Internal Management System and Key Performance Indicators

Based on the goals set out in our Strategy 2018, this chapter describes how the Volkswagen Group is managed and the key performance indicators used for this. Alongside financial measures, our management system also contains nonfinancial key performance indicators.

The Volkswagen Group's performance and success can be measured using both financial and nonfinancial key performance indicators. The following starts by describing the internal management process, and then explains the Volkswagen Group's core performance indicators.

INTERNAL MANAGEMENT PROCESS IN THE VOLKSWAGEN GROUP

The starting point for the Volkswagen Group's internal management is the medium-term planning conducted once a year. This generally covers a period of five years and forms the core of our operational planning. It is used to formulate and check the requirements for realizing strategic projects designed to meet Group targets in both technical and economic terms – and particularly in relation to earnings and liquidity effects. In addition, it is used to coordinate all business areas with respect to the strategic action areas concerned: functions/processes, products and markets.

When planning the Company's future, the individual planning components are determined on the basis of the timescale involved:

- The long-term unit sales plan, which sets out market and segment growth and then derives the Volkswagen Group's delivery volumes from them.
- The product program as the strategic, long-term factor determining corporate policy.
- Capacity and utilization planning for the individual locations.

The coordinated results of the upstream planning processes are used as the basis for the medium-term financial planning: the Group's financial planning, including the brands and business fields, comprises the income statement, cash flow and balance sheet planning, profitability and liquidity, as well as the upfront investments needed for alternative products and the implementation of strategic options.

The first year of the medium-term planning period is then fixed and a budget drawn up for the individual months. This is planned in detail down to the level of the operating cost centers.

During the year, the budget is reviewed each month to establish the degree to which the targets have been met. In the process, target/actual comparisons, prior-year comparisons, variance analyses and, if necessary, action plans to ensure targets are met, are key instruments within the management system. For the current fiscal year, detailed revolving monthly forecasts are prepared for the coming three months and the full year. These forecasts take into account the current risks and opportunities. The focus of intrayear internal management is therefore on adapting ongoing operations. At the same time, the current forecast serves as a potential, ongoing corrective to the medium-term and budget planning that follows on from it.

CORE PERFORMANCE INDICATORS IN THE VOLKSWAGEN GROUP

The Volkswagen Group's internal management is based on seven core performance indicators, which are derived from the goals set out in our Strategy 2018:

- Deliveries to customers
- Sales revenue
- Operating result
- Operating return on sales
- Capex/sales revenue in the Automotive Division
- Net cash flow in the Automotive Division
- Return on investment (ROI) in the Automotive Division

Deliveries to customers are defined as handovers of new vehicles to the end customer. This figure shows the popularity of our products with customers and is the measure we use to determine our competitive position in our markets. Increasing deliveries to customers is closely linked to our objectives of offering superior customer satisfaction and quality, as well as achieving unit sales of more than 10 million vehicles – including the Chinese joint ventures. High customer satisfaction, combined with and based on the outstanding quality of our vehicles, is one of the most important preconditions for the Company's long-term success. Demand for our products is what drives our unit sales and production, and hence determines capacity utilization at our locations. Only employees who are highly qualified, fit and above all motivated can meet the goals we have set ourselves and ensure long-term financial success.

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 economic output in our core business. The operating return on sales is the ratio of the operating result 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 competitiveness. It compares our capital expenditure – largely for modernizing and expanding our product range and environmentally friendly drive-trains, as well as for increasing capacity and improving production processes – to the Automotive Division's sales revenue.

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.

We use the return on investment (ROI) to calculate the return on invested capital for a particular period in the Automotive Division, including the Chinese joint ventures on a proportionate basis, by calculating the ratio of the operating result after tax to invested capital. If the return on investment (ROI) exceeds the market cost of capital, the value of the Company has increased. This is how we measure the success of our brands, locations and vehicle projects.

You can find information and explanations on the sales figures and the Volkswagen Group's financial key performance indicators on pages 94 to 99 and on pages 109 to 125, respectively.

Detailed descriptions of our activities and additional non-financial key performance indicators in the areas of corporate social responsibility, research and development, procurement, production, sales and marketing, quality assurance, employees, information technology and environmental management can be found in the chapter entitled "Sustainable Value Enhancement" beginning on page 130 of this annual report.