VOLKSWAGEN

AKTIENGESELLSCHAFT

Interim Report

JANUARY – SEPTEMBER 2020

Key Figures

VOLKSWAGEN GROUP

	Q3			Q1 –3		
	2020	2019	%	**2020**	2019	%
Volume Data[1] in thousands						
Deliveries to customers (units)	2,612	2,640	–1.1	6,505	8,005	–18.7
Vehicle sales (units)	2,575	2,645	–2.6	6,311	7,983	–21.0
Production (units)	2,445	2,553	–4.2	6,107	7,975	–23.4
Employees (on Sept. 30, 2020/Dec. 31, 2019)				664.2	671.2	–1.0
Financial Data (IFRSs), € million						
Sales revenue	59,355	61,420	–3.4	155,486	186,617	–16.7
Operating result before special items	3,183	4,816	–33.9	2,380	14,795	–83.9
Operating return on sales before special items (%)	5.4	7.8		1.5	7.9	
Special items	–	–275	x	–687	–1,257	–45.4
Operating result	3,183	4,541	–29.9	1,693	13,539	–87.5
Operating return on sales (%)	5.4	7.4		1.1	7.3	
Earnings before tax	3,606	5,080	–29.0	2,254	14,637	–84.6
Return on sales before tax (%)	6.1	8.3		1.4	7.8	
Earnings after tax	2,751	3,986	–31.0	1,731	11,154	–84.5
Automotive Division[2]						
Total research and development costs	3,496	3,665	–4.6	10,191	10,697	–4.7
R&D ratio (%)	7.2	7.2		8.1	6.8	
Cash flows from operating activities	10,162	7,398	+37.4	13,171	20,921	–37.0
Cash flows from investing activities attributable to operating activities[3]	3,938	4,354	–9.6	11,754	12,309	–4.5
of which: capex	2,292	2,985	–23.2	6,422	8,186	–21.6
capex/sales revenue (%)	4.7	5.9		5.1	5.2	
Net cash flow	6,224	3,044	x	1,418	8,612	–83.5
Net liquidity at Sept. 30				24,848	19,787	+25.6

1 Volume data including the unconsolidated Chinese joint ventures. These companies are accounted for using the equity method. Prior-year deliveries updated to reflect subsequent statistical trends.
2 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
3 Excluding acquisition and disposal of equity investments: Q3 €3,754 (4,263) million, Q1–Q3 €10,657 (11,714) million.

This version of the Interim Report is a translation of the German original. The German takes precedence. All figures shown in the Report are rounded, so minor discrepancies may arise from addition of these amounts. The figures from the previous fiscal year are shown in parentheses directly after the figures for the current reporting period.
Specified vehicle ranges correspond to results obtained through the Worldwide Harmonized Light vehicles Test Procedure (WLTP) on the chassis dynamometer. WLTP value ranges for series-produced vehicles may vary depending on the equipment. The actual range will deviate in practice depending on various other factors.

Key Facts

> **Volkswagen Group's business heavily impacted by Covid-19 pandemic in first nine months of 2020; countermeasures implemented worldwide take effect**

> **Deliveries to Volkswagen Group customers down 18.7% at 6.5 (8.0) million vehicles; declines in all regions, passenger car market share increased**

> **Group sales revenue decreases by 16.7% to €155.5 billion**

> **Operating profit before special items down €12.4 billion year-on-year at €2.4 billion; demand-related fall in volumes; negative effects of the fair value measurement of derivatives to which hedge accounting is not applied and of exchange-rate effects set against a non-cash gain from the contribution of AID to the autonomous driving joint venture with Ford**

> **Positive operating result of €1.7 (13.5) billion; negative special items of €–0.7 (–1.3) billion relating to diesel issue**

> **Profit before tax comes to €2.3 (14.6) billion**

> **Automotive Division's net cash flow at €1.4 (8.6) billion; and reflects the normalization in working capital throughout the entire nine-month period; capex ratio of 5.1 (5.2)%**

> **Net liquidity in the Automotive Division at €24.8 billion; successful placement of hybrid notes strengthens capital base; dividend payment of €2.4 billion in October**

> **Exciting products:**

- **Volkswagen Passenger Cars celebrates the world premiere of the ID.4, the second model based on the Modular Electric Drive Toolkit (MEB); successor to Golf Estate and Golf Alltrack presented**
- **Audi shows off the upgraded Q2 and its Q4 Sportback e-tron concept car**
- **ŠKODA debuts the Enyaq iV, the first production model based on the MEB**
- **Porsche presents its extensively revamped Panamera**
- **Bentley unveils the successor to the successful Bentayga**
- **Lamborghini impresses with the open-top Sián Roadster**
- **Volkswagen Commercial Vehicles expands its California family with the Caddy California**

Key Events

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

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

NEW GROUP MODELS PRESENTED

Due to the spread of coronavirus and the efforts made to contain the pandemic, the Volkswagen Group brands continued to present their new vehicles and technologies in the third quarter of 2020 primarily using online presentations.

In the third quarter of 2020, the Volkswagen Passenger Cars brand celebrated the world premiere of the ID.4, its first all-electric SUV. Powerful proportions, sleek lines and a sculptured rear are the hallmarks of the exterior and give the all-rounder outstanding aerodynamic qualities. The interior impresses with generous space, puristic design, dramatic lighting and sustainable upholstery materials. The operating concept is based on two displays – one of which measures up to 12 inches and features touchscreen functionality – and does not require physical buttons and switches thanks to “Hello ID.” natural voice control. An augmented reality head-up display is available as an option and can blend a host of visual indicators with the real world, for instance, navigation arrows prompt drivers to make a turn. The electric drive motor positioned at the rear axle of the ID.4 generates 150 kW (204 PS) and accelerates the vehicle from 0 to 100 km/h in 8.5 seconds, with a top speed of 160 km/h. The battery installed below the passenger compartment ensures a low center of gravity and stores up to 77 kWh of energy, thus providing a range of up to 520 km. Following the ID.3, the ID.4 is the second model from Volkswagen Passenger Cars based on the Modular Electric Drive Toolkit (MEB); it is to be built and sold in Europe and China in the future and later on in the United States as well. In addition, Volkswagen Passenger Cars celebrated the debut of the new Golf Estate. The compact station wagon features a vibrant design and is more spacious, dynamic and digital than its predecessor. The 66 mm increase in length rearranges the proportions and makes the Golf Estate appear more elongated and flatter. Standard features include the Lane Assist lane departure warning system, the area monitoring system Front Assist with City Emergency Braking System and Pedestrian Monitoring, the new oncoming vehicle braking when turning function, XDS electronic differential lock, the Car2X traffic hazard alert, the start system Keyless Start and automatic lighting control. The interior impresses with features such as the Digital Cockpit, the Composition online infotainment system with 8.25-inch touchscreen and We Connect and We Connect Plus online services and functions. The drive portfolio includes an ETSI engine with a mild hybrid drive system and innovative TDI engines with two SCR (Selective Catalytic Reduction) catalytic converters for lower emissions. The robust Golf Alltrack also enjoyed its debut at the same time. The standard model features the permanent all-wheel drive (4MOTION), increased ground clearance, an all-terrain look including specific bumpers and a custom interior. The all-wheel drive makes it suitable as a towing vehicle with a maximum trailer weight of up to 2,000 kg.

In addition to the Golf Estate and the Golf Alltrack, Volkswagen Passenger Cars launched the revamped Tiguan in the third quarter of 2020. The redesigned front end of the successful SUV is characterized by a striking radiator grille and LED matrix headlights. The interior boasts new touch controls on the steering wheel and for climate control. Volkswagen is electrifying the Tiguan for the first time with a modern plug-in hybrid drive. Moreover, the SUV is available as a particularly dynamic Tiguan R model.

Audi presented its upgraded Q2 in the third quarter of 2020. The sporty, elongated and yet powerful lines of the robust all-rounder give the compact SUV a confident appearance. The striking design is underlined by LED head lights, also with the option of innovative matrix LED technology that enables an intelligently controlled high beam headlight. The spacious interior accommodates five passengers and echoes the taut design language of the exterior. The Audi virtual cockpit has a 12.3-inch display in addition to MMI navigation plus with an integrated LTE module featuring an 8.3-inch display. It is operated via a rotary pushbutton on the center tunnel console (MMI touch) or via a natural language voice control system. The Bang & Olufsen premium sound system, which features 14 loudspeakers and an output of 705 watts, stands out in the small SUV segment. The range of powerful drive systems offered consists of three TFSI and two TDI engines. Following on the heels of the Q4 e-tron concept, the compact electric SUV that debuted at the Geneva Motor Show in 2019, Audi has now presented the coupé version, the Q4 Sportback e-tron concept. The study is powered by two electric motors, which bring a system performance of 225 kW (306 PS) to the road with a quattro all-wheel drive. The Q4 Sportback e-tron concept sprints from zero to 100 km/h in just 6.3 seconds, with a top speed of 180 km/h. From a technical standpoint, the SUV coupé is based on the MEB platform. The battery stored in the underbody area provides a range of around 450 km.

By launching its Enyaq iV in the third quarter, ŠKODA is taking the next systematic step in the implementation of its e-Mobility strategy. It is the brand’s first production model based on the MEB. The completely battery-electric SUV boasts emotive and dynamic design language and its striking ŠKODA profile is also available with an illuminated radiator grille as an option. It combines rear or all-wheel drive with a range of up to 510 km that is suited for everyday usability. The customer can choose between two types of drive, three battery sizes and five performance levels ranging from 109 to 225 kW (148 to 306 PS). ŠKODA also continues its emotive design language in the interior: the innovative SUV features the brand’s typical spaciousness and a completely new Design Selections concept for the interior, replacing conventional trim lines. Each Design Selection represents a stylish, inviting interior with a feel-good factor and natural, sustainably produced and recycled materials.

Porsche presented its extensively revamped Panamera that combines the performance of a sports car with the comfort of an exclusive saloon and now covers an even wider range: with its top model, the 463 kW (630 PS) Panamera Turbo S, the sports car manufacturer is underscoring its high standard of best-in-class performance. By contrast, the Panamera 4S E-Hybrid is a consistent continuation of Porsche’s E-Performance strategy and constitutes a new addition to the range of plug-in hybrids, offering a completely new drive system with 412 kW (560 PS). Compared with the previous hybrid models, the all-electric range has been boosted by up to 30%. The chassis and control systems for all new Panamera models have been geared toward sportiness and comfort. Some systems have even been applied completely from scratch. There is also a new equipment generation for the steering system and tires. The Sport Design front end with striking air intake grilles, large side cooling openings and a single-bar front light module comes as standard. Porsche Communication Management (PCM) includes additional digital functions and services such as the improved Voice Pilot online voice control, Risk Radar for up-to-date hazard information, wireless Apple CarPlay and many other Connect services. The range of assistance systems now includes the following as standard: Lane Keeping Assist with road sign recognition, Porsche InnoDrive including adaptive cruise control, Night Vision Assist, Lane Change Assist and Park Assist including Surround View.

In the third quarter of 2020, Bentley introduced the successor to its successful Bentayga, with which the British brand opened up the luxury SUV segment nearly five years ago. Like its predecessor, the new Bentayga combines the abilities of a high-performance grand tourer with the characteristics of a luxury limousine, a spacious family car and an off-roader. The exterior design of the front and rear adopts the current Bentley design DNA, giving the vehicle a fascinating dynamic look and an air of elegance. The interior also received a makeover: the next-generation infotainment system that is seamlessly integrated into the handcrafted dashboard features a 10.9-inch infotainment screen with a rimless display. The optimized rear seats are available with ventilation. Rear passengers also benefit from significantly more generous legroom. The latest hardware and software provide enhanced navigation, including satellite maps, an online search function and other features. The Bentayga will initially be available with a 405 kW (550 PS) twin-turbocharged 4.0 l V8 petrol engine. The range-topping model is planned for later on this year – the Bentayga Speed with a 467 kW (635 PS) 6.0 l W12 engine – along with an efficient plug-in hybrid.

Lamborghini unveiled its strictly limited edition Sián Roadster in the third quarter of 2020. The open-top version of the visionary super sports car impresses with its breathtaking design and innovative hybrid technology: the V12 engine is combined with a 48-volt electric motor built into its transmission, delivering 34 PS and offering a hybrid solution that provides immediate response and an even stronger performance. The innovative supercapacitor application also stores ten times the power of a lithium-ion battery. Located in the bulkhead between cockpit and motor, it ensures perfect weight distribution. The combination of thermal and electric power offers the Sián Roadster total power of 602 kW (819 PS), enabling the car to accelerate from 0 to 100 km/h in under 2.9 seconds, with a top speed of 350 km/h.

Volkswagen Commercial Vehicles celebrated the world premiere of the Caddy California. Based on the newly developed fifth generation of the popular all-rounder, it also leverages all of the constructive advantages of the Modular Transverse Toolkit (MQB). The compact camper van will expand the California family, joining the California 6.1 and the Grand California. Many innovative and detailed solutions – such as a pull-out kitchenette, new ventilation openings with integrated insect screens and dimmable LED spotlights –

make the Caddy California a multi-functional, comfortable companion for travel and everyday use. In addition, the latest technology used in the vehicle includes the Digital Cockpit, an online infotainment system with a 10.0-inch display, new driver assistance systems and sustainable TDI engines with double SCR catalytic converters. The Caddy California can be configured with an optional 1.4 m^2 panoramic sunroof that floods the interior with light during the day and serves as a starlight ceiling at night.

AWARDS

Several Volkswagen Group models were awarded the "Company Car of the Year 2020" title by Firmenauto magazine in early July 2020. The up!, Polo, Golf, ID.3, Passat and T-Roc models from the Volkswagen Passenger Cars brand were selected as the winners in the categories City Car, Small Car, Compact Car, Compact Electric Car, Mid-sized Plug-in Hybrid, and Small SUV and Crossover. The SEAT brand was also a three-time winner, heading up the categories for small cars, small SUVs and crossovers, and maxi vans for import vehicles with its Ibiza, Arona and Alhambra. ŠKODA's Superb not only took the top spot in the mid-size category for import vehicles, but the brand also won a second prize in the category for mid-sized plug-in hybrids. In addition, the Czech brand impressed with the Kodiaq and the Octavia in the category for mid-sized SUVs and crossovers for import vehicles, as well as in the category for compact cars. Audi was crowned the overall winner in the categories Premium and Luxury Electric Vehicle, Mid-size, and Mid-sized SUV and Mid-sized Crossover with the e-tron, the A4 and the Q5. Porsche's Taycan rounded off the achievements by securing first place overall in the newcomer category. A 165-strong jury chose the overall winners and the winners among the import vehicles from 20 different vehicle categories.

At the end of July 2020, the "Best Commercial Vehicles 2020" readers' choice award went to the Caddy, Transporter and Amarok models from Volkswagen Commercial Vehicles in the categories for delivery vehicles, vans up to 2.8 t, and pickups. A total of around 8,000 readers of transaktuell, Fernfahrer and lastauto omnibus magazines chose the "Best Commercial Vehicles 2020" from 253 product lines in 19 categories.

ANNIVERSARIES

Bentley celebrated a production milestone in August 2020 when the 40,000th unit of the Flying Spur, the brand's flagship model, rolled off the assembly line. The first generation of the luxury sports car was launched in 2005, and the Flying Spur is meanwhile available in its third generation. The vehicles are manufactured in Crewe, England, where a team of 250 people assemble each one by hand.

PARTNERSHIPS

At the end of September 2020, Volkswagen and Blacklvy Ghana signed a non-binding Memorandum of Understanding for a strategic collaboration. Blacklvy Ghana builds and grows commercial enterprises across Sub-Saharan Africa. The mutual goal of both parties is to create sustainable and green mobility and improve access to cars and housing in Ghana. In the long term, the collaboration is intended to help build a charging infrastructure for electric cars in Ghana, thus opening up the market for electric cars from the Volkswagen Group.

CAR.SOFTWARE ORG EXPANDS IMAGE PROCESSING EXPERTISE

At the end of September 2020, the Volkswagen Group's software company Car.Software Org agreed to acquire the front camera software business area of software specialist HELLA Aglaia Mobile Vision GmbH, a subsidiary of HELLA GmbH & Co. KGaA. The aim of this transaction is to expand the internal software expertise in the field of image processing and to forge ahead with developing driver assistance systems up to automated driving functions for all Volkswagen Group brands. The employees of HELLA Aglaia working in the front camera software business area are to provide support at Car.Software Org's Berlin site. The acquisition, which is still subject to approval by the antitrust authorities, is expected to be completed at the beginning of 2021.

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

As part of the planned squeeze-out at AUDI AG under the German Stock Corporation Act, Volkswagen AG announced on June 16, 2020 that the cash compensation for the transfer of shares held by minority shareholders had been set at €1,551.53 per share. On July 31, 2020, the Annual General Meeting of AUDI AG approved a squeeze-out under stock corporation law and the transfer of all outstanding Audi shares to Volkswagen AG. This resolution will take effect upon its entry in the commercial register.

MERGER SQUEEZE-OUT AT MAN SE POSTPONED

On September 17, 2020, TRATON SE announced that it was no longer seeking to carry out the merger squeeze-out of the minority shareholders of MAN SE in 2020, contrary to the statement made on February 28, 2020. The realignment of MAN SE and measures to deal with the Covid-19 pandemic will be prioritized first. The full corporate integration of MAN SE into TRATON SE is to be pursued further in 2021.

COMPLETION OF THE SALE OF INTEREST IN RENK AG

On October 6, 2020, the Volkswagen Group completed the sale of its 76% interest in Renk AG. The sale price was €0.5 billion. The corresponding assets and liabilities continued to be classified as held for sale in the balance sheet as of September 30, 2020.

TAKEOVER OF NAVISTAR

On October 16, 2020, TRATON SE announced that it had reached an agreement in principle with Navistar International Corporation (Navistar) to acquire all outstanding shares in Navistar not already owned by TRATON for a price of USD 44.50 per share. At the time of the agreement, TRATON held 16.7% of Navistar's outstanding shares. This agreement in principle is subject to the completion of the due diligence process to TRATON's satisfaction, the agreement on the conclusion of the merger agreement and the associated transaction documents, and the approval of the transaction by the boards of management and supervisory boards of TRATON and Volkswagen AG as well as by the Board of Directors and shareholders' meeting of Navistar. After the conclusion of the contract the completion of the transaction is particularly subject to official approvals.

JUDGMENTS BY FEDERAL COURT OF JUSTICE IN DIESEL LITIGATION

On May 25, 2020, the Bundesgerichtshof (BGH – Federal Court of Justice) handed down its first decision ever in an individual product-related lawsuit in connection with the diesel issue. The BGH held that the buyer, who had purchased a vehicle with a type EA 189 engine prior to public disclosure of the diesel issue, had a claim for damages against Volkswagen AG. While the buyer can require reimbursement of the vehicle's purchase price, he must accept a deduction for the benefit derived from using the vehicle and must return it to Volkswagen AG. The judgment clarified the BGH's stance on the fundamental issues underlying a large number of individual diesel lawsuits then still pending.

In a series of fundamental judgments rendered in July 2020, the BGH decided further legal issues of major importance for the litigation still pending with regard to vehicles with type EA 189 engines. The BGH held that plaintiffs who purchased their vehicle after the ad hoc announcement of September 22, 2015 have no claim for damages. The court furthermore ruled that purchasers of affected vehicles are not entitled to tort interest under § 849 Bürgerliches Gesetzbuch (German Civil Code). The court also made it clear that a plaintiff's potential damage claim may be completely offset by the benefit derived from using the vehicle.

INDEPENDENT COMPLIANCE MONITORSHIP SUCCESSFULLY COMPLETED

In September 2020, the Independent Compliance Monitor, Larry D. Thompson, certified that Volkswagen has fulfilled its obligations under its Plea Agreement with the U.S. Department of Justice (DOJ) to design and implement a compliance program that will prevent and detect violations of anti-fraud and environmental laws. Certification applies to Volkswagen AG and its subsidiaries and affiliates with the exception of Porsche AG and Porsche Cars North America, which were not part of the Monitorship. Over the course of the Monitorship, which began in 2017 and is now concluded, Volkswagen enhanced and improved its structures, processes and systems in many divisions of the company including technical development, governance, risk management, compliance and legal functions. Thompson also served as Independent Compliance Auditor and issued his third and final audit report in June 2020. That report established that there had been no new violations of the relevant settlements with the Environment and Natural Resources Division of the DOJ, the California Attorney General, the Environmental Protection Agency and the California Air Resources Board.

ANNUAL GENERAL MEETING

Originally scheduled for May 7, 2020 and postponed due to the Covid-19 pandemic, Volkswagen AG's 60th Annual General Meeting was held on September 30, 2020 as the Company's first virtual Annual General Meeting. With around 94% of the voting share capital present, the shareholders approved the proposal of the Board of Management and Supervisory Board to pay a dividend of €4.80 per ordinary share and €4.86 per preferred share for fiscal year 2019, unchanged from the previous

year. Furthermore, the Annual General Meeting approved the actions of the members of the Board of Management and Supervisory Board for fiscal year 2019, approved an amendment to the Articles of Association, and appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as the auditor of the single-entity and consolidated financial statements for fiscal year 2020 and for the review of the condensed consolidated interim financial statements and the interim management report for the period January 1 to September 30, 2020, as well as for the first quarter of fiscal year 2021. The term of office of Dr. Hussain Ali Al Abdulla on the Supervisory Board of Volkswagen AG duly ended at the close of the Annual General Meeting. The Annual General Meeting elected Dr. Al Abdulla to the Supervisory Board for another full term of office as a shareholder representative.

FIRST GREEN BONDS SUCCESSFULLY PLACED

In September 2020, the Volkswagen Group successfully placed its first green bonds on the market, with a volume of €2 billion and terms of 8 and 12 years. The bonds met with great interest, including from international and specialized green bond investors. The proceeds will be used for the Modular Electric Drive Toolkit (MEB) and the new ID.3 and ID.4 BEV models. The green bonds were the first issue based on the Green Finance Framework presented by Volkswagen in March for sustainability-oriented financial instruments. The Volkswagen Group plans to increase its use of green bonds in future in order to finance its comprehensive electric campaign.

Volkswagen Shares

Following the sharp fall in share prices in the first quarter of this year, which was triggered by the Covid-19 pandemic and its severe negative economic implications, international stock markets started to recover during the second quarter, with some even reporting a strong upward trend. The upward trend slowed in the third quarter.

The DAX finished the third quarter 4% lower than at the end of 2019. After an initially good start to the new financial year with a record high in February, share prices collapsed with the increasing spread of the SARS-CoV-2 virus. Starting from the low reached in March, the leading German stock index then again gained in value and recouped most of its losses in the third quarter. This development was fueled considerably by economic stimulus measures from central banks and governments throughout the world and the resulting hopes of a more rapid global economic recovery. Toward the end of the reporting period, growing fears of another wave of infection and the ensuing restrictions in public life weighed on share price performance.

Following the decline in the first quarter of 2020, the prices of Volkswagen AG's preferred and ordinary shares also proceeded to recover in the months that followed; however, they were still 22% lower in the case of preferred shares and 14% lower in the case of ordinary shares than at the end of 2019. Uncertainties surrounding the development of the global demand for automobiles caused by the Covid-19 pandemic placed share prices under pressure. In addition, negative effects arose from the automotive industry's current period of transition that requires large-scale investment. Moreover, the impending US punitive tariffs on European vehicles, the uncertain outcome of the negotiations on the United Kingdom's exit from the EU Single Market including the form the future relationship takes, and the appreciation of the euro against the US dollar since May 2020 all had a negative impact. Positive momentum came from the incipient recovery of the Chinese automotive market and investors' hopes of improved economic activity in the wake of relaxed restrictions worldwide and government assistance measures, as well as hopes that the Covid-19 pandemic would subside.

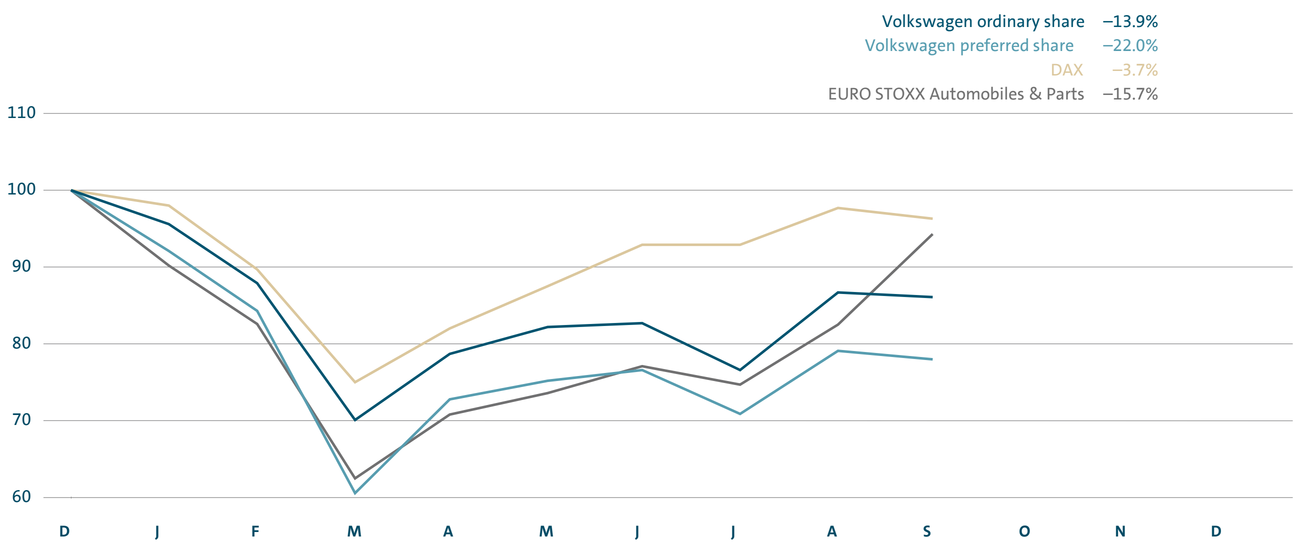
Information and explanations on earnings per share can be found in the notes to the interim consolidated financial statements. Additional Volkswagen share data, plus corporate news, reports and presentations can be downloaded from our website: www.volkswagenag.com/en/InvestorRelations.html.

VOLKSWAGEN KEY SHARE FIGURES AND MARKET INDICES FROM JANUARY 1 TO SEPTEMBER 30, 2020

		High	Low	Closing
Ordinary share	Price (€)	183.10	101.50	149.20
	Date	Jan. 10	Mar. 18	Sept. 30
Preferred share	Price (€)	185.52	87.20	137.40
	Date	Jan. 10	Mar. 18.	Sept. 30
DAX	Price	13,789	8,442	12,761
	Date	Feb. 19	Mar. 18	Sept. 30
ESTX Auto & Parts	Price	496	255	410
	Date	Jan. 10	Mar. 18	Sept. 30

PRICE DEVELOPMENT FROM DECEMBER 2019 TO SEPTEMBER 2020

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



Business Development

GENERAL ECONOMIC DEVELOPMENT

The global spread of the SARS-CoV-2 virus, the associated restrictions and the resulting downturn in demand and supply meant that growth in the world economy was negative between January and September 2020. The average rate of expansion of gross domestic product (GDP) was far below the previous year's level in both the advanced economies and the emerging markets. However, it was evident worldwide that growth rates declined less sharply in the third quarter of this year than in the second quarter. At country level, performance in the reporting period depended on the extent to which the negative impacts of the global Covid-19 pandemic were already materializing. The governments and central banks of numerous countries worldwide responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a marked fall in prices for energy resources, while other commodity prices remained, on average, virtually unchanged year-on-year. Currencies in some emerging markets depreciated distinctly in the first nine months of 2020. Global trade in goods declined in the reporting period.

As a whole, the economies of Western Europe recorded a sharp fall in growth from January to September 2020. This trend was seen in all countries in Northern and Southern Europe. The impact of national measures to contain the pandemic, including border closures and spatial/physical distancing, caused deep cuts. In some regions, the measures severely restricted everyday life and also had grave economic consequences. During the second quarter, the governments of many European countries started to partially lift restrictions, thus giving rise to a gradual economic recovery. This trend did not continue in certain countries due to a renewed increase in the incidence of coronavirus in many countries and the associated tougher measures to contain the pandemic,

Germany recorded a markedly negative growth rate over the reporting period. The labor market was in a favorable situation at the start of the year, but many companies introduced a furlough scheme (Kurzarbeit) during the first three quarters of the year. The easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy led to improved confidence among consumers and companies, but only occasionally reached pre-crisis levels.

The economies in Central and Eastern Europe reported an overall marked decline in the real absolute GDP in the first nine months of 2020. This trend was also observed in Russia, the largest economy in Eastern Europe.

In Turkey, the recovery from the first quarter could not be sustained – the GDP growth rate was significantly negative overall. South Africa's GDP growth declined sharply in the reporting period amid persistent structural deficits and political challenges.

Growth in the US economy receded significantly and was negative in the first three quarters of 2020 amid a dynamic increase in the rate of infection. To strengthen the economy in light of the disruption caused by the Covid-19 pandemic, the US government passed comprehensive stimulus packages. The US Federal Reserve cut interest rates twice, alongside other measures to support the economy. The weekly number of people filing new claims for unemployment benefits rose by several million before declining but still remaining at a relatively high level. This had a knock-on effect on the unemployment rate. In the neighboring countries, economic output also fell compared to the same period of 2019, the fall being significant in Canada and sharp in Mexico.

Brazil recorded a sharp decline from January to September 2020, resulting from the ongoing dynamic rate of infection caused by the Covid-19 pandemic. The economic downturn in Argentina intensified amid high inflation and continued currency depreciation compared to the previous year.

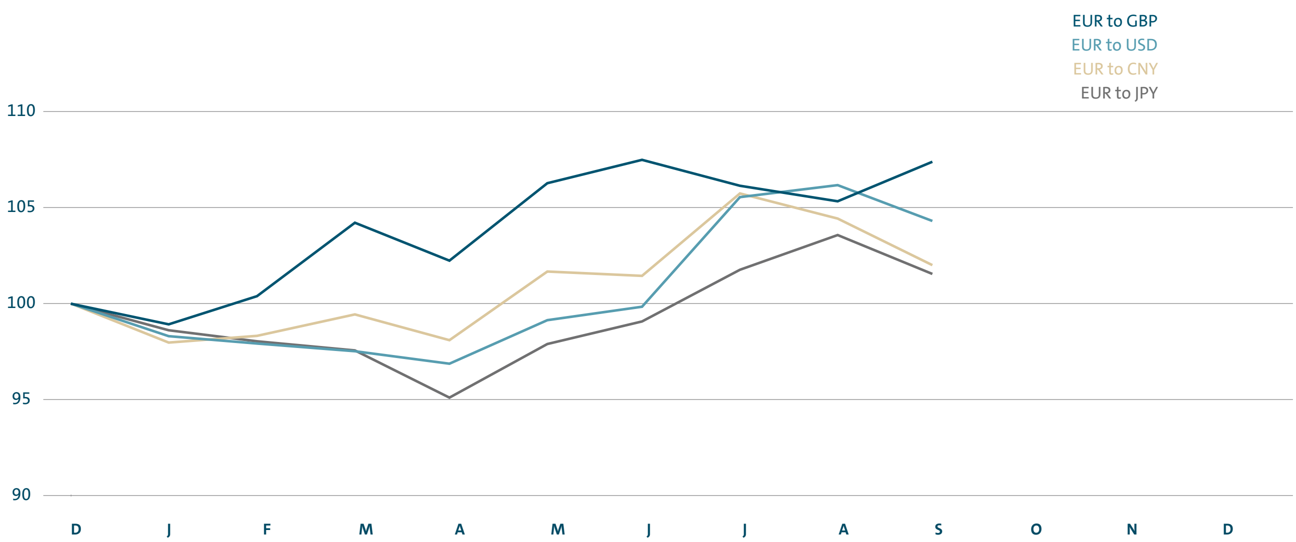
Economic output in China, which had been exposed to the negative effects of the Covid-19 pandemic earlier than other economies, rose in the reporting period on the strength of positive growth rates in the second and third quarters. India registered a sharp fall in growth amid the recent spike in infections. Japan also recorded negative GDP growth compared to the same period of the previous year due to the adverse impact of the Covid-19 pandemic.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

Global demand for passenger cars fell significantly year-on-year from January to September 2020 as a result of the Covid-19 pandemic (–20.2%). The slump affected all regions, Above-average losses were recorded in the overall markets of Western

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2019 TO SEPTEMBER 2020

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



Europe, South America and Africa, while the decline was lower by comparison in Asia-Pacific and the Middle East.

Global demand for light commercial vehicles between January and September 2020 was substantially below the prior-year level.

In Western Europe, there was a sharp fall in demand for passenger cars during the reporting period compared to the prior year. The negative impact from the spread of the SARS-CoV-2 virus was noticeable as early as March. New registrations saw declines on a similar scale in all major individual markets, though the fall in demand slowed toward the end of the reporting period and some markets even recorded positive growth rates in individual months. The passenger car markets in the UK, France, Italy and Spain each lost around one third of their volume in the first nine months of 2020.

The volume of new registrations of light commercial vehicles in Western Europe fell substantially below the prior-year figure.

New passenger car registrations in Germany between January and September 2020 did not match the high level seen in the equivalent period of the previous year. Demand here decreased by one quarter, a trend amplified by the Covid-19 pandemic and the associated restrictions and prohibitions.

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

In the Central and Eastern Europe region, sales of passenger cars in the reporting period were significantly below the previous year's level. The development of demand in the year to date has differed from market to market. While the EU countries of Central Europe registered shrinking demand from the beginning of the year, the Russian passenger car market remained stable in the first quarter. This market contracted drastically in the second quarter, as the SARS-CoV-2 virus became increasingly widespread, but regained some ground during the third quarter.

Registration volumes for light commercial vehicles in Central and Eastern Europe fell appreciably compared with the same period of the previous year, with the number of vehicles sold in Russia between January and September 2020 also coming in substantially below the prior-year figure.

In the period from January to September 2020, the volume of the passenger car market in Turkey was up by more than two thirds on the very low prior-year level. The increase in demand was bolstered in particular by the strong growth in the first and third quarters of this year, whereas demand dipped at times during the second quarter. In South Africa, the crisis meant that the number of passenger cars sold was much lower than in the previous year, which had already recorded poor figures.

In North America, too, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) declined significantly in the reporting period compared with the prior year, with the effects of the Covid-19 pandemic worsening in the second quarter. By the end of the reporting period, the decline had tapered off. The market volume in the USA also remained significantly down on the prior-year level. The decline affected both the passenger car segment and light commercial vehicles such as SUVs and pickup models. In the Canadian automotive market, the Covid-19 pandemic substantially accelerated the downward trend that began in 2018. The number of vehicles sold in Mexico fell sharply below the comparable prior-year figure.

In the markets of the South America region, the volume of new registrations for passenger cars and light commercial vehicles was much lower in the first nine months of 2020. This region, even more than Western Europe, saw the most severe impact of the Covid-19 pandemic on the automotive markets in terms of percentage. In Brazil, the recovery in demand for cars stalled; the number of new registrations was very much lower than the prior-year period. In the Argentinian market, the deterioration in the macroeconomic situation since mid-2018 and the spread of the SARS-CoV-2 virus negatively impacted the demand for passenger cars and light commercial vehicles. Sales figures also fell very sharply there between January and September 2020.

In the Asia-Pacific region, too, the reporting period was adversely impacted by the spread of the SARS-CoV-2 virus. The number of new passenger cars registered between January and September 2020 was down markedly on the prior-year level. This was also due to developments in the Chinese passenger car market, where the volume of demand fell significantly short of the previous year as a result of the Covid-19 pandemic. After the drastic losses in the first three months of the year, there were clear signs of a recovery in the overall market as the year went on. In the Indian passenger car market, sales in the period from January to September 2020 fell sharply compared with a year earlier. In Japan, vehicle demand in the first nine months of 2020 was down significantly on the previous year due not only to the Covid-19 pandemic, but also to the increase in VAT as of October 1, 2019.

There was an appreciable year-on-year decline in demand for light commercial vehicles in the Asia-Pacific region. Registration volumes in China, the region's dominant market and the largest market worldwide, fell by around a fifth compared with the previous year. The number of new vehicle registrations in India saw a drastic decrease year-on-year, while in Thailand the number was substantially below the prior-year level.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was much lower in the reporting period than in the prior year due to the spread of the SARS-CoV-2 virus.

Demand in the 27 EU states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), fell very sharply year-on-year in the first nine months of 2020. The previously anticipated downturn in the market for 2020 was amplified by the Covid-19 pandemic, especially in the second quarter of the year. The Russian market recorded a substantial downswing. Turkey saw new registrations increase by a factor of 1.3 compared, however, to a very low prior-year figure. By contrast, the South African market declined drastically. In Brazil, the largest market in the South America region, demand for trucks was significantly below the level seen in the previous year as a result of the pandemic.

The bus markets were also very strongly impacted by the Covid-19 pandemic. Demand for buses in the EU27+3 countries in the first nine months of 2020 was much lower than in the prior-year period, and the market for coaches in particular all but ground to a halt. Demand in Brazil was very much lower and in Mexico drastically below the previous year.

TRENDS IN THE MARKETS FOR POWER ENGINEERING

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

The global impact of the Covid-19 pandemic and associated uncertainty meant that order activity in the marine market was significantly lower in the first three quarters of 2020 than in the same period of the previous year, and the period was marked by project postponements. In merchant shipping, the market developed only hesitantly despite the stabilization of freight rates. Orders for cruise ships ground to a halt. The passenger ferry segment – similarly affected by a loss of revenue – was also impacted by a decline in demand. The special market for government vessels, which is driven by state investment, continued on a stable trajectory. In the offshore sector, the existing overcapacity and low oil prices virtually stifled investment in offshore oil production.

The market for power generation declined significantly in the first nine months of 2020 compared with the same period of the previous year. This trend was compounded by the spread of the SARS-CoV-2 virus and its impact on the global economic system, which led to renewed pressure on prices overall. Due to the collapse in oil prices, there was short-term demand for lower-priced stock engines run on HFO (heavy fuel oil), though the general trend away from oil-fired power plants toward dual-fuel and gas-fired power plants continued. Demand for new energy solutions such as hydrogen, battery and solar technologies was impacted by project postponements, albeit with a continuing trend toward greater flexibility and decentralized availability.

The market for turbomachinery deteriorated distinctly compared with the prior-year period in virtually all areas of application. Mainly as a consequence of the Covid-19 pandemic, demand for turbo compressors in the raw materials, oil, gas and processing industry weakened noticeably over the course of the first nine months of 2020. Demand for steam turbines for power generation also collapsed in the renewable energy industry toward the end of the first half of the year, showing a sharp downward trend overall in the first three quarters of 2020 compared with the prior-year period. Demand for gas turbines for decentralized, industrial combined heat and power installations in the power classes of the new gas turbine range slumped in the first nine months of 2020. The Covid-19 pandemic has delayed many projects in nearly all regions, with the exception of China.

The after-sales business for diesel engines improved slightly in the first three quarters of 2020, particularly in the marine segment, and benefited from a continued increase in interest in retrofitting solutions. However, following a strong first quarter, demand in the second and third quarters of 2020 fell below the prior-year level as a result of the pandemic.

The after-sales market for turbomachinery remained under strong pressure. In the first nine months of 2020, major investments in modifications, among other things, were postponed due to the Covid-19 pandemic, and more recently, individual projects have been canceled. Initial positive signs could be seen in field service, which recorded significant growth in the third quarter after business volume had been lower in the first half of the year.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

In the European passenger car market, the second quarter of 2020 was especially affected by the Covid-19 pandemic, resulting in a sharp decline in demand there for new and used vehicles over the reporting period as a whole. The proportion of lease and financing contracts, after-sales products such as servicing, maintenance and spare parts agreements, and automotive-related insurance to vehicle sales increased, although the absolute number of contracts declined.

Germany saw a year-on-year drop in the number of loan-financed and leased new vehicles between January and September 2020 due to the challenges of the Covid-19 pandemic. However, new contracts in the leasing business with individual customers improved both in terms of new vehicles and particularly in terms of used vehicles.

In South Africa, demand for financing and insurance products stabilized from the second quarter of 2020 onwards as a result of campaigns, but was down year-on-year in the reporting period.

A drop in demand for Financial Services has been seen across the entire North America region as a consequence of the Covid-19 pandemic. However, the proportion of lease and financing contracts in the USA and also Canada in the first three quarters of 2020 was up on the prior-year level because the number of new lease and financing contracts signed fell at a lower rate than vehicle deliveries. A shift from lease to financing contracts was observed in the United States. In Mexico, the currently limited fleet business led to a slight decline in the proportion of lease and financing contracts.

In the markets of the South America region, the spread of the SARS-CoV-2 virus had a negative impact on the demand for vehicles and automotive-related financial services, particularly in the second quarter and at the beginning of the third quarter of 2020. The number of contracts fell significantly in Brazil and Argentina in the reporting period; the manufacturers' penetration rates – the ratio of leased and financed vehicles to deliveries – decreased as well.

China's passenger car market recovered from the Covid-19 pandemic in the second and third quarter of 2020. The relaxation of restrictions also led to increasing numbers of new contracts signed for automotive-related financial services, which in the period January to September fell slightly short of the prior-year level. In Japan, the adverse impact of the Covid-19 pandemic was noticeable in the reporting period – especially in the new vehicle business – despite attractive financial service offerings. In India, demand for financial services fell as a result of continued weakness in the banking market and the spread of the SARS-CoV-2 virus.

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

VOLKSWAGEN GROUP DELIVERIES

The Volkswagen Group delivered 6,504,747 vehicles to customers worldwide from January to September 2020. The decrease of 18.7% or 1,500,419 units year-on-year was due almost exclusively to the Covid-19 pandemic and the measures taken worldwide to contain its spread. Sales figures for both the Passenger Cars Business Area and the Commercial Vehicles Business Area declined as a result of the fall in demand. The chart on page 13 shows the trend in deliveries worldwide by month compared with the previous year. In the following, we report separately on deliveries in the Passenger Cars Business Area and the Commercial Vehicles Business Area.

VOLKSWAGEN GROUP DELIVERIES FROM JANUARY 1 TO SEPTEMBER 30[1]

	2020	2019	%
Passenger Cars	6,377,083	7,826,075	–18.5
Commercial Vehicles	127,664	179,091	–28.7
Total	**6,504,747**	**8,005,166**	**–18.7**

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

GLOBAL DELIVERIES BY THE PASSENGER CARS BUSINESS AREA

Global demand for the Volkswagen Group's passenger cars and light commercial vehicles fell by 18.5% year-on-year to 6,377,083 units in the reporting period as a consequence of the debilitating market conditions arising from the uncertainty and the measures taken worldwide to tackle the Covid-19 pandemic. In connection with the pandemic, our deliveries to customers were affected by differing temporal and geographical effects. Bentley was the only Volkswagen Group brand that did not fall short of its prior-year figures. We registered declining demand year-on-year in nearly all regions. The sole exception was the Middle East region, largely driven by the positive trend in sales figures in Turkey. During the second and third quarter, the month-on-month declines diminished again, and we saw growth in demand for Group models in some individual markets. Demand for Group models in September was up on the prior-year figure. In a significantly declining overall global market, we achieved a passenger car market share of 13.0 (12.6) %.

The table on the next page provides an overview of passenger car and light commercial vehicle deliveries to customers by market in the reporting period. Sales trends in the individual markets are described in the following sections.

Deliveries in Europe/Other markets

In Western Europe, the Volkswagen Group delivered 2,023,822 vehicles to customers in the first nine months of this year in a sharply declining overall market. This was 26.8% fewer than in the same period of 2019. The increasing spread of the SARS-CoV-2 virus and the measures taken to contain it sent demand for the Group's vehicles into a tailspin during the first quarter and at the beginning of the second quarter. All of the major individual markets demonstrated very similar declines in demand for Group vehicles. By the end of the first half of the year, the declines had tapered off. In the third quarter, demand for Group vehicles in individual markets was once again up on a monthly basis compared with the relevant figure a year earlier. The Group models with the highest volume of demand were the Golf, Polo, Tiguan and T-Roc from the Volkswagen Passenger Cars brand. In addition, the T-Cross and Passat models from Volkswagen Passenger Cars, the Q3 Sportback, Q7 and e-tron from Audi, the Scala and Kamiq from ŠKODA, the Mii electric and Tarraco from SEAT, and the Porsche Cayenne Coupé and Porsche Taycan, all of which had been introduced as new or successor models over the course of the previous year, were very popular with customers. Some of the models successfully launched on the market during the reporting period as new or successor models were the up!, T-Roc Cabriolet, Golf hatchback, Arteon Shooting Brake and the ID.3 from Volkswagen Passenger Cars, the A3 saloon, A3 Sportback, A5 and e-tron Sportback from Audi, the Citigo[e] iV, Superb iV and Octavia from ŠKODA, and the Leon, Leon ST and Ateca from SEAT. The Volkswagen Group's share of the passenger car market in Western Europe rose to 23.4 (22.6) %.

In Germany, demand for vehicles from the Volkswagen Group was down 25.8% year-on-year between January and September 2020 in an overall market that was suffering a substantial decline. As with the overall market in Western Europe, the decrease was attributable to the negative impact of the spread of coronavirus. The Group models with the highest volume of demand were the Golf and Tiguan from the Volkswagen Passenger Cars brand. The T-Cross and Passat models from Volkswagen Passenger Cars, the Audi Q3 Sportback, Q7 and e-tron, the ŠKODA Scala and Kamiq, the Mii electric and the Tarraco from SEAT, and the Porsche Cayenne Coupé and Porsche Taycan, all of which had been introduced as new or successor models over the course of the previous year, were also in high demand from customers. Eight Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the Golf, T-Roc, Tiguan, Touran, Passat, Audi A6, Porsche 911 and Caddy. After the first nine months of 2020, the Golf was still the most popular passenger car in Germany in terms of registrations.

In the Central and Eastern Europe region, the number of vehicles delivered to customers in the reporting period fell by 17.4%, a decline less extreme than in Western Europe which was due primarily to the rise in deliveries in Russia in the first and third quarter. Demand developed encouragingly for the T-Cross from Volkswagen Passenger Cars, for the Audi Q3 Sportback, for ŠKODA's Scala, Kamiq and Karoq models and for the Porsche Cayenne Coupé. The Volkswagen Group's share of the passenger car market in the Central and Eastern Europe region amounted to 22.1 (21.3) %.

In Turkey, the Volkswagen Group continued to benefit from the catch-up effects in the overall market, increasing the number of vehicles handed over to customers between

January and September of this year by 77.5% compared with the prior-year period. The Passat saloon was the most sought-after Group model. In the very sharply contracting South African market, the number of Group models sold fell by 31.9%. The Polo from Volkswagen Passenger Cars continued to be the most frequently sold Group model there.

Deliveries in North America

In North America, demand for Volkswagen Group models fell by 21.8% year-on-year in the reporting period, largely mirroring the trend in the market as a whole. The effects of the Covid-19 pandemic became apparent in this region somewhat later, intensifying at the beginning of the second quarter. The decline tapered off slightly as the reporting period went on. The Group's share of the market in this region amounted to 4.5 (4.6)%. The Tiguan Allspace and Jetta from Volkswagen Passenger Cars were the most sought-after Group models in North America.

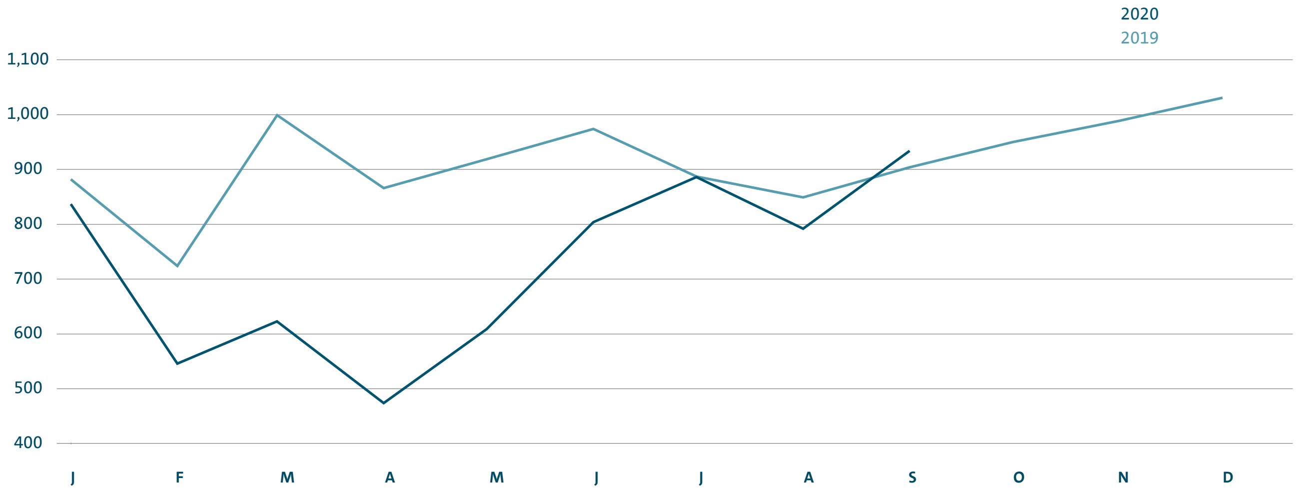
In the significantly weaker US market, the Volkswagen Group delivered 17.7% fewer vehicles to customers between January and September 2020 than in the same period of the previous year. The Group models to record the greatest

PASSENGER CAR DELIVERIES TO CUSTOMERS BY MARKET FROM JANUARY 1 TO SEPTEMBER 30[1]

	DELIVERIES (UNITS)		CHANGE
	2020	2019	(%)
Europe/Other markets	**2,684,767**	**3,561,032**	**−24.6**
Western Europe	**2,023,822**	**2,765,282**	**−26.8**
of which: Germany	745,834	1,004,791	−25.8
France	149,822	221,909	−32.5
United Kingdom	302,384	427,687	−29.3
Italy	169,363	235,430	−28.1
Spain	153,092	234,713	−34.8
Central and Eastern Europe	**464,221**	**561,822**	**−17.4**
of which: Czech Republic	81,269	101,712	−20.1
Russia	154,476	158,992	−2.8
Poland	87,721	122,433	−28.4
Other Markets	**196,724**	**233,928**	**−15.9**
of which: Turkey	82,468	46,466	+77.5
South Africa	44,936	65,961	−31.9
North America	**547,834**	**700,564**	**−21.8**
of which: USA	398,951	485,023	−17.7
Canada	61,958	84,453	−26.6
Mexico	86,925	131,088	−33.7
South America	**299,582**	**403,579**	**−25.8**
of which: Brazil	227,965	302,886	−24.7
Argentina	42,612	57,454	−25.8
Asia-Pacific	**2,844,900**	**3,160,900**	**−10.0**
of which: China	2,657,153	2,951,843	−10.0
India	17,184	36,636	−53.1
Japan	50,064	60,556	−17.3
Worldwide	**6,377,083**	**7,826,075**	**−18.5**
Volkswagen Passenger Cars	3,674,338	4,514,552	−18.6
Audi	1,187,190	1,357,102	−12.5
ŠKODA	721,884	913,723	−21.0
SEAT	316,904	454,797	−30.3
Bentley	7,496	7,155	+4.8
Lamborghini	5,631	6,517	−13.6
Porsche	191,547	202,318	−5.3
Bugatti	58	62	−6.5
Volkswagen Commercial Vehicles	272,035	369,849	−26.4

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

VOLKSWAGEN GROUP DELIVERIES BY MONTH
Vehicles in thousands



increases included the Passat and Arteon from Volkswagen Passenger Cars, the Audi Q3 and e-tron, and the Porsche 911 Cabriolet. The Atlas and the Atlas Cross Sport from the Volkswagen Passenger Cars brand, Audi's A4, A5, Q7 and e-tron Sportback models, and the Porsche Taycan and Cayenne Coupé were successfully launched on the market as new or successor models during the reporting period.

In Canada, the number of deliveries to Volkswagen Group customers fell by 26.6% year-on-year. The market as a whole experienced substantial decline during this period. The Audi Q3 in particular recorded encouraging growth in demand.

In the Mexican market, which was diminishing sharply overall, we delivered 33.7% fewer vehicles to customers in the first nine months of this year than in the prior-year period. The Group models with the highest volume of demand were the Vento and Jetta from the Volkswagen Passenger Cars brand.

Deliveries in South America

In the South American passenger car and light commercial vehicles market, which recorded a very sharp contraction overall, the number of Group models delivered to customers in the 2020 reporting period was down by 25.8% year-on-year. The effects of the Covid-19 pandemic became apparent in this region somewhat later, intensifying at the beginning of the second quarter before weakening slightly in the months that followed. The Gol and the new T-Cross from Volkswagen Passenger Cars that was launched in the previous year were the Group models in highest demand. The Group's share of the market in South America expanded to 14.4 (12.5)%.

The recovery of the Brazilian market was interrupted by the outbreak of the Covid-19 pandemic. The Volkswagen Group delivered 24.7% fewer vehicles to customers there than in the previous year. Along with the Gol and the Polo, the new T-Cross from Volkswagen Passenger Cars was in especially high demand.

In Argentina, the number of vehicles delivered to Volkswagen Group customers fell short of the prior-year figure (–25.8%) amid a very sharp contraction in the overall market. The Gol and T-Cross from Volkswagen Passenger Cars and the Amarok from Volkswagen Commercial Vehicles saw the highest demand of all Group models.

Deliveries in the Asia-Pacific region

From January to September 2020, the Volkswagen Group saw demand taper off in the overall market of the Asia-Pacific region, which witnessed a significant decline due primarily to the Covid-19 pandemic, handing over 10.0% fewer vehicles to customers than in the year before. The Group's share of the passenger car market in this region expanded to 13.4 (12.6)%.

In China, the Volkswagen Group delivered 10.0% fewer vehicles to customers year-on-year in an overall market that had been significantly weakened, in particular by the spread of the SARS-CoV-2 virus. Following very high declines in volumes in the first quarter, we recorded a slight increase for the most part in the following months compared with the respective prior-year figure. The T-Cross and Teramont X from the Volkswagen Passenger Cars brand, the VA3 and VS5 from the JETTA brand, the Audi A6L and Audi Q8, the ŠKODA Kamiq GT and the Porsche Cayenne Coupé, all of which had been introduced as new or successor models over the course of the previous year, were in especially high demand. In addition, the Tayron and the Tharu from Volkswagen Passenger Cars, the Audi Q2L, Q2L e-tron and Q5, and the Porsche Panamera saloon saw encouraging growth in demand. The Tacqua, Viloran and Tayron X models from Volkswagen Passenger Cars, the VS7 from the JETTA brand, the Audi Q7 and

Audi e-tron Sportback and the ŠKODA Rapid were successfully launched on the market as new or successor models in the reporting period.

In the strongly contracting Indian passenger car market, the Volkswagen Group saw 53.1% less demand in the first nine months of this year than in the prior-year period. The Polo from the Volkswagen brand and the Rapid from ŠKODA were the most sought-after Group models there.

In Japan, the number of Group models delivered to customers between January and September 2020 decreased by 17.3% year-on-year in a considerably weaker overall market. The Group model to record the highest demand was the Volkswagen T-Cross.

COMMERCIAL VEHICLE DELIVERIES

In the first nine months of 2020, the Volkswagen Group handed over 28.7% fewer commercial vehicles to customers worldwide than in the previous year. We delivered a total of 127,664 commercial vehicles to customers. Trucks accounted for 104,432 units (–31.8%) and buses for 11,840 units (–24.9%). A total of 11,392 (10,111) vehicles from the MAN TGE van series were delivered. The decline in the truck business was due to a slump in our core markets, which was exacerbated further in the first three quarters of 2020 by the ongoing uncertainty generated by the Covid-19 pandemic.

In the 27 EU states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), sales were down by 36.1% on the same period of the previous year to a total of 68,545 units, of which 53,342 were trucks and 4,030 were buses. Here, the MAN brand delivered 11,173 light commercial vehicles.

In Russia, sales fell by 8.2% year-on-year to 5,368 units, including 5,182 trucks and 186 buses.

Between January and September 2020, deliveries in Turkey increased to 1,731 (417) vehicles. Trucks accounted for 1,536 units and buses for 99 units, while 96 vehicles from the MAN TGE van series were sold. In South Africa, deliveries of Volkswagen Group commercial vehicles decreased by 30.7% year-on-year to a total of 2,226 units; of this figure 1,985 were trucks and 241 were buses.

Sales in North America declined in the first three quarters of 2020 to 1,152 vehicles (– 50.0%), which were handed over exclusively to customers in Mexico; this included 859 trucks and 293 buses.

Deliveries in South America fell to a total of 35,077 vehicles (– 19.2%), of which 29,424 were trucks and 5,653 were buses. Sales in Brazil decreased by 23.4% in the first nine months of 2020. Of the units delivered, 25,257 were trucks and 4,001 were buses.

In the Asia-Pacific region, the Volkswagen Group sold 7,914 vehicles to customers in the reporting period; among these, 7,053 were trucks and 852 were buses. Overall, this was 15.2% less than in the previous year.

DELIVERIES IN THE POWER ENGINEERING SEGMENT

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

In the period from January to September 2020, sales revenue in the Power Engineering segment was largely driven by Engines & Marine Systems and Turbomachinery, which together generated more than two-thirds of overall sales revenue.

COMMERCIAL VEHICLE DELIVERIES TO CUSTOMERS BY MARKET FROM JANUARY 1 TO SEPTEMBER 30[1]

	DELIVERIES (UNITS)		CHANGE
	2020	2019	(%)
Europe/Other markets	**83,521**	**124,036**	**–32.7**
of which: EU27+3	68,545	107,251	–36.1
of which: Germany	20,348	29,640	–31.3
Russia	5,368	5,850	–8.2
Turkey	1,731	417	x
South Africa	2,226	3,214	–30.7
North America	**1,152**	**2,303**	**–50.0**
of which: Mexico	1,152	2,302	–50.0
South America	**35,077**	**43,421**	**–19.2**
of which: Brazil	29,258	38,195	–23.4
Asia-Pacific	**7,914**	**9,331**	**–15.2**
Worldwide	**127,664**	**179,091**	**–28.7**
Scania	47,735	74,720	–36.1
MAN	79,929	104,371	–23.4

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

VOLKSWAGEN GROUP FINANCIAL SERVICES

The Financial Services Division includes the Volkswagen Group's dealer and customer financing, leasing, banking and insurance activities, fleet management and mobility offerings. The division comprises Volkswagen Financial Services and the financial services activities of Scania and Porsche Holding Salzburg.

The Financial Services Division's products and services were popular in the period from January to September 2020, though the Covid-19 pandemic weighed on demand. The number of new financing, leasing, service and insurance contracts signed worldwide decreased by 10.0% to 6.2 million. In the reporting period, the ratio of leased or financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets increased to 36.2 (34.9) % because the Group's deliveries fell at a higher rate than the number of contracts signed. As of September 30, 2020, the total number of contracts was 23.8 (23.7) million, slightly higher than the year-end 2019 figure.

In Europe/Other Markets, the financial services business was impacted by the Covid-19 pandemic, particularly in the second quarter. Here, the number of new contracts signed in the reporting period fell short of the prior-year level at 4.6 (5.2) million. The total number of contracts at the end of September 2020 was 17.4 million. This was 0.5% fewer than on December 31, 2019. The customer financing/leasing area accounted for 7.6 million of these contracts (–1.5%).

In North America, 672 (716) thousand new contracts were signed in the first nine months of this year. At 3.1 million, the number of contracts as of the end of September 2020 was 1.7% higher than at the end of the previous year. The customer financing/leasing area recorded 1.9 (1.8) million contracts.

The South America region was impacted by the Covid-19 pandemic in the second and third quarter in particular. Here, the number of new contracts signed in the reporting period, at 207 (266) thousand, fell short of the figure for the prior-year period. At the end of September 2020, the total number of contracts was 704 (703) thousand, slightly higher than on December 31, 2019. The contracts mainly related to the customer financing/leasing area.

In Asia-Pacific, where the SARS-CoV-2 virus spread first, the number of new contracts signed between January and September 2020 rose by 4.1% to 724 thousand. The total number of contracts as of September 30, 2020 was 2.5 million, 6.9% more than at the end of 2019. The customer financing/leasing area accounted for 1.8 million contracts (+6.9%).

SALES TO THE DEALER ORGANIZATION

The Volkswagen Group's unit sales to the dealer organization declined by 21.0% year-on-year in the first nine months of 2020 to 6,310,571 vehicles (including the Chinese joint ventures). The main reason for the decline was the negative impact of the Covid-19 pandemic. Ongoing uncertainty in connection with this and national measures introduced to contain the pandemic, such as mobility restrictions and closing stores, were accompanied by a fall in customer demand. Above-average decreases in demand were recorded especially in Europe and in North and South America. At 5,551,747 vehicles, unit sales outside Germany declined by 20.3% compared to the period from January to September 2019. In Germany, unit sales fell by 25.3% year-on-year. Vehicles sold in Germany as a proportion of overall sales decreased to 12.0 (12.7) %.

PRODUCTION

In the reporting period, the Volkswagen Group's production declined by 23.4% year-on-year to a total of 6,107,235 vehicles due to the measures taken to stem the spread of the SARS-CoV-2 virus. The impact of national measures to contain the pandemic led to a disruption of supply chains and consequently to production stoppages within the Volkswagen Group. While the production figures for the locations in China saw a year-on-year recovery from the second quarter, the delayed impact of the Covid-19 pandemic at the other locations worldwide caused declines in production in all quarters. Production in Germany fell by 31.8% to 1,091,152 units. Production abroad decreased by 21.3% year-on-year to a total of 5,016,083 vehicles. The proportion of vehicles produced in Germany decreased to 17.9 (20.1) %.

INVENTORIES

Global inventories at Group companies and in the dealer organization were lower on September 30, 2020 than at year-end 2019, and also below the corresponding prior-year figure.

EMPLOYEES

The Volkswagen Group had 635,265 active employees on September 30, 2020. A further 10,842 employees were in the passive phase of their partial retirement. In addition, there were 18,089 young people completing vocational traineeships. At the end of the third quarter of 2020, the Volkswagen Group had a total of 664,196 employees worldwide. Due to the market conditions and employees leaving the Group not being replaced, this was slightly below the year-end 2019 figure. At 294,883, the number of employees in Germany was also somewhat lower than the figure at the end of 2019.

Results of Operations, Financial Position and Net Assets

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). Furthermore, Volkswagen acquired existing Argo AI shares from Ford for a purchase price of USD 500 million, payable in three equal annual installments. The transaction, including the contribution of AID, was executed as of June 1, 2020. After proportional profit elimination, the contribution of AID to Argo AI at fair value resulted in a non-cash gain of €0.8 billion, which was recognized in the other operating result. Argo AI will be accounted for as a joint venture and included in the consolidated financial statements using the equity method.

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 connection with the diesel issue, the operating result was affected by negative special items of €–0.7 (–1.3) billion in the Passenger Cars Business Area in the reporting period. These items resulted mainly from legal risks.

RESULTS OF OPERATIONS OF THE GROUP

The Volkswagen Group generated sales revenue of €155.5 billion in the first nine months of 2020, a decline of 16.7% compared with the previous year. 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. The Volkswagen Group generated 80.7 (80.4)% of its sales revenue abroad. Gross profit decreased to € 23.3 (36.4) billion; the gross margin stood at 15.0 (19.5)%.

In the period from January to September 2020, the Volkswagen Group's operating result before special items moved back into positive territory, at €2.4 (14.8) billion. The operating return on sales before special items declined to 1.5 (7.9)%. In particular, the negative impact of the spread of the Covid-19 pandemic was an adverse factor: in addition to lower unit sales because of the fall in customer demand, turbulence in the commodity and capital markets meant that the fair value measurement of derivatives to which hedge accounting is not applied and the measurement of receivables and liabilities denominated in foreign currencies had a negative effect. The contribution of AID to the joint venture Argo AI led to a gain of €0.8 billion. Special items in connection with the diesel issue had a negative impact of €–0.7 (–1.3) billion on operating profit. A positive operating result of €1.7 (13.5) billion was achieved in the reporting period. The operating return on sales was at 1.1 (7.3)%.

Because of the spread of the SARS-CoV-2 virus, the financial result was also lower than in the previous year, decreasing by €0.5 billion to €0.6 billion. The change in discount rates used to measure liabilities meant that interest expenses included in the financial result were down for measurement-related reasons. Changes in share prices weighed on net income from securities and funds. The share of the result of equity-accounted investments was lower than in the prior-year period; this was due primarily to the lower profit generated by the Chinese joint ventures, which were affected by Covid-19 mainly during the first quarter of 2020.

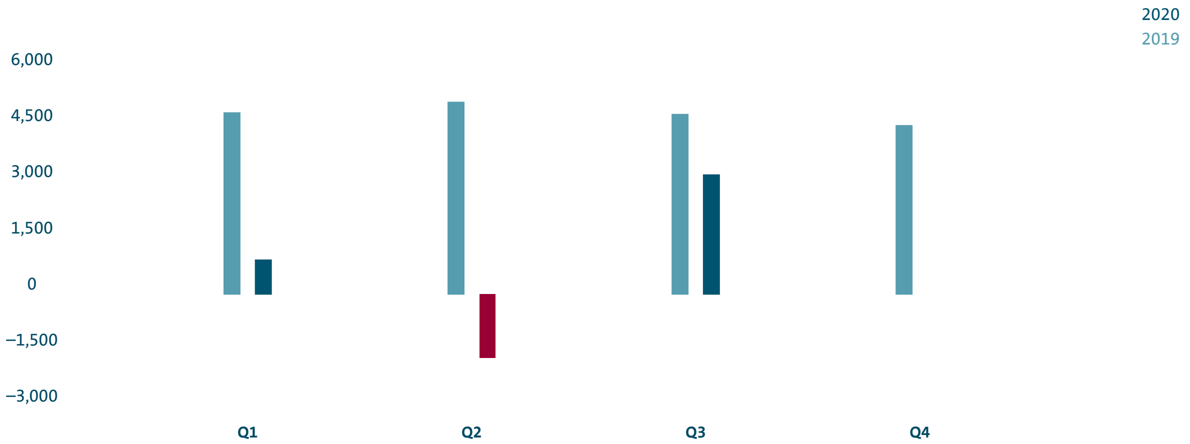
The Volkswagen Group's profit before tax decreased by €12.4 billion to €2.3 billion in the reporting period. Profit after tax amounted to €1.7 (11.2) billion.

Results of operations in the Automotive Division

The Automotive Division generated sales revenue of €125.3 billion in the first nine months of 2020. The year-on-year decrease of 20.2% 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 beneficial impact. Sales revenue in the Passenger Cars and Commercial Vehicles business areas fell considerably short of the respective prior-year figures. In the Power Engineering Business Area, it was slightly down on the previous year; due to the nature of the business, there is sometimes a significant time lag between incoming orders and revenue recognition. 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.

The lower volumes resulted in a decrease in cost of sales, although its ratio to sales revenue went up year-on-year. Higher depreciation and amortization charges due to the

OPERATING PROFIT BEFORE SPECIAL ITEMS BY QUARTER
Volkswagen Group in € million



RESULTS OF OPERATIONS IN THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS FROM JANUARY 1 TO SEPTEMBER 30

€ million	2020	2019
Passenger Cars		
Sales revenue	107,132	134,666
Operating result	185	10,103
Operating return on sales (%)	0.2	7.5
Commercial Vehicles		
Sales revenue	15,419	19,491
Operating result	–180	1,307
Operating return on sales (%)	–1.2	6.7
Power Engineering		
Sales revenue	2,749	2,873
Operating result	–101	–98
Operating return on sales (%)	–3.7	–3.4

large capex volume of previous years were set against lower research and development costs recognized in profit or loss. Total research and development costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) in the period from January to September 2020 increased to 8.1 (6.8)% compared to the prior-year period, due to the decline in sales revenue.

Distribution expenses were lower in the reporting period than a year earlier, but their ratio to sales revenue was up. There was a rise in both administrative expenses and their ratio to sales revenue. The other operating result stood at €–0.6 (–0.3) billion, reflecting mainly special items in connection with the diesel issue in an amount of €–0.6 (–1.3) billion. The item also includes the gain of €0.8 billion on the contribution of Autonomous Intelligent Driving (AID) to Argo AI, a company that is working on the development of a system for autonomous driving. Other adverse factors included above all the negative effects of the fair value measurement of derivatives to which hedge accounting is not applied and the measurement of receivables and liabilities denominated in foreign currencies, which had an impact of €–0.9 (0.3) billion.

The Automotive Division's operating result amounted to €–0.1 billion in the first three quarters of 2020, €11.4 billion down on the previous year. The operating return on sales in the Automotive Division was –0.1 (7.2)% due to the negative effect of the Covid-19 pandemic, which impacted on unit sales, the fair value measurement of certain derivatives and the measurement of receivables and liabilities denominated in foreign currencies. Lower costs and the gain on the contribution of AID had a positive impact; negative special items were lower than in the previous year. The operating result before special items decreased to €0.6 (12.6) billion, while the operating return on sales before special items declined to 0.5 (8.0)%. Since the results of the Chinese joint ventures are accounted for in the financial result using the equity method, their business performance is primarily reflected in the operating result only through deliveries of vehicles and vehicle parts, and through license revenues.

Results of operations in the Financial Services Division

Sales revenue in the Financial Services Division was €30.2 (29.6) billion in the reporting period, up slightly on the previous year's figure. Because of 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 rose by €0.5 billion to €24.8 billion. When taken together, distribution expenses, administrative expenses and the other operating result were higher than in the previous year; their ratio to sales revenue also increased. The other operating result deteriorated mainly as a result of higher risk costs resulting from the pandemic. At €1.8 (2.2) billion, the Financial Services Division's operating result fell short of the previous year's level. The operating return on sales was 5.9 (7.5)%.

FINANCIAL POSITION OF THE GROUP

In the reporting period, the Volkswagen Group's gross cash flow was €21.1 billion, down €8.8 billion on the previous year due to earnings-related factors. The change in working capital amounted to €–2.8 (–17.1) billion. The Covid-19 pandemic led among other things to lower receivables in the financial services business, a decrease in inventories because of downscaled production, a smaller increase in receivables, a decline in other provisions and a lower rise in liabilities. Cash outflows attributable to the diesel issue increased year-on-year. Cash flows from operating activities were up by €5.5 billion to €18.3 billion.

Investing activities attributable to operating activities were down on the previous year at €11.8 (12.5) billion.

Mainly as a measure to boost gross liquidity, financing activities accounted for total cash inflows of €17.8 (0.7) billion in the reporting period. Financing activities primarily include the issuance and redemption of bonds and changes in other financial liabilities. In June 2020, a dual-tranche hybrid bond of €3.0 billion was placed successfully. In September 2020, Volkswagen issued green bonds in an amount of €2 billion. Around two thirds of Volkswagen AG's syndicated credit line of €10 billion had been drawn down as of the end of the reporting period. The previous year's figure included the dividend paid to the shareholders of Volkswagen AG, 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.

The Volkswagen Group's cash and cash equivalents reported in the cash flow statement stood at €45.1 (30.4) billion at the end of the reporting period.

On September 30, 2020, the Volkswagen Group's net liquidity was €–134.5 billion, compared with €–148.0 billion at the end of 2019.

Financial position of the Automotive Division

The Automotive Division's gross cash flow decreased to €13.0 (22.3) billion in the first nine months of 2020 due primarily to the pandemic-related decline in profit. The dividend of the Chinese joint venture FAW-Volkswagen, which had not yet been resolved in the third quarter of 2019, had a positive influence compared with the previous year. The change in working capital amounted to €0.2 (–1.4) billion. The Covid-19 pandemic led among other things to a decrease in inventories because of downscaled production, a smaller increase in receivables, a decline in other provisions and a lower rise in liabilities. Working capital, which underwent very different changes in the individual quarters due to the Covid-19 pandemic, normalized in the course of the nine-month period as a whole. Cash outflows resulting from the diesel issue were higher in the reporting period than in the previous year. At €13.2 billion, cash flows from operating activities were down €7.7 billion on the figure for 2019.

The Automotive Division's investing activities attributable to operating activities amounted to €11.8 billion in the first three quarters of 2020, €0.6 billion lower than the previous year. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) declined by €1.8 billion to €6.4 billion, reducing the ratio of capex to sales revenue to 5.1 (5.2)%. Capex was invested primarily in our production facilities and in models to be launched in 2020 and 2021, as well as in the ecological focus of our model range, the electrification and digitalization of our products and in our modular toolkits. The increase in capitalized development costs by €0.8 billion to €4.5 billion in the reporting period 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 €1.1 billion as a result of strategic investments in a number of companies, in particular the joint venture Argo AI.

The Automotive Division's net cash flow was €7.2 billion lower, at €1.4 billion.

Financing activities include the issuance and redemption of bonds and changes in other financial liabilities. In the period from January to September 2020, cash inflows totaled €14.2 billion. This helped boost gross liquidity and resulted in higher liabilities to banks. The figure includes, among other items, the green bonds of €2.0 billion issued in September 2020. The dual-tranche hybrid bond with a principal amount of €3.0 billion, which was successfully issued via Volkswagen International Finance N.V. in June 2020, also led to a cash inflow. One tranche is a €1.5 billion bond that has a coupon of 3.5% and can first be called after five years, and the other is a €1.5 billion bond that has a coupon of 3.875% and can first be called after nine years. Both tranches have perpetual maturities and increase equity, net of transaction and other costs. An amount of €3.0 billion of the hybrid bond was eligible to be classified as a capital contribution and increased net liquidity. In the prior-year period, there had been a cash outflow of €7.0 billion due among other things to the dividend payment to the shareholders of Volkswagen AG, which this year was paid at the beginning of the fourth

FINANCIAL POSITION OF THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS FROM JANUARY 1 TO SEPTEMBER 30

€ million	2020	2019
Passenger Cars		
Gross cash flow	11,607	19,566
Change in working capital	675	292
Cash flows from operating activities	12,282	19,858
Cash flows from investing activities attributable to operating activities	–10,819	–13,303
Net cash flow	1,463	6,555
Commercial Vehicles		
Gross cash flow	1,203	2,577
Change in working capital	–535	–1,440
Cash flows from operating activities	669	1,137
Cash flows from investing activities attributable to operating activities	–816	1,186
Net cash flow	–148	2,323
Power Engineering		
Gross cash flow	196	179
Change in working capital	24	–254
Cash flows from operating activities	221	–75
Cash flows from investing activities attributable to operating activities	–119	–191
Net cash flow	102	–266

quarter, and the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement with MAN SE; these outflows were set against a cash inflow resulting from the IPO of TRATON.

At the end of September 2020, the Automotive Division's net liquidity stood at €24.8 billion compared to 21.3 billion on December 31, 2019.

Financial position of the Financial Services Division

In the period from January to September 2020, the Financial Services Division generated gross cash flow of €8.1 (7.6) billion. As the level of funds tied up in working capital decreased due to the lower volume of business following the decline in demand related to the spread of coronavirus, , the change in working capital amounted to €–3.0 (–15.7) billion. Cash flows from operating activities rose to €5.1 (–8.2) billion.

At €0.0 (0.2) billion, investing activities attributable to operating activities were below the level of the previous year.

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 €3.7 billion in the first nine months of 2020, compared with €7.7 billion a year earlier.

At the end of September 2020, the Financial Services Division's negative net liquidity, which is common in the industry, stood at €–159.3 billion, compared with €–169.3 billion at the end of 2019.

CONSOLIDATED BALANCE SHEET STRUCTURE

On September 30, 2020, the Volkswagen Group had total assets of €501.2 billion. The 2.7% rise compared with December 31, 2019 is mostly attributable to the boost in gross liquidity and the successful issue of the hybrid bond in the second quarter of 2020. This was offset by exchange rate effects. The Group's equity amounted to €122.4 (123.7) billion, giving it an equity ratio of 24.4 (25.3)%.

Automotive Division balance sheet structure

At the end of the third quarter of 2020, the Automotive Division's intangible assets were virtually on a level with those recorded on the 2019 balance sheet date. Exchange rate factors and depreciation in excess of additions led to a decrease in property, plant and equipment. Noncurrent assets declined by a total of 0.3% compared with the end of 2019.

Current assets increased by 14.9%. As a result of downscaled production in response to the pandemic, the inventories included in this item were lower. Current other receivables and financial assets were higher than at the end of 2019. At €47.8 billion, total securities and cash and cash equivalents in the Automotive Division exceeded the figure recorded at the end of 2019 by €14.6 billion.

Following the contribution of AID to the joint venture Argo AI, the "Assets held for sale" item consists of the carrying amount of the assets expected to be derecognized in connection with the sale of Renk, which occurred after the reporting date. The "Liabilities held for sale" item comprises the carrying amount of the corresponding liabilities expected to be derecognized.

At the end of the third quarter, the Automotive Division's equity was slightly down on the figure as of December 31, 2019, at €91.4 (92.8) billion. The hybrid bond issued in June 2020, negative effects from the measurement of derivatives recognized directly in equity, and the profit generated led to an increase 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 measurement of pension plans reduced equity. Noncontrolling interests are primarily held by the noncontrolling interest shareholders of the TRATON GROUP.

Noncurrent liabilities declined by 1.0% compared with the end of December 2019 to €89.9 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 green bonds issued in Sep-

BALANCE SHEET STRUCTURE OF THE PASSENGER CARS, COMMERCIAL VEHICLES AND POWER ENGINEERING BUSINESS AREAS

€ million	Sept. 30, 2020	Dec. 31, 2019
Passenger Cars		
Noncurrent assets	127,197	126,387
Current assets	91,399	75,459
Total assets	**218,595**	**201,846**
Equity	75,499	75,773
Noncurrent liabilities	78,911	78,679
Current liabilities	64,186	47,394
Commercial Vehicles		
Noncurrent assets	24,057	25,143
Current assets	11,111	13,420
Total assets	**35,168**	**38,563**
Equity	13,090	14,115
Noncurrent liabilities	10,414	11,367
Current liabilities	11,665	13,081
Power Engineering		
Noncurrent assets	2,024	2,206
Current assets	4,403	4,202
Total assets	**6,427**	**6,408**
Equity	2,765	2,885
Noncurrent liabilities	626	777
Current liabilities	3,037	2,746

tember led to a rise in this item. Pension provisions were up, mainly as a result of the actuarial remeasurement following a change in the discount rate.

At the end of the third quarter of 2020, current liabilities stood at €78.9 billion, €15.7 billion more than as of December 31, 2019. Current financial liabilities went up to €7.0 (–7.3) billion because of the reclassifications from noncurrent to current liabilities and the measures to boost gross liquidity. 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 at the end of 2019, a negative amount was disclosed. Current other liabilities were up compared with the end of 2019. This rise was mainly the result of the dividend distribution to the shareholders of Volkswagen AG, which was resolved by the Annual General Meeting as of the end of the third quarter of 2020, and was not paid until the beginning of the fourth quarter of 2020.

The Automotive Division had total assets of €260.2 billion at the end of September 2020, 5.4% more than on December 31, 2019.

Financial Services Division balance sheet structure

On September 30 of this year, the Financial Services Division's total assets amounted to €241.0 (241.3) billion, and were thus on a level with December 31, 2019.

Noncurrent assets were down by a total of 3.5% compared with the end of 2019; the property, plant and equipment included in this item was virtually unchanged. While lease assets increased, noncurrent financial services receivables decreased because volumes and exchange rates were affected by the Covid-19 pandemic.

Current assets were higher than at the end of 2019. Conversely, current other receivables and financial assets as well as current financial services receivables were down because of the pandemic. Cash and cash equivalents in the Financial Services Division reached a level of €14.9 billion on September 30, 2020, an increase of €8.6 billion compared with December 31, 2019.

At the end of the reporting period, the Financial Services Division accounted for around 48.1 (49.4)% of the Volkswagen Group's assets.

The Financial Services Division's equity, which amounted to €31.0 (30.9) billion, was virtually unchanged compared with December 31, 2019. Positive earnings were offset by negative exchange rate effects. The equity ratio was 12.9 (12.8)%.

An increase in other provisions and noncurrent financial liabilities led to an overall rise in noncurrent liabilities of 0.9%.

Current liabilities were lower than at the end of 2019, driven by a decline in current financial liabilities.

Deposits from the direct banking business decreased compared with the end of 2019, to €31.0 (32.5) billion.

REPORT ON EXPECTED DEVELOPMENTS, RISKS AND OPPORTUNITIES

The global spread of the SARS-CoV-2 virus is bringing enormous disruption to all areas of everyday life and the economy. This is also combined with turbulence on the commodity and financial markets. The consequences, particularly for the further development of individual economies and the world economy as a whole, cannot reliably be predicted at the current time. A second wave with growing numbers of new infections could also add to the strain and uncertainty. Despite this, we expect the economic recovery to continue for the remainder of 2020.

All areas of the Volkswagen Group are affected by the Covid-19 pandemic, especially sales due to a fall in customer demand, as well as production and the supply chains. There are risks arising in particular from a sustained fall in demand and an increasing intensity of competition. These risks could be mitigated by government economic programs. We also envisage challenges, especially associated with production, specifically with regard to stable supply chains and protecting the health of our staff. We have put in place increased hygiene and protective measures to ensure plants can operate. The Volkswagen Group Board of Management expects a negative impact on business operations at all locations worldwide. As a result, we assume that we will not fulfill the initial expectations for some of the Group's core performance indicators in fiscal year 2020.

We expect the Volkswagen Group's deliveries to customers, sales revenue and operating result to be below the previous year's figures. In the Automotive Division, the R&D ratio will exceed the previous year's level in 2020, despite counteracting measures, due to lower demand and therefore falling sales revenues, whereas we expect the ratio of capex to sales revenue to remain on a par with the previous year. In view of the lower customer demand, further payouts in relation to the diesel issue and cash outflows from mergers & acquisitions, we expect net cash flow for 2020 to be positive, yet significantly below the prior-year figure. Net liquidity in the Automotive Division will probably be around the prior-year level. We anticipate a positive return on investment (ROI) that will be below the prior-year figure due to earnings-related factors and below our defined minimum required rate of return on invested capital of 9%.

The outlook for fiscal year 2020 can be found on pages 24 and 25.

Diesel Issue

1. Criminal and administrative proceedings worldwide (excluding the USA/Canada)

In May 2020, the criminal proceedings against the current Chairman of the Board of Management and a former member of its Board of Management (currently Chairman of the Supervisory Board) of Volkswagen AG regarding alleged market manipulation relating to capital market disclosure obligations in connection with the diesel issue were definitively terminated by the Braunschweig Regional Court against payment in each case of a court-imposed sum of €4.5 million, thereby also terminating to the same extent the proceedings against Volkswagen AG as collateral participant. In September 2020, the Braunschweig Regional Court permitted the charges still pending against a former Chairman of the Board of Management of Volkswagen AG and the related action against Volkswagen AG to go forward and opened the main trial proceedings.

In September 2020, the Braunschweig Regional Court also accepted the separate indictment of the same former Chairman of the Board of Management of Volkswagen AG and others on charges that include fraud in connection with the diesel issue involving type EA 189 engines and opened the main trial proceedings.

In June 2020, the Munich II Regional Court accepted the substantially unchanged indictment of the Munich II Office of the Public Prosecutor, which also names the former Chairman of the Board of Management of AUDI AG, and opened the main trial proceedings on charges of, among other things, fraud in connection with the diesel issue involving 3.0 l TDI engines. Trial proceedings commenced in September 2020.

In August 2020, the Munich II Office of the Public Prosecutor issued a further indictment charging three former Members of the Board of Management of AUDI AG and others with, among other things, fraud in connection with the diesel issue involving 3.0 l and 4.2 l TDI engines.

2. Product-related lawsuits worldwide (excluding the USA/Canada)

In April 2020, the court in Australia approved the class action settlement that the parties had agreed to.

On February 28, 2020, Volkswagen AG and Verbraucherzentrale Bundesverband e.V. (Federation of Consumer Organizations) entered into an out of court settlement to terminate the consumer action for model declaratory judgment. The terms of the settlement require Volkswagen AG to offer individual settlements to consumers who registered claims under the action for model declaratory judgment and meet the settlement criteria. The volume of such settlements amounts to up to €830 million. Verbraucherzentrale Bundesverband e.V. withdrew the action for model declaratory judgment on April 30, 2020. Volkswagen has entered into individual settlements with some 244 thousand customers in an aggregate amount of roughly €770 million.

In April 2020, the High Court in England and Wales ruled in the group litigation that the switch logic in the EA 189 engine constituted an unlawful defeat device; the court believed that it was also bound by the findings of the Kraftfahrtbundesamt (German Federal Motor Transport Authority) in this respect. In August 2020, the Court of Appeal rejected Volkswagen's appeal against the High Court's ruling on these preliminary questions; this decision is final. The question of liability on the part of Volkswagen was not a matter addressed by the High Court's ruling and will be dealt with at a later stage of the proceedings.

In April 2020, the Diesel Emissions Justice Foundation served an opt-out class action lawsuit on Volkswagen seeking monetary damages on behalf of Dutch consumers. A change in the law in the Netherlands that took effect on January 1, 2020 may permit consumers in the European Union to opt into the class action as well. How the new law might apply to this litigation is, however, unclear. The class action relates to vehicles with type EA 189 engines, among others.

In Germany, the Bundesgerichtshof (BGH – Federal Court of Justice) handed down in May 2020 its first decision ever in an individual product-related lawsuit in connection with the diesel issue. The BGH held that the buyer, who had purchased a vehicle with a type EA 189 engine prior to public disclosure of the diesel issue, had a claim for damages against Volkswagen AG. While the buyer can require reimbursement of the vehicle's purchase price, he must accept a deduction for the benefit derived from using the vehicle and must return it to Volkswagen AG. The judgment clarified the BGH's stance on the fundamental issues underlying a large number of the some 65 thousand individual diesel lawsuits then still pending in Germany. On this basis, it has since been possible to conclude settlements and thus significantly reduce the number of individual lawsuits pending. In a series of fundamental judgments rendered in July 2020, the BGH decided further legal issues of major importance for the litigation still pending with regard to vehicles with type EA 189 engines. The BGH held that plaintiffs who purchased their vehicle after the ad hoc announcement of September 22, 2015 have no claim for damages. The court furthermore ruled that purchasers of affected vehicles are not entitled to tort interest under § 849 of the German Civil Code. The court also made it clear that a plaintiff's potential damage claim may be completely offset by the benefit derived from using the vehicle.

In September 2020, the French consumer organization Confédération de la Consommation, du Logement et du Cadre de Vie (CLCV) filed a class action against Volkswagen Group Automotive Retail France and Volkswagen AG for up to 950 thousand French owners and lessees of vehicles with type EA 189 engines. This is an opt-in proceeding in which the affected consumers are not required to opt into the class action until a legally final judgment is rendered.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)

In decisions handed down in March 2019, the Stuttgart Higher Regional Court refused to conduct additional investor actions for model declaratory judgment. These included an action for model declaratory judgment against Porsche SE and Volkswagen AG alleging violations of ad hoc disclosure obligations in connection with the diesel issue. The plaintiff side appealed the Stuttgart Higher Regional Court's rejection of this model case action to the Federal Court of Justice. In June 2020, the Federal Court of Justice remanded the matter to the Stuttgart Higher Regional Court for redecision on the determination of a model case plaintiff. In October 2020, the Stuttgart Higher Regional Court appointed the Wolverhampton City Council, Administrating Authority for the West Midlands Metropolitan Authorities Pension Fund as model case plaintiff in these proceedings, in which Volkswagen AG is involved as a third party intervening in support of a party to the dispute.

4. Proceedings in the USA/Canada

In February 2020, the Montana State Court dismissed certain of the environmental claims asserted by the Montana Attorney General, but allowed other claims to proceed. In August 2020, the Montana Supreme Court declined on procedural grounds to grant Volkswagen's petition to review that decision. In March 2020, the Ohio Supreme Court, at Volkswagen's request, agreed to hear an appeal of a lower court's decision concerning Ohio's remaining claims. In June 2020, the US Court of Appeals for the Ninth Circuit partially reversed the trial court's decision and held that Hillsborough County (Florida) and Salt Lake County (Utah) can proceed with a subset of their claims. In September 2020, the US Court of Appeals for the Ninth Circuit stayed proceedings in the litigation pending Volkswagen's anticipated petition for review by the US Supreme Court.

In May 2020, the settlement program in the United States for Generation 2 3.0 l TDI vehicles ended.

In the environmental class action lawsuit seeking damages on behalf of the residents of the Province of Quebec, after authorizing the case to proceed as a class, a Quebec court ruled in June 2020 that a motion to dismiss by Volkswagen is permissible at the present stage of the proceedings. Volkswagen noticed its motion in July 2020.

In the lawsuit brought by the SEC in March 2019 alleging claims under US federal securities law, the US District Court for the Northern District of California granted in part and denied in part Volkswagen's motion to dismiss in August 2020. The claims dismissed by the court included all claims against VW Credit, Inc. related to asset-backed securities. In September 2020, the SEC filed an amended complaint that, among other things, removed the dismissed claims.

The term of the Independent Compliance Monitor retained pursuant to the Plea Agreement expired in September 2020, whereas that of the Independent Compliance Auditor under the Third Partial Consent Decree and the Third California Partial Consent Decree ended earlier, in June 2020.

5. Additional proceedings

In the proceedings regarding appointment of a special auditor for Volkswagen AG, the Celle Higher Regional Court issued a ruling in April 2020 appointing a special auditor other than the one originally named. The decision of the Higher Regional Court of Celle is formally unappealable. Volkswagen AG has filed a constitutional complaint with the Federal Constitutional Court contesting this decision as well on grounds of infringement of its constitutionally guaranteed rights and has suggested joinder of this matter with its initial constitutional complaint against the decision to appoint the special auditor. The constitutional complaint has no suspensory effect, however.

Additional important legal cases

In the tax litigation between the Brazilian tax authorities and MAN Latin America, the amount at risk remains unchanged at BRL 3.1 billion. Due to exchange rate fluctuations, the risk in euros as contained in the notes under contingent liabilities has declined from €0.7 billion to €0.5 billion.

In connection with the factual matters that in principle also underlie the antitrust proceedings instituted by the European Commission against Volkswagen AG, AUDI AG, and Dr. Ing. h.c. F. Porsche AG in April 2019, the South Korean competition authority searched the premises of Audi Volkswagen South Korea and Porsche South Korea in May 2020 and issued requests for information to Volkswagen AG, AUDI AG, and Dr. Ing. h.c. F. Porsche AG. Furthermore, the Turkish competition authority commenced proceedings in the same matter in July 2020.

In March 2020, the US District Court for the Northern District of California dismissed two amended class action complaints brought by purchasers of German luxury vehicles alleging that several automobile manufacturers, including Volkswagen AG and other Group companies, conspired to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support that the alleged agreements unreasonably restrained competition in violation of US law. The court granted plaintiffs leave to file amended complaints with respect to a limited subset of plaintiffs' original claims. Plaintiffs filed a second set of amended complaints in June 2020, which defendants moved to dismiss in August 2020. In October 2020, the court granted defendants' motion and dismissed with prejudice the amended complaints in their entirety. Plaintiffs may appeal this ruling.

In February 2020, the US District Court for the Northern District of California granted final approval of a class action settlement resolving civil claims relating to approximately 98 thousand Volkswagen, Audi, Porsche and Bentley vehicles with automatic transmissions.

In October 2020, plaintiffs filed three complaints in the US District Court for the Northern District of California, seeking to represent a putative class of US purchasers and lessees of certain Porsche gasoline-powered vehicles. The defendants include Volkswagen AG, Dr. Ing. h.c. F. Porsche AG, AUDI AG, and Porsche Cars North America, Inc.; each defendant is not named in all the complaints. The complaints allege that the affected vehicles used certain software and/or hardware that resulted in increased emissions and/or overstated fuel economy estimates as compared to the results of certification testing.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in fiscal year 2020 contained in the combined management report in the 2019 Annual Report, specifically in the chapters "Report on Expected Developments" and "Report on Risks and Opportunities," including the section "Legal risks." In particular, based on the information as it exists and has been established, there continue to be no conclusive findings or assessments available to the Board of Management of Volkswagen AG regarding the described facts that would suggest that a different assessment of the associated risks should have been made.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to the legal risks. This is so as to not compromise the results of the proceedings or the interests of the Company.

Outlook

The Volkswagen Group Board of Management anticipates a negative growth rate in the world economy in 2020 as a result of the spread of the SARS-CoV-2 virus. We also continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by continuing geopolitical tensions and conflicts. We expect both the advanced economies and the emerging markets to experience a marked decline in economic performance. Despite this, we expect the economic recovery to continue for the remainder of 2020.

In response to the Covid-19 pandemic, we have developed scenarios for the development of the passenger car markets in individual regions in 2020 which, for example, also take account of the trends currently being experienced in China. The scenarios reflect the differing temporal spread of the Covid-19 pandemic in the various geographic regions. In all, we expect the volume of global demand for new vehicles in 2020 to be between 15 and 20% lower than it was the previous year. In Western Europe, we anticipate a fall of around 25% in the volume of new passenger car registrations in 2020 compared to the prior year. After the drastic decline at the beginning of the second quarter, there was a recovery in the months that followed, and by the end of the reporting period, the prior-year figure was even equaled in individual months. We believe that the fourth quarter of 2020 will witness a sideways movement in the market, keeping volumes distinctly below the previous year's level. Following the slump in the second quarter and the recovery in the third quarter, we also project a sideways trend in the passenger car markets of Central and Eastern Europe for the last three months of the year, leading to a considerable drop compared with the prior-year figure. We expect that the number of vehicles sold there in 2020 will probably be down around 20% year-on-year. The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America in 2020 is likely to be 20 to 25% lower than in the prior year. We anticipate that following the drastic decline at the beginning of the second quarter and a steady recovery in subsequent months, reaching the prior-year level in September, the market will weaken substantially in the last quarter of 2020. We expect to see new registrations of passenger cars and light commercial vehicles in the South American markets fall by up to 35% in 2020 compared with the previous year. Following the drastic decline in the second quarter and a strong upward trend in the third quarter, the fourth quarter will probably see the market move sideways at the level reached in the third quarter, whereby it will still not return to the prior-year figures. The passenger car markets in the Asia-Pacific region are likely to be between 10 and 15% below the prior-year level in 2020. After the very sharp decline in the first three months, the rapid rebound in the second quarter and a return to prior-year levels in the third quarter, we expect performance in the last quarter of 2020 to be down moderately on the previous year.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2020; on the whole, we anticipate a significant fall in demand due to Covid-19.

In the markets relevant for the Commercial Vehicles Business Area, we expect a sharp to very sharp year-on-year fall in 2020 in new registrations for both mid-sized and heavy trucks with a gross weight of more than six tonnes and for buses.

In our view, automotive financial services will again be very important for vehicle sales worldwide in 2020.

Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. As part of the transformation of our core business, we are positioning our Group brands with an even stronger focus on their individual characteristics, and are optimizing the vehicle and drive portfolio. The focus is primarily on our vehicle fleet's carbon footprint and on the most attractive and fastest-growing market segments. In addition, we are working to leverage the advantages of our multibrand Group even more effectively with the ongoing development of new technologies and the enhancement of our toolkits.

We anticipate that deliveries to Volkswagen Group customers will be significantly down on the previous year in 2020 due to the impact of the Covid-19 pandemic.

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

We expect the sales revenue of the Volkswagen Group and its business areas – with the exception of the Financial Services Division – to fall significantly below the previous year's level in 2020 as a result of the Covid-19 pandemic. We anticipate a severe year-on-year decline in the operating result before and including special items for the Volkswagen Group and its Passenger Cars Business Area as well as in the operating result for the Commercial Vehicles Business Area. In the Power Engineering Business Area and in the Financial Services Division, we expect the pandemic to have less of an impact on the operating result in 2020 due to their business models. For the Power Engineering Business Area, we anticipate a significantly higher operating loss than that of the previous year. For the Financial Services Division we forecast sales revenue on a level with the previous year and a significant drop in the operating result year-on-year. Overall, we expect the operating result for the Volkswagen Group for 2020 before and including special items to be in positive territory.

Brands and Business Fields

SALES REVENUE AND OPERATING PROFIT BY BRAND AND BUSINESS FIELD

Between January and September 2020, the Covid-19 pandemic had a strong impact on business at the Volkswagen Group and its brands; this led to lower figures in terms of unit sales, sales revenue and profit throughout the Group. The Group's sales revenue declined to €155.5 (186.6) billion. Operating profit before special items fell to €2.4 (14.8) billion. The diesel issue gave rise to special items of €–0.7 (–1.3) billion in the first nine months of this year.

The Volkswagen Passenger Cars brand sold 1.9 (2.8) million vehicles in the reporting period; this represented a 31.1% decrease on the previous year. Sales of the T-Cross launched in the previous year increased, thus bucking the trend, and the new Atlas Cross Sport was also very popular. At €47.2 billion, sales revenue was 27.9% lower than in the previous year. The operating result before special items decreased to €–1.0 (3.2) billion. Lower fixed costs and better price positioning were unable to compensate for the impact of lower volumes due to the Covid-19 pandemic nor for negative exchange rate effects. The diesel issue gave rise to special items of €–0.6 (–0.7) billion in the reporting period.

Sales by the Audi brand declined to 682 (900) thousand vehicles worldwide in the first nine months of 2020. A further 475 (430) thousand Audi vehicles were sold through the Chinese joint venture FAW-Volkswagen. The Q3, A6 and e-tron models saw increasing demand. Sales revenue fell to €33.3 (41.3) billion. The decrease in volumes, the impact of the measurement of certain derivatives as well as negative exchange rate effects and larger sales incentives reduced operating profit (current-year figure before special items) to €0.2 (3.2) billion. Lower fixed and development costs and the deconsolidation effect from the divestment of Autonomous Intelligent Driving GmbH (AID) had a positive effect. The diesel issue resulted in special items of €–0.1 billion in the reporting period. The financial key performance indicators for the Audi brand include the Lamborghini and Ducati brands. Ducati sold 34,160 (42,506) motorcycles in the first three quarters.

In the period from January to September 2020, the ŠKODA brand sold 596 thousand vehicles, a decrease of 25.9% compared to the prior-year period. The new Scala, Kamiq and Octavia Combi models were especially popular with customers. Sales revenue came to €12.0 (14.8) billion, while operating profit declined to €469 (1,175) million. Lower volumes due to Covid-19, negative exchange rate effects and emissions-related expenses were offset by a reduction of fixed and development costs as well as product cost optimizations.

The SEAT brand sold 319 thousand vehicles in the reporting period, a decrease of 38.3% on the previous year. This figure includes the A1 manufactured for Audi. The Arona and Ateca SUV models and the Leon were in high demand. Sales revenue stood at €6.0 billion, a decline of 31.5% compared with the previous year. The operating result fell to €–290 (248) million, mainly due to lower volumes as a result of the pandemic. Emissions-related expenses were also an adverse factor.

At 7,610 (7,224) units, sales by the Bentley brand were higher in the first nine months of 2020 than in 2019. Sales revenue rose to €1,397 (1,306) million on the back of volume effects. The operating result decreased to € – 52 (65) million, mainly due to higher depreciation and amortization charges, one-off expenses for restructuring measures and exchange rate effects.

VOLKSWAGEN GROUP REPORTING STRUCTURE

AUTOMOTIVE DIVISION			FINANCIAL SERVICES DIVISION
Passenger Cars Business Area	**Commercial Vehicles Business Area**	**Power Engineering Business Area**	Dealer and customer financing
Volkswagen Passenger Cars	Scania Vehicles and Services	Power Engineering	Leasing
Audi	MAN Commercial Vehicles		Direct bank
ŠKODA			Insurance
SEAT			Fleet management
Bentley			Mobility offerings
Porsche Automotive			
Volkswagen Commercial Vehicles			
Others			

Porsche Automotive sold 181 thousand vehicles worldwide in the reporting period, thus falling 11.6% short of the prior-year figure. Sales revenue amounted to €17.5 (18.7) billion. Operating profit decreased to €1.9 (3.2) billion (prior-year figure before special items); however, a two-digit return on sales of 10.8% was achieved. The decrease in operating profit was attributable to lower vehicle sales as well as to cost increases, especially for digitalization and electrification. In addition, changes in exchange rates had a negative effect.

Unit sales by Volkswagen Commercial Vehicles fell to 250 (344) thousand vehicles worldwide between January and September 2020. Sales revenue amounted to €6.7 billion, a decrease of 23.8% year-on-year. The operating result declined to €–362 (497) million as a consequence of lower demand and the CO_2 tax that entered into force this year. Moreover, higher upfront expenditures and write-downs for new products, increases in fixed costs as well as less favorable exchange rates had a negative effect on the operating result, while product cost optimizations and mix effects had a positive impact.

Scania Vehicles and Services sold 49 (76) thousand vehicles in the first nine months of 2020. Sales revenue amounted to €8.1 (10.4) billion. The operating profit of Scania Vehicles and Services decreased to €419 (1,209) million. Improvements in the mix and lower fixed and development costs were unable to make up for lower volumes and negative exchange rate effects.

MAN Commercial Vehicles sold 80 thousand units in the reporting period; this was 23.4% fewer than a year earlier. Sales revenue declined to €7.5 (9.2) billion. At €–461 (297) million, the operating result fell short of the prior-year figure, mainly due to the lower volume of new vehicles, a difficult used vehicle business and costs incurred in connection with the introduction of the new generation of trucks.

Power Engineering generated sales revenue of €2.7 (2.9) billion in the first three quarters of 2020. Operating profit declined to €66 (91) million due to volume effects as well as changes in exchange rates. Cost reductions and mix effects had a positive impact.

KEY FIGURES BY BRAND AND BUSINESS FIELD FROM JANUARY 1 TO SEPTEMBER 30

	VEHICLE SALES		SALES REVENUE		OPERATING RESULT	
Thousand vehicles/€ million	2020	2019	2020	2019	2020	2019
Volkswagen Passenger Cars	1,896	2,754	47,184	65,447	–969	3,152
Audi	682	900	33,264	41,332	221	3,239
ŠKODA	596	805	12,038	14,811	469	1,175
SEAT	319	517	6,043	8,828	–290	248
Bentley	8	7	1,397	1,306	–52	65
Porsche Automotive[1]	181	205	17,482	18,666	1,884	3,200
Volkswagen Commercial Vehicles	250	344	6,674	8,756	–362	497
Scania Vehicles and Services[2]	49	76	8,094	10,427	419	1,209
MAN Commercial Vehicles	80	104	7,461	9,175	–461	297
Power Engineering	–	–	2,749	2,873	66	91
VW China[3]	2,462	2,815	–	–	–	–
Other[4]	–211	–543	–15,494	–22,949	–176	–411
Volkswagen Financial Services	–	–	28,595	27,946	1,632	2,035
Volkswagen Group before special items	**–**	**–**	**–**	**–**	**2,380**	**14,795**
Special items	–	–	–	–	–687	–1,257
Volkswagen Group	**6,311**	**7,983**	**155,486**	**186,617**	**1,693**	**13,539**
Automotive Division[5]	6,311	7,983	125,301	157,031	–95	11,313
of which: Passenger Cars Business Area	6,182	7,803	107,132	134,666	185	10,103
Commercial Vehicles Business Area	129	180	15,419	19,491	–180	1,307
Power Engineering Business Area	–	–	2,749	2,873	–101	–98
Financial Services Division	–	–	30,185	29,587	1,789	2,226

1 Porsche (including Financial Services): sales revenue €19,406 (20,490) million, operating profit before special items €2,011 (3,346) million.
2 Scania (including Financial Services): sales revenue €8,416 (10,762) million, operating profit €501 (1,314) million.
3 The sales revenues and operating profits of the joint venture companies in China are not included in the figures for the Group.
These Chinese companies are accounted for using the equity method and recorded a proportionate operating profit of €2,632 (3,187) million.
4 In operating profit, mainly intragroup items recognized in profit or loss, in particular from the elimination of intercompany profits; the figure includes depreciation and amortization of identifiable assets as part of purchase price allocation, as well as companies not allocated to the brands.
5 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.

The number of new financing, leasing, service and insurance contracts with Volkswagen Financial Services signed between January and September 2020 was 5.7 (6.3) million (–9.1%). The penetration rate, expressed as the ratio of leased or financed vehicles to relevant Group delivery volumes, rose to 35.9 (34.5)% with credit eligibility criteria remaining unchanged. This was because the Group's deliveries fell at a higher rate than the number of contracts signed. The total number of contracts as of September 30, 2020 was 21.6 million, up from 21.5 million at the end of 2019. The number of contracts in the customer financing/leasing area amounted 11.3 (11.2) million, while it was 10.4 (10.3) million in the service/insurance area. As of the end of the reporting period, Volkswagen Bank managed 1.4 (1.4) million deposit accounts. Operating profit decreased to €1.6 (2.0) billion in the first nine months of 2020 due to risk costs.

UNIT SALES AND SALES REVENUE BY MARKET

In the reporting period, the Volkswagen Group sold 2.7 million vehicles in the Europe/Other markets region, 24.9% fewer than in the previous year. The impact of the Covid-19 pandemic acted as a drag on business, particularly from the end of the first quarter onwards. Sales revenue declined to €93.8 (113.9) billion due to the fall in demand. Moreover, exchange rate effects had a negative impact, while mix effects made a positive contribution.

In the North American markets, the negative effects caused by the spreading of the SARS-CoV-2 virus became apparent somewhat later, namely at the beginning of the second quarter. There, sales by the Volkswagen Group decreased by 31.5% between January and September 2020 to a total of 505 thousand units. Sales revenue declined to €25.8 (32.9) billion.

Unit sales in South America came to 322 (445) thousand vehicles in the first nine months of this year. The Covid-19 pandemic dampened demand in the second and third quarter in particular. Declining volumes and an unfavorable exchange rate trend reduced sales revenue to €5.9 (8.4) billion.

In the Asia-Pacific region, the first to be affected by the Covid-19 pandemic at the beginning of the year, demand increased again as the year went on. Unit sales by the Volkswagen Group – including the Chinese joint ventures – stood at 2.8 (3.2) million vehicles in the reporting period. Sales revenue fell to €30.4 (31.3) billion as a result of lower volumes and exchange rate effects. This figure does not include the sales revenue of our equity-accounted Chinese joint ventures.

In the first three quarters of 2020, hedging transactions relating to sales revenue in foreign currency had a negative impact of €–0.5 (+0.1) billion on sales revenue in the Volkswagen Group.

KEY FIGURES BY MARKET FROM JANUARY 1 TO SEPTEMBER 30

	VEHICLE SALES		SALES REVENUE	
Thousand vehicles/€ million	2020	2019	2020	2019
Europe/Other markets	2,726	3,630	93,838	113,926
North America	505	737	25,845	32,878
South America	322	445	5,879	8,433
Asia-Pacific[1]	2,757	3,171	30,380	31,310
Hedges on sales revenue	–	–	–456	71
Volkswagen Group[1]	**6,311**	**7,983**	**155,486**	**186,617**

1 The sales revenue of the joint venture companies in China is not included in the figures for the Group and the Asia-Pacific market.

Interim Consolidated Financial Statements (Condensed)

Income Statement for the Period January 1 to September 30

€ million	VOLKSWAGEN GROUP 2020	VOLKSWAGEN GROUP 2019	DIVISIONS: AUTOMOTIVE[1] 2020	AUTOMOTIVE[1] 2019	FINANCIAL SERVICES 2020	FINANCIAL SERVICES 2019
Sales revenue	**155,486**	**186,617**	**125,301**	**157,031**	**30,185**	**29,587**
Cost of sales	–132,156	–150,237	–107,356	–125,981	–24,800	–24,255
Gross result	**23,330**	**36,381**	**17,945**	**31,050**	**5,385**	**5,331**
Distribution expenses	–12,860	–15,093	–11,961	–13,924	–899	–1,169
Administrative expenses	–7,214	–6,836	–5,505	–5,469	–1,709	–1,367
Other operating income/expense	–1,563	–913	–574	–343	–989	–570
Operating result	**1,693**	**13,539**	**–95**	**11,313**	**1,789**	**2,226**
Share of the result of equity-accounted investments	2,019	2,595	1,963	2,543	55	52
Interest result and other financial result	–1,458	–1,497	–1,427	–1,478	–31	–18
Financial result	**561**	**1,099**	**536**	**1,065**	**24**	**34**
Earnings before tax	**2,254**	**14,637**	**441**	**12,378**	**1,813**	**2,259**
Income tax expense	–523	–3,484	–46	–2,954	–477	–530
Earnings after tax	**1,731**	**11,154**	**396**	**9,424**	**1,336**	**1,730**
of which attributable to						
Noncontrolling interests	–37	85	–81	33	45	52
Volkswagen AG hybrid capital investors	386	404	386	404	–	–
Volkswagen AG shareholders	1,382	10,664	91	8,986	1,291	1,678
Basic/diluted earnings per ordinary share in €[2]	**2.73**	**21.25**				
Basic/diluted earnings per preferred share in €[2]	**2.79**	**21.31**				

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Explanatory information on earnings per share is presented in the “Earnings per share” section.

Statement of Comprehensive Income for the Period January 1 to September 30

€ million	2020	2019
Earnings after tax	**1,731**	**11,154**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–2,111	–9,798
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	666	2,890
Pension plan remeasurements recognized in other comprehensive income, net of tax	–1,444	–6,908
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	–15	–22
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	20	14
Items that will not be reclassified to profit or loss	**–1,438**	**–6,915**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–2,909	421
Transferred to profit or loss	15	–
Exchange differences on translating foreign operations, before tax	–2,894	421
Deferred taxes relating to exchange differences on translating foreign operations	4	11
Exchange differences on translating foreign operations, net of tax	–2,890	432
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	2,985	–1,592
Transferred to profit or loss (OCI I)	–858	–664
Cash flow hedges (OCI I), before tax	2,127	–2,256
Deferred taxes relating to cash flow hedges (OCI I)	–644	651
Cash flow hedges (OCI I), net of tax	1,483	–1,605
Fair value changes recognized in other comprehensive income (OCI II)	–708	–1,183
Transferred to profit or loss (OCI II)	966	759
Cash flow hedges (OCI II), before tax	258	–424
Deferred taxes relating to cash flow hedges (OCI II)	–73	126
Cash flow hedges (OCI II), net of tax	185	–298
Fair value valuation of receivables and securities (debt instruments) that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	34	69
Transferred to profit or loss	1	0
Fair value valuation of receivables and securities (debt instruments) that may be reclassified to profit or loss, before tax	35	69
Deferred taxes relating to fair value valuation of receivables and securities (debt instruments) recognized in other comprehensive income	–10	–21
Fair value valuation of receivables and securities (debt instruments) that may be reclassified to profit or loss, net of tax	25	48
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–203	111
Items that may be reclassified to profit or loss	**–1,400**	**–1,312**
Other comprehensive income, before tax	–2,781	–11,883
Deferred taxes relating to other comprehensive income	–57	3,656
Other comprehensive income, net of tax	**–2,838**	**–8,227**
Total comprehensive income	**–1,107**	**2,927**
of which attributable to		
Noncontrolling interests	–108	62
Volkswagen AG hybrid capital investors	386	404
Volkswagen AG shareholders	–1,386	2,460

Income Statement for the Period July 1 to September 30

€ million	VOLKSWAGEN GROUP 2020	VOLKSWAGEN GROUP 2019	DIVISIONS AUTOMOTIVE[1] 2020	DIVISIONS AUTOMOTIVE[1] 2019	DIVISIONS FINANCIAL SERVICES 2020	DIVISIONS FINANCIAL SERVICES 2019
Sales revenue	**59,355**	**61,420**	**48,285**	**50,905**	**11,070**	**10,515**
Cost of sales	–48,928	–49,782	–39,797	–41,098	–9,132	–8,685
Gross result	**10,427**	**11,638**	**8,489**	**9,807**	**1,939**	**1,830**
Distribution expenses	–4,508	–5,096	–4,194	–4,701	–314	–395
Administrative expenses	–2,354	–2,313	–1,701	–1,870	–652	–443
Other operating income/expense	–382	313	49	489	–431	–176
Operating result	**3,183**	**4,541**	**2,642**	**3,724**	**541**	**817**
Share of the result of equity-accounted investments	855	996	822	974	33	23
Interest result and other financial result	–432	–458	–423	–418	–10	–40
Financial result	**423**	**539**	**399**	**556**	**24**	**–17**
Earnings before tax	**3,606**	**5,080**	**3,041**	**4,280**	**565**	**800**
Income tax expense	–856	–1,094	–739	–960	–117	–134
Earnings after tax	**2,751**	**3,986**	**2,302**	**3,320**	**448**	**666**
of which attributable to						
Noncontrolling interests	21	61	12	40	9	21
Volkswagen AG hybrid capital investors	147	136	147	136	–	–
Volkswagen AG shareholders	2,583	3,789	2,144	3,144	439	645
Basic/diluted earnings per ordinary share in €[2]	**5.17**	**7.56**				
Basic/diluted earnings per preferred share in €[2]	**5.12**	**7.56**				

1 Including allocation of consolidation adjustments between the Automotive and Financial Services divisions.
2 Explanatory information on earnings per share is presented in the “Earnings per share” section.

Statement of Comprehensive Income for the Period July 1 to September 30

€ million	2020	2019
Earnings after tax	**2,751**	**3,986**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–2,004	–3,304
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	607	977
Pension plan remeasurements recognized in other comprehensive income, net of tax	–1,397	–2,327
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	–1	–38
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	14	–4
Items that will not be reclassified to profit or loss	**–1,384**	**–2,370**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–1,046	314
Transferred to profit or loss	0	–
Exchange differences on translating foreign operations, before tax	–1,046	314
Deferred taxes relating to exchange differences on translating foreign operations	0	–1
Exchange differences on translating foreign operations, net of tax	–1,046	313
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	1,051	–1,335
Transferred to profit or loss (OCI I)	–370	–144
Cash flow hedges (OCI I), before tax	682	–1,479
Deferred taxes relating to cash flow hedges (OCI I)	–194	421
Cash flow hedges (OCI I), net of tax	488	–1,059
Fair value changes recognized in other comprehensive income (OCI II)	–44	–293
Transferred to profit or loss (OCI II)	307	263
Cash flow hedges (OCI II), before tax	263	–31
Deferred taxes relating to cash flow hedges (OCI II)	–90	10
Cash flow hedges (OCI II), net of tax	173	–21
Fair value valuation of receivables and securities (debt instruments) that may be reclassified to profit or loss		
Fair value changes recognized in other comprehensive income	12	17
Transferred to profit or loss	0	0
Fair value valuation of receivables and securities (debt instruments) that may be reclassified to profit or loss, before tax	13	17
Deferred taxes relating to fair value valuation of receivables and securities (debt instruments) recognized in other comprehensive income	–4	–5
Fair value valuation of receivables and securities (debt instruments) that may be reclassified to profit or loss, net of tax	9	12
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–132	53
Items that may be reclassified to profit or loss	**–508**	**–701**
Other comprehensive income, before tax	–2,211	–4,473
Deferred taxes relating to other comprehensive income	320	1,402
Other comprehensive income, net of tax	**–1,892**	**–3,071**
Total comprehensive income	**859**	**915**
of which attributable to		
Noncontrolling interests	–2	43
Volkswagen AG hybrid capital investors	147	136
Volkswagen AG shareholders	714	736

Balance Sheet as of September 30, 2020 and December 31, 2019

€ million	VOLKSWAGEN GROUP 2020	VOLKSWAGEN GROUP 2019	DIVISIONS AUTOMOTIVE[1] 2020	DIVISIONS AUTOMOTIVE[1] 2019	DIVISIONS FINANCIAL SERVICES 2020	DIVISIONS FINANCIAL SERVICES 2019
Assets						
Noncurrent assets	**295,035**	**300,608**	**153,277**	**153,736**	**141,758**	**146,873**
Intangible assets	66,560	66,214	66,388	66,010	171	204
Property, plant and equipment	62,717	66,152	61,600	65,043	1,118	1,110
Lease assets	49,412	48,938	1,557	2,084	47,855	46,853
Financial services receivables	80,124	86,973	–390	–390	80,514	87,363
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	36,221	32,331	24,121	20,989	12,100	11,342
Current assets	**206,194**	**187,463**	**106,913**	**93,081**	**99,281**	**94,382**
Inventories	43,504	46,742	39,250	41,898	4,254	4,844
Financial services receivables	56,121	58,615	–462	–640	56,584	59,255
Other receivables and financial assets	39,536	38,620	19,485	17,803	20,051	20,817
Marketable securities	20,672	16,769	17,138	13,546	3,533	3,223
Cash, cash equivalents and time deposits	45,548	25,923	30,690	19,679	14,858	6,243
Assets held for sale	812	795	812	795	–	–
Total assets	**501,229**	**488,071**	**260,190**	**246,816**	**241,039**	**241,255**
Equity and Liabilities						
Equity	**122,402**	**123,651**	**91,353**	**92,774**	**31,048**	**30,877**
Equity attributable to Volkswagen AG shareholders	105,157	109,117	74,752	78,872	30,405	30,246
Equity attributable to Volkswagen AG hybrid capital investors	15,607	12,663	15,607	12,663	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	120,763	121,781	90,358	91,535	30,405	30,246
Noncontrolling interests	1,638	1,870	995	1,239	644	631
Noncurrent liabilities	**196,623**	**196,497**	**89,950**	**90,822**	**106,674**	**105,675**
Financial liabilities	110,674	113,556	14,293	17,592	96,381	95,965
Provisions for pensions	44,164	41,389	43,344	40,631	820	759
Other liabilities	41,785	41,551	32,313	32,600	9,473	8,951
Current liabilities	**182,204**	**167,924**	**78,887**	**63,220**	**103,317**	**104,703**
Financial liabilities	100,121	87,912	7,011	–7,312	93,110	95,224
Trade payables	23,724	22,745	20,253	19,603	3,471	3,142
Other liabilities	58,039	56,896	51,303	50,559	6,736	6,337
Liabilities associated with assets held for sale	320	370	320	370	–	–
Total equity and liabilities	**501,229**	**488,071**	**260,190**	**246,816**	**241,039**	**241,255**

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

Statement of Changes in Equity

€ million	Subscribed capital	Capital reserve	Retained earnings	OTHER RESERVES Currency translation reserve
Balance at Jan. 1, 2019	**1,283**	**14,551**	**91,105**	**–3,576**
Earnings after tax	–	–	10,664	–
Other comprehensive income, net of tax	–	–	–6,892	441
Total comprehensive income	**–**	**–**	**3,772**	**441**
Disposal of equity instruments	–	–	–4	–
Capital increases/Capital decreases	–	–	–	–
Dividends payment	–	–	–2,419	–
Capital transactions involving a change in ownership interest	–	–	390	173
Other changes	–	–	68	–
Balance at Sept. 30, 2019	**1,283**	**14,551**	**92,911**	**–2,962**
Balance at Jan. 1, 2020	**1,283**	**14,551**	**96,929**	**–2,824**
Earnings after tax	–	–	1,382	–
Other comprehensive income, net of tax	–	–	–1,440	–2,827
Total comprehensive income	**–**	**–**	**–58**	**–2,827**
Disposal of equity instruments	–	–	–	–
Capital increases/Capital decreases[1]	–	–	–	–
Dividends payment	–	–	–2,419	–
Capital transactions involving a change in ownership interest[2]	–	–	–166	–
Other changes	–	–	10	0
Balance at Sept. 30, 2020	**1,283**	**14,551**	**94,297**	**–5,651**

1 Volkswagen AG recorded an inflow of cash funds amounting to €3,000 million, less transaction costs of €16 million, from the hybrid capital issued in June 2020. Additionally, there were noncash effects from the deferral of taxes amounting to €5 million. The hybrid capital is required to be classified as equity instruments granted.

2 For the change in capital transactions involving a change in ownership interest see the “Key events” section.

HEDGING							
Cash flow hedges (OCI I)	Deferred costs of hedging (OCI II)	Equity and debt instruments	Equity-accounted investments	Equity attributable to Volkswagen AG hybrid capital investors	Equity attributable to Volkswagen AG shareholders and hybrid capital investors	Equity attributable to noncontrolling interests	**Total equity**
1,790	**–629**	**–230**	**228**	**12,596**	**117,117**	**225**	**117,342**
–	–	–	–	404	11,068	85	11,154
–1,604	–299	27	123	–	–8,204	–23	–8,227
–1,604	**–299**	**27**	**123**	**404**	**2,864**	**62**	**2,927**
–	–	4	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–432	–2,850	–8	–2,858
1	0	–1	–10	–	553	1,519	2,071
–	–	–	2	–	70	3	72
187	**–928**	**–199**	**343**	**12,568**	**117,754**	**1,801**	**119,554**
95	**–977**	**–235**	**295**	**12,663**	**121,781**	**1,870**	**123,651**
–	–	–	–	386	1,768	–37	1,731
1,486	185	10	–181	–	–2,767	–71	–2,838
1,486	**185**	**10**	**–181**	**386**	**–1,000**	**–108**	**–1,107**
–	–	–	–	–	–	–	–
–	–	–	–	2,989	2,989	–	2,989
–	–	–	–	–432	–2,850	–58	–2,909
–	–	–	–	–	–166	–71	–237
–	–	–	–1	–	9	6	15
1,580	**–792**	**–225**	**113**	**15,607**	**120,763**	**1,638**	**122,402**

Cash flow statement for the Period January 1 to September 30

	VOLKSWAGEN GROUP		DIVISIONS			
			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	2,254	14,637	441	12,378	1,813	2,259
Income taxes paid	–1,862	–2,112	–1,408	–1,561	–454	–551
Depreciation and amortization expense[2]	19,747	18,297	12,779	12,016	6,968	6,281
Change in pension provisions	649	280	636	265	13	15
Share of the result of equity-accounted investments	828	–249	872	–197	–43	–52
Other noncash income/expense and reclassifications[3]	–505	–955	–313	–577	–193	–377
Gross cash flow	**21,111**	**29,898**	**13,007**	**22,323**	**8,104**	**7,575**
Change in working capital	**–2,812**	**–17,139**	**164**	**–1,402**	**–2,977**	**–15,737**
Change in inventories	1,570	–3,725	1,134	–3,699	435	–27
Change in receivables	–2,032	–2,495	–1,784	–2,602	–248	108
Change in liabilities	3,470	5,729	2,200	4,925	1,270	805
Change in other provisions	–1,300	–11	–1,409	51	109	–62
Change in lease assets (excluding depreciation)	–8,770	–9,552	187	–80	–8,957	–9,472
Change in financial services receivables	4,249	–7,086	–164	4	4,414	–7,089
Cash flows from operating activities	**18,298**	**12,759**	**13,171**	**20,921**	**5,127**	**–8,162**
Cash flows from investing activities attributable to operating activities	**–11,784**	**–12,532**	**–11,754**	**–12,309**	**–30**	**–223**
of which: Investments in intangible assets (excluding capitalized development costs), property, plant and equipment, and investment property	–6,551	–8,344	–6,422	–8,186	–129	–158
capitalized development costs	–4,481	–3,667	–4,481	–3,667	–	–
acquisition and disposal of equity investments	–1,024	–677	–1,096	–595	72	–82
Net cash flow[4]	***6,514***	***227***	***1,418***	***8,612***	***5,097***	***–8,385***
Change in investments in securities, loans and time deposits	–2,913	1,007	–2,890	–3,510	–22	4,516
Cash flows from investing activities	**–14,697**	**–11,525**	**–14,644**	**–15,818**	**–53**	**4,293**
Cash flows from financing activities	**17,835**	**748**	**14,178**	**–6,985**	**3,657**	**7,733**
of which: capital transactions with noncontrolling interests	–	1,368	–	1,368	–	–
capital contributions/capital redemptions	2,984	–	2,975	–981	9	981
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	–658	302	–546	244	–112	59
Change of loss allowance within cash & cash equivalents	–2	0	–2	0	0	0
Net change in cash and cash equivalents	**20,777**	**2,284**	**12,158**	**–1,638**	**8,619**	**3,923**
Cash and cash equivalents at Sept. 30[5]	**45,107**	**30,397**	**30,256**	**21,715**	**14,850**	**8,682**
Securities, loans and time deposits	31,217	27,375	15,901	12,319	15,316	15,056
Gross liquidity	**76,324**	**57,772**	**46,157**	**34,034**	**30,166**	**23,738**
Total third-party borrowings	–210,801	–202,515	–21,310	–14,247	–189,491	–188,268
Net liquidity at Sept. 30[6]	**–134,477**	**–144,743**	**24,848**	**19,787**	**–159,325**	**–164,530**
For information purposes: at Jan. 1	–148,040	–134,735	21,276	19,368	–169,316	–154,103

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).

Explanatory notes on the cash flow statement are presented in the section relating to the cash flow statement.

Notes to the Consolidated Financial Statements

Accounting in accordance with International Financial Reporting Standards (IFRSs)

In accordance with Regulation No. 1606/2002 of the European Parliament and of the Council, Volkswagen AG prepared its consolidated financial statements for 2019 in compliance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union. These interim consolidated financial statements for the period ended September 30, 2020 were therefore also prepared in accordance with IAS 34 (Interim Financial Reporting) and are condensed in scope compared with the consolidated financial statements.

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

In addition to the reportable segments, the Automotive and Financial Services divisions are presented in the condensed interim group financial report for explanatory purposes alongside the income statement, balance sheet and cash flow statement for the Volkswagen Group. This supplemental presentation is not required by IFRSs. Eliminations of intragroup transactions between the Automotive and Financial Services divisions are allocated to the Automotive Division.

The accompanying interim consolidated financial statements were reviewed by auditors in accordance with section 115 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act).

Accounting policies

Volkswagen AG has applied all accounting pronouncements adopted by the EU and effective for periods beginning on or after January 1, 2020.

OTHER ACCOUNTING POLICIES

A discount rate of 0.9% (December 31, 2019: 1.1%) was applied to German pension provisions in the accompanying interim consolidated financial statements.

The income tax expense for the interim consolidated financial statements was calculated on the basis of the average annual tax rate that is expected for the entire fiscal year, in accordance with IAS 34 (Interim Financial Reporting).

In other respects, the same accounting policies and consolidation methods that were used for the 2019 consolidated financial statements are generally applied to the preparation of the interim consolidated financial statements and the measurement of the prior-year comparatives. A detailed description of the policies and methods applied is published in the “Accounting policies” section of the notes to the 2019 consolidated financial statements.

In addition, details of the effects of new standards can be found in the “New and amended IFRSs not applied” section. The 2019 consolidated financial statements can also be accessed on the internet at www.volkswagenag.com/en/InvestorRelations.html.

Key events

On September 18, 2015, the US Environmental Protection Agency (EPA) publicly announced in a “Notice of Violation” that irregularities in relation to nitrogen oxide (NO_X) emissions had been discovered in emissions tests on certain Volkswagen Group vehicles with type 2.0 l diesel engines in the USA. This was followed by further reports on the scope of the diesel issue. Detailed information can be found in the “Key events” section of the 2019 consolidated financial statements.

In the first nine months of fiscal year 2020, additional expenses of €0.7 billion had to be recognized in this context, primarily for legal risks.

Furthermore, based on the information as it exists and has been established, there continue to be no conclusive findings or assessments available to the Board of Management of Volkswagen AG regarding the described facts that would suggest that a different assessment of the associated risks should have been made.

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

The Covid-19 pandemic, which caused a global decline in demand and, to some extent, continuing production stoppages, adversely affected the financial position and performance of the Volkswagen Group in the first nine months of fiscal year 2020.

In response to the Covid-19 pandemic, the carrying amounts of assets, in particular goodwill, brand names, capitalized development costs and property, plant and equipment, were reviewed as of September 30, 2020. Since Volkswagen currently assumes that the pandemic is a temporary event that will not have any lasting negative impact on the Group’s long-term business performance, the period from 2020 to 2024 covered by the previous year’s impairment tests has been adjusted to reflect current expectations with regard to overall market development and the estimated unit sales derived from them. Please refer to our comments in the interim management report for information on the developments expected in the global automotive markets. Furthermore, the weighted average cost of capital (WACC) has been adjusted to September 30, 2020 and individual parameters for financial assets have also been adjusted. Overall, the review has not led to any material additional impairment losses on assets.

The turbulence in the commodity and capital markets led to the recognition of expenses of €1.0 billion (previous year: income of €0.2 billion) in the other operating result, especially in connection with the treatment of derivatives to which hedge accounting is not applied and the measurement of receivables and liabilities denominated in foreign currencies.

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

On February 28, 2020, Volkswagen AG announced that it was planning to increase its interest in AUDI AG from approximately 99.64% to 100%. On July 31, 2020, the Annual General Meeting of AUDI AG resolved to implement a squeeze-out under stock corporation law. Following the resolution, the present value of the put options granted, amounting to approximately €0.2 billion, had to be recognized as a current liability not affecting net income. The noncontrolling interests in the Volkswagen Group’s equity and the retained earnings attributable to the shareholders of Volkswagen AG declined accordingly. This resolution will take effect upon its entry in the commercial register.

Basis of consolidation

In addition to Volkswagen AG, which is domiciled in Wolfsburg and entered in the commercial register at the Braunschweig Local Court under No. HRB 100484, the consolidated financial statements comprise all significant German and non-German subsidiaries, including structured entities, that are controlled directly or indirectly by Volkswagen AG. This is the case if Volkswagen AG obtains power over the potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed or has rights to, positive or negative variable returns from its involvement with the subsidiaries, and is able to influence those returns.

Disclosures on the interim consolidated financial statements

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE: Q1 – Q3 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	114,380	12,786	–	–	127,167	–10,532	116,634
Genuine parts	9,930	2,586	–	–	12,516	–88	12,428
Used vehicles and third-party products	9,511	1,043	–	–	10,554	–394	10,160
Engines, powertrains and parts deliveries	8,261	465	–	–	8,727	–15	8,712
Power Engineering	–	–	2,873	–	2,873	–2	2,871
Motorcycles	482	–	–	–	482	0	482
Leasing business	756	1,285	0	22,703	24,745	–3,202	21,543
Interest and similar income	170	4	–	5,980	6,154	–150	6,004
Hedges sales revenue	–4	–13	–	–	–16	87	71
Other sales revenue	5,659	1,333	–	904	7,896	–184	7,712
	149,146	**19,491**	**2,873**	**29,587**	**201,098**	**–14,480**	**186,617**

STRUCTURE OF GROUP SALES REVENUE: Q1 – Q3 2020

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	88,586	9,014	–	–	97,600	–9,543	88,057
Genuine parts	8,572	2,397	–	–	10,969	–82	10,887
Used vehicles and third-party products	8,834	1,041	–	–	9,876	–568	9,307
Engines, powertrains and parts deliveries	8,959	454	–	–	9,413	–24	9,389
Power Engineering	–	–	2,749	–	2,749	–1	2,748
Motorcycles	422	–	–	–	422	–	422
Leasing business	570	1,269	0	23,364	25,203	–3,152	22,051
Interest and similar income	138	6	–	5,743	5,887	–189	5,698
Hedges sales revenue	–457	–12	–	0	–469	12	–456
Other sales revenue	5,332	1,251	–	1,079	7,661	–280	7,381
	120,959	**15,419**	**2,749**	**30,185**	**169,313**	**–13,827**	**155,486**

Other sales revenue comprises revenue from workshop services and license revenue, among other things.

2. Cost of sales

Cost of sales includes interest expenses of €1,763 million (previous year: €2,032 million) attributable to the financial services business.

In addition to depreciation and amortization expenses, cost of sales also includes impairment losses on capitalized development costs, property, plant and equipment, and lease assets. The impairment losses identified on the basis of updated impairment tests amount to a total of €704 million (previous year: €858 million). The value in use is used as the basis for calculating impairment losses.

3. Research and development costs

	Q1–3		
€ million	2020	2019	%
Total research and development costs	10,191	10,697	–4.7
of which: capitalized development costs	4,481	3,667	22.2
Capitalization ratio in %	44.0	34.3	
Amortization of capitalized development costs	3,363	2,807	19.8
Research and development costs recognized in profit or loss	**9,073**	**9,837**	**–7.8**

4. Earnings per share

Basic earnings per share are calculated by dividing earnings attributable to Volkswagen AG shareholders by the weighted average number of ordinary and preferred shares outstanding during the reporting period. Since there were no transactions in the reporting period that had a dilutive effect on the number of shares, diluted earnings per share are equivalent to basic earnings per share.

In accordance with Article 27(2) No. 1 of the Articles of Association of Volkswagen AG, preferred shares are entitled to a preferred dividend of €0.11 per share if a loss is made. This preferred dividend would have to be paid in subsequent periods, if no dividends were to be distributed for the current fiscal year, and must therefore be taken into account when calculating the loss per share for the year in which the loss was made. The distribution of further dividends is performed in accordance with Article 27(2) Nos. 2 and 3 of the Articles of Association of Volkswagen AG. If a profit after tax is attributable to the shareholders of Volkswagen AG, preferred shares are in general entitled to a dividend that is €0.06 higher per share than that for ordinary shares.

		Q3		Q1 – Q3	
		2020	2019	2020	2019
Weighted average number of:					
Ordinary shares – basic/diluted	Shares	295,089,818	295,089,818	295,089,818	295,089,818
Preferred shares – basic/diluted	Shares	206,205,445	206,205,445	206,205,445	206,205,445
Earnings after tax	€ million	2,751	3,986	1,731	11,154
Noncontrolling interests	€ million	21	61	–37	85
Earnings attributable to Volkswagen AG hybrid capital investors	€ million	147	136	386	404
Earnings attributable to Volkswagen AG shareholders	€ million	2,583	3,789	1,382	10,664
of which: basic/diluted earnings attributable to ordinary shares	€ million	1,527	2,230	806	6,270
of which: basic/diluted earnings attributable to preferred shares	€ million	1,056	1,558	576	4,394
Earnings per ordinary share – basic/diluted	€	5.17	7.56	2.73	21.25
Earnings per preferred share – basic/diluted	€	5.12	7.56	2.79	21.31

5. Noncurrent assets

CHANGES IN SELECTED NONCURRENT ASSETS BETWEEN JANUARY 1 AND SEPTEMBER 30, 2020

€ million	Carrying amount at Jan. 1, 2020	Additions/ Changes in consolidated Group	Disposals/ Other changes	Depreciation and amortization	Carrying amount at Sept. 30, 2020
Intangible assets	66,214	4,850	514	3,990	66,560
Property, plant and equipment	66,152	7,118	1,892	8,661	62,717
Lease assets	48,938	17,333	9,854	7,004	49,412

6. Inventories

€ million	Sept. 30, 2020	Dec. 31, 2019
Raw materials, consumables and supplies	7,056	6,099
Work in progress	4,805	4,110
Finished goods and purchased merchandise	26,297	30,617
Current lease assets	5,111	5,699
Prepayments	240	222
Hedges on inventories	–5	–6
	43,504	**46,742**

It was not necessary to recognize or reverse significant impairment losses on inventories in the reporting period.

7. Current other receivables and financial assets

€ million	Sept. 30, 2020	Dec. 31, 2019
Trade receivables	17,972	17,941
Miscellaneous other receivables and financial assets	21,565	20,678
	39,536	**38,620**

In the period January 1 to September 30, 2020, impairment losses and reversals of impairment losses on financial assets reduced operating profit by €929 million (previous year: €592 million).

8. Equity

In June 2020, Volkswagen AG placed unsecured subordinated hybrid notes with an aggregate principal amount of €3.0 billion via a subsidiary, Volkswagen International Finance N.V., Amsterdam, the Netherlands (issuer). The perpetual hybrid notes were issued in two tranches and can be called by the issuer. The first call date for the first tranche (€1.5 billion and a coupon of 3.500%) is after five years, and the first call date for the second tranche (€1.5 billion and a coupon of 3.875%) is after nine years. Under IAS 32, this hybrid note must be classified in its entirety as equity. The capital raised, less transaction costs and net of deferred taxes, was recognized in equity. The interest payments payable to the noteholders will be recognized directly in equity.

The subscribed capital is composed of 295,089,818 no-par value ordinary shares and 206,205,445 no-par value preferred shares, and amounts to €1,283 million (previous year: €1,283 million).

At the Annual General Meeting of Volkswagen AG on September 30, 2020, a dividend of €2,419 million (previous year: €2,419 million) was resolved. €1,416 million (previous year: €1,416 million) of this amount was attributable to ordinary shares and €1,002 million (previous year: €1,002 million) to preferred shares. The dividend was paid in October 2020.

Most of the noncontrolling interests in equity are attributable to the TRATON GROUP.

On February 28, 2020, Volkswagen AG announced that it was planning to increase its interest in AUDI AG from approximately 99.64% to 100%. On July 31, 2020, the Annual General Meeting of AUDI AG resolved to implement a squeeze-out under stock corporation law (see “Key events” section).

9. Noncurrent financial liabilities

€ million	Sept. 30, 2020	Dec. 31, 2019
Bonds, commercial paper and notes	86,168	88,986
Liabilities to banks	15,564	15,337
Deposit business	2,277	2,395
Lease liabilities	4,947	5,208
Other financial liabilities	1,717	1,629
	110,674	**113,556**

10. Current financial liabilities

€ million	Sept. 30, 2020	Dec. 31, 2019
Bonds, commercial paper and notes	45,010	37,893
Liabilities to banks	24,312	17,337
Deposit business	28,943	30,252
Lease liabilities	961	1,002
Other financial liabilities	896	1,429
	100,121	**87,912**

11. Fair value disclosures

Generally, the principles and techniques used for fair value measurement remained unchanged year-on-year. Detailed explanations of the measurement principles and techniques can be found in the "Accounting policies" section of the 2019 consolidated financial statements.

Fair value generally corresponds to the market or quoted market price. If no active market exists, fair value is determined using valuation techniques, such as by discounting the future cash flows at the market interest rate, or by using recognized option pricing models.

Financial assets and liabilities measured at fair value through profit or loss consist of derivative financial instruments to which hedge accounting is not applied. They include primarily commodity futures, currency forwards relating to commodity futures as well as, in certain cases, interest rate swaps, currency swaps and cross-currency interest rate swaps. Moreover, other equity investments (shares representing an ownership interest of less than 20% as a rule) in partnerships (debt instruments), customer financing receivables whose returns contain more than just interest and principal repayments, and financial assets held in special funds controlled by the Volkswagen Group are measured at fair value through profit or loss. Derivative financial instruments to which hedge accounting is applied are measured at fair value either directly in equity or through profit or loss, depending on the underlying hedged item.

Financial assets measured at fair value through other comprehensive income include equity investments (shares representing an ownership interest of less than 20% as a rule) in corporations (equity instruments) and shares for which the Volkswagen Group normally exercises the option of fair value measurement through other comprehensive income, as well as securities (debt instruments) whose cash flows comprise solely payments of interest and principal and that are held under a business model aimed at both collecting contractual cash flows and selling financial assets. For instruments measured through other comprehensive income, changes in fair value are recognized directly in equity, taking deferred taxes into account. Impairment losses on securities (debt instruments) are recognized through profit or loss.

Uniform valuation techniques and inputs are used to measure fair value. The fair value of Level 2 and Level 3 financial instruments is measured in the individual divisions on the basis of Group-wide specifications.

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS

The following table shows the reconciliation of the balance sheet items to the relevant classes of financial instruments, broken down by the carrying amount and fair value of the financial instruments.

The fair value of financial instruments measured at amortized cost, such as receivables and liabilities, is calculated by discounting the carrying amount using a market rate of interest for a similar risk and matching maturity. For reasons of materiality, the fair value of current balance sheet items is generally deemed to be their carrying amount.

The risk variables governing the fair value of the receivables are risk-adjusted interest rates.

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF DECEMBER 31, 2019

€ million	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT ALLOCATED TO A MEASUREMENT CATEGORY	BALANCE SHEET ITEM AT DEC. 31, 2019
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,169	8,169
Other equity investments	54	–	–	–	1,848	1,902
Financial services receivables	288	51,404	52,581	–	35,281	86,973
Other financial assets	1,012	3,625	3,628	916	–	5,553
Tax receivables	–	–	–	–	341	341
Current assets						
Trade receivables	1	17,940	17,940	–	–	17,941
Financial services receivables	22	39,936	39,936	–	18,656	58,615
Other financial assets	1,477	10,120	10,120	619	–	12,216
Tax receivables	–	9	9	–	1,181	1,190
Marketable securities	16,681	88	88	–	–	16,769
Cash, cash equivalents and time deposits	–	25,923	25,923	–	–	25,923
Assets held for Sale	3	158	158	–	634	795
Noncurrent liabilities						
Noncurrent financial liabilities	–	108,348	110,679	–	5,208	113,556
Other noncurrent financial liabilities	943	2,549	2,554	1,007	–	4,499
Current liabilities						
Current financial liabilities	–	86,911	86,911	–	1,002	87,912
Trade payables	–	22,745	22,745	–	–	22,745
Other current financial liabilities	817	8,614	8,614	1,427	–	10,858
Tax payables	–	19	19	–	389	408
Liabilities associated with assets held for sale	–	44	44	–	326	370

RECONCILIATION OF BALANCE SHEET ITEMS TO CLASSES OF FINANCIAL INSTRUMENTS AS OF SEPTEMBER 30, 2020

	MEASURED AT FAIR VALUE	MEASURED AT AMORTIZED COST		DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING	NOT ALLOCATED TO A MEASUREMENT CATEGORY	BALANCE SHEET ITEM AT SEPT. 30, 2020
€ million	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	9,046	9,046
Other equity investments	171	–	–	–	1,864	2,035
Financial services receivables	264	46,570	48,711	–	33,291	80,124
Other financial assets	1,227	4,045	4,084	2,136	–	7,408
Tax receivables	–	–	–	–	375	375
Current assets						
Trade receivables	49	17,922	17,922	–	–	17,972
Financial services receivables	21	37,470	37,470	–	18,630	56,121
Other financial assets	1,271	9,941	9,941	1,422	–	12,634
Tax receivables	–	0	0	–	1,313	1,313
Marketable securities	20,657	15	15	–	–	20,672
Cash, cash equivalents and time deposits	–	45,548	45,548	–	–	45,548
Assets held for Sale	3	238	238	–	571	812
Noncurrent liabilities						
Noncurrent financial liabilities	–	105,727	109,248	–	4,947	110,674
Other noncurrent financial liabilities	1,176	2,301	2,301	549	–	4,026
Current liabilities						
Current financial liabilities	–	99,160	99,160	–	961	100,121
Trade payables	–	23,724	23,724	–	–	23,724
Other current financial liabilities	1,307	13,036	13,036	642	–	14,984
Tax payables	–	9	9	–	294	302
Liabilities associated with assets held for sale	–	34	34	–	286	320

The carrying amount of lease receivables was €51.9 billion (previous year: €53.9 billion) and their fair value was €52.9 billion (previous year: €55.0 billion).

The following tables contain an overview of the financial assets and liabilities measured at fair value:

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE BY LEVEL

€ million	Dec. 31, 2019	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	54	43	0	11
Financial services receivables	288	–	–	288
Other financial assets	1,012	–	595	417
Current assets				
Trade receivables	1	–	–	1
Financial services receivables	22	–	–	22
Other financial assets	1,477	–	1,304	173
Marketable securities	16,681	16,681	–	–
Assets held for Sale	3	–	–	3
Noncurrent liabilities				
Other noncurrent financial liabilities	943	–	425	518
Current liabilities				
Other current financial liabilities	817	–	570	247

€ million	Sept. 30, 2020	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	171	29	0	141
Financial services receivables	264	–	–	264
Other financial assets	1,227	–	801	425
Current assets				
Trade receivables	49	–	–	49
Financial services receivables	21	–	–	21
Other financial assets	1,271	–	1,107	165
Marketable securities	20,657	20,576	81	–
Assets held for Sale	3	–	–	3
Noncurrent liabilities				
Other noncurrent financial liabilities	1,176	–	533	643
Current liabilities				
Other current financial liabilities	1,307	–	1,027	280

DERIVATIVE FINANCIAL INSTRUMENTS WITHIN HEDGE ACCOUNTING BY LEVEL

€ million	Dec. 31, 2019	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	916	–	916	–
Current assets				
Other financial assets	619	–	619	–
Noncurrent liabilities				
Other noncurrent financial liabilities	1,007	–	1,007	–
Current liabilities				
Other current financial liabilities	1,427	–	1,427	–

€ million	Sept. 30, 2020	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	2,136	–	2,136	–
Current assets				
Other financial assets	1,422	–	1,422	–
Noncurrent liabilities				
Other noncurrent financial liabilities	549	–	549	–
Current liabilities				
Other current financial liabilities	642	–	642	–

The allocation of fair values to the three levels in the fair value hierarchy is based on the availability of observable market prices. Level 1 is used to report the fair value of financial instruments for which a price is directly available in an active market. Examples include marketable securities and other equity investments measured at fair value. Fair values in Level 2, for example of derivatives, are measured on the basis of market inputs using market-based valuation techniques. In particular, the inputs used include exchange rates, yield curves and commodity prices that are observable in the relevant markets and obtained through pricing services. Fair Values in Level 3 are calculated using valuation techniques that incorporate inputs that are not directly observable in active markets. In the Volkswagen Group, long-term commodity futures are allocated to Level 3 because the prices available on the market must be extrapolated for measurement purposes. This is done on the basis of observable inputs obtained for the different commodities through pricing services. Options on equity instruments, residual value protection models, customer financing receivables and receivables from vehicle financing programs are also reported in Level 3. Equity instruments are measured primarily using the relevant business plans and entity-specific discount rates. The significant inputs used to measure fair value for the residual value protection models include forecasts and estimates of used vehicle residual values for the appropriate models. The measurement of vehicle financing programs requires in particular the use of the corresponding vehicle price.

The table below provides a summary of changes in Level 3 balance sheet items measured at fair value:

CHANGES IN BALANCE SHEET ITEMS MEASURED AT FAIR VALUE BASED ON LEVEL 3

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value
Balance at Jan. 1, 2019	**990**	**816**
Foreign exchange differences	33	2
Total comprehensive income	355	185
recognized in profit or loss	348	185
recognized in other comprehensive income	8	–
Additions (purchases)	15	–
Sales and settlements	–142	–194
Transfers into Level 2	–28	–37
Balance at Sept. 30, 2019	**1,223**	**771**
Total gains or losses recognized in profit or loss	**348**	**–185**
Net other operating expense/income	354	–181
of which attributable to assets/liabilities held at the reporting date	321	–141
Financial result	–7	–3
of which attributable to assets/liabilities held at the reporting date	–4	–

€ million	Financial assets measured at fair value	Financial liabilities measured at fair value	Assets held for sale
Balance at Jan. 1, 2020	**913**	**765**	**3**
Foreign exchange differences	–29	–12	–
Changes in consolidated Group	106	–	–
Total comprehensive income	96	457	–
recognized in profit or loss	96	457	–
recognized in other comprehensive income	–	–	–
Additions (purchases)	113	–	–
Sales and settlements	–91	–214	–
Transfers into Level 2	–43	–74	–
Balance at Sept. 30, 2020	**1,065**	**923**	**3**
Total gains or losses recognized in profit or loss	**96**	**–457**	**–**
Net other operating expense/income	96	–457	–
of which attributable to assets/liabilities held at the reporting date	55	–385	–
Financial result	–	–	–
of which attributable to assets/liabilities held at the reporting date	–	–	–

The transfers between the levels of the fair value hierarchy are reported at the respective reporting dates. The transfers out of Level 3 into Level 2 comprise commodity futures for which observable quoted prices are now available for measurement purposes due to the decline in their remaining maturities; consequently, no further extrapolation is required. There were no transfers between other levels of the fair value hierarchy.

Commodity prices are the key risk variable for the fair value of commodity futures. Sensitivity analyses are used to present the effect of changes in commodity prices on earnings after tax and equity.

If commodity prices for commodity futures classified as Level 3 had been 10% higher (lower) as of September 30, 2020, earnings after tax would have been €242 million (previous year: €170 million) higher (lower). The equity is not affected.

The key risk variable for measuring options on equity instruments held by the Company is the relevant enterprise value. Sensitivity analyses are used to present the effect of changes in risk variables on earnings after tax.

If the assumed enterprise values at September 30, 2020 had been 10% higher, earnings after tax would have been €3 million (previous year: €2 million) higher. If the assumed enterprise values at September 30, 2020 had been 10% lower, earnings after tax would have been €3 million (previous year: €2 million) lower.

Residual value risks result from hedging agreements with dealerships under which earnings effects caused by market-related fluctuations in residual values that arise from buy-back obligations under leases are borne in part by the Volkswagen Group.

The key risk variable influencing the fair value of the options relating to residual value risks is used car prices. Sensitivity analyses are used to quantify the effects of changes in used car prices on earnings after tax.

If the prices of the used cars covered by the residual value protection model had been 10% higher as of September 30, 2020, earnings after tax would have been €383 million (previous year: €320 million) higher. If the prices of the used cars covered by the residual value protection model had been 10% lower as of September 30, 2020, earnings after tax would have been €400 million (previous year: €332 million) lower.

If the risk-adjusted interest rates applied to receivables measured at fair value had been 100 basis points higher as of September 30, 2020, earnings after tax would have been €2 million (previous year: €3 million) lower. If the risk-adjusted interest rates as of September 30, 2020 had been 100 basis points lower, earnings after tax would have been €2 million (previous year: €3 million) higher.

If the corresponding vehicle price used in the vehicle financing programs had been 10% higher as of September 30, 2020, earnings after tax would have been €0.3 million (previous year: €5 million) higher. If the corresponding vehicle prices used in the vehicle financing programs had been 10% lower as of September 30, 2020, earnings after tax would have been €0.3 million (previous year: €5 million) lower.

If the result of operations of equity investments measured at fair value had been 10% better as of September 30, 2020, the equity would have been €4.2 million (previous year: €8 million) higher. If the result of operations of equity investments measured at fair value had been 10% worse, the equity would have been €4.2 million (previous year: €8 million) lower.

12. Cash flow statement

The cash flow statement presents the cash inflows and outflows in the Volkswagen Group and in the Automotive and Financial Services divisions. Cash and cash equivalents comprise cash at banks, checks, cash-in-hand and call deposits.

€ million	Sept. 30, 2020	Sept. 30, 2019
Cash, cash equivalents and time deposits as reported in the balance sheet	45,548	30,960
Held for Sale	122	–
Time deposits	–564	–563
Cash and cash equivalents as reported in the cash flow statement	**45,107**	**30,397**

Cash inflows and outflows from financing activities are presented in the following table:

	Q1–3	
€ million	2020	2019
Capital contributions	2,984	–
Dividends paid	–490	–2,858
Capital transactions with noncontrolling interest shareholders	–	1,368
Proceeds from issuance of bonds	18,584	20,457
Repayments of bonds	–12,560	–15,673
Changes in other financial liabilities	10,135	–1,901
Repayments of lease liabilities	–819	–645
	17,835	**748**

13. Segment reporting

Segments are identified on the basis of the Volkswagen Group's internal management and reporting. In line with the Group's multibrand strategy, each of its brands (operating segments) is managed by its own board of management. The Group targets and requirements laid down by the Board of Management of Volkswagen AG must be complied with. Segment reporting comprises four reportable segments: Passenger Cars and Light Commercial Vehicles, Commercial Vehicles, Power Engineering and Financial Services.

The activities of the Passenger Cars and Light Commercial Vehicles segment cover the development of vehicles and engines, the production and sale of passenger cars and light commercial vehicles, and the corresponding genuine parts business. In the Passenger Cars and Light Commercial Vehicles reporting segment, the individual brands are being combined into a single reportable segment, in particular as a response to the high degree of technological and economic interlinking in the production network. Furthermore, there is collaboration within key areas such as procurement, research and development or treasury.

The Commercial Vehicles segment primarily comprises the development, production and sale of trucks and buses, the corresponding genuine parts business and related services. As in the case of the passenger car brands, there is collaboration within the areas procurement, development and sales. The aim is to create closer cooperation within the business areas.

The activities of the Power Engineering segment consist of the development and production of large-bore diesel engines, turbo compressors, industrial turbines and chemical reactor systems, as well as the production of gear units, propulsion components and testing systems.

The activities of the Financial Services segment comprise dealership and customer financing, leasing, banking and insurance activities, fleet management and mobility services. In this segment, activities are combined for reporting purposes taking into particular account the comparability of the type of services and of the regulatory environment.

Purchase price allocation for companies acquired is allocated directly to the corresponding segments.

At Volkswagen, segment profit or loss is measured on the basis of the operating result.

The reconciliation contains activities and other operations that by definition do not constitute segments. It also includes the unallocated Group financing activities. Consolidation adjustments between the segments are also contained in the reconciliation.

As a matter of principle, business relationships between the companies within the segments of the Volkswagen Group are transacted at arm's length prices.

REPORTING SEGMENTS: Q1 – Q3 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	137,945	18,703	2,871	26,930	186,448	169	186,617
Intersegment sales revenue	11,202	788	2	2,657	14,649	–14,649	–
Total sales revenue	149,146	19,491	2,873	29,587	201,098	–14,480	186,617
Segment result (operating result)	12,201	1,307	–98	2,226	15,637	–2,098	13,539

REPORTING SEGMENTS: Q1 – Q3 2020

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	110,323	14,657	2,748	27,627	155,355	131	155,486
Intersegment sales revenue	10,635	762	1	2,559	13,957	–13,957	–
Total sales revenue	120,959	15,419	2,749	30,185	169,313	–13,827	155,486
Segment result (operating result)	1,630	–180	–101	1,789	3,138	–1,445	1,693

RECONCILIATION

€ million	Q1–3 2020	Q1–3 2019
Segment result (operating result)	**3,138**	**15,637**
Unallocated activities	–38	–47
Group financing	–7	–32
Consolidation/Holding company function	–1,400	–2,019
Operating result	**1,693**	**13,539**
Financial result	**561**	**1,099**
Consolidated earnings before tax	**2,254**	**14,637**

14. Related party disclosures

Porsche SE holds the majority of the voting rights in Volkswagen AG.

The creation of rights of appointment for the State of Lower Saxony was resolved at the Extraordinary General Meeting of Volkswagen AG on December 3, 2009. This means that, even though it holds the majority of voting rights of Volkswagen AG, Porsche SE cannot appoint the majority of the members of Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE is therefore classified as a related party as defined by IAS 24.

€ million	SUPPLIES AND SERVICES RENDERED Q1–3		SUPPLIES AND SERVICES RECEIVED Q1–3	
	2020	2019	2020	2019
Porsche SE and its majority interests	3	2	0	1
Supervisory Board members	3	3	1	1
Unconsolidated subsidiaries	705	1,043	771	1,182
Joint ventures and their majority interests	11,660	11,520	315	459
Associates and their majority interests	138	129	764	764
State of Lower Saxony, its majority interests and joint ventures	3	8	4	3

€ million	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
	Sept. 30, 2020	Dec. 31, 2019	Sept. 30, 2020	Dec. 31, 2019
Porsche SE and its majority interests	3	4	756	0
Supervisory Board members	0	0	148	170
Unconsolidated subsidiaries	1,306	1,497	1,282	1,667
Joint ventures and their majority interests	11,973	12,953	2,376	2,683
Associates and their majority interests	383	326	966	1,063
State of Lower Saxony, its majority interests and joint ventures	1	1	286	0

The tables above do not contain the dividend payments (net of withholding tax) of €2,056 million (previous year: €1,201 million) received from joint ventures and associates.

Receivables from joint ventures are primarily attributable to loans granted in an amount of €7,373 million (December 31, 2019: €8,290 million) as well as trade receivables in an amount of €3,655 million (December 31, 2019: €4,375 million). Receivables from non-consolidated subsidiaries also result primarily from loans granted in an amount of €846 million (December 31, 2019: €938 million) as well as trade receivables in an amount of €187 million (December 31, 2019: €188 million).

Transactions with related parties are regularly conducted on an arm's length basis. Some of these transactions also include reservation of title clauses.

Obligations to members of the Supervisory Board relate primarily to interest-bearing bank balances of Supervisory Board members that were invested at standard market terms and conditions at Volkswagen Group companies.

Liabilities to Porsche SE as of September 30, 2020, include the dividend of €756 million.

Liabilities to the State of Lower Saxony as of September 30, 2020, include the dividend of €286 million.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €344 million (December 31, 2019: €322 million).

Impairment losses of €46 million (previous year: €53 million) were recognized on the outstanding related party receivables. This incurred expenses of €36 million (previous year: €15 million) in the first three quarters of 2020.

In the first nine months, the Volkswagen Group made capital contributions of €192 million (previous year: €214 million) at related parties.

15. Litigation

DIESEL ISSUE

1. Criminal and administrative proceedings worldwide (excluding the USA/Canada)
In May 2020, the criminal proceedings against the current Chairman of the Board of Management and a former member of its Board of Management (currently Chairman of the Supervisory Board) of Volkswagen AG regarding alleged market manipulation relating to capital market disclosure obligations in connection with the diesel issue were definitively terminated by the Braunschweig Regional Court against payment in each case of a court-imposed sum of €4.5 million, thereby also terminating to the same extent the proceedings against Volkswagen AG as collateral participant. In September 2020, the Braunschweig Regional Court permitted the charges still pending against a former Chairman of the Board of Management of Volkswagen AG and the related action against Volkswagen AG to go forward and opened the main trial proceedings.

In September 2020, the Braunschweig Regional Court also accepted the separate indictment of the same former Chairman of the Board of Management of Volkswagen AG and others on charges that include fraud in connection with the diesel issue involving type EA 189 engines and opened the main trial proceedings.

In June 2020, the Munich II Regional Court accepted the substantially unchanged indictment of the Munich II Office of the Public Prosecutor, which also names the former Chairman of the Board of Management of AUDI AG, and opened the main trial proceedings on charges of, among other things, fraud in connection with the diesel issue involving 3.0 l TDI engines. Trial proceedings commenced in September 2020.

In August 2020, the Munich II Office of the Public Prosecutor issued a further indictment charging three former Members of the Board of Management of AUDI AG and others with, among other things, fraud in connection with the diesel issue involving 3.0 l and 4.2 l TDI engines.

2. Product-related lawsuits worldwide (excluding the USA/Canada)
In April 2020, the court in Australia approved the class action settlement that the parties had agreed to.

On February 28, 2020, Volkswagen AG and Verbraucherzentrale Bundesverband e.V. (Federation of Consumer Organizations) entered into an out of court settlement to terminate the consumer action for model declaratory judgment. The terms of the settlement require Volkswagen AG to offer individual settlements to consumers who registered claims under the action for model declaratory judgment and meet the settlement criteria. The volume of such settlements amounts to up to €830 million. Verbraucherzentrale Bundesverband e.V. withdrew the action for model declaratory judgment on April 30, 2020. Volkswagen has entered into individual settlements with some 244 thousand customers in an aggregate amount of roughly €770 million.

In April 2020, the High Court in England and Wales ruled in the group litigation that the switch logic in the EA 189 engine constituted an unlawful defeat device; the court believed that it was also bound by the findings of the Kraftfahrtbundesamt (German Federal Motor Transport Authority) in this respect. In August 2020, the Court of Appeal rejected Volkswagen's appeal against the High Court's ruling on these preliminary questions; this decision is final. The question of liability on the part of Volkswagen was not a matter addressed by the High Court's ruling and will be dealt with at a later stage of the proceedings.

In April 2020, the Diesel Emissions Justice Foundation served an opt-out class action lawsuit on Volkswagen seeking monetary damages on behalf of Dutch consumers. A change in the law in the Netherlands that took effect on January 1, 2020 may permit consumers in the European Union to opt into the class action as well. How the new law might apply to this litigation is, however, unclear. The class action relates to vehicles with type EA 189 engines, among others.

In Germany, the Bundesgerichtshof (BGH – Federal Court of Justice) handed down in May 2020 its first decision ever in an individual product-related lawsuit in connection with the diesel issue. The BGH held that the buyer, who had purchased a vehicle with a type EA 189 engine prior to public disclosure of the diesel issue, had a claim for damages against Volkswagen AG. While the buyer can require reimbursement of the vehicle's purchase price, he must accept a deduction for the benefit derived from using the vehicle and must return it to Volkswagen AG. The judgment clarified the BGH's stance on the fundamental issues underlying a large number of the some 65 thousand individual diesel lawsuits then still pending in Germany. On this basis, it has since been possible to conclude settlements and thus significantly reduce the number of individual lawsuits pending. In a series of fundamental judgments rendered in July 2020, the BGH decided further legal issues of major importance for the litigation still pending with regard to vehicles with type EA 189 engines. The BGH held that plaintiffs who purchased their vehicle after the ad hoc announcement of September 22, 2015 have no claim for damages. The court furthermore ruled that purchasers of affected vehicles are not entitled to tort interest under § 849 of the German Civil Code. The court also made it clear that a plaintiff's potential damage claim may be completely offset by the benefit derived from using the vehicle.

In September 2020, the French consumer organization Confédération de la Consommation, du Logement et du Cadre de Vie (CLCV) filed a class action against Volkswagen Group Automotive Retail France and Volkswagen AG for up to 950 thousand French owners and lessees of vehicles with type EA 189 engines. This is an opt-in proceeding in which the affected consumers are not required to opt into the class action until a legally final judgment is rendered.

3. Lawsuits filed by investors worldwide (excluding the USA/Canada)

In decisions handed down in March 2019, the Stuttgart Higher Regional Court refused to conduct additional investor actions for model declaratory judgment. These included an action for model declaratory judgment against Porsche SE and Volkswagen AG alleging violations of ad hoc disclosure obligations in connection with the diesel issue. The plaintiff side appealed the Stuttgart Higher Regional Court's rejection of this model case action to the Federal Court of Justice. In June 2020, the Federal Court of Justice remanded the matter to the Stuttgart Higher Regional Court for redecision on the determination of a model case plaintiff. In October 2020, the Stuttgart Higher Regional Court appointed the Wolverhampton City Council, Administrating Authority for the West Midlands Metropolitan Authorities Pension Fund as model case plaintiff in these proceedings, in which Volkswagen AG is involved as a third party intervening in support of a party to the dispute.

4. Proceedings in the USA/Canada
In February 2020, the Montana State Court dismissed certain of the environmental claims asserted by the Montana Attorney General, but allowed other claims to proceed. In August 2020, the Montana Supreme Court declined on procedural grounds to grant Volkswagen's petition to review that decision. In March 2020, the Ohio Supreme Court, at Volkswagen's request, agreed to hear an appeal of a lower court's decision concerning Ohio's remaining claims. In June 2020, the US Court of Appeals for the Ninth Circuit partially reversed the trial court's decision and held that Hillsborough County (Florida) and Salt Lake County (Utah) can proceed with a subset of their claims. In September 2020, the US Court of Appeals for the Ninth Circuit stayed proceedings in the litigation pending Volkswagen's anticipated petition for review by the US Supreme Court.

In May 2020, the settlement program in the United States for Generation 2 3.0 l TDI vehicles ended.

In the environmental class action lawsuit seeking damages on behalf of the residents of the Province of Quebec, after authorizing the case to proceed as a class, a Quebec court ruled in June 2020 that a motion to dismiss by Volkswagen is permissible at the present stage of the proceedings. Volkswagen noticed its motion in July 2020.

In the lawsuit brought by the SEC in March 2019 alleging claims under US federal securities law, the US District Court for the Northern District of California granted in part and denied in part Volkswagen's motion to dismiss in August 2020. The claims dismissed by the court included all claims against VW Credit, Inc. related to asset-backed securities. In September 2020, the SEC filed an amended complaint that, among other things, removed the dismissed claims.

The term of the Independent Compliance Monitor retained pursuant to the Plea Agreement expired in September 2020, whereas that of the Independent Compliance Auditor under the Third Partial Consent Decree and the Third California Partial Consent Decree ended earlier, in June 2020.

5. Additional proceedings
In the proceedings regarding appointment of a special auditor for Volkswagen AG, the Celle Higher Regional Court issued a ruling in April 2020 appointing a special auditor other than the one originally named. The decision of the Higher Regional Court of Celle is formally unappealable. Volkswagen AG has filed a constitutional complaint with the Federal Constitutional Court contesting this decision as well on grounds of infringement of its constitutionally guaranteed rights and has suggested joinder of this matter with its initial constitutional complaint against the decision to appoint the special auditor. The constitutional complaint has no suspensory effect, however.

Additional important legal cases

In the tax litigation between the Brazilian tax authorities and MAN Latin America, the amount at risk remains unchanged at BRL 3.1 billion. Due to exchange rate fluctuations, the risk in euros as contained in the notes under contingent liabilities has declined from €0.7 billion to €0.5 billion.

In connection with the factual matters that in principle also underlie the antitrust proceedings instituted by the European Commission against Volkswagen AG, AUDI AG, and Dr. Ing. h.c. F. Porsche AG in April 2019, the South Korean competition authority searched the premises of Audi Volkswagen South Korea and Porsche South Korea in May 2020 and issued requests for information to Volkswagen AG, AUDI AG, and Dr. Ing. h.c. F. Porsche AG. Furthermore, the Turkish competition authority commenced proceedings in the same matter in July 2020.

In March 2020, the US District Court for the Northern District of California dismissed two amended class action complaints brought by purchasers of German luxury vehicles alleging that several automobile manufacturers, including Volkswagen AG and other Group companies, conspired to unlawfully increase the prices of German luxury vehicles in violation of US antitrust and consumer protection law. The court held that the plaintiffs have not stated a claim for relief because the allegations in the complaints do not plausibly support that the alleged agreements unreasonably restrained competition in violation of US law. The court granted plaintiffs leave to file amended complaints with respect to a limited subset of plaintiffs' original claims. Plaintiffs filed a second set of amended complaints in June 2020, which defendants moved to dismiss in August 2020. In October 2020, the court granted defendants' motion and dismissed with prejudice the amended complaints in their entirety. Plaintiffs may appeal this ruling.

In February 2020, the US District Court for the Northern District of California granted final approval of a class action settlement resolving civil claims relating to approximately 98 thousand Volkswagen, Audi, Porsche and Bentley vehicles with automatic transmissions.

In October 2020, plaintiffs filed three complaints in the US District Court for the Northern District of California, seeking to represent a putative class of US purchasers and lessees of certain Porsche gasoline-powered vehicles. The defendants include Volkswagen AG, Dr. Ing. h.c. F. Porsche AG, AUDI AG, and Porsche Cars North America, Inc.; each defendant is not named in all the complaints. The complaints allege that the affected vehicles used certain software and/or hardware that resulted in increased emissions and/or overstated fuel economy estimates as com-pared to the results of certification testing.

Beyond this, there were no significant changes in the reporting period compared with the disclosures on the Volkswagen Group's expected development in fiscal year 2020 contained in the combined management report in the 2019 Annual Report, specifically in the chapters "Report on Expected Developments" and "Report on Risks and Opportunities," including the section "Legal risks." In particular, based on the information as it exists and has been established, there continue to be no conclusive findings or assessments available to the Board of Management of Volkswagen AG regarding the described facts that would suggest that a different assessment of the associated risks should have been made.

In line with IAS 37.92, no further statements have been made concerning estimates of financial impact or about uncertainty regarding the amount or maturity of provisions and contingent liabilities in relation to the legal risks. This is so as to not compromise the results of the proceedings or the interests of the Company.

16. Contingent liabilities

Compared with the contingent liabilities described in the 2019 Annual Report, there were no significant changes as of September 30, 2020.

17. Other financial obligations

Other financial liabilities, which amounted to €22.1 billion, increased compared with the 2019 consolidated financial statements. The rise is mainly attributable to payment obligations relating to future acquisitions of equity investments.

Significant events after the balance sheet date

On October 6, 2020, the Volkswagen Group completed the sale of its 76% interest in Renk AG. The sale price was €0.5 billion. The corresponding assets and liabilities continued to be classified as held for sale in the balance sheet as of September 30, 2020.

Wolfsburg, October 28, 2020

Volkswagen Aktiengesellschaft

The Board of Management

Review Report

To VOLKSWAGEN AKTIENGESELLSCHAFT

We have reviewed the condensed interim consolidated financial statements of VOLKSWAGEN AKTIENGESELLSCHAFT, Wolfsburg, – comprising the condensed income statement, condensed statement of comprehensive income, condensed balance sheet, condensed statement of changes in equity, condensed cash flow statement as well as selected explanatory notes – and the interim group management report for the period from 1 January 2020 to 30 September 2020, which are part of the interim financial report pursuant to Sec. 115 (7) in conjunction with (2) Nos. 1 and 2 and (3) and (4) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]. The preparation of the condensed interim consolidated financial statements in accordance with IFRSs (International Financial Reporting Standards) on interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the Company's executive directors. Our responsibility is to issue a report on the condensed interim consolidated financial statements and the interim group management report based on our review.

We conducted our review of the interim condensed consolidated financial statements and of the interim group management report in compliance with German Generally Accepted Standards for the Review of Financial Statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed an audit and thus cannot issue an auditor's report.

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU or that the interim group management report is not prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Without qualifying this conclusion, we refer to the updated information provided and statements made in connection with the diesel issue by the Board of Management in the “Key events” section in the notes to the interim consolidated financial statements and in the “Report on expected developments, risks and opportunities“ section in the interim group management report, where the allegations made and claims asserted against the Volkswagen Group are explained and where the information provided and statements made in the consolidated financial statements as of 31 December 2019 as well as in the combined management report in the 2019 annual report are referred to. On the basis of the underlying results to date of the various measures introduced to investigate the issue presented there and these interim consolidated financial statements and interim group management report, there is in particular still no confirmation that members of the Company’s Board of Management were aware of the deliberate manipulation of the engine management software before the summer of 2015. The provisions for legal risks recognized in the interim consolidated financial statements as of 30 September 2020 are based on these results and the information presented. Due to the uncertainties necessarily associated with pending and expected litigation, it cannot be ruled out that the risk estimation presented there could change in the future.

Hanover, 28 October 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Meyer	Matischiok
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Glossary

Selected terms at a glance

Hybrid notes
Hybrid notes issued by Volkswagen are classified in their entirety as equity. The issuer has call options at defined dates during their perpetual maturities. They pay a fixed coupon until the first possible call date, followed by a variable rate depending on their terms and conditions.

Modular Electric Drive Toolkit (MEB)
The modular system is being developed for the manufacturing of electric vehicles. The MEB establishes parameters for axles, drive systems, high-voltage batteries, wheelbases and weight ratios to ensure a vehicle optimally fulfills the requirements of e-mobility. The first vehicle based on the MEB should go into series production in 2020.

Plug-in hybrid
Performance levels of hybrid vehicles. Plug-in hybrid electric vehicles (PHEVs) have a larger battery with a correspondingly higher capacity that can be charged via the combustion engine, the brake system, or an electrical outlet. This increases the range of the vehicle.

Test procedure
Levels of fuel consumption and exhaust gas emissions for vehicles registered in Europe were previously measured on a chassis dynamometer with the help of the "New European Driving Cycle (NEDC)". Since fall 2017, the existing test procedure for emissions and fuel consumption used in the EU is being gradually replaced by the Worldwide Harmonized Light-Duty Vehicles Test Procedure (WLTP). This has been in place for new vehicle types since fall 2017 and will apply to all new vehicles since fall 2018. The aim of this new test cycle is to state CO2 emissions and fuel consumption in a more practice-oriented manner. A further important European regulation is the Real Driving Emissions (RDE) for passenger cars and light commercial vehicles, which also monitors emissions using portable emission measuring technology in real road traffic.

Capitalization ratio
The capitalization ratio is defined as the ratio of capitalized development costs to total research and development costs in the Automotive Division. It shows the proportion of primary research and development costs subject to capitalization.

Equity ratio
The equity ratio measures the percentage of total assets attributable to shareholders' equity as of a reporting date. This ratio indicates the stability and financial strength of the company and shows the degree of financial independence.

Gross margin
Gross margin is the percentage of sales revenue attributable to gross profit in a period. Gross margin provides information on profitability net of cost of sales.

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

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

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

Operating return on sales
The operating return on sales is the ratio of the operating result to sales revenue.

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

Research and development ratio
The research and development ratio (R&D ratio) in the Automotive Division shows total research and development costs in relation to sales revenue. Research and development costs comprise a range of expenses, from futurology through to the development of marketable products. Particular emphasis is placed on the environmentally friendly orientation of our product portfolio. The R&D ratio underscores the efforts made to ensure the Company's future viability: the goal of competitive profitability geared to sustainable growth.

Return on sales before tax
The return on sales is the ratio of profit before tax to sales revenue in a period, expressed as a percentage. It shows the level of profit generated for each unit of sales revenue. The return on sales provides information on the profitability of all business activities before deducting income tax expense.

Contact Information

PUBLISHED BY
Volkswagen AG
Group Financial Publications
Letterbox 1848 2
38436 Wolfsburg
Germany
Phone +49 (0) 5361 9 0
Fax +49 (0) 5361 9 28282

INVESTOR RELATIONS
Volkswagen AG
Investor Relations
Letterbox 1849
38436 Wolfsburg
Germany
Phone +49 (0) 5361 9 0
Fax +49 (0) 5361 9 30411
E-Mail investor.relations@volkswagen.de
Internet www.volkswagenag.com/en/InvestorRelations.html

FINANCIAL CALENDAR

March 16, 2021 Volkswagen AG Annual Media Conference and Investor Conference
May 6, 2021 Interim Report January – March 2021
July 29, 2021 Interim Report January – July 2021
October 28, 2021 Interim Report January – September 2021

This Interim Report is also available on the Internet, in German and English, at:
www.volkswagenag.com/en/InvestorRelations.html

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