Income statement disclosures

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE 2018[1]

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	141,339	16,035	–	–	157,374	–10,548	146,826
Genuine parts	12,703	3,316	–	–	16,019	–100	15,919
Used vehicles and third-party products	11,776	1,387	–	–	13,163	–609	12,554
Engines, powertrains and parts deliveries	11,773	676	–	–	12,449	–9	12,440
Power Engineering	–	–	3,608	–	3,608	–3	3,605
Motorcycles	582	–	–	–	582	–	582
Leasing business	889	1,651	–	26,667	29,207	–4,200	25,006
Interest and similar income	230	6	–	7,302	7,537	–187	7,351
Hedges sales revenue	1,440	12	–	–	1,451	83	1,535
Other sales revenue	8,776	1,699	–	814	11,289	–1,258	10,031
	189,508	**24,781**	**3,608**	**34,782**	**252,680**	**–16,830**	**235,849**

1 Since January 1, 2019, sales revenue from the sale of light commercial vehicles of the Volkswagen Commercial Vehicles brand has not been reported in the Commercial Vehicles segment. The prior-year figures have been adjusted accordingly.

STRUCTURE OF GROUP SALES REVENUE 2019

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	154,377	17,387	–	–	171,764	–14,552	157,212
Genuine parts	13,329	3,464	–	–	16,793	–117	16,676
Used vehicles and third-party products	12,583	1,415	–	–	13,997	–549	13,449
Engines, powertrains and parts deliveries	11,496	641	–	–	12,137	–21	12,116
Power Engineering	–	–	3,997	–	3,997	–2	3,994
Motorcycles	603	–	–	–	603	0	603
Leasing business	986	1,735	0	30,795	33,517	–4,370	29,147
Interest and similar income	235	5	–	8,031	8,271	–205	8,066
Hedges sales revenue	–143	–18	–	0	–161	171	11
Other sales revenue	8,808	1,814	–	1,334	11,956	–597	11,359
	202,273	**26,444**	**3,997**	**40,160**	**272,875**	**–20,242**	**252,632**

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.

Of the sales revenue recognized in the period under review, an amount of €6,333 million was included in contract liabilities as of January 1, 2019.

€359 million (previous year: €667 million) of the sales revenue recognized in the period under review is attributable to performance obligations satisfied in a prior period.

In addition to existing performance obligations of €3,967 million (previous year: €3,614 million) in the Power Engineering segment, most of which are expected to be satisfied or for which sales revenue is expected to be recognized by December 31, 2020, the vast majority of the Volkswagen Group's performance obligations that are unsatisfied as of the reporting date relate to vehicle deliveries. Most of these deliveries had already been made at the time this report was prepared, or will be made in the first quarter of 2020. The calculation of the amounts for the Power Engineering Business Area took account of both contracts with a term of more than one year and service contracts under which the Volkswagen Group realizes sales revenue in exactly the same amount as the customer benefits from the provision of services by the Company. In the case of variable consideration, sales revenue is only recognized to the extent that there is reasonable assurance that this sales revenue will not subsequently have to be reversed or adjusted downward.

2. Cost of sales

Cost of sales includes interest expenses of €2,705 million (previous year: €2,270 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 €830 million (previous year: €1,165 million). The impairment losses totaling €295 million (previous year: €631 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 €535 million (previous year: €534 million) are predominantly attributable to the Financial Services segment. They are based on constantly updated internal and external information that is factored into the forecast residual values of the vehicles. Thereof, €25 million (previous year: €24 million) are reported in current lease assets.

Government grants related to income amounted to €657 million in the fiscal year (previous year: €466 million) and were generally allocated to the functional areas.

3. Distribution expenses

Distribution expenses amounting to €21.0 billion (previous year: €20.5 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

Administrative expenses of €9.8 billion (previous year: €8.8 billion) mainly include nonstaff overheads and personnel costs, as well as depreciation and amortization charges applicable to the administrative function.

5. Other operating income

€ million	2019	2018
Income from reversal of loss allowances on receivables and other assets	1,482	1,586
Income from reversal of provisions and accruals	969	1,144
Income from foreign currency hedging derivatives within hedge accounting	686	822
Income from foreign exchange gains	2,346	2,530
Income from other hedges	1,177	1,138
Income from sale of promotional material	498	483
Income from cost allocations	985	1,139
Income from investment property	12	14
Gains on asset disposals and the reversal of impairment losses	1,182	390
Miscellaneous other operating income	2,116	2,383
	11,453	**11,631**

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.

Income from other hedges includes primarily foreign exchange gains from the fair value measurement of financial instruments used to hedge exchange rates and commodity prices and that are not designated in a hedging relationship. Foreign exchange losses are included in other operating expenses.

6. Other operating expenses

€ million	2019	2018
Loss allowances on trade receivables including construction contracts	317	315
Loss allowances on other receivables and other assets	1,783	1,833
Losses from foreign currency hedging derivatives within hedge accounting	997	856
Expenses from other hedges	1,332	1,592
Foreign exchange losses	2,013	2,800
Expenses from cost allocations	563	650
Expenses for termination agreements	54	36
Losses on disposal of noncurrent assets	119	161
Miscellaneous other operating expenses	5,712	6,488
	12,890	**14,731**

Allowances on other receivables and other assets include allowances on receivables from long-term construction contracts amounting to €0.3 million (previous year: €1.0 million).

Expenses from other hedges include primarily foreign exchange losses from the fair value measurement of financial instruments used to hedge exchange rates and commodity prices and that are not designated in a hedging relationship.

Miscellaneous other operating expenses consist mainly of litigation expenses in connection with the diesel issue (see the “Key Events” section for more information).

7. Share of the result of equity-accounted investments

€ million	2019	2018
Share of profits of equity-accounted investments	3,501	3,551
of which from joint ventures	3,257	3,320
of which from associates	244	231
Share of losses of equity-accounted investments	152	182
of which from joint ventures	10	23
of which from associates	142	159
	3,349	**3,369**

8. Interest result

€ million	2019	2018
Interest income	**910**	**967**
Other interest and similar income	904	950
Income from valuation of interest derivatives	6	17
Interest expenses	**–2,524**	**–1,547**
Other interest and similar expenses	–1,401	–974
Expenses from valuation of interest derivatives	–6	–1
Interest expenses included in lease payments	–217	–27
Interest result from discounting/unwinding discount on other noncurrent liabilities	–238	77
Net interest on the net defined benefit liability	–662	–623
Interest result	**–1,614**	**–580**

9. Other financial result

€ million	2019	2018
Income from profit and loss transfer agreements	19	77
Cost of loss absorption	–72	–54
Other income from equity investments	178	101
Other expenses from equity investments	–374	–360
Income from marketable securities and loans	27	–355
Realized income of loan receivables and payables in foreign currency	877	1,161
Realized expenses of loan receivables and payables in foreign currency	–980	–1,130
Gains and losses from remeasurement and impairment of financial instruments	228	–41
Gains and losses from fair value changes of derivatives not included in hedge accounting	–240	–453
Gains and losses from fair value changes of derivatives included in hedge accounting	0	–12
Other financial result	**–339**	**–1,066**

10. Income tax income/expense

COMPONENTS OF TAX INCOME AND EXPENSE

€ million	2019	2018
Current tax expense, Germany	1,473	1,131
Current tax expense, abroad	2,673	2,401
Current income tax expense	**4,147**	**3,533**
of which prior-period income (–)/expense (+)	32	79
Deferred tax income (–)/expense (+), Germany	115	429
Deferred tax income (–)/expense (+), abroad	65	–472
Deferred tax income (–)/expense (+)	**180**	**–43**
Income tax income/expense	**4,326**	**3,489**

The statutory corporation tax rate in Germany for the 2019 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.8% (previous year: 29.9%).

A tax rate of 29.8% (previous year: 29.8%) 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 2019 of €692 million (previous year: €732 million).

The tax loss carryforwards and the expiry of loss carryforwards that could not be used changed as follows:

€ million	PREVIOUSLY UNUSED TAX LOSS CARRYFORWARDS	
	Dec. 31, 2019	Dec. 31, 2018
Indefinitely to be carried forward	14,498	13,217
Carried forward within 10 years	568	636
Carried forward from 10 to 20 years	5,579	6,648
Total	**20,645**	**20,501**

€ million	EXPIRY OF UNUSABLE TAX LOSS CARRYFORWARDS	
	Dec. 31, 2019	Dec. 31, 2018
Non-expiring tax loss carryforwards	5,919	5,390
Expiry within 10 years	473	432
Expiry from 10 to 20 years	1,743	2,047
Expiry over 20 years	62	126
Total	**8,197**	**7,995**

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 €36 million (previous year: €94 million). Deferred tax expense was reduced by €66 million (previous year: €116 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 €58 million (previous year: €95 million). Deferred tax income resulting from the reversal of a write-down of deferred tax assets amounts to €35 million (previous year: €231 million).

Tax credits granted by various countries amounted to €378 million (previous year: €385 million).

No deferred tax assets were recognized for deductible temporary differences of €897 million (previous year: €1,123 million) and for tax credits of €138 million (previous year: €123 million) that would expire in the next 20 years, or for tax credits of €0 million (previous year: €3 million) that will not expire.

In accordance with IAS 12.39, deferred tax liabilities of €231 million (previous year: €213 million) for temporary differences and undistributed profits of Volkswagen AG subsidiaries were not recognized because control exists.

Deferred tax expense resulting from changes in tax rates amounted to €116 million at Group level (previous year: €79 million).

Deferred taxes in respect of temporary differences and tax loss carryforwards of €1,006 million (previous year: €8,235 million) were recognized without being offset by deferred tax liabilities in the same amount. In fiscal year 2018, the deferred tax assets of companies within the German tax group were recognized due to positive results in the past and were 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.

€7,820 million (previous year: €4,532 million) of the deferred taxes recognized in the balance sheet was credited to equity and relates to other comprehensive income. €53 million (previous year: €2 million) of this figure is attributable to noncontrolling interests. There were effects from capital transactions with noncontrolling interest shareholders in the reporting period. In fiscal years 2019 and 2018, there were only immaterial changes arising from items that will not be reclassified to profit or loss and were recognized directly in equity. The first-time application of IFRS 9 in the year 2018 resulted in adjustments and reclassifications totaling €33 million, which were accounted for as a deduction from equity. Changes in deferred taxes classified by balance sheet item are presented in the statement of comprehensive income.

In fiscal year 2018, tax effects of €6 million resulting from equity transaction costs were recognized in equity. The calling of the first tranche of the hybrid capital issued in September 2013 resulted in a reduction of equity in the amount of €5 million in the year 2018.

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, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Intangible assets	267	370	10,555	10,402
Property, plant and equipment, and lease assets	5,576	4,677	8,493	6,996
Noncurrent financial assets	18	35	43	179
Inventories	2,348	2,458	821	838
Receivables and other assets (including Financial Services Division)	2,270	2,113	9,670	7,990
Other current assets	3,768	3,653	7	5
Pension provisions	9,013	6,429	52	33
Liabilities and other provisions	13,358	10,173	4,167	3,581
Loss allowances on deferred tax assets from temporary differences	–141	–151	–	–
Temporary differences, net of loss allowances	36,478	29,758	33,809	30,024
Tax loss carryforwards, net of loss allowances	3,068	3,246	–	–
Tax credits, net of loss allowances	239	259	–	–
Value before consolidation and offset	**39,786**	**33,262**	**33,809**	**30,024**
of which noncurrent	26,307	21,530	26,736	23,147
Offset	29,627	26,038	29,627	26,038
Consolidation	2,947	2,906	826	1,044
Amount recognized	**13,106**	**10,131**	**5,007**	**5,030**

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 2019 of €4,326 million (previous year: €3,489 million) was €1,144 million lower (previous year: €1,188 million) than the expected tax expense of €5,470 million that would have resulted from application of a tax rate for the Group of 29.8% (previous year: 29.9%) to the earnings before tax of the Group.

RECONCILIATION OF EXPECTED TO EFFECTIVE INCOME TAX

€ million	2019	2018
Profit before tax	18,356	15,643
Expected income tax income (–)/expense (+) (tax rate 29.8%; previous year: 29.9%)	**5,470**	**4,677**
Reconciliation:		
Effect of different tax rates outside Germany	–843	–684
Proportion of taxation relating to:		
tax-exempt income	–1,124	–1,152
expenses not deductible for tax purposes	509	440
effects of loss carryforwards and tax credits	163	255
permanent differences	51	61
Tax credits	–54	–69
Prior-period tax expense	–151	–406
Effect of tax rate changes	116	79
Nondeductible withholding tax	359	502
Other taxation changes	–170	–214
Effective income tax expense	**4,326**	**3,489**
Effective tax rate in %	23.6	22.3

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 there were no transactions in 2019 and 2018 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. 3 of the Articles of Association of Volkswagen AG, the dividend paid for each preferred share is €0.06 higher than that paid for each ordinary share.

		2019	2018
Weighted average number of:			
Ordinary shares – basic/diluted	Shares	295,089,818	295,089,818
Preferred shares – basic/diluted	Shares	206,205,445	206,205,445
Earnings after tax	€ million	14,029	12,153
Earnings attributable to noncontrolling interests	€ million	143	17
Earnings attributable to Volkswagen AG hybrid capital investors	€ million	540	309
Earnings attributable to Volkswagen AG shareholders	€ million	13,346	11,827
of which basic/diluted earnings attributable to ordinary shares	€ million	7,849	6,955
of which basic/diluted earnings attributable to preferred shares	€ million	5,497	4,872
Earnings per ordinary share – basic/diluted	€	26.60	23.57
Earnings per preferred share – basic/diluted	€	26.66	23.63