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Group Management Report

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

GROUP MANAGEMENT REPORT

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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.

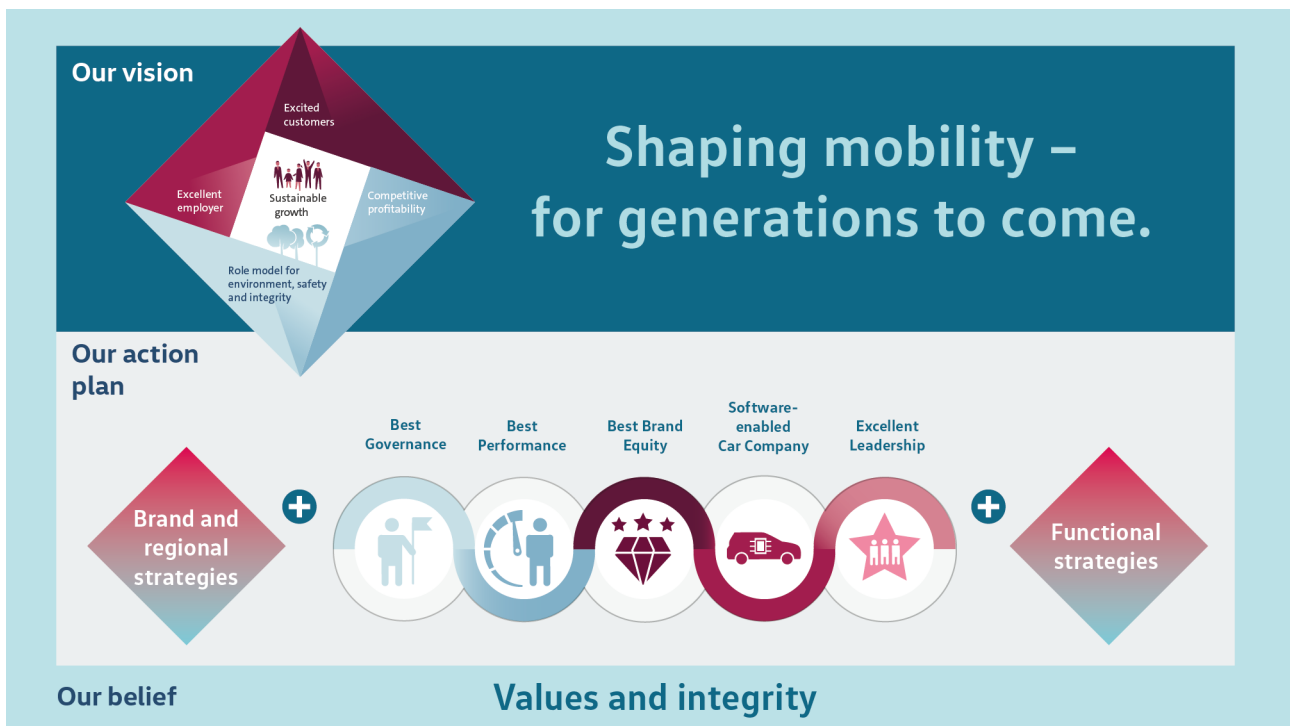
These modules are namely Best Governance, Best Performance, Best Brand Equity, Software-enabled Car Company and Excellent Leadership. We continuously review the status and progress of these initiatives in order to analyze the target achievement, importance and suitability of the measures defined. This 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 CO₂ targets to be measurable and our progress toward CO₂ 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 dimen-

sions 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 CO₂ 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.