

## Income statement disclosures

## 1. Sales revenue

## 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
	<b>202,273</b>	<b>26,444</b>	<b>3,997</b>	<b>40,160</b>	<b>272,875</b>	<b>–20,242</b>	<b>252,632</b>

## STRUCTURE OF GROUP SALES REVENUE 2020

€ million	Passenger Cars and Light Commercial Vehicles	Commercial Vehicles	Power Engineering	Financial Services	Total Segments	Reconciliation	Volkswagen Group
Vehicles	129,913	13,385	–	–	143,298	–13,703	129,595
Genuine parts	11,755	3,249	–	–	15,004	–118	14,886
Used vehicles and third-party products	11,716	1,455	–	–	13,171	–637	12,535
Engines, powertrains and parts deliveries	12,625	669	–	–	13,294	–41	13,253
Power Engineering	–	–	3,640	–	3,640	–2	3,638
Motorcycles	567	–	–	–	567	–	567
Leasing business	767	1,698	0	31,608	34,073	–4,334	29,739
Interest and similar income	192	8	–	7,707	7,907	–261	7,646
Hedges sales revenue	–357	–18	–	0	–375	30	–345
Other sales revenue	8,806	1,709	–	1,463	11,978	–608	11,370
	<b>175,984</b>	<b>22,156</b>	<b>3,640</b>	<b>40,778</b>	<b>242,557</b>	<b>–19,673</b>	<b>222,884</b>

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 €6,815 million (previous year: €6,333 million) was included in contract liabilities as of January 1, 2020.

€345 million (previous year: €359 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 €3,676 million (previous year: €3,967 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, 2021, the vast majority of the Volkswagen Group's performance obligations that were 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 2021. The calculation of the amounts for the Power Engineering Business Area took account of both contracts with a term of up to one year and service contracts under which the Volkswagen Group realizes sales revenue in exactly the same amount as the customer benefits from the services rendered 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 €2,303 million (previous year: €2,705 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 €1,180 million (previous year: €830 million). The impairment losses totaling €356 million (previous year: €295 million) recognized during the reporting period on intangible assets and items of property, plant and equipment result primarily from lower values in use of various products in the Passenger Cars segment, due to market and exchange rate risks, and in particular from expected declines in volumes. The impairment losses on lease assets in the amount of €824 million (previous year: €535 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. €60 million (previous year: €25 million) of this figure is reported in current lease assets.

Government grants related to income amounted to €1,001 million in the fiscal year (previous year: €657 million) and were generally allocated to the functional areas.

## 3. Distribution expenses

Distribution expenses amounting to €18.4 billion (previous year: €21.0 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 €9.4 billion (previous year: €9.8 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	2020	2019
Income from reversal of loss allowances on receivables and other assets	1,334	1,482
Income from reversal of provisions and accruals	1,086	969
Income from foreign currency hedging derivatives within hedge accounting	1,185	686
Income from other hedges	1,709	1,177
Income from foreign exchange gains	2,588	2,346
Income from sale of promotional material	312	498
Income from cost allocations	1,039	985
Income from investment property	10	12
Gains on asset disposals and the reversal of impairment losses on noncurrent assets	299	1,182
Miscellaneous other operating income	2,876	2,116
	<b>12,438</b>	<b>11,453</b>

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	2020	2019
Loss allowances on trade receivables including construction contracts	316	317
Loss allowances on other receivables and other assets	2,302	1,783
Losses from foreign currency hedging derivatives within hedge accounting	1,034	997
Expenses from other hedges	1,806	1,332
Foreign exchange losses	3,123	2,013
Expenses from cost allocations	743	563
Expenses for termination agreements	391	54
Losses on disposal of noncurrent assets	212	119
Miscellaneous other operating expenses	3,979	5,712
	<b>13,904</b>	<b>12,890</b>

Allowances on other receivables and other assets include allowances on receivables from long-term construction contracts amounting to €1.2 million (previous year: €0.3 million).

Expenses from other hedges include 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.

Miscellaneous other operating expenses consist, among other items, of 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	2020	2019
Share of profits of equity-accounted investments	3,159	3,501
of which from joint ventures	2,916	3,257
of which from associates	243	244
Share of losses of equity-accounted investments	403	152
of which from joint ventures	269	10
of which from associates	134	142
	<b>2,756</b>	<b>3,349</b>

## 8. Interest result

€ million	2020	2019
<b>Interest income</b>	<b>793</b>	<b>910</b>
Other interest and similar income	788	904
Income from valuation of interest derivatives	5	6
<b>Interest expenses</b>	<b>-2,291</b>	<b>-2,524</b>
Other interest and similar expenses	-1,499	-1,401
Expenses from valuation of interest derivatives	-23	-6
Interest expenses included in lease payments	-206	-217
Interest result on other liabilities	-104	-238
Net interest on the net defined benefit liability	-459	-662
<b>Interest result</b>	<b>-1,498</b>	<b>-1,614</b>

## 9. Other financial result

€ million	2020	2019
Income from profit and loss transfer agreements	23	19
Cost of loss absorption	-103	-72
Other income from equity investments	91	178
Other expenses from equity investments	-433	-374
Income from marketable securities and loans	-230	27
Realized income of loan receivables and payables in foreign currency	1,097	877
Realized expenses of loan receivables and payables in foreign currency	-1,620	-980
Gains and losses from remeasurement and impairment of financial instruments	-61	228
Gains and losses from fair value changes of hedging instruments/derivatives not included in hedge accounting	1,950	-240
Gains and losses from fair value changes of hedging instruments/derivatives included in hedge accounting	20	0
<b>Other financial result</b>	<b>733</b>	<b>-339</b>

Gains and losses from changes in the fair value of hedges/derivatives to which hedge accounting is not applied relate primarily to gains on the measurement and realization of forward purchase agreements for new shares in QuantumScape Corporation in an amount of €1.4 billion. See the “Key Events” section for more information.

## 10. Income tax income/expense

### COMPONENTS OF TAX INCOME AND EXPENSE

€ million	2020	2019
Current tax expense, Germany	940	1,473
Current tax expense, abroad	2,210	2,673
<b>Current income tax expense</b>	<b>3,150</b>	<b>4,147</b>
of which prior-period income (-)/expense (+)	299	32
Deferred tax income (-)/expense (+), Germany	-1,026	115
Deferred tax income (-)/expense (+), abroad	719	65
<b>Deferred tax income (-)/expense (+)</b>	<b>-307</b>	<b>180</b>
<b>Income tax income/expense</b>	<b>2,843</b>	<b>4,326</b>

The statutory corporation tax rate in Germany for the 2020 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 30.0% (previous year: 29.8%).

A tax rate of 30.0% (previous year: 29.8%) was used to measure deferred taxes in the German consolidated tax group.

The local income tax rates applied to companies outside Germany vary, as in the previous year, 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 2020 of €392 million (previous year: €692 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, 2020	Dec. 31, 2019
Indefinitely to be carried forward	15,024	14,498
Carried forward within 10 years	3,215	568
Carried forward from 10 to 20 years	4,849	5,579
<b>Total</b>	<b>23,088</b>	<b>20,645</b>

€ million	EXPIRY OF UNUSABLE TAX LOSS CARRYFORWARDS	
	Dec. 31, 2020	Dec. 31, 2019
Non-expiring tax loss carryforwards	4,584	5,919
Expiry within 10 years	2,180	473
Expiry from 10 to 20 years	2,164	1,743
Expiry over 20 years	11	62
<b>Total</b>	<b>8,939</b>	<b>8,197</b>

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 €55 million (previous year: €36 million). Deferred tax expense was reduced by €134 million (previous year: €66 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 €470 million (previous year: €58 million). Deferred tax income resulting from the reversal of a write-down of deferred tax assets amounts to €36 million (previous year: €35 million).

Tax credits granted by various countries amounted to €376 million (previous year: €378 million).

No deferred tax assets were recognized for deductible temporary differences of €899 million (previous year: €897 million) and for tax credits of €105 million (previous year: €138 million) that would expire in the next 20 years.

In accordance with IAS 12.39, deferred tax liabilities of €166 million (previous year: €231 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 €54 million at Group level (previous year: €116 million).

Deferred tax assets of €12,591 million (previous year: €1,006 million) were recognized without being offset by deferred tax liabilities in the same amount. In fiscal year 2020, the deferred tax assets of companies within the German tax group recognized due to positive results in the past 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.

€7,997 million (previous year: €7,820 million) of the deferred taxes recognized in the balance sheet was credited to equity and relates to other comprehensive income. €53 million (previous year: €53 million) of this figure is attributable to noncontrolling interests. In fiscal year 2020, deferred tax income of €73 million from the remeasurement of pension plans directly through equity was reclassified within equity. The classification of changes in deferred taxes is presented in the statement of comprehensive income.

In fiscal year 2020, tax effects of €5 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:

€ million	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Intangible assets	655	267	10,811	10,555
Property, plant and equipment, and lease assets	5,599	5,576	8,150	8,493
Noncurrent financial assets	17	18	97	43
Inventories	2,317	2,348	893	821
Receivables and other assets (including Financial Services Division)	1,858	2,270	10,236	9,670
Other current assets	4,480	3,768	242	7
Pension provisions	10,285	9,013	27	52
Liabilities and other provisions	13,284	13,358	5,156	4,167
Loss allowances on deferred tax assets from temporary differences	-499	-141	-	-
Temporary differences, net of loss allowances	37,997	36,478	35,611	33,809
Tax loss carryforwards, net of loss allowances	3,465	3,068	-	-
Tax credits, net of loss allowances	271	239	-	-
<b>Value before consolidation and offset</b>	<b>41,733</b>	<b>39,786</b>	<b>35,611</b>	<b>33,809</b>
of which attributable to noncurrent assets and liabilities	27,924	26,307	28,085	26,736
Offset	31,172	29,627	31,172	29,627
Consolidation	2,925	2,947	451	826
<b>Amount recognized</b>	<b>13,486</b>	<b>13,106</b>	<b>4,890</b>	<b>5,007</b>

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 2020 of €2,843 million (previous year: €4,326 million) was €657 million lower (previous year: €1,144 million) than the expected tax expense of €3,500 million that would have resulted from application of a tax rate for the Group of 30.0% (previous year: 29.8%) to the earnings before tax of the Group.

#### RECONCILIATION OF EXPECTED TO EFFECTIVE INCOME TAX

€ million	2020	2019
Profit before tax	11,667	18,356
<b>Expected income tax income (-)/expense (+)</b> <b>(tax rate 30.0%; previous year: 29.8%)</b>	<b>3,500</b>	<b>5,470</b>
Reconciliation:		
Effect of different tax rates outside Germany	-364	-843
Proportion of taxation relating to:		
tax-exempt income	-1,501	-1,124
expenses not deductible for tax purposes	540	509
effects of loss carryforwards	520	163
permanent differences	65	51
Tax credits	-117	-54
Prior-period tax expense	-211	-151
Effect of tax rate changes	54	116
Nondeductible withholding tax	419	359
Other taxation changes	-62	-170
<b>Effective income tax expense</b>	<b>2,843</b>	<b>4,326</b>
Effective tax rate in %	24.4	23.6

## 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 2020 and 2019 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, preferred shares are entitled to a €0.06 higher dividend than ordinary shares.

		2020	2019
<b>Weighted average number of:</b>			
Ordinary shares – basic/diluted	Shares	295,089,818	295,089,818
Preferred shares – basic/diluted	Shares	206,205,445	206,205,445
<b>Earnings after tax</b>			
Earnings attributable to noncontrolling interests	€ million	8,824	14,029
Earnings attributable to Volkswagen AG hybrid capital investors	€ million	–43	143
Earnings attributable to Volkswagen AG shareholders	€ million	533	540
of which basic/diluted earnings attributable to ordinary shares	€ million	8,334	13,346
of which basic/diluted earnings attributable to preferred shares	€ million	4,898	7,849
	€ million	3,435	5,497
Earnings per ordinary share – basic/diluted	€	16.60	26.60
Earnings per preferred share – basic/diluted	€	16.66	26.66