Income statement disclosures

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE

€ million	2017	2016
Vehicles	145,958	137,293
Genuine parts	15,628	15,220
Used vehicles and third-party products	13,355	13,324
Engines, powertrains and parts deliveries	11,318	9,770
Power Engineering	3,280	3,590
Motorcycles	601	589
Leasing business	24,570	22,306
Interest and similar income	7,119	6,695
Other sales revenue	8,853	8,481
	230,682	**217,267**

For segment reporting purposes, the sales revenue of the Group is presented by segment and market.

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

Sales revenue from construction contracts amounted to €965 million (previous year: €1,069 million) and mainly related to the Power Engineering segment.

2. Cost of sales

Cost of sales includes interest expenses of €1,961 million (previous year: €1,930 million) attributable to the financial services business. This item also includes impairment losses on intangible assets (primarily development costs), property, plant and equipment (primarily other equipment, operating and office equipment), and lease assets in the amount of €1,185 million (previous year: €1,369 million). The impairment losses amounting to a total of €700 million recognized during the reporting period on intangible assets and items of property, plant and equipment result in particular from lower values in use of various products in the Passenger Cars segment, from market and exchange rate risks, and in particular from expected declines in volumes. The impairment losses on lease assets in the amount of €485 million (including €37 million reported in current lease assets), which are attributable predominantly to the Financial Services segment, are based on constantly updated internal and external information that is factored into the forecast residual values of the vehicles.

Government grants related to income amounted to €424 million in the fiscal year (previous year: €435 million) and were generally allocated to the functions.

3. Distribution expenses

Distribution expenses amounting to €22.7 billion (previous year: €22.7 billion) include nonstaff overheads and personnel costs, and depreciation and amortization applicable to the distribution function, as well as the costs of shipping, advertising and sales promotions.

4. Administrative expenses

The administrative expenses of €8.3 billion (previous year: €7.3 billion) mainly include nonstaff overheads and personnel costs, as well as depreciation and amortization applicable to the administrative function.

5. Other operating income

€ million	2017	2016
Income from reversal of valuation allowances on receivables and other assets	1,043	847
Income from reversal of provisions and accruals	4,384	3,738
Income from foreign currency hedging derivatives	2,259	1,739
Income from foreign exchange gains	2,656	2,842
Income from sale of promotional material	502	440
Income from cost allocations	1,386	1,222
Income from investment property	16	14
Gains on asset disposals and the reversal of impairment losses	212	363
Miscellaneous other operating income	2,041	1,843
	14,500	**13,049**

Income from the reversal of provisions and accrued liabilities is mainly attributable to a reduction in provisions. A further breakdown can be found in the “Noncurrent and current other provisions” section. Foreign exchange gains mainly comprise gains from changes in exchange rates between the dates of recognition and payment of receivables and liabilities denominated in foreign currencies, as well as exchange rate gains resulting from measurement at the closing rate. Foreign exchange losses from these items are included in other operating expenses.

6. Other operating expenses

€ million	2017	2016
Valuation allowances on receivables and other assets	1,650	1,787
Losses from foreign currency hedging derivatives	1,753	2,964
Foreign exchange losses	2,839	3,077
Expenses from cost allocations	609	542
Expenses for termination agreements	35	424
Losses on disposal of noncurrent assets	175	144
Miscellaneous other operating expenses	5,197	7,970
	12,259	**16,907**

Miscellaneous other operating expenses consist of litigation expenses of €1.0 billion (previous year: €5.1 billion) in connection with the diesel issue. In the previous year, they had also included provisions of €0.4 billion for the antitrust proceedings that the European Commission opened against European truck manufacturers including MAN and Scania. The prior-year expenses for termination agreements result primarily from the restructuring expenses for the South American market and at MAN. In addition, the changes in the currency hedging derivatives are due to the exchange rate changes between the trade price and the price on realization; this applies in particular to the US dollar, the Chinese renminbi and sterling.

7. Share of the result of equity-accounted investments

€ million	2017	2016
Share of profits of equity-accounted investments	3,519	3,563
of which: from joint ventures	(3,327)	(3,534)
of which: from associates	(191)	(29)
Share of losses of equity-accounted investments	36	66
of which: from joint ventures	(2)	–
of which: from associates	(34)	(66)
	3,482	**3,497**

8. Interest result

€ million	2017	2016[1]
Interest income	**951**	**1,285**
Other interest and similar income	839	915
Income from valuation of interest derivatives	113	370
Interest expenses	**–2,317**	**–2,955**
Other interest and similar expenses	–1,305	–1,400
Expenses from valuation of interest derivatives	–368	–448
Interest cost included in lease payments	–29	–29
Interest result on other liabilities	–13	–347
Net interest on the net defined benefit liability	–602	–731
Interest result	**–1,366**	**–1,670**

1 Prior-year figures adjusted.

To enhance comparability, the structure within the financial result has been changed. The presentation of finance costs has been replaced with the interest result. The new structure has led to changes in various items in the financial result. Specifically, the realized expenses from loan receivables and liabilities in foreign currency reported in the finance cost item in previous years have been reclassified to other financial result. In addition, income and expenses from the measurement and realization of interest rate risk, which were previously reported in income and expenses from fair value changes relating to hedging transactions within hedge accounting are now presented in the interest result. The prior-year figures for other financial result have been adjusted accordingly by an amount of €1.6 billion.

9. Other financial result

€ million	2017	2016
Income from profit and loss transfer agreements	35	33
Cost of loss absorption	–76	–24
Other income from equity investments	71	110
Other expenses from equity investments	–289	–155
Income from marketable securities and loans[1, 2]	–222	–58
Realized income of loan receivables and payables in foreign currency	734	882
Realized expenses of loan receivables and payables in foreign currency	–1,107	–810
Gains and losses from remeasurement and impairment of financial instruments[1]	–475	–303
Gains and losses from fair value changes of derivatives not included in hedge accounting	–810	–1,148
Gains and losses from fair value changes of derivatives included in hedge accounting[1]	117	–166
Other financial result[1]	**–2,022**	**–1,638**

1 Prior-year figures adjusted.
2 Including disposal gains/losses.

10. Income tax income/expense

COMPONENTS OF TAX INCOME AND EXPENSE

€ million	2017	2016
Current tax expense, Germany	614	885
Current tax expense, abroad	2,590	2,388
Current income tax expense	**3,205**	**3,273**
of which prior-period income (–)/expense (+)	(216)	(188)
Deferred tax income (–)/expense (+), Germany	385	–736
Deferred tax income (–)/expense (+), abroad	–1,315	–625
Deferred tax income (–)/expense (+)	**–930**	**–1,361**
Income tax income/expense	**2,275**	**1,912**

The statutory corporation tax rate in Germany for the 2017 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.9% (previous year: 29.9%).

A tax rate of 29.9% (previous year: 29.9%) was used to measure deferred taxes in the German consolidated tax group.

The local income tax rates applied for companies outside Germany vary between 0% and 45%. In the case of split tax rates, the tax rate applicable to undistributed profits is applied.

The realization of tax benefits from tax loss carryforwards from previous years resulted in a reduction in current income taxes in 2017 of €422 million (previous year: €146 million).

Previously unused tax loss carryforwards amounted to €14,931 million (previous year: €17,686 million). Tax loss carryforwards amounting to €9,660 million (previous year: €11,494 million) can be used indefinitely, while €3,834 million (previous year: €4,237 million) must be used within the next ten years. There are additional tax loss carryforwards amounting to €1,437 million (previous year: €1,956 million) that can be used within a period of 15 or 20 years. Tax loss carryforwards of €7,222 million (previous year: €6,380 million) were estimated not to be usable overall. Of these, €343 million (previous year: €276 million) will expire within five years, €2,152 million (previous year: €2,341 million) within 6 to 20 years and €93 million (previous year: €38 million) after 20 years. Tax loss carryforwards of €4,634 million (previous year: €3,725 million) that are estimated not to be usable will not expire.

The benefit arising from previously unrecognized tax losses or tax credits of a prior period that is used to reduce current tax expense in the current fiscal year amounts to €114 million (previous year: €135 million). Deferred tax expense was reduced by €75 million (previous year: €211 million) because of a benefit arising from previously unrecognized tax losses and tax credits of a prior period. Deferred tax expense resulting from the write-down of a deferred tax asset amounts to €130 million (previous year: €297 million). Deferred tax income resulting from the reversal of a write-down of deferred tax assets amounts to €40 million (previous year: €304 million).

Tax credits granted by various countries amounted to €500 million (previous year: €756 million).

No deferred tax assets were recognized for deductible temporary differences of €1,028 million (previous year: €1,533 million) and for tax credits of €228 million (previous year: €353 million) that would expire in the next 20 years, or for tax credits of €0 million (previous year: €65 million) that will not expire.

In accordance with IAS 12.39, deferred tax liabilities of €266 million (previous year: €326 million) for temporary differences and undistributed profits of Volkswagen AG subsidiaries were not recognized because control exists.

Due to the change in the statutory provisions in Germany, a refund claim for corporation tax was recognized as a current tax asset for the first time in fiscal year 2006. As of the balance sheet date, the previous year's refund claim (€134 million) had been amortized in full.

Deferred tax income resulting from changes in tax rates amounted to €1,044 million at Group level (previous year: expense of €120 million). This is primarily attributable to the effects of the tax reform in the United States.

Deferred taxes in respect of temporary differences and tax loss carryforwards of €8,344 million (previous year: €9,890 million) were recognized without being offset by deferred tax liabilities in the same amount. The deferred tax assets of companies within the German tax group were recognized due to positive results in the past and are included in this analysis. The companies concerned are expecting positive tax income in the future, following losses in the reporting period or the previous year.

€3,655 million (previous year: €5,486 million) of the deferred taxes recognized in the balance sheet was credited to equity and relates to other comprehensive income. €2 million (previous year: €3 million) of this figure is attributable to noncontrolling interests. In the fiscal year under review, changes of €–3 million arising from items that will not be reclassified to profit or loss were recognized directly in equity. Changes in deferred taxes classified by balance sheet item are presented in the statement of comprehensive income.

In fiscal year 2017, tax effects of €8 million resulting from equity transaction costs were recognized in equity.

DEFERRED TAXES CLASSIFIED BY BALANCE SHEET ITEM

The following recognized deferred tax assets and liabilities were attributable to recognition and measurement differences in the individual balance sheet items and to tax loss carryforwards:

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
€ million	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
Intangible assets	363	302	10,055	9,884
Property, plant and equipment, and lease assets	4,567	4,387	6,017	8,315
Noncurrent financial assets	35	26	43	24
Inventories	2,653	2,223	784	792
Receivables and other assets (including Financial Services Division)	1,879	2,107	8,889	7,273
Other current assets	3,884	2,768	42	92
Pension provisions	6,652	6,776	24	22
Liabilities and other provisions	9,603	10,746	4,109	2,750
Valuation allowances on deferred tax assets from temporary differences	–327	–368	–	–
Temporary differences, net of valuation allowances	29,307	28,967	29,963	29,152
Tax loss carryforwards, net of valuation allowances	2,090	3,365	–	–
Tax credits, net of valuation allowances	273	337	–	–
Value before consolidation and offset	**31,670**	**32,670**	**29,963**	**29,152**
of which noncurrent	(18,858)	(21,736)	(22,863)	(23,681)
Offset	24,816	25,198	24,816	25,198
Consolidation	2,956	2,284	489	791
Amount recognized	**9,810**	**9,756**	**5,636**	**4,745**

In accordance with IAS 12, deferred tax assets and liabilities are offset if, and only if, they relate to income taxes levied by the same taxation authority and relate to the same tax period.

The tax expense reported for 2017 of €2,275 million (previous year: €1,912 million) was €1,885 million lower (previous year: €268 million lower) than the expected tax expense of €4,160 million that would have resulted from application of a tax rate for the Group of 29.9% (previous year: 29.9%) to the earnings before tax of the Group.

RECONCILIATION OF EXPECTED TO EFFECTIVE INCOME TAX

€ million	2017	2016
Profit before tax	13,913	7,292
Expected income tax income (–) / expense (+) (tax rate 29.9%; previous year: 29.9%)	**4,160**	**2,180**
Reconciliation:		
Effect of different tax rates outside Germany	–541	–446
Proportion of taxation relating to:		
tax-exempt income	–1,237	–1,226
expenses not deductible for tax purposes	407	409
effects of loss carryforwards and tax credits	476	35
permanent differences	5	12
Tax credits	–50	–137
Prior-period tax expense	–212	234
Effect of tax rate changes	–1,044	139
Nondeductible withholding tax	383	437
Other taxation changes	–73	275
Effective income tax expense	**2,275**	**1,912**

The tax expense recognized in the fiscal year was reduced by €1,007 million on the basis of the tax reform passed in the United States, which envisages a reduction in the corporate income tax rate from 35% to 21%, among other things. The reduction resulted mainly from the remeasurement of deferred taxes of subsidiaries in the United States.

11. 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 the basic and diluted number of shares is identical, basic earnings per share also correspond to diluted earnings per share. Article 27(2) No. 1 of the Articles of Association of Volkswagen AG sets out that, even in the event of a deficit, a preferred dividend of €0.11 per preferred share must be paid out in the subsequent fiscal years based on the cumulative arrangement if no dividend is paid for the year under review; consequently, this must be factored into the calculation of earnings per share for the current fiscal year. The dividend proposal that is based on Volkswagen AG's net income for the year under the German Commercial Code is not relevant for the calculation of earnings per share in accordance with IAS 33. The distribution of further dividends in accordance with Article 27(2) Nos. 2 and 3 of the Articles of Association of Volkswagen AG, whereby, in the case of a full distribution, the dividend paid for each preferred share is €0.06 higher than that paid for each ordinary share, is only included in the calculation of earnings per share if there is a profit after tax attributable to the shareholders of Volkswagen AG.

	ORDINARY		PREFERRED	
Quantity	2017	2016	2017	2016
Weighted average number of shares outstanding – basic	295,089,818	295,089,818	206,205,445	206,205,445
Weighted average number of shares outstanding – diluted	295,089,818	295,089,818	206,205,445	206,205,445

€ million	2017	2016
Earnings after tax	11,638	5,379
Noncontrolling interests	10	10
Earnings attributable to Volkswagen AG hybrid capital investors	274	225
Earnings attributable to Volkswagen AG shareholders	11,354	5,144
Basic earnings attributable to ordinary shares	6,676	3,021
Diluted earnings attributable to ordinary shares	6,676	3,021
Basic earnings attributable to preferred shares	4,678	2,123
Diluted earnings attributable to preferred shares	4,678	2,123

€	2017	2016
Basic earnings per ordinary share	22.63	10.24
Diluted earnings per ordinary share	22.63	10.24
Basic earnings per preferred share	22.69	10.30
Diluted earnings per preferred share	22.69	10.30

Additional Income Statement Disclosures in accordance with IAS 23 (Borrowing Costs)

Capitalized borrowing costs amounted to €83 million (previous year: €83 million) and related mainly to capitalized development costs. An average cost of debt of 1.5% (previous year: 1.5%) was used as a basis for capitalization in the Volkswagen Group.

Additional Income Statement Disclosures in accordance with IFRS 7 (Financial Instruments)

CLASSES OF FINANCIAL INSTRUMENTS

Financial instruments are divided into the following classes at the Volkswagen Group:
- financial instruments measured at fair value,
- financial instruments measured at amortized cost and
- financial instruments not falling within the scope of IFRS 7.

Financial instruments not falling within the scope of IFRS 7 include in particular investments in associates and joint ventures accounted for using the equity method.

NET GAINS OR LOSSES FROM FINANCIAL INSTRUMENTS BY IAS 39 MEASUREMENT CATEGORY

€ million	2017	2016
Financial instruments at fair value through profit or loss	–840	–1,203
Loans and receivables[1]	2,105	3,434
Available-for-sale financial assets	–206	–39
Financial liabilities measured at amortized cost	1,689	–3,480
	2,748	**–1,288**

1 Prior-year figures adjusted. Further details can be found in the disclosures in the section entitled “Noncurrent and current financial services receivables”.

Net gains and losses from financial assets and liabilities at fair value through profit or loss are composed of the fair value measurement gains and losses on derivatives, including interest and gains and losses on currency translation.

Net gains and losses from available-for-sale financial assets primarily comprise income and expenses from marketable securities including disposal gains/losses, impairment losses on investments and currency translation effects.

Net gains and losses from loans and receivables and from financial liabilities carried at amortized cost comprise interest income and expenses in accordance with the effective interest method under IAS 39, including currency translation effects. Interest also includes interest income and expenses from the lending business of the financial services operations.

TOTAL INTEREST INCOME AND EXPENSES ATTRIBUTABLE TO FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

€ million	2017	2016
Interest income[1]	4,794	4,670
Interest expenses	3,509	3,534
	1,285	**1,136**

1 Prior-year figures adjusted. Further details can be found in the disclosures in the section entitled “Noncurrent and current financial services receivables”.

IMPAIRMENT LOSSES ON FINANCIAL ASSETS BY CLASS

€ million	2017	2016
Measured at fair value	3	18
Measured at amortized cost	1,628	1,707
	1,631	**1,725**

Impairment losses relate to write-downs of financial assets, such as valuation allowances on receivables and marketable securities. Interest income on impaired financial assets amounted to €56 million in the fiscal year (previous year: €48 million).

In fiscal year 2017, €3 million (previous year: €3 million) was recognized as an expense and €58 million (previous year: €67 million) as income from fees and commissions for trust activities and from financial assets and liabilities not measured at fair value that are not accounted for using the effective interest method.