INCOME STATEMENT DISCLOSURES

1. Sales revenue

STRUCTURE OF GROUP SALES REVENUE

€ million	2015	2014
Vehicles	139,990	134,627
Genuine parts	14,625	13,642
Used vehicles and third-party products	11,106	10,090
Engines, powertrains and parts deliveries	8,763	10,021
Power Engineering	3,769	3,728
Motorcycles	564	458
Leasing business	20,085	16,384
Interest and similar income	6,755	6,375
Other sales revenue	7,635	7,133
	213,292	**202,458**

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

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

Sales revenue from construction contracts amounted to €1,206 million (previous year: €1,396 million) and mainly related to the Power Engineering segment.

2. Cost of sales

Cost of sales includes interest expenses of €1,868 million (previous year: €1,955 million) attributable to the financial services business. This item also includes impairment losses on intangible assets (primarily development costs), property, plant and equipment (primarily technical equipment and machinery), and lease assets (vehicle leases) in the amount of €1,391 million (previous year: €377 million). The impairment losses amounting to a total of €738 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 €652 million (including €33 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 €409 million in the fiscal year (previous year: €883 million) and were generally allocated to the functions.

3. Distribution expenses

Distribution expenses amounting to €23,515 million (previous year: €20,292 million) 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. Please refer to the "Key events" section for information on the sales-related measures taken in connection with the diesel issue.

4. Administrative expenses

Administrative expenses of €7,197 million (previous year: €6,841 million) mainly include nonstaff overheads and personnel costs, as well as depreciation and amortization applicable to the administrative function.

5. Other operating income

€ million	2015	2014
Income from reversal of valuation allowances on receivables and other assets	737	559
Income from reversal of provisions and accruals	2,871	2,348
Income from foreign currency hedging derivatives	1,560	1,181
Income from foreign exchange gains	3,859	2,323
Income from sale of promotional material	427	357
Income from cost allocations	1,308	1,005
Income from investment property	10	8
Gains on asset disposals and the reversal of impairment losses	188	134
Miscellaneous other operating income	1,945	2,383
	12,905	**10,298**

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	2015	2014
Valuation allowances on receivables and other assets	1,674	1,150
Losses from foreign currency hedging derivatives	5,083	1,003
Foreign exchange losses	3,260	1,972
Expenses from cost allocations	695	566
Expenses for termination agreements	502	193
Losses on disposal of noncurrent assets	106	105
Miscellaneous other operating expenses	8,853	2,004
	20,171	**6,992**

The year-on-year increase in miscellaneous other operating expenses is due largely to the litigation expenses of €7.0 billion in connection with the diesel issue. The 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 profits and losses of equity-accounted investments

€ million	2015	2014
Share of profits of equity-accounted investments	4,417	4,007
of which: from joint ventures	(4,389)	(3,976)
of which: from associates	(28)	(30)
Share of losses of equity-accounted investments	30	19
of which: from joint ventures	(19)	(6)
of which: from associates	(11)	(13)
	4,387	**3,988**

8. Finance costs

€ million	2015	2014
Other interest and similar expenses	1,605	1,435
Interest cost included in lease payments	22	18
Interest expenses	**1,626**	**1,453**
Net interest on the net defined benefit liability	690	788
Interest cost on other liabilities	77	417
Interest cost on liabilities	**767**	**1,205**
Finance costs	**2,393**	**2,658**

9. Other financial result

€ million	2015	2014
Income from profit and loss transfer agreements	29	20
Cost of loss absorption	18	12
Other income from equity investments	1,594	251
Other expenses from equity investments	181	189
Income from marketable securities and loans*	148	86
Other interest and similar income	978	749
Gains and losses from remeasurement and impairment of financial instruments	−1,173	−72
Gains and losses from fair value changes of derivatives not included in hedge accounting	−637	−181
Gains and losses from fair value changes of derivatives included in hedge accounting	34	114
Other financial result	**773**	**767**

* Including disposal gains/losses.

The increase in other income from equity investments is primarily due to the sale of the equity interest in Suzuki. The change in gains and losses from remeasurement and impairment of financial instruments is largely the result of changes in the exchange rates for receivables and liabilities denominated in foreign currency and remeasurement effects connected with put options and compensation rights granted to noncontrolling interest shareholders. Please see the section entitled "Put options and compensation rights granted to noncontrolling interest shareholders".

10. Income tax income/expense

COMPONENTS OF TAX INCOME AND EXPENSE

€ million	2015	2014
Current tax expense, Germany	812	2,073
Current tax expense, abroad	2,047	1,559
Current income tax expense	**2,859**	**3,632**
of which prior-period income (–)/expense (+)	(142)	(–230)
Deferred tax income (–)/expense (+), Germany	–2,075	–145
Deferred tax income (–)/expense (+), abroad	–725	239
Deferred tax income (–)/expense (+)	**–2,800**	**94**
Income tax income/expense	**59**	**3,726**

The statutory corporation tax rate in Germany for the 2015 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.8%.

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 2015 of €302 million (previous year: €136 million).

Previously unused tax loss carryforwards amounted to €18,407 million (previous year: €12,726 million). Tax loss carryforwards amounting to €12,663 million (previous year: €6,719 million) can be used indefinitely, while €4,120 million (previous year: €775 million) must be used within the next ten years. There are additional tax loss carryforwards amounting to €1,624 million (previous year: €5,232 million) that can be used within a period of 15 or 20 years. Tax loss carryforwards of €10,478 million (previous year: €9,422 million), of which €3,567 million (previous year: €3,406 million) can only be utilized subject to restrictions within the next 20 years, were estimated not to be usable overall.

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 €50 million (previous year: €50 million). Deferred tax expense was reduced by €110 million (previous year: €49 million) because of a benefit arising from previously unrecognized tax losses and tax credits of a prior period. Deferred tax expense arising from the write-down of deferred tax assets amounts to €68 million (previous year: €253 million). Deferred tax income arising from the reversal of a write-down of a deferred tax asset amounts to €212 million (previous year: €117 million).

Tax credits granted by various countries amounted to €800 million (previous year: €906 million).

No deferred tax assets were recognized for deductible temporary differences of €1,643 million (previous year: €1,531 million) and for tax credits of €439 million (previous year: €504 million) that would expire in the next 20 years, or for tax credits of €14 million (previous year: €172 million) that will not expire.

In accordance with IAS 12.39, deferred tax liabilities of €193 million (previous year: €290 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. The present value of the refund claim was €259 million (previous year: €380 million) at the balance sheet date.

Deferred tax income resulting from changes in tax rates amounted to €2 million at Group level (previous year: €7 million expense).

Deferred taxes in respect of temporary differences and tax loss carryforwards of €8,466 million (previous year: €831 million) were recognized without being offset by deferred tax liabilities in the same amount. The existing tax loss carryforwards of the companies in the German tax group that were recognized due to positive results in the past are required to be included in this analysis for the first time in the reporting period. The companies concerned are expecting positive tax income in the future, following losses in the reporting period or the previous year.

€5,320 million (previous year: €5,180 million) of the deferred taxes recognized in the balance sheet was credited to equity and relates to other comprehensive income. €2 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 and the prior-year period. Changes in deferred taxes classified by balance sheet item are presented in the statement of comprehensive income.

In the reporting period, tax effects of €11 million (previous year: €19 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, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Intangible assets	306	306	9,570	9,479
Property, plant and equipment, and lease assets	3,946	3,767	7,152	6,092
Noncurrent financial assets	24	13	23	37
Inventories	1,882	1,883	744	697
Receivables and other assets (including Financial Services Division)	1,577	1,398	7,188	6,632
Other current assets	3,029	1,459	148	16
Pension provisions	5,121	6,050	31	242
Liabilities and other provisions	11,532	8,660	2,241	869
Valuation allowances on deferred tax assets from temporary differences	−330	−433	–	–
Temporary differences, net of valuation allowances	27,087	23,104	27,097	24,065
Tax loss carryforwards, net of valuation allowances	2,455	1,129	–	–
Tax credits, net of valuation allowances	347	228	–	–
Value before consolidation and offset	**29,889**	**24,460**	**27,097**	**24,065**
of which noncurrent	(19,050)	(15,999)	(22,062)	(20,013)
Offset	24,110	20,207	24,110	20,207
Consolidation	2,248	1,625	1,446	916
Amount recognized	**8,026**	**5,878**	**4,433**	**4,774**

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 2015 of €59 million (previous year: €3,726 million) was €447 million higher (previous year: €683 million lower) than the expected tax income of €388 million that would have resulted from application of a tax rate for the Group of 29.8% to the earnings before tax of the Group.

RECONCILIATION OF EXPECTED TO EFFECTIVE INCOME TAX

€ million	2015	2014
Earnings before tax	−1,301	14,794
Expected income tax income (–) / expense (+) (tax rate 29.8%; previous year: 29.8%)	**−388**	**4,409**
Reconciliation:		
Effect of different tax rates outside Germany	−386	−92
Proportion of taxation relating to:		
tax-exempt income	−1,976	−1,423
expenses not deductible for tax purposes	2,155	336
effects of loss carryforwards and tax credits	155	334
permanent differences	43	−23
Tax credits	−84	−112
Prior-period tax expense	46	−271
Effect of tax rate changes	−2	7
Nondeductible withholding tax	439	308
Other taxation changes	57	253
Effective income tax expense	**59**	**3,726**

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.

In 2012 and 2013, Volkswagen AG placed two mandatory convertible notes with identical features and an aggregate principal amount of €3.7 billion via a subsidiary, Volkswagen International Finance N.V. Amsterdam (issuer). These notes matured on November 9, 2015. The note terms and conditions provided for early conversion options. This voluntary conversion right was exercised in the reporting period, with 27,091 new preferred shares being created from €4.7 million of notes based on the effective maximum conversion price at the conversion date. Under the note terms and conditions, the mandatory convertible notes were required to be settled by issuing new preferred shares no later than at maturity. At the maturity date, November 9, 2015, the remaining amount of both notes was converted by the issuer as required. A total of 25,536,876 new preferred shares were created and the underlying principal amount of each bond was €100,000 and the final conversion price €144.50.

When comparing year-on-year, it is important to bear in mind that IAS 33.23 sets out that all potential shares that will be issued upon the conversion of a mandatory convertible note must be accounted for as issued shares and included in the calculation of basic and diluted earnings per share. In accordance with IAS 33.26, the number of potential preferred shares included in the previous year was replaced retrospectively with the shares actually issued in the reporting period when notes were voluntarily and mandatorily converted. As of their admission to the regulated market on June 12, 2014, the new preferred shares from the capital increase were included in the calculation of earnings per share for the previous year.

The finance costs associated with the mandatory convertible notes were not included in the calculation of consolidated result because the interest component was recognized in other comprehensive income when the note was issued, and interest expense arose only from the amount of compound interest. Since the basic and diluted number of shares is identical, basic earnings per share also correspond to diluted earnings per share. See note 24 for further information regarding the issuance of the mandatory convertible note and the capital increase.

Earnings per ordinary share were €–3.20 in fiscal year 2015, while earnings per preferred share were €–3.09. 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 outlined in Note 24 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 payment of further dividends in accordance with Article 27(2) No. 2 and No. 3 of the Articles of Association of Volkswagen AG is only factored into the calculation of earnings per share when the Company generates earnings after tax which is attributable to Volkswagen AG shareholders.

Quantity	ORDINARY 2015	ORDINARY 2014	PREFERRED 2015	PREFERRED 2014*
Weighted average number of shares outstanding – basic	295,089,818	295,089,818	206,205,445	201,522,489
Weighted average number of shares outstanding – diluted	295,089,818	295,089,818	206,205,445	201,522,489

* Prior-year figures adjusted to reflect application of IAS 33.26.

€ million	2015	2014*
Earnings after tax	−1,361	11,068
Noncontrolling interests	10	84
Earnings attributable to Volkswagen AG hybrid capital investors	212	138
Earnings attributable to Volkswagen AG shareholders	−1,582	10,847
Basic earnings attributable to ordinary shares	−945	6,438
Diluted earnings attributable to ordinary shares	−945	6,438
Basic earnings attributable to preferred shares	−637	4,409
Diluted earnings attributable to preferred shares	−637	4,409

* Prior-year figures adjusted to reflect application of IAS 33.26.

€	2015	2014*
Basic earnings per ordinary share	−3.20	21.82
Diluted earnings per ordinary share	−3.20	21.82
Basic earnings per preferred share	−3.09	21.88
Diluted earnings per preferred share	−3.09	21.88

* Prior-year figures adjusted to reflect application of IAS 33.26.

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

Capitalized borrowing costs amounted to €78 million (previous year: €85 million) and related mainly to capitalized development costs. An average cost of debt of 1.8% (previous year: 2.2%) 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	2015	2014
Financial instruments at fair value through profit or loss	–700	–220
Loans and receivables	5,317	5,357
Available-for-sale financial assets*	1,554	196
Financial liabilities measured at amortized cost	–4,514	–3,921
	1,657	**1,412**

* Prior-year figures adjusted.

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	2015	2014
Interest income	5,540	5,267
Interest expenses	3,802	3,683
	1,738	**1,584**

IMPAIRMENT LOSSES ON FINANCIAL ASSETS BY CLASS

€ million	2015	2014
Measured at fair value	4	2
Measured at amortized cost	1,552	1,295
	1,557	**1,297**

Impairment losses relate to write-downs of financial assets, such as valuation allowances on receivables, marketable securities and unconsolidated subsidiaries. Interest income on impaired financial assets amounted to €50 million in the fiscal year (previous year: €46 million).

In fiscal year 2015, €3 million (previous year: €6 million) was recognized as an expense and €52 million (previous year: €66 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.