

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 oppor-

tunity 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/Investor\\_Relations/news-and-publications/More\\_Publications.html](http://www.volkswagenag.com/en/Investor_Relations/news-and-publications/More_Publications.html).

#### RETURN ON INVESTMENT (ROI) AND VALUE CONTRIBUTION IN THE AUTOMOTIVE DIVISION<sup>1</sup>

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

<sup>1</sup> 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
<b>Volkswagen Group</b>				
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
<b>Passenger Cars Business Area</b>				
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
<b>Commercial Vehicles Business Area</b>				
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
<b>Power Engineering Business Area</b>				
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
<b>Financial Services Division</b>				
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
<b>Gross profit on sales</b>	<b>4,117</b>	<b>5,921</b>
Distribution, general and administrative expenses	-7,269	-7,948
Net other operating result	398	-914
Financial result <sup>1</sup>	9,787	9,115
Taxes on income	-693	-1,215
<b>Earnings after tax</b>	<b>6,338</b>	<b>4,958</b>
<b>Net income for the fiscal year</b>	<b>6,338</b>	<b>4,958</b>
Retained profits brought forward	855	0
Appropriations to revenue reserves	-3,165	-1,685
<b>Net retained profits</b>	<b>4,028</b>	<b>3,273</b>

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 <sup>1</sup>	38,766	35,856
Cash-in-hand and bank balances	8,803	5,639
<b>Total assets</b>	<b>184,488</b>	<b>167,872</b>
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
<b>Net retained profits</b>	<b>4,028,083,416.90</b>

**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
<b>Total expense</b>	<b>10,588</b>	<b>100.0</b>	<b>11,916</b>	<b>100.0</b>

**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.

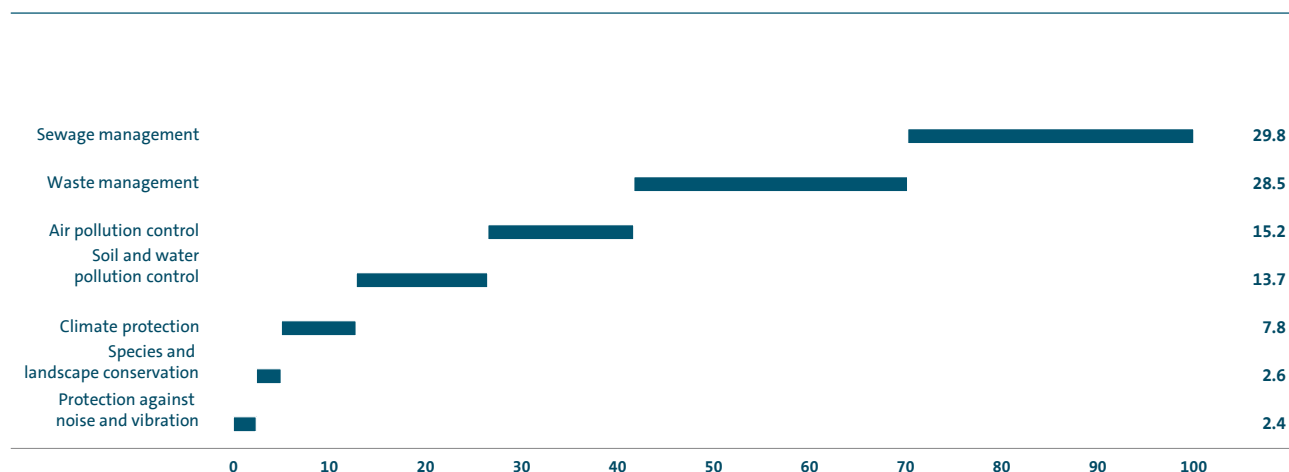
**EXPENDITURE ON ENVIRONMENTAL PROTECTION**

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.”