VOLKSWAGEN

AKTIENGESELLSCHAFT

Half-Yearly Financial Report

JANUARY – JUNE 2020

Key Figures

VOLKSWAGEN GROUP

	Q2			H1		
	2020	2019	%	2020	2019	%
Volume Data[1] in thousands						
Deliveries to customers (units)	1,887	2,760	–31.6	3,893	5,365	–27.4
Vehicle sales (units)	1,799	2,756	–34.7	3,736	5,339	–30.0
Production (units)	1,665	2,767	–39.8	3,662	5,422	–32.5
Employees (on June 30, 2020/Dec. 31, 2019)				664.7	671.2	–1.0
Financial Data (IFRSs), € million						
Sales revenue	41,076	65,185	–37.0	96,131	125,197	–23.2
Operating result before special items	–1,707	5,130	x	–803	9,979	x
Operating return on sales before special items (%)	–4.2	7.9		–0.8	8.0	
Special items	–687	–	x	–687	–981	–30.0
Operating result	–2,394	5,130	x	–1,490	8,997	x
Operating return on sales (%)	–5.8	7.9		–1.5	7.2	
Earnings before tax	–2,034	5,486	x	–1,352	9,557	x
Return on sales before tax (%)	–5.0	8.4		–1.4	7.6	
Earnings after tax	–1,536	4,115	x	–1,019	7,168	x
Automotive Division[2]						
Total research and development costs	3,132	3,550	–11.8	6,695	7,033	–4.8
R&D ratio (%)	9.7	6.4		8.7	6.6	
Cash flows from operating activities	1,464	8,158	–82.1	3,009	13,523	–77.7
Cash flows from investing activities attributable to operating activities[3]	3,751	4,580	–18.1	7,815	7,955	–1.8
of which: capex	2,042	3,194	–36.1	4,130	5,202	–20.6
capex/sales revenue (%)	6.3	5.8		5.4	4.9	
Net cash flow	–2,288	3,578	x	–4,806	5,568	x
Net liquidity at June 30				18,663	15,905	+ 17.3

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: Q2 €3,351 (4,350) million, H1 €6,903 (7,451) 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 half of 2020; countermeasures implemented worldwide

> Deliveries to Volkswagen Group customers down 27.4% at 3.9 (5.4) million vehicles; declines in all regions, passenger car market share increased

> Group sales revenue decreases by 23.2% to €96.1 billion

> Operating result before special items drops €10.8 billion to €–0.8 billion; demand-related fall in volumes; fair value measurements of derivatives to which hedge accounting is not applied (in particular commodity hedges) and exchange-rate effects have a negative impact of €–0.9 billion, non-cash gain of €0.8 billion from the contribution of AID to the autonomous driving joint venture with Ford

> Operating result of €–1.5 billion down €10.5 billion on prior-year figure; negative special items of €–0.7 (–1.0) billion relating to diesel issue

> Earnings before tax decrease to €–1.4 (9.6) billion

> Automotive Division's net cash flow at €–4.8 (5.6) billion; capex ratio is 5.4 (4.9)% only due to falling revenues

> Net liquidity in the Automotive Division at €18.7 billion; successful placement of hybrid notes strengthens capital base

> Exciting products:

- Volkswagen Passenger Cars celebrates world premieres of the new Arteon and the Arteon Shooting Brake, also available as PHEV, and the Nivus, a crossover utility vehicle for the South American market
- Audi adds dynamic SUV coupé e-tron Sportback to its e-tron family
- ŠKODA presents new model versions from its Octavia family
- SEAT shows off the updated version of its successful Ateca
- Porsche debuts the new generation of its style icon, the 911 Targa
- Lamborghini unveils its new Huracán EVO RWD Spyder
- Scania presents concept for an electric drive system
- MAN launches Lion's City 18 E electric bus

Key Events

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

At the end of December 2019, initial cases of a new, sometimes fatal lung disease emerged in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also began to appear outside China from mid-January 2020. In Europe, the number of people infected rose continuously in February, and especially in March and April 2020. The countries particularly affected included the United Kingdom, Spain, Italy, France and Germany. While many areas throughout Europe 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. Especially in Europe and Asia, the second quarter saw the gradual easing of measures implemented to prevent the spread of the Covid-19 pandemic. 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 assistance packages to support the economy. Outside of Europe, governments also 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.

NEW GROUP MODELS PRESENTED

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

The second quarter of 2020 saw the Volkswagen Passenger Cars brand celebrating the world premieres of the reengineered Arteon and its new Arteon Shooting Brake variant, offering a completely new interpretation of the estate concept and expanding the brand's model range in the midsize segment. Both models have an expressive, avant-garde design characterized by athletic lines. A particularly striking feature is the front end with its continuous light strip, striking chrome bars and new air intakes. From the B-pillar back, the models differ substantially from one another: whereas on the Arteon the roof and window contours arch down from the B-pillars, therefore becoming part of the coupé-shaped rear, on the Shooting Brake the roof and window lines are extended towards the rear and end in the sporty rear end with roof spoiler characteristic of the model. New technical developments have been applied in both models. For the first time in the Arteon, a plug-in hybrid drive is available. The Travel Assist system enables partly automated driving within a speed range from 0 km/h to 210 km/h and makes driving in stop-and-go traffic and through roadworks in particular noticeably easier. The Lane Assist system keeps the vehicle in the center of the lane and Autonomous Emergency Braking Front Assist with Pedestrian Monitoring also complement the range of Travel Assist functions. The Rear View reversing camera has been further developed and now also features a corner view (which expands the camera image from 90 degrees to a wide angle of 170 degrees) and a special trailer view of the tow bar from above. A new cockpit landscape with touch functions, connectivity solutions and a high-end sound system round off the vehicle concept. In another world premiere, the Volkswagen Passenger Cars brand presented the Nivus. The crossover utility vehicle (CUV) opens up a new small car segment in the Brazilian market and impresses with dynamic design, an ample vehicle interior, and an elevated seating position. The exterior successfully combines SUV elements and coupé lines. The Nivus is among the largest models in the small vehicle segment with a luggage compartment capacity of 415 liters. Developed in South America, the vehicle is based on the Modular Transverse Toolkit (MQB) and will be built at the Anchieta plant in Brazil using cutting-edge production processes. Following its launch on the Brazilian market, the vehicle will also be available in Argentina in the second half of 2020. Other South American markets will follow in 2021. In future, the new model may also be launched at an international level and a European version could go on sale as well.

Audi is staying consistently true to its strategic direction with the presentation of the second model in its e-tron product line in the reporting period. The Audi e-tron Sportback is a dynamic SUV coupé that combines the power of a spacious SUV with the elegance of a four-door coupé and the progressive character of an electric car. The all-electric drive provides up to 300 kW (408 PS) of power and a range of up to 446 km from a single battery charge. The range is achieved by the coupé body style and the related outstanding cw value among other things. The e-tron Sportback's digital matrix LED headlights are a new feature now available for the first time in a large-scale production vehicle. The light is broken down into tiny pixels and can be controlled with exceptional precision. This makes safe lane centering easier on narrow stretches of road and shows the position of the vehicle in the lane.

ŠKODA presented new model versions from its Octavia family in the second quarter of 2020. The Octavia iV is the second model from the Czech brand to be available as a plug-in hybrid. The best-selling vehicle has an emission-free electric range of up to 55 km. ŠKODA has also equipped the new generation of the Octavia with mild hybrid technology, which helps to make the new petrol engines even more fuel efficient. Thanks to the application of the new twin-dosing method of exhaust gas treatment with two SCR catalytic converters that are arranged one after the other, the diesel engines emit around 80% less nitrogen oxide. The Octavia G-TEC, which is designed to run on particularly environmentally friendly compressed natural gas, allows for a range of around 500 km. The Octavia model range is rounded off by the robust Octavia Scout with the look of an off-road vehicle. An EVO-generation 2.0 TDI engine with a power output of 147 kW (200 PS) is also celebrating its premiere – the most powerful diesel in the history of the model range to date.

SEAT unveiled the new Ateca in the reporting period. The revamped version of the successful SUV has a refreshed and more emotional appearance. Its standard lighting includes full LED headlights and LED taillights with dynamic indicators. The seemingly high-end ambiance of the interior exudes even more dynamism, safety and reliability. The SEAT Virtual Cockpit with its 10.25" display combined with the infotainment system creates a digital control landscape. The package is rounded off by a fully connected user experience, improved levels of safety and comfort and a perceptible increase in efficiency. In addition to the already existing equipment lines, the new Ateca is now also available in the exclusive XPERIENCE line, which emphasizes the compact SUV's off-road character even more.

Porsche celebrated the world premiere of the 911 Targa 4 and 911 Targa 4S models in May, completing its new generation of the 911 with a third vehicle body variant. The innovative, fully automatic roof system remains a distinguishing feature on all versions of the Targa; and just like the legendary original Targa model from 1965, it features a characteristic wide bar, a retractable roof section above the front seats and a wraparound rear window. Both 911 Targa models are powered by a six-cylinder, three-liter twin-turbo boxer engine: the 911 Targa 4 now delivers 283 kW (385 PS) and accelerates from zero to 100 km/h in 4.2 seconds when equipped with the optional Sport Chrono Package. The engine in the 911 Targa 4S puts out 331 kW (450 PS) and reaches the 100 km/h mark in 3.6 seconds. Both models are fitted with an eight-speed dual-clutch transmission (PDK) and intelligent all-wheel drive Porsche Traction Management (PTM) as standard to deliver compelling performance, traction and driving pleasure. New technology has also been integrated to expand the range of functions for both 911 models. The Porsche InnoDrive system enhances the adaptive cruise control with additional, innovative functions. Thanks to the improved Smartlift function, the ground clearance can also be programmed to be adjusted for everyday use. New personalization options from the Porsche Exclusive Manufaktur range complete the list of offers.

Lamborghini unveiled its new Huracán EVO RWD Spyder. The open-top super sports car impresses with lightweight construction, rear-wheel drive, and a specially tuned performance traction control system to deliver a special open air experience. The Spyder's exterior design ensures drag reduction and the downforce matches that of the coupé without requiring additional aerodynamic appendages. Its naturally aspirated V10 engine delivers a maximum performance of 449 kW (610 PS) and accelerates the vehicle from 0 to 100 km/h in just 3.5 seconds. Its maximum speed is 324 km/h.

In June 2020, Scania launched its concept for hybrid and fully electric drive systems that provide outstanding performance in compact designs. All components work seamlessly together and are controlled by a common management system. The Scania systems are both modular and scalable, allowing customers to select from and combine a number of components based on application and specific demands. A high level of energy efficiency and low maintenance requirements keep operating costs low. With a potential CO_2 emission reduction of up to 92 percent, Scania's hybrid system combines an electric motor with a combustion engine. The fully electric system enables an almost complete CO_2 emission reduction provided that the electricity is generated from renewable sources. Both systems can be used in vehicles and construction equipment, for example excavators, dump trucks, mobile cranes and concrete mixers. For the marine segment, the systems can be beneficial in vessels such as excursion ships, car ferries and patrol boats.

MAN celebrated the market launch of its all-electric bus model, the Lion's City 18 E, in the second quarter. Two electric motors on the second and third axles give the articulated bus the power it needs for emission-free city traffic, and with a length of 18 meters, the city bus can accommodate many passengers. The absence of the engine tower allowed developers to create more appealing lighting and install additional seats in the rear. In the MAN Lion's City 18 E, the electric drivetrain produces up to 480 kW (653 PS). The energy for this comes from modular batteries from the Group's toolkit that are positioned on the roof. This saves space, improves crash behavior, and provides easy access for servicing. The MAN Lion's City 18 E impresses with a range of up to 270 km.

AWARDS

At the beginning of April 2020, CUPRA was selected as the overall brand winner in the "Best Brands in All Classes" readers' survey conducted by Auto Bild magazine, securing 58.1% of the votes. Readers of this magazine rated 37 car brands in 14 vehicle categories. Key criteria for the selection were quality, value for money and design.

In mid-April 2020, ŠKODA's Kamiq GT netted a Red Dot Award in the product design category. This is the first Red Dot Award for a ŠKODA model that has been developed and produced exclusively for the Chinese market and its customers. The ŠKODA Octavia also secured itself another award in the same category. The Red Dot Award is considered to be a seal of high-quality product design and is one of the world's most famous design competitions. The international expert jury consists of independent designers, design professors and specialist journalists.

At the end of April 2020, Volkswagen was selected as the best manufacturer of connected cars in the "Networks, Services & Manufacturers of the Year 2020" readers' poll conducted by the German journal connect. More than 76,000 connect readers and online users took part in the poll.

In May 2020, the Volkswagen Group received several awards from the German Design Council in the "Automotive Brand Contest 2020". The CUPRA brand was crowned "Winner" in the Concepts category for the CUPRA Tavascan. The Bentley brand was also named "Winner" in the same category for its EXP 100 GT model. Another "Winner" in this category was the ID. Space Vizzion from Volkswagen Passenger Cars. The MAN brand's fully electric city bus, the MAN Lion's City E, was selected as a "Winner" in the Commercial Vehicles category. The ID.3 from Volkswagen Passenger Cars was awarded the "Best of Best" award in the Exterior and Interior categories, with the Golf named a "Winner" in these categories. The prestigious design award is the only international design competition exclusively for automotive brands, with the expert jury being made up of representatives from the media, design, brand communication and academia.

In June 2020, readers of the Auto Bild Allrad magazine chose multiple Volkswagen Group models as the all-wheel drive cars of 2020. The Audi A6 Allroad was named the overall winner in the all-wheel-drive crossover category. The Porsche Taycan came first in the all-wheel-drive hybrid and electric car category. The ŠKODA Octavia was voted the overall winner and the winning import vehicle in the all-wheel-drive category for passenger cars priced under €40,000. The Porsche Panamera was selected as the overall winner in the all-wheel-drive category for passenger cars priced over €40,000 and the ŠKODA Superb as the winning import vehicle. The Porsche 911 Carrera was named the overall winner in the all-wheel-drive sports cars, coupés and convertibles category. The Multivan from Volkswagen Commercial Vehicles was selected as overall winner in the all-wheel-drive vans and buses category; here, the SEAT Alhambra was voted the winner in the import category. In the readers' choice, the editors of Auto Bild Allrad allowed readers to choose their favorites from a total of 219 models in ten categories.

At the end of June 2020, readers of AUTO Straßenverkehr and Leben & erziehen magazines voted several ŠKODA models "Family Car of the Year 2020" in six categories. The ŠKODA Octavia Combi came out on top for "Best Design" both as an import and overall for cars under €25,000. The Octavia Combi and the Superb Combi from ŠKODA also won the import award for "Best Technology" in their respective price range. The Superb Combi was crowned "Best Value for Money" both overall and as an import vehicle costing between €25,000 and €35,000. A total of 128 vehicles competed, including estates, SUVs and vans priced below €45,000. The main deciding factors in the awards were the interior space, safety and value for money.

ANNIVERSARIES

The Volkswagen plant in Chattanooga reached an important production milestone in June 2020 when the one-millionth Volkswagen rolled off the production line. The anniversary vehicle was a Passat R-Line. Volkswagen has been producing vehicles in Chattanooga since 2011; the factory currently manufactures the North American version of the Passat plus two SUVs – the Volkswagen Atlas and the Atlas Cross Sport – for the American market and for export.

PARTNERSHIPS

As part of its electrification strategy, Volkswagen decided at the beginning of May 2020 to use its Salzgitter site for construction of the building and development of the infrastructure needed for the lithium-ion battery manufacturing joint venture with Northvolt AB. The objective is to leverage synergies together with the Center of Excellence for Battery Cells already located at the site. Battery cell production is scheduled to commence at the start of 2024 with an initial capacity of 16 gigawatt hours.

At the end of May 2020, Volkswagen announced plans to increase its stake in JAC Volkswagen Automotive Co. Ltd. (JAC VW), a joint venture for electric mobility in China. The transaction with a value of around €1 billion includes the acquisition of 50% of JAG, the parent company of Volkswagen partner JAC, and an increase in the interest in JAC VW from 50 to 75%. The capital increase will enable Volkswagen to further advance its electric car offensive in China. In addition, Volkswagen will acquire a shareholding of around 26% in battery manufacturer Guoxuan High-Tech Co., Ltd. for around €1 billion, making it the company's largest shareholder. Completion of the transactions is subject to regulatory approval.

At the beginning of June 2020, Ford Motor Company and Volkswagen AG signed additional contracts within their existing global alliance for light commercial vehicles, electrification and autonomous driving. The contracts serve as the foundation for a total of three vehicle projects. In addition to the collaboration on the mid-sized pickup, projects are now underway for a city van and a one-ton cargo van. The three alliance projects amount to a volume of approximately 8 million vehicles over the entire life cycles. At the start of June 2020, contracts were concluded for a cooperation to further develop autonomous driving and the Volkswagen Group company AID was incorporated into Argo AI.

In June 2020, the Volkswagen Group also announced plans to increase its shareholding in the US battery specialist QuantumScape. The objective is to promote the joint development of solid-state battery technology. In the future, solid-state batteries should result in a significantly increased range and faster charge times. They are regarded as the most promising approach to electric mobility for generations to come. Volkswagen has already been collaborating with QuantumScape since 2012 and is the largest automotive shareholder thus far. Both founded a joint venture in 2018, the aim of which is to prepare the mass production of solid-state batteries for Volkswagen. The new investment of up to USD 200 million and the associated increase in the shareholding is still subject to various conditions precedent.

NEW DATE FOR THE 2020 ANNUAL GENERAL MEETING AND PROPOSED DIVIDEND

September 30, 2020 has been set as the new date for the Annual General Meeting for fiscal year 2019. After the Annual General Meeting, originally scheduled for May, was postponed due to the spread of coronavirus, the meeting in September will not be conducted in the usual manner either. To protect the health of shareholders, employees and service providers, this year's Annual General Meeting will be held on a virtual platform. At the same time as announcing the new date, the Management has also submitted an amended proposal on the appropriation of net retained profits. The enormous disruption to all areas of everyday life and economic activity caused by the Covid-19 pandemic has also affected the Volkswagen Group worldwide. Given the scale and extent of the impact and the current inability to reliably estimate future developments, the Board of Management and the Supervisory Board have resolved to now propose to the Annual General Meeting a dividend of €4.80 per ordinary share and €4.86 per preferred share. The Company's Management has thus amended the proposal on the appropriation of net retained profits previously announced for fiscal year 2019, which had originally been €6.50 per ordinary share and €6.56 per preferred share. The remaining net retained profits of €855 million will be carried forward to new account. Volkswagen AG continues to be committed to the aim laid down in its Group strategy of achieving a payout ratio of at least 30%.

CASH COMPENSATION SET FOR AUDI SHAREHOLDERS

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. The resolution on the transfer is due to be passed at AUDI AG's next Annual General Meeting, which will take place on July 31, 2020.

FIRST JUDGMENT 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 clarifies the BGH's stance on the fundamental issues underlying a large number of the some 65 thousand individual diesel lawsuits still pending in Germany. In the course of two hearings held in July 2020, the BGH indicated that it was inclined to reject a claim to tort interest by vehicle buyers.

MARKET MANIPULATION PROCEEDINGS TERMINATED

Against payment in each case of a court-imposed sum of €4.5 million, the Braunschweig Regional Court on May 20, 2020 definitively terminated the criminal proceedings against the Chairman of the Supervisory Board of Volkswagen AG, Hans Dieter Pötsch, and the Chairman of the Board of Management of Volkswagen AG, Dr. Herbert Diess, on suspicion of violation of the Securities Trading Act in connection with the diesel issue. The proceedings against Volkswagen AG as collateral participant have also been terminated to this extent.

After careful consideration and deliberation, the Supervisory Board of Volkswagen AG has decided to relieve Mr. Pötsch and Dr. Diess of the burden of making these payments.

BOARD OF MANAGEMENT AND SUPERVISORY BOARD MATTERS

Mr. Johan Järvklo, Secretary-General of the European and Global Group Works Council of Volkswagen AG, stepped down from his post on the Supervisory Board of Volkswagen AG effective May 29, 2020. Mr. Järvklo had been a member of the Supervisory Board since November 22, 2015. He has been succeeded by Mr. Kai Bliesener, Head of Vehicle Construction and Automotive and Supplier Industry Coordinator at IG Metall, who was appointed by the court to replace Mr. Järvklo effective June 20, 2020.

On June 5, 2020, the Supervisory Board of Volkswagen AG announced two further appointments to the Executive Committee, expanding it to eight members. The new members are Ms. Bertina Murkovic as an employee representative and Dr. Hans Michel Piëch as a shareholder representative. The decision to expand the committee is due to the increasing number of tasks it performs.

Effective June 30, 2020, Dr. Stefan Sommer left the Volkswagen AG Board of Management. Dr. Sommer had been the Board member responsible for Components and Procurement since September 1, 2018. He left the Company at his own request and by mutual agreement. Mr. Frank Witter, member of the Board of Management for Finance & IT, will be responsible for Components and Procurement until further notice.

The Board of Management has also reorganized responsibilities in the management of the brand and Group. The core Volkswagen Passenger Cars brand has been led by its former Chief Operating Officer, Mr. Ralf Brandstätter, since July 1, 2020. The Chairman of the Board of Management of Volkswagen AG, Dr. Herbert Diess, who previously also chaired the Brand Board of Management, will retain overall responsibility for the Volume brand group on the Group Board of Management. This brand group also includes Volkswagen Passenger Cars. The aim of the change is to enable the Group and brand leaders to focus more closely on their respective tasks during the period of transformation in the automotive industry.

Effective July 15, 2020, Mr. Andreas Renschler left the management boards of Volkswagen AG and TRATON SE by mutual agreement. The Truck & Bus brand group, for which he was responsible on the Group Board, will be taken over by Mr. Gunnar Kilian, member of the Board of Management for Human Resources. Mr. Matthias Gründler will succeed Mr. Renschler as Chairman of the Board of Management of TRATON SE.

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 DAX ended the first half of the year approximately 7% 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 growing spread of the SARS-CoV-2 virus. After reaching a low in March, the leading German stock index has since increasingly gained in value. 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.

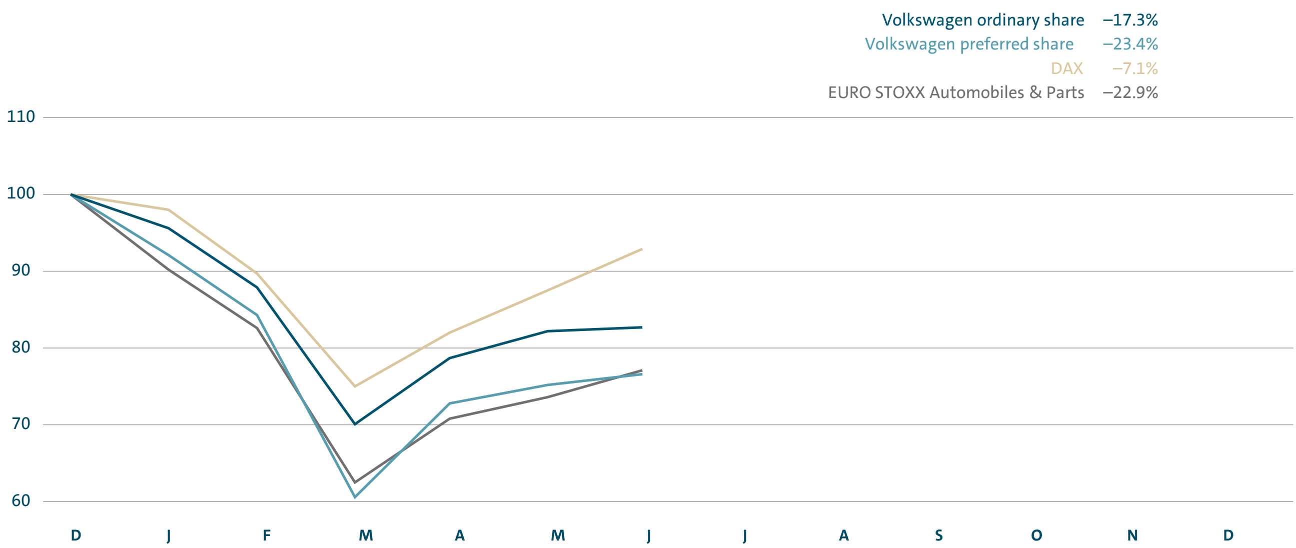
Following the decline in the first quarter, the prices of Volkswagen AG's preferred and ordinary shares also proceeded to recover over the further course of the reporting period; however, they are still around 20% lower than at the end of 2019. Uncertainties surrounding the development of the global demand for automobiles caused by the Covid-19 pandemic placed shares under pressure. In addition, negative effects arose from the automotive industry's current period of transition that requires large-scale investment. Moreover, the impending US punitive tariffs on European vehicles and the unknown outcome of the Brexit negotiations between the United Kingdom and the EU, coupled with the related question of what form this relationship would take in future, also had a negative impact. Positive momentum came from the incipient economic recovery in China 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 at www.volkswagenag.com/en/InvestorRelations.html.

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

		High	Low	Closing
Ordinary share	Price (€)	183.10	101.50	143.30
	Date	Jan. 10	Mar. 18	Jun. 30
Preferred share	Price (€)	185.52	87.20	134.94
	Date	Jan. 10	Mar. 18	Jun. 30
DAX	Price	13,789	8,442	12,311
	Date	Feb. 19	Mar. 18	Jun. 30
ESTX Auto & Parts	Price	496	255	375
	Date	Jan. 10	Mar. 18	Jun. 30

PRICE DEVELOPMENT FROM DECEMBER 2019 TO JUNE 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 in the first half of 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. 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 throughout the world responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a significant decline in prices for energy resources, while other commodity prices were, on average, down slightly year-on-year. Currencies in some emerging markets depreciated distinctly in the first half of 2020. Global trade in goods declined further in the reporting period.

As a whole, the economies of Western Europe recorded a sharp fall in growth from January to June 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 slow economic recovery.

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 short-time working throughout the course of the first half of the year. Both business and consumer sentiment saw only a modest improvement – despite the initial easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy.

The economies in Central and Eastern Europe reported an overall marked decline in the real absolute GDP in the first six months of 2020. This development was also caused by the impact of national measures aimed at preventing the spread of the Covid-19 pandemic.

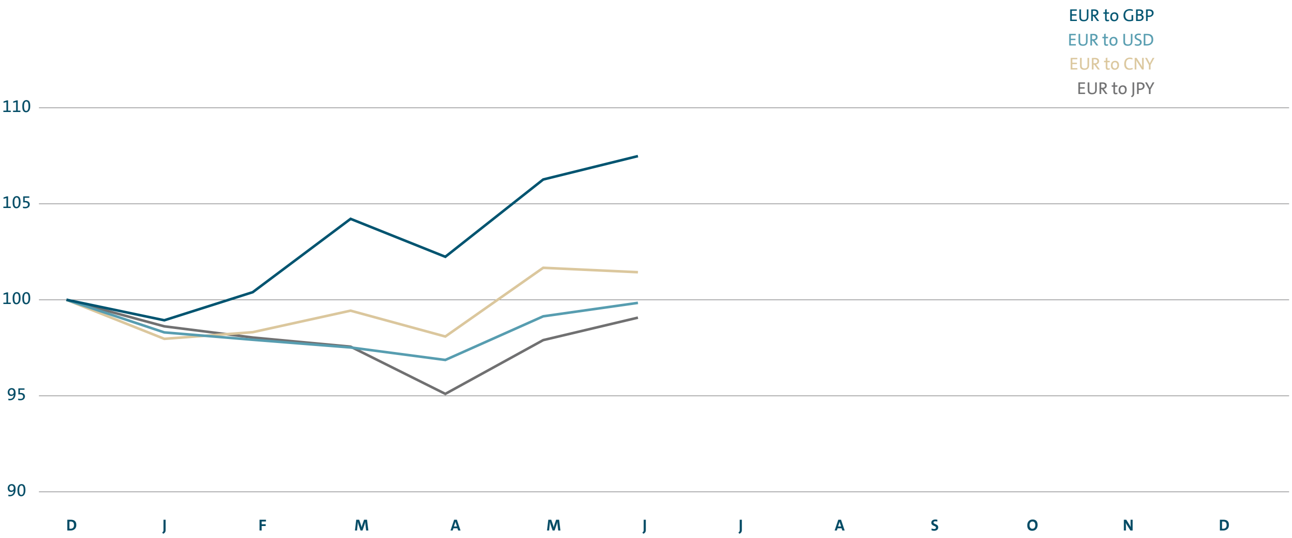
In Turkey, the recovery from the first quarter could not be sustained – the GDP growth rate was negative overall. South Africa's GDP growth was much weaker in the reporting period amid persistent structural deficits and political challenges.

Growth in the US economy receded significantly to negative in the first two quarters of 2020 amid increasing rates of infection. To strengthen the economy in light of the negative impact of 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 and led to a soaring increase in 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's economy also recorded a sharp drop from January to June 2020, resulting from the rising rate of infections caused by the Covid-19 pandemic. The economic downturn in Argentina intensified amid high inflation and continuous currency depreciation.

Economic output in China, which was exposed to the negative effects of the Covid-19 pandemic much earlier than other economies, fell in the reporting period; however, an increase was recorded in the second quarter. India registered a sharp fall in growth amid the rising number of infections. Japan also recorded a negative GDP growth compared to the same period of the previous year due to the adverse impact of the Covid-19 pandemic.

EXCHANGE RATE MOVEMENTS FROM DECEMBER 2019 TO JUNE 2020
Index based on month-end prices: as of December 31, 2019 = 100



TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

Global demand for passenger cars fell sharply year-on-year from January to June 2020 as a result of the Covid-19 pandemic (–28.1%). The slump affected all sales regions, with above-average losses recorded in the overall markets of Western Europe and South America. The decline in demand in Asia-Pacific, North America, Central and Eastern Europe, the Middle East and Africa was smaller by comparison.

Global demand for light commercial vehicles also decreased sharply from January to June 2020 compared to the prior year.

In Western Europe, demand for passenger cars during the reporting period fell drastically short of the previous year's level. 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 overall as the second quarter progressed. The passenger car markets in the UK, Italy and Spain lost around half their volume in the first six months of 2020.

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

New passenger car registrations in Germany in the first half of 2020 did not match the high level seen in the equivalent period of the previous year. Demand here decreased by more than one-third, 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 substantially lower than in the same period of 2019.

In the Central and Eastern Europe region, sales of passenger cars in the reporting period were substantially 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 relatively stable in the first quarter. It was not until the second half of the reporting period that the figures fell substantially short of the previous year as the SARS-CoV-2 virus became increasingly widespread.

The volume of light commercial vehicles registered in Central and Eastern Europe decreased sharply compared to the same period in the preceding year, with a substantial year-on-year drop in the number of vehicles sold in Russia between January and June 2020.

The volume of the passenger car market in Turkey in the period from January to June 2020 was up by nearly one-third on the very low prior-year level. The growth in demand was bolstered by catch-up effects in the first three months of the year. In the second quarter, however, demand fell at times. In South Africa, the crisis meant that the number of passenger cars sold was down very sharply on the already poor results of the previous year.

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

In the markets of the South America region, new registrations for passenger cars and light commercial vehicles decreased drastically in the first six months of 2020. This region, along with 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 in the first half of 2020.

In the Asia-Pacific region, too, the first half of 2020 was adversely impacted by the spread of the SARS-CoV-2 virus. The number of new passenger cars registered in the reporting period was down by around a quarter on the prior-year level. This was due primarily to developments on the Chinese passenger car market, where the volume of demand fell substantially 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 during the second quarter. In the Indian passenger car market, sales in the period from January to June 2020 fell drastically compared with a year earlier, with the decline accelerating constantly across the period. In Japan, vehicle demand in the first six months of 2020 was down substantially on the previous year due not only to the Covid-19 pandemic, but also to the increase in VAT as of October 1, 2019.

There was a sharp 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 quarter compared to the previous year. The number of new vehicle registrations in India saw a drastic decrease versus the prior year, while in Thailand the number was substantially below the level seen in the previous year.

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 drastically short of the 2019 level in the first half of 2020. The previously anticipated downturn in the market was amplified by the Covid-19 pandemic, especially in the second quarter of 2020. The Russian market recorded a marked downswing. Turkey reported a more than 40% year-on-year increase in new registrations; however, the prior-year figures were very low. By contrast, the South African market declined at a similar rate.

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 half of 2020 was much lower than in the prior-year period, and the market for coaches in particular all but ground to a halt. Brazil and Mexico recorded a drastic year-on-year decline in demand.

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 half of 2020 than in the same period of the previous year, and the period was marked by project postponements. In merchant shipping, the market continued to develop sluggishly despite initial positive indicators, such as the recovery in freight rates. Orders for cruise ships largely ground to a halt and projects were canceled. 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 slightly in the first half of 2020 compared with the same period of the previous year. This trend was further compounded by the spread of 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 towards 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 towards greater flexibility and decentralized availability.

The market for turbomachinery deteriorated distinctly compared with the prior-year period in virtually all areas of application. 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 six months of 2020. Demand for steam turbines for power generation also collapsed in the renewable energy industry towards the end of the first half, showing a downward trend overall compared with the prior-year period. Demand for gas turbines for decentralized, industrial combined heat and power installations in the power output categories of the new gas turbine range slumped in the first half 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 performed positively in the first six months 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 subsequent three months of 2020 decreased year-on-year as a result of the pandemic.

Also due to Covid-19, the after-sales market for turbomachinery in the first half of 2020 was markedly weaker than in the same period of the previous year.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services was buoyant particularly in the first three months of the first half 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.

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

In Germany, there was a significant fall in the number of loan-financed or leased new vehicles in the reporting period due to the challenges of the Covid-19 pandemic. The figures were down on the previous year especially due to declines in direct business and in loan financing in the individual customer segment. There were also fewer new contracts for after-sales products.

In South Africa, demand for financing and insurance products fell significantly.

A substantial drop in demand for new vehicles has been seen across the entire North America region as a consequence of the Covid-19 pandemic. This was accompanied in the first half of 2020 by decreases in absolute numbers of lease, financing and insurance contracts in the three North American markets. In contrast the proportion of lease and financing contracts in the USA in the first half of 2020 remained level with the previous year; on the Canadian market it even increased. In Mexico, the lack of fleet business led to a 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 of 2020. The number of contracts fell very sharply in Brazil and Argentina in the reporting period; however, the manufacturers’ penetration rates – the ratio of leased and financed vehicles to deliveries – increased.

China’s passenger car market recovered from the Covid-19 pandemic in the second quarter of 2020. The relaxation of restrictions also led to increasing numbers of new contracts signed for automotive-related financial services, although this increase did not keep pace with the rise in vehicle demand. In the reporting period, demand for passenger cars and for financial services was weaker than in the prior-year period. Japan recorded lower demand for automotive financial services products in the first half of 2020. In India, too, demand for financial services fell as a result of continued weakness in the banking market and the spread of SARS-CoV-2.

The Covid-19 pandemic also led to substantial declines in demand for vehicles in the Commercial Vehicles Business Area in the reporting period. 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 3,893,098 vehicles to customers worldwide from January to June 2020. The decrease of 27.4% or 1,472,248 units year-on-year was due almost exclusively to the Covid-19 pandemic and the measures taken worldwide to curb its spread. Sales figures for both passenger cars and commercial vehicles declined as a result of the fall in demand. The chart on page 14 shows the trend in deliveries worldwide by month compared with the previous year. Deliveries in the Passenger Cars Business Area and Commercial Vehicles Business Area are reported separately in the following.

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

	2020	2019	%
Passenger Cars	3,815,360	5,242,010	–27.2
Commercial Vehicles	77,738	123,336	–37.0
Total	**3,893,098**	**5,365,346**	**–27.4**

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 27.2% year-on-year to 3,815,360 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. The pandemic led to delays and also had different geographical effects on our deliveries to customers. 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 thanks to the positive trend in sales figures in Turkey. During the second quarter, month-on-month declines weakened again and we saw growth in demand for Group models in some individual markets. Our passenger car market share in a much weaker overall global market experiencing a sharp downturn was 12.8 (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 figure trends in the individual markets are described in the following sections.

Deliveries in Europe/Other markets

In Western Europe, the Volkswagen Group delivered 1,212,360 vehicles to customers in the first six months of this year in a drastically declining overall market. This was 37.4% 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 reporting period, the declines had tapered off. The Group models with the highest volume of demand were the Golf, Tiguan, Polo 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 and Golf hatchback models from Volkswagen Passenger Cars, the A3 Sportback, A5 and e-tron Sportback from Audi, the Citigo[e] iV, Superb iV and Octavia from ŠKODA, and the Leon and Leon ST from SEAT. The Volkswagen Group's share of the passenger car market in Western Europe rose to 23.6 (22.6)%.

In Germany, demand for vehicles from the Volkswagen Group was down 34.9% year-on-year between January and June 2020 in a very sharply contracting overall market. As in the case of the overall market in Western Europe, the decrease was attributable to the negative impact of the spread of the coronavirus. The Group models with the highest volume of demand were the Golf, Tiguan and Passat Estate 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. Nine Group models led the Kraftfahrt-Bundesamt (KBA – German Federal Motor Transport Authority) registration statistics in their respective segments: the Polo, Golf, T-Roc, Tiguan, Touran, Passat, Audi A6, Porsche 911 and Caddy. After the first six 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 27.1%, a less sharp decline than in Western Europe due mainly to the rise in deliveries in Russia in the first 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 20.2 (20.5)%.

In Turkey, the Volkswagen Group continued to benefit from the catch-up effects in the overall market and increased the number of vehicles handed over to customers between January and June of this year by 41.6% 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 30.8%. 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 26.1% year-on-year in the reporting period, 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 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.

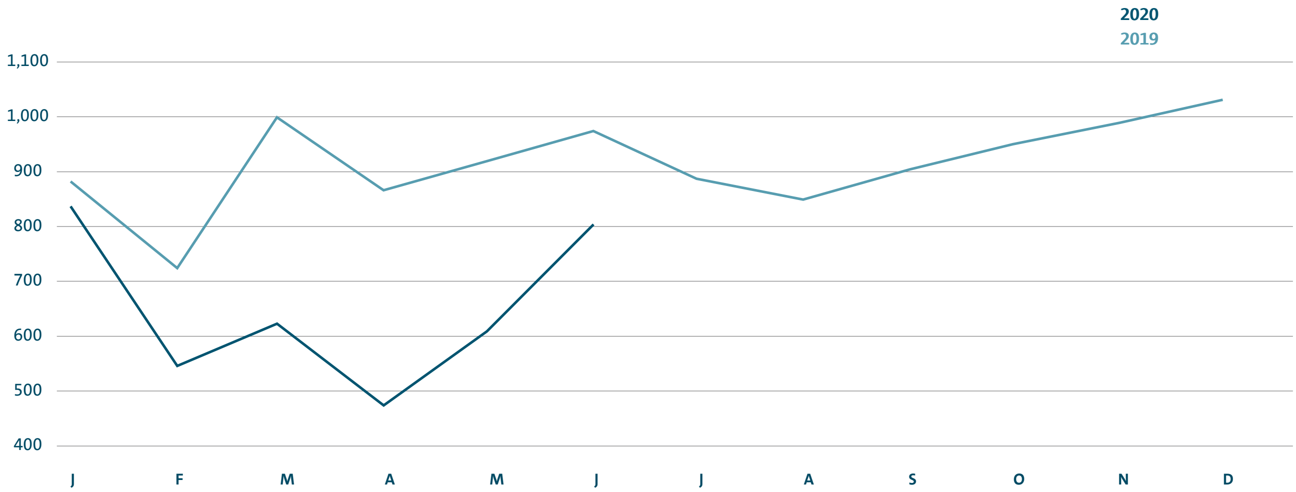
In the substantially weaker US market, the Volkswagen Group delivered 22.2% fewer vehicles to customers between January and June 2020 than in the same period of the previous year. Of all Group models, the greatest increases were recorded by the Arteon from Volkswagen Passenger Cars, by the Audi Q3 and e-tron and by the Porsche 911 Cabriolet, among others. The Atlas and the Atlas Cross Sport from the Volkswagen Passenger Cars brand, Audi's Q7 and e-tron Sportback, and the Porsche Cayenne Coupé were successfully launched on the market as new or successor models during the reporting period.

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

	DELIVERIES (UNITS)		CHANGE
	2020	2019	(%)
Europe/Other markets	**1,603,005**	**2,476,022**	**– 35.3**
Western Europe	**1,212,360**	**1,936,686**	**– 37.4**
of which: Germany	451,183	693,466	– 34.9
France	91,513	155,531	– 41.2
United Kingdom	157,599	301,989	– 47.8
Italy	101,947	172,016	– 40.7
Spain	91,165	171,537	– 46.9
Central and Eastern Europe	**276,052**	**378,508**	**– 27.1**
of which: Czech Republic	51,833	69,155	– 25.0
Russia	83,279	103,310	– 19.4
Poland	52,792	84,335	– 37.4
Other Markets	**114,593**	**160,828**	**– 28.7**
of which: Turkey	43,165	30,480	+ 41.6
South Africa	29,035	41,970	– 30.8
North America	**339,245**	**459,091**	**– 26.1**
of which: USA	247,781	318,435	– 22.2
Canada	33,989	53,457	– 36.4
Mexico	57,475	87,199	– 34.1
South America	**169,166**	**255,806**	**– 33.9**
of which: Brazil	127,043	190,161	– 33.2
Argentina	25,208	38,019	– 33.7
Asia-Pacific	**1,703,944**	**2,051,091**	**– 16.9**
of which: China	1,588,923	1,914,071	– 17.0
India	7,979	25,264	– 68.4
Japan	31,499	39,169	– 19.6
Worldwide	**3,815,360**	**5,242,010**	**– 27.2**
Volkswagen Passenger Cars	2,198,908	2,998,181	– 26.7
Audi	707,225	906,180	– 22.0
ŠKODA	426,712	620,935	– 31.3
SEAT	193,419	314,279	– 38.5
Bentley	4,918	4,785	+ 2.8
Lamborghini	3,548	4,553	– 22.1
Porsche	116,964	133,484	– 12.4
Bugatti	33	42	– 21.4
Volkswagen Commercial Vehicles	163,633	259,571	– 37.0

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



In Canada, the number of deliveries to Volkswagen Group customers fell by 36.4% year-on-year. The market as a whole was also far weaker during this period. The Audi Q3 recorded encouraging growth in demand.

In the Mexican market, which was also declining very sharply overall, we delivered 34.1% fewer vehicles to customers in the first six 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 drastic decline overall, the number of Group models delivered to customers in the first six months of 2020 was down by 33.9% 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. The Gol and Polo from Volkswagen Passenger Cars were the Group models in highest demand. Launched on the market in the previous year, the T-Cross from Volkswagen Passenger Cars was also very popular with customers. The Group's share of the market in South America expanded to 13.7 (12.3)%.

The recovery of the Brazilian market was interrupted by the outbreak of the Covid-19 pandemic. The Volkswagen Group delivered 33.2% 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 launched in the previous year was in especially high demand.

In Argentina, the number of vehicles delivered to Volkswagen Group customers fell short of the prior-year figure (–33.7%) 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 June 2020, the Volkswagen Group saw demand taper off in the overall market of the Asia-Pacific region, which was contracting substantially due primarily to the Covid-19 pandemic, and handed over 16.9% fewer vehicles to customers than in the year before. The Group's share of the passenger car market in this region expanded to 13.2 (12.2)%.

In China, the Volkswagen Group delivered 17.0% fewer vehicles to customers year-on-year in an overall market that had been substantially 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 in the second quarter over the same months of the previous year. The T-Cross and Teramont X from the Volkswagen Passenger Cars brand, the VA3 and VS5 from the JETTA brand, the Audi A6 saloon 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 Bora, the Tayron and the Tharu from Volkswagen Passenger Cars, the Audi Q2L, Q2L e-tron and Q5, and the Porsche Panamera saloon saw an encouraging growth in demand. The Tacqua and Viloran models from Volkswagen Passenger Cars, the VS7 from the JETTA brand, the Audi Q7 and the ŠKODA Rapid were successfully launched on the market as new or successor models in the reporting period.

On the Indian passenger car market, which registered a drastic decline, the Volkswagen Group saw 68.4% less demand in the first six 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 model there.

In Japan, the number of Group models delivered to customers between January and June 2020 decreased by 19.6% year-on-year in a substantially weaker overall market. The Group model to record the highest demand was the Volkswagen T-Cross.

COMMERCIAL VEHICLE DELIVERIES

In the first six months of 2020, the Volkswagen Group handed over 37.0% fewer commercial vehicles to customers worldwide than in the previous year. We delivered a total of 77,738 commercial vehicles to customers. Trucks accounted for 64,134 units (–39.4%) and buses for 7,249 units (–29.1%). A total of 6,355 (7,266) 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 half 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 44.7% on the same period of the previous year to a total of 42,450 units, of which 33,619 were trucks and 2,627 were buses. Here, the MAN brand delivered 6,204 light commercial vehicles.

In Russia, sales fell by 27.7% year-on-year to 2,761 units, including 2,592 trucks and 169 buses.

Between January and June 2020, deliveries in Turkey increased to 860 (287) vehicles. Trucks accounted for 714 units and buses for 91 units, while 55 vehicles from the MAN TGE van series were sold. In South Africa, deliveries of Volkswagen Group commercial vehicles decreased by 37.4% year-on-year to a total of 1,199 units; of this figure 1,031 were trucks and 168 were buses.

Sales in North America declined in the first half of 2020 to 731 vehicles (–50.6%), which were delivered exclusively to customers in Mexico; this included 534 trucks and 197 buses.

Deliveries in South America fell to a total of 21,186 vehicles (–23.1%), of which 18,079 were trucks and 3,107 were buses. Sales in Brazil decreased by 23.9% in the first half of 2020. Of the units delivered, 15,920 were trucks and 2,329 were buses.

In the Asia-Pacific region, the Volkswagen Group sold 5,276 vehicles to customers in the reporting period; among these, 4,614 were trucks and 656 were buses. Overall, this was 15.1% 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 June 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 JUNE 30[1]

	DELIVERIES (UNITS)		CHANGE
	2020	2019	(%)
Europe/Other markets	**50,545**	**88,091**	**– 42.6**
of which: EU27+3	42,450	76,825	– 44.7
of which: Germany	12,074	21,367	– 43.5
Russia	2,761	3,817	– 27.7
Turkey	860	287	x
South Africa	1,199	1,916	– 37.4
North America	**731**	**1,481**	**– 50.6**
of which: Mexico	731	1,480	– 50.6
South America	**21,186**	**27,552**	**– 23.1**
of which: Brazil	18,249	23,986	– 23.9
Asia-Pacific	**5,276**	**6,212**	**– 15.1**
Worldwide	**77,738**	**123,336**	**– 37.0**
Scania	30,437	51,524	– 40.9
MAN	47,301	71,812	– 34.1

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 first half of 2020, though the Covid-19 pandemic weighed on demand. The number of new financing, leasing, service and insurance contracts signed worldwide declined by 18.0% to 3.7 million. As the Group's deliveries fell at a higher rate than the number of contracts signed, the ratio of leased and financed vehicles to Group deliveries (penetration rate) in the Financial Services Division's markets increased to 36.3 (34.5)% in the first six months of 2020. The total number of contracts amounted to 23.4 million as of June 30, 2020, a drop of 1.0% compared to the end of 2019.

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 2.8 (3.5) million. At the end of June 2020, the total number of contracts was 17.2 million, down 2.1% on December 31, 2019. The customer financing/leasing area accounted for 7.5 million of these contracts (–2.8%).

In North America, 417 (473) thousand new contracts were signed in the reporting period. At 3.1 (3.1) million, the number of contracts as of the end of June 2020 was up slightly on the year-end 2019 figure. The customer financing/leasing area recorded 1.9 (1.8) million contracts.

In South America, which was impacted by the Covid-19 pandemic mainly in the second quarter, the number of new contracts concluded in the first half of 2020 failed to match the prior-year level, standing at 119 (151) thousand. At 688 (703) thousand, the total number of contracts as of June 30, 2020 was below the figure for December 31, 2019. The contracts mainly related to the customer financing/leasing area.

In Asia-Pacific, where SARS-CoV-2 virus spread first, the number of new contracts signed fell by 7.5% year-on-year to 420 thousand between January and June 2020. At the end of the reporting period, the total number of contracts amounted to 2.5 million, 3.7% more than at year-end 2019. The customer financing/leasing area accounted for 1.8 million contracts (+4.5%).

SALES TO THE DEALER ORGANIZATION

In the first six months of 2020, the Volkswagen Group's unit sales to the dealer organization fell by 30.0% on the prior-year period to 3,736,064 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 Western Europe and in North and South America. Unit sales outside Germany declined by 29.3% compared with the period from January to June 2019. In Germany, unit sales fell by 34.6% year-on-year. Vehicles sold in Germany as a proportion of overall sales decreased to 12.5 (13.3)%.

PRODUCTION

Between January and June 2020, the Volkswagen Group's production fell by 32.5% year-on-year to a total of 3,662,419 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 at the end of the first half of 2020, the delayed impact of the Covid-19 pandemic at the other locations worldwide caused declines in production. Production in Germany fell by 39.9% to 680,614 units. Production abroad decreased by 30.5% year-on-year to a total of 2,981,805 vehicles. The proportion of vehicles produced in Germany decreased to 18.6 (20.9)%.

INVENTORIES

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

EMPLOYEES

The Volkswagen Group had 637,202 active employees on June 30, 2020. A further 10,630 employees were in the passive phase of their partial retirement. In addition, there were 16,885 young people completing vocational traineeships. At the end of the first half of 2020, the Volkswagen Group had a total of 664,717 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 294,278, the number of employees in Germany was also modestly 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.

From January to June 2020, negative special items in connection with the diesel issue affected the Passenger Cars Business Area's operating profit in an amount of €–0.7 (–1.0) billion. These items resulted mainly from legal risks.

RESULTS OF OPERATIONS OF THE GROUP

In the first half of 2020, the Volkswagen Group generated sales revenue of €96.1 billion, down 23.2% on the previous year. In particular, lower volumes due to the Covid-19 pandemic had a negative impact, as did changes in exchange rates. In contrast, mix effects and an improved price positioning made a positive contribution. The Volkswagen Group generated 80.6 (80.8)% of its sales revenue abroad. Gross profit decreased to €12.9 (24.7) billion; the gross margin stood at 13.4 (19.8)%.

The Volkswagen Group's operating result before special items amounted to €–0.8 (10.0) billion in the period from January to June 2020. The operating return on sales before special items fell to –0.8 (8.0)%. The decline was mainly attributable to the negative impact of the spread of the Covid-19 pandemic: 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 (in particular commodity hedges) 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 weighed on the operating result, reducing this item by €–0.7 (–1.0) billion to €–1.5 (9.0) billion in the reporting period. The operating return on sales fell to –1.5 (7.2)%.

The year-on-year decline in the financial result of €0.4 billion to €0.1 billion was also attributable to the spread of the SARS-CoV-2 virus. Due to the change in discount rates used to measure liabilities, 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, due primarily to the lower profit generated by the Chinese joint ventures, which were mainly affected by Covid-19 during the first quarter of 2020.

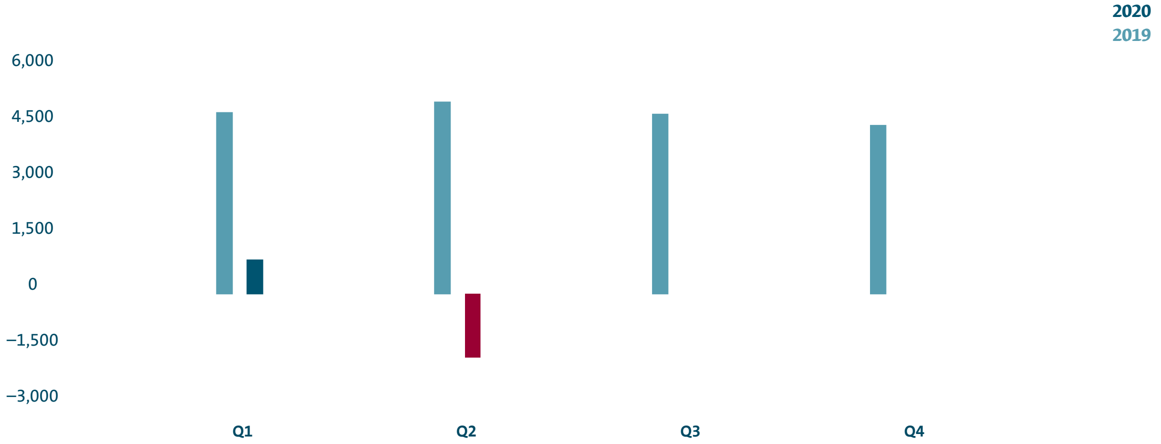
The Volkswagen Group's earnings before tax fell by €10.9 billion to €–1.4 billion in the reporting period. Earnings after tax amounted to €–1.0 billion, compared with €7.2 billion in the previous year.

Results of operations in the Automotive Division

In the first six months of 2020, the Automotive Division reported sales revenue of €77.0 billion. The year-on-year decrease of 27.4% was mainly attributable to falling volumes as a result of the Covid-19 pandemic. Moreover, changes in exchange rates had a negative effect, while the contribution of mix effects and better price positioning was positive. Sales revenue was down substantially on the previous year's figures in both the Passenger Cars and Commercial Vehicles business areas. In the Power Engineering Business Area, sales revenue was almost on a level with the previous year; due to the nature of the business, there is sometimes a significant time lag between incoming orders and revenue recognition. As our Chinese joint ventures are accounted for using the equity method, the Group's business performance in the Chinese passenger car market is reflected in consolidated sales revenue primarily by deliveries of vehicles and vehicle parts.

The downturn in volumes led to a decrease in cost of sales, although its ratio to sales revenue rose year-on-year. A rise in depreciation and amortization charges due to the large capex volume of previous years was set against lower research and development costs recognized in profit or loss. In the period from January to June 2020, total research and devel-

OPERATING RESULT 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 JUNE 30

€ million	2020	2019
Passenger Cars		
Sales revenue	65,312	90,942
Operating result	–2,350	6,693
Operating return on sales (%)	–3.6	7.4
Commercial Vehicles		
Sales revenue	9,854	13,320
Operating result	–295	959
Operating return on sales (%)	–3.0	7.2
Power Engineering		
Sales revenue	1,850	1,864
Operating result	–93	–63
Operating return on sales (%)	–5.0	–3.4

opment costs as a percentage of the Automotive Division's sales revenue (research and development ratio or R&D ratio) increased to 8.7 (6.6)% compared to the prior-year period, due to the decline in sales revenue.

Distribution expenses were down in the first half of 2020, although their ratio to sales revenue increased. There was a rise in both administrative expenses and their ratio to sales revenue in the reporting period. The other operating result amounted to €–0.6 (–0.8) billion, due primarily to special items of €–0.6 (–1.0) billion in connection with the diesel issue, as well as a gain of €0.8 billion from the contribution of the consolidated subsidiary Autonomous Intelligent Driving (AID) to Argo AI, a company that is working on the development of a system for autonomous driving. Other adverse factors included above all the negative effects of the fair value measurement of derivatives to which hedge accounting is not applied (in particular commodity hedges) and the measurement of receivables and liabilities denominated in foreign currencies, which had an impact of €–0.9 (–0.1) billion.

The Automotive Division's operating result amounted to €–2.7 billion in the first six months of 2020, €10.3 billion down on the previous year. The operating return on sales in the Automotive Division was –3.6 (7.2)% due to the Covid-19 pandemic, which had a negative impact 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 effect, while negative special items weighed on the result. The operating result before special items decreased to €–2.1 (8.6) billion, while the operating return on sales before special items declined to –2.7 (8.1)%. Since the profit recorded by the Chinese joint ventures is accounted for in the financial result using the equity method, the business performance of our Chinese joint ventures is primarily reflected in the operating profit only through deliveries of vehicles and vehicle parts, and through license revenue.

Results of operations in the Financial Services Division

In the first half of 2020, the Financial Services Division's sales revenue of €19.1 (19.1) billion was on a level with the previous year. 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 €0.1 billion to €15.7 billion. When taken together, there was a rise in distribution and administrative expenses and in the other operating result due to risk costs and exchange rate effects; their ratio to sales revenue also increased. At €1.2 (1.4) billion, the Financial Services Division's operating profit was down slightly on the previous year. The operating return on sales amounted to 6.5 (7.4)%.

FINANCIAL POSITION OF THE GROUP

Due to earnings-related factors, the Volkswagen Group's gross cash flow was €12.2 billion in the first half of 2020, €8.5 billion lower than in the previous year. The change in working capital amounted to €–4.9 (–14.3) billion. The Covid-19 pandemic was responsible among other things for a smaller increase in receivables, lower provisions, lower liabilities and inventories because of downscaled production and a decline in receivables in the financial services business. Cash outflows attributable to the diesel issue were higher than in the prior-year period. Cash flows from operating activities improved by €0.9 billion to €7.3 billion.

Investing activities attributable to operating activities amounted to €7.9 (8.1) billion.

Financing activities accounted for total cash inflows of €21.7 (–2.1) billion in the reporting period; their purpose was primarily to boost gross liquidity. 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. Volkswagen AG's syndicated credit line of €10 billion was drawn down in full as of the end of the reporting period. In the previous year, financing activities included the acquisition of MAN shares tendered as a result of the termination of the control and profit and loss transfer agreement, as well as the dividend payment to Volkswagen AG's shareholders.

At the end of the reporting period, the Volkswagen Group's cash and cash equivalents reported in the cash flow statement amounted to €42.9 (23.0) billion.

On June 30, 2020, the Volkswagen Group's net liquidity stood at €–143.7 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 €6.8 (15.9) billion in the first half of 2020, mainly due to the pandemic-related decline in profit. The change in working capital amounted to €–3.8 (–2.4) billion. The effects of the Covid-19 pandemic included a smaller increase in receivables and lower provisions, as well as lower liabilities and inventories because of downscaled production. The cash outflows attributable to the diesel issue in the reporting period were higher than a year earlier. At €3.0 billion, cash flows from operating activities were €10.5 billion lower than the figure for the same period of 2019.

Investing activities attributable to operating activities in the Automotive Division amounted to €7.8 billion in the first six months of 2020, down €0.1 billion on the previous year. Investments in property, plant and equipment, investment property and intangible assets, excluding capitalized development costs (capex) declined by €1.1 billion to €4.1 billion. The increase in the ratio of capex to sales revenue to 5.4 (4.9)% was attributable to the pandemic-related drop in sales revenue. Capex was invested primarily in our production facilities and in models to be launched in 2019 and 2020, as well as in the ecological focus of our model range, the electrification and digitalization of our products and in our modular toolkits. Additions to capitalized development costs climbed by €0.6 billion to €2.9 billion in the reporting period; this 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 €0.4 billion to €0.9 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 fell by €10.4 billion to €–4.8 billion.

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

€ million	2020	2019
Passenger Cars		
Gross cash flow	6,153	14,002
Change in working capital	–3,524	–769
Cash flows from operating activities	2,630	13,233
Cash flows from investing activities attributable to operating activities	–7,134	–9,232
Net cash flow	–4,505	4,001
Commercial Vehicles		
Gross cash flow	560	1,772
Change in working capital	–307	–1,399
Cash flows from operating activities	252	373
Cash flows from investing activities attributable to operating activities	–599	1,412
Net cash flow	–347	1,784
Power Engineering		
Gross cash flow	113	121
Change in working capital	15	–204
Cash flows from operating activities	127	–83
Cash flows from investing activities attributable to operating activities	–82	–135
Net cash flow	45	–217

Financing activities include the issuance and redemption of bonds and changes in other financial liabilities. In the first half of 2020, cash inflows totaled €21.1 billion. This helped boost gross liquidity and resulted in higher liabilities to banks. In the prior-year period, there had been a cash outflow of €8.7 billion due to, among other things, the dividend payment to the shareholders of Volkswagen AG 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. The dual-tranche hybrid bond with a principal amount of €3.0 billion, which was successfully placed via Volkswagen International Finance N.V. in June 2020, 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.

At the end of June 2020, the Automotive Division's net liquidity stood at €18.7 billion, compared with €21.3 billion on December 31, 2019.

Financial position of the Financial Services Division

In the reporting period, the Financial Services Division's gross cash flow was €5.4 (4.8) billion. Given a decrease in funds tied up in working capital caused by the lower business volume in response to the decline in demand following the spread of coronavirus, the change in working capital amounted to €–1.1 (–12.0) billion. Cash flows from operating activities rose to €4.3 (–7.1) billion.

At €0.1 (0.1) billion, investing activities attributable to operating activities were on a level with 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 €0.6 billion in the first half of 2020, compared with €6.6 billion in the previous year.

At the end of June 2020, the Financial Services Division's negative net liquidity, which is common in the industry, stood at €–162.3 billion; this compares with €–169.3 billion at the end of 2019.

CONSOLIDATED BALANCE SHEET STRUCTURE

On June 30, 2020, the Volkswagen Group had total assets of €500.3 billion, 2.5% more than on December 31, 2019. The rise is mostly attributable to the boost in gross liquidity and the successful issue of the hybrid bond. It was offset by exchange rate effects. The Group's equity amounted to €124.3 (123.7) billion. The equity ratio was 24.8 (25.3)%.

Automotive Division balance sheet structure

At the end of the reporting period, the Automotive Division's intangible assets were virtually on a level with the 2019 balance sheet date. Property, plant and equipment declined because of exchange rate factors and depreciation in excess of additions. Noncurrent assets declined by a total of 0.2% compared with the end of 2019.

Current assets increased by 16.9%. As a result of downscaled production in response to the pandemic, the inventories included in this item were slightly lower. Current other receivables and financial assets were higher than at the end of 2019. The Automotive Division reported a €15.6 billion increase in securities and cash and cash equivalents to €48.8 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 planned sale of Renk. The "Liabilities held for sale" item comprises the carrying amount of the corresponding liabilities expected to be derecognized.

On June 30, 2020, the Automotive Division's equity was €93.3 (92.8) billion, approximately the same level as at the end of 2019. The hybrid bond issued in June 2020 and the effects of recognizing fair value changes in derivatives directly in equity made a positive contribution, while changes in profits and exchange rates had a negative impact. Noncontrolling interests are primarily held by the noncontrolling interest shareholders of the TRATON GROUP.

Noncurrent liabilities declined by 3.6% compared with December 31, 2019, to €87.6 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.

Current liabilities amounted to €81.4 billion at the end of the first half of 2020, €18.2 billion higher than on December 31, 2019. The increase in current financial liabilities to €15.1 (–7.3) billion was attributable to reclassifications from noncurrent to current liabilities and 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. Trade payables were down because of downscaled production. Likewise, current other liabilities were lower than

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

€ million	June 30, 2020	Dec. 31, 2019
Passenger Cars		
Noncurrent assets	127,080	126,387
Current assets	92,379	75,459
Total assets	**219,459**	**201,846**
Equity	77,031	75,773
Noncurrent liabilities	75,723	78,679
Current liabilities	66,704	47,394
Commercial Vehicles		
Noncurrent assets	24,237	25,143
Current assets	12,286	13,420
Total assets	**36,524**	**38,563**
Equity	13,515	14,115
Noncurrent liabilities	11,181	11,367
Current liabilities	11,828	13,081
Power Engineering		
Noncurrent assets	2,101	2,206
Current assets	4,193	4,202
Total assets	**6,293**	**6,408**
Equity	2,775	2,885
Noncurrent liabilities	660	777
Current liabilities	2,857	2,746

at the end of 2019, primarily due to a decline in liabilities from buyback transactions.

At the end of the reporting period, the Automotive Division had total assets of €262.3 billion, 6.3% more than on December 31, 2019.

Financial Services Division balance sheet structure

Total assets in the Financial Services Division amounted to €238.0 billion at the end of June 2020, a decline of 1.4% compared with December 31, 2019.

Noncurrent assets were down by a total of 3.4% compared with the end of 2019; the property, plant and equipment included in this item was virtually unchanged. Lease assets increased, while 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. While current other receivables and financial assets were up slightly, current financial services receivables were down as a result of the pandemic. On June 30, 2020, cash and cash equivalents in the Financial Services Division stood at €10.6 billion, €4.3 billion higher than on December 31, 2019.

At the end of the reporting period, the Financial Services Division accounted for around 47.6 (49.4)% of the Volkswagen Group's assets.

At €31.0 (30.9) billion, the Financial Services Division's equity was virtually unchanged from the figure recorded on December 31, 2019. The profits generated had a positive effect, which was offset by negative exchange rate factors. The equity ratio was 13.0 (12.8)%.

Noncurrent liabilities dropped by 0.9%, driven primarily by a decline in noncurrent financial liabilities.

Current liabilities were also down compared with the end of 2019 because of lower current financial liabilities.

Deposits from the direct banking business were lower than at the end of 2019, declining to €32.1 (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, and is also associated with turbulence on the commodity and capital 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 economic recovery to commence in the course of 2020.

All areas of the Volkswagen Group are affected by the Covid-19 pandemic, especially sales due to a fall in customer demand, 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 will not fulfill the initial expectations for all 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 and the ratio of capex to sales revenue in 2020 will probably exceed the previous year's levels, despite counteracting measures, due to lower demand and therefore falling sales revenues. 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 below the prior-year figure. As a result, net liquidity in the Automotive Division will also fall short of the previous year's level. We expect lower return on investment (ROI) than in the previous year due to earnings-related factors and do not expect to achieve 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)

The Braunschweig Regional Court named Volkswagen AG as a collateral participant in the criminal proceedings regarding alleged market manipulation relating to capital market disclosure obligations in connection with the diesel issue. In May 2020, these proceedings were definitively terminated by the Braunschweig Regional Court with respect to the current Chairman of the Board of Management of Volkswagen AG and a former member of its Board of Management (currently Chairman of the Supervisory Board) 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. The Braunschweig Regional Court must now decide whether to admit the charges still pending against a former Chairman of the Board of Management of Volkswagen AG and go forward with the proceedings also still pending against Volkswagen AG in this regard.

In June 2020, the Munich II Regional Court accepted the substantially unchanged indictment of the Munich II Office of the Public Prosecutor, which also charges the former Chairman of the Board of Management of AUDI AG, and opened the main trial proceedings.

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. Under the terms of the settlement, Volkswagen AG will 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 €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 240 thousand customers in an aggregate amount of roughly €760 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. Volkswagen AG disagrees with the High Court's legal position on these preliminary issues and has filed an appeal against this decision. The question of liability on the part of Volkswagen AG was not a matter addressed by the decision 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 AG seeking monetary damages on behalf of Dutch consumers. A change in the law in the Netherlands that took effect on January 1, 2020 permits consumers in the European Union to opt into the class action as well. 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 clarifies the BGH's stance on the fundamental issues underlying a large number of the some 65 thousand individual diesel lawsuits still pending in Germany. In the course of two hearings held in July 2020, the BGH indicated that it was inclined to reject a claim to tort interest by vehicle buyers.

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 include 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.

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. Volkswagen has asked the Montana Supreme Court to review this 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 U.S. 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 May 2020, the settlement program in the United States for Generation 2 3.0-liter 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.

5. Additional proceedings
In April 2020, the Celle Higher Regional Court issued a ruling appointing a special auditor other than the one originally appointed. 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. Solely due to exchange rate fluctuations, the risk in euros as disclosed 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.

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.

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 economic recovery to commence in the course 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 different timings of the 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. Following the drastic decline at the beginning of the second quarter and the marked recovery over the course of the three months, we believe that the market will continue to recover in the third and fourth quarters of 2020, with prior-year levels being reached in individual months. We have assumed a similar but more stable trend for the passenger car markets in Central and Eastern Europe and expect the year-on-year fall in the number of sales in 2020 to be somewhat less sharp here. 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 25 to 30% lower than in the prior year. We anticipate that following the drastic decline at the beginning of the second quarter and a slight recovery as the period progressed, the remaining quarters of 2020 will register only a sideways trend in the market. We expect to see new registrations of passenger cars and light commercial vehicles in the South American markets fall by up to 40% in 2020 compared with the previous year. After the drastic decline in the second quarter, the market is expected to witness only a slow and gradual recovery in the third and fourth quarters, though falling short of the levels recorded in the previous year. 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 and the rapid rebound in the second quarter, we expect a return to prior-year levels in the remaining quarters of 2020.

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

In the markets relevant for the Commercial Vehicles Business Area, we expect a substantial 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 divisions 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 a significant drop in the operating result compared with the prior year. Overall, we expect the Volkswagen Group's operating result 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

Business at the Volkswagen Group and its brands was strongly affected by the Covid-19 pandemic in the first half of 2020; this led to lower figures in terms of unit sales, sales revenue and profit throughout the Group. The Group's sales revenue declined to €96.1 (125.2) billion. Operating profit before special items fell to €–0.8 (10.0) billion. The diesel issue gave rise to special items of €–0.7 (–1.0) billion in the reporting period.

The Volkswagen Passenger Cars brand sold 1.1 (1.9) million vehicles from January to June of this year; this was 39.8% fewer than a year earlier. Sales of the T-Cross increased, thus bucking the trend, and the Atlas Cross Sport was also very popular. Sales revenue fell by 35.3% to €28.6 billion. The operating result before special items deteriorated to €–1.5 (2.3) billion. Lower fixed costs and better price positioning were unable to compensate for the impact of lower volumes due to the Covid-19 pandemic. The diesel issue gave rise to special items of €–0.6 (–0.4) billion in the reporting period.

Unit sales by the Audi brand fell to 416 (632) thousand vehicles worldwide in the first six months of 2020. A further 271 (258) thousand Audi vehicles were sold through the Chinese joint venture FAW-Volkswagen. The Q3, A6 and e-tron models recorded increasing demand. Sales revenue fell to €20.5 (28.8) billion. The operating result (current-year figure before special items) was €–643 million (€2.3 billion). The decrease in volumes, the impact of the measurement of commodity hedges and derivatives as well as negative exchange rate effects and greater sales incentives were adverse factors, which were partly offset by reduced fixed and development costs and the deconsolidation effect from the divestment of Autonomous Intelligent Driving (AID). The diesel issue resulted in special items of €–0.1 billion in the first half of 2020. The financial key performance indicators for the Audi brand include the Lamborghini and Ducati brands. Ducati sold 22,790 (33,315) motorcycles in the reporting period.

The ŠKODA brand sold 372 thousand vehicles in the first half of this year, making it 33.6% fewer than in the same period of 2019. The Kodiaq and Karoq SUVs and the new Scala and Kamiq models were especially popular with customers. Sales revenue fell to €7.5 (10.2) billion, while operating profit declined to €228 (824) million. Product cost optimizations and lower fixed and development costs were unable to make up for the negative impact of lower volumes, exchange rate effects and emissions-related expenses.

Unit sales at the SEAT brand stood at 197 thousand vehicles in the reporting period; a decline of 46.9% year-on-year. This figure includes the A1 manufactured for Audi. The Arona and Ateca SUV models and the Leon were in high demand. At €3.7 billion, sales revenue was 40.2% lower than in the previous year. The operating result fell to €–271 (216) million, mainly due to lower volumes as a result of the pandemic and emissions-related expenses.

Unit sales by the Bentley brand stood at 4,569 (4,670) vehicles in the first half of 2020. Sales revenue improved to €860 (835) million on the back of mix effects. The operating result fell to € –99 (57) million due to higher depreciation and amortization charges and one-off expenses for restructuring measures.

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 recorded global sales of 116 thousand vehicles from January to June 2020, down 14.8% year-on-year. Sales revenue amounted to €11.2 (12.2) billion. Lower vehicle sales as well as cost increases, particularly for digitalization and electrification, meant that the operating profit fell to €1.1 (2.1) billion. In addition, changes in exchange rates had a negative impact.

Unit sales by Volkswagen Commercial Vehicles fell to 157 (256) thousand vehicles worldwide in the first half of 2020. Sales revenue stood at €4.2 billion, a decline of 34.7% compared with the previous year. The operating result fell to €–334 (506) million; primarily adversely affected by the decrease in volumes and the CO_2 incentive tax applicable from 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, while product cost optimizations and mix effects had a positive impact.

Scania Vehicles and Services sold 31 (52) thousand vehicles in the first six months of 2020. Sales revenue amounted to €5.3 (7.1) billion. Operating profit at Scania Vehicles and Services fell to €221 (828) million. The decline was primarily due to the lower volume. Improvements in the mix and lower fixed costs offset this.

MAN Commercial Vehicles sold 47 thousand vehicles in the period from January to June of this year. This figure fell 34.1% short of the 2019 comparison period. Sales revenue declined to €4.7 (6.3) billion. The operating result fell to €–423 (248) million, mainly due to the lower volume of new and used vehicles and costs incurred in connection with the introduction of the new generation of trucks.

In the first six months of 2020, Power Engineering generated sales revenue of €1.8 (1.9) billion. Operating profit declined to €21 (42) million due to volume and cost factors; changes in the mix resulted in a positive effect.

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

	VEHICLE SALES		SALES REVENUE		OPERATING RESULT	
Thousand vehicles/€ million	2020	2019	2020	2019	2020	2019
Volkswagen Passenger Cars	1,134	1,886	28,580	44,146	–1,491	2,286
Audi	416	632	20,476	28,761	–643	2,300
ŠKODA	372	560	7,546	10,154	228	824
SEAT	197	370	3,749	6,266	–271	216
Bentley	5	5	860	835	–99	57
Porsche Automotive[1]	116	136	11,192	12,212	1,143	2,117
Volkswagen Commercial Vehicles	157	256	4,238	6,489	–334	506
Scania Vehicles and Services[2]	31	52	5,269	7,115	221	828
MAN Commercial Vehicles	47	72	4,669	6,283	–423	248
Power Engineering	–	–	1,850	1,864	21	42
VW China[3]	1,422	1,789	–	–	–	–
Other[4]	–160	–418	–10,361	–16,919	–312	–727
Volkswagen Financial Services	–	–	18,063	17,992	1,155	1,281
Volkswagen Group before special items	**–**	**–**	**–**	**–**	**–803**	**9,979**
Special items	–	–	–	–	–687	–981
Volkswagen Group	**3,736**	**5,339**	**96,131**	**125,197**	**–1,490**	**8,997**
Automotive Division[5]	3,736	5,339	77,015	106,126	–2,738	7,589
of which: Passenger Cars Business Area	3,658	5,215	65,312	90,942	–2,350	6,693
Commercial Vehicles Business Area	78	124	9,854	13,320	–295	959
Power Engineering Business Area	–	–	1,850	1,864	–93	–63
Financial Services Division	–	–	19,115	19,071	1,248	1,409

1 Porsche (including Financial Services): sales revenue €12,421 (13,405) million, operating profit before special items €1,233 (2,209) million.
2 Scania (including Financial Services): sales revenue €5,488 (7,336) million, operating profit €266 (895) 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 €1,404 (2,103) 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.

Customers signed 3.4 (4.1) million new financing, leasing, service and insurance contracts with Volkswagen Financial Services in the first half of this year (–17.4%). The penetration rate, expressed as the ratio of leased or financed vehicles to relevant Group delivery volumes, rose to 36.0 (34.1)% 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 June 30, 2020 stood at 21.3 million, 0.9% less than at the end of 2019. The number of contracts in the customer financing/leasing area was 11.1 (11.2) million, while it decreased to 10.2 (10.3) million in the service/ insurance area. At the end of the reporting period, Volkswagen Bank managed 1.4 (1.4) million deposit accounts. Operating profit fell to €1.2 (1.3) billion in the first six months of 2020.

UNIT SALES AND SALES REVENUE BY MARKET

In the first half of 2020, the Volkswagen Group sold 1.6 million vehicles in the Europe/Other markets region. This was 35.4% fewer than in the previous year. The Covid-19 pandemic negatively affected business, especially from the end of the first quarter. As a result of lower demand, sales revenue fell to €57.7 (77.3) billion. Mix effects had a positive impact.

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. At 300 thousand vehicles, the Volkswagen Group's unit sales were down by 38.3% in the reporting period. Sales revenue dropped by 26.8% to €15.9 billion. Positive exchange rate effects were accompanied by the negative impact of lower volumes.

Unit sales in South America fell to 183 (280) thousand vehicles from January to June 2020. The Covid-19 pandemic hit demand especially in the second quarter. Sales revenue amounted to €3.7 (5.2) billion. Lower volumes along with exchange rate effects had a negative impact.

In the Asia-Pacific region, the first to be affected by the Covid-19 pandemic early in the year, demand began to increase again in the second quarter of 2020 and reached the previous year's level. Unit sales by the Volkswagen Group – including the Chinese joint ventures – stood at 1.6 (2.0) million vehicles in the reporting period. Sales revenue fell to €19.3 (20.8) billion due to lower volumes, while mix effects made a positive contribution. This figure does not include the sales revenue of our equity-accounted Chinese joint ventures.

Hedging transactions relating to sales revenue in foreign currency reduced the Volks¬wagen Group's sales revenue by €–0.4 (+0.1) billion in the first six months of 2020.

KEY FIGURES BY MARKET FROM JANUARY 1 TO JUNE 30

	VEHICLE SALES		SALES REVENUE	
Thousand vehicles/€ million	2020	2019	2020	2019
Europe/Other markets	1,644	2,543	57,651	77,251
North America	300	486	15,930	21,762
South America	183	280	3,704	5,247
Asia-Pacific[1]	1,609	2,029	19,267	20,797
Hedges on sales revenue	–	–	–421	140
Volkswagen Group[1]	**3,736**	**5,339**	**96,131**	**125,197**

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 June 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2020	2019	2020	2019	2020	2019
Sales revenue	**96,131**	**125,197**	**77,015**	**106,126**	**19,115**	**19,071**
Cost of sales	–83,228	–100,454	–67,559	–84,883	–15,669	–15,571
Gross result	**12,903**	**24,743**	**9,456**	**21,242**	**3,447**	**3,501**
Distribution expenses	–8,352	–9,997	–7,767	–9,223	–585	–774
Administrative expenses	–4,860	–4,523	–3,804	–3,599	–1,056	–924
Other operating income/expense	–1,180	–1,226	–623	–832	–557	–394
Operating result	**–1,490**	**8,997**	**–2,738**	**7,589**	**1,248**	**1,409**
Share of the result of equity-accounted investments	1,164	1,599	1,142	1,570	22	29
Interest result and other financial result	–1,026	–1,039	–1,004	–1,060	–22	21
Financial result	**138**	**560**	**138**	**509**	**0**	**51**
Earnings before tax	**–1,352**	**9,557**	**–2,600**	**8,098**	**1,248**	**1,459**
Income tax expense	333	–2,389	693	–1,994	–361	–395
Earnings after tax	**–1,019**	**7,168**	**–1,907**	**6,104**	**887**	**1,064**
of which attributable to						
Noncontrolling interests	–57	24	–93	–7	36	31
Volkswagen AG hybrid capital investors	239	268	239	268	–	–
Volkswagen AG shareholders	–1,201	6,875	–2,053	5,843	852	1,033
Basic/diluted earnings per ordinary share in €[2]	**–2.44**	**13.69**				
Basic/diluted earnings per preferred share in €[2]	**–2.33**	**13.75**				

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 June 30

€ million	2020	2019
Earnings after tax	**–1,019**	**7,168**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–107	–6,494
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	59	1,913
Pension plan remeasurements recognized in other comprehensive income, net of tax	–47	–4,580
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	–14	17
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	6	19
Items that will not be reclassified to profit or loss	**–55**	**–4,545**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–1,863	107
Transferred to profit or loss	15	–
Exchange differences on translating foreign operations, before tax	–1,848	107
Deferred taxes relating to exchange differences on translating foreign operations	4	11
Exchange differences on translating foreign operations, net of tax	–1,844	119
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	1,934	–256
Transferred to profit or loss (OCI I)	–488	–520
Cash flow hedges (OCI I), before tax	1,446	–777
Deferred taxes relating to cash flow hedges (OCI I)	–450	230
Cash flow hedges (OCI I), net of tax	995	–547
Fair value changes recognized in other comprehensive income (OCI II)	–664	–890
Transferred to profit or loss (OCI II)	659	497
Cash flow hedges (OCI II), before tax	–6	–393
Deferred taxes relating to cash flow hedges (OCI II)	17	116
Cash flow hedges (OCI II), net of tax	12	–277
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	22	52
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	22	52
Deferred taxes relating to fair value valuation of receivables and securities (debt instruments) recognized in other comprehensive income	–7	–16
Fair value valuation of receivables and securities (debt instruments) that may be reclassified to profit or loss, net of tax	16	36
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–70	58
Items that may be reclassified to profit or loss	**–892**	**–611**
Other comprehensive income, before tax	–570	–7,410
Deferred taxes relating to other comprehensive income	–376	2,254
Other comprehensive income, net of tax	**–947**	**–5,156**
Total comprehensive income	**–1,966**	**2,012**
of which attributable to		
Noncontrolling interests	–106	19
Volkswagen AG hybrid capital investors	239	268
Volkswagen AG shareholders	–2,099	1,724

Income Statement for the Period April 1 to June 30

	VOLKSWAGEN GROUP		DIVISIONS			
			AUTOMOTIVE[1]		FINANCIAL SERVICES	
€ million	2020	2019	2020	2019	2020	2019
Sales revenue	**41,076**	**65,185**	**32,365**	**55,349**	**8,711**	**9,836**
Cost of sales	–37,404	–52,130	–30,266	–44,078	–7,138	–8,052
Gross result	**3,672**	**13,055**	**2,099**	**11,271**	**1,573**	**1,784**
Distribution expenses	–3,880	–5,056	–3,619	–4,664	–262	–392
Administrative expenses	–2,415	–2,252	–1,918	–1,790	–497	–461
Other operating income/expense	229	–618	502	–394	–273	–223
Operating result	**–2,394**	**5,130**	**–2,935**	**4,422**	**541**	**707**
Share of the result of equity-accounted investments	1,035	791	1,031	771	5	20
Interest result and other financial result	–675	–434	–661	–431	–14	–3
Financial result	**360**	**357**	**369**	**340**	**–9**	**17**
Earnings before tax	**–2,034**	**5,486**	**–2,566**	**4,762**	**532**	**724**
Income tax expense	498	–1,372	637	–1,161	–140	–211
Earnings after tax	**–1,536**	**4,115**	**–1,929**	**3,601**	**392**	**514**
of which attributable to						
Noncontrolling interests	–51	17	–69	1	18	16
Volkswagen AG hybrid capital investors	122	134	122	134	–	–
Volkswagen AG shareholders	–1,607	3,964	–1,981	3,466	375	498
Basic/diluted earnings per ordinary share in €[2]	**–3.23**	**7.91**				
Basic/diluted earnings per preferred share in €[2]	**–3.18**	**7.91**				

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 April 1 to June 30

€ million	2020	2019
Earnings after tax	**–1,536**	**4,115**
Pension plan remeasurements recognized in other comprehensive income		
Pension plan remeasurements recognized in other comprehensive income, before tax	–4,994	–2,408
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	1,502	714
Pension plan remeasurements recognized in other comprehensive income, net of tax	–3,492	–1,694
Fair value valuation of other participations and securities (equity instruments) that will not be reclassified to profit or loss, net of tax	9	–6
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax	9	6
Items that will not be reclassified to profit or loss	**–3,474**	**–1,694**
Exchange differences on translating foreign operations		
Unrealized currency translation gains/losses	–72	–753
Transferred to profit or loss	15	–
Exchange differences on translating foreign operations, before tax	–57	–753
Deferred taxes relating to exchange differences on translating foreign operations	4	–1
Exchange differences on translating foreign operations, net of tax	–54	–754
Hedging		
Fair value changes recognized in other comprehensive income (OCI I)	908	1,564
Transferred to profit or loss (OCI I)	–152	–311
Cash flow hedges (OCI I), before tax	756	1,253
Deferred taxes relating to cash flow hedges (OCI I)	–210	–364
Cash flow hedges (OCI I), net of tax	546	889
Fair value changes recognized in other comprehensive income (OCI II)	–85	–372
Transferred to profit or loss (OCI II)	318	262
Cash flow hedges (OCI II), before tax	232	–110
Deferred taxes relating to cash flow hedges (OCI II)	–71	31
Cash flow hedges (OCI II), net of tax	161	–79
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	30	28
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	30	28
Deferred taxes relating to fair value valuation of receivables and securities (debt instruments) recognized in other comprehensive income	–9	–8
Fair value valuation of receivables and securities (debt instruments) that may be reclassified to profit or loss, net of tax	21	20
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax	–65	–140
Items that may be reclassified to profit or loss	**610**	**–64**
Other comprehensive income, before tax	–4,081	–2,129
Deferred taxes relating to other comprehensive income	1,216	371
Other comprehensive income, net of tax	**–2,864**	**–1,758**
Total comprehensive income	**–4,401**	**2,357**
of which attributable to		
Noncontrolling interests	–48	13
Volkswagen AG hybrid capital investors	122	134
Volkswagen AG shareholders	–4,475	2,209

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

€ million	VOLKSWAGEN GROUP		DIVISIONS: AUTOMOTIVE[1]		DIVISIONS: FINANCIAL SERVICES	
	2020	2019	2020	2019	2020	2019
Assets						
Noncurrent assets	**295,324**	**300,608**	**153,418**	**153,736**	**141,906**	**146,873**
Intangible assets	66,419	66,214	66,240	66,010	179	204
Property, plant and equipment	63,741	66,152	62,615	65,043	1,126	1,110
Lease assets	48,763	48,938	1,626	2,084	47,138	46,853
Financial services receivables	81,847	86,973	–406	–390	82,253	87,363
Investments, equity-accounted investments and other equity investments, other receivables and financial assets	34,554	32,331	23,343	20,989	11,211	11,342
Current assets	**204,929**	**187,463**	**108,858**	**93,081**	**96,071**	**94,382**
Inventories	45,932	46,742	41,063	41,898	4,869	4,844
Financial services receivables	55,216	58,615	–571	–640	55,787	59,255
Other receivables and financial assets	40,100	38,620	18,782	17,803	21,318	20,817
Marketable securities	19,472	16,769	15,961	13,546	3,511	3,223
Cash, cash equivalents and time deposits	43,404	25,923	32,817	19,679	10,586	6,243
Assets held for sale	805	795	805	795	–	–
Total assets	**500,253**	**488,071**	**262,275**	**246,816**	**237,977**	**241,255**
Equity and liabilities						
Equity	**124,288**	**123,651**	**93,321**	**92,774**	**30,966**	**30,877**
Equity attributable to Volkswagen AG shareholders	107,023	109,117	76,708	78,872	30,315	30,246
Equity attributable to Volkswagen AG hybrid capital investors	15,498	12,663	15,498	12,663	–	–
Equity attributable to Volkswagen AG shareholders and hybrid capital investors	122,521	121,781	92,206	91,535	30,315	30,246
Noncontrolling interests	1,766	1,870	1,115	1,239	651	631
Noncurrent liabilities	**192,255**	**196,497**	**87,564**	**90,822**	**104,690**	**105,675**
Financial liabilities	108,376	113,556	13,360	17,592	95,016	95,965
Provisions for pensions	41,949	41,389	41,176	40,631	773	759
Other liabilities	41,929	41,551	33,029	32,600	8,900	8,951
Current liabilities	**183,710**	**167,924**	**81,390**	**63,220**	**102,321**	**104,703**
Financial liabilities	108,221	87,912	15,058	–7,312	93,163	95,224
Trade payables	20,692	22,745	17,813	19,603	2,879	3,142
Other liabilities	54,461	56,896	48,183	50,559	6,278	6,337
Liabilities associated with assets held for sale	336	370	336	370	–	–
Total equity and liabilities	**500,253**	**488,071**	**262,275**	**246,816**	**237,977**	**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	–	–	6,875	–
Other comprehensive income, net of tax	–	–	–4,575	119
Total comprehensive income	**–**	**–**	**2,300**	**119**
Disposal of equity instruments	–	–	–4	–
Capital increases/Capital decreases	–	–	–	–
Dividends payment	–	–	–2,419	–
Capital transactions involving a change in ownership interest	–	–	363	169
Other changes	–	–	62	–
Balance at June 30, 2019	**1,283**	**14,551**	**91,407**	**–3,288**
Balance at Jan. 1, 2020	**1,283**	**14,551**	**96,929**	**–2,824**
Earnings after tax	–	–	–1,201	–
Other comprehensive income, net of tax	–	–	–47	–1,799
Total comprehensive income	**–**	**–**	**–1,248**	**–1,799**
Disposal of equity instruments	–	–	–	–
Capital increases/Capital decreases[1]	–	–	–	–
Dividends payment	–	–	–	–
Capital transactions involving a change in ownership interest	–	–	–	–
Other changes	–	–	6	0
Balance at June 30, 2020	**1,283**	**14,551**	**95,687**	**–4,623**

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.

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**
–	–	–	–	268	7,144	24	7,168
–547	–277	53	76	–	–5,151	–5	–5,156
–547	**–277**	**53**	**76**	**268**	**1,993**	**19**	**2,012**
–	–	4	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–393	–2,812	–4	–2,816
1	0	–1	–11	–	521	1,513	2,034
–	–	–	–	–	62	2	65
1,243	**–906**	**–173**	**293**	**12,471**	**116,881**	**1,756**	**118,637**
95	**–977**	**–235**	**295**	**12,663**	**121,781**	**1,870**	**123,651**
–	–	–	–	239	–962	–57	–1,019
998	12	2	–64	–	–898	–49	–947
998	**12**	**2**	**–64**	**239**	**–1,860**	**–106**	**–1,966**
–	–	–	–	–	–	–	–
–	–	–	–	2,989	2,989	–	2,989
–	–	–	–	–393	–393	–3	–397
–	–	–	–	–	–	–	–
–	–	–	–1	–	5	6	11
1,093	**–965**	**–233**	**230**	**15,498**	**122,521**	**1,766**	**124,288**

Cash flow statement for the Period January 1 to June 30

€ million	VOLKSWAGEN GROUP 2020	VOLKSWAGEN GROUP 2019	DIVISIONS AUTOMOTIVE[1] 2020	DIVISIONS AUTOMOTIVE[1] 2019	DIVISIONS FINANCIAL SERVICES 2020	DIVISIONS FINANCIAL SERVICES 2019
Cash and cash equivalents at beginning of period	**24,329**	**28,113**	**18,098**	**23,354**	**6,231**	**4,759**
Earnings before tax	–1,352	9,557	–2,600	8,098	1,248	1,459
Income taxes paid	–1,504	–1,137	–1,200	–703	–304	–435
Depreciation and amortization expense[2]	13,104	11,975	8,417	7,900	4,688	4,075
Change in pension provisions	437	201	430	190	7	11
Share of the result of equity-accounted investments	1,652	368	1,661	397	–10	–29
Other noncash income/expense and reclassifications[3]	–126	–220	118	12	–244	–233
Gross cash flow	**12,211**	**20,744**	**6,825**	**15,895**	**5,385**	**4,849**
Change in working capital	**–4,880**	**–14,350**	**–3,816**	**–2,372**	**–1,064**	**–11,977**
Change in inventories	–392	–4,004	–245	–3,929	–147	–75
Change in receivables	–1,517	–3,557	–854	–3,438	–662	–119
Change in liabilities	–622	4,636	–707	3,851	85	785
Change in other provisions	–2,147	879	–2,124	954	–23	–75
Change in lease assets (excluding depreciation)	–4,989	–6,178	163	126	–5,153	–6,303
Change in financial services receivables	4,787	–6,127	–49	63	4,837	–6,190
Cash flows from operating activities	**7,331**	**6,394**	**3,009**	**13,523**	**4,322**	**–7,128**
Cash flows from investing activities attributable to operating activities	**–7,930**	**–8,070**	**–7,815**	**–7,955**	**–114**	**–115**
of which: Investments in intangible assets (excluding capitalized development costs), property, plant and equipment, and investment property	–4,226	–5,300	–4,130	–5,202	–96	–98
capitalized development costs	–2,950	–2,338	–2,950	–2,338	–	–
acquisition and disposal of equity investments	–953	–537	–912	–504	–41	–33
Net cash flow[4]	***–599***	***–1,675***	***–4,806***	***5,568***	***4,207***	***–7,243***
Change in investments in securities, loans and time deposits	–2,120	–1,485	–1,762	–5,645	–358	4,160
Cash flows from investing activities	**–10,050**	**–9,555**	**–9,577**	**–13,599**	**–473**	**4,045**
Cash flows from financing activities	**21,666**	**–2,142**	**21,104**	**–8,706**	**562**	**6,564**
of which: capital transactions with noncontrolling interests	–	–19	–	–19	–	–
capital contributions/capital redemptions	2,984	–	2,975	–998	9	998
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	–330	195	–265	163	–65	32
Change of loss allowance within cash & cash equivalents	–3	1	–2	1	0	0
Net change in cash and cash equivalents	**18,615**	**–5,107**	**14,269**	**–8,620**	**4,346**	**3,513**
Cash and cash equivalents at June 30[5]	**42,944**	**23,006**	**32,367**	**14,734**	**10,577**	**8,272**
Securities, loans and time deposits	30,005	29,479	14,720	14,382	15,285	15,097
Gross liquidity	**72,949**	**52,485**	**47,087**	**29,116**	**25,862**	**23,369**
Total third-party borrowings	–216,603	–199,051	–28,424	–13,211	–188,180	–185,840
Net liquidity at June 30[6]	**–143,654**	**–146,565**	**18,663**	**15,905**	**–162,318**	**–162,471**
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 June 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 1.1% (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 half of fiscal year 2020, additional expenses of €0.7 billion had to be recognized in this context, primarily related to 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 half of the year.

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 June 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 June 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 €0.9 billion (previous year: expenses of €0.1 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.

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: H1 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	78,061	8,849	–	–	86,910	–7,773	79,136
Genuine parts	6,599	1,719	–	–	8,318	–58	8,260
Used vehicles and third-party products	6,431	716	–	–	7,147	–223	6,924
Engines, powertrains and parts deliveries	5,385	320	–	–	5,705	–10	5,695
Power Engineering	–	–	1,864	–	1,864	–1	1,862
Motorcycles	378	–	–	–	378	–	378
Leasing business	485	858	0	14,657	16,000	–2,055	13,945
Interest and similar income	112	2	–	3,970	4,084	–109	3,975
Hedges sales revenue	79	–11	–	–	68	72	140
Other sales revenue	3,713	867	–	444	5,024	–143	4,881
	101,243	**13,320**	**1,864**	**19,071**	**135,498**	**–10,301**	**125,197**

STRUCTURE OF GROUP SALES REVENUE: H1 2020

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	54,383	5,682	–	–	60,065	–5,991	54,074
Genuine parts	5,377	1,592	–	–	6,969	–54	6,915
Used vehicles and third-party products	5,183	624	–	–	5,807	–335	5,472
Engines, powertrains and parts deliveries	5,344	281	–	–	5,625	–7	5,618
Power Engineering	–	–	1,850	–	1,850	–1	1,849
Motorcycles	277	–	–	–	277	–	277
Leasing business	374	851	0	14,634	15,860	–2,045	13,814
Interest and similar income	87	4	–	3,867	3,958	–103	3,855
Hedges sales revenue	–437	–10	–	0	–447	25	–421
Other sales revenue	3,377	829	–	615	4,821	–143	4,678
	73,965	**9,854**	**1,850**	**19,115**	**104,784**	**–8,654**	**96,131**

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 €1,232 million (previous year: €1,357 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 €552 million (previous year: €502 million). The value in use is used as the basis for calculating impairment losses.

3. Research and development costs

	H1		
€ million	2020	2019	%
Total research and development costs	6,695	7,033	–4.8
of which: capitalized development costs	2,950	2,338	26.2
Capitalization ratio in %	44.1	33.2	
Amortization of capitalized development costs	2,224	1,827	21.7
Research and development costs recognized in profit or loss	**5,969**	**6,522**	**–8.5**

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.

		Q2		H1	
		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	–1,536	4,115	–1,019	7,168
Noncontrolling interests	€ million	–51	17	–57	24
Earnings attributable to Volkswagen AG hybrid capital investors	€ million	122	134	239	268
Earnings attributable to Volkswagen AG shareholders	€ million	–1,607	3,964	–1,201	6,875
of which: basic/diluted earnings attributable to ordinary shares	€ million	–952	2,333	–721	4,040
of which: basic/diluted earnings attributable to preferred shares	€ million	–655	1,631	–481	2,835
Earnings per ordinary share – basic/diluted	€	–3.23	7.91	–2.44	13.69
Earnings per preferred share – basic/diluted	€	–3.18	7.91	–2.33	13.75

5. Noncurrent assets

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

€ million	Carrying amount at Jan. 1, 2020	Additions/ Changes in consolidated Group	Disposals/ Other changes	Depreciation and amortization	Carrying amount at June 30, 2020
Intangible assets	66,214	3,154	340	2,609	66,419
Property, plant and equipment	66,152	4,648	1,316	5,744	63,741
Lease assets	48,938	10,436	5,891	4,719	48,763

6. Inventories

€ million	June 30, 2020	Dec. 31, 2019
Raw materials, consumables and supplies	7,491	6,099
Work in progress	4,381	4,110
Finished goods and purchased merchandise	28,661	30,617
Current lease assets	5,155	5,699
Prepayments	248	222
Hedges on inventories	–5	–6
	45,932	**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	June 30, 2020	Dec. 31, 2019
Trade receivables	17,505	17,941
Miscellaneous other receivables and financial assets	22,594	20,678
	40,100	**38,620**

In the period January 1 to June 30, 2020, impairment losses and reversals of impairment losses on financial assets reduced operating profit by €653 million (previous year: €413 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).

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

9. Noncurrent financial liabilities

€ million	June 30, 2020	Dec. 31, 2019
Bonds, commercial paper and notes	86,608	88,986
Liabilities to banks	12,669	15,337
Deposit business	2,344	2,395
Lease liabilities	5,028	5,208
Other financial liabilities	1,727	1,629
	108,376	**113,556**

10. Current financial liabilities

€ million	June 30, 2020	Dec. 31, 2019
Bonds, commercial paper and notes	44,589	37,893
Liabilities to banks	31,793	17,337
Deposit business	29,881	30,252
Lease liabilities	970	1,002
Other financial liabilities	989	1,429
	108,221	**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 (in general, shares representing an ownership interest of less than 20%) in partnerships (debt instruments), customer financing receivables whose cash flows 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 investments (in general, shares representing an ownership interest of less than 20%) 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

	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
€ million	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 JUNE 30, 2020

€ 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 JUNE 30, 2020
	Carrying amount	Carrying amount	Fair value	Carrying amount	Carrying amount	
Noncurrent assets						
Equity-accounted investments	–	–	–	–	8,000	8,000
Other equity investments	58	–	–	–	2,182	2,240
Financial services receivables	273	49,030	49,639	–	32,544	81,847
Other financial assets	1,321	3,577	3,356	2,078	–	6,976
Tax receivables	–	–	–	–	347	347
Current assets						
Trade receivables	6	17,499	17,499	–	–	17,505
Financial services receivables	22	36,269	36,269	–	18,925	55,216
Other financial assets	1,154	11,469	11,469	1,528	–	14,151
Tax receivables	–	1	1	–	1,395	1,396
Marketable securities	19,457	15	15	–	–	19,472
Cash, cash equivalents and time deposits	–	43,404	43,404	–	–	43,404
Assets held for sale	3	238	238		564	805
Noncurrent liabilities						
Noncurrent financial liabilities	–	103,348	105,442	–	5,028	108,376
Other noncurrent financial liabilities	1,313	2,311	2,310	1,063	–	4,687
Current liabilities						
Current financial liabilities	–	107,252	107,252	–	970	108,221
Trade payables	–	20,692	20,692	–	–	20,692
Other current financial liabilities	1,360	8,760	8,760	962	–	11,082
Tax payables	–	11	11	–	301	312
Liabilities associated with assets held for sale		39	39	–	297	336

The carrying amount of lease receivables was €51.5 billion (previous year: €53.9 billion) and their fair value was €51.9 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	June 30, 2020	Level 1	Level 2	Level 3
Noncurrent assets				
Other equity investments	58	30	0	28
Financial services receivables	273	–	–	273
Other financial assets	1,321	–	992	329
Current assets				
Trade receivables	6	–	–	6
Financial services receivables	22	–	–	22
Other financial assets	1,154	–	1,007	147
Marketable securities	19,457	19,385	72	–
Assets held for Sale	3	–	–	3
Noncurrent liabilities				
Other noncurrent financial liabilities	1,313	–	517	797
Current liabilities				
Other current financial liabilities	1,360	–	1,064	296

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	June 30, 2020	Level 1	Level 2	Level 3
Noncurrent assets				
Other financial assets	2,078	–	2,078	–
Current assets				
Other financial assets	1,528	–	1,528	–
Noncurrent liabilities				
Other noncurrent financial liabilities	1,063	–	1,063	–
Current liabilities				
Other current financial liabilities	962	–	962	–

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	8	0
Total comprehensive income	48	62
recognized in profit or loss	40	62
recognized in other comprehensive income	8	–
Additions (purchases)	20	–
Sales and settlements	–71	–76
Transfers into Level 2	–6	–21
Balance at June 30, 2019	**990**	**780**
Total gains or losses recognized in profit or loss	**40**	**–62**
Net other operating expense/income	45	–61
of which attributable to assets/liabilities held at the reporting date	40	–37
Financial result	–4	–1
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	–6	–12	–
Changes in consolidated Group	0	–	–
Total comprehensive income	–43	533	–
recognized in profit or loss	–43	533	–
recognized in other comprehensive income	–	–	–
Additions (purchases)	9	–	–
Sales and settlements	–65	–128	–
Transfers into Level 2	–5	–66	–
Balance at June 30, 2020	**806**	**1,092**	**3**
Total gains or losses recognized in profit or loss	**–43**	**–533**	**–**
Net other operating expense/income	–43	–533	–
of which attributable to assets/liabilities held at the reporting date	–46	–469	–
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 June 30, 2020, earnings after tax would have been €225 million (previous year: €117 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 as of June 30, 2020 had been 10% higher, earnings after tax would have been €3 million (previous year: €2 million) higher. If the assumed enterprise values as of June 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 June 30, 2020, earnings after tax would have been €355 million (previous year: €327 million) higher. If the prices of the used cars covered by the residual value protection model had been 10% lower as of June 30, 2020, earnings after tax would have been €379 million (previous year: €347 million) lower.

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

If the corresponding vehicle price used in the vehicle financing programs had been 10% higher as of June 30, 2020, earnings after tax would have been €2 million (previous year: €6 million) higher. If the corresponding vehicle prices used in the vehicle financing programs had been 10% lower as of June 30, 2020, earnings after tax would have been €2 million (previous year: €6 million) lower.

If the result of operations of equity investments measured at fair value had been 10% better as of June 30, 2020, the equity would have been €0.2 million (previous year: €5 million) higher. If the result of operations of equity investments measured at fair value had been 10% worse, the equity would have been €0.2 million (previous year: €5 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	June 30, 2020	June 30, 2019
Cash, cash equivalents and time deposits as reported in the balance sheet	43,404	25,778
Held for Sale	115	–
Time deposits	–575	–2,772
Cash and cash equivalents as reported in the cash flow statement	**42,944**	**23,006**

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

	H1	
€ million	2020	2019
Capital contributions	2,984	–
Dividends paid	–397	–2,816
Capital transactions with noncontrolling interest shareholders	–	–19
Proceeds from issuance of bonds	13,188	15,896
Repayments of bonds	–8,978	–11,530
Changes in other financial liabilities	15,388	–3,266
Repayments of lease liabilities	–520	–407
	21,666	**–2,142**

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: H1 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	92,974	12,784	1,862	17,442	125,062	135	125,197
Intersegment sales revenue	8,269	537	1	1,629	10,436	–10,436	–
Total sales revenue	101,243	13,320	1,864	19,071	135,498	–10,301	125,197
Segment result (operating result)	8,558	959	–63	1,409	10,862	–1,865	8,997

REPORTING SEGMENTS: H1 2020

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total segments	Reconciliation	Volkswagen Group
Sales revenue from external customers	67,220	9,356	1,849	17,469	95,893	237	96,131
Intersegment sales revenue	6,746	498	1	1,646	8,891	–8,891	–
Total sales revenue	73,965	9,854	1,850	19,115	104,784	–8,654	96,131
Segment result (operating result)	–1,582	–295	–93	1,248	–721	–768	–1,490

RECONCILIATION

€ million	H1 2020	H1 2019
Segment result (operating result)	**–721**	**10,862**
Unallocated activities	–37	–78
Group financing	7	–21
Consolidation/Holding company function	–739	–1,766
Operating result	**–1,490**	**8,997**
Financial result	**138**	**560**
Consolidated earnings before tax	**–1,352**	**9,557**

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.

	SUPPLIES AND SERVICES RENDERED H1		SUPPLIES AND SERVICES RECEIVED H1	
€ million	2020	2019	2020	2019
Porsche SE and its majority interests	2	2	0	1
Supervisory Board members	3	1	0	1
Unconsolidated subsidiaries	494	816	558	837
Joint ventures and their majority interests	7,136	7,678	196	314
Associates and their majority interests	76	84	466	469
State of Lower Saxony, its majority interests and joint ventures	2	7	3	2

	RECEIVABLES FROM		LIABILITIES (INCLUDING OBLIGATIONS) TO	
€ million	June 30, 2020	Dec. 31, 2019	June 30, 2020	Dec. 31, 2019
Porsche SE and its majority interests	4	4	0	0
Supervisory Board members	1	0	160	170
Unconsolidated subsidiaries	1,386	1,497	1,215	1,667
Joint ventures and their majority interests	12,385	12,953	2,391	2,683
Associates and their majority interests	403	326	1,104	1,063
State of Lower Saxony, its majority interests and joint ventures	1	1	1	0

The tables above do not contain the dividend payments (net of withholding tax) of €1,503 million (previous year: €1,138 million) received from joint ventures and associates.

Receivables from joint ventures are primarily attributable to loans granted in an amount of €7,496 million (December 31, 2019: €8,290 million) as well as trade receivables in an amount of €3,438 million (December 31, 2019: €4,375 million). Receivables from non-consolidated subsidiaries also result primarily from loans granted in an amount of €896 million (December 31, 2019: €938 million) as well as trade receivables in an amount of €202 million (December 31, 2019: €188 million).

Transactions with related parties are 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.

In addition, the Volkswagen Group has furnished guarantees to external banks on behalf of related parties in the amount of €347 million (December 31, 2019: €322 million).

Impairment losses of €166 million (previous year: €57 million) were recognized on the outstanding related party receivables. In the first half of the year, expenses of €105 million (previous year: €15 million) were incurred in this context.

In the first six months of 2020, the Volkswagen Group made capital contributions of €73 million (previous year: €128 million) at related parties.

15. Litigation

Diesel issue

1. Criminal and administrative proceedings worldwide (excluding the USA/Canada)
The Braunschweig Regional Court named Volkswagen AG as a collateral participant in the criminal proceedings regarding alleged market manipulation relating to capital market disclosure obligations in connection with the diesel issue. In May 2020, these proceedings were definitively terminated by the Braunschweig Regional Court with respect to the current Chairman of the Board of Management of Volkswagen AG and a former member of its Board of Management (currently Chairman of the Supervisory Board) 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. The Braunschweig Regional Court must now decide whether to admit the charges still pending against a former Chairman of the Board of Management of Volkswagen AG and go forward with the proceedings also still pending against Volkswagen AG in this regard.

In June 2020, the Munich II Regional Court accepted the substantially unchanged indictment of the Munich II Office of the Public Prosecutor, which also charges the former Chairman of the Board of Management of AUDI AG, and opened the main trial proceedings.

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. Under the terms of the settlement, Volkswagen AG will 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 €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 240 thousand customers in an aggregate amount of roughly €760 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. Volkswagen AG disagrees with the High Court's legal position on these preliminary issues and has filed an appeal against this decision. The question of liability on the part of Volkswagen AG was not a matter addressed by the decision 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 AG seeking monetary damages on behalf of Dutch consumers. A change in the law in the Netherlands that took effect on January 1, 2020 permits consumers in the European Union to opt into the class action as well. 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 clarifies the BGH's stance on the fundamental issues underlying a large number of the some 65 thousand individual diesel lawsuits still pending in Germany. In the course of two hearings held in July 2020, the BGH indicated that it was inclined to reject a claim to tort interest by vehicle buyers.

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 include 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.

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. Volkswagen has asked the Montana Supreme Court to review this 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 U.S. 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 May 2020, the settlement program in the United States for Generation 2 3.0-liter 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.

5. Additional proceedings
In April 2020, the Celle Higher Regional Court issued a ruling appointing a special auditor other than the one originally appointed. 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. Solely due to exchange rate fluctuations, the risk in euros as disclosed 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.

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.

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 liabilites 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

Driven in particular by the inclusion of additional product-related commitments and legal risks arising from the diesel issue, which were set against currency translation effects, contingent liabilities went up to €9.4 billion, an increase of €0.5 billion compared with the 2019 consolidated financial statements.

17. Other financial obligations

Other financial liabilities, which amounted to €21.9 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

There were no further events with a significant effect on net assets, financial position and results of operations after the end of the first six months of 2020.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the condensed interim consolidated financial statements prepared in accordance with German accepted accounting principles give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Wolfsburg, July 29, 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, 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 June 2020, which are part of the half-year financial report pursuant to Sec. 115 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 condensed interim consolidated financial statements and the interim group management report in accordance 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 June 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, 29 July 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Meyer
Wirtschaftsprüfer
[German Public Auditor]

Matischiok
Wirtschaftsprüfer
[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

September 30, 2020	Volkswagen AG Annual General Meeting
October 29, 2020	Interim Report January – September 2020

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

058.809.597.20

2020

www.volkswagenag.com