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

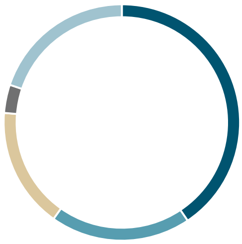
In fiscal year 2020, the Volkswagen Group took part in a capital increase at QuantumScape Corporation, a US-based company that develops solid-state batteries, entering into forward purchase agreements for new shares. The capital contribution comprises two tranches of USD 100 million each. The first tranche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

INCOME STATEMENT BY DIVISION

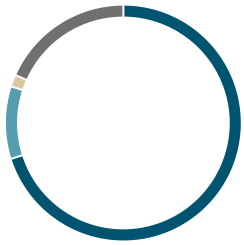
	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2020	2019	2020	2019	2020	2019
Sales revenue	**222,884**	**252,632**	**182,106**	**212,473**	**40,778**	**40,160**
Cost of sales	−183,937	−203,490	−150,507	−170,477	−33,430	−33,014
Gross profit	**38,947**	**49,142**	**31,599**	**41,996**	**7,348**	**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.

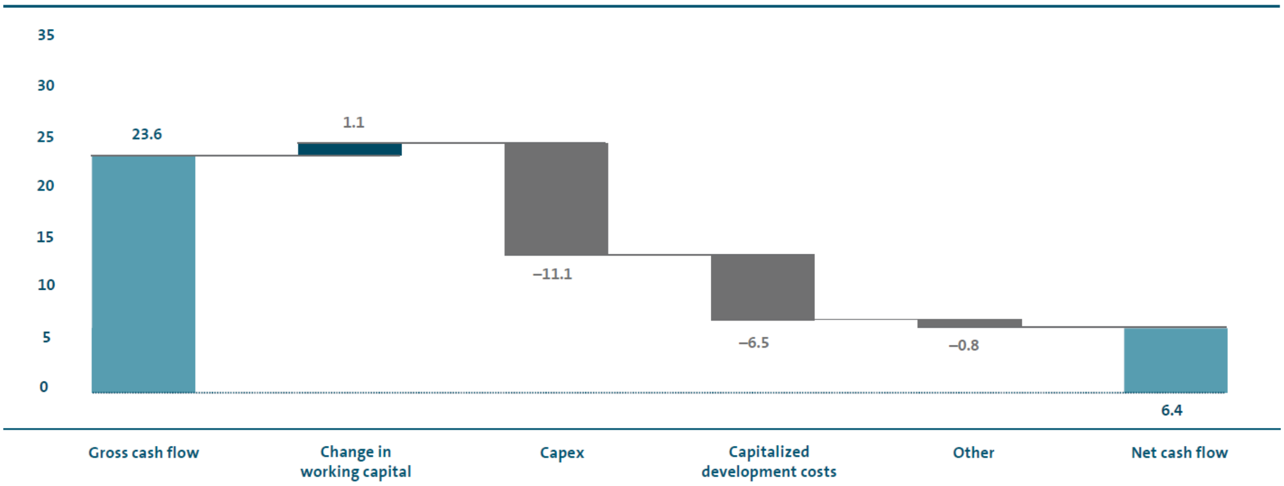
The Financial Services Division's operating profit was 6.2% lower, at €3.0 billion, primarily for pandemic-related reasons. The operating return on sales amounted to 7.4 (8.0)%. The return on equity before tax of 8.8 (10.8)% was down on the prior-year figure.

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

	VOLKSWAGEN GROUP		AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2020	2019	2020	2019	2020	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)%.

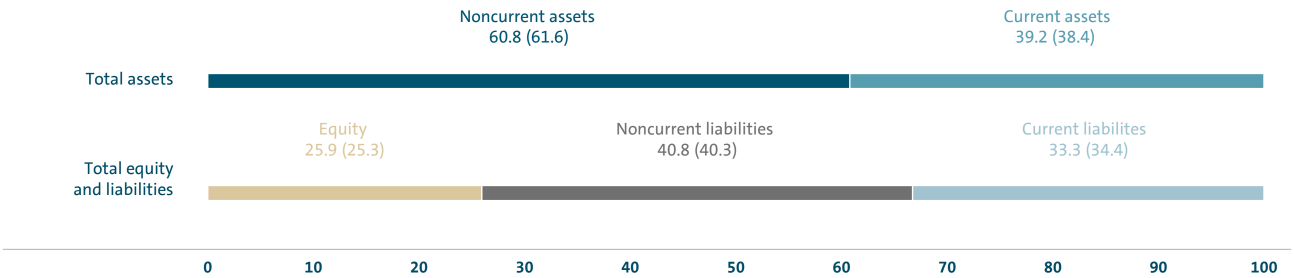
As of the end of fiscal year 2020, the Group had off-balance-sheet commitments in the form of contingent liabilities in the amount of €8.6 (8.5) billion and in the form of financial guarantees in the amount of €0.4 (0.4) billion. In addition, there were other financial obligations of €22.0 billion, which 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%