifications and introducing energy efficiency specifications for fuel production,
- The Renewable Energy Directive (RED) (2009/28/EC) introducing sustainability criteria; the follow-up regulation (RED2) contains higher quotas for advanced biofuels,
- The revised Energy Taxation Directive 2003/96/EC updating the minimum tax rates for all energy products and power.

Commercial vehicles are increasingly subject to ever stricter environmental regulations all around the world, particularly to regulations relating to climate change and vehicle emissions. With Regulation (EU) 2019/1242 of June 20, 2019, which specifies CO_2 emission standards for new heavy trucks with a permitted gross weight of over 16 tonnes, the EU has set heavy commercial vehicle manufacturers very ambitious targets for reducing CO_2 emissions within the next decade. The CO_2 emissions from such vehicles must be reduced by 15% by 2025 and 30% by 2030 compared to a reference value for a monitoring period from July 2019 to June 2020. If they fail to meet these targets, vehicle manufacturers will be liable to substantial excess emissions premiums, amounting to €4,250 per excess gram of CO_2/tonne-kilometer (tkm) per vehicle for the period from 2025 to 2029 and €6,800 per excess gram of CO_2/tkm per vehicle for the period from 2030 onward.

Compliance with regulations relating to climate change and vehicle emissions requires substantial investment in new technologies, including alternative drive systems and vehicles powered by alternative fuels. Increasing connectivity within transport networks can help to reduce inefficiencies such as unused transport capacity, empty runs and inefficient routes in existing transport networks. In conjunction with connected traffic management systems, this can result in optimized goods transport and therefore a reduction in CO_2 emissions.

As part of the European Green Deal, the European Commission has presented its 2030 Climate Target Plan, which sets out to reduce CO_2 emissions in the EU by at least 55% (previously 40%) compared to 1990 levels by 2030. This may lead to even more stringent requirements for CO_2 emissions for the automotive industry.

There is particular momentum in the debate on driving bans for diesel vehicles in Germany. This was triggered by the failure of some municipalities and cities to comply with the air pollutant limits for nitrogen dioxide (NO_2) immissions. In some cases, these issues have been, and continue to be, the subject of legal proceedings. Individual cities throughout Germany have already imposed zonal traffic bans for older vehicles such as Euro 4/IV diesel. It is argued that only driving bans for diesel vehicles can bring about the necessary short-term reduction in NO_2 immissions. The discussion may result in sales volumes of diesel vehicles declining further and financial liabilities arising from customer-related measures and potential official or statutory requirements.

Local traffic bans are already also in place in a number of other countries, though these mainly affect older vehicles. Regulations in Belgium that successively ban older vehicles from larger cities are one example. In addition to major cities such as Paris and London, countries like the United Kingdom are now discussing future bans on vehicles with internal combustion engines.

In the Power Engineering segment, the International Maritime Organization (IMO) has introduced the International Convention for the Prevention of Pollution from Ships (MARine POLlution – MARPOL), with which limits on emissions from marine engines will be lowered in phases. A reduction of the sulfur content in marine fuel was implemented globally with effect from January 1, 2020. In addition, the IMO has decided on a number of emission control areas in Europe and the USA/Canada that will be subject to particularly stringent environmental regulations. Expansion to further regions such as the Mediterranean or Japan is already being planned; other regions such as the Black Sea, Alaska, Australia or South Korea are also in discussion. Moreover, emission limits are in force under Regulation (EU) 2016/1628 and in accordance with the regulations of the US Environmental Protection Agency (EPA), for example. We are pushing for a maritime energy transition in specialist bodies and also promote this to the general public. In a first step, we are supporting the switch to liquefied natural gas (LNG) as a fuel for maritime applications, and offer dual fuel and gas-powered engines for new and retrofitted vessels. For the long-term and climate-neutral operation of seagoing vessels, we advocate power-to-X technology, in which excess sustainably generated electricity is converted into carbon-neutral gas or liquid fuel.

As regards stationary equipment, there are a number of national rules in place worldwide that limit permitted emissions. On December 18, 2008, the World Bank Group set limits for gas and diesel engines in its Environmental, Health, and Safety Guidelines for Thermal Power Plants, which are required to be applied in countries that have adopted no national requirements of their own, or requirements that are less strict than those of the World Bank Group. These guidelines are currently being revised. In addition, the United Nations adopted the Convention on Long-range Trans-

boundary Air Pollution back in 1979, setting limits on total emissions as well as nitrogen oxide for the signatory states (including all EU states, other countries in Eastern Europe, the USA and Canada). Enhancements to the product portfolio in the Power Engineering segment focus on improving the efficiency of equipment and systems.

The allocation method for emissions certificates changed fundamentally when the third emissions trading period (2013 to 2020) began. As a general rule, all emission allowances for power generators have been sold at auction since 2013. For the manufacturing industry and certain power generation installations (e.g. combined heat and power installations), a portion of the certificates is allocated free of charge on the basis of benchmarks applicable throughout the EU. This portion of free certificates will gradually decrease as the trading period progresses; the remaining quantities required will have to be bought at auction. In certain (sub)sectors of industry, there was a risk that production will be transferred to countries outside Europe due to the amended provisions governing emissions trading, a phenomenon referred to as carbon leakage. A consistent quantity of certificates was allocated to these sectors free of charge for the period from 2013 to 2020 on the basis of the pan-EU benchmarks. The automotive industry was included in the carbon leakage list that came into effect in 2015. As a result, individual facilities at Volkswagen Group locations in Europe received additional certificates free of charge up to the end of the third trading period. Back in 2013, the European Commission decided to initially withhold a portion of the certificates to be auctioned. The certificates were directed into a market stability reserve that was established in 2018. This reserve will serve to offset any imbalance between the supply of and demand for certificates in emissions trading in the fourth trading period (from 2021). Moreover, there are further modifications in emissions trading as from the beginning of the fourth trading period, which may lead in total to a tightening of the system and thus to price increases for the certificates.

In addition to the EU member states, other countries in which the Volkswagen Group has production sites are also considering introducing an emissions trading system. In China, for example, eight corresponding pilot projects are underway. These do not yet affect the Volkswagen Group. The Chinese government officially implemented a national emissions trading system at the end of 2017. Initially, this affects only the power generation sector; a gradual expansion is being planned.

LEGAL RISKS

For this risk category, the likelihood of occurrence is classified as medium (previous year: medium) and the potential extent of damage is classified as medium (previous year: high).

The most significant risks from the regular GRC process and QRP are associated with the diesel issue.

Litigation

Volkswagen AG and the companies in which it is directly or indirectly invested are involved in a substantial number of legal disputes and governmental proceedings in Germany and abroad. Such legal disputes and other proceedings occur, among other things, in connection with products and services or in relation to employees, public authorities, dealers, investors, customers, suppliers, or other contracting parties. For the companies in question, these disputes and proceedings may result in payments such as fines or in other obligations or consequences. In particular, substantial compensatory or punitive damages may have to be paid and cost-intensive measures may have to be implemented. In this context, specific estimation of the objectively likely consequences is often possible only to a very limited extent, if at all.

Various legal proceedings are pending worldwide, particularly in the USA, in which customers are asserting purported product-related claims, either individually or in class actions. These claims are as a rule based on alleged vehicle defects, including defects alleged in vehicle parts supplied to the Volkswagen Group. Compliance with legal or regulatory requirements (such as the GDPR) is another area in which risks may arise. This is particularly true in gray areas where Volkswagen and the relevant public authorities may interpret the law differently.

In connection with their business activities, Volkswagen Group companies engage in constant dialogue with regulatory agencies including the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority). It is not possible to predict with assurance how government regulators will assess certain issues of fact and law in a particular situation. For this reason, the possibility that certain vehicle characteristics and/or type approval aspects may in particular ultimately be deemed deficient or impermissible cannot be ruled out. This is fundamentally a question of the regulatory agency's specific evaluation in a concrete situation.

Risks may also result from actions for infringement of intellectual property, including infringement of patents, trademarks, or other third-party rights, particularly in Germany and the USA. If Volkswagen is alleged or determined to have violated third-party intellectual property rights, it may have to pay damages, modify manufacturing processes, or redesign products, and may be barred from selling certain products; this may result in delivery and production restrictions or interruptions.

Criminal acts by individuals, which even the best compliance management system can never completely prevent, are another potential source of legal risks.

Appropriate insurance has been taken out to cover these risks where they were sufficiently definite and such coverage was economically sensible. Where necessary based on the information currently available, identified and correspondingly measurable risks have been reflected by recognizing provisions in amounts considered appropriate or disclosing contingent liabilities, as the case may be. As some risks cannot be assessed or can only be assessed to a limited extent, the possibility of material loss or damage not covered by the insured amounts or by provisions cannot be ruled out. This is, for instance, the case with regard to the legal risks assessed in connection with the diesel issue.

Diesel issue

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a "Notice of Violation" that irregularities in relation to nitrogen oxide (NO_x) emissions had been discovered in emissions tests on certain Volkswagen Group vehicles with 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.

The AUDI AG Board of Management members in office at the time in question have likewise stated that they had no knowledge of the use of "defeat device" software that was prohibited by US law in the type V6 3.0 l TDI engines until the EPA issued its November 2015 "Notice of Violation".

Within the Volkswagen Group, Volkswagen AG has development responsibility for the four-cylinder diesel engines such as the type EA 189, and AUDI AG has development responsibility for the six- and eight-cylinder diesel engines such as the type V6 3.0 l and V8 4.2 l diesel engines.

As a consequence of the diesel issue, numerous judicial and regulatory proceedings were initiated in various countries. Volkswagen has in the interim succeeded in making substantial progress and ending many of these proceedings. In the USA, Volkswagen AG and certain affiliates reached settlement agreements with various government authorities and private plaintiffs, the latter represented by a Plaintiffs' Steering Committee in a multidistrict litigation in the US state of California. The agreements in question include various partial consent decrees as well as a plea agreement

that resolved certain civil claims as well as criminal charges under US federal law and the laws of certain US states in connection with the diesel issue. Although Volkswagen is firmly committed to fulfilling the obligations arising from these agreements, a breach of these obligations cannot be completely ruled out. In the event of a violation, significant penalties could be imposed as stipulated in the agreements, in addition to the possibility of further monetary fines, criminal sanctions and injunctive relief. The last remaining vehicle class settlement program for customers in the United States, which pertained to second Generation 3.0 l TDI vehicles, ended in May 2020.

In agreement with the respective responsible authorities, the Volkswagen Group is making technical measures available worldwide for virtually all diesel vehicles with type EA 189 engines. For all clusters (groups of vehicles) within its jurisdiction, the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) determined that implementation of the technical measures would not result in any adverse changes in fuel consumption, CO_2 emissions, engine output, maximum torque, and noise emissions.

Following the studies carried out by AUDI AG to check all relevant diesel concepts for possible irregularities and retrofit potential, measures proposed by AUDI AG have been adopted and mandated by the KBA in various recall orders pertaining to vehicle models with V6 and V8 TDI engines. AUDI AG currently anticipates that the total cost, including recall expenses, of the ongoing largely software-based retrofit program that began in July 2017 will be manageable and has recognized corresponding balance-sheet risk provisions. AUDI AG has in the meantime developed software updates for many of the affected powertrains and, after approval by the KBA, already installed these in the vehicles of a large number of affected customers. The software updates still being developed are expected to be submitted to the KBA in 2021 for approval.

In connection with the diesel issue, potential consequences for Volkswagen's results of operations, financial position and net assets could emerge primarily in the following legal areas:

1. Criminal and administrative proceedings worldwide (excluding the USA/Canada)
Criminal investigations, regulatory offense proceedings, and/or administrative proceedings have been commenced in some countries. Criminal investigations into the core factual issues are being conducted by the Offices of the Public Prosecutor in Braunschweig and Munich.

In May 2020, the criminal proceedings against the current Chairman of the Board of Management of Volkswagen AG and a former member of its Board of Management (currently Chairman of the Supervisory Board) regarding alleged market manipulation relating to capital market disclosure obligations in connection with the diesel issue were definitively terminated by the Braunschweig Regional Court against payment in each case of a court-imposed sum of €4.5 million, thereby also terminating to the same extent the proceedings against Volkswagen AG as collateral participant. After permitting the charges against a former Chairman of the Board of Management of Volkswagen AG and the related action against Volkswagen AG to go forward in September 2020, the Braunschweig Regional Court in January 2021 terminated these proceedings – provisionally as regards the indictment which is for the time being still pending against the former Chairman of the Board of Management, but definitively as regards Volkswagen AG.

In September 2020, the Braunschweig Regional Court accepted the indictment of the same former Chairman of the Board of Management of Volkswagen AG and others on charges that include fraud in connection with the diesel issue involving type EA 189 engines and opened the main trial proceedings.

In June 2020, the Munich II Regional Court accepted the substantially unchanged indictment of the Munich II Office of the Public Prosecutor, which also names the former Chairman of the Board of Management of AUDI AG, and opened the main trial proceedings on charges of, among other things, fraud in connection with the diesel issue involving 3.0 l TDI engines. Trial proceedings commenced in September 2020.

In August 2020, the Munich II Office of the Public Prosecutor issued a further indictment charging three former members of the Board of Management of AUDI AG and others with, among other things, fraud in connection with the diesel issue involving 3.0 l and 4.2 l TDI engines.

In connection with the diesel issue, the Stuttgart Office of the Public Prosecutor is conducting a criminal investigation on suspicion of fraud and illegal advertising; this investigation also involves a member of the Board of Management of Dr. Ing. h.c. F. Porsche AG.

The respective Group companies have appointed renowned law firms to clarify the matters underlying the public prosecutor's accusations. The Board of Management and Supervisory Board receive regular updates on the current status.

As the type approval authority of proper jurisdiction, the KBA is moreover continuously testing Audi, Volkswagen, and Porsche brand vehicles for problematic functions. If certain functions are deemed impermissible by the KBA, the affected vehicles are recalled pursuant to a recall order or they are brought back into compliance by means of a voluntary service measure.

Moreover, additional administrative proceedings relating to the diesel issue are ongoing in other jurisdictions.

The companies of the Volkswagen Group are cooperating with the government authorities.

Risks may furthermore result from possible decisions by the European Court of Justice construing EU type approval provisions.

Whether the criminal and administrative proceedings will ultimately result in fines or other consequences for the Company, and if so what amounts these may entail, is currently subject to estimation risks. According to Volkswagen's estimates, the likelihood that a sanction will be imposed is 50% or less in the majority of these proceedings. Contingent liabilities have therefore been disclosed where the amount of such liabilities could be measured and the likelihood of a sanction being imposed was assessed at not less than 10%. Provisions were recognized to a small extent.

2. Product-related lawsuits worldwide (excluding the USA/ Canada)

A general possibility exists that customers in the affected markets will file civil lawsuits or that importers and dealers will assert recourse claims against Volkswagen AG and other Volkswagen Group companies. Besides individual lawsuits, various forms of collective actions (i.e. assertion of individual claims by plaintiffs acting jointly or as representatives of a class) are available in various jurisdictions. Furthermore, in a number of markets it is possible for consumer and/or environmental organizations to bring suit to enforce alleged rights to injunctive relief, declaratory judgment, or damages.

Customer class action lawsuits and actions brought by consumer and/or environmental organizations are pending against Volkswagen AG and other Volkswagen Group companies in a number of countries including Australia, Belgium, Brazil, England and Wales, France, Germany, Italy, the Netherlands, Portugal, and South Africa. Alleged rights to damages and other relief are asserted in these actions. The pending actions include in particular the following: In Australia, various class action lawsuits had been pending against Volkswagen AG and other Volkswagen Group companies, including the Australian subsidiaries. In December 2019, Volkswagen AG reached tentative agreements with the Australian class action plaintiffs terminating the litigation; the court approved these agreements in April 2020. Volkswagen AG anticipates that the total cost of settling these actions will be approximately AUD 180 million. Two civil suits filed against Volkswagen AG and other Group companies by the Australian Competition and Consumer Commission (ACCC) were settled in the second half of 2019. The settlement is not yet legally final, however, as an appellate court has yet to rule on the amount of the fine. Depending on the appellate court decision, Volkswagen AG continues to anticipate payment of a fine of up to AUD 125 million.

In Belgium, the Belgian consumer organization Test Aankoop VZW has filed a class action to which an opt-out mechanism has been held to apply. Given the opt-out rule, the class action potentially covers all vehicles with type EA 189 engines purchased by consumers on the Belgian market after September 1, 2014, unless the right to opt out is actively exercised. The asserted claims are based on purported violations of unfair competition and consumer protection law as well as on alleged breach of contract.

In Brazil, two consumer protection class actions are pending. The first of these class actions pertains to some 17 thousand Amarok vehicles and the second to roughly 67 thousand later generation Amaroks. In the first class action, an appeals judgment was rendered in May 2019 that only partially upheld the lower court's decision. This judgment initially reduced the damage liability of Volkswagen do Brasil considerably to around BRL 172 million plus interest. This amount can increase as a result of the adjudicated inflation rate and the assertion of individual claims alleging declines in the value of affected Amarok vehicles. The appeals judgment remains non-final since Volkswagen do Brasil has appealed it to a higher court. So far no judgment has been rendered in the second class action proceeding.

In Germany, Volkswagen AG and Verbraucherzentrale Bundesverband e.V. (Federation of Consumer Organizations) entered into an out of court settlement on February 28, 2020 terminating the consumer action for model declaratory judgment. The terms of the settlement require Volkswagen AG to offer individual settlements to consumers who registered claims under the action for model declaratory judgment and meet the settlement criteria. As a result, Volkswagen AG entered into individual settlements in the reporting year with some 245 thousand customers in an aggregate amount of roughly €770 million. The process of settling the consumer action for model declaratory judgment is thus almost complete. Verbraucherzentrale Bundesverband e.V. withdrew the action for model declaratory judgment on April 30, 2020.

In addition, various actions have been brought against companies of the Volkswagen Group in several German regional courts by financialright GmbH, which is asserting rights assigned to it by a total of approximately 45 thousand customers in Germany, Slovenia, and Switzerland.

In England and Wales, suits filed in court by various law firms have been joined in a single collective action (group litigation). Because of the opt-in mechanism, not all vehicles with type EA 189 engines are automatically covered by the group litigation; potential claimants must instead take action in order to join. To date, some 90 thousand plaintiffs have registered claims under the group litigation, for which the opt-in period has expired. In these proceedings, the High Court in England and Wales ruled in April 2020 that the switch logic in the EA 189 engine constituted an unlawful defeat device; the court believed that it was also bound by the

findings of the KBA (German Federal Motor Transport Authority) in this respect. In August 2020, the Court of Appeal rejected Volkswagen's appeal against the High Court's ruling on these preliminary questions; this decision is final. The question of liability on the part of Volkswagen was not a matter addressed by the High Court's ruling and will be dealt with at a later stage of the proceedings. The main trial proceedings are to begin in January 2023.

In France, the French consumer organization Confédération de la Consommation, du Logement et du Cadre de Vie (CLCV) filed a class action in September 2020 against Volkswagen Group Automotive Retail France and Volkswagen AG for up to 950 thousand French owners and lessees of vehicles with type EA 189 engines. This is an opt-in class action in which the affected consumers are not required to opt into the class action until a legally final judgment is rendered.

In Italy, a class action lawsuit filed by the consumer association Altroconsumo on behalf of Italian customers is pending before the Venice Regional Court. This litigation involves damage claims based on alleged breaches of contract as well as claims based on purported violations of Italian consumer protection law. Some 82 thousand customers have registered for the class action, whereby the validity of the majority of the registrations is still unclear.

In the Netherlands, Stichting Volkswagen Car Claim has brought an opt-out class action seeking declaratory rulings. Any individual claims would then have to be established afterwards in separate proceedings. In November 2019 the Regional Court in Amsterdam held the requests for relief to be inadmissible in part. Proceedings in the matter are presently suspended. Furthermore, in April 2020 an opt-out class action lawsuit seeking monetary damages on behalf of Dutch consumers was served on Volkswagen by the Diesel Emissions Justice Foundation. It is currently unclear whether other consumers in addition to those in the Netherlands may join this class action. The class action relates to vehicles with type EA 189 engines, among others.

In Portugal, a Portuguese consumer organization has filed an opt-out class action. Potentially, up to approximately 139 thousand vehicles with type EA 189 engines are affected in the Portuguese market. The complaint seeks vehicle return and alleges damages as well.

In South Africa, an opt-out class action seeking damages is pending that pertains to some 8 thousand vehicles with V6 and V8 TDI engines in addition to approximately 72 thousand vehicles with type EA 189 engines.

Furthermore, individual lawsuits and similar proceedings are pending against Volkswagen AG and other Volkswagen Group companies in various countries; most of these lawsuits are seeking damages or rescission of the purchase contract.

In Germany, over 55 thousand individual lawsuits are currently pending. In May 2020, the Bundesgerichtshof (BGH – Federal Court of Justice) handed down its first decision ever in an individual product-related lawsuit in connection with the diesel issue. The BGH held that the buyer, who had purchased a vehicle with a type EA 189 engine prior to public disclosure of the diesel issue, had a claim for damages against Volkswagen AG. While the buyer can require reimbursement of the vehicle's purchase price, he must accept a deduction for the benefit derived from using the vehicle and must return it to Volkswagen AG. The judgment clarified the BGH's stance on the fundamental issues underlying a large number of the individual diesel lawsuits then still pending in Germany. On this basis, it has since been possible to conclude settlements and thus significantly reduce the number of individual lawsuits pending. In a series of fundamental judgments rendered in July 2020, the BGH decided further legal issues of major importance for the litigation still pending with regard to vehicles with type EA 189 engines. The BGH held that plaintiffs who purchased their vehicle after the ad hoc announcement of September 22, 2015 have no claim for damages. The court furthermore ruled that purchasers of affected vehicles are not entitled to tort interest under section 849 of the German Civil Code. The court also made it clear that a plaintiff's potential damage claim may be completely offset by the benefit derived from using the vehicle.

Volkswagen estimates the likelihood that the plaintiffs will prevail to be 50% or less in the great majority of cases: customer class actions, complaints filed by consumer and/or environmental organizations, and individual lawsuits. Contingent liabilities are disclosed for these proceedings where the amount of such liabilities can be measured and the chance that the plaintiff will prevail was assessed as not remote. Since most of these actions are still in an early procedural stage, it is in many cases not yet possible to quantify the realistic risk exposure. Furthermore, provisions were recognized to the extent necessary based on the current assessment.

At this time, it cannot be estimated how many customers will choose to file lawsuits in the future in addition to those already pending and what prospect of success such lawsuits might have.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)

Investors from Germany and abroad have filed claims for damages against Volkswagen AG – in some cases along with Porsche Automobil Holding SE (Porsche SE) as joint and several debtors – based on purported losses due to alleged misconduct in capital market communications in connection with the diesel issue.

The vast majority of these investor lawsuits are currently pending before the Braunschweig Regional Court. In August 2016, the Braunschweig Regional Court issued an order referring common questions of law and fact relevant to the investor lawsuits pending before it to the Higher Regional Court in Braunschweig for binding declaratory rulings pursuant to the Kapitalanleger-Musterverfahrensgesetz (KapMuG – German Capital Investor Model Declaratory Judgment Act). In this proceeding, common questions of law and fact relevant to these actions are to be adjudicated by the Braunschweig Higher Regional Court in a single consolidated proceeding (model case proceedings). The lawsuits filed with the Braunschweig Regional Court are stayed pending resolution of the common issues, unless the cases can be dismissed for reasons independent of the common issues that are to be adjudicated in the model case proceedings. The resolution in the model case proceedings of the common questions of law and fact will be binding for the pending cases that have been stayed as described. The model case plaintiff is Deka Investment GmbH. Oral argument in the model case proceedings before the Braunschweig Higher Regional Court began in September 2018 and will be continued at subsequent hearings.

Further investor lawsuits have been filed with the Stuttgart Regional Court against Volkswagen AG, in some cases along with Porsche SE as joint and several debtor. A further investor action for model declaratory judgment is pending before the Stuttgart Higher Regional Court against Porsche SE; Volkswagen AG is involved in this action as a third party intervening in support of a party to the dispute. The Wolverhampton City Council, Administrating Authority for the West Midlands Metropolitan Authorities Pension Fund, has been appointed model case plaintiff. The first hearing for oral argument in these proceedings has yet to take place.

Additional investor lawsuits have been filed with various courts in Germany and the Netherlands.

Excluding the United States and Canada, claims in connection with the diesel issue totaling roughly €9.7 billion are currently pending worldwide against Volkswagen AG in the form of investor lawsuits, judicial applications for dunning and conciliation procedures, and claims under the KapMuG. Volkswagen AG remains of the opinion that it duly complied with its capital market obligations. Therefore, no provisions have been recognized for these investor lawsuits. Contingent liabilities have been disclosed where the chance of success was estimated to be not less than 10%.

4. Proceedings in the USA/Canada

In the USA and Canada, the matters described in the EPA's "Notices of Violation" are the subject of various types of lawsuits and requests for information that have been filed against Volkswagen AG and other Volkswagen Group companies, in particular by customers, investors, salespersons, and various government agencies in Canada and the United States, including the attorneys general of several US states.

The attorneys general of five US states (Illinois, Montana, New Hampshire, Ohio, and Texas) and some municipalities have suits pending in state and federal courts against Volkswagen AG, Volkswagen Group of America, Inc., and certain affiliates, alleging violations of environmental laws. The claims asserted by Illinois have been dismissed in full, but Illinois has appealed the dismissal of a subset of its claims. Certain claims asserted by Montana, Ohio, Texas, two Texas counties, Hillsborough County (Florida), and Salt Lake County (Utah) have also been dismissed, but these suits are currently proceeding as to other claims. Volkswagen has asked the US Supreme Court to review a decision by the US Court of Appeals for the Ninth Circuit that declined to dismiss certain claims brought by Hillsborough and Salt Lake Counties. A Texas appellate court dismissed claims asserted by Texas against Volkswagen AG and AUDI AG for lack of personal jurisdiction. Texas has indicated that it will seek discretionary review by the Texas Supreme Court of that decision.

In March 2019, the US Securities and Exchange Commission (SEC) filed a lawsuit against, among others, Volkswagen AG, Volkswagen Group of America Finance, LLC, and VW Credit, Inc., asserting claims under US federal securities law based, among other things, on alleged misstatements and omissions in connection with the offer and sale of certain bonds and asset-backed securities. In August 2020, the US District Court for the Northern District of California granted in part and denied in part Volkswagen's motion to dismiss. The claims dismissed by the court included all claims against VW Credit, Inc. related to asset-backed securities. In September 2020, the SEC filed an amended complaint that, among other things, removed the dismissed claims.

Furthermore, in December 2019, the Canadian federal environmental regulator filed charges against Volkswagen AG in respect of 2.0 l and 3.0 l Volkswagen and Audi diesel vehicles at the conclusion of its criminal enforcement-related investigation into the diesel emissions issue. Volkswagen AG cooperated with the investigation and agreed to a plea resolution addressing all of the charges. In January 2020, Volkswagen AG pleaded guilty to the charges and agreed to pay a penalty of CAD 196.5 million, which was approved by the court. Following this approval, the Ontario provincial environmental regulator withdrew its action against Volkswagen AG charging a quasi-criminal enforcement-related offense with respect to certain Volkswagen and Audi 2.0 l diesel vehicles. As to private civil law matters, in an environmental class action lawsuit seeking punitive damages on

behalf of the residents of the Province of Quebec, after authorizing the case to proceed as a class, a Quebec court ruled in October 2020 that issues raised as to the viability of plaintiffs' damages theory should be deferred until trial. On that basis, the court denied a motion to dismiss by Volkswagen. The case remains in the early stages.

In line with IAS 37.92, no statements have been made concerning estimates of financial impact or regarding uncertainty as to the amount or maturity of provisions and contingent liabilities in relation to proceedings in the USA/Canada. This is so as to not compromise the results of the proceedings or the interests of the Company.

5. Special audit
In a November 2017 ruling, the Higher Regional Court of Celle ordered, upon the request of three US funds, the appointment of a special auditor for Volkswagen AG. The special auditor is to examine whether the members of the Board of Management and Supervisory Board of Volkswagen AG breached their duties in connection with the diesel issue from June 22, 2006 onwards and, if so, whether this resulted in damages for Volkswagen AG. The ruling by the Higher Regional Court of Celle is formally unappealable. However, Volkswagen AG has filed a constitutional complaint with the German Federal Constitutional Court alleging infringement of its constitutional rights. Following the formally unappealable ruling from the Higher Regional Court of Celle, the special auditor appointed by the court indicated that he was not available to conduct the special audit on grounds of age. In April 2020, the Celle Higher Regional Court issued a ruling appointing a different special auditor. Volkswagen AG has filed a constitutional complaint with the Federal Constitutional Court contesting this formally unappealable decision as well on grounds of infringement of its constitutional rights and has suggested joinder of this matter with its initial constitutional complaint against the decision to appoint the special auditor. It is currently unclear when the Federal Constitutional Court will rule on the two constitutional complaints. The constitutional complaints have no suspensory effect.

In addition, a second motion seeking appointment of a special auditor for Volkswagen AG to examine matters relating to the diesel issue has been filed with the Regional Court of Hanover. This proceeding has been stayed pending a decision by the Federal Constitutional Court in the initial special auditor litigation.

6. Risk assessment regarding the diesel issue
An amount of around €1.9 (2.9) billion has been included in the provisions for litigation and legal risks as of December 31, 2020 to account for the currently known legal risks related to the diesel issue based on the presently available information and the current assessments. Where adequately measurable at this stage, contingent liabilities relating to the diesel issue have been disclosed in the notes in an aggregate amount of €4.2 (3.7) billion, whereby roughly €3.5 (3.4) billion of this amount results from lawsuits filed by investors in Germany. The provisions recognized, the contingent liabilities disclosed, and the other latent legal risks in the context of the diesel issue are in part subject to substantial estimation risks given the complexity of the individual relevant factors, the ongoing coordination with the authorities, and the fact that the fact-finding efforts have not yet been concluded. Should these legal or estimation risks materialize, this could result in further substantial financial charges. In particular, adjustment of the provisions recognized in light of knowledge acquired or events occurring in the future cannot be ruled out.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or regarding uncertainty as to the amount or maturity of provisions and contingent liabilities in relation to the diesel issue. This is so as to not compromise the results of the proceedings or the interests of the Company.

Additional important legal cases

In 2011, ARFB Anlegerschutz UG (haftungsbeschränkt) filed a claim for damages against Volkswagen AG and Porsche SE for allegedly violating disclosure requirements under capital market law in connection with the acquisition of ordinary shares in Volkswagen AG by Porsche SE in 2008. The damages being sought based on allegedly assigned rights currently amount to approximately €2.26 billion plus interest. In April 2016, the Hanover Regional Court formulated numerous objects of declaratory judgment that the antitrust panel of the Higher Regional Court in Celle will decide on in model case proceedings under the KapMuG. At the first hearing in October 2017, the court already indicated that it currently sees no justification for claims against Volkswagen AG, both

because the pleadings are not sufficiently specific and for substantive legal reasons. Volkswagen AG sees the court's statements as confirmation that the claims against the Company are absolutely baseless. The Higher Regional Court has yet to render a decision as many hearings have been canceled, among other things due to motions for recusal filed by the plaintiff side (so far in all cases without success) and, more recently, as a result of the Covid-19 pandemic.

In Brazil, the Brazilian tax authorities commenced tax proceedings against MAN Latin America; at issue in these proceedings are the tax consequences of the acquisition structure chosen for MAN Latin America in 2009. In December 2017, an adverse administrative appeal ruling was rendered against MAN Latin America. MAN Latin America challenged this ruling before the regular court in 2018. Estimation of the risk in the event the tax authorities prevail on all points is subject to uncertainty because of differences in the amount of penalties and interest that might then apply under Brazilian law. However, a positive outcome for MAN Latin America remains the expectation. Should this not occur, a risk of about BRL 3.1 billion could result for the contested period from 2009 onwards; this amount has been included in contingent liabilities in the notes.

In 2011, the European Commission conducted searches at European truck manufacturers for suspected unlawful exchange of information during the period from 1997 to 2011; in November 2014, the Commission issued a statement of objections to MAN, Scania, and the other truck manufacturers concerned. In its settlement decision of July 2016, the European Commission assessed fines against five European truck manufacturers. MAN's fine was waived in full as the company had informed the European Commission about the irregularities as a key witness.

In September 2017, the European Commission fined Scania €0.88 billion. Scania has appealed to the European Court of Justice in Luxembourg and will use all means at its disposal to defend itself. Scania had already recognized a provision of € 0.4 billion in 2016.

Furthermore, antitrust lawsuits seeking damages have been received from customers. As is the case in any antitrust proceedings, this may result in further lawsuits for damages. No provisions have been recognized or contingent liabilities disclosed for these cases as most of them are still in an early stage and currently cannot be assessed for this reason. In other cases, the chance of a decision by a court of last resort that awards damages against MAN or Scania currently appears remote.

In April 2019, the European Commission issued a statement of objections to Volkswagen AG, AUDI AG, and Dr. Ing. h.c. F. Porsche AG in connection with the Commission's antitrust investigation of the automobile industry. These objections state the European Commission's preliminary evaluation of the matter and afford the opportunity to comment. The subject matter of the proceedings is limited to the cooperation of German automobile manufacturers on technical questions in connection with the development and introduction of SCR systems and gasoline particulate filters for passenger cars that were sold in the European Economic Area. The manufacturers are not charged with any other misconduct such as price fixing or allocating markets and customers. After receiving access to the investigation files starting in July 2019, Volkswagen in December 2019 filed its reply to the European Commission's statement of objections. The Chinese, South Korean, and Turkish competition authorities have also instituted proceedings in this matter.

In October 2020, the US District Court for the Northern District of California dismissed two antitrust class action complaints. The plaintiffs in these actions alleged that several automobile manufacturers including Volkswagen AG and other Group companies had conspired to unlawfully increase vehicle prices in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support that the alleged agreements unreasonably restrained competition in violation of US law. Plaintiffs have appealed this ruling. Plaintiffs in Canada filed claims with similar allegations on behalf of putative classes of purchasers against several automobile manufacturers, including Volkswagen Group Canada Inc., Audi Canada Inc., and other Volkswagen Group companies. Neither provisions nor contingent liabilities are stated because the early stage of the proceedings makes an assessment of the realistic risk exposure currently impossible.

In addition, a few national and international authorities have initiated antitrust investigations. Volkswagen is cooperating closely with the responsible authorities in these investigations. An assessment of the underlying situation is not possible at this early stage.

A settlement between Volkswagen and the Plaintiffs' Steering Committee resolving civil claims relating to approximately 98 thousand gasoline-powered Volkswagen, Audi, Porsche,

and Bentley vehicles with automatic transmissions received final approval from the US District Court for the Northern District of California in February 2020.

Porsche AG has discovered potential regulatory issues relating to vehicles for various markets worldwide. There are questions as to the permissibility of specific hardware and software components used in type approval measurements. Differences compared with production versions may also have occurred in certain cases. Based on the information presently available, current production is not affected, however. The issues are unrelated to the defeat devices that were at the root of the diesel issue. Porsche AG is cooperating with the relevant authorities including the Stuttgart Office of the Public Prosecutor, which is investigating the matter in Germany. Based on the available information, no formal criminal investigation has been opened against the company, however. Porsche's own internal investigations are still in progress.

Five complaints related to these matters were filed with the US District Court for the Northern District of California. The complaints alleged that the affected vehicles used certain software and/or hardware that resulted in increased emissions and/or overstated fuel economy estimates as compared to the results of certification testing. The suits named Volkswagen AG, Dr. Ing. h.c. F. Porsche AG, AUDI AG, and Porsche Cars North America, Inc. as defendants; however, each defendant was not named in all the complaints. A consolidated complaint merging the five putative class actions into a single lawsuit was filed in January 2021. AUDI AG is no longer named as a defendant in the consolidated complaint.

Provisions were recognized by Volkswagen Bank GmbH and Volkswagen Leasing GmbH for possible claims in connection with financial services provided to consumers. These relate to actions involving certain features of customer loan and leasing agreements that may toll the running of the statutory cancellation time periods.

In February 2020, Volkswagen AG and another defendant were served with a lawsuit filed by GT Gettaxi Ltd. The lawsuit in particular alleges large damage claims. Volkswagen is assessing the alleged claims and defending itself against them.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or regarding uncertainty as to the amount or maturity of provisions and contingent liabilities in relation to additional important legal cases. This is so as to not compromise the results of the proceedings or the interests of the Company.

Tax risks

Volkswagen AG and its subsidiaries have operations worldwide and are audited by local tax authorities on an ongoing basis. Amendments to tax laws and changes in legal precedent and their interpretation by the tax authorities in the respective countries may lead to tax payments that differ from the estimates made in the financial statements.

Risks arise particularly from tax assessment of the cross-border supply of intragroup goods and services. Through organizational measures, such as the implementation of an advance pricing agreement, as well as the monitoring of transfer prices, Volkswagen constantly monitors the development of tax risks, as well as the impact thereof on the consolidated financial statements.

Tax provisions were recognized for potential future tax payments for former years, while other provisions were recognized for ancillary tax payments arising in this connection.

Financial risks

For this risk category, the likelihood of occurrence is classified as high (previous year: high) and the potential extent of damage is classified as medium (previous year: medium).

The most significant risks from the regular GRC process and QRP result from volatile foreign exchange markets.

Strategies for hedging financial risks

In the course of our business activities, financial risks may arise from changes in interest rates, exchange rates, raw material prices, or share and fund prices – but also from unforeseeable events such as the Covid-19 pandemic. Management of these financial risks and of liquidity risks is the central responsibility of the Group Treasury department, which reduces these risks using nonderivative and derivative financial instruments. The Board of Management is informed of the current risk situation at regular intervals.

Interest rate risk refers to potential losses that could arise as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet. We

hedge interest rate risk – where appropriate in combination with currency risk – and risks arising from fluctuations in the value of financial instruments by means of interest rate swaps, cross-currency interest rate swaps and other interest rate contracts with generally matching amounts and maturities. The principle of matching amounts and maturities applies to financing arrangements within the Volkswagen Group in the Automotive Division. In the Financial Services Division, the risk of changes in the interest rate is managed on the basis of limits using interest rate derivatives as part of the defined risk strategy.

Foreign currency risk is reduced in particular through natural hedging, i.e. by flexibly adapting our production capacity at our locations around the world, establishing new production facilities in the most important currency regions and also procuring a large percentage of components locally. We hedge the residual foreign currency risk using hedging instruments. These mainly comprise currency forwards and currency options. We use these transactions to limit the currency risk associated with forecasted cash flows from operating activities, intragroup financing and liquidity positions in currencies other than the respective functional currency, for example as a result of restrictions on capital movements. The currency forwards and currency options can have a term of up to ten years. We use these to hedge our principal foreign currency risks, mostly against the euro and primarily in Australian dollars, Brazilian real, British pound sterling, Canadian dollars, Chinese renminbi, Czech koruna, Hong Kong dollars, Hungarian forints, Indian rupees, Japanese yen, Mexican pesos, Norwegian kroner, Polish zloty, Russian rubles, Singapore dollars, South African rand, South Korean won, Swedish kronor, Swiss francs, Taiwan dollars and US dollars.

The hedging of commodity prices entails risks relating to the availability of raw materials and price trends. We continuously analyze potential risks arising from changes in commodity and energy prices in the market so that immediate action can be taken whenever these arise. We limit these risks particularly by entering into forward transactions and swaps. We have used appropriate contracts to hedge some of our requirements for commodities such as aluminum, lead, coal and copper over a period of up to six years, in the case of nickel for up to nine years. The precious metals platinum, palladium and rhodium have shorter hedging periods, generally amounting to a maximum of up to three years. For selected commodities, this may also involve increases in physical inventories. We have also entered into transactions in order to supplement and improve allocations of CO_2 emission certificates as part of the European Union Emissions Trading System (EU ETS).

Special funds in which we invest surplus liquidity may entail equity price risks and fund price risks. We reduce these risks through the diversified investment of funds and through minimum values set out in the respective investment guidelines. In addition, exchange rates are hedged when market conditions are appropriate.

In the notes to the consolidated financial statements we explain our hedging policy, the hedging rules and the default and liquidity risks, and quantify the hedging transactions mentioned. We also disclose information on market risk within the meaning of IFRS 7 in the same section.

Risks arising from financial instruments

Channeling excess liquidity into investments and entering into derivatives contracts gives rise to counterparty risk. Partial or complete failure by a counterparty to perform its obligation to pay interest and repay principal, for example, would have a negative impact on the Volkswagen Group's earnings and liquidity. We counter this risk through our counterparty risk management, which we describe in more detail in the chapter entitled "Principles and Goals of Financial Management" in the "Results of Operations, Financial Position and Net Assets" chapter. The financial instruments held for hedging purposes give rise to both counterparty risks and balance sheet risks, which we limit using hedge accounting.

By diversifying when selecting business partners, we ensure that the impact of a default is limited and the Volkswagen Group remains solvent at all times, even in the event of a default by individual counterparties.

Risks arising from trade receivables and from financial services are explained in more detail in the notes to the consolidated financial statements.

Liquidity risk

Volkswagen is reliant on its ability to adequately cover its financing needs. A liquidity risk consists of potentially being unable to cover existing capital requirements by raising funds or being unable to finance the Group on reasonable terms, which in turn can have a substantially negative impact on Volkswagen's business position, assets, financial position and earnings.

In principle, the Automotive Division and Financial Services Division refinance themselves independently of one another. However, they are subject to very similar refinancing risks. In the Automotive Division, the Company's solvency is ensured at all times mostly through retained, non-distributed earnings, by drawing down on credit lines and by issuing financial instruments on the money and capital markets. The capital requirements of the financial services business are

covered mainly by raising funds in the national and international financial markets, as well as through customer deposits from the direct banking business.

One of the ways in which Volkswagen finances its projects is with loans provided by national development banks such as Kreditanstalt für Wiederaufbau (KfW) or Banco Nacional de Desenvolvimento Econômico e Social (BNDES), or by supranational development banks.

In addition to confirmed credit lines, unconfirmed lines of credit from commercial banks supplement our broadly diversified refinancing structure.

Financing opportunities can be hindered by worsening financial and general market conditions – including as a result of the Covid-19 pandemic – a worsening credit profile and outlook or a downgrade or withdrawal of the credit rating. In such cases, there is a risk of a fall in demand from market participants for securities issued by Volkswagen, which may additionally have a detrimental effect on the interest rates payable and restrict access to the capital market.

Risks and opportunities in the financial services business

While carrying out our financial services activities, we are primarily exposed to residual value risks and credit risks.

A residual value risk arises when the expected fair value for the disposal of the lease or finance asset may be lower than the residual value set at contract conclusion. However, there is also a possibility that disposal of the asset will generate more income than calculated for the residual value.

Referring to the bearer of residual value risk, a distinction is made between direct and indirect residual value risks. A direct residual value risk means that our financial services companies directly bear this risk (as outlined in the contract). An indirect residual value risk occurs when, based on a residual value guarantee, the residual value risk has passed to a third party, such as a dealer. In such cases, there is an initial counterparty default risk associated with this third party (the residual value guarantor). If the guarantor defaults, the residual value risk passes to our financial services companies.

Management of the residual value risk is based on a defined control cycle, which ensures that risks are fully assessed, monitored, responded to and communicated. This process structure enables us to manage residual risks professionally and also to systematically improve and enhance the way we handle residual value risks.

As part of our risk management efforts, the appropriateness of the risk provision is assessed regularly, as is the residual value risk potential. In the process, we compare the contractually agreed residual values with the obtainable fair values. These are determined utilizing data from external service providers and our own marketing data. We do not take possible gains on residual market values into account when recognizing risk provisions.

Based on the resulting potential residual value risk, a variety of measures are initiated in order to limit this risk. With respect to new business, current market circumstances and future influencing factors must be considered in the residual value recommendation.

Credit checks on borrowers are the primary basis for lending decisions. Rating and scoring systems are used to provide an objective decision-making basis for granting loans and leases and for recognizing risk provisions.

Credit risk describes the risk of losses due to defaults in customer transactions, specifically by the borrower or lessee. Default occurs when the borrower or lessee is unable or unwilling to make the payments due. This includes late or partial payment of interest and principal on the part of the contracting party.

An opportunity may arise if the losses from the lending and leasing business are less than the expected losses previously calculated and the risk provision recognized on this basis. In some countries in particular, where we take a conservative approach to risk due to the uncertain economic situation, a stabilization of the economy, accompanied by an improvement in borrowers' credit rating, provides an opportunity for realized losses to be less than expected losses.

Risks are managed and monitored within the framework of corresponding processes relating to economic circumstances and collateral, adherence to limits, contractual obligations, and conditions stipulated both by outside parties and the company itself. As such, commitments are managed according to the degree of risk involved (standard, intensified and problem loan management).

More information on risks in the financial services business can be found in the 2020 annual reports of Volkswagen Financial Services AG and Volkswagen Bank GmbH.

Opportunities and risks from mergers & acquisitions and/or other strategic partnerships/investments

For this risk category, the likelihood of occurrence is classified as medium (previous year: high) and the potential extent of damage is classified as high (previous year: high).

The most significant risks from the regular GRC process and QRP are linked to cooperation with other partners.

Opportunities and risks from partnerships

As part of our future program TOGETHER 2025+, we are stepping up our efforts to forge partnerships, both for the transformation of our core business and for the establishment of the new mobility solutions business.

In the field of battery cells, possible risks could arise from potential disagreement with our partners, possible delays in battery cell development or delayed battery cell production.

Strong interaction with partners in the field of e-mobility, such as the development of a comprehensive charging infrastructure, in the form of partnerships and joint ventures, supports technological change. This cooperation involves risks such as an increased coordination workload, more complex decision-making processes and the loss of expertise. At the same time, opportunities are presented by the pooling of specialist knowledge, by horizontal and vertical integration and by better use of resources. Volkswagen has therefore created various teams in Group Components to closely support all such partnerships.

With the marketing of the Modular Electric Drive Toolkit to third parties, as is conceivable as part of the strategic alliance with Ford, for example, damage claims could arise in the event of problems with procurement, production and quality.

By entering into partnerships at a local level, we aim to identify regional customer needs more precisely, establish competitive cost structures and thus develop and offer market-driven products. We are concentrating to a greater extent on partnerships, acquisitions and venture capital investments. This will enable us to generate maximum value for the Group and its brands and to expand our expertise, particularly in new areas of business. Our innovative presence in the markets supports this process. At the same time, there is a risk that the interests of business partners differ from our own.

Volkswagen owns a large number of patents and other industrial property rights and copyrights. Partnerships can lead to patent and licensing infringements and thus to the unauthorized disclosure of company-specific expertise. Volkswagen monitors the sales markets and also protects its expertise with legal action.

Risks arising from the recoverability of goodwill or brand names

For the goodwill recognized in the consolidated financial statements and for brand names, there is a risk that the carrying amount of goodwill may be higher than the recoverable amount and that an extraordinary impairment loss must therefore be recognized. Volkswagen tests at least once a year on the basis of underlying cash-generating units, whether the value of the goodwill or the brand names could have been impaired. If there are objective indications that the recoverable amount of the asset concerned is lower than the carrying amount, then Volkswagen recognizes this as a non-cash impairment. An impairment can be caused by an increase in interest rates or deteriorating business prospects.

Risks from the disposal of equity investments

An unexpected need for funding, for example in connection with the diesel issue, may lead to a situation in which assets have to be sold for a lower amount not equivalent to their value.

OVERALL ASSESSMENT OF THE RISK AND OPPORTUNITY POSITION

The Volkswagen Group's overall risk and opportunity position results from the specific risks and opportunities shown above. We have put in place a comprehensive risk management system to ensure that these risks are controlled. The most significant risks to the Volkswagen Group across all risk categories arise from a negative trend in markets and unit sales, with regard to quality and cyber security, and from an inability to develop products in line with demand and requirements, especially in view of e-mobility and digitalization. Non-fulfillment of CO_2-related requirements also constitutes a risk. The Volkswagen Group continues to be exposed to risks from the diesel issue. Negative effects, for example resulting from supply bottlenecks, may arise for 2021 if efforts to contain the Covid-19 pandemic are not successful in the long term. Taking into account all the information known to us at present, no risks exist which could pose a threat to the continued existence of significant Group companies or the Volkswagen Group.

This annual report contains forward-looking statements on the business development of the Volkswagen Group. These statements are based on assumptions relating to the development of the economic, political and legal environment in individual countries, economic regions and markets, and in particular for the automotive industry, which we have made on the basis of the information available to us and which we consider to be realistic at the time of going to press. The estimates given entail a degree of risk, and actual developments may differ from those forecast. Any changes in significant parameters relating to our key sales markets, or any significant shifts in exchange rates or commodities relevant to the Volkswagen Group or deviations in the actual effects of the Covid-19 pandemic from the scenario presented in this report will have a corresponding effect on the development of our business. In addition, there may be departures from our expected business development if the assessments of the factors influencing sustainable value enhancement and of risks and opportunities presented in this annual report develop in a way other than we are currently expecting, or if additional risks and opportunities or other factors emerge that affect the development of our business.

Prospects for 2021

Our planning is based on the assumption that global economic output will recover overall in 2021, provided lasting containment of the Covid-19 pandemic is achieved. This growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. We anticipate that both the advanced economies and the emerging markets will experience positive momentum.

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2021. Overall, the volume of demand worldwide for new vehicles is expected to be noticeably up on the reporting year, provided successful containment of the Covid-19 pandemic is achieved; however, it will not recover to its pre-pandemic level. For 2021, we anticipate that the volume of new passenger car registrations in Western Europe will be significantly above that recorded in the reporting year. In the German passenger car market, we expect a moderate year-on-year increase in demand in 2021. Sales of passenger cars in 2021 are expected to distinctly exceed the prior-year figures in markets in Central and Eastern Europe. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole in 2021 is also likely to be distinctly higher than the previous year's level. We expect to see a large increase overall in new registrations in the South American markets in 2021 compared with the previous year. The passenger car markets in the Asia-Pacific region are expected to be noticeably up on the prior-year level in 2021.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2021; on the whole, we anticipate a moderate rise in demand for 2021, assuming that containment of the Covid-19 pandemic is successful .

For 2021, we expect a significantly positive development in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year in the markets that are relevant for the Volkswagen Group. A moderate increase in overall demand for 2021 is likely in the bus markets relevant for the Volkswagen Group.

We anticipate that automotive financial services will be of great significance to global vehicle sales in 2021, particularly in the context of the ongoing challenges posed by the Covid-19 pandemic.

We believe we are well prepared overall for the future challenges pertaining to automotive business activities and for the mixed development of the regional automotive markets. Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. As part of the transformation of our core business, we are positioning our Group brands with an even stronger focus on their individual characteristics, and are optimizing our vehicle and drive portfolio. The focus is primarily on our vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, we are working to leverage the advantages of our multibrand Group even more effectively with the ongoing development of new technologies and the enhancement of our toolkits.

We anticipate that deliveries to Volkswagen Group customers will be significantly up on the previous year in 2021 – assuming successful containment of the Covid-19 pandemic – amid continued challenging market conditions.

Challenges will arise particularly from the economic situation, the increasing intensity of competition, volatile commodity and foreign exchange markets, securing supply chains and more stringent emissions-related requirements.

We expect the sales revenues of the Volkswagen Group and Passenger Cars Business Area in 2021 to be significantly higher than the prior-year figure. In terms of operating profit for the Group and the Passenger Cars Business Area, we forecast an operating return on sales in the range of 5.0% to 6.5% in 2021. For the Commercial Vehicles Business Area, we anticipate an operating return on sales of 4.0% to 5.5% before restructuring measures amid a significant year-on-year increase in sales revenue. We expect the Power Engineering Business Area to reach the break-even point amid a noticeable decline in sales revenue compared with the previous year. For the Financial Services Division, we forecast that sales revenue will be noticeably higher than the prior-year figure and that the operating result will be in line with the previous year.

Wolfsburg, February 16, 2021
The Board of Management